

TECH DATA CORP  
Form 10-Q  
September 02, 2014  
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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, 2014

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)

Florida	No. 59-1578329
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification Number)
5350 Tech Data Drive Clearwater, Florida	33760
(Address of principal executive offices)	(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 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, a non-accelerated filer or a smaller reporting company. See the definitions of "accelerated filer", "large accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer

Accelerated Filer

Non-accelerated Filer

Smaller Reporting Company Filer

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

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

Class

Outstanding at August 15, 2014

Common stock, par value \$.0015 per share

38,250,159

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TECH DATA CORPORATION AND SUBSIDIARIES  
Form 10-Q for the Three and Six Months Ended July 31, 2014  
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## PART I. FINANCIAL INFORMATION

## ITEM 1. Financial Statements

## TECH DATA CORPORATION AND SUBSIDIARIES

## CONSOLIDATED BALANCE SHEET

(In thousands, except par value and share amounts)

	July 31, 2014 (Unaudited)	January 31, 2014
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$611,528	\$570,101
Accounts receivable, less allowances of \$57,132 and \$58,754	2,996,350	3,215,729
Inventories	2,193,927	2,450,782
Prepaid expenses and other assets	185,524	232,423
Total current assets	5,987,329	6,469,035
Property and equipment, net	69,582	77,631
Other assets, net	602,533	623,000
Total assets	\$6,659,444	\$7,169,666
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>		
Current liabilities:		
Accounts payable	\$3,466,013	\$3,959,410
Accrued expenses and other liabilities	542,270	614,697
Revolving credit loans and current maturities of long-term debt, net	48,609	43,481
Total current liabilities	4,056,892	4,617,588
Long-term debt, less current maturities	353,922	354,121
Other long-term liabilities	95,737	99,346
Total liabilities	4,506,551	5,071,055
Commitments and contingencies (Note 9)		
Shareholders' equity:		
Common stock, par value \$.0015; 200,000,000 shares authorized; 59,245,585 shares issued at July 31, 2014 and January 31, 2014	89	89
Additional paid-in capital	670,340	675,597
Treasury stock, at cost (20,995,426 and 21,177,130 shares at July 31, 2014 and January 31, 2014)	(887,257 )	(894,936 )
Retained earnings	2,046,085	1,993,290
Accumulated other comprehensive income	323,636	324,571
Total shareholders' equity	2,152,893	2,098,611
Total liabilities and shareholders' equity	\$6,659,444	\$7,169,666

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

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CONSOLIDATED STATEMENT OF INCOME

(In thousands, except per share amounts)

(Unaudited)

	Three months ended		Six months ended	
	July 31,		July 31,	
	2014	2013	2014	2013
Net sales	\$6,841,809	\$6,327,476	\$13,569,960	\$12,475,233
Cost of products sold	6,490,437	6,011,636	12,883,260	11,836,979
Gross profit	351,372	315,840	686,700	638,254
Operating expenses:				
Selling, general and administrative expenses	284,513	275,018	576,109	558,378
Restatement and remediation related expenses (Note 1)	5,378	10,963	17,614	13,986
Value added tax assessment (Note 9)	(6,229)	) 0	(6,229)	) 0
	283,662	285,981	587,494	572,364
Operating income	67,710	29,859	99,206	65,890
Interest expense	7,388	6,219	14,148	13,317
Other expense (income), net	616	654	1,067	(1,510)
Income before income taxes	59,706	22,986	83,991	54,083
Provision for income taxes	20,378	8,291	31,196	21,628
Net income	\$39,328	\$14,695	\$52,795	\$32,455
Net income per share:				
Basic	\$1.03	\$0.39	\$1.38	\$0.85
Diluted	\$1.03	\$0.38	\$1.38	\$0.85
Weighted average common shares outstanding:				
Basic	38,244	38,043	38,191	37,976
Diluted	38,368	38,180	38,342	38,177

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

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TECH DATA CORPORATION AND SUBSIDIARIES  
 CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

(In thousands)

(Unaudited)

	Three months ended		Six months ended	
	July 31,		July 31,	
	2014	2013	2014	2013
Net income	\$39,328	\$14,695	\$52,795	\$32,455
Other comprehensive loss:				
Foreign currency translation adjustment	(47,796	) (1,956	) (935	) (49,565
Total comprehensive (loss) income	\$(8,468	) \$12,739	\$51,860	\$(17,110

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

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CONSOLIDATED STATEMENT OF CASH FLOWS

(In thousands)

(Unaudited)

	Six months ended	
	July 31,	
	2014	2013
Cash flows from operating activities:		
Cash received from customers	\$14,595,183	\$13,484,962
Cash paid to vendors and employees	(14,498,501 )	(13,042,982 )
Interest paid, net	(12,644 )	(11,731 )
Income taxes paid	(34,344 )	(37,989 )
Net cash provided by operating activities	49,694	392,260
Cash flows from investing activities:		
Acquisition of businesses, net of cash acquired	0	8,044
Acquisition of trademark	0	(1,519 )
Proceeds from sale of property and equipment	7,121	0
Expenditures for property and equipment	(7,337 )	(7,115 )
Software and software development costs	(4,131 )	(7,819 )
Net cash used in investing activities	(4,347 )	(8,409 )
Cash flows from financing activities:		
Proceeds from the reissuance of treasury stock	669	1,139
Acquisition earn-out payment	(5,060 )	(6,183 )
Net borrowings (repayments) on revolving credit loans	4,704	(125,676 )
Principal payments on long-term debt	(285 )	(261 )
Excess tax benefit from stock-based compensation	650	894
Net cash provided by (used in) financing activities	678	(130,087 )
Effect of exchange rate changes on cash and cash equivalents	(4,598 )	(7,488 )
Net increase in cash and cash equivalents	41,427	246,276
Cash and cash equivalents at beginning of year	570,101	340,564
Cash and cash equivalents at end of period	\$611,528	\$586,840
Reconciliation of net income to net cash provided by operating activities:		
Net income	\$52,795	\$32,455
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	35,929	36,075
Gain on sale of building	(2,350 )	0
Provision for losses on accounts receivable	5,558	7,070
Stock-based compensation expense	5,842	5,318
Accretion of debt discount on Senior Notes	132	132
Excess tax benefits from stock-based compensation	(650 )	(894 )
Changes in operating assets and liabilities:		
Accounts receivable	219,877	357,085
Inventories	253,775	177,381
Prepaid expenses and other assets	42,731	130,485
Accounts payable	(501,794 )	(287,967 )
Accrued expenses and other liabilities	(62,151 )	(64,880 )
Total adjustments	(3,101 )	359,805
Net cash provided by operating activities	\$49,694	\$392,260

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

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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 an indispensable 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. 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 (“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 consolidated financial position of the Company as of July 31, 2014, its consolidated statements of income and comprehensive income for the three and six months ended July 31, 2014 and 2013, and its consolidated cash flows for the six months ended July 31, 2014 and 2013.

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 the Company’s 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 the majority of the Company’s revenues are derived from Europe, the worldwide results closely follow the seasonality trends in Europe. The seasonal trend in Europe typically results in greater operating leverage, and therefore, lower selling, general and administrative expenses as a percentage of net sales in the region and on a consolidated basis during the second semester of the Company’s fiscal year, particularly in the Company’s fourth quarter. 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, 2014 and 2013 are not necessarily indicative of the results that can be expected for the entire fiscal year ended January 31, 2015.

Restatement and remediation related expenses

Restatement and remediation related expenses primarily include legal, accounting and third party consulting fees associated with (i) the restatement of certain of the Company’s consolidated financial statements and other financial information from fiscal 2009 to fiscal 2013, (ii) the Audit Committee investigation to review the Company’s accounting practices, (iii) incremental external audit and supplemental procedures by the Company in connection with the preparation of its financial statements, and (iv) other incremental legal, accounting and consulting fees incurred as a result of the Company’s restatement-related investigation or in conjunction with the Company’s remediation of material weaknesses and other control deficiencies identified during the restatement. The Company incurred

restatement and remediation related expenses of approximately \$5.4 million and \$11.0 million, respectively, during the three months ended July 31, 2014 and 2013 and \$17.6 million and \$14.0 million, respectively, during the six months ended July 31, 2014 and 2013, which are recorded in “restatement and remediation related expenses” in the Consolidated Statement of Income.

#### Accounts Receivable Purchase Agreements

The Company has uncommitted accounts receivable purchase agreements under which certain accounts receivable may be sold, without recourse, to third-party financial institutions. Under these programs, the Company may sell certain accounts receivable in exchange for cash less a discount, as defined in the agreements. Available capacity under these programs, which the Company uses as a source of working capital funding, is dependent on the level of accounts receivable eligible to be sold into these programs and the

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financial institutions' willingness to purchase such receivables. In addition, certain of these agreements also require that the Company continue to service, administer and collect the sold accounts receivable. At July 31, 2014 and January 31, 2014, the Company had a total of \$333.8 million and \$263.7 million, respectively, of accounts receivable sold to and held by financial institutions under these agreements. During the three months ended July 31, 2014 and 2013, discount fees recorded under these facilities were \$1.4 million and \$0.7 million, respectively, and during the six months ended July 31, 2014 and 2013, discount fees recorded under these facilities were \$2.7 million and \$1.4 million, respectively. These discount fees are included as a component of "other expense (income), net" in the Company's Consolidated Statement of Income.

Recently Adopted Accounting Standards

In March 2013, the Financial Accounting Standards Board ("FASB") issued an accounting standard which clarifies the accounting for the derecognition of certain subsidiaries or groups of assets within a foreign entity or of an investment in a foreign entity. The guidance also requires the accounting for a business combination achieved in stages involving a foreign entity to be treated as a single event. The accounting standard was effective for the Company beginning with the quarter ending April 30, 2014 and is to be applied prospectively to derecognition events occurring after the effective date. The Company will apply the provisions of this accounting standard to all transactions described above prospectively from the date of adoption.

In March 2013, the FASB also issued an accounting standard which requires an entity to measure obligations resulting from joint and several liability arrangements for which the total amount of the obligation within the scope of the guidance is fixed at the reporting date as the sum of: i) the amount the reporting entity agreed to pay on the basis of its arrangements among its co-obligors and ii) any additional amount the reporting entity expects to pay on behalf of its co-obligors. The guidance also requires an entity to disclose the nature and amount of the obligation as well as other information about those obligations. The accounting standard was effective for the Company beginning with the quarter ending April 30, 2014 and is to be applied retrospectively for all periods presented. The adoption of this guidance had no impact on the Company's consolidated financial position, income, comprehensive income or cash flows.

In July 2013, the FASB issued an accounting standard which requires presentation of certain unrecognized tax benefits as reductions to deferred tax assets rather than as liabilities when a net operating loss carryforward, a similar tax loss, or a tax credit carryforward exists. The accounting standard was effective for the Company beginning with the quarter ending April 30, 2014 and is to be applied prospectively. The Company currently follows the guidance and this update had no impact on its financial statement disclosures.

Recently Issued Accounting Standards

In April 2014, the FASB issued an accounting standard which modifies the definition of discontinued operations by limiting discontinued operations reporting to disposals of components of an entity that represent strategic shifts that have (or will have) a major effect on an entity's operations and financial results. This update also requires additional financial statement disclosures about discontinued operations, as well as disposal of an individually significant component of an entity that does not qualify for discontinued operations presentation. The accounting standard is effective for the Company beginning with the quarter ending April 30, 2015 and is to be applied prospectively. The Company will apply the provisions of this accounting standard to all transactions described above prospectively from the date of adoption.

In May 2014, the FASB issued an accounting standard which will supersede all existing revenue recognition guidance under current GAAP. The new standard requires the recognition of revenue to depict the transfer of promised goods or services to customers while exercising extensive judgment and use of estimates. The accounting standard is effective for the Company beginning with the quarter ending April 30, 2017 and may be adopted using either a full retrospective or a modified retrospective approach. The Company is currently in the process of assessing what impact this new standard may have on its consolidated financial position, results of operations or cash flows.



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## 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 by the weighted average number of shares outstanding during the reported period. Diluted EPS reflects the potential dilution related to equity-based incentives (further discussed in Note 5—Stock-Based Compensation) using the treasury stock method. The composition of basic and diluted EPS is as follows:

	Three months ended July 31,		Six months ended July 31,	
	2014	2013	2014	2013
Net income	\$39,328	\$14,695	\$52,795	\$32,455
Weighted-average common shares - basic	38,244	38,043	38,191	37,976
Effect of dilutive securities:				
Equity-based awards	124	137	151	201
Weighted-average common shares - diluted	38,368	38,180	38,342	38,177
Net income per share:				
Basic	\$1.03	\$0.39	\$1.38	\$0.85
Diluted	\$1.03	\$0.38	\$1.38	\$0.85

For the three and six months ended July 31, 2014 there were no shares excluded from the computation of diluted earnings per share because their effect would have been antidilutive. For the three and six months ended July 31, 2013, there were 6,236 shares excluded from the computation of diluted earnings per share because their effect would have been antidilutive.

## NOTE 3 — DEBT

The carrying value of the Company's outstanding debt consists of the following:

	July 31, 2014	January 31, 2014
	(In thousands)	
Senior Notes, interest at 3.75% payable semi-annually, due September 21, 2017	\$350,000	\$350,000
Less—unamortized debt discount	(842)	(974)
Senior Notes, net	349,158	349,026
Capital leases	5,332	5,662
Other committed and uncommitted revolving credit facilities, average interest rate of 5.55% and 6.15% at July 31, 2014 and January 31, 2014, respectively, expiring on various dates through fiscal 2017	48,041	42,914
	402,531	397,602
Less—current maturities (included as “Revolving credit loans and current maturities of long-term debt, net”)	(48,609)	(43,481)
Total long-term debt, less current maturities	\$353,922	\$354,121
Senior Notes		

In September 2012, the Company issued \$350.0 million aggregate principal amount of 3.75% Senior Notes in a public offering (the "Senior Notes"), resulting in cash proceeds of approximately \$345.8 million, net of debt discount and debt issuance costs of approximately \$1.3 million and \$2.9 million, respectively. The debt issuance costs incurred in connection with the public offering are amortized over the life of the Senior Notes as additional interest expense using the effective interest method. The Company pays interest on the Senior Notes semi-annually in arrears on March 21

and September 21 of each year, ending on the maturity date of September 21, 2017. The Company, at its option, may redeem the Senior Notes at any time in whole or in part, at a redemption price equal to the greater of (i) 100% of the principal amount of the Senior Notes to be redeemed or (ii) the sum of the present values of the remaining scheduled payments of principal and interest on the Senior Notes being redeemed, discounted at a rate equal to the sum of

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the applicable Treasury Rate plus 50 basis points, plus accrued and unpaid interest up to the date of redemption. The Senior Notes are senior, unsecured obligations of the Company and rank equally in right of payment with all of the Company's other unsecured and unsubordinated indebtedness.

**Other Credit Facilities**

The Company has a \$500.0 million revolving credit facility with a syndicate of banks (the "Credit Agreement"), which among other things, i) provides for a maturity date of September 27, 2016, ii) provides for an interest rate on borrowings, facility fees and letter of credit fees based on the Company's non-credit enhanced senior unsecured debt rating as determined by Standard & Poor's Rating Service and Moody's Investor Service, and iii) may be increased to a maximum of \$750.0 million, subject to certain conditions. The Credit Agreement includes various covenants, limitations and events of default customary for similar facilities for similarly rated borrowers, including a maximum debt to capitalization ratio and a minimum interest coverage ratio. The Company pays interest on advances under the Credit Agreement at the applicable LIBOR rate plus a predetermined margin that is based on the Company's debt rating. There were no amounts outstanding under the Credit Agreement at July 31, 2014 and January 31, 2014.

The Company also has an agreement with a syndicate of banks (the "Receivables Securitization Program") 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 \$400.0 million. Under this program, the Company legally isolates certain U.S. trade receivables into a wholly-owned bankruptcy remote special purpose entity. Such receivables, which are recorded in the Consolidated Balance Sheet, totaled \$728.1 million and \$623.0 million at July 31, 2014 and January 31, 2014, 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. This program was renewed in August 2014 for a period of two years and interest is to be paid on advances under the Receivables Securitization Program at the applicable commercial paper or LIBOR rate plus an agreed-upon margin. There were no amounts outstanding under this program at July 31, 2014 and January 31, 2014.

In addition to the facilities described above, the Company has various other committed and uncommitted lines of credit and overdraft facilities totaling approximately \$406.2 million at July 31, 2014 to support its operations. Most of these facilities are provided on an unsecured, short-term basis and are reviewed periodically for renewal. There was \$48.0 million outstanding on these facilities at July 31, 2014, at a weighted average interest rate of 5.55% and \$42.9 million outstanding on these facilities at January 31, 2014, at a weighted average interest rate of 6.15%.

Certain of the Company's credit facilities contain limitations on the amounts of annual dividends and repurchases of common stock and require compliance with other obligations, warranties and covenants. The financial ratio covenants under these credit facilities include a maximum debt to capitalization ratio and a minimum interest coverage ratio. At July 31, 2014, the Company was in compliance with all such financial covenants. In light of these financial covenants, the Company's maximum borrowing availability on its credit facilities is approximately \$922.7 million, of which \$48.0 million was outstanding at July 31, 2014.

At July 31, 2014, the Company had also issued standby letters of credit of \$82.6 million. These letters of credit typically act as a guarantee of payment to certain third parties in accordance with specified terms and conditions. The issuance of these letters of credit reduces the Company's borrowing availability under certain of the above-mentioned credit facilities.

**NOTE 4 — INCOME TAXES**

The Company's effective tax rate was 34.1% in the second quarter of fiscal 2015 and 36.1% in the second quarter of fiscal 2014. The Company's effective tax rate was 37.1% for the first semester of fiscal 2015 compared to 40.0% for the same period of the prior year. The decrease in the effective rate for both the second quarter and first semester of fiscal 2015 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, including decreases in losses in tax jurisdictions where the Company is not able to record a tax benefit, as well as the resolution of certain discrete tax items.

On an absolute dollar basis, the provision for income taxes increased 145.8% to \$20.4 million for the second quarter of fiscal 2015 compared to \$8.3 million in the same period of fiscal 2014 and increased 44.2% to \$31.2 million for the

first semester of fiscal 2015 compared to \$21.6 million for the same period of the prior 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 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: i) losses in tax jurisdictions where the Company is not able to record a tax benefit; ii) earnings in tax jurisdictions where the Company has previously recorded a valuation allowance



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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 Company's future effective tax rates will continue to 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. 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.

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, 2014 and 2013, the Company recorded \$5.8 million and \$5.3 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, 2014, the Company had awards outstanding from two 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 2.6 million shares remain available for future grant at July 31, 2014. 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 ("Compensation Committee") 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.

A summary of the Company's restricted stock activity for the six months ended July 31, 2014 is as follows:

	Shares
Outstanding at January 31, 2014	284,204
Granted	446,364
Vested	(150,974 )
Canceled	(9,438 )
Outstanding at July 31, 2014	570,156

A summary of the activity of the Company's MV Stock-settled SARs, MVOs and stock options for the six months ended July 31, 2014 is as follows:

	Shares
Outstanding at January 31, 2014	329,788
Exercised	(268,279 )
Outstanding at July 31, 2014	61,509

The Company's policy is to utilize shares of its treasury stock, to the extent available, to satisfy its obligation to issue shares upon the exercise of awards.



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## NOTE 6 — SHAREHOLDERS' EQUITY

The Company's common share issuance activity for the six months ended July 31, 2014 is summarized as follows:

	Shares	Weighted-average price per share
Treasury stock balance at January 31, 2014	21,177,130	\$42.26
Shares of treasury stock reissued	(181,704 )	
Treasury stock balance at July 31, 2014	20,995,426	\$42.26

There were no common shares repurchased by the Company during the first semester of fiscal 2015. The reissuance of shares from treasury stock is based on the weighted average purchase price of the shares.

## NOTE 7 — FAIR VALUE MEASUREMENTS

The Company's assets and liabilities carried or disclosed at fair value are classified 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. The classification of an asset or liability within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement.

The following table summarizes the valuation of the Company's assets and liabilities that are measured at fair value on a recurring basis:

	July 31, 2014			January 31, 2014		
	Fair value measurement category			Fair value measurement category		
	Level 1	Level 2	Level 3	Level 1	Level 2	Level 3
	(in thousands)					
<b>Assets</b>						
Foreign currency forward contracts		\$2,960			\$6,160	
<b>Liabilities</b>						
Foreign currency forward contracts		\$2,002			\$2,423	
Acquisition-related contingent consideration			\$3,799			\$10,571

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. See further discussion below in Note 8 – Derivative Instruments.

The acquisition-related contingent consideration represents the future earnout payments related to the Company's acquisitions. The Company estimates the fair value of this Level 3 contingent consideration liability at each reporting date using a discounted cash flow analysis, which requires the evaluation of significant unobservable inputs that include projected revenues, expenses and cash flows, and assumed discount rates. Approximately \$7.0 million of the acquisition-related contingent consideration was paid during the six months ended July 31, 2014.

The Company utilizes life insurance policies to fund the Company's nonqualified deferred compensation plan. The life insurance asset recorded by the Company is the amount that would be realized upon the assumed surrender of the policy. This amount is based on the underlying fair value of the invested assets contained within the life insurance policies. The gains and losses are recorded in the Company's Consolidated Statement of Income within "other expense

(income), net." The related deferred compensation liability is also marked-to-market each period based upon the various investment return alternatives selected by the plan participants and the gains and losses are recorded in the Company's Consolidated Statement of Income within "selling, general and administrative expenses." The net realizable value of the Company's life insurance investments and related deferred compensation liability at July 31, 2014 was \$40.2 million and \$36.0 million, respectively.

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The \$350 million of Senior Notes discussed in Note 3 - Debt, are carried at cost, less unamortized debt discount. The estimated fair value of the Senior Notes was approximately \$365.9 million at July 31, 2014, 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. 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's foreign currency exposure relates primarily to international transactions in Europe, Canada and Latin America, where the currency collected from customers can be different from the currency used to purchase the product. The Company's transactions in its foreign operations are denominated primarily in the following currencies: U.S. dollar, British pound, Canadian dollar, Chilean peso, Czech koruna, Danish krone, euro, Mexican peso, Norwegian krone, Peruvian new sol, Polish zloty, Romanian leu, Swedish krona and Swiss franc.

The Company considers inventory as an economic hedge against foreign currency exposure in accounts payable in certain circumstances. This practice offsets such inventory against corresponding accounts payable denominated in currencies other than the functional currency of the subsidiary buying the inventory, when determining the net exposure to be hedged using traditional forward contracts. Under this strategy, the Company would expect to increase or decrease selling prices for products 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 cost of gross profit is not realized until the related inventory is sold.

The Company classifies foreign currency exchange gains and losses on its derivative instruments used to manage its exposures to foreign currency denominated accounts receivable and accounts payable as a component of "cost of products sold" which is consistent with the classification of the change in fair value upon remeasurement of the underlying hedged accounts receivable or accounts payable. The Company classifies foreign currency exchange gains and losses on its derivative instruments used to manage its exposures to foreign currency denominated financing transactions as a component of "other expense (income), 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, which is included as a component of either "cost of products sold" or "other expense (income), net", was a net foreign currency exchange gain of \$3.3 million and \$3.6 million, respectively, for the three months ended July 31, 2014 and 2013 and a net foreign currency exchange loss of \$5.5 million and a net foreign currency exchange gain of \$20.5 million, respectively, for the six months ended July 31, 2014 and 2013. 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 notional amount of forward exchange contracts is the amount of foreign currency to be bought or sold at maturity. Notional amounts are indicative of the extent of the Company's involvement in the various types and uses of derivative financial instruments and are not a measure of the Company's exposure to credit or market risks through its use of

derivatives. The estimated fair value of derivative financial instruments represents the amount required to enter into similar offsetting contracts with similar remaining maturities based on quoted market prices.

The Company's monthly average notional amounts of derivative financial instruments outstanding during the three months ended July 31, 2014 and 2013 were \$0.6 billion and \$2.0 billion, respectively, with average maturities of 35 days and 29 days, respectively. As discussed above, under the Company's hedging policies, gains and losses on the derivative financial instruments would be expected to be largely offset by the gains and losses on the underlying assets or liabilities being hedged.

The Company's foreign currency forward contracts are also discussed in Note 7 – Fair Value Measurements.

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NOTE 9 — COMMITMENTS AND CONTINGENCIES

Synthetic Lease Facility

The Company has a synthetic lease facility with a group of financial institutions (the “Synthetic Lease”) under which the Company leases 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 is accounted for as an operating lease and rental payments are calculated at the applicable LIBOR rate plus a margin based on the Company's credit ratings.

Upon not less than 30 days' notice, the Company, at its option, may purchase one or any combination of the 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. Upon not less than 270 days, nor more than 360 days, prior to the lease expiration, the Company may, at its option, i) purchase a minimum of two of the 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 properties or iii) exercise the option to remarket a minimum of two of the properties and cause a sale of the properties. If the Company elects to remarket the properties, the Company has guaranteed the lessor a percentage of the cost of each property, in the aggregate amount of approximately \$133.8 million. Future annual lease payments under the Synthetic Lease are approximately \$2.6 million per year.

The Synthetic Lease contains covenants that must be complied with, similar to the covenants described in certain of the credit facilities discussed in Note 3 - Debt. As of July 31, 2014, the Company was in compliance with all such covenants.

Guarantees

As is customary in the technology 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, 2014 and January 31, 2014, the outstanding amount of guarantees under these arrangements totaled \$11.9 million and \$13.4 million, respectively. 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 subsidiaries, located in Spain, was audited in relation to various value-added tax (“VAT”) matters. As a result of those audits, the Spanish subsidiary received notices of assessment from the Regional Inspection Unit of Spain's taxing authority that allege the subsidiary did not properly collect and remit VAT. The Spanish subsidiary appealed these assessments to the Madrid Central Economic Administrative Courts beginning in March 2010. Following the administrative court proceedings the matter was appealed to the Spanish National Appellate Court. During the fourth quarter of fiscal year 2014, the Spanish National Appellate Court issued an opinion upholding the assessment for several of the assessed years. During the second quarter of fiscal year 2015, the Madrid Central Economic Administrative Court issued a decision revoking the penalties for certain of the assessed years. As a result of this decision, during the three months ended July 31, 2014 the Company decreased its accrual for costs associated with this matter by \$6.2 million, which is recorded in “value added tax assessment” in the Consolidated Statement of Income. The Company believes that the Spanish subsidiary's defense to the remaining

assessments has solid legal grounds and is continuing to vigorously defend its position by appealing to the Spanish Supreme Court. The Company estimates the total exposure for these assessments, including various penalties and interest, was approximately \$50.9 million and \$56.4 million at July 31, 2014 and January 31, 2014, respectively, which is included in "accrued expenses and other liabilities" in the Consolidated Balance Sheet.

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 \$27.5 million and \$25.3 million at July 31, 2014 and January 31, 2014, respectively. The Brazilian subsidiary has appealed the unfavorable ruling to the Supreme Court and Superior Court, Brazil's two



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highest appellate courts. 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, due to the lack of predictability of the Brazilian court system, the Company has concluded that it is reasonably possible that the Brazilian subsidiary may incur a loss up to the total exposure described above. The Company believes the resolution of this litigation will not be material to the Company's consolidated net assets or liquidity; 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 addition to the CIDE tax matter discussed above, the Company's Brazilian subsidiary has been undergoing several examinations of non-income related taxes. Given the lack of predictability of the Brazilian tax system, the Company believes that it is reasonably possible that a loss may have been incurred. However, due to the early stages of the examination, the complex nature of the Brazilian tax system and the absence of communication from the local tax authorities regarding these examinations, the Company is currently unable to determine the likelihood of these examinations resulting in assessments or to estimate the amount of loss, if any, that may be reasonably possible if such assessment were to be made.

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.

**NOTE 10 — SEGMENT INFORMATION**

Tech Data operates predominantly 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 is reporting stock-based compensation expense as a separate amount. The accounting policies of the segments are the same as those described in Note 1—Business and Summary of Significant Accounting Policies. Financial information by geographic segment is as follows:

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	Three months ended		Six months ended	
	July 31, 2014	2013	July 31, 2014	2013
	(In thousands)		(In thousands)	
Net sales to unaffiliated customers				
Americas <sup>(1)</sup>	\$2,722,191	\$2,624,546	\$5,198,462	\$4,917,328
Europe	4,119,618	3,702,930	8,371,498	7,557,905
Total	\$6,841,809	\$6,327,476	\$13,569,960	\$12,475,233
Operating income				
Americas <sup>(2)</sup>	\$38,854	\$31,988	\$65,137	\$59,219
Europe <sup>(3) (4)</sup>	32,725	98	39,911	11,989
Stock-based compensation expense	(3,869	) (2,227	) (5,842	) (5,318
Total	\$67,710	\$29,859	\$99,206	\$65,890
Depreciation and amortization				
Americas	\$4,188	\$4,251	\$8,306	\$8,497
Europe	13,525	13,857	27,623	27,578
Total	\$17,713	\$18,108	\$35,929	\$36,075
Capital expenditures				
Americas	\$3,370	\$1,921	\$4,852	\$3,618
Europe	3,871	5,279	6,616	11,316
Total	\$7,241	\$7,200	\$11,468	\$14,934
			As of	
			July 31,	January 31,
			2014	2014
			(In thousands)	
Identifiable assets				
Americas			\$2,170,773	\$1,984,895
Europe			4,488,671	5,184,771
Total			\$6,659,444	\$7,169,666
Long-lived assets:				
Americas <sup>(1)</sup>			\$22,258	\$28,091
Europe			47,324	49,540
Total			\$69,582	\$77,631
Goodwill & acquisition-related intangible assets, net:				
Americas			\$9,150	\$8,936
Europe			373,476	386,919
Total			\$382,626	\$395,855

(1) Net sales to unaffiliated customers in the United States represented 87% and 86%, respectively, of the total Americas' net sales to unaffiliated customers for the three months ended July 31, 2014 and 2013. Net sales to unaffiliated customers in the United States represented 85% of the total Americas' net sales to unaffiliated customers for each of the six months ended July 31, 2014 and 2013. Total long-lived assets in the United States represented 89% and 90% of the Americas' total long-lived assets at July 31, 2014 and January 31, 2014,

respectively.

(2) Operating income in the Americas for the three months ended July 31, 2014 and 2013 includes restatement and remediation related expenses of \$0.2 million and \$3.0 million, respectively. Operating income in the Americas for the six months ended July 31, 2014 and 2013 includes restatement and remediation related expenses of \$3.1 million and \$4.8 million, respectively.

(3) Operating income in Europe for the three months ended July 31, 2014 and 2013 includes restatement and remediation related expenses of \$5.2 million and \$8.0 million, respectively. Operating income in Europe for the six months ended July 31, 2014 and 2013 includes restatement and remediation related expenses of \$14.6 million and \$9.2 million, respectively.

(4) Operating income in Europe for the three and six months ended July 31, 2014 includes a decrease in an accrual for a value added tax assessment of \$6.2 million in one of the Company's subsidiaries in Spain.

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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 ("Tech Data", "we", "our", "us" or the "Company") are based on current expectations, estimates, forecasts, and projections about the industries in which we operate and the beliefs and assumptions of our management. Words such as "expects," "anticipates," "targets," "goals," "projects," "intends," "plans," "believes," "seeks," "estimates," variations of such words, and similar expressions are intended to identify such forward-looking statements. In addition, any statements that refer to projections of our future financial performance, our anticipated growth and trends in our businesses, and other characterizations of future events or circumstances, are forward-looking statements. Readers are cautioned that these forward-looking statements are only predictions and are subject to risks, uncertainties, and assumptions. 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 Part I, Item 1A. Risk Factors in our Annual Report on Form 10-K for the year ended January 31, 2014 for further information. We undertake no obligation to revise or update publicly any forward-looking statements for any reason.

Overview

Tech Data is one of the world's largest wholesale distributors of technology products. We serve as an indispensable 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.

Our financial objectives are to grow sales at or above the overall IT market growth rate by gaining share in select product areas, grow earnings in local currency, generate positive cash flow, and earn a 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.

The fundamental element of our strategy is execution. Our execution strategy is supported by our highly efficient infrastructure, combined with our multiple service offerings, to generate demand, develop markets and provide supply chain services 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. More than 90% of the Company's net sales are on one common IT platform, which we believe provides Tech Data significant competitive advantages in the area of supply chain services, on-boarding new vendors and products faster and improving our ability to rapidly respond to changes in the market.

In addition to execution, our strategy includes ongoing diversification and realignment of our customer and product portfolios to better balance our overall performance and improve long-term profitability throughout our operations. Our broadline distribution business, characterized as high volume, more commoditized offerings, and comprised primarily of personal computer systems, tablets, peripherals, supplies and other similar products, remains a core part of our business and represents a significant percentage of our revenue. However, as technology advances, we have

continued to evolve our business model, product mix, and value-added offerings in order to provide our vendors with the most efficient distribution channel for their products, and our customers with a broad array of innovative solutions to sell. We have responded to a changing IT landscape with investments in specialty areas, including the data center, software, mobility and consumer electronics, which collectively now comprise more than 50% of our consolidated net sales.

On November 1, 2012, we completed the acquisition of several distribution companies of Specialist Distribution Group (collectively “SDG”), the distribution arm of Specialist Computer Holdings PLC (“SCH”), a privately-held IT services company headquartered in the United Kingdom, for a final purchase price of approximately \$358 million. SDG is a leading distributor of value and broadline IT products in the UK, France and the Netherlands. We believe the acquisition of SDG supports our diversification strategy by

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strengthening our European value and broadline offerings in key markets and expanding our vendor and customer portfolios, while leveraging our existing pan-European infrastructure.

Another strategic area of investment is our integrated supply chain services designed to provide innovative third party logistics and other offerings to our business partners. We have seen these offerings grow within our European mobility, consumer electronics and broadline businesses in both geographies. These services have an extensive sales and implementation cycle and while their return on investment is not immediate, we remain confident about our ability to profitably grow this business. Our evolving mix of products, services, customers and geographies is important in achieving our strategic financial 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.

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 fluctuations in market conditions, structural changes in the technology industry, as well as changes created by the products we sell. An example of our investment in innovation and one that we believe is providing us with the flexibility to meet the demands of the ever-evolving technology market, is our continued deployment of internal IT systems across both our Americas and European regions, including the integration of SDG, which was completed in the first quarter of fiscal 2015. We believe our global IT systems provide us with a competitive advantage allowing us to drive efficiencies throughout our business while delivering innovative solutions for our business partners.

We believe our strategy of execution, diversification and innovation has differentiated us in the markets we serve and we believe we have opportunities for further gains in market share as our customer satisfaction ratings continue to improve. We also continually evaluate the current and potential profitability and return on our investments in all geographies and consider changes in current and future investments based on risks, opportunities and current and anticipated market conditions. In connection with these evaluations, we may incur additional costs to the extent we decide to increase or decrease our investments in certain geographies. We will also continue to evaluate targeted strategic investments across our operations and new business opportunities and invest in those markets and product segments we believe provide us with the greatest opportunities for profitable growth. Finally, 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, 2014, we had a debt to total capital ratio (calculated as total debt divided by the aggregate of total debt and total equity) of 16%.

Recent Accounting Pronouncements and Legislation

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

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## Results of Operations

We do not consider stock-based compensation expense in assessing the performance of our operating segments, and 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, 2014 and 2013:

	Three months ended July 31, 2014			Three months ended July 31, 2013		
	\$	% of net sales		\$	% of net sales	
Net sales by geographic region (\$ in thousands):						
Americas	\$2,722,191	39.8	%	\$2,624,546	41.5	%
Europe	4,119,618	60.2		3,702,930	58.5	
Total	\$6,841,809	100.0	%	\$6,327,476	100.0	%
	Six months ended July 31, 2014			Six months ended July 31, 2013		
	\$	% of net sales		\$	% of net sales	
Net sales by geographic region (\$ in thousands):						
Americas	\$5,198,462	38.3	%	\$4,917,328	39.4	%
Europe	8,371,498	61.7		7,557,905	60.6	
Total	\$13,569,960	100.0	%	\$12,475,233	100.0	%
	Three months ended July 31, 2014			Six months ended July 31, 2013		
Year-over-year increase (decrease) in net sales (%):						
Americas (US\$)	3.7%	9.0	%	5.7%	1.1	%
Europe (US\$)	11.3%	4.0	%	10.8%	7.8	%
Europe (Euro)	6.9%	(0.4)	%	5.9%	5.8	%
Total (US\$)	8.1%	6.0	%	8.8%	5.0	%
	Three months ended July 31, 2014			Three months ended July 31, 2013		
	\$	% of net sales		\$	% of net sales	
Operating income (\$ in thousands):						
Americas	\$38,854	1.43	%	\$31,988	1.22	%
Europe	32,725	0.79	%	98	0.00	%
Stock-based compensation expense	(3,869	) (0.06	)%	(2,227	) (0.04	)%
Total	\$67,710	0.99	%	\$29,859	0.47	%
	Six months ended July 31, 2014			Six months ended July 31, 2013		
	\$	% of net sales		\$	% of net sales	
Operating income (\$ in thousands):						
Americas	\$65,137	1.25	%	\$59,219	1.20	%
Europe	39,911	0.48	%	11,989	0.16	%
Stock-based compensation expense	(5,842	) (0.04	)%	(5,318	) (0.04	)%

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Total	\$99,206	0.73	%	\$65,890	0.53	%
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	Three months ended July 31, 2014		Three months ended July 31, 2013		
	\$	% of net sales	\$	% of net sales	
Non-GAAP operating income (\$ in thousands):					
Americas	\$39,214	1.44	% \$34,994	1.33	%
Europe	38,938	0.95	% 15,260	0.41	%
Stock-based compensation expense	(3,869	) (0.06	)% (2,227	) (0.04	)%
Total	\$74,283	1.09	% \$48,027	0.76	%
	Six months ended July 31, 2014		Six months ended July 31, 2013		
	\$	% of net sales	\$	% of net sales	
Non-GAAP operating income (\$ in thousands):					
Americas	\$68,537	1.32	% \$63,985	1.30	%
Europe	62,754	0.75	% 35,633	0.47	%
Stock-based compensation expense	(5,842	) (0.04	)% (5,318	) (0.04	)%
Total	\$125,449	0.92	% \$94,300	0.76	%

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## Non-GAAP financial data

Management believes that the presentation of non-GAAP operating income, non-GAAP net income and non-GAAP net income per diluted share is useful to investors because it provides a meaningful comparison of our performance between periods. The following tables provide a detailed reconciliation between results reported in accordance with generally accepted accounting principles in the United States ("GAAP") and non-GAAP financial measures.

	Three months ended July 31,	
	2014	2013
	(In thousands, except per share amounts)	
GAAP to non-GAAP reconciliation of operating income - Americas:		
Operating income - Americas	\$38,854	\$31,988
Restatement and remediation related expenses	190	3,006
Acquisition-related intangible assets amortization expense	170	0
Non-GAAP operating income - Americas	\$39,214	\$34,994
GAAP to non-GAAP reconciliation of operating income - Europe:		
Operating income - Europe	\$32,725	\$98
Restatement and remediation related expenses	5,188	7,957
Value added tax assessment	(6,229	) 0
Acquisition-related intangible assets amortization expense	7,254	7,205
Non-GAAP operating income - Europe	\$38,938	\$15,260
Consolidated GAAP to non-GAAP reconciliation of operating income:		
Operating income	\$67,710	\$29,859
Restatement and remediation related expenses	5,378	10,963
Value added tax assessment	(6,229	) 0
Acquisition-related intangible assets amortization expense	7,424	7,205
Non-GAAP operating income	\$74,283	\$48,027
GAAP to non-GAAP reconciliation of net income:		
Net income	\$39,328	\$14,695
Restatement and remediation related expenses, net of tax	4,328	7,886
Value added tax assessment, net of tax	(6,229	) 0
Acquisition-related intangible assets amortization expense, net of tax	5,456	5,270
Non-GAAP net income	\$42,883	\$27,851
GAAP to non-GAAP reconciliation of net income per share - diluted:		
Net income per share - diluted	\$1.03	\$0.38
Restatement and remediation related expenses, net of tax	0.11	0.21
Value added tax assessment, net of tax	(0.16	) 0.00
Acquisition-related intangible assets amortization expense, net of tax	0.14	0.14
Non-GAAP net income per share - diluted	\$1.12	\$0.73

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	Six months ended July 31,	
	2014	2013
	(In thousands, except per share amounts)	
GAAP to non-GAAP reconciliation of operating income - Americas:		
Operating income - Americas	\$65,137	\$59,219
Restatement and remediation related expenses	3,060	4,766
Acquisition-related intangible assets amortization expense	340	0
Non-GAAP operating income - Americas	\$68,537	\$63,985
GAAP to non-GAAP reconciliation of operating income - Europe:		
Operating income - Europe	\$39,911	\$11,989
Restatement and remediation related expenses	14,554	9,220
Value added tax assessment	(6,229	) 0
Acquisition-related intangible assets amortization expense	14,518	14,424
Non-GAAP operating income - Europe	\$62,754	\$35,633
Consolidated GAAP to non-GAAP reconciliation of operating income:		
Operating income	\$99,206	\$65,890
Restatement and remediation related expenses	17,614	13,986
Value added tax assessment	(6,229	) 0
Acquisition-related intangible assets amortization expense	14,858	14,424
Non-GAAP operating income	\$125,449	\$94,300
GAAP to non-GAAP reconciliation of net income:		
Net income	\$52,795	\$32,455
Restatement and remediation related expenses, net of tax	13,087	9,947
Value added tax assessment, net of tax	(6,229	) 0
Acquisition-related intangible assets amortization expense, net of tax	10,883	10,550
Non-GAAP net income	\$70,536	\$52,952
GAAP to non-GAAP reconciliation of net income per share - diluted:		
Net income per share - diluted	\$1.38	\$0.85
Restatement and remediation related expenses, net of tax	0.34	0.26
Value added tax assessment, net of tax	(0.16	) 0.00
Acquisition-related intangible assets amortization expense, net of tax	0.28	0.28
Non-GAAP net income per share - diluted	\$1.84	\$1.39

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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, 2014 and 2013, as follows:

	Three months ended		Six months ended July		
	July 31, 2014	2013	31, 2014	2013	
Net sales	100.00	% 100.00	% 100.00	% 100.00	%
Cost of products sold	94.86	95.01	94.94	94.88	
Gross profit	5.14	4.99	5.06	5.12	
Operating expenses:					
Selling, general and administrative expenses	4.16	4.35	4.25	4.48	
Restatement and remediation related expenses	0.08	0.17	0.13	0.11	
Value added tax assessment	(0.09 )	0.00	(0.05 )	0.00	
	4.15	4.52	4.33	4.59	
Operating income	0.99	0.47	0.73	0.53	
Interest expense	0.11	0.10	0.10	0.11	
Other expense (income), net	0.01	0.01	0.01	(0.01 )	
Income before income taxes	0.87	0.36	0.62	0.43	
Provision for income taxes	0.30	0.13	0.23	0.17	
Net income	0.57	% 0.23	% 0.39	% 0.26	%

Three and six months ended July 31, 2014 and 2013

## Net Sales

Our consolidated net sales were \$6.8 billion in the second quarter of fiscal 2015, an increase of 8.1% when compared to the second quarter of fiscal 2014. The strengthening of certain foreign currencies against the U.S. dollar positively impacted our year-over-year net sales comparison by approximately two percentage points. Excluding the positive impact of the strengthening of certain foreign currencies against the U.S. dollar in fiscal 2015, consolidated net sales increased by approximately 6% in comparison with the same period of the prior fiscal year. On a regional basis, during the second quarter of fiscal 2015, net sales in the Americas were \$2.7 billion, an increase of 3.7% when compared to the second quarter of the prior year. Net sales in Europe were \$4.1 billion in the second quarter of fiscal 2015, an increase of 11.3% when compared to the second quarter of the prior year (an increase of 6.9% on a euro basis).

On a year-to-date basis, net sales were \$13.6 billion during the first semester of fiscal 2015, an increase of 8.8% when compared to the first semester of fiscal 2014. The strengthening of certain foreign currencies against the U.S. dollar positively impacted our year-over-year net sales comparison by approximately three percentage points. Excluding the positive impact of the strengthening of certain foreign currencies against the U.S. dollar in fiscal 2015, consolidated net sales increased by approximately 6% in comparison with the same period of the prior fiscal year. On a regional basis, during the first semester of fiscal 2015, net sales in the Americas increased by 5.7% when compared to the first semester of fiscal 2014 and increased by 10.8% in Europe (an increase of 5.9% on a euro basis).

The increase in net sales in both the Americas and Europe (in euros) during the second quarter and first semester of fiscal 2015 is primarily attributable to stronger demand for broadline products, particularly personal computer systems.

We sell products purchased from the world's leading peripheral, system, software and networking vendors. Products purchased from Hewlett Packard Company and Apple, Inc. approximated 20% and 13%, respectively, of our net sales for the three months ended July 31, 2014 and approximated 21% and 12%, respectively, of our net sales for the six months ended July 31, 2014. Products purchased from Hewlett Packard Company and Apple, Inc. approximated 20% and 11%, respectively, of our net sales for the three months ended July 31, 2013 and approximated 21% and 11%, respectively, of our net sales for the six months ended July 31, 2013. There were no other vendors or any customers that exceeded 10% of our consolidated net sales for the three and six months ended July 31, 2014 and 2013.

## Gross Profit

Gross profit as a percentage of net sales (“gross margin”) during the second quarter of fiscal 2015 was 5.14%, an increase of 15 basis points compared to the 4.99% gross margin in the second quarter of fiscal 2014. On a year-to-date basis, gross margin decreased to

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5.06% for the first semester of fiscal 2015 compared to 5.12% in the comparable period of the prior fiscal year. The increase in gross margin in the second quarter of fiscal 2015 compared to the same period of the prior year is primarily due to lower inventory costs, including lower product write-downs, in Europe. The decline in gross margin in the first semester of fiscal 2015 compared to the same period of the prior year is primarily attributable to changes in customer and product mix.

## Selling, general and administrative expenses (“SG&amp;A”)

SG&A as a percentage of net sales decreased to 4.16% in the second quarter of fiscal 2015, compared to 4.35% in the second quarter of fiscal 2014. On a year-to-date basis, SG&A as a percentage of net sales decreased to 4.25% compared to 4.48% in the first semester of the prior fiscal year. The year-over-year change in percentage is primarily due to greater operating leverage as we generated solid sales growth in both Europe and the Americas, while keeping our costs relatively flat. In absolute dollars, SG&A increased by \$9.5 million to \$284.5 million in the second quarter of fiscal 2015 compared to the second quarter of fiscal 2014 and increased by \$17.7 million to \$576.1 million in the first semester of fiscal 2015 compared to the same period of the prior year. The increase in SG&A during the second quarter and first semester of fiscal 2015 compared to the same periods of the prior year is primarily attributable to the impact of the strengthening of certain foreign currencies against the U.S. dollar.

## Restatement and remediation related expenses

Restatement and remediation related expenses primarily include legal, accounting and third party consulting fees associated with (i) the restatement of certain of the Company's consolidated financial statements and other financial information from fiscal 2009 to fiscal 2013, (ii) the Audit Committee investigation to review the Company's accounting practices, (iii) incremental external audit and supplemental procedures by the Company in connection with the preparation of the Company's financial statements, and (iv) other incremental legal, accounting and consulting fees incurred as a result of the Company's restatement-related investigation or in connection with the Company's remediation of material weaknesses and other control deficiencies identified during the restatement. During the second quarters of fiscal 2015 and 2014, the Company incurred restatement and remediation related expenses of approximately \$5.4 million and \$11.0 million, respectively. During the first semesters of fiscal 2015 and 2014, the Company incurred restatement and remediation related expenses of approximately \$17.6 million and \$14.0 million, respectively. The Company expects to incur additional restatement and remediation related expenses during fiscal 2015 for incremental audit and supplemental procedures in connection with the preparation of its financial statements; remediation of material weaknesses and other control deficiencies; and other incremental legal and consulting fees as a result of the Company's restatement-related investigation.

## Value Added Tax Assessment

Prior to fiscal 2004, one of our subsidiaries in Spain 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. During the second quarter of fiscal year 2015, an administrative court issued a decision revoking the penalties for certain of the assessed years. As a result of this decision, during the three and six months ended July 31, 2014 the Company decreased its accrual for costs associated with this matter by \$6.2 million (see Note 9 of Notes to Consolidated Financial Statements for further discussion).

## Interest Expense

Interest expense increased to \$7.4 million in the second quarter of fiscal 2015 compared to \$6.2 million for the same period of the prior fiscal year. On a year-to-date basis, interest expense increased to \$14.1 million in the first semester of fiscal 2015

compared to \$13.3 million in the first semester of the prior year. The increase in interest expense is primarily due to incremental interest accrued for the aforementioned VAT assessments in one of our Spanish subsidiaries (see Note 9 of Notes to Consolidated Financial Statements for further discussion).

## Other Expense (Income), Net

Other expense (income), net consists primarily of gains and losses on investments in life insurance policies to fund the Company's nonqualified deferred compensation plan, interest income, discounts on the sale of accounts receivable and net foreign currency exchange gains and losses on certain financing transactions and the related derivative instruments

used to hedge such financing transactions. Other expense (income), net, was \$0.6 million of expense in the second quarter of fiscal 2015 compared to \$0.7 million of expense in the second quarter of the prior year. On a year-to-date basis, other expense (income), net, was \$1.1 million of expense in the first semester of fiscal 2015 compared to \$1.5 million of income in the first semester of the prior year. The change in other expense (income), net, during the first semester of fiscal 2015 is primarily attributable to a decrease in net foreign currency exchange gains on certain financing transactions and an increase in discount expense on the sale of accounts receivable, as compared to the same period of the prior fiscal year.

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## Provision for Income Taxes

Our effective tax rate was 34.1% in the second quarter of fiscal 2015 and 36.1% in the second quarter of fiscal 2014. Our effective tax rate was 37.1% for the first semester of fiscal 2015 compared to 40.0% for the same period of the prior year. The decrease in the effective rate for both the second quarter and first semester of fiscal 2015 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, including decreases in losses in tax jurisdictions where we are not able to record a tax benefit, as well as the resolution of certain discrete tax items.

On an absolute dollar basis, the provision for income taxes increased 145.8% to \$20.4 million for the second quarter of fiscal 2015 compared to \$8.3 million in the same period of fiscal 2014 and increased 44.2% to \$31.2 million for the first semester of fiscal 2015 compared to \$21.6 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.

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.

Our future effective tax rates will continue to be affected by 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. 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.

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.

## 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, 2014 and 2013:

	Six months ended	
	July 31,	
	2014	2013
	(In thousands)	
Net cash provided by (used in):		
Operating activities	\$49,694	\$392,260
Investing activities	(4,347 )	(8,409 )
Financing activities	678	(130,087 )
Effect of exchange rate changes on cash and cash equivalents	(4,598 )	(7,488 )
Net increase (decrease) in cash and cash equivalents	\$41,427	\$246,276

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. An important driver of our operating cash flows is our cash conversion cycle (also referred to as “net cash days”). Our net cash days are defined as days of sales outstanding in accounts receivable (“DSO”) plus days of supply on hand in inventory (“DOS”), less days of purchases outstanding in accounts payable (“DPO”). We manage our cash conversion cycle on a daily basis throughout



the year and our reported financial results reflect that cash conversion cycle at the balance sheet date. The following table presents the components of our cash conversion cycle, in days, as of July 31, 2014 and January 31, 2014:

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	As of July 31, 2014	As of January 31, 2014
Days of sales outstanding	40	37
Days of supply in inventory	31	29
Days of purchases outstanding	(49)	(47)
Cash conversion cycle (days)	22	19

Net cash provided by operating activities was \$49.7 million in the first semester of fiscal 2015 compared to \$392.3 million for the same period of the prior year. The decrease in cash resulting from operating activities in the first semester of fiscal 2015 compared to the same period of the prior year can be primarily attributed to the timing of both cash receipts from our customers and payments to our vendors.

Net cash used in investing activities of \$4.3 million during the first semester of fiscal 2015 is the result of the continuing expansion and upgrading of our IT systems, office facilities and equipment for our logistics centers in both the Americas and Europe, partially offset by \$7.1 of proceeds from the sale of a building. We expect to make total capital expenditures of approximately \$38.0 million during fiscal 2015 for equipment and machinery in our logistics centers, office facilities and IT systems.

Net cash used in investing activities of \$8.4 million during the first semester of fiscal 2014 is primarily the result of \$14.9 million of expenditures for the continuing expansion and upgrading of our IT systems, office facilities and equipment for our logistics centers in both the Americas and Europe, partially offset by \$8.0 million of cash received related to the final settlement of the SDG purchase price during the first quarter of fiscal 2014.

Net cash provided by financing activities of \$0.7 million during the first semester of fiscal 2015 is primarily the result of \$4.7 million of net borrowings on our revolving credit lines and \$0.7 million of proceeds received from the reissuance of treasury stock related to the vesting and exercise of equity-based incentive awards and purchases made through our Employee Stock Purchase Plan ("ESPP"), partially offset by \$5.0 million related to acquisition earn-out payments.

Net cash used in financing activities of \$130.1 million during the first semester of fiscal 2014 is primarily the result of \$125.7 million of net repayments on our revolving credit lines and \$6.2 million related to acquisition earn-out payments, partially offset by \$1.1 million of proceeds received from the reissuance of treasury stock related to the vesting and exercise of equity-based incentive awards and purchases made through our ESPP.

#### Capital Resources and Debt Compliance

Our debt to total capital ratio was 16% at July 31, 2014. We believe a conservative approach to our capital structure will continue to support us in the current global economic environment. As part of our capital structure and to provide us with significant liquidity, we have a diverse range of financing facilities across our geographic regions with various financial institutions. Also providing us liquidity are our cash and cash equivalents balances across our regions, which are deposited and/or invested with various financial institutions. We are exposed to risk of loss on funds deposited with these financial institutions, however, we monitor our financing and depository financial institution partners regularly for credit quality. We believe that our existing sources of liquidity, including our financing facilities, cash resources and cash provided by operating activities are sufficient to meet our working capital needs and cash requirements for at least the next 12 months.

At July 31, 2014, we had approximately \$611.5 million in cash and cash equivalents, of which \$548.9 million was held in our foreign subsidiaries. As discussed above, the Company currently has sufficient resources, cash flows and liquidity within the United States to fund current and expected future working capital requirements. Historically, the Company has utilized and reinvested cash earned outside the United States to fund foreign operations and expansion, and plans to continue reinvesting such earnings and future earnings indefinitely outside of the United States. If the Company's plans for the use of cash earned outside of the United States change in the future, cash and cash equivalents held by our foreign subsidiaries could not be repatriated to the United States without potential negative income tax consequences.

The following is a discussion of our various financing facilities:

Senior Notes

In September 2012, the Company issued \$350.0 million aggregate principal amount of 3.75% Senior Notes in a public offering (the “Senior Notes”), resulting in cash proceeds of approximately \$345.8 million, net of debt discount and debt issuance costs of approximately \$1.3 million and \$2.9 million, respectively. The debt issuance costs incurred in connection with the public offering are amortized over the life of the Senior Notes as additional interest expense using the effective interest method. We pay interest on the Senior Notes semi-annually in arrears on March 21 and September 21 of each year, ending on the maturity date of September 21,

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2017. We may, at our option, redeem the Senior Notes at any time in whole or in part, at a redemption price equal to the greater of (i) 100% of the principal amount of the Senior Notes to be redeemed or (ii) the sum of the present values of the remaining scheduled payments of principal and interest on the Senior Notes being redeemed, discounted at a rate equal to the sum of the applicable Treasury Rate plus 50 basis points, plus accrued and unpaid interest up to the date of redemption. The Senior Notes are senior, unsecured obligations of the Company and rank equally in right of payment with all of our other unsecured and unsubordinated indebtedness.

**Other Credit Facilities**

We have a \$500.0 million revolving credit facility with a syndicate of banks (the "Credit Agreement"), which, among other things, i) provides for a maturity date of September 27, 2016, ii) provides for an interest rate on borrowings, facility fees and letter of credit fees based on our non-credit enhanced senior unsecured debt rating as determined by Standard & Poor's Rating Service and Moody's Investor Service, and iii) may be increased to a maximum of \$750.0 million, subject to certain conditions. The Credit Agreement includes various covenants, limitations and events of default customary for similar facilities for similarly rated borrowers, including a maximum debt to capitalization ratio and a minimum interest coverage ratio. We pay interest on advances under the Credit Agreement at the applicable LIBOR rate plus a predetermined margin that is based on our debt rating. There were no amounts outstanding under the Credit Agreement at July 31, 2014 and January 31, 2014.

We also have an agreement with a syndicate of banks (the "Receivables Securitization Program") that 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 \$400.0 million. The Receivables Securitization Program was renewed in August 2014 for a period of two years and interest is to be paid on advances at the applicable commercial paper or LIBOR rate plus an agreed-upon margin. There were no amounts outstanding under this program at July 31, 2014 and January 31, 2014.

In addition to the facilities described above, we have various other committed and uncommitted lines of credit and overdraft facilities totaling approximately \$406.2 million at July 31, 2014 to support our operations. Most of these facilities are provided on an unsecured, short-term basis and are reviewed periodically for renewal. There was \$48.0 million outstanding on these facilities at July 31, 2014, at a weighted average interest rate of 5.55%, and \$42.9 million outstanding at January 31, 2014, at a weighted average interest rate of 6.15%.

Certain of our credit facilities contain limitations on the amounts of annual dividends and repurchases of common stock and require compliance with other obligations, warranties and covenants. The financial ratio covenants under within these credit facilities include a debt to capitalization ratio and a minimum interest coverage ratio. At July 31, 2014, we were in compliance with all such financial covenants. In light of these financial covenants, the Company's maximum borrowing availability on its credit facilities is approximately \$922.7 million, of which \$48.0 million was outstanding at July 31, 2014.

At July 31, 2014, we had also issued standby letters of credit of \$82.6 million. These letters of credit typically act as a guarantee of payment to certain third parties in accordance with specified terms and conditions. The issuance of these letters of credit reduces our borrowing availability under certain of the above-mentioned credit facilities.

**Accounts Receivable Purchase Agreements**

We have uncommitted accounts receivable purchase agreements under which certain accounts receivable may be sold, without recourse, to third-party financial institutions. Under these programs, we may sell certain accounts receivable in exchange for cash less a discount, as defined in the agreements. Available capacity under these programs, which we use as a source of working capital funding, is dependent on the level of accounts receivable eligible to be sold into these programs and the financial institutions' willingness to purchase such receivables. In addition, certain of these agreements also require that we continue to service, administer and collect the sold accounts receivable. At July 31, 2014 and January 31, 2014, the Company had a total of \$333.8 million and \$263.7 million, respectively, of accounts receivable sold to and held by financial institutions under these agreements. During the three months ended July 31, 2014 and 2013, discount fees recorded under these facilities were \$1.4 million and \$0.7 million, respectively, and during the six months ended July 31, 2014 and 2013, discount fees recorded under these facilities were \$2.7 million and \$1.4 million, respectively. These discount fees are included as a component of "other expense (income), net" in our Consolidated Statement of Income.

Off-Balance Sheet Arrangements

Synthetic Lease Facility

We have a synthetic lease facility with a group of financial institutions (the "Synthetic Lease") under which we lease certain logistics centers and office facilities from a third-party lessor that expires in June 2018. 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

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Bend, Indiana. The Synthetic Lease is accounted for as an operating lease and rental payments are calculated at the applicable LIBOR rate plus a margin based on our credit ratings.

Upon not less than 30 days' notice, we may, at our option, purchase one or any combination of the 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. Upon not less than 270 days, nor more than 360 days, prior to the lease expiration, we may, at our option, i) purchase a minimum of two of the 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 properties or iii) exercise the option to remarket a minimum of two of the 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 \$133.8 million. Future annual lease payments under the Synthetic Lease are approximately \$2.6 million per year.

The Synthetic Lease contains covenants that must be complied with, similar to the covenants described in certain of the credit facilities discussed in Note 3 of Notes to Consolidated Financial Statements. As of July 31, 2014, the company was in compliance with all such covenants.

Guarantees

As is customary in the technology industry, to encourage certain customers to purchase products 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 us. We review the underlying credit for these guarantees on at least an annual basis. As of July 31, 2014 and January 31, 2014, the aggregate amount of guarantees under these arrangements totaled \$11.9 million and \$13.4 million, respectively. We believe that, based on historical experience, the likelihood of a material loss pursuant to the above inventory repurchase obligations and guarantees is remote.

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ITEM 3. Quantitative and Qualitative Disclosures About Market Risk.

For a description of the Company's market risks, see "Part II, Item 7A. Qualitative and Quantitative Disclosures About Market Risk" in our Annual Report on Form 10-K for the fiscal year ended January 31, 2014. No material changes have occurred in our market risks since January 31, 2014.

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ITEM 4. Controls and Procedures.

Evaluation of Disclosure Controls and Procedures

The Company maintains disclosure controls and procedures designed to ensure that information required to be disclosed in reports filed under the Securities Exchange Act of 1934, as amended (the "Exchange Act"), is recorded, processed, summarized and reported within the specified time period. Tech Data's management, with the participation of the Company's Chief Executive Officer ("CEO") and Chief Financial Officer ("CFO"), has evaluated the effectiveness of the Company's disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Exchange Act), as of July 31, 2014. Based on that evaluation and considering the material weaknesses in internal control over financial reporting reported in Part II, Item 9A of the Annual Report on Form 10-K for the fiscal year ended January 31, 2014, the Company's CEO and CFO concluded that the Company's disclosure controls and procedures were not effective as of July 31, 2014.

The Company engaged significant internal and external resources to perform supplemental procedures to assist in reviewing its financial statements and accounting practices in light of the material weaknesses referred to above.

Changes in Internal Control Over Financial Reporting

Except as discussed below, 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 our second quarter of fiscal 2015 that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

Previously Identified Material Weaknesses

As reported in our Annual Report on Form 10-K for the fiscal year ended January 31, 2014, management identified the following material weaknesses in internal control over financial reporting: (i) inadequate control environment in a United Kingdom subsidiary and two other European subsidiaries; (ii) inadequate controls over manual journal entries in Europe and in two subsidiaries in Latin America; (iii) inadequate account reconciliation procedures in Europe over certain aspects of vendor accounting; and (iv) inadequate anti-fraud program controls and monitoring.

We are engaged in various stages of remedial action to address the material weaknesses described above. These actions include the following:

The Audit Committee, Board and executives have increased communication to all employees regarding the ethical values of the Company, and the requirement for all employees to comply with laws and the Company's Code of Conduct and accounting policies.

The Company has evaluated its organizational structure and changed roles and responsibilities or created new roles to enhance controls and compliance. Some of these changes include:

Certain personnel are no longer employed by the Company.

The accounting organization has added resources to address standardization, training and competencies related to the use of accounting systems and to enhance all accounting personnel's understanding of accounting policy.

The Company has engaged external experts to perform the internal audit function and to assist with the implementation of specific fraud detection procedures.

The Company has appointed a Chief Ethics and Compliance Officer and has made changes to enhance its ethics and compliance training and communication strategy throughout the organization to increase employee awareness of the Company's compliance policies.

The Company has implemented changes to its compensation programs to better motivate accurate financial reporting and compliance.

The Company has engaged internal and external resources to evaluate potential enhancements to the accounting and enterprise computer systems to improve systematic controls and account reconciliation processes. Certain improvements which have been implemented or are in process of evaluation include:

New tools to document, support and review manual journal entries.

Automation of certain financial reporting processes and tools that previously required or allowed manual adjustment.



Restrictions to user access rights and improved tracking and monitoring procedures to further strengthen segregation of duties within the organization.

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In addition, management has undertaken a comprehensive review of its internal control structure to ensure that key controls are adequately designed, clearly documented and communicated throughout the finance organization. In connection with this review, the Company has implemented two new internal controls to address the material weaknesses surrounding manual journal entries and inadequate reconciliation procedures over certain aspects of vendor accounting. The Company has implemented new metrics and standards for the proper documentation, approval and review of manual journal entries and has engaged regional and corporate accounting personnel along with external consultants to review and assess the propriety of manual journal entries. This review involves a selection of manual journal entries on a periodic basis throughout each quarter using risk-based criteria for the purpose of early identification of potential errors. In connection with the new control surrounding inadequate reconciliation procedures over vendor accounting, the Company has engaged similar resources to perform account review procedures surrounding the balance sheet accounts impacted by the material weakness. These on-site procedures are coordinated and managed centrally.

The Company believes the remedial actions described above have strengthened the Company's internal control over financial reporting and will remediate the material weaknesses identified. However, as of July 31, 2014, these remediation measures are ongoing and had not been in operation long enough to measure their operating effectiveness in order to conclude that the identified material weaknesses were fully remediated. The Company will continue to monitor the effectiveness of these remediation activities and expects to make further changes to improve its internal control over financial reporting.

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PART II

ITEM 1. Legal Proceedings.

Prior to fiscal 2004, one of the Company's subsidiaries, located in Spain, was audited in relation to various value added tax ("VAT") matters. As a result of those audits, the Spanish subsidiary received notices of assessment from the Regional Inspection Unit of Spain's taxing authority that allege the subsidiary did not properly collect and remit VAT. The Spanish subsidiary appealed these assessments to the Madrid Central Economic Administrative Courts beginning in March 2010. Following the administrative court proceedings the matter was appealed to the Spanish National Appellate Court. During the fourth quarter of fiscal year 2014, the Spanish National Appellate Court issued an opinion upholding the assessment for several of the assessed years. During the second quarter of fiscal year 2015, the Madrid Central Economic Administrative Court issued a decision revoking the penalties for certain of the assessed years. As a result of this decision, during the three months ended July 31, 2014 the Company decreased its accrual for costs associated with this matter by \$6.2 million, which is recorded in "value added tax assessment" in the Consolidated Statement of Income. The Company believes that the Spanish subsidiary's defense to the remaining assessments has solid legal grounds and is continuing to vigorously defend its position by appealing to the Spanish Supreme Court. The Company estimates the total exposure for these assessments, including various penalties and interest, was approximately \$50.9 million and \$56.4 million at July 31, 2014 and January 31, 2014, respectively, which is included in "accrued expenses and other liabilities" in the Consolidated Balance Sheet.

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 \$27.5 million and \$25.3 million at July 31, 2014 and January 31, 2014, respectively. The Brazilian subsidiary has appealed the unfavorable ruling to the Supreme Court and Superior Court, Brazil's two highest appellate courts. 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, due to the lack of predictability of the Brazilian court system, the Company has concluded that it is reasonably possible that the Brazilian subsidiary may incur a loss up to the total exposure described above. The Company believes the resolution of this litigation will not be material to the Company's consolidated net assets or liquidity; 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 addition to the CIDE tax matter discussed above, the Company's Brazilian subsidiary has been undergoing several examinations of non-income related taxes. Given the lack of predictability of the Brazilian tax system, the Company believes that it is reasonably possible that a loss may have been incurred. However, due to the early stages of the examination, the complex nature of the Brazilian tax system and the absence of communication from the local tax authorities regarding these examinations, the Company is currently unable to determine the likelihood of these examinations resulting in assessments or to estimate the amount of loss, if any, that may be reasonably possible if such assessment were to be made.

The SEC has requested information from the Company with respect to the restatement of certain of our consolidated financial statements and other financial information from fiscal 2009 to 2013, and the Company has cooperated with the SEC's request for information.

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.

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, 2014, 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, 2014.

ITEM 2. Unregistered Sales of Equity Securities and Use Of Proceeds  
Not applicable.

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ITEM 3. Defaults Upon Senior Securities

Not applicable.

ITEM 4. Mine Safety Disclosures.

Not applicable.

ITEM 5. Other Information

Not applicable.

ITEM 6. Exhibits

(a) Exhibits

31-A Certification of Chief Executive Officer Pursuant to Exchange Act Rules 13a-14(a) and 15d-14(a), as Adopted Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002

31-B Certification of Chief Financial Officer Pursuant to Exchange Act Rules 13a-14(a) and 15d-14(a), as Adopted Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002

32-A Certification of Chief Executive Officer Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

32-B Certification of Chief Financial Officer Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

101<sup>(1)</sup> Interactive data files pursuant to Rule 405 of Regulation S-T: (i) Consolidated Balance Sheet as of July 31, 2014 and January 31, 2014; (ii) Consolidated Statement of Income for the three and six months ended July 31, 2014 and 2013; (iii) Consolidated Statement of Comprehensive Income for the three and six months ended July 31, 2014 and 2013; (iv) Consolidated Statement of Cash Flows for the six months ended July 31, 2014 and 2013; and (v) Notes to Consolidated Financial Statements, detail tagged.

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<sup>(1)</sup> XBRL (Extensible Business Reporting Language) information is furnished and not filed or a part of a registration statement or prospectus for purposes of Sections 11 and 12 of the Securities Act of 1933, is deemed not filed for purposes of Section 18 of the Securities Exchange Act of 1934, and otherwise is not subject to liability under these sections.

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SIGNATURES

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

TECH DATA CORPORATION

(Registrant)

Signature	Title	Date
/s/ ROBERT M. DUTKOWSKY Robert M. Dutkowsky	Chief Executive Officer; Director	September 2, 2014
/s/ JEFFERY P. HOWELLS Jeffery P. Howells	Executive Vice President and Chief Financial Officer; Director (principal financial officer)	September 2, 2014
/s/ JOSEPH B. TREPANI Joseph B. Trepani	Senior Vice President and Corporate Controller (principal accounting officer)	September 2, 2014