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Storage Solutions Leader



Bell Microproducts Inc.
2002 Annual Report

Corporate Profile



Bell Microproducts is an international, value-added provider of a wide range of high-technology products, solutions, and services. Bell Microproducts is an industry-recognized specialist in storage products and is one of the world's largest storage-centric value-added distributors. The Company's offering includes semiconductors, computer platforms, peripherals, and storage products of various types including desktop, high-end computer and storage subsystems, Fibre Channel connectivity products, RAID, NAS and SAN storage systems and back-up products.

The Company's products are available at many levels of integration, from components to subsystem assemblies and fully-integrated, tested and certified system solutions. The Company adds value with a broad range of services including testing, software loading, kitting, mass storage system integration, and computer system integration. Trained and certified technical personnel complete each of these processes at Bell Microproducts' ISO 9002 facilities. Bell Microproducts markets and distributes more than 150 brand name product lines, as well as its own Rorke Data storage and Trademark® computer brands, to original equipment manufacturers (OEMs), contract electronic manufacturing services (CEMS) customers, value-added resellers (VARs) and system integrators in North America, Latin America 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.

Corporate Facts

NASDAQ: BELM
Incorporated: 1987
IPO: 1993

CEO: W. Donald Bell

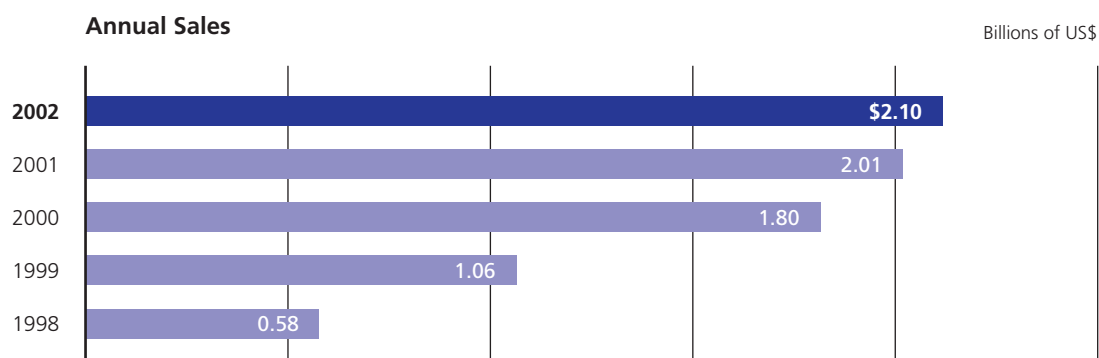
Global Headquarters: San Jose, California

1,344 Employees Worldwide

49 Locations in the Americas and Europe

Product Segments: Storage Components, Storage Systems Solutions and Services, Computer Components and Peripherals, Computer Systems, Semiconductors

Financial Highlights



5-Year Performance Highlights

<i>(Dollars in Thousands, Except EPS)</i>	2002	2001	2000	1999	1998
Sales [†]	\$2,104,922	\$2,007,102	\$1,804,102	\$1,058,275	\$575,330
Net Income [†]	\$ (2,902)	\$ (4,735)	\$ 17,237	\$ 8,930	\$ 8,477
Earnings per Share Diluted [†]	\$ (0.15)	\$ (0.29)	\$ 1.05	\$ 0.65	\$ 0.64
Working Capital	\$ 206,786	\$ 183,964	\$ 136,810	\$ 182,626	\$167,109
Total Assets	\$ 614,191	\$ 643,687	\$ 661,207	\$ 360,351	\$285,580
Long-term Debt	\$ 179,237	\$ 176,441	\$ 106,871	\$ 110,638	\$106,963
Shareholders' Equity	\$ 145,849	\$ 125,769	\$ 129,532	\$ 96,273	\$ 86,476

[†]Continuing Operations and Before Special Charges

Letter to Shareholders



To Our Investors, Customers, Partners and Employees,

Bell Microproducts has invested in the Company's strategic initiatives during the last several years with great success. We have gained market share consistently for the last 15 years, since our founding in 1987. In 2002, we again grew our business during market conditions where most of our competitors and alliance partners declined in sales volume.

Since the onset of the market downturn more than two years ago, we have concentrated on continuing to build our strategic position, while reducing our cost structure in order to maximize shareholder value. We have focused on expanding our geographic positioning, and product and service offerings in the storage solutions market. The result has been market leadership and revenue growth, even as our industry and the technology sector have been severely affected by economic conditions.

We have not been immune to the continuing softness in the technology sector and the resulting competitive market conditions, and have implemented actions to return our business to profitability. It is a tribute to our customers, vendor partners, and employees and the relationships we have forged, that in these challenging conditions we returned the Company to profitability during the fourth quarter, and experienced growth of 5% in sales in 2002.

Bell Microproducts' mission is to generate exceptional value for our shareholders, customers, vendor partners, and employees by continually increasing our position, and the depth of this position, as the leader in storage distribution. This growth, over the years, and in this challenging market environment, is a clear sign that we are making progress in the implementation of our strategic plan initiatives. We have expanded, and are continuing to expand and refine our portfolio of products and business offerings, enhancing our range of services and solutions.

Rising Solutions Content

We are pleased to report a further increase in the solutions content of our business. Solutions include storage systems, computer platforms, software, Fibre Channel interconnectivity products, and tape drives and libraries. During 2002, solutions sales reached \$972 million, or 46% of total sales. During the fourth quarter of 2002, our solutions content reached a record

49%, which corresponds to an annualized revenue run rate of over \$1 billion. Solutions are our major thrust as we continue to strengthen Bell Microproducts' position in the solutions market. Sales of this category of products grew by 28% in 2002.

Leadership in Disk Drives, Peripherals and Components

We are pleased that we have maintained a significant leadership position in the sales of disk drives, peripherals and components. The breadth and depth of our product offerings is unmatched in our industry, and our sales in this segment have grown at a five-year compound annual growth rate of 19%.

Improved Profitability and Working Capital Management

During 2002, the Company took actions to reduce our cost structure and focus on improving profitability. We also achieved significant improvements in asset management. In a process that will continue into 2003, we streamlined our operations and significantly reduced expenses. During the year, we reduced expenses by approximately \$14 million on an annualized basis, while increasing revenue 5% over 2001.

We focused on working capital management. Inventories were \$183 million at December 31, 2002, down from \$196 million at the end of 2001. This resulted in inventory turns of 10.6 times in the fourth quarter of 2002, versus 9.8 turns in the fourth quarter of 2001.

We also made progress in managing our Accounts Receivable. Accounts Receivable decreased to \$277 million at December 31, 2002 compared to \$299 million at December 31, 2001. This resulted in Days Sales Outstanding (DSO) in accounts receivable of 47 days for the fourth quarter of 2002, compared with 51 days in the fourth quarter of 2001.

The combination of operating performance coupled with effective working capital management brought outstanding debt to \$207 million, down significantly from \$231 million at the end of 2001. In addition, interest expense decreased to \$16.9 million in 2002 from \$20.4 million in 2001.

In summary, while 2002 was a challenging year, we achieved revenue growth, expanded our product and service offerings, lowered our operating costs, and improved bottom line performance.

“While the difficult market environment is affecting every firm in our industry (and in other industries as well), and there is a temptation to point to factors ‘beyond our control,’ we will not be content with the status quo. Great companies relentlessly deal with the factors under their control to be as successful as possible—even in conditions that are difficult and uncertain. The short-term challenges we and our industry face are considerable, but we are confident in our ability to overcome them.”



W. Donald Bell
President, CEO & Chairman of the Board

2002 Accomplishments

During the year, Bell Microproducts achieved significant further progress in several areas. Among the Company's major accomplishments:

- We signed several strategic distribution agreements with major technology vendors. These vendors include: Samsung Semiconductor; Intel; and StorageTek.
- We expanded our distribution agreements with key partners such as Hewlett-Packard and IBM to include new products and new geographies.
- We continued our focus on Storage Solutions through the addition of product and services initiatives to provide customers with a wide variety of storage and infrastructure solutions for complex technology environments and vertical markets.
- During the fourth quarter of 2002 we completed the refinancing of our working capital facilities in the Americas and in Europe. These facilities (\$160 million in the Americas led by Wachovia Bank, and £75 million in Europe led by Bank of America) support substantially all of the Company's business units. These facilities provide the Company with enhanced availability and flexibility to support the growth of the business and investment in strategic programs. Both of these lines mature in 2005.

More recently, we announced the signing of an agreement with Western Digital to distribute their broad line of disk drives. Western Digital complements our disk drive product offering and we now represent all the major disk drive manufacturers.

We also recently expanded our North European EMC relationship to include North America and Latin America, further improving our storage solutions product offering.

Remaining Focused

While we are pleased with our recent achievements, our objective is to deliver consistent profitable results year in and year out, regardless of market conditions. We are dedicated to achieving consistent, strong performance and are addressing the factors that will deliver these results for the Company and our shareholders. During 2002 we set priorities that kept

the organization focused. We plan to continue that same level of focus in the future, and we have established five important priorities for 2003.

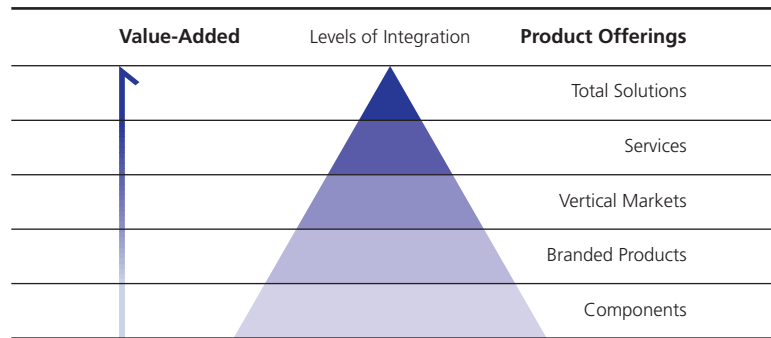
- Profitable growth: We plan to build on the accomplishments we made in 2002. We will work to further strengthen our leadership position as a solutions provider in the storage market. We will focus on the products that provide the maximum strategic and profit leverage.
- Strengthen customer relationships: Our growth achieved over the past several years is the result of strong relationships with our customers. We will continue to build on this momentum and expand our customer base.
- Product and services expansion: In order to provide more key products and services to our existing and new customers, we plan to selectively add alliances with leadership manufacturers in complementary product categories.
- Cost reductions and working capital management: We will continue to manage our cost structure and asset base and take actions to ensure our expenses and working capital remain in line with revenue and margins.
- Business plan execution: Our achievements in the last two years are a tribute to some of the best execution we have seen at Bell Microproducts. We will leverage our skills to further strengthen our competitive position.

On behalf of everyone at Bell Microproducts, thank you for continuing to place your trust in our Company.

Sincerely,

W. Donald Bell
President, CEO & Chairman of the Board

Enterprise Solutions



While most distributors over the past few years have added either new divisions or new teams aimed at the storage market, Bell Microproducts has made storage its primary focus. The ability to use its world-wide workforce, including 500 enterprise storage professionals, adds value and sets the Company as differentiated from more broadly-focused distributors.

There are several different distribution business models. Broad line distributors carry an extremely wide range of technology products and use their size and scale, coupled with a very low cost structure to operate competitively. Bell Microproducts and other more specialized distributors leverage their expertise and value-add in specific technology product sectors. To thrive, a specialized distributor develops and supports a very deep set of vendor products and relationships, and value-added services, in its area of expertise. Capitalizing on the depth and breadth of its storage products line card, Bell Microproducts has executed an ambitious and successful

program to drive the transition of the Company from a traditional component distribution model to a broader enterprise storage and solutions provider model.

Today, Bell Microproducts' customers include more than 15,000 VARs, system integrators and end-users in the Americas and Europe. These customers can fulfill their component and storage system needs from Bell Microproducts. As they require assistance with storage implementation and services, they may utilize Bell Microproducts for value-added services, ranging from consulting and design, to integration and installation.

Strategy

Bell Microproducts is a leader in enterprise storage and solutions distribution. Our enterprise strategy is comprised of two key elements: a two-tiered Enterprise Distribution business and a one-tiered End User business.

In Enterprise Distribution, we are the "Storage SuperSTORE" offering the industry's most comprehensive value added storage products and services. Our line card provides breadth and depth in many major lines. We serve nearly two-thirds of the VAR 3000 customers. We are also a leader in a number of storage vertical markets, including health care, audio-visual and financial services.

In our End User business, Total Tec Systems, we directly serve the needs of Fortune 1000 customers with recognized expertise in key vertical markets. Our offering consists of end-to-end systems, storage solutions and services for enterprise end users.

Success

Our solutions sales have grown from \$108 million in 1999 to approximately \$1 billion in 2002. We have added significant strategic partnerships and service offerings to our portfolio, making it one of the most comprehensive in the industry.



Rorke Data's U.S. Headquarters—Interoperability Lab

Customers and Markets

We serve a broad and comprehensive set of customers, including: Original Equipment Manufacturers (OEMs), system builders, the direct marketing channel, VARs and enterprise VARs, as well as end users in both the Fortune 1000 and small-to-medium enterprise base. We focus on key vertical industries and major horizontal technology markets, all aimed at delivering value through a comprehensive set of solutions, centered around storage and IT infrastructure. Today Bell Microproducts is a leading supplier of enterprise class storage products and services with extensive operations in Europe, the United Kingdom, North America and Latin America.

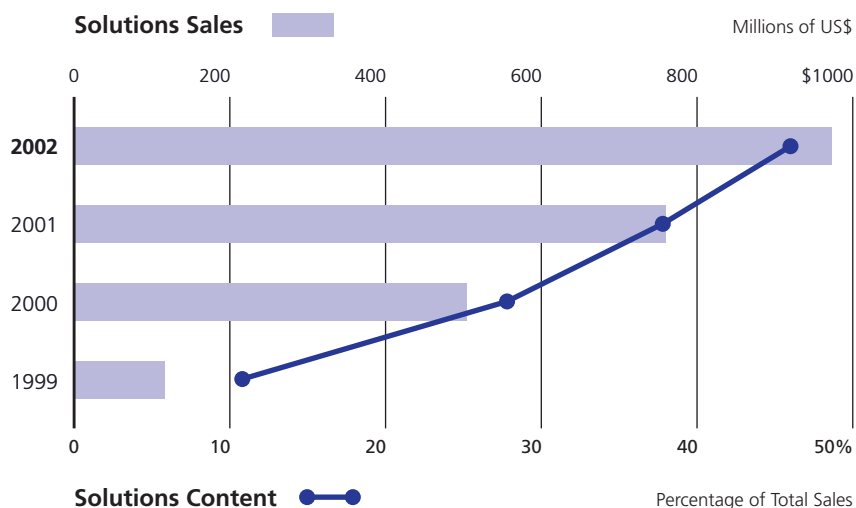
Products and Suppliers

At Bell Microproducts we are proud to represent the best in class products and suppliers the storage industry has to offer. We have partnered with the leaders in the industry to offer customers the most comprehensive and complete solutions

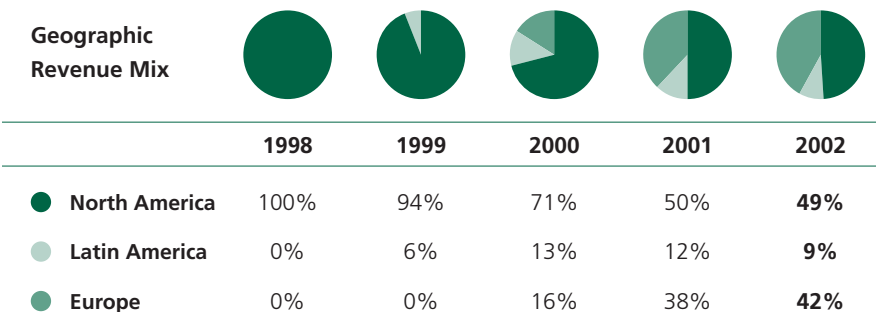
available in today's IT marketplace. Our relationships with these suppliers continue to grow stronger. Today we are the leading distributor of Fibre Channel products in the industry. Increasingly, suppliers are looking to do business with global organizations that have scope, focus, breadth, and depth. At Bell Microproducts, these elements are at the center of our enterprise strategy.

Future

While we face challenges in these difficult economic times, we remain true to our strategy, and relentless in our execution. During 2003, we expect to see new opportunities and continued growth in our enterprise business.



Geographic Expansion



From its inception as a small West Coast regional distributor in 1987, Bell Microproducts has grown into a major multi-national value-added provider of a wide range of high-technology products, solutions, and services. Today our operations span North America, Latin America and Europe.

America market through the acquisition of Future Tech International. In 2000, we expanded into the U.K. and Europe with the acquisition of Ideal Hardware.

We have made four acquisitions that increased our enterprise storage systems and solutions focus, and further expanded our geographic coverage. In 2000, we

tions in the eastern and southern U.S.

In addition, a significant amount of our growth has been organic through the opening of office locations in several regions. In the U.S., we opened a new Corporate Technology Center in Montgomery, Alabama during 2001; and in Europe, we opened sales offices in Belgium, France, Germany, Italy, Sweden, and The Netherlands.

Balance

In 1998, all our sales were derived from North America. In 2002, our revenues were much better balanced across geographies, with 49% of our distribution sales generated in North America, 9% in Latin America, and 42% in Europe.

Future

Our long-term strategy is to continue our geographic expansion with a keen focus on profitable growth and the leveraging of our underlying strengths—vendor and customer relationships and value-added services.

“In today’s market environment, vendors and multi-national customers are increasingly aligning with global partners. With operations in North America, Latin America and Europe, Bell Microproducts is well-positioned to serve the needs of its global suppliers and customers.”

Strategic Expansion

Bell Microproducts has expanded its geographic coverage through both strategic acquisitions and internal growth. In 1998, we expanded to the eastern U.S. through the acquisition of Almo’s Computer Products Division. Also in 1998, we acquired Tenex Data, a leading Canadian distributor. In 1999, we entered the Latin

acquired Rorke Data, headquartered in Minneapolis and with offices in The Netherlands and Italy. In 2001, we acquired TTP Group (now called Bell Microproducts Solutions, Europe), with headquarters in The Netherlands and with offices in several European countries. Also in 2001, we acquired Forefront Graphics in Canada, and Total Tec Systems with loca-

Line Card Expansion

	Semiconductors	Storage Components	Floppy Drives	Flash Memory	Optical Drives	Tape Drives	Disc Drives	Controllers	Computer Components	Motherboards	CPUs	Memory Modules	Graphic Cards	MC Cards	Peripherals	CD ROMs	Modems	Scanners	Flat Panel Displays	Monitors	Storage Systems	Tape Libraries	RAID/JBOD	Network Attached Storage	Storage Area Networks	Fibre Channel Products	Computing Platforms	Trademark Servers	Trademark Computers	Branded Computer Systems
1998	●	●	●	●	●	●	●	●	●						●						●									
2002	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●

Vendor alliances and partnerships are a critical part of our business. One of the challenges of the Company is to form the right alliances. To the degree that we work with the leaders in the industry and partner with them, our success is enhanced.

Leadership

Bell Microproducts has excelled in storage products. We have strong partnerships in storage peripheral products with leadership companies such as Maxtor, Seagate, and more recently Western Digital. We are the leading provider of Fibre Channel products from companies such as Brocade, Emulex, QLogic and many others. In addition, we have partnered with several leading storage systems suppliers including EMC, Hitachi Data Systems, HP/Compaq, IBM, LSI Logic, StorageTek and others. We have also been particularly successful with our LDI software licensing program, with strong partnerships including Computer Associates, Legato, Microsoft, and Veritas. Today, we are viewed as the storage

specialist in our industry, and we have become the largest storage distributor in most of our geographic regions.

“We are the Storage SuperSTORE. We will continue to invest in and add new synergistic product lines to augment our product offering and add value to our business partners.”

Breadth and Depth

Starting from its roots as a distributor of semiconductor products, Bell Microproducts saw a future marked by a “digital explosion,” and tremendous demand for products and technologies to store digital content. By 1998, Bell Microproducts had firmly established itself as a leading distributor of storage components, principally disk drives and tape drives. We began manufacturing and integrating proprietary storage products, and we also began adding branded storage systems. Our product

line has since broadened dramatically and we have evolved our product mix to include storage systems, as well as related components such as networking and server

products, and more recently complete end-to-end turnkey installations. Today, we represent over 150 manufacturers.

Future

Our goal is to continue to add other significant complementary partnerships in the future. To the degree that we are able to work with the right business partners, develop strong alliances, and execute on those relationships, our Company will be successful.

Shareholder Information



1. 2. 3. 4. 5. 6. 7.

Board of Directors

1. **W. Donald Bell**
President, Chief Executive Officer and Chairman of the Board, Bell Microproducts Inc.
2. **Gordon L. Campbell**
President, Techfarm Inc.
3. **Eugene B. Chaiken**
Chairman, President and CEO, Almo Corporation
4. **David M. Ernsberger**
Retired; Group Vice President of Worldwide Sales and Support for IBM Technology Group
5. **Edward L. Gelbach**
Retired; formerly Senior Vice President, Intel Corporation
6. **James E. Ousley**
President and Chief Executive Officer, Control Data Systems, Inc.
7. **Glenn E. Penisten**
General Partner, Alpha Venture Partners

Corporate Officers

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

Ian French
President, Bell Microproducts Europe

James E. Illson
Executive Vice President of Finance and Operations, Chief Financial Officer

Philip M. Roussey
Executive Vice President of Enterprise Marketing

Robert J. Sturgeon
Vice President of Information Technology

Dick Jacquet
Vice President, Human Resources

Independent Accountants

PricewaterhouseCoopers, LLP
Ten Almaden Blvd., Suite 1600
San Jose, CA 95113

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.

Transfer Agent and Registrant

Mellon Investor Services LLP
235 Montgomery Street, 23rd Floor
San Francisco, CA 94104
Tel.: (415) 743-1444

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.

2001	High	Low
First Quarter	\$24.25	\$10.69
Second Quarter	\$14.24	\$ 6.80
Third Quarter	\$11.13	\$ 6.68
Fourth Quarter	\$14.34	\$ 7.40
2002	High	Low
First Quarter	\$15.79	\$ 9.79
Second Quarter	\$12.90	\$ 6.70
Third Quarter	\$ 8.00	\$ 3.25
Fourth Quarter	\$ 8.70	\$ 3.61

Annual Meeting

The Annual Meeting of Shareholders will be held at 1:00 p.m. on May 22, 2003 at: Bell Microproducts Inc., 1941 Ringwood Avenue, San Jose, CA. All Shareholders of record as of March 27, 2003 are invited to attend.

Corporate Headquarters

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

Distribution and Office Locations

North America

Huntsville, AL
Montgomery, AL
Phoenix, AZ
Irvine, CA
San Diego, CA
San Jose, CA
Roseville, CA
Montreal, Canada
Toronto, Canada
Vancouver, Canada
Denver, CO
Jensen Beach, FL
Bonita Springs, FL
Winter Park, FL
Orlando, FL
Miami, FL
Alpharetta, GA
Chicago, IL

Boston, MA
Marlborough, MA
Wakefield, MA
Columbia, MD
Golden Valley, MN
Eden Prairie, MN
Edison, NJ
Pine Brook, NJ
New York, NY
Beaverton, OR
Philadelphia, PA
Austin, TX
Dallas, TX
Houston, TX
Centerville, UT
Haymarket, VA
Hubertus, WI

Latin America

Buenos Aires, Argentina
Sao Paulo, Brazil
Santiago, Chile
Guadalajara, Mexico

Europe

Vienna, Austria
Mechelen, Belgium
Paris, France
Dreieich, Germany
Milan, Italy
Almere, Netherlands
Emmen, Netherlands
Stockholm, Sweden
Birmingham, UK
London, UK