

TECH DATA CORP  
Form 10-Q  
September 01, 2010  
[Table of Contents](#)

**UNITED STATES**  
**SECURITIES AND EXCHANGE COMMISSION**  
**WASHINGTON, D.C. 20549**

**FORM 10-Q**

(Mark one)

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

**For the quarterly period ended July 31, 2010**

**OR**

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

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

**Commission file number 0-14625**

**TECH DATA CORPORATION**

**(Exact name of registrant as specified in its charter)**

# Edgar Filing: TECH DATA CORP - Form 10-Q

<p><b>Florida</b> (State or other jurisdiction of incorporation or organization)</p> <p><b>5350 Tech Data Drive, Clearwater, Florida</b> (Address of principal executive offices)</p> <p><b>Registrant's telephone number, including area code: (727) 539-7429</b></p>	<p><b>No. 59-1578329</b> (I.R.S. Employer Identification No.)</p> <p><b>33760</b> (Zip Code)</p>
--	--

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes ☒ No ☐

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes ☒ No ☐

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

Large accelerated filer <input checked="" type="checkbox"/>	Accelerated Filer <input type="checkbox"/>
Non-accelerated Filer <input type="checkbox"/>	Smaller reporting company <input type="checkbox"/>

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

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

<p><b>Class</b></p> <p><b>Common stock, par value \$.0015 per share</b></p>	<p><b>Outstanding at August 20, 2010</b></p> <p><b>46,606,692</b></p>
---	---

---

**Table of Contents**

**TECH DATA CORPORATION AND SUBSIDIARIES**

**Form 10-Q for the Three and Six Months Ended July 31, 2010**

**INDEX**

	<b>PAGE</b>
<b>PART I. FINANCIAL INFORMATION</b>	
Item 1.	<u>Financial Statements</u>
	3
	<u>Consolidated Balance Sheet</u>
	4
	<u>Consolidated Statement of Operations</u>
	5
	<u>Consolidated Statement of Cash Flows</u>
	6
	<u>Notes to Consolidated Financial Statements</u>
	15
Item 2.	<u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u>
Item 3.	23
Item 3.	<u>Quantitative and Qualitative Disclosures About Market Risk</u>
Item 4.	23
Item 4.	<u>Controls and Procedures</u>
<b>PART II. OTHER INFORMATION</b>	
Item 1.	<u>Legal Proceedings</u>
Item 1A.	24
Item 1A.	<u>Risk Factors</u>
Item 2.	24
Item 2.	<u>Unregistered Sales of Equity Securities and Use of Proceeds</u>
Item 3.	24
Item 3.	<u>Defaults Upon Senior Securities</u>
Item 4.	25
Item 4.	<u>Removed and Reserved</u>
Item 5.	25
Item 5.	<u>Other Information</u>
Item 6.	25
Item 6.	<u>Exhibits</u>
<u>SIGNATURES</u>	26
<b>EXHIBITS</b>	
<b>CERTIFICATIONS</b>	

**Table of Contents****PART I. FINANCIAL INFORMATION****ITEM 1. Financial Statements****TECH DATA CORPORATION AND SUBSIDIARIES****CONSOLIDATED BALANCE SHEET****(In thousands, except share amounts)**

	<b>July 31, 2010 (Unaudited)</b>	<b>January 31, 2010</b>
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$ 940,058	\$ 1,116,579
Accounts receivable, less allowance for doubtful accounts of \$50,721 and \$54,627	2,356,816	2,593,919
Inventories	1,782,822	1,704,658
Prepaid expenses and other assets	155,714	156,448
Total current assets	5,235,410	5,571,604
Property and equipment, net	83,535	90,634
Other assets, net	177,185	167,881
Total assets	\$ 5,496,130	\$ 5,830,119
<b>LIABILITIES AND EQUITY</b>		
Current liabilities:		
Revolving credit loans	\$ 76,579	\$ 65,384
Accounts payable	2,613,435	2,799,949
Accrued expenses and other liabilities	455,264	455,841
Total current liabilities	3,145,278	3,321,174
Long-term debt, net	342,612	338,157
Other long-term liabilities	76,414	76,255
Total liabilities	3,564,304	3,735,586
Commitments and contingencies (Note 9)		
Shareholders' equity:		
Common stock, par value \$.0015; 200,000,000 shares authorized; 59,239,085 shares issued at July 31, 2010 and January 31, 2010	89	89
Additional paid-in capital	763,851	769,295
Treasury stock, 12,011,476 and 7,776,419 shares at July 31, 2010 and January 31, 2010	(446,448)	(279,198)
Retained earnings	1,325,616	1,239,128
Accumulated other comprehensive income	283,441	359,581
Equity attributable to shareholders of Tech Data Corporation	1,926,549	2,088,895
Noncontrolling interest	5,277	5,638
Total equity	1,931,826	2,094,533

## Edgar Filing: TECH DATA CORP - Form 10-Q

Total liabilities and equity	\$ 5,496,130	\$ 5,830,119
------------------------------	--------------	--------------

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

**Table of Contents****TECH DATA CORPORATION AND SUBSIDIARIES****CONSOLIDATED STATEMENT OF OPERATIONS****(In thousands, except per share amounts)****(Unaudited)**

	<b>Three months ended July 31,</b>		<b>Six months ended July 31,</b>	
	<b>2010</b>	<b>2009</b>	<b>2010</b>	<b>2009</b>
Net sales	\$ 5,473,961	\$ 5,183,731	\$ 11,095,016	\$ 10,174,690
Cost of products sold	5,186,424	4,914,657	10,514,676	9,644,401
Gross profit	287,537	269,074	580,340	530,289
Selling, general and administrative expenses	221,779	215,200	445,096	428,605
Operating income	65,758	53,874	135,244	101,684
Interest expense	7,329	7,135	13,917	15,025
Other (income) expense, net	(94)	(412)	(370)	(1,872)
Income before income taxes	58,523	47,151	121,697	88,531
Provision for income taxes	17,691	12,141	35,221	21,928
Consolidated net income	40,832	35,010	86,476	66,603
Net loss attributable to noncontrolling interest	23	147	12	319
Net income attributable to shareholders of Tech Data Corporation	\$ 40,855	\$ 35,157	\$ 86,488	\$ 66,922
Net income per share attributable to shareholders of Tech Data Corporation:				
Basic	\$ 0.82	\$ 0.70	\$ 1.71	\$ 1.33
Diluted	\$ 0.82	\$ 0.70	\$ 1.70	\$ 1.33
Weighted average common shares outstanding:				
Basic	49,612	50,252	50,537	50,203
Diluted	49,986	50,461	51,012	50,352

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

**Table of Contents****TECH DATA CORPORATION AND SUBSIDIARIES****CONSOLIDATED STATEMENT OF CASH FLOWS****(In thousands)****(Unaudited)**

	<b>Six months ended July 31,</b>	
	<b>2010</b>	<b>2009</b>
Cash flows from operating activities:		
Cash received from customers	\$ 11,269,978	\$ 10,373,918
Cash paid to suppliers and employees	(11,199,882)	(9,822,409)
Interest paid, net	(7,706)	(7,711)
Income taxes paid	(28,918)	(18,235)
Net cash provided by operating activities	33,472	525,563
Cash flows from investing activities:		
Proceeds from sale of property and equipment	0	3,320
Acquisition of businesses, net of cash acquired	(11,604)	(8,153)
Expenditures for property and equipment	(6,614)	(3,915)
Software and software development costs	(7,681)	(4,872)
Net cash used in investing activities	(25,899)	(13,620)
Cash flows from financing activities:		
Proceeds from the reissuance of treasury stock	1,191	1,234
Cash paid for purchase of treasury stock	(166,554)	0
Capital contributions and net borrowings from joint venture partner	0	3,168
Net borrowings (repayments) on revolving credit loans	10,265	(21,355)
Principal payments on long-term debt	(222)	(5,286)
Excess tax benefit from stock-based compensation	1,080	0
Net cash used in financing activities	(154,240)	(22,239)
Effect of exchange rate changes on cash and cash equivalents	(29,854)	48,631
Net (decrease) increase in cash and cash equivalents	(176,521)	538,335
Cash and cash equivalents at beginning of year	1,116,579	528,023
Cash and cash equivalents at end of period	\$ 940,058	\$ 1,066,358
Reconciliation of net income to net cash provided by operating activities:		
Net income attributable to shareholders of Tech Data Corporation	\$ 86,488	\$ 66,922
Net loss attributable to noncontrolling interest	(12)	(319)
Consolidated net income	86,476	66,603
Adjustments to reconcile consolidated net income to net cash provided by operating activities:		
Depreciation and amortization	21,948	22,483
Provision for losses on accounts receivable	3,088	2,663
Stock-based compensation expense	5,109	5,631
Accretion of debt discount on convertible senior debentures	5,139	5,139

## Edgar Filing: TECH DATA CORP - Form 10-Q

Excess tax benefits from stock-based compensation	(1,080)	0
Changes in operating assets and liabilities:		
Accounts receivable	175,051	199,404
Inventories	(118,706)	341,742
Prepaid expenses and other assets	(16,293)	26,670
Accounts payable	(132,931)	(113,109)
Accrued expenses and other liabilities	5,671	(31,663)
Total adjustments	(53,004)	458,960
Net cash provided by operating activities	\$ 33,472	\$ 525,563

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



**Table of Contents**

**TECH DATA CORPORATION AND SUBSIDIARIES**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**(Unaudited)**

**NOTE 1 BUSINESS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

*Description of Business*

Tech Data Corporation ( Tech Data or the Company ) is a distributor of information technology ( IT ) products, logistics management and other value-added services. The Company distributes computer hardware, software products, data center products, consumer electronics and mobility products to value-added resellers, direct marketers, retailers and corporate resellers. The Company is managed in two geographic segments: the Americas (including North America and Latin America) and Europe.

*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. Noncontrolling interest (previously referred to as minority interest) is recognized for the portion of a consolidated joint venture not owned by the Company. The Company operates on a fiscal year that ends on January 31.

*Basis of Presentation*

The consolidated financial statements have been prepared by the Company, without audit, pursuant to the rules and regulations of the United States Securities and Exchange Commission ( SEC ). The Company prepares its financial statements in conformity with generally accepted accounting principles 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. In the opinion of management, the accompanying unaudited consolidated financial statements contain all adjustments (consisting of only normal recurring adjustments) necessary to present fairly the financial position of the Company as of July 31, 2010 and its results of operations and cash flows for the three and six months ended July 31, 2010 and 2009.

*Seasonality*

The Company's quarterly operating results have fluctuated significantly in the past and will likely continue to do so in the future as a result of currency fluctuations and seasonal variations in the demand for the products and services offered. Narrow operating margins may magnify the impact of these factors on our operating results. Recent historical seasonal variations have included an increase in European demand during our fiscal fourth quarter and decreased demand in other fiscal quarters, particularly quarters which include summer months. Given over one half of the Company's revenues are derived from Europe, the worldwide results closely follow the seasonality trends in Europe. Additionally, the life cycles of major products, as well as the impact of future acquisitions and dispositions, may also materially impact the Company's business, financial condition, or results of operations. Therefore, the results of operations for the three and six months ended July 31, 2010 and 2009 are not necessarily indicative of the results that can be expected for the entire fiscal year ending January 31, 2011.

*Comprehensive Income (Loss)*

Comprehensive income (loss) 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 (loss). Other comprehensive income (loss) is comprised exclusively of changes in the Company's currency translation adjustment account ( CTA account ), including income taxes attributable to those changes.

Comprehensive income (loss) attributable to the shareholders of the Company for the three and six months ended July 31, 2010 and 2009 is as follows:

# Edgar Filing: TECH DATA CORP - Form 10-Q

	Three months ended July 31,		Six months ended July 31,	
	2010	2009	2010	2009
	(In thousands)			
Comprehensive income:				
Consolidated net income	\$ 40,832	\$ 35,010	\$ 86,476	\$ 66,603
Change in consolidated CTA <sup>(1)</sup>	(16,324)	124,548	(76,140)	165,110
Total comprehensive income	24,508	159,558	10,336	231,713
Less comprehensive (loss) income attributable to noncontrolling interest	(122)	184	(361)	136
Comprehensive income attributable to shareholders of Tech Data Corporation	\$ 24,630	\$ 159,374	\$ 10,697	\$ 231,577

<sup>(1)</sup> There were no income tax effects related to the change in cumulative translation adjustments for the three and six months ended July 31 2010 or 2009.

## **Table of Contents**

### *Recently Adopted Accounting Standards*

In June 2009, the Financial Accounting Standards Board ( FASB ) issued an accounting standard revising the circumstances in which a financial asset may be derecognized when the transferor has not transferred the entire financial asset or has continuing involvement with the transferred asset. Also, the concept of a qualifying special-purpose entity, which had previously facilitated sale accounting for certain asset transfers, is removed by this standard. The Company adopted this standard effective February 1, 2010, which had no impact on the Company's consolidated financial position, results of operations or cash flows.

In June 2009, the FASB also issued an accounting standard which amends the accounting for variable interest entities ( VIEs ) and changes the process as to how an enterprise determines which party consolidates a VIE. This standard also defines the party that consolidates the VIE (the primary beneficiary) as the party with (1) the power to direct activities of the VIE that most significantly affect the VIE's economic performance and (2) the obligation to absorb losses of the VIE or the right to receive benefits from the VIE. Upon adoption of this accounting standard, the reporting enterprise must reconsider its conclusions on whether an entity should be consolidated, and should a change result, the effect on its net assets will be recorded as a cumulative effect adjustment to retained earnings. The Company adopted this standard effective February 1, 2010, which had no impact on the Company's consolidated financial position, results of operations or cash flows.

### *Recently Issued Accounting Standards*

In October 2009, the FASB issued an accounting standard requiring an entity to allocate revenue arrangement consideration at the inception of a multiple-deliverable revenue arrangement to all of its deliverables based on their relative selling prices. This accounting is effective for revenue arrangements entered into or materially modified by the Company beginning February 1, 2011 with early adoption permitted. The Company is currently in the process of assessing what impact this standard may have on its consolidated financial position, results of operations or cash flows.

In October 2009, the FASB issued an accounting standard addressing how entities account for revenue arrangements that contain both hardware and software elements. Due to the significant difference in the level of evidence required for separation of multiple deliverables within different accounting standards, this particular accounting standard will modify the scope of accounting guidance for software revenue recognition. Many tangible products containing software and non-software components that function together to deliver the tangible products' essential functionality will be accounted for under the revised multiple-element arrangement revenue recognition guidance disclosed above. This accounting standard is effective for revenue arrangements entered into or materially modified by the Company beginning February 1, 2011 with early adoption permitted. The Company is currently in the process of assessing what impact this new standard may have on its consolidated financial position, results of operations or cash flows.

### *Reclassifications*

Certain reclassifications have been made to the accompanying January 31, 2010 and July 31, 2009 consolidated financial statements to conform to the July 31, 2010 financial statement presentation. Such reclassifications had no effect on previously reported net income or equity.

**Table of Contents****NOTE 2 EARNINGS PER SHARE ( EPS )**

The Company reports a dual presentation of basic and diluted EPS. Basic EPS is computed by dividing net income attributable to shareholders of Tech Data Corporation by the weighted average number of common shares outstanding during the reported period. Diluted EPS reflects the potential dilution related to equity-based incentives (as further discussed in Note 5 Stock-Based Compensation) using the if-converted and treasury stock methods, where applicable. The composition of basic and diluted EPS is as follows:

	Three months ended July 31,					
	2010			2009		
	Net income attributable to Tech Data Corporation	Weighted average shares	Per share amount	Net income attributable to Tech Data Corporation	Weighted average shares	Per share amount
(In thousands, except per share data)						
Net income per common share attributable to shareholders of Tech Data Corporation basic	\$ 40,855	49,612	\$ 0.82	\$ 35,157	50,252	\$ 0.70
Effect of dilutive securities:						
Equity-based awards		374			209	
Net income per common share attributable to shareholders of Tech Data Corporation diluted	\$ 40,855	49,986	\$ 0.82	\$ 35,157	50,461	\$ 0.70

	Six months ended July 31,					
	2010			2009		
	Net income attributable to Tech Data Corporation	Weighted average shares	Per share amount	Net income attributable to Tech Data Corporation	Weighted average shares	Per share amount
(In thousands, except per share data)						
Net income per common share attributable to shareholders of Tech Data Corporation basic	\$ 86,488	50,537	\$ 1.71	\$ 66,922	50,203	\$ 1.33
Effect of dilutive securities:						
Equity-based awards		475			149	
Net income per common share attributable to shareholders of Tech Data Corporation diluted	\$ 86,488	51,012	\$ 1.70	\$ 66,922	50,352	\$ 1.33

At July 31, 2010 and 2009, there were 1,180,856 and 3,964,260 equity-based compensation awards, respectively, excluded from the computation of diluted earnings per share because their effect would have been antidilutive.

In December 2006, the Company issued \$350.0 million of convertible senior debentures due 2026. The dilutive impact of the \$350.0 million convertible senior debentures does not impact earnings per share at either July 31, 2010 or 2009 as the conditions for the contingent conversion feature have not been met (see further discussion in Note 3 Revolving Credit Loans and Long-Term Debt).

**NOTE 3 REVOLVING CREDIT LOANS AND LONG-TERM DEBT***Revolving Credit Loans*

# Edgar Filing: TECH DATA CORP - Form 10-Q

	July 31, 2010	January 31, 2010
	(In thousands)	
Receivables Securitization Program, interest rate of 1.51% at July 31, 2010, expiring October 2010	\$ 0	\$ 0
Multi-currency Revolving Credit Facility, interest rate of .94% at July 31, 2010, expiring March 2012	0	0
Uncommitted revolving credit facilities, average interest rate of 6.88% at July 31, 2010, expiring on various dates throughout fiscal 2011	45,560	32,366
Interest-free revolving credit loan payable to Brightstar Corporation	31,019	33,018
<b>Total</b>	<b>\$ 76,579</b>	<b>\$ 65,384</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 security or collateral for borrowings up to a maximum of \$150.0 million. Under this program, the Company legally isolates certain U.S. trade receivables into a wholly-owned bankruptcy remote special purpose entity. Such receivables, which are recorded in the Consolidated Balance

**Table of Contents**

Sheet, totaled \$543.7 million and \$487.8 million at July 31, 2010 and January 31, 2010, 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. In addition, the Company is required to pay a commitment fee of .50% per annum on the unused portion of the Receivables Securitization Program. The Company anticipates renewing the Receivables Securitization Program upon its expiration in October 2010.

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, 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 LIBOR rate plus a margin based on the Company's credit ratings. The Company can fix the interest rate for periods of seven to 180 days under various interest rate options. In addition, the Company is required to pay a commitment fee of .125% per annum on the unused portion of the Multi-currency Revolving Credit Facility.

In addition to the facilities described above, the Company has additional uncommitted lines of credit and overdraft facilities totaling approximately \$467.9 million at July 31, 2010 to support its worldwide operations. Most of these facilities are provided on an unsecured, short-term basis and are reviewed periodically for renewal.

The total capacity of the aforementioned credit facilities was approximately \$867.9 million, of which \$45.6 million was outstanding at July 31, 2010. The Company's credit agreements contain limitations on the amounts of annual dividends and repurchases of common stock. Additionally, the credit agreements require compliance with certain warranties and covenants. The financial ratio covenants contained within the credit agreements include a debt to capitalization ratio, an interest to EBITDA (as defined per the credit agreements) ratio and a tangible net worth requirement. At July 31, 2010, the Company was in compliance with all such covenants. 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 may limit the Company's ability to draw the full amount of these facilities. As of July 31, 2010, the total maximum amount that could be borrowed under these facilities, in consideration of the availability of collateral and the financial covenants, was approximately \$867.9 million.

The Company also has an interest-free revolving credit loan from Brightstar Corporation (Brightstar) that was issued in connection with the Company's joint venture. This revolving credit loan from Brightstar has no contractual repayment date and will increase or decrease in accordance with the working capital requirements of the joint venture, as determined by the Company.

At July 31, 2010, the Company had issued standby letters of credit of \$72.6 million. These letters of credit typically act as a guarantee of payment to certain third parties in accordance with specified terms and conditions.

*Long-Term Debt*

	July 31, 2010	January 31, 2010
	(In thousands)	
Convertible senior debentures, interest at 2.75% payable semi-annually, due December 2026	\$ 350,000	\$ 350,000
Less unamortized debt discount	(14,135)	(19,274)
Convertible senior debentures, net	335,865	330,726
Capital leases	7,209	7,907
	343,074	338,633
Less current maturities (included in accrued expenses and other liabilities)	(462)	(476)
Total	\$ 342,612	\$ 338,157

In December 2006, the Company issued \$350.0 million of convertible senior debentures due 2026. The debentures bear interest at 2.75% per year. The Company pays interest on the debentures on June 15 and December 15 of each year. In addition, beginning with the period commencing on December 20, 2011 and ending on June 15, 2012 and for each six-month period thereafter, the Company will pay contingent interest on the interest payment date for the applicable interest period if the market price of the debentures equals specified levels. The convertible senior debentures are convertible into the Company's common stock and cash, anytime after June 15, 2026, or i) if the market price

## Edgar Filing: TECH DATA CORP - Form 10-Q

of the common stock, as defined, exceeds 135% of the conversion price per share of common stock or ii) if the Company calls the debentures for redemption or iii) upon occurrence of certain corporate transactions, as defined. Holders have the right to convert the debentures into cash and shares of the Company's common stock, if any, at a conversion rate of 18.4310 shares per \$1,000 principal amount of debentures, equivalent to a conversion price of approximately \$54.26 per share. Upon conversion, the Company will deliver cash equal to the lesser of the aggregate principal amount of the debentures to be converted and the Company's total conversion obligation and shares of the Company's common stock in respect of the remainder, if any, of the Company's conversion obligation. Holders have the option to require the Company to repurchase the debentures in cash on any of the

**Table of Contents**

fifth, tenth or fifteenth anniversary dates from the issue date at 100% of the principal amount plus accrued interest to the repurchase date. The debentures are redeemable in whole or in part for cash at the Company's option at any time on or after December 20, 2011. Additionally, the debentures are senior, unsecured obligations and rank equally in right of payment with all of the Company's other unsecured and unsubordinated indebtedness. The debentures are effectively subordinated to all of the Company's existing and future secured debt and are structurally subordinated to the indebtedness and other liabilities of the Company's subsidiaries.

In accordance with the accounting rules regarding the accounting treatment for convertible debt instruments requiring or permitting partial cash settlement upon conversion, the Company has accounted for the debt and equity components of the debentures in a manner that reflects the estimated non-convertible debt borrowing rate at the date of the issuance of the debentures at 6.30%. Under this accounting treatment, during the three and six months ended July 31, 2010 and 2009, the Company has recorded contractual interest expense of \$2.4 million and \$4.8 million, respectively, and non-cash interest expense of \$2.5 million and \$5.0 million, respectively, related to the \$350 million convertible senior debentures. At July 31, 2010, the if-converted value of the convertible senior debentures did not exceed the principal balance and the \$14.1 million unamortized debt discount has a remaining amortization period of approximately 17 months assuming redemption of the debentures at the first repurchase date of December 20, 2011.

**NOTE 4 INCOME TAXES**

The Company's effective tax rate was 30.2% in the second quarter of fiscal 2011 and 25.7% in the second quarter of fiscal 2010. The Company's effective tax rate was 28.9% for the first semester of fiscal 2011 compared to 24.8% for the same period of the prior year. The increase in the effective rate for the second quarter and first semester of fiscal 2011 compared to the same periods of the prior year is primarily the result of the relative mix of earnings and losses within the tax jurisdictions in which the Company operates and the resolution of minor discrete tax items.

The effective tax rate differed from the U.S. federal statutory rate of 35% during these periods primarily due to the relative mix of earnings or losses within the tax jurisdictions in which the Company operates such as: a) losses in tax jurisdictions where the Company is not able to record a tax benefit; b) earnings in tax jurisdictions where the Company has previously recorded a valuation allowance on deferred tax assets; and c) earnings in lower-tax jurisdictions for which no U.S. taxes have been provided because such earnings are planned to be reinvested indefinitely outside the United States.

The overall effective tax rate will continue to be dependent upon the geographic distribution of the Company's earnings or losses, changes in tax laws, or interpretations of these laws in these operating jurisdictions. The Company monitors the assumptions used in estimating the annual effective tax rate and makes adjustments, if required, throughout the year. If actual results differ from the assumptions used in estimating the Company's annual effective income tax rates, future income tax expense could be materially affected.

The Company's future effective tax rates could be affected by changes in the relative mix of taxable income and taxable loss jurisdictions, changes in the valuation of deferred tax assets or liabilities or changes in tax laws or interpretations thereof. In addition, the Company's income tax returns are subject to continuous examination by the Internal Revenue Service and other tax authorities. The Company regularly assesses the likelihood of adverse outcomes from these examinations to determine the adequacy of the Company's provision for income taxes. To the extent the Company prevails in matters for which accruals have been established or is required to pay amounts in excess of such accruals, the effective tax rate could be materially affected.

**NOTE 5 STOCK-BASED COMPENSATION**

For the six months ended July 31, 2010 and 2009, the Company recorded \$5.1 million and \$5.6 million, respectively, of stock-based compensation expense, which is included in selling, general and administrative expenses in the Consolidated Statement of Operations.

At July 31, 2010, the Company had awards outstanding from four equity-based compensation plans, only one of which is currently issuing new grants. The active plan was approved by the Company's shareholders in June 2009 and includes 4.0 million shares available for grant. At July 31, 2010 approximately 3.5 million shares remain available for future grants. Under the active plan, the Company is authorized to award officers, employees, and non-employee members of the Board of Directors restricted stock, options to purchase common stock, maximum value stock-settled stock appreciation rights ( MV Stock-settled SARs ), maximum value options ( MVOs ), and performance awards that are dependent upon achievement of specified performance goals. Equity-based compensation awards have a maximum term of 10 years, unless a shorter period is specified by the Compensation Committee of the Board of Directors or is required under local law. Awards under the plans are priced as determined by the Compensation Committee and under the terms of the Company's active equity-based compensation plan are required to be priced at, or above, the fair market value of the Company's common stock on the date of grant. Awards generally vest between one and four years from the date of grant.



## Edgar Filing: TECH DATA CORP - Form 10-Q

During the six months ended July 31, 2010, the Company's Board of Directors approved the issuance of 263,936 shares of restricted stock and 17,799 MVOs. In addition, during the six months ended July 31, 2010, 228,020 stock options, MV Stock-Settled SARs and MVOs were exercised, 196,905 shares of restricted stock vested and 62,560 equity-based awards were cancelled. The Company's policy is to utilize shares of its treasury stock, to the extent available, for the exercise or vesting of equity awards.

## **Table of Contents**

### **NOTE 6 SHAREHOLDERS EQUITY**

In December 2009, the Company's Board of Directors authorized a share repurchase program of up to \$100.0 million of the Company's common stock. During the first semester of fiscal 2011, the Company completed the share repurchase program purchasing 2,482,791 shares of the Company's common stock at an average cost of \$40.28 per share, for a total cost, including expenses, of \$100.0 million, under this share repurchase program.

In July 2010, the Company's Board of Directors authorized an additional share repurchase program of up to \$100.0 million of the Company's common stock. Through July 31, 2010, the Company purchased 1,980,297 shares of the Company's common stock at an average cost of \$38.12 per share, for a total cost, including expenses, of \$75.5 million, under this share repurchase program. The Company completed the share repurchase program in August 2010, purchasing an additional 621,682 shares at an average cost of \$39.42, for a total cost, including expenses, of \$24.5 million.

The Company's share repurchases were made on the open market through block trades or otherwise and the number of shares purchased and the timing of the purchases were based on working capital requirements, general business conditions and other factors, including alternative investment opportunities. Shares repurchased by the Company are held in treasury for general corporate purposes, including issuances under equity incentive and employee benefit plans.

### **NOTE 7 FAIR VALUE OF FINANCIAL INSTRUMENTS**

The Company carries its assets and liabilities at fair value and classifies and discloses its assets and liabilities in one of the following three categories: Level 1 – quoted market prices in active markets for identical assets and liabilities; Level 2 – inputs other than quoted market prices included in level 1 above that are observable for the asset or liability, either directly or indirectly; and, Level 3 – unobservable inputs for the asset or liability. A financial instrument's level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement.

The Company's foreign currency forward contracts are measured based on foreign currency spot rates and forward rates quoted by banks or foreign currency dealers (level 2 criteria) and are marked-to-market each period with gains and losses on these contracts recorded in the Company's Consolidated Statement of Operations on a basis consistent with the classification of the change in the fair value of the underlying transactions giving rise to these foreign currency exchange gains and losses in the period in which their value changes, with the offsetting amount for unsettled positions being included in either other current assets or other current liabilities in the Consolidated Balance Sheet. The fair value of the Company's foreign currency forward contracts at July 31, 2010 and 2009 was \$(7.7) million and \$(13.2) million, respectively (see further discussion below in Note 8 – Derivative Instruments).

The Company utilizes life insurance policies to fund certain of the Company's nonqualified employee benefit plans. The investments contained within the life insurance policies are marked-to-market each period by analyzing the change in the underlying value of the invested assets (level 2 criteria) and the gains and losses are recorded in the Company's Consolidated Statement of Operations. The related deferred compensation liability is also marked-to-market each period based upon the various investment return alternatives selected by the participants of the nonqualified employee benefit plans (level 2 criteria) and the gains and losses are recorded in the Company's Consolidated Statement of Operations.

The \$350.0 million of convertible senior debentures are carried at cost, less unamortized debt discount. The estimated fair value of the convertible senior debentures was approximately \$352.6 million at July 31, 2010, based upon quoted market information (level 1 criteria).

The carrying amounts of cash and cash equivalents, 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 revolving debt and similar bank credit agreements approximates fair value as interest rates on these instruments approximate current market rates (level 2 criteria).

### **NOTE 8 DERIVATIVE INSTRUMENTS**

In the ordinary course of business, the Company is exposed to movements in foreign currency exchange rates. The Company's foreign currency risk management objective is to protect earnings and cash flows from the impact of exchange rate changes primarily through the use of foreign currency forward contracts to hedge accounts receivable, accounts payable and financing transactions. These derivatives are not designated as hedging instruments.

## Edgar Filing: TECH DATA CORP - Form 10-Q

The Company employs established policies and procedures to manage the exposure to fluctuations in the value of foreign currencies. It is the Company's policy to utilize financial instruments to reduce risks where internal netting cannot be effectively employed. Additionally, the Company does not enter into derivative instruments for speculative or trading purposes.

## **Table of Contents**

The Company's foreign currency exposure relates to international transactions in Europe, Canada and Latin America, where the currency collected from customers can be different from the currency used to purchase the product. The Company's transactions in its foreign operations are denominated primarily in the following currencies: U.S. dollar, Brazilian reais, British pound, Canadian dollar, Chilean peso, Czech koruna, Danish krone, euros, Mexican peso, Norwegian krone, Polish zloty, Swedish krona and Swiss franc.

The Company considers inventory as an economic hedge against foreign currency exposure in accounts payable in certain circumstances. This practice offsets such inventory against corresponding accounts payable denominated in currencies other than the functional currency of the subsidiary buying the inventory, when determining the net exposure to be hedged using traditional forward contracts. Under this strategy, the Company would expect to increase or decrease selling prices for product purchased in foreign currencies based on fluctuations in foreign currency exchange rates affecting the underlying accounts payable. This strategy can result in a certain degree of quarterly earnings volatility, as the underlying accounts payable is remeasured using the foreign currency exchange rate prevailing at the end of each period, or settlement date if earlier, whereas the corresponding increase (decrease) in gross profit is not realized until the related inventory is sold.

The Company classifies foreign currency exchange gains and losses on its derivative instruments used to manage its exposures to foreign currency denominated accounts receivable and accounts payable as a component of cost of products sold which is consistent with the classification of the change in fair value upon remeasurement of the underlying hedged accounts receivable or accounts payable. The Company classifies foreign currency exchange gains and losses on its derivative instruments used to manage its exposures to foreign currency denominated financing transactions as a component of other (income) expense, net which is consistent with the classification of the change in fair value upon remeasurement of the underlying hedged loans. The total amount recognized in earnings on the Company's foreign currency forward contracts was a net foreign currency exchange gain (loss) of \$2.7 million and (\$17.8) million for the quarters ended July 31, 2010 and 2009, respectively, and a net foreign currency exchange (loss) of (\$3.7) million and (\$33.1) million for the six months ended July 31, 2010 and 2009, respectively. The gains and losses on the Company's foreign currency forward contracts are largely offset by the change in the fair value of the underlying hedged assets or liabilities. The Company's foreign currency forward contracts are also discussed in Note 7 Fair Value of Financial Instruments.

## **NOTE 9 COMMITMENTS AND CONTINGENCIES**

### *Guarantees*

As is customary in the IT industry, to encourage certain customers to purchase products from Tech Data, the Company has arrangements with certain finance companies that provide inventory financing facilities to the Company's customers. In conjunction with certain of these arrangements, the Company would be required to purchase certain inventory in the event the inventory is repossessed from the customers by the finance companies. As the Company does not have access to information regarding the amount of inventory purchased from the Company still on hand with the customer at any point in time, the Company's repurchase obligations relating to inventory cannot be reasonably estimated. Repurchases of inventory by the Company under these arrangements have been insignificant to date. The Company believes that, based on historical experience, the likelihood of a material loss pursuant to these inventory repurchase obligations is remote.

The Company also provides additional financial guarantees to finance companies on behalf of certain customers. The majority of these guarantees are for an indefinite period of time, where we would be required to perform if the customer is in default with the finance company related to purchases made from the Company. The Company reviews the underlying credit for these guarantees on at least an annual basis. As of July 31, 2010 and January 31, 2010, the aggregate amount of guarantees under these arrangements totaled approximately \$58.9 million and \$62.3 million, respectively, of which approximately \$48.3 million and \$40.9 million, respectively, was outstanding. The Company believes that, based on historical experience, the likelihood of a material loss pursuant to the above guarantees is remote.

### *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 has 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.



**Table of Contents****NOTE 10 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. The Company's geographic segments include the Americas (including North America and Latin America) and Europe. 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 Company does not consider stock-based compensation expense in assessing the performance of its operating segments, and therefore the Company is reporting stock-based compensation expense as a separate amount. The accounting policies of the segments are the same as those described in Note 1 Business and Summary of Significant Accounting Policies.

Financial information by geographic segment is as follows:

	Three months ended July 31,		Six months ended July 31,	
	2010 (In thousands)	2009	2010 (In thousands)	2009
Net sales to unaffiliated customers:				
Americas	\$ 2,598,618	\$ 2,397,783	\$ 5,061,331	\$ 4,606,258
Europe	2,875,343	2,785,948	6,033,685	5,568,432
Total	\$ 5,473,961	\$ 5,183,731	\$ 11,095,016	\$ 10,174,690
Operating income:				
Americas	\$ 44,580	\$ 35,421	\$ 88,870	\$ 60,767
Europe	23,838	21,286	51,483	46,548
Stock-based compensation expense	(2,660)	(2,833)	(5,109)	(5,631)
Total	\$ 65,758	\$ 53,874	\$ 135,244	\$ 101,684
Depreciation and amortization:				
Americas	\$ 4,150	\$ 3,972	\$ 8,195	\$ 7,999
Europe	6,643	7,542	13,753	14,484
Total	\$ 10,793	\$ 11,514	\$ 21,948	\$ 22,483
Capital expenditures:				
Americas	\$ 5,176	\$ 2,496	\$ 8,102	\$ 4,092
Europe	3,111	2,678	6,193	4,695
Total	\$ 8,287	\$ 5,174	\$ 14,295	\$ 8,787
Identifiable assets:				
Americas	\$ 2,022,645	\$ 1,865,690	\$ 2,022,645	\$ 1,865,690
Europe	3,473,485	3,403,462	3,473,485	3,403,462
Total	\$ 5,496,130	\$ 5,269,152	\$ 5,496,130	\$ 5,269,152
Goodwill <sup>(1)</sup>				
Americas	\$ 2,966	\$ 2,966	\$ 2,966	\$ 2,966
Europe	19,715	14,334	19,715	14,334

Total	\$ 22,681	\$ 17,300	\$ 22,681	\$ 17,300
-------	-----------	-----------	-----------	-----------

<sup>(1)</sup> The increase in the goodwill at July 31, 2010, is primarily the result of the European acquisitions completed during the first semester of fiscal 2011.

**NOTE 11 SUBSEQUENT EVENT**

In August 2010, the Company entered into an agreement to acquire the stock of Triade Holding ( Triade ), a privately-held portfolio of leading value added distributors of consumer electronics, mobility and information technology products in the Benelux region and Denmark. The Company's current plan is for the Company's joint venture with Brightstar Corporation to acquire Triade's mobility business, Mobile Communication Company ( MCC ), a mobility specialist in the Benelux region. The agreement is subject to regulatory approval in Europe and the transaction is expected to be completed during the third quarter of fiscal 2011.

**Table of Contents**

For the twelve months ended January 31, 2010, Triade generated sales of approximately 929 million euro (approximately \$1.2 billion), comprised of 35% consumer electronics products, 39% mobility products and 26% IT products. The transaction's purchase price, including assumed debt, is estimated to be 145 million euro (approximately \$189 million), of which approximately 45% relates to MCC, to be acquired directly by the Company's joint venture with Brightstar Corporation. The final transaction values will be determined at closing. As currently structured, upon completion of the acquisition the operating results of MCC will not be consolidated in the Company's financial statements and will be accounted for under the equity method and reported as equity in income (loss) of unconsolidated joint venture in the Company's Consolidated Statement of Operations. In addition, as a result of this transaction, the Company's future results of operations will no longer include the line item, net (income) loss attributable to noncontrolling interest, in the Company's Consolidated Statement of Operations.



## **Table of Contents**

### **ITEM 2. *Management's Discussion and Analysis of Financial Condition and Results of Operations*** **Forward-Looking Statements**

This Quarterly Report on Form 10-Q, including this Management's Discussion and Analysis of Financial Condition and Results of Operations (MD&A), 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 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. 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 Item 1A. Risk Factors in the Annual Report on Form 10-K for the year ended January 31, 2010, 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:

global economic downturn

competition

narrow profit margins

dependence on information systems

acquisitions and dispositions

exposure to natural disasters, war and terrorism

dependence on independent shipping companies

impact of policy changes

labor strikes

risk of declines in inventory value

product availability

## Edgar Filing: TECH DATA CORP - Form 10-Q

vendor terms and conditions

loss of significant customers

customer credit exposure

need for liquidity and capital resources; fluctuations in interest rates

foreign currency exchange rates; exposure to foreign markets

changes in income tax and other regulatory legislation

changes in accounting rules

volatility of common stock price

### Overview

Tech Data is a leading distributor of information technology ( IT ) products, logistics management and other value-added services. We distribute computer hardware, software products, data center products, consumer electronics and mobility products to value-added resellers, direct marketers, retailers and corporate resellers. Our offering of value-added customer services includes training and technical support, external financing options, configuration services, outbound telemarketing, marketing services and a suite of electronic commerce solutions. We manage our business in two geographic segments: the Americas (including North America and Latin America) and Europe.

A key tenet of our strategy is superior execution focused on our ability to leverage our efficient cost structure combined with our multiple service offerings to generate demand and develop markets and cost efficiencies for our vendors and customers. The IT distribution industry in which we operate is characterized by narrow gross profit as a percentage of sales ( gross margin ) and narrow income from operations as a percentage of sales ( operating margin ). Historically, our gross and operating margins have been impacted by intense price competition and declining average selling prices per unit, as well as changes in terms and conditions with our vendors, including those terms related to rebates, price protection, product returns and other incentives. We expect these

## **Table of Contents**

conditions to continue in the foreseeable future and, therefore, we will continue to proactively monitor and evaluate our pricing policies, credit management and purchasing policies in response to potential changes in our vendor terms and conditions and the general market environment and make adjustments within our customer or vendor portfolios as necessary. As a result, we may experience sales declines in some of the markets in which we operate, thereby impacting our consolidated financial results. In addition, retraction from the nascent global economic recovery or softness in economies in which we operate may hinder our ability to maintain and / or improve gross margins from the levels realized in recent periods. Our business also requires significant levels of working capital primarily to finance accounts receivable and inventory. We have historically relied upon debt, trade credit from our vendors, and accounts receivable financing programs for our working capital needs. At July 31, 2010, we had a debt to capital ratio (calculated as total debt divided by the aggregate of total debt and total shareholders' equity) of 18%.

In addition to focusing on superior execution, we continue to drive diversification and realignment of our customer and vendor portfolios to help drive long-term profitability throughout our operations. Our broadline distribution business is and will continue to be our core business. However, as technology evolves, our business model and value-added offerings must evolve to ensure our vendors have efficient distribution channels for their products and our customers have a broad array of solutions to sell. In both Europe and the Americas, we are continuing to expand our product portfolio to include leading technologies surrounding the data center, consumer electronics, mobility and software. In addition, we have continued to invest in our offerings designed to provide innovative third party logistics and other services to our business partners. As we execute our diversification strategy, we continuously monitor the extension of credit and other terms and conditions offered to our customers to prudently balance risk, profitability and return on capital employed.

Consistent with our diversification strategy, in August we announced an agreement to acquire Triade Holding (Triade), a privately-held portfolio of leading value added distributors of consumer electronics, mobility and information technology products in the Benelux region and Denmark. Our current plan is for our joint venture with Brightstar Corporation to acquire Triade's mobility business, Mobile Communication Company (MCC), a mobility specialist in the Benelux region. The agreement is subject to regulatory approval in Europe and the transaction is expected to be completed during the third quarter of fiscal 2011. The acquisition of Triade will significantly expand our product, vendor and customer portfolios throughout the Benelux region and Denmark. As currently structured, upon completion of the acquisition the operating results of MCC will not be consolidated in our financial statements and will be accounted for under the equity method and reported as equity in income (loss) of unconsolidated joint venture in our Consolidated Statement of Operations. In addition, as a result of this transaction, our future results of operations will no longer include the line item, net (income) loss attributable to noncontrolling interest, in our Consolidated Statement of Operations.

In addition, during the first semester of fiscal 2011, we made two business acquisitions in Europe that will further strengthen our European enterprise business and in August, we closed on the acquisition of a European telecommunications supplier. While these acquisitions are not expected to have a significant impact on our consolidated results of operations in fiscal 2011, they will further diversify our product and customer portfolios and are important additions in their respective markets, while leveraging our existing infrastructure in Europe.

We believe our strategy of execution, diversification and innovation will drive further improvements to our financial results in the future. We are constantly monitoring the factors that we can control, including our management of costs, working capital and capital spending and we will continue to work to manage our net sales growth, profitability and market share. We will also continue to evaluate targeted strategic investments across our operations in IT enhancements and new business opportunities.

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

The information included within MD&A is 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 on-going 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 critical accounting policies discussed below 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. Also influencing our estimates are the following: (1) the large number of customers and their dispersion across wide geographic areas; (2) the fact that no single customer accounts for more than 10% of our net sales; (3) the value and adequacy of collateral received from customers, if any; (4) our historical loss experience



## **Table of Contents**

and (5) the current economic environment. 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 consolidated financial results. Conversely, if actual customer performance were to improve to an extent not expected by us, a reduction in allowances may be required which could have a favorable effect on our consolidated financial results.

### *Inventory*

We value our inventory at the lower of its cost or market value, with cost being determined on the first-in, first-out method. 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 (such as technological obsolescence and the nature of vendor terms surrounding price protection and product returns), foreign currency fluctuations for foreign-sourced product, and assumptions about future demand. Market conditions or changes in terms and conditions by our vendors that are less favorable than those projected by management may require additional inventory write-downs, which could have an adverse effect on our consolidated financial results.

### *Vendor Incentives*

We receive incentives from vendors related to cooperative advertising allowances, infrastructure 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. Unrestricted volume rebates and early payment discounts received from vendors are recorded when they are earned as a reduction of inventory and as a reduction of cost of products sold as the related inventory is sold. Vendor incentives earned for specifically identified cooperative advertising programs and infrastructure funding are recorded as adjustments to product costs or selling, general and administrative expenses, depending on the nature of the programs.

We also provide reserves for receivables on vendor programs for estimated losses resulting from vendors' inability to pay or rejections by vendors of claims. Should additional amounts recorded as outstanding receivables from vendors be deemed uncollectible, additional allowances may be required which could have an adverse effect on our consolidated financial results.

### *Goodwill, Intangible Assets and Other Long-Lived Assets*

The carrying value of goodwill is reviewed at least annually for impairment and 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, purchased intangibles, and other long-lived assets as current events and circumstances warrant determining whether there are any impairment losses. If indicators of impairment are present 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. Factors that may cause a goodwill, intangible asset or other long-lived asset impairment include negative industry or economic trends and significant underperformance relative to historical or projected future operating results. Our valuation methodologies include, but are not limited to, a discounted cash flow model, which estimates the net present value of the projected cash flows of our reporting units and a market approach, which evaluates comparative market multiples applied to our reporting units' businesses to yield a second assumed value of each reporting unit. If actual results are substantially lower than our projections underlying these assumptions, or if market discount rates substantially increase, our future valuations could be adversely affected, potentially resulting in future impairment charges.

### *Income Taxes*

We record valuation allowances to reduce our deferred tax assets to the amount expected to be realized. In assessing the adequacy of a recorded valuation allowance, we consider all positive and negative evidence and a variety of factors including the scheduled reversal of deferred tax liabilities, historical and projected future taxable income, and prudent and feasible tax planning strategies. If 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 valuation allowance would be made to reduce income tax expense, thereby increasing net income in the period such determination was made. Should we determine that we are unable to realize all or part of our net deferred tax assets in the future, an adjustment to the deferred tax asset valuation allowance would be made 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.

## Edgar Filing: TECH DATA CORP - Form 10-Q

Estimates that are particularly sensitive to future changes include those related to tax, legal, and other regulatory matters such as imports and exports, the imposition of international governmental controls, changes in the interpretation and enforcement of international laws (in particular related to items such as duty and taxation), and the impact of local economic conditions and practices, which are all subject to change as events evolve and as additional information becomes available during the administrative and litigation process.

**Table of Contents****Recent Accounting Pronouncements and Legislation**

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

**Results of Operations**

We do not consider stock-based compensation expense in assessing the performance of our operating segments; therefore the Company is reporting this as a separate amount. The following table summarizes our net sales, change in net sales and operating income by geographic region for the three and six months ended July 31, 2010 and 2009:

	<b>Three months ended July 31, 2010</b>		<b>Three months ended July 31, 2009</b>	
	<b>\$</b>	<b>% of net sales</b>	<b>\$</b>	<b>% of net sales</b>
Net sales by geographic region (\$ in thousands):				
Americas	\$ 2,598,618	47.5%	\$ 2,397,783	46.3%
Europe	2,875,343	52.5%	2,785,948	53.7%
Worldwide	\$ 5,473,961	100.0%	\$ 5,183,731	100.0%

  

	<b>Six months ended July 31, 2010</b>		<b>Six months ended July 31, 2009</b>	
	<b>\$</b>	<b>% of net sales</b>	<b>\$</b>	<b>% of net sales</b>
Net sales by geographic region (\$ in thousands):				
Americas	\$ 5,061,331	45.6%	\$ 4,606,258	45.3%
Europe	6,033,685	54.4%	5,568,432	54.7%
Worldwide	\$ 11,095,016	100.0%	\$ 10,174,690	100.0%

## Table of Contents

	Three months ended July 31,		Six months ended July 31,	
	2010	2009	2010	2009
Year-over-year increase (decrease) in net sales (%):				
Americas	8.4%	(14.5)%	9.9%	(16.3)%
Europe (US\$)	3.2%	(17.1)%	8.4%	(17.3)%
Europe (euro)	15.0%	(7.0)%	11.9%	(4.8)%
Worldwide	5.6%	(15.9)%	9.0%	(16.8)%

	Three months ended July 31, 2010		Three months ended July 31, 2009	
	\$	% of net sales	\$	% of net sales
Operating income (\$ in thousands):				
Americas	\$ 44,580	1.72 %	\$ 35,421	1.48 %
Europe	23,838	0.83 %	21,286	0.76 %
Stock-based compensation expense	(2,660)	(0.05)%	(2,833)	(0.05)%
Worldwide	\$ 65,758	1.20 %	\$ 53,874	1.04 %

	Six months ended July 31, 2010		Six months ended July 31, 2009	
	\$	% of net sales	\$	% of net sales
Operating income (\$ in thousands):				
Americas	\$ 88,870	1.76 %	\$ 60,767	1.32 %
Europe	51,483	0.85 %	46,548	0.84 %
Stock-based compensation expense	(5,109)	(0.05)%	(5,631)	(0.06)%
Worldwide	\$ 135,244	1.22 %	\$ 101,684	1.00 %

We sell many products purchased from the world's leading peripheral, system and networking manufacturers and software publishers. Products purchased from Hewlett Packard Company approximated 28% of our net sales over the past four fiscal quarters. In addition, there were no customers that exceeded 10% of our consolidated net sales in any of the periods presented.

The following table sets forth our Consolidated Statement of Operations as a percentage of net sales for the three and six months ended July 31, 2010 and 2009, as follows:

	Three months ended July 31,		Six months ended July 31,	
	2010	2009	2010	2009
Net sales	100.00%	100.00%	100.00%	100.00%
Cost of products sold	94.75	94.81	94.77	94.79
Gross profit	5.25	5.19	5.23	5.21
Selling, general and administrative expenses	4.05	4.15	4.01	4.21
Operating income	1.20	1.04	1.22	1.00
Interest expense	.13	.14	.13	.15
Other (income) expense, net		(.01)	(.01)	(.02)
Income before income taxes	1.07	.91	1.10	.87
Provision for income taxes	.32	.23	.32	.21



## Edgar Filing: TECH DATA CORP - Form 10-Q

Consolidated net income	.75	.68	.78	.66
Net loss attributable to noncontrolling interest				
Net income attributable to shareholders of Tech Data Corporation	.75%	.68%	.78%	.66%

### Three and six months ended July 31, 2010 and 2009

#### *Net Sales*

Our consolidated net sales were \$5.5 billion in the second quarter of fiscal 2011, an increase of 5.6% when compared to the second quarter of fiscal 2010. The strengthening of the U.S. dollar against certain foreign currencies negatively impacted our year-over-year

## **Table of Contents**

net sales comparison by approximately six percentage points. On a regional basis, during the second quarter of fiscal 2011, net sales in the Americas increased by 8.4% when compared to the second quarter of fiscal 2010 and increased by 3.2% in Europe (an increase of 15.0% on a euro basis). On a year-to-date basis, net sales were \$11.1 billion during the first semester of fiscal 2011, an increase of 9.0% when compared to the first semester of fiscal 2010. The increase in net sales in both the Americas and Europe during the second quarter and first semester of fiscal 2011 was primarily attributable to a stronger demand for technology products in both regions compared to the same periods of the prior year.

### *Gross Profit*

Gross profit as a percentage of net sales ( gross margin ) increased to 5.25% during the second quarter of fiscal 2011 compared to 5.19% in the second quarter of fiscal 2010. On a year-to-date basis, gross margin remained relatively consistent at 5.23% for the first semester of fiscal 2011 compared to 5.21% in the comparable period of the prior fiscal year. Ongoing efforts to improve the quality and mix of our customer and vendor portfolios, as well as the continued execution of our inventory, pricing and freight management practices, were the primary contributing factors in sustaining our gross margin year over year.

### *Selling, General and Administrative Expenses ( SG&A )*

SG&A as a percentage of net sales decreased to 4.05% for the second quarter of fiscal 2011, compared to 4.15% in the second quarter of fiscal 2010. On a year-to-date basis, SG&A as a percentage of net sales decreased to 4.01% compared to 4.21% in the comparable semester of the prior fiscal year .The decrease in SG&A as a percentage of net sales in the second quarter and first semester of fiscal 2011 compared to the same periods of the prior year is primarily attributable to the operating leverage achieved this year as our net sales have increased at a more rapid rate than our operating expenses.

In absolute dollars, SG&A increased by \$6.6 million in the second quarter of fiscal 2011 compared to the second quarter of fiscal 2010 and increased by \$16.5 million in the first semester of fiscal 2011 compared to the same period of the prior year. The year-over-year increase in SG&A is primarily attributable to our higher payroll costs and continued investments to support sales growth and strategic initiatives, partially offset by the strengthening of the U.S. dollar against certain foreign currencies year-over-year.

### *Interest Expense*

Interest expense remained relatively stable at \$7.3 million in the second quarter of fiscal 2011 compared to \$7.1 million in the second quarter of the prior year. On a year-to-date basis, interest expense decreased 7.4% to \$13.9 million in the first semester of fiscal 2011 from \$15.0 million in the first semester of the prior year. The decrease in interest expense for the first semester of fiscal 2011 is primarily attributable to lower average outstanding debt balances as compared to the same period of the prior year.

Interest expense for both of the three and six months ended July 31, 2010 and 2009, includes non-cash interest expense of \$2.5 million and \$5.0 million, respectively, related to the \$350 million convertible senior debentures (see Note 3 of Notes to Consolidated Financial Statements for further discussion).

### *Other (Income) Expense, Net*

Other (income) expense, net consists primarily of interest income, discounts on the sale of accounts receivable and net foreign currency exchange gains (losses) on certain financing transactions and the related derivative instruments used to hedge such financing transactions.

### *Provision for Income Taxes*

Our effective tax rate was 30.2% in the second quarter of fiscal 2011 and 25.7% in the second quarter of fiscal 2010. Our effective tax rate was 28.9% for the first semester of fiscal 2011 compared to 24.8% for the same period of the prior year. The increase in the effective rate for both the second quarter and first semester of fiscal 2011 compared to the same periods of the prior year is primarily the result of the relative mix of earnings and losses within the tax jurisdictions in which we operate and the resolution of minor discrete tax items.

On an absolute dollar basis, the provision for income taxes increased 45.7% to \$17.7 million for the second quarter of fiscal 2011 compared to \$12.1 million in the same period of fiscal 2010. On a year-to-date basis, the provision for income taxes increased 60.6% to \$35.2 million compared to \$21.9 million for the same period of the prior fiscal year. The increase in the provision for income taxes in these periods was primarily due to an increase in taxable earnings.

## Edgar Filing: TECH DATA CORP - Form 10-Q

The effective tax rate differed from the U.S. federal statutory rate of 35% during these periods primarily due to the relative mix of earnings or losses within the tax jurisdictions in which we operate such as: a) losses in tax jurisdictions where we are not able to

**Table of Contents**

record a tax benefit; b) earnings in tax jurisdictions where we have previously recorded a valuation allowance on deferred tax assets; and c) earnings in lower-tax jurisdictions for which no U.S. taxes have been provided because such earnings are planned to be reinvested indefinitely outside the United States.

The overall effective tax rate will continue to be dependent upon the geographic distribution of our earnings or losses, changes in tax laws, or interpretations of these laws in our operating jurisdictions. We monitor the assumptions used in estimating the annual effective tax rate and make adjustments, if required, throughout the year. If actual results differ from the assumptions used in estimating our annual effective income tax rates, future income tax expense could be materially affected.

Our future effective tax rates could be adversely affected by lower earnings than anticipated in countries with lower statutory rates, changes in the relative mix of taxable income and taxable loss jurisdictions, changes in the valuation of our deferred tax assets or liabilities or changes in tax laws or interpretations thereof. In addition, our income tax returns are subject to continuous examination by the Internal Revenue Service and other tax authorities. We regularly assess the likelihood of adverse outcomes from these examinations to determine the adequacy of our provision for income taxes. To the extent we prevail in matters for which accruals have been established or are required to pay amounts in excess of such accruals, our effective tax rate could be materially affected.

*Net Loss Attributable to Noncontrolling Interest*

Net loss attributable to noncontrolling interest for both the second quarter and first semester of fiscal 2011 was less than \$0.1 million compared to a net loss attributable to noncontrolling interest of \$0.1 million and \$0.3 million for the same periods of the prior fiscal year. The net loss attributable to noncontrolling interest represents Brightstar Corporation's share of the joint venture operations, as the joint venture is a consolidated subsidiary in our financial statements.

**Liquidity and Capital Resources**

The following table summarizes our Consolidated Statement of Cash Flows for the six months ended July 31, 2010 and 2009:

	Six months ended July 31,	
	2010	2009
	(In thousands)	
Net cash flow provided by (used in):		
Operating activities	\$ 33,472	\$ 525,563
Investing activities	(25,899)	(13,620)
Financing activities	(154,240)	(22,239)
Effect of exchange rate changes on cash and cash equivalents	(29,854)	48,631
Net (decrease) increase in cash and cash equivalents	\$ (176,521)	\$ 538,335

As a distribution company, our business requires significant investment in working capital, particularly accounts receivable and inventory, partially financed through our accounts payable to vendors. Overall, as our sales volume increases, our net investment in working capital typically increases, which, in general, results in decreased cash flow from operating activities. Conversely, when sales volume decreases, our net investment in working capital typically decreases, which, in general, results in increased cash flow from operating activities.

Another important driver to our operating cash flows is our cash conversion cycle (also referred to as net cash days). Our net cash days are defined as days of sales outstanding in accounts receivable (DSO) plus days of supply on hand in inventory (DOS), less days of purchases outstanding in accounts payable (DPO). We manage our cash conversion cycle on a daily basis throughout the year and our reported financial results reflect that cash conversion cycle at the balance sheet date. Our net cash days result of 25 days at the end of the second quarter of fiscal 2011 was within our targeted range.

The following table presents the components of our cash conversion cycle, in days, as of July 31, 2010 and 2009:

# Edgar Filing: TECH DATA CORP - Form 10-Q

	As of July 31,	
	2010	2009
Days of sales outstanding	39	40
Days of supply in inventory	31	28
Days of purchases outstanding	(45)	(44)
Cash conversion cycle (days)	25	24

Net cash provided by operating activities was \$33.5 million for the first semester of fiscal 2011 compared to \$525.6 million of cash provided by operating activities for the same period of the prior year. The change in cash resulting from operating activities during the first semester of fiscal 2011 compared to the same period of the prior year can be attributed to i) the timing of both cash receipts from our customers and payments to our vendors and ii) additional working capital requirements due to the stronger net sales performance during the first semester of fiscal 2011 compared to the first semester of fiscal 2010 as a result of the economic recovery throughout the first semester of fiscal 2011.

## **Table of Contents**

Net cash used in investing activities of \$25.9 million during the first semester of fiscal 2011 is the result of \$11.6 million of cash used for acquisitions in Europe and \$14.3 million of expenditures for the continuing expansion and upgrading of our IT systems, office facilities and equipment for our logistics centers. We expect to make total capital expenditures of approximately \$35.0 million during fiscal 2011 for equipment and machinery in our logistics centers, office facilities and IT systems.

Net cash used in financing activities of \$154.2 million during the first semester of fiscal 2011 is primarily the result of \$166.6 million of cash used in the repurchase of 4,463,088 shares of our common stock under our share repurchase programs, partially offset by \$10.0 million of net borrowings on our revolving credit lines and long-term debt.

As of July 31, 2010, we maintained a Receivables Securitization Program with a syndicate of banks which allows us to transfer an undivided interest in a designated pool of U.S. accounts receivable, on an ongoing basis, to provide security or collateral for borrowings up to a maximum of \$150.0 million, which expires in October 2010. We pay interest on the Receivables Securitization Program at designated commercial paper rates plus an agreed-upon margin. We anticipate renewing the Receivables Securitization Program upon its expiration in October 2010. Additionally, we maintained a \$250.0 million Multi-currency Revolving Credit Facility with a syndicate of banks, which expires in March 2012. We pay interest under this facility at the applicable LIBOR rate plus a margin based on our credit ratings. In addition to the facilities described above, we have additional uncommitted lines of credit and overdraft facilities totaling approximately \$467.9 million at July 31, 2010 to support our worldwide operations. The total capacity of the aforementioned credit facilities was approximately \$867.9 million, of which \$45.6 million was outstanding at July 31, 2010. Our credit agreements contain limitations on the amounts of annual dividends and repurchases of common stock. Additionally, the credit agreements require compliance with certain warranties and covenants. The financial ratio covenants contained within the credit agreements include a debt to capitalization ratio, an interest to EBITDA (as defined per the credit agreements) ratio and a tangible net worth requirement. At July 31, 2010, the Company was in compliance with all such covenants. 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 may limit the Company's ability to draw the full amount of these facilities. As of July 31, 2010, the total maximum amount that could be borrowed under these facilities, in consideration of the availability of collateral and the financial covenants, was approximately \$867.9 million.

We also have an interest-free revolving credit loan from Brightstar Corporation (Brightstar) that was issued in connection with our joint venture. This revolving credit loan from Brightstar has no contractual repayment date and will increase or decrease in accordance with the working capital requirements of the joint venture, as determined by the Company. The amount outstanding at July 31, 2010 totaled \$31.0 million.

At July 31, 2010, the Company had issued standby letters of credit of \$72.6 million for the guarantee of payment to certain third parties in accordance with specified terms and conditions.

In December 2006, we issued \$350.0 million of convertible senior debentures due 2026. The debentures bear interest at 2.75% per year. We pay interest on the debentures on June 15 and December 15 of each year. In addition, beginning with the period commencing on December 20, 2011 and ending on June 15, 2012 and for each six-month period thereafter, we will pay contingent interest on the interest payment date for the applicable interest period, if the market price of the debentures exceeds specified levels. The convertible senior debentures are convertible into our common stock and cash anytime after June 15, 2026, or i) if the market price of the common stock, as defined, exceeds 135% of the conversion price per share of common stock, or ii) if the Company calls the debentures for redemption, or iii) upon the occurrence of certain corporate transactions, as defined. Holders have the right to convert the debentures into 18,4310 shares per \$1,000 principal amount of debentures, equivalent to a conversion price of approximately \$54.26 per share. Upon conversion, we will deliver cash equal to the lesser of the aggregate principal amount of the debentures to be converted and our total conversion obligation and shares of our common stock in respect of the remainder, if any, of our conversion obligation. Holders have the option to require us to repurchase the debentures in cash on any of the fifth, tenth or fifteenth anniversary dates from the issue date at 100% of the principal amount plus accrued interest to the repurchase date. The debentures are redeemable in whole or in part for cash at our option at any time on or after December 20, 2011. Additionally, the debentures are senior, unsecured obligations and rank equally in right of payment with all of our other unsecured and unsubordinated indebtedness. The debentures are effectively subordinated to all of our existing and future secured debt and are structurally subordinated to the indebtedness and other liabilities of our subsidiaries.

In December 2009, our Board of Directors authorized a share repurchase program of up to \$100.0 million of our common stock. During the first six months of fiscal 2011, we completed the share repurchase program purchasing 2,482,791 shares at an average of \$40.28 per share, for a total cost, including expenses, of \$100.0 million under this share repurchase program.

In July 2010, our Board of Directors authorized a share repurchase program of up to \$100.0 million of our common stock. Through July 31, 2010, we repurchased 1,980,297 shares at an average of \$38.12 per share, for a total cost, including expenses, of \$75.5 million, under this share repurchase program. We completed the share repurchase program in August 2010, purchasing an additional 621,682 shares at an average cost of \$39.42 for a total cost, including expenses, of \$24.5 million.



## **Table of Contents**

For our share repurchase programs, the number of shares purchased and the timing of the purchases was based on working capital requirements, general business conditions and other factors, including alternative investment opportunities. Shares we repurchase are held in treasury for general corporate purposes, including issuances under employee equity incentive plans.

Our debt to capital ratio was 18% at July 31, 2010. 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. Changes in our credit rating or other market factors may increase or decrease our interest expense or other costs of capital or capital may or may not be available to us on acceptable terms to fund our working capital 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 credit facilities contain various financial and other covenants that may limit the Company's ability to borrow or limit the Company's flexibility in responding to business conditions.

### **Off-Balance Sheet Arrangements**

#### *Synthetic Lease Facility*

We have a synthetic lease facility (the "Synthetic Lease") with a group of financial institutions under which we lease certain logistics centers and office facilities from a third-party lessor. During fiscal 2009, we renewed our existing Synthetic Lease with a new lease agreement that expires in June 2013. Properties leased under the Synthetic Lease are located in Clearwater and Miami, Florida; Fort Worth, Texas; Fontana, California; Suwanee, Georgia; Swedesboro, New Jersey; and South Bend, Indiana. The Synthetic Lease has been accounted for as an operating lease and rental payments are calculated at the applicable LIBOR rate plus a margin based on our credit ratings.

During the first four years of the lease term, we may, at our option, purchase any combination of the seven properties, at an amount equal to each of the property's cost, as long as the lease balance does not decrease below a defined amount. During the last year of the lease term, until 180 days prior to the lease expiration, we may, at our option, i) purchase a minimum of two of the seven properties, at an amount equal to each of the property's cost, ii) exercise the option to renew the lease for a minimum of two of the seven properties or iii) exercise the option to remarket a minimum of two of the seven properties and cause a sale of the properties. If we elect to remarket the properties, we have guaranteed the lessor a percentage of the cost of each property, in the aggregate amount of \$107.4 million (the "residual value"). We have also provided a residual value guarantee related to the Synthetic Lease, which has been recorded at the estimated fair value of the residual guarantee.

The sum of future minimum lease payments under the Synthetic Lease is approximately \$6.0 million at July 31, 2010. The Synthetic Lease contains covenants that must be complied with, similar to the covenants described in certain of the credit facilities. As of July 31, 2010, we were in compliance with all such covenants.

#### *Guarantees*

As is customary in the IT industry, to encourage certain customers to purchase product from us, we have arrangements with certain finance companies that provide inventory-financing facilities for our customers. In conjunction with certain of these arrangements, we have agreements with the finance companies that would require us to repurchase certain inventory, which might be repossessed from the customers by the finance companies. Due to various reasons, including among other items, the lack of information regarding the amount of saleable inventory purchased from us still on hand with the customer at any point in time, our repurchase obligations relating to inventory cannot be reasonably estimated. Repurchases of inventory by us under these arrangements have been insignificant to date. The Company believes that, based on historical experience, the likelihood of a material loss pursuant to these inventory purchase obligations is remote.

We also provide additional financial guarantees to finance companies on behalf of certain customers. The majority of these guarantees are for an indefinite period of time, where we would be required to perform if the customer is in default with the finance company related to purchases made from the Company. The Company reviews the underlying credit for these guarantees on at least an annual basis. As of July 31, 2010 and January 31, 2010, the aggregate amount of guarantees under these arrangements totaled approximately \$58.9 million and \$62.3 million, respectively, of which approximately \$48.3 million and \$40.9 million, respectively, was outstanding. We believe that, based on historical experience, the likelihood of a material loss pursuant to the above guarantees is remote.

### **ITEM 3. *Quantitative and Qualitative Disclosures About Market Risk***

For a description of the Company's market risks, see Item 7a. Qualitative and Quantitative Disclosures About Market Risk in our Annual Report on Form 10-K for the fiscal year ended January 31, 2010. No material changes have occurred in our market risks since January 31, 2010.



**ITEM 4.   *Controls and Procedures***

The Company's management, with the participation of the Company's Chief Executive Officer and Chief Financial Officer, has evaluated the effectiveness of the Company's disclosure controls and procedures as of July 31, 2010. Based on that evaluation, the

## **Table of Contents**

Company's Chief Executive Officer and Chief Financial Officer concluded that the Company's disclosure controls and procedures were effective as of July 31, 2010. There were no material changes in the Company's internal controls over financial reporting during the second quarter of fiscal 2011.

## **PART II. OTHER INFORMATION**

### **ITEM 1. *Legal Proceedings***

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 has 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 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.

### **ITEM 1A. *Risk Factors***

In addition to other information set forth in this report, you should carefully consider the factors discussed in Part I. Item 1A. Risk Factors in our Annual Report on Form 10-K for the year ended January 31, 2010, which could materially affect our business, financial position and results of operations. Risk factors which could cause actual results to differ materially from those suggested by forward-looking statements include but are not limited to those discussed or identified in this document, in our public filings with the SEC, and those incorporated by reference in Part I, Item 1A. Risk Factors in our Annual Report on Form 10-K for the year ended January 31, 2010.

### **ITEM 2. *Unregistered Sales of Equity Securities and Use Of Proceeds***

In December 2009, our Board of Directors authorized a share repurchase program of up to \$100.0 million of our common stock. During the first six months of fiscal 2011, we completed the share repurchase program purchasing 2,482,791 shares at an average of \$40.28 per share, for a total cost, including expenses, of \$100.0 million under this share repurchase program.

In July 2010, the Company's Board of Directors authorized a share repurchase program of up to \$100.0 million of the Company's common stock. Through July 31, 2010, the Company repurchased 1,980,297 shares at an average of \$38.12 per share, for a total cost, including expenses, of \$75.5 million, under this share repurchase program. The share repurchase program was completed in August 2010.

The share repurchases to date were made on the open market, through block trades or otherwise. The number of shares purchased and the timing of the purchases was based on working capital requirements, general business conditions and other factors, including alternative investment opportunities.

In conjunction with the both of the \$100.0 million share repurchase programs discussed above, the Company executed 10b5-1 plans that instruct the broker selected by the Company to repurchase shares on behalf of the Company. The amount of common stock repurchased in accordance with the 10b5-1 plans on any given trading day was determined by a formula in the plan, which is based on the market price of the Company's common stock. Shares repurchased by the Company are held in treasury for general corporate purposes, including issuances under equity incentive and benefit plans.

The following table presents information with respect to purchases of common stock by the Company under the share repurchase programs during the quarter ended July 31, 2010:

# Edgar Filing: TECH DATA CORP - Form 10-Q

Issuer Purchases of Equity Securities					
Period		Total number of shares purchased	Average price paid per share	Total number of shares purchased as part of publicly announced plan or programs	Maximum dollar value of shares that may yet be purchased under the plan or programs
May 1	May 31, 2010	1,142,031	\$ 40.68	1,142,031	
June 1	June 30, 2010	1,205,326	\$ 39.78	1,205,326	
July 1	July 31, 2010	1,980,297	\$ 38.12	1,980,297	
Total		4,327,654	\$ 39.26	4,327,654	\$ 24,505,000

**Table of Contents**

**ITEM 3. Defaults Upon Senior Securities**

Not applicable.

**ITEM 4. Removed and Reserved**

**ITEM 5. Other Information**

Not applicable.

**ITEM 6. Exhibits**

(a) Exhibits

- 31-A Certification of Chief Executive Officer Pursuant to Exchange Act Rules 13a-14(a) and 15d-14(a), As Adopted Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
- 31-B Certification of Chief Financial Officer Pursuant to Exchange Act Rules 13a-14(a) and 15d-14(a), As Adopted Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
- 32-A Certification of Chief Executive Officer Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
- 32-B Certification of Chief Financial Officer Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
- 101 Interactive data files pursuant to Rule 405 of Regulation S-T: (i) Consolidated Balance Sheets as of July 31, 2010 and January 31, 2010, (ii) Consolidated Statement of Operations for the Three and Six Months Ended July 31, 2010 and 2009, (iii) Consolidated Statement of Cash Flows for the Six Months Ended July 31, 2010 and 2009, and (iv) Notes to the Consolidated Financial Statements, tagged as block text.

**Table of Contents**

**SIGNATURES**

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

TECH DATA CORPORATION

(Registrant)

<b>Signature</b>	<b>Title</b>	<b>Date</b>
/s/ ROBERT M. DUTKOWSKY <b>Robert M. Dutkowsky</b>	Chief Executive Officer; Director	August 31, 2010
/s/ JEFFERY P. HOWELLS <b>Jeffery P. Howells</b>	Executive Vice President and Chief Financial Officer; Director (principal financial officer)	August 31, 2010
/s/ JOSEPH B. TREPANI <b>Joseph B. Trepani</b>	Senior Vice President and Corporate Controller (principal accounting officer)	August 31, 2010