

2005  
ANNUAL REPORT



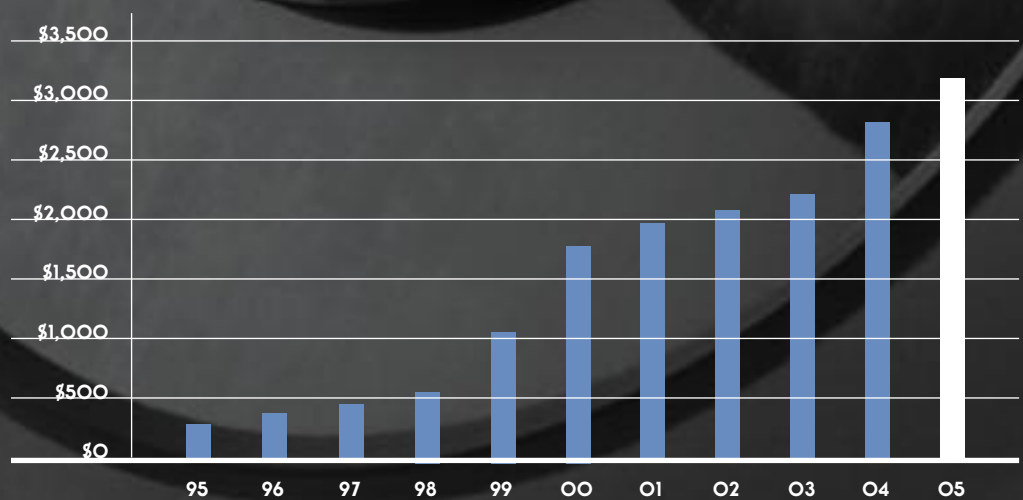
storage solutions

Adding Value from Design to Deployment

# financials

## ANNUAL REVENUE GROWTH in millions

Sales increase  
of approximately  
11 times in 10 years



Bell Microproducts is an international, value-added provider of a wide range of high-technology products, solutions, and services to the industrial and commercial markets. Our offering includes RAID, NAS and SAN storage systems, servers, fibre channel, software, computer components, peripherals and a wide range of maintenance and professional services. Bell Microproducts is an industry-recognized specialist in storage products and is one of the world's largest storage-centric value-added distributors.

Our products are available at any level of integration, from components to subsystem assemblies and fully-integrated, tested and certified system solutions. We add value with a broad range of services including design and configuration, testing, software loading, kitting, mass storage and computer system integration and custom server manufacturing. Trained and certified technical personnel perform these processes at Bell Microproducts' ISO 9001:2000 facilities.

We market and distribute more than 140 brand name product lines, as well as our own Rorke Data storage brands, to Original Equipment Manufacturers (OEMs), system integrators, Contract Electronic Manufacturing Services (CEMS) customers, Value-Added Resellers (VARs) and retailers in the Americas and Europe. More information can be found in the company's SEC filings, or by visiting the Bell Microproducts web site at [www.bellmicro.com](http://www.bellmicro.com).

## PERFORMANCE HIGHLIGHTS

in thousands, except EPS

	2000	2001	2002	2003	2004	2005
<b>Sales</b>	\$ 1,804,102	\$ 2,007,102	\$ 2,104,922	\$ 2,230,287	\$ 2,827,777	\$ 3,193,833
<b>Net Income*</b>	\$ 17,237	\$ (4,735)	\$ (2,902)	\$ (1,929)	\$ 11,337	\$ 12,260
<b>Earnings per Share*</b>	\$ 1.05	\$ (0.29)	\$ (0.15)	\$ (0.09)	\$ 0.40	\$ 0.41
<b>Working Capital</b>	\$ 136,810	\$ 183,964	\$ 206,786	\$ 283,634	\$ 276,487	\$ 346,182
<b>Total Assets</b>	\$ 661,207	\$ 643,687	\$ 614,191	\$ 712,999	\$ 840,589	\$ 933,332
<b>Long-term Debt</b>	\$ 106,871	\$ 176,441	\$ 179,237	\$ 207,827	\$ 208,602	\$ 260,458
<b>Shareholders' Equity</b>	\$ 129,532	\$ 125,769	\$ 145,849	\$ 193,410	\$ 220,690	\$ 220,381

\* Before restructuring costs and special charges



**W. DONALD BELL**  
PRESIDENT, CHIEF EXECUTIVE OFFICER  
AND CHAIRMAN OF THE BOARD

## TO OUR INVESTORS, CUSTOMERS, SUPPLIERS AND EMPLOYEES

Bell Microproducts experienced mixed results in 2005. We achieved record revenue of \$3.2 billion for the year, up 13% from 2004. Our Americas region drove most of the growth posting a sales increase of 20% over 2004. All of our Americas' business units generated growth, including North American distribution, our Enterprise Business units, Rorke Data and Total Tec Systems, and Latin America, driven by our in-country presence in Mexico, Chile, and a mid-year acquisition in Brazil. Furthermore, our overall Americas' operating margins remained above 2% during the year. We are pleased with our Americas' results and are well-positioned going into 2006 for continued growth and profitability.

As we indicated throughout 2005, our European volume distribution business, principally U.K.-based Ideal Hardware, was challenging. Although our overall European sales grew 5% in 2005 from the prior year, the European growth was primarily driven by our OpenPSL enterprise business, also based in the U.K. We acquired OpenPSL in mid 2004, and 2005 included a full year of results. OpenPSL continued to be profitable in 2005, and the 2005 results also included the December acquisition of MCE.

### ACCOMPLISHMENTS

Our North American Enterprise business units continued their strong performance in 2005. These business units continue to benefit from growth in storage solutions such as Rorke's Galaxy Storage line of RAID and JBOD solutions. Major installations included the NASA "Back to Space" program, major casinos in Las Vegas and China, as well as OEM storage for PACS (Picture Archive

Communications Systems) providers in the Healthcare market. Additionally, Total Tec Systems grew significantly through the addition of new accounts and geographic expansion of its sales offices. The recently opened office in Irvine, CA is focused on providing professional services for data storage and security. Total Tec won new business in 2005 by partnering with a European VAR to provide a data center upgrade for a common client in the U.S. Also in 2005, our North American distribution business was awarded the Apple franchise and we obtained the exclusive distribution arrangement for Pillar Data, a strong, emerging vendor in SAN and NAS storage systems.

We continue to be a market share leader in disk drive sales, markedly ahead of our nearest competitors. In the indirect channel for North and Latin America, we are the leading distribution partner with the top four disk drive manufacturers.

In Latin America our in-country businesses in Chile, Mexico and Brazil continue to perform well. We are gaining market share at above average margins in these regions. In Europe we acquired MCE, based in Munich, Germany, late in the year. MCE is a leading European distributor of disk drives and components, and also has a substantial IBM enterprise business in its home market in Germany. It fits strategically with our internal investments in these areas and contributes to the building of our infrastructure and continental European market share. The MCE acquisition also adds experienced management, sales, and marketing resources to our team.

### CHALLENGES

We faced a number of challenges in Europe during 2005 including weaker economic conditions in some of the markets in which we operate, significant reductions in margins in certain of our key product lines, and an increase in the strength of the U.S. Dollar relative to the Euro and the British Pound. Additionally, we believe we can improve our execution and have, and are, taking steps to address these issues.

During the second half of the year we took a series of initiatives to improve our performance in Europe. Strategically, we are repositioning our European operation to drive higher margin business in Enterprise product lines and to build our Industrial and Value-Add businesses. We also took actions to substantially reduce our operating expenses:

## We believe Bell Microproducts is positioned to continue to gain market share as a leading distributor of strategic storage solutions and related products.

- We reduced or eliminated sales of certain very low margin products; primarily in the low end of the disk drive market and more recently in PC's in the U.K. The combined revenue from these product categories was approximately \$150 million. We also are taking action in other geographical markets to minimize some low profit product sales.
- We closed our in-country operation in Sweden which was operating at a loss, while retaining much of the sales revenue which is now supported from the U.K.
- We rationalized our facilities utilization and logistics between the U.K. and the continent by doing the following;
  - Completed a sale/leaseback of our European HQ facility outside of London
  - Downsized our Birmingham, U.K. distribution facility
  - Increased the utilization of our Amsterdam, Netherlands warehouse to more efficiently service sales on the continent
  - Established a Munich, Germany warehouse with the acquisition of MCE
- We have also reduced headcount in this region as part of streamlining our operations and cost structure.

These cost reduction actions will save the company approximately \$8 million per year, and we expect to see a portion of these savings materialize early in 2006. With our European cost structure substantially improved, we are focused on driving higher profit initiatives and programs to add revenue and margin in our Industrial sales channel and Enterprise product categories. New sales leadership is on board in the U.K., and we will continue to add new sales and marketing personnel with experience in the Industrial and Enterprise market segments.

### SUMMARY

Bell Microproducts has grown from sales of \$300 million in 1995 to \$3.2 billion in 2005, an 11 fold increase in this ten year period. We have become an international company during this period with our mix of business being 44% from North America, 43% from Europe, and 13% from Latin America. We are well balanced in our geographical and product mix. Sales of solutions

products, which include storage and computer solutions, tape drives and libraries, software, services, and related products, have continually increased and represented 51% of our revenue in 2005.

We have a core set of priorities for 2006. Our highest priority is to return our European distribution business to acceptable profitability. We have made significant progress in getting our cost structure nearer to where it needs to be. We are now focused on driving actions to increase our revenue and margin in our Industrial sales channel, value-added services, and Enterprise product segments. We are confident that these actions will contribute to improved results and a more differentiated business model in Europe.

We will continue to drive our combined Americas' business to gain market share through sales execution while maintaining strong operating margins. We will continue our focus on providing value-added solutions throughout all of these business units. We will be opening a new integration center in San Jose, California early in the second quarter to support the growth opportunities we see in these sectors. Additionally, we will leverage our investments in Mexico, Brazil, and Chile to drive accelerated growth coupled with strong operating margins.

We remain optimistic that the overall IT market will continue to grow, and believe Bell Microproducts is positioned to continue to gain market share as a leading distributor of strategic storage and related products. As we execute this plan, our growth in revenue and margin, coupled with the operating leverage in our cost structure will enable us to generate significant improvements in earnings as we move forward.

On behalf of everyone at Bell Microproducts, we thank you for continuing to place your confidence and trust in our company. Our management team is focused on and dedicated to continuing to develop our position as an industry leader in storage solutions.

Sincerely,



W. DONALD BELL PRESIDENT, CEO, & CHAIRMAN OF THE BOARD

SHARED GOALS. SHARED PLANS. SHARED RESULTS.

Bell Microproducts' role as a storage and server focused solutions provider is to work with our supplier and customer business partners to provide a broad range of products and services to our diverse customer base. Our products cover a wide range from disk drives and components to highly complex server and storage systems. Technical depth and application experience with our full range of products and services provide differentiated value to our partners.

**We support our vendor partners in multiple ways.**

In addition to the basics of providing product availability and logistics support, we enhance our suppliers' capabilities by providing:

- **Demand Generation** — A combination of a broad deployment of effective marketing techniques and our highly trained and technically skilled sales force allows us to identify and recruit new customers for their products.
- **Enhanced Logistics Capabilities** — We employ a variety of customized inventory management practices to support our customers unique needs. From a menu of offerings that include staging and kitting, auto replenishment, bonded and consignment inventory, proximity warehousing and other services, we enhance the value of our partners' products.
- **Technical Support** — We consult with our customers to design solutions that meet their needs and price points. From configuration development to proof of concept, our staff leverages their expertise and technical knowledge of our suppliers' products to deliver outstanding value to our customers' design process.
- **Services** — Our ISO 9001:2000 certified manufacturing, configuration and integration facilities, combined with the technical expertise of our field staff, add extensive value to the products we sell and support.

These capabilities help our suppliers increase their customer base and provide additional value and support for the products they offer.

We know the products we sell. We provide extensive product knowledge, depth of technical and application experience combined with the ability to provide a full range of services that make these technologies work. These capabilities enable us to deliver incredible value to both our supplier and customer partners.

**We augment our customers' capabilities in providing storage and server products and solutions.**

Our expertise in storage and related technologies also supports the needs of our customers. We serve a wide range of customers from system integrators and value-added resellers to original equipment manufacturers who all have specific needs for the storage and related products that comprise the solutions they offer.

- **Determining the right product for their application** — Because we are storage and server focused, we are the go-to source to help identify the right product for a specific application. Our customers rely on us to guide them through the product selection and design process.
- **Enhanced Financial Services** — We offer a wide range of credit and financial services to our customers. In addition to basic credit, we offer creative programs such as leasing, flooring, consignment, and custom-designed programs.
- **Technical Support and Inter-Operability Lab** — Our storage and server centric technical staff provide support to our customers through the entire design to deployment process. We provide valuable technical input and direction to ensure that our recommended solutions meet our customers' needs. Our inter-operability lab is incredibly valuable when integrating multi-vendor products and applications.
- **Services** — We provide a wide range of services that enhance our customers' capabilities. Where our customers need additional technical expertise in storage and server technologies, we act as their technical support arm. Combined with our after-market warranty and support, our many services make us a valuable partner to our customers.

## CUSTOMER RELATIONSHIPS

**Client:** Leading medical company

**Application:** Medication automation systems

**What we accomplished:** We consolidated embedded computers and servers into common platforms that are used as the basis for many of the client's products. We continue to facilitate extended lifecycles of these rapidly changing products through extensive end-of-life management programs.

**Equipment comprised of:**

- Wintel servers (NT and XP)
- Tape back-up
- Magneto optical back-up
- Storage devices
- All-in-one PC's

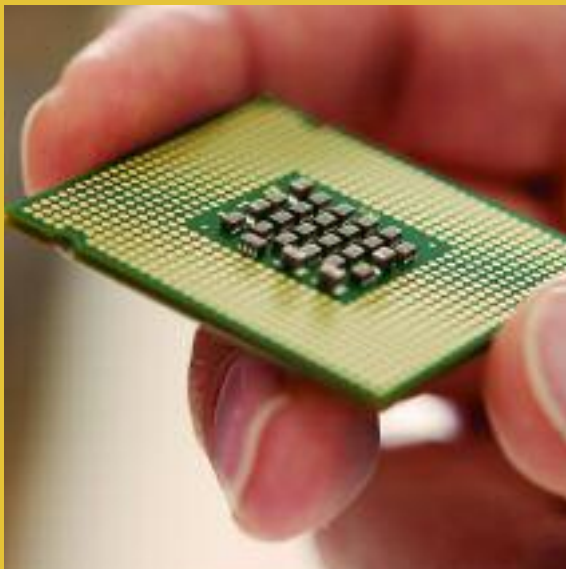
**Client:** Major automation and control solutions corporation

**Application:** Displays for industrial control room monitoring systems

**What we accomplished:** We designed flat panel display solutions to replace aging and obsolete CRT consoles. Our solution was a higher quality replacement designed to extend the life span of the products. Additionally, we integrated the complete solution in-house allowing us to deliver the product as a simple, easy-to-deploy field upgrade.

**Equipment comprised of:**

- NEC flat panel LCD displays
- Touch screens
- Power supplies
- Controllers
- Custom enclosures



**Client:** Leading manufacturer of medical equipment

**Application:** A complex storage solution for medical imaging

**What we accomplished:** We delivered an innovative solution unsurpassed by anyone else in the medical field that involved numerous development hours along with criteria to meet advanced technical requirements.

**Equipment comprised of:** A custom storage array from the Galaxy line, a Bell Microproducts brand.

This product was designed and configured to meet the complex requirements of the customer.

**Client:** One of the largest providers of dialysis services in the United States

**Application:** Complete technology refresh for each dialysis lab across the country

**What we accomplished:** We completed the design, configuration, integration and deployment of a technology refresh in more than 1,000 labs across the country. This included professional services and project management to ensure success in the whole process from design to deployment.

**Equipment comprised of:**

- Thin client flat panel technology
- Data terminals
- Servers
- Printers
- Technology racking
- Power conditioners

**Client:** Leading provider of technology products and services to the global securities industry

**Application:** Create a U.S. replication of the UNIX server, data storage, network and services utilized by their U.K. headquarters

**What we accomplished:** We replicated their highly complex enterprise technology needs within budget and on schedule by working closely with their home office and the systems integrator in the U.K. Our services included the design, architecture, integration and implementation of the enterprise wide deployment.

**Equipment comprised of:**

- 32-way superdome UNIX servers
- SAN storage technology
- LAN and WAN networks

### Design & Consultation

- Configuration Development
- Proof of Concept
- Work Instructions and First Article
- Integration, Integrity Verification
- BOM Development
- Security
- Disaster Recovery
- Storage System Consultation and Design

### Source

- Auto Replenishment, JIT, Kan-Ban
- Bonded Inventory
- Consignment Inventory
- Third Party Logistics Services (3PL)
- End-of-Life Product Supply Management
- Proximity Warehousing
- E-Commerce Solutions — EDI, XML, FTP
- Supplier Drop Ship Capabilities

#### ■ HEADQUARTERS

#### ■ INTEGRATION AND VALUE-ADD FACILITIES

ACTON, MA  
EDISON, NJ (TOTAL TEC)  
EDEN PRAIRIE, MN (RORKE)  
MIAMI, FL  
SAN JOSE, CA  
TORONTO, CANADA  
MANCHESTER, U.K.  
BIRMINGHAM, U.K.  
MUNICH, GERMANY  
MERIDA, MEXICO  
SANTIAGO, CHILE

#### ■ SALES, DESIGN & CONSULTATION FACILITIES



## Integrate & Configure

- ISO 9001:2000 Global Certification, System Design, Configuration and Manufacturing
- PC and Server Integration
- SAN / NAS / RAID Design and Integration
- Subsystem Manufacturing
- Custom Enclosures
- Branded Server and Storage System Integration
- Fibre Channel Solutions
- Flat Panel Design and Integration

## Deploy & Support

- First Call Support Services
- On-site Service
- Same Day/Next Day Service
- On-site Hot Spares
- On-going Technical Support
- Lifecycle Management



## OUR PRIORITIES FOR 2006 AND BEYOND

### **Continue Our Focus on Storage and Server**

**Products and Solutions:** We believe that we are well positioned to benefit from the strong growth and favorable market dynamics of the storage and server industry. We will continue to take advantage of opportunities in these categories by maintaining our strategic focus on providing a complete range of storage and server products and solutions. We have devoted significant resources to broadening our range of value-added services and support infrastructure, expanding our marketing efforts, and offering an extensive assortment of advanced technical products. We will continue to differentiate ourselves by specializing in the products and services we offer including flash memory and disk drives, highly complex, customized storage and server products as well as SAN and NAS storage infrastructure deployments.

### **Expand Our Value-Added Services Capabilities:**

We believe that our ability to offer customers a wide range of storage and server related value-added services ranging from design to deployment will be a competitive differentiator for us. In 2006, we will double our integration space in Northern California through our new facility in San Jose. We will also expand our value-added service offerings in the U.K. and through our recent acquisition of MCE in Germany. These services combined with our technical expertise provide tremendous value to our customers in helping them maximize existing and future technologies and product lifecycles.

**Expand Our International Presence:** We intend to expand our coverage in the major international markets we serve, including North America, Latin America and Europe, through internal growth and strategic acquisitions. Our North and Latin American operations have performed well over the past several years. We will continue to address the structural and profitability challenges which currently exist in the Western European markets. We will continue to implement initiatives to reduce costs, drive the correct mix of revenue and margin, and focus on Industrial and Enterprise sales channels. We believe that we are operating in the right geographies, and that as we deepen our global presence, we increase our ability to support our customers and strengthen relationships with multinational manufacturers.

### **Strengthen Relationships with Industry Leaders:**

We will leverage our position as a leading provider of storage and server solutions to broaden our existing strategic relationships with industry leaders and to create new relationships. Our alliance with leading manufacturers allows us to identify innovative products, exchange critical information, gain access to new technologies and create cross-marketing opportunities.

### **Drive Cost Structure and Profitability Improvements:**

We will continue to improve our cost structure by maximizing the efficiency of personnel and resources throughout our global organization. During the past several years, we have implemented a wide range of profit improvement initiatives by realigning and streamlining operations. We will continue to review our business and take advantage of opportunities to improve cost efficiencies.

**Pursue Selective Acquisitions:** We will pursue opportunities to acquire businesses that help us achieve our strategic goals including further development of our solutions offerings, the expansion of key product lines, and broadening our geographic footprint. Over the past 3 years we have completed four acquisitions which have accomplished these objectives and have been financially accretive. Given current market conditions and consolidation activities that are occurring in various sectors of our industry, we believe that we will continue to have the opportunity to evaluate attractive acquisition opportunities.

We are well positioned to benefit from the strong growth and favorable market dynamics of the storage industry. We will continue to take advantage of opportunities in storage products by maintaining our strategic focus on providing a complete range of storage products and solutions.

# shareholder information

## BOARD OF DIRECTORS

**W. Donald Bell**  
President, Chief Executive Officer and  
Chairman of the Board, Bell Microproducts

**Gordon A. Campbell**  
President and Chief Executive Officer,  
TechFarm Management, Inc.

**Eugene B. Chaiken**  
Chairman and Chief Executive Officer,  
Almo Corporation

**David M. Ernsberger**  
Retired; Group Vice President of Worldwide  
Sales and Support, IBM Technology Group

**Edward L. Gelbach**  
Retired; Senior Vice President, Intel Corporation

**James E. Ousley**  
Private Investor and Consultant

**Glenn E. Penisten**  
Retired; General Partner, Alpha Venture Partners III

**Mark L. Sanders**  
Principal Officer, Sanders Investment Partners, LLC

**Roger V. Smith**  
Principal Officer, Smith Venture Group

## CORPORATE OFFICERS

**W. Donald Bell**  
President, Chief Executive Officer and  
Chairman of the Board, Bell Microproducts

**James E. Illson**  
President of the Americas, Chief Operating Officer  
and Chief Financial Officer

**Richard J. Jacquet**  
Vice President, Human Resources

**Philip M. Roussey**  
Executive Vice President of Enterprise Marketing

**Robert J. Sturgeon**  
Vice President, Information Technology

**Graeme Watt**  
President, Bell Microproducts Europe

## CORPORATE HEADQUARTERS

1941 Ringwood Avenue  
San Jose, CA 95131  
(408) 451-9400  
www.bellmicro.com

## INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

PricewaterhouseCoopers, LLP  
Ten Almaden Boulevard, Suite 1600  
San Jose, CA 95113

## TRANSFER AGENT AND REGISTRANT

Mellon Investor Services LLP  
480 Washington Boulevard  
Jersey City, NJ 07310  
(800) 522-6645

## ANNUAL MEETING

The annual meeting of Shareholders will be held on May 24, 2006 at 1:00 p.m. local time at the company's offices located at 1941 Ringwood Avenue, San Jose, CA.

All shareholders of record as of April 5, 2006 are invited to attend.

## FORM 10-K

A copy of the complete Form 10-K Annual Report, as filed with the Securities and Exchange Commission, may be obtained by shareholders, without charge, by writing to the Secretary of the company.

## PRICE RANGE OF COMMON STOCK

The company's Common Stock is traded on the Nasdaq National Market System under the symbol "BELM." The following table shows, for the periods indicated, the high and low sale prices of the Common Stock as reported by Nasdaq.

2005	High	Low
First Quarter	\$ 9.83	\$ 7.46
Second Quarter	\$ 10.11	\$ 7.11
Third Quarter	\$ 11.00	\$ 8.59
Fourth Quarter	\$ 10.55	\$ 6.62

2004	High	Low
First Quarter	\$ 10.50	\$ 6.45
Second Quarter	\$ 8.32	\$ 5.31
Third Quarter	\$ 8.40	\$ 5.88
Fourth Quarter	\$ 9.80	\$ 7.67

## DISTRIBUTION AND OFFICE LOCATIONS

### North America

Montgomery, AL  
Phoenix, AZ  
Irvine, CA  
Roseville, CA  
San Diego, CA  
San Jose, CA  
Denver, CO  
New Castle, DE  
Bonita Springs, FL  
Jensen Beach, FL  
Miami, FL  
Orlando, FL  
Chicago, IL  
Boston, MA  
Acton, MA  
Wakefield, MA  
Columbia, MD  
Eden Prairie, MN  
Edison, NJ  
Pine Brook, NJ  
Hauppauge, NY  
New York, NY  
Philadelphia, PA  
Austin, TX  
Dallas, TX  
Montreal, Canada  
Toronto, Canada  
Vancouver, Canada

### Latin America

Buenos Aires, Argentina  
Belo Horizonte, Brazil  
Recife, Brazil  
Rio de Janeiro, Brazil  
São Paulo, Brazil  
Iquique, Chile  
Santiago, Chile  
Aguascalientes, Mexico  
Cancun, Mexico  
Durango, Mexico  
Guadalajara, Mexico  
Merida, Mexico  
Monterrey, Mexico  
Oaxaca, Mexico  
Puebla, Mexico  
Queretaro, Mexico  
Tampico, Mexico  
Torreon, Mexico  
Tuxtla, Mexico  
Veracruz, Mexico  
Villahermosa, Mexico

### Europe

Mechelen, Belgium  
Paris, France  
Dreieich, Germany  
Lorsch, Germany  
Munich, Germany  
Stuttgart, Germany  
Dublin City, Ireland  
Milan, Italy  
Almere, Netherlands  
Birmingham, U.K.  
Bracknell, U.K.  
Leeds, U.K.  
London, U.K.  
Manchester, U.K.  
Nottingham, U.K.  
Swindon, U.K.



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