

TECH DATA CORP
Form 10-Q
September 01, 2011
Table of Contents

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

FORM 10-Q

(Mark one)

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

For the quarterly period ended July 31, 2011

OR

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

For the transition period from to

Commission file number 0-14625

TECH DATA CORPORATION

(Exact name of registrant as specified in its charter)

Edgar Filing: TECH DATA CORP - Form 10-Q

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

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"/>

Edgar Filing: TECH DATA CORP - Form 10-Q

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.

Class	Outstanding at August 22, 2011
Common stock, par value \$.0015 per share	43,403,221

Table of Contents

TECH DATA CORPORATION AND SUBSIDIARIES

Form 10-Q for the Three and Six Months Ended July 31, 2011

INDEX

	PAGE
PART I. FINANCIAL INFORMATION	
Item 1. Financial Statements	
<u>Consolidated Balance Sheet</u>	3
<u>Consolidated Statement of Income</u>	4
<u>Consolidated Statement of Cash Flows</u>	5
<u>Notes to Consolidated Financial Statements</u>	6
Item 2. <u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	15
Item 3. <u>Quantitative and Qualitative Disclosures About Market Risk</u>	24
Item 4. <u>Controls and Procedures</u>	24
PART II. OTHER INFORMATION	
Item 1. <u>Legal Proceedings</u>	24
Item 1A. <u>Risk Factors</u>	25
Item 2. <u>Unregistered Sales of Equity Securities and Use of Proceeds</u>	25
Item 3. <u>Defaults Upon Senior Securities</u>	26
Item 4. <u>Removed and Reserved</u>	26
Item 5. <u>Other Information</u>	26
Item 6. <u>Exhibits</u>	26
<u>SIGNATURES</u>	27
EXHIBITS	
CERTIFICATIONS	

Table of Contents**PART I. FINANCIAL INFORMATION****ITEM 1. Financial Statements****TECH DATA CORPORATION AND SUBSIDIARIES****CONSOLIDATED BALANCE SHEET**

(In thousands, except share amounts)

	July 31, 2011 (Unaudited)	January 31, 2011
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 905,138	\$ 839,934
Accounts receivable, less allowance for doubtful accounts of \$63,184 and \$56,811	2,833,724	2,896,671
Inventories	1,878,911	2,205,394
Prepaid expenses and other assets	198,006	181,147
Total current assets	5,815,779	6,123,146
Property and equipment, net	91,242	94,315
Other assets, net	290,045	270,831
Total assets	\$ 6,197,066	\$ 6,488,292
LIABILITIES AND EQUITY		
Current liabilities:		
Accounts payable	\$ 2,985,230	\$ 3,223,962
Accrued expenses and other liabilities	503,413	562,638
Revolving credit loans and current maturities of long-term debt, net	424,320	434,435
Total current liabilities	3,912,963	4,221,035
Long-term debt, less current maturities	62,810	60,076
Other long-term liabilities	65,315	68,754
Total liabilities	4,041,088	4,349,865
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, 2011 and January 31, 2011	89	89
Additional paid-in capital	763,025	768,757
Treasury stock, 15,842,364 and 12,517,538 shares at July 31, 2011 and January 31, 2011	(632,154)	(466,635)
Retained earnings	1,552,179	1,453,371
Accumulated other comprehensive income	446,029	358,884
Equity attributable to shareholders of Tech Data Corporation	2,129,168	2,114,466
Noncontrolling interest	26,810	23,961
Total equity	2,155,978	2,138,427

Edgar Filing: TECH DATA CORP - Form 10-Q

Total liabilities and equity

\$ 6,197,066

\$ 6,488,292

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 INCOME****(In thousands, except per share amounts)****(Unaudited)**

	Three months ended July 31,		Six months ended July 31,	
	2011	2010	2011	2010
Net sales	\$ 6,449,461	\$ 5,473,961	\$ 12,781,589	\$ 11,095,016
Cost of products sold	6,108,623	5,186,424	12,107,289	10,514,676
Gross profit	340,838	287,537	674,300	580,340
Selling, general and administrative expenses	262,063	221,779	519,842	445,096
Operating income	78,775	65,758	154,458	135,244
Interest expense	8,089	7,329	16,730	13,917
Other (income) expense, net	(212)	(94)	454	(370)
Income before income taxes	70,898	58,523	137,274	121,697
Provision for income taxes	19,142	17,691	36,798	35,221
Consolidated net income	51,756	40,832	100,476	86,476
Net (income) loss attributable to noncontrolling interest	(1,649)	23	(1,668)	12
Net income attributable to shareholders of Tech Data Corporation	\$ 50,107	\$ 40,855	\$ 98,808	\$ 86,488
Net income per share attributable to shareholders of Tech Data Corporation:				
Basic	\$ 1.11	\$ 0.82	\$ 2.14	\$ 1.71
Diluted	\$ 1.10	\$ 0.82	\$ 2.11	\$ 1.70
Weighted average common shares outstanding:				
Basic	45,097	49,612	46,129	50,537
Diluted	45,596	49,986	46,736	51,012

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)**

	Six months ended July 31,	
	2011	2010
Cash flows from operating activities:		
Cash received from customers	\$ 12,947,538	\$ 11,269,978
Cash paid to vendors and employees	(12,643,518)	(11,199,882)
Interest paid, net	(9,824)	(7,706)
Income taxes paid	(44,062)	(28,918)
Net cash provided by operating activities	250,134	33,472
Cash flows from investing activities:		
Acquisition of businesses, net of cash acquired	(3,264)	(11,604)
Expenditures for property and equipment	(4,978)	(6,614)
Software and software development costs	(14,069)	(7,681)
Net cash used in investing activities	(22,311)	(25,899)
Cash flows from financing activities:		
Proceeds from the reissuance of treasury stock	28,468	1,191
Cash paid for purchase of treasury stock	(200,000)	(166,554)
Net (repayments) borrowings on revolving credit loans	(19,903)	10,265
Principal payments on long-term debt	(268)	(222)
Excess tax benefit from stock-based compensation	1,870	1,080
Net cash used in financing activities	(189,833)	(154,240)
Effect of exchange rate changes on cash and cash equivalents	27,214	(29,854)
Net increase (decrease) in cash and cash equivalents	65,204	(176,521)
Cash and cash equivalents at beginning of year	839,934	1,116,579
Cash and cash equivalents at end of period	\$ 905,138	\$ 940,058
Reconciliation of net income to net cash provided by operating activities:		
Net income attributable to shareholders of Tech Data Corporation	\$ 98,808	\$ 86,488
Net income (loss) attributable to noncontrolling interest	1,668	(12)
Consolidated net income	100,476	86,476
Adjustments to reconcile consolidated net income to net cash provided by operating activities:		
Depreciation and amortization	28,943	21,948
Provision for losses on accounts receivable	6,419	3,088
Stock-based compensation expense	5,182	5,109
Accretion of debt discount on convertible senior debentures	5,139	5,139
Excess tax benefits from stock-based compensation	(1,870)	(1,080)

Edgar Filing: TECH DATA CORP - Form 10-Q

Changes in operating assets and liabilities:		
Accounts receivable	158,094	175,051
Inventories	394,669	(118,706)
Prepaid expenses and other assets	(22,053)	(16,293)
Accounts payable	(342,677)	(132,931)
Accrued expenses and other liabilities	(82,188)	5,671
Total adjustments	149,658	(53,004)
Net cash provided by operating activities	\$ 250,134	\$ 33,472

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 one of the world s largest wholesale distributors of technology products. The Company serves as a strategic link in the technology supply chain by bringing products from the world s leading technology vendors to market, as well as providing customers with advanced logistics capabilities and value added services. Tech Data s customers include value added resellers, direct marketers, retailers and corporate resellers who support the diverse technology needs of end users. The Company is managed in two geographic segments: the Americas (including North America and South 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 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 (U.S.GAAP). 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, 2011 and its results of operations and cash flows for the three and six months ended July 31, 2011 and 2010.

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 the Company s fiscal fourth quarter and decreased demand in other fiscal quarters, particularly quarters that include summer months. Given that 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 consolidated results of operations. Therefore, the results of operations for the three and six months ended July 31, 2011 and 2010 are not necessarily indicative of the results that can be expected for the entire fiscal year ending January 31, 2012.

Edgar Filing: TECH DATA CORP - Form 10-Q

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). Comprehensive income (loss) attributable to the shareholders of the Company for the three and six months ended July 31, 2011 and 2010 is as follows:

	Three months ended July 31,		Six months ended July 31,	
	2011	2010	2011	2010
	(In thousands)			
Comprehensive income:				
Consolidated net income	\$ 51,756	\$ 40,832	\$ 100,476	\$ 86,476
Change in consolidated cumulative translation adjustments (CTA ⁽¹⁾)	(44,522)	(16,424)	88,326	(76,489)
Total comprehensive income	7,234	24,408	188,802	9,987
Less comprehensive income (loss) attributable to noncontrolling interest	876	(123)	2,849	(361)
Comprehensive income attributable to shareholders of Tech Data Corporation	\$ 6,358	\$ 24,531	\$ 185,953	\$ 10,348

⁽¹⁾ There were no income tax effects related to the change in cumulative translation adjustments during either the three or six months ended July 31 2011 or 2010.

Table of Contents

Comprehensive income attributable to shareholders of the Company increased significantly during the six months ended July 31, 2011 as compared to the same period of the prior fiscal year primarily as a result of the strengthening of most currencies in which the Company operates in comparison to the U.S. dollar during the period.

Recently Adopted Accounting Standards

In December 2010, the Financial Accounting Standards Board (FASB) issued an accounting standard which modifies the two-step goodwill impairment testing process for entities that have a reporting unit with a zero or negative carrying amount. For those reporting units, an entity is required to perform step two of the goodwill impairment test if it is more likely than not that goodwill impairment exists. In determining whether it is more likely than not that a goodwill impairment exists, an entity should consider whether there are any adverse qualitative factors indicating that an impairment exists. This accounting standard is effective for the Company beginning with the quarter ending April 30, 2011. The Company has adopted this standard for the quarter ended April 30, 2011, which had no impact on its consolidated financial position, results of operations or cash flows.

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 standard is effective for revenue arrangements entered into or materially modified by the Company beginning February 1, 2011 with early adoption permitted. The Company has adopted this standard effective February 1, 2011, which did not have a material impact on the Company's 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 discussed 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 has adopted this standard effective February 1, 2011, which did not have a material impact on the Company's consolidated financial position, results of operations or cash flows.

Recently Issued Accounting Standards

In May 2011, the FASB and International Accounting Standards Board (IASB) issued a new accounting standard that amends the wording used to describe many of the requirements in U.S. GAAP for measuring fair value and for disclosing information about fair value measurements. This accounting standard does not extend the use of fair value accounting, but provides guidance on how it should be applied where its use is already required or permitted by other standards within U.S. GAAP or International Financial Reporting Standards (IFRS). This accounting standard is effective for the Company beginning with the quarter ending April 30, 2012. The Company does not expect the adoption of this guidance will have a material impact on its consolidated financial position, results of operations or cash flows.

In June 2011, the FASB issued a new accounting standard related to the presentation of comprehensive income. This standard requires presentation of comprehensive income in either a single statement of comprehensive income or two separate but consecutive statements. This standard does not change the definitions of the components of net income and other comprehensive income, when an item must be reclassified from other comprehensive income to net income, or earnings per share, which is calculated using net income. The standard further defines the approach for reporting tax impacts of comprehensive income and disclosure of amounts reclassified from comprehensive income to net income. This standard is effective for fiscal years beginning after December 15, 2011, and must be applied retrospectively.

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 computation of basic and diluted EPS is as follows:

	Three months ended July 31,					
	2011			2010		
	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	\$ 50,107	45,097	\$ 1.11	\$ 40,855	49,612	\$ 0.82
Effect of dilutive securities:						
Equity-based awards		499			374	
Net income per common share attributable to shareholders of Tech Data Corporation diluted	\$ 50,107	45,596	\$ 1.10	\$ 40,855	49,986	\$ 0.82

	Six months ended July 31,					
	2011			2010		
	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	\$ 98,808	46,129	\$ 2.14	\$ 86,488	50,537	\$ 1.71
Effect of dilutive securities:						
Equity-based awards		607			475	
Net income per common share attributable to shareholders of Tech Data Corporation diluted	\$ 98,808	46,736	\$ 2.11	\$ 86,488	51,012	\$ 1.70

At July 31, 2011 and 2010, there were 16,382 and 1,180,856 equity-based compensation awards, respectively, excluded from the computation of diluted earnings per share because the exercise price was greater than the average market price, thereby resulting in an antidilutive effect.

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, 2011 or 2010 as the conditions for the contingent conversion feature have not been met (see further discussion in Note 3 Debt).

NOTE 3 DEBT

Edgar Filing: TECH DATA CORP - Form 10-Q

	July 31, 2011	January 31, 2011
	(In thousands)	
Convertible senior debentures, interest at 2.75% payable semi-annually, due December 2026	\$ 350,000	\$ 350,000
Less unamortized debt discount	(3,854)	(8,993)
Convertible senior debentures, net	346,146	341,007
Capital leases	7,434	7,325
Loan payable to Brightstar Corporation, interest at LIBOR plus 4.0% payable annually, due September 2015	15,964	15,203
Interest-free revolving credit loan payable to Brightstar Corporation	39,947	38,045
Other committed and uncommitted revolving credit facilities, average interest rate of 8.60% and 3.27% at July 31, 2011 and January 31, 2011, expiring on various dates through fiscal 2012	77,639	92,931
	487,130	494,511
Less current maturities (included as revolving credit loans and current portion of long-term debt, net)	(424,320)	(434,435)
Total long-term debt	\$ 62,810	\$ 60,076

Table of Contents

Convertible Senior Debentures

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 debentures are redeemable in whole or in part for cash at the Company's option at any time on or after December 20, 2011. The convertible senior debentures are convertible into the Company's common stock and cash, any time 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 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 fifth, tenth or fifteenth anniversary dates from the issue date at 100% of the principal amount plus accrued interest to the repurchase date. As a result of this repurchase obligation, the Company has classified the convertible senior debentures as current debt on the Company's Consolidated Balance Sheet at both July 31, 2011 and January 31, 2011. 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 foreign 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, 2011 and 2010, 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, 2011, the if-converted value of the convertible senior debentures did not exceed the principal balance and the \$3.9 million unamortized debt discount has a remaining amortization period of approximately five months assuming redemption of the debentures at the first repurchase date in December 2011.

Loans Payable to Brightstar Corporation

In October 2010, Brightstar Corporation (Brightstar) entered into an agreement to loan Brightstar Europe Limited (BEL), a joint venture between the Company and Brightstar, its share of the funding requirements related to BEL's acquisition of MCC (the Acquisition Loan). The Acquisition Loan from Brightstar, plus any accrued interest, has a repayment date of September 2015, or earlier if agreed between the two parties, and bears interest at the applicable LIBOR rate plus 4.0% per year, which is payable annually on October 1.

The Company also has an interest-free revolving credit loan from Brightstar that was issued in connection with the operations of BEL (the Brightstar Revolver). The terms of the Brightstar Revolver contain no contractual repayment date and allow for the revolving credit loan to increase or decrease in accordance with the working capital requirements of BEL, as determined by the Company. Effective October 2010, a resolution of BEL's board was approved stating that the Brightstar Revolver will not be repaid for the foreseeable future and therefore the revolving credit loan is classified as long-term debt within the Company's Consolidated Balance Sheet at both July 31, 2011 and January 31, 2011.

Other Credit Facilities

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 \$300.0 million. Under this program, which was renewed in August 2011, 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 Sheet, totaled \$636.6 million and \$549.8 million at July 31, 2011 and January 31, 2011, respectively. As collections reduce accounts receivable balances included in the security or collateral 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 the applicable commercial paper or LIBOR rate plus an agreed-upon margin. In addition, the Company is required to pay a commitment fee of .35% per annum on the unused portion of the Receivables Securitization Program. There are no amounts outstanding under this program at either July 31, 2011 or January 31, 2011.

Edgar Filing: TECH DATA CORP - Form 10-Q

Under the terms of the Company's Multi-currency Revolving Credit Facility with a syndicate of banks, the Company is able to borrow funds in major foreign currencies up to a maximum of \$250.0 million. Under this facility, which expires in March 2012, 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. There are no amounts outstanding under this facility at either July 31, 2011 or January 31, 2011.

Table of Contents

In addition to the facilities described above, the Company has various other committed and uncommitted lines of credit and overdraft facilities totaling approximately \$604.0 million at July 31, 2011 to support its operations. Most of these facilities are provided on an unsecured, short-term basis and are reviewed periodically for renewal.

The total capacity of the other credit facilities discussed above, as well as the maximum borrowings under the facilities, was approximately \$1.0 billion, of which \$77.6 million was outstanding at July 31, 2011. The Company's credit facilities contain limitations on the amounts of annual dividends and repurchases of common stock. Additionally, the credit facilities require compliance with certain warranties and covenants. The financial ratio covenants contained within the credit facilities 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, 2011, 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. At July 31, 2011, the Company had also issued standby letters of credit of \$81.4 million. These letters of credit typically act as a guarantee of payment to certain third parties in accordance with specified terms and conditions. The issuance of these letters of credit may reduce the Company's available capacity under the above-mentioned facilities by the same amount.

NOTE 4 INCOME TAXES

The Company's effective tax rate was 27.0% in the second quarter of fiscal 2012 and 30.2% in the second quarter of fiscal 2011. The Company's effective tax rate was 26.8% for the first semester of fiscal 2012 compared to 28.9% for the same period of the prior year. The decrease in the effective rate for the second quarter and first semester of fiscal 2012 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.

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, 2011 and 2010, the Company recorded \$5.2 million and \$5.1 million, respectively, of stock-based compensation expense, which is included in selling, general and administrative expenses in the Consolidated Statement of Income.

At July 31, 2011, the Company had awards outstanding from four equity-based compensation plans, only one of which is currently active. The active plan was approved by the Company's shareholders in June 2009 and includes 4.0 million shares available for grant of which approximately 3.2 million shares remain available for future grant at July 31, 2011. 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.

Table of Contents

A summary of the activity of the Company's MV Stock-settled SARs, MVOs and stock options for the six months ended July 31, 2011 is as follows:

	Shares
Outstanding at January 31, 2011	2,881,356
Granted	12,882
Exercised	(1,033,118)
Canceled	(17,774)
Outstanding at July 31, 2011	1,843,346

A summary of the activity of the Company's restricted stock activity for the six months ended July 31, 2011 is as follows:

	Shares
Outstanding at January 31, 2011	543,841
Granted	263,614
Vested	(203,024)
Canceled	(23,300)
Outstanding at July 31, 2011	581,131

The Company's policy is to utilize shares of its treasury stock, to the extent available, for the exercise or vesting of equity awards (see further discussion of the Company's share repurchase program in Note 6 - Shareholders' Equity).

NOTE 6 SHAREHOLDERS' EQUITY

In March 2011, the Company's Board of Directors authorized a share repurchase program of up to \$100.0 million of the Company's common stock and in June 2011, authorized a \$100.0 million increase to the share repurchase program, resulting in a total share repurchase authorization of \$200.0 million during the first semester of fiscal 2012. The Company completed the \$200.0 million share repurchase program during the first semester of fiscal 2012. The Company's share repurchases were made on the open market through block trades or otherwise. 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.

The Company's common share repurchases and issuance activity for the six months ended July 31, 2011 is summarized as follows:

	Shares	Weighted-average price per share
Treasury stock held at January 31, 2011	12,517,538	\$ 37.28
Shares of common stock repurchased under share repurchase program	4,229,179	47.29
Shares of treasury stock reissued	(904,353)	38.13
Treasury stock held at July 31, 2011	15,842,364	39.90

In August 2011, the Company's Board of Directors authorized a share repurchase program for up to \$100.0 million of the Company's common stock.

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.

Edgar Filing: TECH DATA CORP - Form 10-Q

The Company's foreign currency forward contracts are measured on a recurring basis 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 Income 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 outstanding foreign currency forward contracts at July 31, 2011 and 2010 was an unrealized gain of \$5.5 million and \$4.7 million, respectively, and an unrealized loss of \$13.6 million and \$12.4 million, respectively (see further discussion below in Note 8 - Derivative Instruments).

Table of Contents

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 Income. 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 Income.

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 \$358.3 million at July 31, 2011, 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 credit facilities and loans payable approximates fair value as the majority of these instruments have variable interest rates which 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 resulting from the Company's 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 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 both intercompany and third party loans, accounts receivable, and accounts payable. These derivatives are not designated as hedging instruments.

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.

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. To the extent the Company incurs a foreign currency exchange loss (gain) on the underlying accounts payable denominated in the foreign currency, a corresponding increase (decrease) in gross profit would be expected as the related inventory is sold. 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 may not be 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, of which the majority is included as a component of cost of products sold, was a net foreign currency exchange loss of \$4.1 million and \$2.7 million for the quarters ended July 31, 2011 and 2010, respectively, and a net foreign currency exchange loss of \$11.4 million and \$3.7 million for the six months ended July 31, 2011 and 2010, 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.

Table of Contents

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 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 the Company 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, 2011 and January 31, 2011, the aggregate amount of guarantees under these arrangements totaled approximately \$65.5 million and \$62.1 million, respectively, of which approximately \$40.6 million and \$43.0 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 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 will not be material to the Company's consolidated financial position; however, it could be material to the Company's operating results for any particular period, depending upon the level of income for such period.

In December 2010, in a non-unanimous decision, a Brazilian appellate court overturned a 2003 trial court which had previously ruled in favor of the Company's Brazilian subsidiary related to the imposition of certain taxes on payments abroad related to the licensing of commercial software products, commonly referred to as CIDE tax. The Company estimates the total exposure where the CIDE tax, including interest, may be considered due, to be approximately \$35.1 million as of July 31, 2011. The Brazilian subsidiary has moved for clarification of the ruling and intends to appeal if the court does not rule in its favor. However, in order to pursue the next level of appeal, the Brazilian subsidiary may be required to make a deposit or to provide a guarantee to the courts for the payment of the CIDE tax pending the outcome of the appeal, which will be reflected in the Brazilian subsidiary's financial statements at such time. Based on the legal opinion of outside counsel, the Company believes that the chances of success on appeal of this matter are favorable and the Brazilian subsidiary intends to vigorously defend its position that the CIDE tax is not due. However, no assurance can be given as to the ultimate outcome of this matter. The resolution of this litigation will not be material to the Company's consolidated financial position or liquidity; however, it could be material to the Company's operating results for any particular period, depending on the level of income for such period.

In addition to the discussion regarding the CIDE tax above, the Company's Brazilian subsidiary has been undergoing several examinations of non-income related taxes. Due to the complex nature of the Brazilian tax system, the Company is unable to determine the likelihood of these examinations resulting in assessments. Such assessments cannot be reasonably estimated at this time, but could be material to the Company's consolidated results of operations for any particular period, depending on the level of income for such period. However, the Company believes such assessments, if they were to occur, would not have a material adverse effect on the Company's consolidated financial position or liquidity.

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 technology products, logistics management, and other value-added services. While the Company operates primarily in one industry it is managed based on geographic segments: the Americas (including North America and South 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 reports 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,	
	2011	2010	2011	2010
	(In thousands)		(In thousands)	
Net sales to unaffiliated customers:				
Americas	\$ 2,697,655	\$ 2,598,618	\$ 5,313,460	\$ 5,061,331
Europe	3,751,806	2,875,343	7,468,129	6,033,685
Total	\$ 6,449,461	\$ 5,473,961	\$ 12,781,589	\$ 11,095,016
Operating income:				
Americas	\$ 47,635	\$ 44,580	\$ 95,508	\$ 88,870
Europe	33,855	23,838	64,132	51,483
Stock-based compensation expense	(2,715)	(2,660)	(5,182)	(5,109)
Total	\$ 78,775	\$ 65,758	\$ 154,458	\$ 135,244
Depreciation and amortization:				
Americas	\$ 3,853	\$ 4,150	\$ 7,769	\$ 8,195
Europe	10,334	6,643	21,174	13,753
Total	\$ 14,187	\$ 10,793	\$ 28,943	\$ 21,948
Capital expenditures:				
Americas	\$ 7,987	\$ 5,176	\$ 11,255	\$ 8,102
Europe	4,017	3,111	7,792	6,193
Total	\$ 12,004	\$ 8,287	\$ 19,047	\$ 14,295
Identifiable assets:				
Americas	\$ 2,411,392	\$ 2,022,645	\$ 2,411,392	\$ 2,022,645
Europe	3,785,674	3,473,485	3,785,674	3,473,485
Total	\$ 6,197,066	\$ 5,496,130	\$ 6,197,066	\$ 5,496,130
Goodwill and acquisition-related intangible assets, net⁽¹⁾:				
Americas	\$ 2,966	\$ 2,966	\$ 2,966	\$ 2,966
Europe	122,617	37,930	122,617	37,930
Total	\$ 125,583	\$ 40,896	\$ 125,583	\$ 40,896

Edgar Filing: TECH DATA CORP - Form 10-Q

- ⁽¹⁾ The increase in the goodwill and acquisition-related intangible assets, net, at July 31, 2011, is the result of the European acquisitions completed during the second semester of fiscal 2011.

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, 2011, 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 and political instability

increased competition

narrow 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

decreased product availability

Edgar Filing: TECH DATA CORP - Form 10-Q

changes to 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

international operations

changes in income tax and other regulatory legislation

potential adverse effects of litigation or regulatory enforcement actions

changes in accounting rules

volatility of Tech Data's common stock price

Overview

Tech Data Corporation ("Tech Data" or the "Company") is one of the world's largest wholesale distributors of technology products. We serve as a strategic link in the technology supply chain by bringing products from the world's leading technology vendors to market, as well as providing our customers with advanced logistics capabilities and value added services. Our customers include value added resellers ("VARs") direct marketers, retailers and corporate resellers who support the diverse technology needs of end users. We manage our business in two geographic segments: the Americas (including North America and South America) and Europe.

Edgar Filing: TECH DATA CORP - Form 10-Q

The Company's financial objectives are to grow sales at or above the market rate of growth for technology products, gain share in select markets, improve profitability and generate return on invested capital above our weighted average cost of capital. To achieve this, we are focused on a strategy of execution, diversification and innovation that we believe differentiates our business in the marketplace.

Table of Contents

The fundamental element of our strategy is superior execution. Our superior execution is focused on our ability to leverage our efficient cost structure combined with our multiple service offerings to generate demand, develop markets and provides supply chain efficiencies for our vendors and customers. The technology 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 conditions to continue in the foreseeable future and, therefore, we will continue to proactively evaluate our pricing policies and inventory management practices in response to potential changes in our vendor terms and conditions and the general market environment. From a balance sheet perspective, we require 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, 2011, we had a debt to capital ratio (calculated as total debt divided by the aggregate of total debt and total equity) of 18%.

In addition to focusing on superior execution, we continue to diversify and realign our customer and vendor portfolios to help drive long-term profitability throughout our operations. Our broadline distribution business, comprised primarily of personal computer systems, peripheral products, supplies and other similar products, continues to be a significant percentage of our revenue. However, as technology has advanced, our business model and value-added offerings have evolved to ensure our vendors have an efficient distribution channel for their products and our customers have a broad array of solutions to sell. We have responded to these technology advances with investments in specialty areas focusing on the data center, mobility, consumer electronics and software, all of which are now contributing significantly to our financial results. We continue to invest in our integrated supply chain offerings designed to provide innovative third party logistics and other services to our business partners. Our evolving product, customer and geographic portfolios have played a key role in delivering balanced operating results and are important factors in achieving our long-term profitability goals. 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 invested capital.

In support of our diversification strategy, in April 2011, we executed an agreement with Brightstar Corporation to establish a U.S. joint venture to capitalize on the mobility market in small and medium size businesses (SMB). The joint venture will assist our reseller customers in providing SMB end users with wireless activation and renewal processes, along with a wide array of products and services including data services, software, hardware, technical support and billing management.

The final tenet of our strategy is innovation. Our IT systems and e-business tools and programs have provided our business with the flexibility to effectively navigate through changes in market conditions, structural changes in the technology industry and changes created by the technology we sell. One of our most recent innovations is our StreamOne Solutions Store. The StreamOne Solutions Store will provide independent software vendors and cloud providers with a platform to market software-as-a-service and other products to more than 60,000 value-added resellers in the United States, thereby opening up a previously unavailable route to market for these independent software vendors and cloud providers.

We believe our strategy of execution, diversification and innovation is differentiating us in the markets we serve and is delivering solid sales growth, select market share gains, improved profitability, strong earnings per share growth, and industry-leading returns on invested capital. We are constantly monitoring the factors that we can control, including our net sales growth, management of costs, working capital and capital spending. 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 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.

Table of Contents

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 for specifically identified cooperative advertising programs and infrastructure funding are recorded when earned 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 of claims by vendors. Should 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. 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 it is more likely than not that we will 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 not likely 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. 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 reports stock-based compensation expense separately. 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, 2011 and 2010:

	Three months ended July 31, 2011		Three months ended July 31, 2010	
	\$	% of net sales	\$	% of net sales
Net sales by geographic region (\$ in thousands):				
Americas	\$ 2,697,655	41.8%	\$ 2,598,618	47.5%
Europe	3,751,806	58.2%	2,875,343	52.5%
Worldwide	\$ 6,449,461	100.0%	\$ 5,473,961	100.0%

	Six months ended July 31, 2011		Six months ended July 31, 2010	
	\$	% of net sales	\$	% of net sales
Net sales by geographic region (\$ in thousands):				
Americas	\$ 5,313,460	41.6%	\$ 5,061,331	45.6%
Europe	7,468,129	58.4%	6,033,685	54.4%
Worldwide	\$ 12,781,589	100.0%	\$ 11,095,016	100.0%

	Three months ended July 31,		Six months ended July 31,	
	2011	2010	2011	2010
Year-over-year increase in net sales (%):				
Americas	3.8%	8.4%	5.0%	9.9%
Europe (US\$)	30.5%	3.2%	23.8%	8.4%
Europe (euro)	13.8%	15.0%	13.6%	11.9%
Worldwide	17.8%	5.6%	15.2%	9.0%

	Three months ended July 31, 2011		Three months ended July 31, 2010	
	\$	% of net sales	\$	% of net sales
Operating income (\$ in thousands):				
Americas	\$ 47,635	1.77 %	\$ 44,580	1.72 %
Europe	33,855	0.90 %	23,838	0.83 %
Stock-based compensation expense	(2,715)	(0.04)%	(2,660)	(0.05)%
Worldwide	\$ 78,775	1.22 %	\$ 65,758	1.20 %

	Six months ended July 31, 2011		Six months ended July 31, 2010	
	\$	% of net sales	\$	% of net sales
Operating income (\$ in thousands):				
Americas	\$ 95,508	1.80 %	\$ 88,870	1.76 %

Edgar Filing: TECH DATA CORP - Form 10-Q

Europe	64,132	0.86 %	51,483	0.85 %
Stock-based compensation expense	(5,182)	(0.04)%	(5,109)	(0.05)%
Worldwide	\$ 154,458	1.21 %	\$ 135,244	1.22 %

We sell products purchased from the world's leading peripheral, system, software and networking vendors. Products purchased from Hewlett Packard Company approximated 26% of our net sales over the past four fiscal quarters. There were no other vendors or customers which exceeded 10% of our consolidated net sales over the past four fiscal quarters.

Table of Contents

The following table sets forth our Consolidated Statement of Income as a percentage of net sales for the three and six months ended July 31, 2011 and 2010, as follows:

	Three months ended July 31,		Six months ended July 31,	
	2011	2010	2011	2010
Net sales	100.00%	100.00%	100.00%	100.00%
Cost of products sold	94.72	94.75	94.72	94.77
Gross profit	5.28	5.25	5.28	5.23
Selling, general and administrative expenses	4.06	4.05	4.07	4.01
Operating income	1.22	1.20	1.21	1.22
Interest expense	.13	.13	.13	.13
Other (income) expense, net	(.01)	0	(.01)	(.01)
Income before income taxes	1.10	1.07	1.07	1.10
Provision for income taxes	.30	.32	.29	.32
Consolidated net income	.80	.75	.78	.78
Net (income) loss attributable to noncontrolling interest	(.02)	0	(.01)	0
Net income attributable to shareholders of Tech Data Corporation	.78%	.75%	.77%	.78%

Three and six months ended July 31, 2011 and 2010*Net Sales*

Our consolidated net sales were \$6.4 billion in the second quarter of fiscal 2012, an increase of 17.8% when compared to the second quarter of fiscal 2011. The strengthening of certain foreign currencies against the U.S. dollar positively impacted our year-over-year net sales comparison by approximately nine percentage points. On a regional basis, during the second quarter of fiscal 2012, net sales in the Americas increased by 3.8% when compared to the second quarter of fiscal 2011 and increased by 30.5% in Europe (an increase of 13.8% on a euro basis). On a year-to-date basis, net sales were \$12.8 billion during the first semester of fiscal 2012, an increase of 15.2% when compared to the first semester of fiscal 2011. The strengthening of certain foreign currencies against the U.S. dollar positively impacted our year-over-year net sales comparison by approximately six percentage points.

The increase in net sales in the Americas during the second quarter and first semester of fiscal 2012 was primarily attributable to stronger demand for technology products in the region compared to the same periods of the prior year. The increase in net sales in Europe (on a euro basis) was primarily attributable to our acquisitions of Triade's mobility, consumer electronics and IT distribution businesses in October 2010 and stronger demand for technology products in the region compared to the same periods of the prior year. During the second quarter and first semester of fiscal 2012, we did experience areas of softness in European demand within the consumer market and certain geographies experiencing weak economic environments, such as Spain, Portugal and the Czech Republic. However, these areas of softness were largely offset by strong performance in other European markets, such as Germany, U.K., Denmark and Norway.

Gross Profit

Gross profit as a percentage of net sales (gross margin) increased slightly to 5.28% during the second quarter of fiscal 2012 compared to 5.25% in the second quarter of fiscal 2011. On a year-to-date basis, gross margin increased to 5.28% for the first semester of fiscal 2012 compared to 5.23% in the comparable period of the prior fiscal year. Our gross margin performance in both the second quarter and first semester of fiscal 2012 reflects our product diversification efforts, disciplined approach to managing our customer and vendor portfolios and effective execution of our pricing and freight management practices.

Selling, General and Administrative Expenses (SG&A)

Edgar Filing: TECH DATA CORP - Form 10-Q

SG&A as a percentage of net sales remained relatively stable at 4.06% for the second quarter of fiscal 2012, compared to 4.05% in the second quarter of fiscal 2011. On a year-to-date basis, SG&A as a percentage of net sales increased to 4.07% compared to 4.01% in the comparable semester of the prior fiscal year. SG&A as a percentage of net sales in the second quarter and first semester of fiscal 2012 compared to the same periods of the prior year is primarily attributable the impact of the acquisitions of the mobility and consumer electronics businesses in the third quarter of fiscal 2011, which typically have higher operating expenses as a percentage of net sales, particularly in the first semester of the fiscal year, as well increased costs to support our sales growth.

Table of Contents

In absolute dollars, SG&A increased by \$40.3 million to \$262.1 million in the second quarter of fiscal 2012 compared to the second quarter of fiscal 2011 and increased by \$74.7 million to \$519.8 million in the first semester of fiscal 2012 compared to the same period of the prior year. The year-over-year increase in SG&A is primarily attributable to the strengthening of certain foreign currencies against the U.S. dollar year-over-year, operating expenses related to acquisitions made in the prior fiscal year and increased costs to support our sales growth, as discussed above.

Interest Expense

Interest expense increased 10.4% to \$8.1 million in the second quarter of fiscal 2012 compared to \$7.3 million in the second quarter of the prior year. On a year-to-date basis, interest expense increased 20.2% to \$16.7 million in the first semester of fiscal 2012 from \$13.9 million in the first semester of the prior year. The increase in interest expense for the second quarter and first semester of fiscal 2012 is primarily attributable to higher average outstanding debt balances and higher interest rates as compared to the same periods of the prior year.

Interest expense for both of the three and six months ended July 31, 2011 and 2010, 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. Other (income) expense, net, approximated \$0.2 million of income in the second quarter of fiscal 2012 compared to \$0.1 million of income in the second quarter of the prior year. On a year-to-date basis, other (income) expense, net, was \$0.5 million of expense in the first semester of fiscal 2012 compared to \$0.4 million of income in the first semester of the prior year. The change in other (income) expense, net, during both the second quarter and first semester of fiscal 2012 compared to the same periods of the prior year is primarily attributable to greater discount expense on the sale of accounts receivable and an increase in the premiums associated with foreign currency forward contracts compared to the same periods of the prior year.

Provision for Income Taxes

Our effective tax rate was 27.0% in the second quarter of fiscal 2012 and 30.2% in the second quarter of fiscal 2011. Our effective tax rate was 26.8% for the first semester of fiscal 2012 compared to 28.9% for the same period of the prior year. The decrease in the effective rate for both the second quarter and first semester of fiscal 2012 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.

On an absolute dollar basis, the provision for income taxes increased 8.2% to \$19.1 million for the second quarter of fiscal 2012 compared to \$17.7 million in the same period of fiscal 2011. On a year-to-date basis, the provision for income taxes increased 4.5% to \$36.8 million compared to \$35.2 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 in certain countries in which we operate compared to the same periods of fiscal 2011.

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: i) losses in tax jurisdictions where we are not able to record a tax benefit; ii) earnings in tax jurisdictions where we have previously recorded a valuation allowance on deferred tax assets; and iii) 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 we are required to pay amounts in

excess of such accruals, our effective tax rate could be materially affected.

Edgar Filing: TECH DATA CORP - Form 10-Q

Net (Income) Loss Attributable to Noncontrolling Interest

Net income attributable to noncontrolling interest for the second quarter and first semester of fiscal 2012 was \$1.6 million and \$1.7 million, respectively, compared to a net loss attributable to noncontrolling interest of less than \$0.1 million for the same periods of the prior fiscal year. The net (income) loss attributable to noncontrolling interest represents Brightstar Corporation's share of the results of operations of Brightstar Europe Limited, a joint venture between Tech Data and Brightstar Corporation, as the joint venture is a consolidated subsidiary in our financial statements.

Table of Contents**Liquidity and Capital Resources**

Our discussion of liquidity and capital resources includes an analysis of our cash flows and capital structure for all periods presented.

Cash Flows

The following table summarizes our Consolidated Statement of Cash Flows for the six months ended July 31, 2011 and 2010:

	Six months ended July 31,	
	2011	2010
	(In thousands)	
Net cash flow provided by (used in):		
Operating activities	\$ 250,134	\$ 33,472
Investing activities	(22,311)	(25,899)
Financing activities	(189,833)	(154,240)
Effect of exchange rate changes on cash and cash equivalents	27,214	(29,854)
Net increase (decrease) in cash and cash equivalents	\$ 65,204	\$ (176,521)

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 and our reported financial results reflect that cash conversion cycle at the balance sheet date.

The following table presents the components of our cash conversion cycle, in days, as of July 31, 2011 and 2010:

	As of July 31,	
	2011	2010
Days of sales outstanding	40	39
Days of supply in inventory	28	31
Days of purchases outstanding	(44)	(45)
Cash conversion cycle (days)	24	25

Net cash provided by operating activities was \$250.1 million for the first semester of fiscal 2012 compared to \$33.5 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 2012 compared to the same period of the prior year can be attributed primarily to the solid execution in our European operations during the second quarter of fiscal 2012 resulting in a decrease in our working capital requirements during the period, and the timing of cash receipts from our customers and payments to our vendors during the first semester of fiscal 2012 compared to the first semester of fiscal 2011.

Net cash used in investing activities of \$22.3 million during the first semester of fiscal 2012 is primarily the result of \$19.0 million of cash used for 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 \$44.0 million during fiscal 2012 for equipment and machinery in our logistics centers, office facilities and IT systems.

Edgar Filing: TECH DATA CORP - Form 10-Q

Net cash used in financing activities of \$189.8 million during the first semester of fiscal 2012 includes \$200.0 million of cash used for the repurchase of 4,229,179 shares of our common stock under our share repurchase program and \$20.2 million of net repayments on our revolving credit lines and long-term debt, partially offset by \$28.5 million in proceeds received for the reissuance of treasury stock related to exercises of equity-based incentives and purchases made through our Employee Stock Purchase Plan.

Table of Contents*Capital Resources and Debt Compliance*

Our debt to capital ratio was 18% at July 31, 2011. Within our capital structure, we have a range of financing facilities, which are diversified by type and geographic region with various financial institutions worldwide. A significant portion of our cash and cash equivalents balance generally resides in our operations outside of the United States and are deposited and/or invested with various financial institutions globally which we monitor regularly for credit quality. However, we are exposed to risk of loss on funds deposited with the various financial institutions and we may experience significant disruptions in our liquidity needs if one or more of these financial institutions were to declare bankruptcy or other similar restructuring. 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. Capital and credit market conditions, changes in our credit rating or other market factors may increase our interest expense or other costs of capital or capital may not be available to us on acceptable terms to fund our working capital needs. We will continue to need additional financing, including debt financing. The inability to obtain such sources of capital could have an adverse effect on our business. Our credit facilities contain various financial and other covenants that may limit our ability to borrow or limit our flexibility in responding to business conditions. At July 31, 2011 we were in compliance with financial ratio covenants contained within our credit facilities.

Convertible Senior Debentures

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 debentures are redeemable in whole or in part for cash at our option at any time on or after December 20, 2011. The convertible senior debentures are convertible into our common stock and cash any time 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. As a result of this repurchase right, the Company has classified the convertible senior debentures as short term debt on our Consolidated Balance Sheet at both July 31, 2011 and January 31, 2011. 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.

Loans Payable to Brightstar Corporation

As of July 31, 2011, we have two loans payable to our joint venture partner, Brightstar Corporation (Brightstar). The first loan is an interest-free revolving credit loan issued in connection with BEL's operations (the Brightstar Revolver). The terms of the Brightstar Revolver contain no contractual repayment date and allow the revolving credit loan to increase or decrease in accordance with the working capital requirements of BEL, as determined by the Company. The amount outstanding under the Brightstar Revolver at July 31, 2011 totaled \$39.9 million. The second loan was executed in October 2010, when Brightstar entered into an agreement to loan Brightstar Europe Limited joint venture (BEL) its share of the funding requirements related to BEL's acquisition of MCC (the Acquisition Loan) (see Note 3 of Notes to Consolidated Financial Statements). The outstanding balance of the Acquisition Loan from Brightstar, plus any accrued interest, has a repayment date of September 2015, or earlier if agreed between the two parties, and bears interest at the applicable LIBOR rate plus 4.0% per year, which is payable annually on October 1. The Acquisition Loan at July 31, 2011 totaled \$16.0 million.

Other Credit Facilities

We maintain 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 \$300.0 million. This program was renewed in August 2011 and expires in August 2012. We pay interest on the Receivables Securitization Program at the applicable commercial paper or LIBOR rate plus an agreed-upon margin. There were no amounts outstanding under the Receivables Securitization Program at July 31, 2011. 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. There were no amounts outstanding under the Multi-currency Revolving Credit Facility at July 31, 2011. In addition to the facilities described above, we have additional uncommitted lines of credit and overdraft facilities totaling approximately \$604.0 million at July 31, 2011 to support our

operations.

Table of Contents

The total capacity of the other credit facilities discussed above, as well as the maximum borrowings allowable under the facility agreements was approximately \$1.0 billion, of which \$77.6 million was outstanding at July 31, 2011. Our credit facilities 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 facilities 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, 2011, we were 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 our ability to draw the full amount of these facilities. At July 31, 2011, we had also issued standby letters of credit of \$81.4 million for the guarantee of payment to certain third parties in accordance with specified terms and conditions. The issuance of these letters of credit may reduce our available capacity under the above-mentioned facilities by the same amount.

Share Repurchase Programs

In March 2011, our Board of Directors authorized a share repurchase program of up to \$100.0 million of our common stock and in June 2011, authorized a \$100.0 million increase to the share repurchase program, resulting in a total share repurchase authorization of \$200.0 million during the first semester of fiscal 2012. As of July 31, 2011, we have completed the \$200.0 million share repurchase program through the repurchase of 4,229,179 shares at an average of \$47.29 per share, for a total cost, including expenses, of \$200.0 million under this program. Under our share repurchase program, the number of shares purchased and the timing of the purchases is 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.

In August 2011, the Company's Board of Directors authorized a share repurchase program for up to \$100.0 million of the Company's common stock. In conjunction with this share repurchase program, the Company executed a 10b5-1 plan that instructs 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 plan on any given trading day is determined by a formula in the plan, which is based on the market price of the Company's common stock.

Off-Balance Sheet Arrangements

Synthetic Lease Facility

We have a synthetic lease facility (the Synthetic Lease), expiring in June 2013, with a group of financial institutions under which we lease certain logistics centers and office facilities from a third-party lessor. 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 approximately \$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 \$3.4 million at July 31, 2011. 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, 2011, we were in compliance with all such covenants.

Guarantees

As is customary in the technology 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. 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, 2011 and January 31, 2011, the aggregate amount of guarantees under these arrangements totaled approximately \$65.5 million and \$62.1 million, respectively, of which approximately \$40.6 million and \$43.0 million, respectively, was outstanding. We believe that, based on historical experience, the likelihood of a material loss pursuant to the above guarantees is remote.

Table of Contents

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, 2011. No material changes have occurred in our market risks since January 31, 2011.

ITEM 4. *Controls and Procedures*

Evaluation of Disclosure 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, 2011. Based on that evaluation, the Company's Chief Executive Officer and Chief Financial Officer concluded that the Company's disclosure controls and procedures were effective as of July 31, 2011.

Changes in Internal Control Over Financial Reporting

There were no changes in our internal control over financial reporting (as defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act) identified in connection with management's evaluation during the second quarter of fiscal 2012 that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

Additional Information

As disclosed in the Company's Form 10-K for the fiscal year ended January 31, 2011, on October 1, 2010, the Company completed the acquisition of all of the outstanding shares of Triade Holding B.V. (Triade), a privately owned wholesale distributor of consumer electronics and information technology products based in the Netherlands with operations in Belgium, Denmark and Norway. In a related transaction, on October 1, 2010, Brightstar Europe Limited (BEL), a consolidated joint venture between the Company and Brightstar Corporation, also completed the acquisition of all of the outstanding shares of certain of Triade's mobility subsidiaries in Belgium and the Netherlands (MCC). Management's assessment and conclusion on the effectiveness of internal control over financial reporting as of January 31, 2011, excluded the internal controls of Triade and MCC. The Company is in the process of integrating the acquired businesses into the Company's overall internal control over financial reporting processes.

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 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 will not be material to the Company's consolidated financial position; however, it could be material to the Company's operating results for any particular period, depending upon the level of income for such period.

In December 2010, in a non-unanimous decision, a Brazilian appellate court overturned a 2003 trial court which had previously ruled in favor of the Company's Brazilian subsidiary related to the imposition of certain taxes on payments abroad related to the licensing of commercial software products, commonly referred to as CIDE tax. The Company estimates the total exposure where the CIDE tax, including interest, may be considered due, to be approximately \$35.1 million as of July 31, 2011. The Brazilian subsidiary has moved for clarification of the ruling and intends to appeal if the court does not rule in its favor. However, in order to pursue the next level of appeal, the Brazilian subsidiary may be required to make a deposit or to provide a guarantee to the courts for the payment of the CIDE tax pending the outcome of the appeal, which will be reflected in the Brazilian subsidiary's financial statements at such time. Based on the legal opinion of outside counsel, the Company believes that the chances of success on appeal of this matter are favorable and the Brazilian subsidiary intends to vigorously defend its position that the CIDE tax is not due. However, no assurance can be given as to the ultimate outcome of this matter. The resolution of this matter will not be material to the Company's consolidated financial position or liquidity; however, it could be material to the Company's operating results for any particular period, depending on the level of income for such period.

Edgar Filing: TECH DATA CORP - Form 10-Q

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.

Table of Contents**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, 2011, 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, 2011.

During the second quarter of fiscal 2012, the Company added the following to the risk factors referred to above in the Company's Annual Report on Form 10-K for the year ended January 31, 2011:

Potential Adverse Effects of Litigation or Regulatory Enforcement Actions

The Company cannot predict what losses we might incur in litigation matters, regulatory enforcement actions and contingencies that we may be involved with from time to time. There are various claims, lawsuits and pending actions against us. It is our opinion that the ultimate resolution of these matters will not have a material adverse effect on our consolidated financial position. However, the resolution of certain of these matters could be material to our operating results for any particular period, depending on the level of income for such period. We can make no assurances that we will ultimately be successful in our defense of any of these matters. See Part I, Item 3, Legal Proceedings, in this Form 10-K for a discussion of our material legal matters.

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

In March 2011, our Board of Directors authorized a share repurchase program of up to \$100.0 million of our common stock and in June 2011, authorized a \$100.0 million increase to the share repurchase program, resulting in a total share repurchase authorization of \$200 million through the first semester of fiscal 2012. As of July 31, 2011, we have completed the \$200.0 million share repurchases program through the repurchase of 4,229,179 shares at an average of \$47.29 per share, for a total cost, including expenses, of \$200.0 million under this program.

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 share repurchase program discussed above, the Company executed a 10b5-1 plan that instructs 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 plan on any given trading day is 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, 2011:

Period	Total number of shares purchased	Average price paid per share	Issuer Purchases of Equity Securities	
			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, 2011	509,805	\$ 47.85	509,805	
June 1 - June 30, 2011	1,767,240	\$ 45.70	1,767,240	
July 1 - July 31, 2011	919,818	\$ 47.36	919,818	
Total	3,196,863	\$ 46.52	3,196,863	\$

In August 2011, the Company's Board of Directors authorized a share repurchase program for up to \$100.0 million of the Company's common stock. In conjunction with this share repurchase program, the Company executed a 10b5-1 plan that instructs 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 plan on any

Edgar Filing: TECH DATA CORP - Form 10-Q

given trading day is determined by a formula in the plan, which is based on the market price of the Company's common stock.

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

10-BBi	First Amendment to the Third Amended and Restated Credit Agreement dated as of March 20, 2007
10-BBj	Amendment No. 16 to Transfer and Administration Agreement dated as of October 22, 2010
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, 2011 and January 31, 2011, (ii) Consolidated Statement of Income for the Three and Six Months Ended July 31, 2011 and 2010, (iii) Consolidated Statement of Cash Flows for the Six Months Ended July 31, 2011 and 2010, and (iv) Notes to the Consolidated Financial Statements.

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)

Signature	Title	Date
/s/ ROBERT M. DUTKOWSKY ROBERT M. DUTKOWSKY	Chief Executive Officer; Director	August 30, 2011
/s/ JEFFERY P. HOWELLS Jeffery P. Howells	Executive Vice President and Chief Financial Officer; Director (principal financial officer)	August 30, 2011
/s/ JOSEPH B. TREPANI Joseph B. Trepani	Senior Vice President and Corporate Controller (principal accounting officer)	August 30, 2011