SECURITIES AND EXCHANGE COMMISSION

FORM 10-K

Annual report pursuant to section 13 and 15(d)

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FILER

SED INTERNATIONAL HOLDINGS INC

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SIC: **5045** Computers & peripheral equipment & software

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SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-K

(Mark One)

[**X**]

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE

SECURITIES EXCHANGE ACT OF 1934

For the fiscal year ended June 30, 2001

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 0-16345

SED INTERNATIONAL HOLDINGS, INC.

(Exact name of Registrant as specified in its charter)

GEORGIA	**22-2715444**
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
4916 North Royal Atlanta Drive, Atlanta, Georgia	**30085**
(Address of principal executive office)	(Zip Code)

Registrant's telephone number, including area code: **770-491-8962**

Securities registered pursuant to Section 12(b) of the Act:

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NONE

Securities registered pursuant to Section 12(g) of the Act:

COMMON STOCK, $.01 PAR VALUE

(Title of Class)

COMMON STOCK PURCHASE RIGHTS

(Title of Class)

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 for such shorter period that the Registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes [X] No [ ]

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of the Registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendments to this Form 10-K. [ ]

The aggregate market value of the voting stock held by nonaffiliates of the Registrant was approximately $6.8 million as of September 21, 2001 based upon the last sale price of the Common Stock as reported on the Nasdaq National Market on that day.

There were 8,012,508 shares of Common Stock, $.01 par value, outstanding at September 21, 2001.

DOCUMENTS INCORPORATED BY REFERENCE:

Part III incorporates information by reference from the portions of the Registrant's definitive proxy statement for its 2001 annual meeting of shareholders scheduled to be held on November 20, 2001, which proxy statement will be filed no later than 120 days after the close of the Registrant's fiscal year ended June 30, 2001

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PART I

Item 1. BUSINESS

(a) General Development of Business

SED International Holdings, Inc., a Georgia corporation, and its wholly-owned operating subsidiary, SED International, Inc., a Georgia corporation ("SED International"), were incorporated in 1986 to take over the operations of the business of the Registrant's predecessor, Southern Electronics Distributors, Inc., which was engaged in the wholesale distribution of consumer electronics products. In fiscal 1999, the Registrant, formerly a Delaware corporation, reincorporated as a Georgia corporation. As used herein, the term "Registrant" or the "Company" means SED International Holdings, Inc. and its subsidiaries, including SED International, unless the context otherwise indicates.

The Registrant is a distributor of microcomputer products, including processors, printers and other peripherals and wireless products throughout the United States and Latin America. The Registrant offers to an active base of over 14,000 reseller customers a broad inventory of more than 3,500 products from approximately 150 vendors (direct and indirect), including such market leaders as Hewlett-Packard, Intel, Maxtor, Creative Labs, Acer, 3Com, Xerox, Adobe, and Compaq, through a dedicated and highly motivated sales force. The Registrant distributes products in the United States from its strategically located warehouses in Atlanta, Georgia; Miami, Florida; and City of Industry, California. The Registrant services Latin America through its wholly-owned subsidiaries SED International do Brasil Ltda. in

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Sao Paulo, Brazil; SED International de Colombia Ltda. in Bogota, Colombia and Intermaco S.R.L. in Buenos Aires, Argentina. The Registrant's net sales decreased to $525.3 million in fiscal 2001 from $612.1 million in fiscal 2000, and the Registrant's net loss was $11.8 million in fiscal 2001 compared to a net income of $1.7 million in fiscal 2000.

The Registrant also distributes wireless telephone products in the United States and to Latin America. The Registrant is a direct distributor of wireless telephone products for Audiovox, and an indirect distributor for other leading wireless telephone product vendors such as Motorola, Nokia, and Ericcson. In fiscal 2001, the Registrant's net sales of microcomputer products generated approximately 93.5% of the Registrant's total net sales and wireless telephone products represented the remaining 6.5%.

(b) Financial Information about Industry Segments

The Registrant operates in only one business segment.

(c) Narrative Description of Business

Products and Vendors

The Registrant offers its customers a broad inventory of more than 3,500 products from approximately 150 vendors (direct and indirect), including such market leaders as Hewlett-Packard, Intel, Maxtor, Creative Labs, Acer, 3Com, Xerox, Adobe, and Compaq. The Registrant is a direct distributor of wireless telephone products for Audiovox, and an indirect distributor for other leading wireless telephone product vendors such as Motorola, Nokia, and Ericcson. Microcomputer related products, which include mass storage products, printers and other imaging products, microprocessing and memory chips, monitors, modems, networking products, notebook and personal computers and accessories, accounted for $489.6 million or 93.5% of the Registrant's net sales for fiscal 2001, $520.9 million or 85.5% of net sales in fiscal 2000, and $612.8 million or 86.6% of net sales in fiscal 1999. Approximately $33.8 million or 6.5% of the Registrant's net sales for fiscal 2001, $88.5 million or 14.5% of net sales for fiscal 2000, and $94.7 million or 13.4% of net sales for fiscal 1999, consisted of wireless telephone products such as handheld cellular telephones and accessories. The Registrant continually evaluates its product mix and inventory levels and maintains flexibility by adjusting its product offerings based on demand. The Registrant's vendors generally warrant the products distributed by the Registrant and allow the return of defective products.

Generally, the Registrant's authorized distributor agreements with its microcomputer and wireless telephone products vendors permit the Registrant to sell these vendors' products in the United States and in designated countries in Latin America. The Registrant will continue to seek to expand the geographical scope of its distributor arrangements, which may include acquiring or partnering with companies that already have the distribution rights of a particular vendor in a specified country.

As a distributor, the Registrant incurs the risk that the value of its inventory will be affected by industry-wide forces. Rapid technological change is commonplace in the microcomputer and wireless industries and can quickly diminish the marketability of certain items, whose functionality and demand decline with the appearance of new products. These changes, coupled with price reductions by vendors, may cause rapid obsolescence of inventory and corresponding valuation reductions in that inventory. Accordingly, the Registrant seeks provisions in its vendor agreements common to industry practice which provide price protections or credits for declines in inventory value and the right to return unsold inventory. No assurance can be given, however, that the Registrant can negotiate such provisions in each of its contracts or that such industry practice will continue.

The Registrant purchases goods from approximately 150 vendors (directly and indirectly) and has negotiated favorable terms from certain vendors by purchasing a substantial volume of those vendors' products. In fiscal 2001, 2000 and 1999, products purchased from Hewlett-Packard accounted for 14.6%, 18.7% and 21.0%, respectively of the Registrant's total purchases. The Registrant does not operate under direct distribution agreements in the United States with Hewlett-Packard.

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There can be no assurance that the Registrant will be able to maintain its existing vendor relationships or secure additional vendors as needed. The Registrant's vendor relationships typically are non-exclusive and subject to annual renewal, terminable by either party on short notice, and contain territorial restrictions that limit the countries in which the Registrant is permitted to distribute the products. The loss of a major vendor, the deterioration of the Registrant's relationship with a major vendor, the loss or deterioration of vendor support for certain Registrant-provided services, the decline in demand for a particular vendor's product, or the failure of the Registrant to establish good relationships with major new vendors or other Virtual Vendor Model distributors could have a material adverse effect on the Registrant's business, financial condition and results of operations.

Product orders typically are processed and shipped from the Registrant's distribution facilities on the same day an order is received or, in the case of orders received after 6:00 p.m., on the next business day. The Registrant relies almost entirely on arrangements with independent shipping companies for the delivery of its products to United States customers. Products distributed to the Latin American markets are delivered to the foreign purchasers or their agents or representatives at the Registrant's Sao Paulo, Brazil; Bogota, Colombia and Buenos Aires, Argentina facilities. Generally, the Registrant's inventory level of products has been adequate to permit the Registrant to be responsive to its customers' purchase requirements. From time to time, however, the Registrant experiences temporary shortages of certain products as its vendors experience increased demand or manufacturing difficulties with respect to their products, resulting in smaller allocations of such products to the Registrant.

Sales and Marketing

The Registrant's sales are generated by a telemarketing sales force, which, on June 30, 2001, consisted of approximately 139 persons in sales offices located in Atlanta, Georgia; Miami, Florida; City of Industry, California; Sao Paulo, Brazil; Bogota, Colombia and Buenos Aires, Argentina. Of the total number of salespersons on June 30, 2001, 80 persons focused on sales to customers for export to Latin America and on sales in Brazil, Colombia and Argentina. Substantially all of those salespeople are fluent in Spanish or Portuguese. The Registrant's Atlanta sales office maintains a separate telemarketing sales force for the sale of wireless telephone products to retailers and wireless telephone carriers and their authorized agents located throughout the United States and Latin America.

Members of the sales staff are trained through intensive in-house sales training programs, along with vendor-sponsored product seminars. This training allows sales personnel to provide customers with product information and to use their marketing expertise to answer customers' questions about important new product considerations, such as compatibility and capability, while offering advice on which products meet specific performance and price criteria. The Registrant's salespeople are able to analyze quickly the Registrant's extensive inventory through a sophisticated management information system and recommend the most appropriate cost-effective systems and hardware for each customer, whether that customer is a full-line retailer or an industry-specific reseller.

The Registrant's domestic sales force is organized in teams generally consisting of two to four people. The Registrant believes that teams provide superior customer service because customers can contact one of several people. Moreover, the long-term nature of the Registrant's customer relationships is better served by teams that increase the depth of the relationship and improve the consistency of service. It has been the Registrant's experience that the team approach results in superior customer service and better employee morale.

Compensation incentives are provided to the Registrant's salespeople, thus encouraging them to increase their product knowledge and to establish long-term relationships with existing and new customers. Customers can telephone their salespersons using a toll-free number provided by the Registrant. Salespeople initiate calls to introduce the Registrant's existing customers to new products and to solicit orders. In addition, salespeople seek to develop new customer relationships by using targeted mailing lists, vendor leads and telephone directories of various cities.

The telemarketing salespersons are supported by a variety of marketing programs. For example, the Registrant regularly sponsors shows for its resellers where it demonstrates new product offerings and discusses industry developments. Also,

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the Registrant's in-house marketing staff prepares catalogs that list available microcomputer and wireless telephone products and routinely produces marketing materials and advertisements. In addition, the in-house marketing staff publishes other direct mail pieces promoting specials and new products, which can be ordered directly through salespeople or through the Registrant's Internet web page providing 24-hour access to on-line order entry. The Registrant's web page provides customers secured access to place orders and review product specifications at times that are convenient to them. Customers also can determine inventory availability and pricing on a real-time basis and in the near future customers will be able to verify the status of previously placed orders through hyperlinks to certain independent shipping companies.

The Registrant prides itself on being service oriented and has a number of on-going value-added services intended to benefit both the Registrant's vendors and reseller customers. For example, the Registrant is committed to training its salespeople to be technically knowledgeable about the products they sell. This core competency supplements the sophisticated technical support and configuration services also provided by the Registrant. Salespeople who are knowledgeable about the products they sell often can assist in the configuration of microcomputer systems according to specifications given by the resellers. The Registrant believes that its salesperson's ability to listen to a reseller's needs and recommend a cost-efficient solution strengthens the relationship between the salesperson and his or her reseller and promotes customer loyalty to a vendor's products. In addition, the Registrant provides such other value-added services as new product demonstrations and technical education programs for resellers, order fulfillment and electronic ordering, and informational assistance through the Registrant's web page.

Management continually evaluates the Registrant's product mix and the needs of its customers in order to minimize inventory obsolescence and carrying costs. The Registrant's rapid delivery terms are available to all of its customers, and the Registrant seeks to pass through its shipping and handling costs to its customers. The Registrant offers various credit terms including open account, prepay, credit card, COD and leasing to qualifying customers. The Registrant closely monitors customers' creditworthiness through its on-line computer system, which contains detailed information on each customer's payment history and other relevant information. In addition, the Registrant participates in national and international credit associations that exchange credit rating information on customers. The Registrant establishes reserves for estimated credit losses in the normal course of business.

Customers

The Registrant serves an active, nonexclusive customer base of over 14,000 resellers of microcomputer and wireless telephone products. Resellers include value-added resellers, corporate resellers and retailers. The Registrant believes the multi-billion dollar microcomputer and wireless telephone wholesale distribution industries serve customers primarily on a nonexclusive basis, which provides the Registrant with significant growth opportunities. During fiscal 2001, no single customer accounted for more than 6% of the net sales of the Registrant. The Registrant believes that most of its customers rely on distributors as their principal source of microcomputer and wireless telephone products.

Competition

The microcomputer and wireless telephone distribution industries are highly competitive, both in the United States and in Latin America. Competition in these industries is typically characterized by pricing pressures, product availability and potential obsolescence, speed and accuracy of delivery, effectiveness of sales and marketing programs, credit availability, ability to tailor specific solutions to customer needs, quality of product lines and services, and availability of technical support and product information. Additionally, the Registrant's ability to compete favorably is principally dependent upon its ability to control inventory and other operating costs, react timely and appropriately to short-and long-term trends, price its products competitively, increase its net sales and maintain economies of scale. In the early 1990s, the United States microcomputer industry moved toward open sourcing pursuant to which vendors authorized multiple distributors to sell to resellers on equal terms rather than relying on exclusive relationships. As a result, the competitive environment has become more intense, leading to accelerating industry consolidation and declining gross margins.

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The Registrant's competitors include regional, national and international microcomputer and wireless distributors, many of which have substantially greater technical, financial and other resources than the Registrant, as well as vendors that sell directly to resellers and large resellers that sell to other resellers. Major competitors include Ingram Micro, Inc., and Tech Data Corporation in the United States, and Brightpoint, Inc. and Cellstar Corporation.

Seasonality

The Registrant's sales currently are not subject to material seasonal fluctuations although no assurance can be given that seasonal fluctuations will not develop, especially during the holiday season in the United States and Latin America. See "Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations-Quarterly Data; Seasonality."

Employees

As of June 30, 2001, the Registrant had 451 full-time employees, 139 of whom were engaged in telemarketing and sales, 197 in administration and 115 in shipping. The Registrant also utilized 36 part-time employees at such date. Management believes the Registrant's relations with its employees are good and the Registrant has never experienced a strike or work stoppage. There is no collective bargaining agreement covering any of the Registrant's employees.

Financial Information about Foreign and Domestic Operations and Export Sales

During the fiscal year ended June 30, 1998, the Registrant began selling directly to customers in Brazil and Colombia through the Registrant's facilities in Sao Paulo, Brazil and Bogota, Colombia. During the fiscal year ended June 30, 1999, the Registrant also began selling directly to customers in Argentina through the registrant's facilities in Buenas Aires. Sales are denominated in the respective local currencies of these countries. For the fiscal year ended June 30, 2001, 2000 and 1999, approximately 43.7%, 44.2% and 38.6%, respectively, of the Registrant's net sales were to customers for export principally into Latin America and direct sales to customers in Brazil, Colombia and Argentina. See Note 9 to the consolidated financial statements of the Registrant for additional information concerning the Registrant's domestic and foreign operations.

Item 2. PROPERTIES

The Registrant maintains its executive offices at 4916 North Royal Atlanta Drive in Atlanta, Georgia, where 49 of its sales employees are also located. The Registrant leases its executive, administrative and sales office from Diamond Chip Group, L.L.C., a Georgia limited liability company comprised of certain minority shareholders of the Registrant, previously doing business as Royal Park Company, a Georgia general partnership. The lease commenced in April 1999 and expires in September 2006. The facility consists of approximately 30,000 square feet, with an annual rental of approximately $269,000 effective October 1, 2001, with annual increases of three percent through September 30, 2006. The Registrant has a right of first refusal to purchase the facility should it be offered for sale. The Registrant believes that the lease of its executive offices is on terms no less favorable than those available from unaffiliated parties.

The Registrant maintains warehouse facilities in Atlanta, Georgia; City of Industry, California; Miami, Florida; Sao Paulo, Brazil; Bogota, Colombia and Buenos Aires, Argentina. The Registrant's distribution facility in Atlanta, Georgia consists of approximately 100,000 square feet subject to a lease expiring January 31, 2004. Rental payments for this facility are approximately $290,000 per annum. The Registrant also leases a facility in Atlanta, Georgia which consists of approximately 83,000 square feet. This facility is used for computer asset recovery operations. Rental payments are $314,000 annually. The lease term commences on August 1, 2001 and expires August 31, 2006. The Registrant believes there is sufficient additional warehouse and sales office space available for lease at reasonable prices near its principal facility in the event the Registrant's growth plans so require.

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The Registrant leases its sales and distribution facility in Miami, Florida under a lease expiring March 31, 2004. This facility consists of approximately 61,000 square feet at a monthly rental of approximately $37,200, increasing to $38,500 effective April 1, 2002 and to $39,900 effective April 1, 2003.

The Registrant also leases an approximately 50,000 square foot facility in City of Industry, California. The City of Industry facility serves as a distribution center for the Registrant. Payments under the lease are approximately $19,700 per month. Pursuant to its terms, the lease will expire on March 31, 2002 unless the Registrant elects to exercise its option to renew the lease for one additional five-year period. The Registrant sublet approximately 34,000 square feet of this facility for approximately $12,000 per month for each of the 12 months during the period beginning May 1, 2000 and ending April 30, 2001.

On April 1, 1998, the Registrant began leasing an approximately 102,000 square foot distribution facility in Harrisburg, Pennsylvania. The Company is obligated for lease payments of approximately $34,000 per month through March 31, 2003. From June 1, 2000 through December 31, 2000 the Registrant sublet approximately 51,000 square feet of the facility for approximately $18,500 per month. The Registrant presently subleases approximately 50,000 square feet of the facility for approximately $16,000 through December 31, 2001. The sub-lessee has an option to extend its sublease to January 31, 2003. The Registrant is presently negotiating with a prospective tenant for the sublease of the remaining portion of the facility.

On January 1, 1999 the Registrant began leasing an approximately 40,000 square foot facility in Sao Paulo, Brazil. This facility serves as a sales office, administrative office and distribution center for SED International do Brasil Ltda., a wholly owned subsidiary of the Registrant. Monthly payments for the lease are approximately $21,000 per month. The lease will expire on January 31, 2003.

On December 1, 1997, the Registrant began leasing an approximately 33,000 square foot administrative center and sales office in Bogota, Colombia. The Bogota center serves as a sales office and distribution facility for SED International de Colombia Ltda., a wholly owned subsidiary of the Registrant. Monthly payments are approximately $5,000 per month. The lease will expire on November 30, 2003.

On November 1, 1998, the Registrant assumed the lease obligations for several small facilities in Buenos Aires, Argentina. These facilities consist of various spaces in the Galeria business complex and are utilized for sales offices, administrative offices and warehouses by Intermaco S.R.L., a wholly owned subsidiary of the Registrant. Aggregate space is approximately 5,500 square feet. Payments total approximately $80,000 annually. The leases expire at various dates between November 1, 2000 and April 1, 2002. Additionally, the Registrant rents space in a bonded warehouse in Buenos Aires, Argentina on a month-to-month basis at an average cost of $4,500 per month.

Item 3. LEGAL PROCEEDINGS

The Registrant is involved in litigation relating to claims arising out of its operations in the normal course of business. The Registrant is not currently engaged in any legal proceedings that are expected, individually or in the aggregate, to have a material adverse effect on the Registrant.

Item 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

No matter was submitted to a vote of the security holders of the Registrant during the quarter ended June 30, 2001.

PART II

Item 5. MARKET FOR THE REGISTRANT'S COMMON STOCK AND RELATED SHAREHOLDER MATTERS

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The Company's common stock is traded over the counter and quoted on the NASDAQ National Market System under the symbol "SECX". The following table sets forth the high and low sales prices for Registrant's common stock as reported for each quarter of fiscal 2001 and 2000. The quotations are inter-dealer prices without retail mark-ups, mark-downs or commissions and may not represent actual transactions.

Sales Price

	High	Low
First year 2001		
First	$4.56	$2.50
Second	2.69	.56
Third	1.56	.56
Fourth	1.38	.81
Fiscal year 2000		
First	$3.50	$2.06
Second	3.06	1.50
Third	4.25	1.56
Fourth	5.00	2.06

There were 8,012,508 shares of common stock outstanding and approximately 3,500 beneficial owners of the common stock of the Company (including individual participants in securities position listings) as of September 21, 2001.

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The Registrant has never declared or paid cash dividends on its common stock. The Registrant currently intends to retain earnings to finance its ongoing operations and it does not anticipate paying cash dividends in the foreseeable future. Future policy with respect to payment of dividends on the common stock will be determined by the Board of Directors based upon conditions then existing, including the Registrant's earnings and financial condition, capital requirements and other relevant factors. SED International, the earnings of which would be the primary source of any dividend payments, and the Registrant are parties to a revolving credit agreement which contains certain financial covenants that may impact the Registrant's ability to pay dividends in the event the Registrant should change its policy and choose to issue dividends. See "Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations-Liquidity and Capital Resources."

In November, 1998 the Company acquired Intermaco, S.R.L., a Buenos Aires based distributor of Hewlett Packard products and other computer peripherals. Pursuant to the terms of an earn-out agreement entered into by the Company in connection with the acquisition, in February 2000 and April 2001 the Company issued 400,000 shares and 300,000 shares of its common stock, respectively, to Eduardo Kerner and Manfredo Kerner. Messrs. Kerner were the sole owners of Intermaco. Messrs. Kerner are not residents of the United States and the shares were issued to Messrs. Kerner in a private placement that was not subject to the United States Securities laws.

Item 6. SELECTED FINANCIAL DATA

FIVE YEAR FINANCIAL SUMMARY

Year ended June 30,

2001 2000 1999 1998 1997

Income statement data:

Net Sales * $525,338,000 $612,140,000 $711,450,000 $897,381,000 $649,804,000

Cost of sales, including buying

and occupancy expenses * 494,383,000 573,818,000 681,674,000 855,289,000 611,515,000

Gross profit * 30,955,000 38,322,000 29,776,000 42,092,000 38,289,000

Selling, general and

administrative expenses * 35,249,000 35,597,000 52,974,000 37,862,000 23,331,000

Impairment charges 6,547,000 15,386,000

Start-up expenses 1,400,000

Operating income (loss) (10,841,000) 2,725,000 (38,584,000) 2,830,000 14,958,000

Interest expense-net 660,000 458,000 731,000 2,728,000 2,128,000

Earnings (loss) before income taxes (11,501,000) 2,267,000 (39,315,000) 102,000 12,830,000

Income taxes (benefit) 344,000 578,000 (1,407,000) 357,000 4,925,000

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Net earnings (loss) $(11,845,000) $ 1,689,000 $ (37,908,000) $ (255,000) $ 7,905,000

Net earnings (loss) per common share

Basic $ (1.64) $ .25 $ (4.36) $ (.03) $ 1.10

Diluted $(1.64) $ .25 $ (4.36) $ (.03) $ 1.04

Weighted average number

of shares outstanding

Basic 7,236,000 6,727,000 8,698,000 9,602,000 7,138,000

Diluted 7,236,000 6,772,000 8,698,000 9,602,000 7,634,000

At June, 30

2001 2000 1999 1998 1997

Balance sheet data:

Working capital $ 30,539,000 $ 36,506,000 $ 45,193,000 $ 107,741,000 $ 79,350,000

Total assets 107,466,000 121,319,000 141,090,000 266,565,000 197,329,000

Long-term obligations

less current portion 8,500,000 31,000,000 56,000,000

Shareholders' equity 42,615,000 55,349,000 52,810,000 106,275,000 48,896,000

* Prior years have been reclassified in connection with the fiscal 2001 adoption of a new accounting pronouncement.

Item 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following discussion should be read in conjunction with the consolidated financial statements of the Company and the notes thereto and the Selected Consolidated Financial Data included elsewhere herein. Historical operating results are not necessarily indicative of trends in operating results for any future period.

Overview

The Company is an international distributor of microcomputer products, including personal computers, printers and other peripherals and networking products throughout the United States and Latin America. In fiscal 2001, the Company's net sales to customers in the United States represented approximately 53.3% of total net sales. Net sales for export principally into Latin America and in-county net sales in Brazil, Colombia and Argentina represented

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approximately 43.7% of total net sales for fiscal 2001. Net sales of microcomputer products generated approximately 93.5% of total net sales and wireless telephone products represented the remaining 6.5% for fiscal 2001.

The Company incurred a net loss of $11.8 million on net sales of $525.3 million in fiscal 2001. Net sales decreased to $525.3 million in fiscal 2001 from $612.1 million in fiscal 2000, the gross profit as a percentage of net sales decreased to 5.9% in fiscal 2001 compared to 6.3% in fiscal 2000. Selling, general and administrative expenses increased as a percentage of net sales to 6.7% in fiscal 2001, excluding impairment charges of $6.5 million, from 5.8% in fiscal 2000.

The Company incurred an operating loss of $38.6 million in fiscal 1999. This loss resulted primarily from: (1) a decision by one of the Company's largest vendors to reduce the number of distributors, including SED, thereby diminishing sales and gross profit, and (2) the sharp reductions in SED's Miami business, which cut export activity to approximately half of its prior level of sales primarily due to economic instability in the Latin American region. Other factors contributing to the fiscal year 1999 financial results included a devaluation loss in Brazil and excess overhead costs in the U.S. As a result of certain of these trends and events, the loss for fiscal 1999 included impairment charges of $15.4 million for the write-down of certain long-lived assets (see Note 3 to the consolidated financial statements).

The Company has incurred a decline in net sales in the United States since fiscal 1998 and has incurred operating losses in either its domestic or certain of its foreign operations at various times during the past four fiscal years. To address these declines, Company management is continuing to focus on increasing profit margins and reducing administrative and overhead costs. There is no assurance the Company will be successful in its efforts. Failure to improve margins and reduce overhead could adversely effect the Company's profitability and financial condition.

Numerous factors and conditions impact the Company's ability to adequately effect this plan, including, but not limited to, the following:

- *Continuation of distribution agreements*
  - The Company operates under formal but cancellable distribution agreements with certain of its suppliers. If these agreements were cancelled, the Company would be forced to obtain its products through wholesalers. This would reduce the Company's profit margin on the affected products.

- *Availability of certain products*
  - From time to time, due to production limitations or heavy demand, the Company may only be able to purchase a limited amount of popular products from its suppliers.

- *Product margins*
  - The Company operates in a very competitive business environment. Accordingly, product margins are continually under pricing pressure.

- *Vendor credit*
  - The Company significantly relies on its suppliers for trade credit. Changes by the suppliers in their credit terms could force the Company to obtain less favorable financing for its purchases.

- *Product obsolescence*
  - The Company offers a broad line of products that are subject to fast technological obsolescence, which increases the risk of inventory markdown. Through its vendor agreements, the Company has certain stock return privileges, which vary from supplier to supplier.

- *Credit decisions and losses*
  - The Company maintains an experienced customer credit staff and relies on customer payment history and third party data to make customer credit decisions. Nevertheless, the Company may experience customer credit losses in excess of its expectations. The Company also maintains credit insurance for customers located in the United States (subject to certain terms and conditions).

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- *Proportionate control of general and administrative costs*
  - The Company attempts to control its overhead costs to keep such costs in line with its sales volume. As sales volumes fluctuate, the Company must continually monitor its overhead costs and make adjustments timely and appropriately.

- *Uncertain and possibly volatile economic and political environment in Latin America*
  - The general economic and political environment in all of the countries in which the Company operates in Latin America are uncertain and, at times, volatile. As a result of these conditions, the Company could experience unexpected costs from its operations in these countries.

- *Availability of credit facilities*
  - The Company has operated under a formal credit facility with a bank for many years that is subject to certain collateral limitations and contains certain compliance covenants (as more further described in Note 4). One of the most restrictive covenants requires the Company to maintain positive earnings before taxes, interest, depreciation and amortization on a quarterly basis. The Company has violated certain of the facility covenants in the past, but has been able to obtain waivers of such violations. In the event the Company borrows or requests to borrow under the credit facility and it fails to maintain covenant compliance, there is no assurance that waivers requested will be granted.

- *Cash flows*
  - The Company's continued operation in Latin America may require additional capital infusion (in the form of equity from the parent company or debt borrowings by the subsidiary). Banking agreements restrict the future funding of operations of the Brazil subsidiary from cash flows or borrowing in the United States. Operating needs and regulatory matters restrict the Company's ability to repatriate cash flows to the United States.

For the Company's domestic operations, all purchases and sales are denominated in United States dollars. For the Company's operations in Brazil, Colombia and Argentina, in-country transactions are conducted in the respective local currencies of these three locations while import purchases are denominated in United States dollars.

Results of Operations

The following table sets forth, for the periods presented, the percentage of net sales represented by certain items in the Company's consolidated statements of earnings:

Year Ended June 30,

2001 2000 1999 100.0% 100.0% 100.0% Net sales 100.0% 100.0% 100.0% % 100.0% 100.0%

Net sales 100.0% 100.0% 100.0%

Cost of sales, including buying and occupancy exp. 94.1 93.7 95.8

Gross profit 5.9 6.3 4.2

Selling, general and administrative expenses 6.7 5.8 7.4

Impairment charges 1.3 2.2

Operating income (loss) (2.1) 0.5 (5.4)

Interest expense, net 0.1 0.1 0.1

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Earnings (loss) before income taxes (2.2) 0.4 (5.5)

Income taxes (benefit) expense 0.1 0.1 (.2)

Net earnings (loss) (2.3)% 0.3% (5.3)%

Fiscal 2001 Compared to Fiscal 2000

Net sales decreased 14.2%, or $86.8 million, to $525.3 million in fiscal 2001 compared to $612.1 million in fiscal 2000. Information concerning the Company's domestic and foreign sales is summarized below:

Year Ended

June 30, Change

2001 2000 Amount Percent

United States:

Domestic $295.9 $341.8 $(45.9) (13.4)%

Export 105.4 151.8 (46.4) (30.6)%

Latin America 125.6 122.0 3.6 2.9%

Elimination (1.6) (3.5) 1.9 N/A

Consolidated $525.3 $612.1 $(86.8) (14.2)%

The overall sales decline resulted from a decrease in United States domestic net sales and a decline in net sales to customers for export principally to Latin America offset by a net increase in in-country net sales for Brazil (Magna Distribuidora Ltda. acquired in December 1997 and now operating as SED International do Brasil Ltda.), Colombia (commenced operations in May 1998 and operating as SED International de Colombia Ltda.) and Argentina (Intermaco S.R.L. acquired in November 1998).

The decrease in sales in the United States was primarily due to lower sales of printers, printer consumables, computer processors and wireless products which was offset by an increase in sales of mass storage products. The decrease in U.S. export sales was due primarily to lower sales of printers and printer consumables. Sales of microcomputer products represented approximately 93.5% of the Company's net sales in fiscal 2001 compared to 85.5% for fiscal 2000. Sales of wireless telephone products accounted for approximately 6.5% of the Company's net sales in fiscal 2001 compared to 14.5% for fiscal 2000.

Gross profit decreased $7.3 million to $31.0 million in fiscal 2001, compared to $38.3 million in fiscal 2000. Gross profit as a percentage of net sales decreased to 5.9% in fiscal 2001 from 6.3% in fiscal 2000. The change in gross profit as a percentage of sales was primarily due to lower margins on sales in Latin America and the change in the mix of products sold. Overall, the Company continues to experience pricing pressure in selling products.

Selling, general and administrative expenses (excluding $6.5 million of impairment charges for fiscal 2001) decreased 1.0% to $35.3 million, compared to $35.6 million in fiscal 2000. These expenses as a percentage of net sales increased to 6.7% in 2001 compared to 5.8% in fiscal 2000. The non-cash accounting charge was determined based on a detailed analysis of the Company's long-lived assets and their estimated future cash flows. The analysis resulted in the identification and measurement of an impairment loss of $5,947,000 in goodwill and approximately $600,000

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in property and equipment. Substantially all of the goodwill impairment relate to the Company's acquired export distribution rights in connection with the fiscal 1996 acquisition of substantially all of the net assets of U.S. Computer of North America, Inc. This impairment results from a gradual, but significant, decline in sales volumes and adverse changes in the competitive environment for the distribution of the corresponding product lines. The goodwill is not considered recoverable through other means. The impairment loss of approximately $600,000 relates to the Company's property and equipment in Brazil ($400,000) as well as certain domestic assets ($200,000). Management estimated the undiscounted cash flows to be generated by the assets for the respective operations and compared them to their carrying values. Since the estimated undiscounted future cash flows were less than the carrying values of the assets, the carrying values were adjusted to estimated fair values.

The results of operations of the Company were adversely affected by the continuing inflationary conditions in Latin America and the devaluation of the Brazilian currency. In fiscal 2001, the approximate devaluation of the Brazilian currency as compared to the U.S. dollar was approximately 25%. Since the Company has significant U.S. dollar denominated liabilities in Brazil, the devaluation resulted in translation losses totaling approximately $570,000 in fiscal 2001.

Net interest expense was $0.7 million in fiscal 2001 compared to interest expense of $0.5 million in fiscal 2000. This net change resulted primarily from a reduction in working capital requirements in fiscal 2001.

Income tax expense was $0.3 million in fiscal 2001 compared to an income tax expense of $0.6 million in fiscal 2000. The income tax expense resulted from in-country income taxes on certain Latin America operations. At June 30, 2001, the Company has gross net operating loss carryforwards for U.S. federal tax purposes of approximately $23 million expiring at various dates through 2016 and gross net operating loss carryforwards for foreign income tax purposes of approximately $7.9 million in Brazil, which generally do not expire. At June 30, 2001 and 2000, the Company has recorded valuation allowances for principally all deferred tax assets, except those relating to Intermaco S.R.L., as there is no assurance these assets will be realized.

Fiscal 2000 Compared to Fiscal 1999

Net sales decreased 14.0%, or $99.3 million, to $612.1 million in fiscal 2000 compared to $711.4 million in fiscal 1999. Information concerning the Company's domestic and foreign sales is summarized below:

Year Ended

June 30, Change

2000 1999 Amount Percent

United States:

Domestic $ 341.8 $ 436.9 $ (95.1) (21.8)%

Export 151.8 199.0 (47.2) (23.7)%

Latin America 122.0 82.9 39.1 47.2%

Elimination (3.5) (7.4) 3.9 N/A

Consolidated $ 612.1 $ 711.4 $ (99.3) (14.0)%

The overall sales decline resulted from a decrease in United States domestic net sales and a decline in net sales to customers for export principally to Latin America offset by a net increase in in-country net sales for Brazil (Magna

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Distribuidora Ltda. acquired in December 1997 and now operating as SED International do Brasil Ltda.), Colombia (commenced operations in May 1998 and operating as SED International de Colombia Ltda.) and Argentina (Intermaco S.R.L. acquired in November 1998).

The decrease in sales in the United States was primarily due to lower sales of printers, computer processors and monitors. The sales increase in Latin America was generally across all product categories. Sales of microcomputer products represented approximately 85.5% of the Company's net sales in fiscal 2000 compared to 86.6% for fiscal 1999. Sales of wireless telephone products accounted for approximately 14.5% of the Company's net sales in fiscal 2000 compared to 13.4% for fiscal 1999.

Gross profit increased $8.5 million to $38.3 million in fiscal 2000, compared to $29.8 million in fiscal 1999. Gross profit as a percentage of net sales increased to 6.3% in fiscal 2000 from 4.2% in fiscal 1999. The change in gross profit as a percentage of sales was due to a decrease in lower margin sales in the United States, an increase in higher margin sales in Latin America and the change in the mix of products sold. Overall, the Company continues to experience pricing pressure in selling products.

Selling, general and administrative expenses decreased 32.8% to $35.6 million, compared to $53.0 million in fiscal 1999. These expenses as a percentage of net sales decreased to 5.8% in 2000 compared to 7.4% in fiscal 1999 (excluding $15.4 million of impairment charges). The dollar decrease in these expenses is primarily due to lower provision for doubtful accounts receivable, lower employee expenses, and lower occupancy costs.

Net interest expense was $0.5 million in fiscal 2000 compared to interest expense of $0.7 million in fiscal 1999. This net change resulted primarily from a reduction in working capital requirements in fiscal 2000.

Income tax expense was $0.6 million in fiscal 2000 compared to an income tax benefit of $1.4 million in fiscal 1999. The effective tax rate at June 30, 2000 was 25.5% which resulted principally from in-country income taxes on Latin America operations. Domestic income was offset by the effect of previously reserved loss carryforwards resulting in no income tax expense. At June 30, 2000, the Company has gross net operating loss carryforwards for U.S. federal and state income tax purposes of approximately $19.5 million expiring at various dates through 2019 and gross net operating loss carryforwards for foreign income tax purposes of approximately $6.6 million in Brazil, which generally do not expire. At June 30, 2000 and 1999, the Company had recorded valuation allowances for principally all deferred tax assets, except those relating to Intermaco, S.R.L., as there is no assurance these assets will be realized.

Quarterly Data

The following table sets forth certain unaudited quarterly historical consolidated financial data for each of the Company's last eight fiscal quarters ended June 30, 2001. This unaudited quarterly information has been prepared on the same basis as the annual information presented elsewhere herein and, in the Company's opinion, includes all adjustments (consisting only of normal recurring adjustments) necessary for a fair presentation of the selected quarterly information. The quarterly financial statements have been reclassified in connection with the Company's fourth quarter 2001 adoption of the new accounting pronouncement related to income statement classification of shipping and handling revenues and costs. These reclassifications had no effect on net earnings (loss). This information should be read in conjunction with the consolidated financial statements and Notes thereto included elsewhere herein. The operating results for any quarter shown are not necessarily indicative of results for any future period.

Quarter Ended (in thousands, except per share data)

Sept 30 Dec 31, Mar 31, June 30 Sept 30, Dec 31, Mar 31, June 30,

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1999 1999 2000 2000 2000 2000 2001 2001

Net sales $187,476 $150,118 $141,629 $132,917 $133,565 $132,155 $142,690 $116,928

Gross profit 10,605 9,748 8,989 8,980 8,157 8,649 8,200 5,949

Operating income (loss) 939 683 970 133 281 678 (322) (11,478)

Net earnings (loss) 600 275 738 76 75 230 (525) (11,625)

Earnings (loss) per share:

Basic $.09 $.04 $.11 $.01 $.01 $.03 $(.07) $(1.50)

Diluted .09 .04 .11 .01 .01 .03 (.07) (1.50)

Liquidity and Capital Resources

The Company's liquidity requirements arise primarily from the funding of working capital needs, including inventories and trade accounts receivable. Historically, the Company has financed its liquidity needs largely through internally generated funds, borrowings under its credit agreement and vendor lines of credit. The Company derives all of its operating income and cash flow from its subsidiaries and relies on payments from its subsidiaries to generate the funds necessary to meet its obligations. As the Company continues operations in Latin America, management believes that capital requirements in Latin America may limit the ability of the Company's subsidiaries in those countries to make payments to the Company.

Operating activities provided $2.3 million, $16.5 million and $45.5 million of cash in fiscal 2001, 2000 and 1999, respectively. The source of cash in fiscal 2001 resulted primarily from a decrease of $4.5 million in accounts receivable, which was partially offset by increases of $4.8 million in inventory and $0.4 million in accounts payable. The source of cash in fiscal 2000 resulted primarily from decreases of $14.4 million in inventory and $5.1 million in accounts receivable partially offset by a $13.8 million decrease in accounts payable.

Investing activities used $2.3 million, $4.5 million and $6.8 million of cash in fiscal 2001, 2000 and 1999, respectively. The use of cash in fiscal 2001 was for the purchase of equipment and software for $.9 million and for additional payments related to the purchase of Intermaco S.R.L. amounting to $1.5 million. The use of cash in fiscal 2000 was primarily for the purchase of computer equipment and software for $3.0 million and for additional payments related to the purchase of Intermaco S.R.L. amounting to $1.5 million. The significant use of cash in fiscal 1999 was primarily for the purchase of Intermaco S.R.L. for $4.3 million and $2.5 million for the purchase of computer equipment and software.

Financing activities used $0.4 million of cash in fiscal 2001, $8.1 million of cash in fiscal 2000 and $37.3 million of cash in fiscal 1999. The net cash used in fiscal 2001 primarily related to repayment of short-term bank borrowings by subsidiaries. The net cash used in financing activities in fiscal 2000 primarily related to repayment of borrowings of $8.5 million under the Company's credit agreement offset by other net bank borrowings of $435,000. The net cash used in financing activities in fiscal 1999 primarily related to repayments of borrowings of $22.5 million under the Company's credit agreement and the repurchase of 3,946,250 shares of common stock for approximately $14.8 million in open market and privately negotiated transactions under a stock buy-back program previously authorized by the Board of

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Directors. (The Company currently has remaining authorization from its Board of Directors to purchase up to 1,950,000 shares of common stock of the Company through open market and private purchases.)

The Company entered into a credit agreement with Wachovia Bank N.A. ("Wachovia"), as amended on October 12, 2001, which provides for borrowing under a line of credit of up to $25.0 million ($35.0 million at June 30, 2001.) At June 30, 2001 and 2000, the Company had no borrowings outstanding under this facility. Maximum borrowings under the credit agreement are generally based on eligible accounts receivable and inventory (as defined in the credit agreement) less a $9.5 million reserve. This reserve can be drawn upon, if necessary, to finance obligations to IBM Credit Corporation, which finances the Company's purchases from certain vendors. Available borrowings under this agreement at June 30, 2001, based on collateral limitations, were $23.5 million ($9.5 million of which would only be available to finance obligations due to IBM, if necessary).

The Wachovia credit agreement is secured by accounts receivable and inventory of SED International, Inc. and requires maintenance of certain minimum working capital and other financial ratios and has certain dividend restrictions. The Company may borrow at Wachovia's prime rate (6.75% at June 30, 2001) plus .50% or the Company may fix the interest rate for periods of 30 to 180 days under various interest rate options. The credit agreement requires a commitment fee of .50% of the unused commitment and expires November 1, 2002. Average borrowings, maximum borrowings and the weighted average interest rate for fiscal 2001 were $1.2 million, $10.0 million and 6.75%, respectively. Average borrowings, maximum borrowings and the weighted average interest rate for fiscal 2000 were $4.5 million, $19.0 million and 9.5%, respectively. At June 30, 2001 the Company was not in compliance with certain agreement covenants; however, the Company subsequently obtained an amendment of those covenants.

The Company's subsidiary, SED International do Brasil, operates under line of credit agreements with several Brazilian banks. Interest rates on borrowings are negotiated at the time of borrowing. The credit agreements are secured by the subsidiary's accounts receivable and requires the maintenance of certain financial ratios. At June 30, 2001, the Company had $3.3 million of borrowings outstanding under these facilities. Average borrowings, maximum borrowings and the weighted average monthly interest rate under these loan agreements for fiscal 2001 were $2.5 million, $4.0 million and 1.62%, respectively. At June 30, 2000, there were $3.5 million outstanding borrowings under these lines of credit. Average borrowings, maximum borrowings and the weighted average monthly interest rate under these loan agreements for fiscal 2000 were $1.3 million, $3.5 million and 2.02%, respectively.

In March 2001, the Company's subsidiary, SED International de Colombia Ltda., entered into a six month loan with a Colombian bank. Interest rates on borrowings are negotiated at the time of borrowing. The credit agreement is secured by a savings deposit of $.7 million held in a bank in the United States. At June 30, 2001, the Company had $.3 million of borrowings outstanding under this facility. Average borrowings, maximum borrowings and the weighted average monthly interest rate under this loan agreement for fiscal 2001 were $.4 million, $.6 million and 2.32%, respectively. At June 30, 2000, the Company had $.4 million of borrowings under a similar facility. Average borrowings, maximum borrowings and the weighted average monthly interest rate for fiscal 2000 were $.1 million, $.7 million and 2.12%, respectively.

The carrying value of all bank debt at June 30, 2001 and 2000 approximates its fair value based on interest rates that are believed to be available to the Company for debt with similar provisions.

Management believes that the credit agreement together with vendor lines of credit and internally generated funds, will be sufficient to satisfy its working capital needs during fiscal 2002.

Fourth Quarter Adjustments

In the fourth quarter of fiscal 2001, the Company recorded certain non-recurring adjustments related to changes in estimates associated with the impairment of long-lived assets ($6.5 million) and allowance for doubtful accounts ($3.3 million). These fourth quarter adjustments totalled approximately $9.8 million or $1.35 per share increase in the net loss for fiscal 2001.

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Financial Instruments

The functional currency for the Company's international subsidiaries is the local currency for the country in which the subsidiaries own their primary assets. The translation of the applicable currencies into U.S. dollars is performed for balance sheet accounts using current exchange rates in effect at the balance sheet date and for revenue and expense accounts using a weighted average exchange rate during the period. Any related translation adjustments are recorded directly to shareholders' equity as a component of comprehensive income.

In January 2001, the Company entered into non-deliverable forward contracts covering Brazilian R$2,047,000, or US $1,000,000. These contracts were accounted for as speculative forward contracts. These contracts were settled in March 2001 at a gain of $33,000. The Company has no future plans to enter into foreign exchange forward or option contracts to hedge foreign currency transactions. These were isolated transactions. Generally, it is the Company's policy not to enter into derivative contracts for speculative trading purposes.

Inflation and Price Levels

Inflation has not had a significant impact on the Company's business because of the typically decreasing costs of products sold by the Company. The Company also receives vendor price protection for a significant portion of its inventory. In the event a vendor reduces its prices for goods purchased by the Company prior to the Company's sale of such goods, the Company generally has been able either to receive a credit from the vendor for the price differential or to return the goods to the vendor for a credit against the purchase price.

The Latin American countries in which the Company operates have experienced high rates of inflation and hyperinflation from time to time in the past. At this time, management estimates that inflation may have a material impact on the Company's Latin American business operations in the immediate future.

Forward-Looking Statements

The matters discussed herein and in the Letter to Shareholders accompanying this Annual Report on Form 10-K contain certain forward-looking statements that represent the Company's expectations or beliefs, including, but not limited to, statements concerning future revenues and future business plans and non-historical Year 2000 information. When used by or on behalf of the Company, the words "may," "could," "should," "would," "believe," "anticipate," "estimate," "intend," "plan" and similar expressions are intended to identify forward-looking statements. These statements by their nature involve substantial risks and uncertainties, certain of which are beyond the Company's control. The Company cautions that various factors, including the factors described under the captions "Risk Factors" and "Management's Discussion and Analysis of Financial Condition and Results of Operations" contained in the Company's Registration Statement on Form S-3 (SEC File No. 333-35069) as well as general economic conditions and industry trends, foreign currency fluctuations, the level of acquisition opportunities available to the Company and the Company's ability to negotiate the terms of such acquisitions on a favorable basis, a dependence upon and/or loss of key vendors or customers, the transition to indirect distribution relationships for some products, the loss of strategic product shipping relationships, customer demand, product availability, competition (including pricing and availability), concentrations of credit risks, distribution efficiencies, capacity constraints and technological difficulties could cause actual results or outcomes to differ materially from those expressed in any forward-looking statements of the Company made by or on behalf of the Company. The Company undertakes no obligation to update any forward-looking statement.

Item 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

The Company is exposed to market risk from changes in foreign currency and interest rates. The Company distributes many of its products in foreign countries, primarily in Latin America. Approximately 23.9% of the Company's total net sales were generated from sales made to resellers located in Latin American countries during fiscal 2001. The Company manages its risk to foreign currency rate changes by maintaining foreign currency bank accounts in currencies in which it regularly transacts business. In January 2001, the Company entered into non-deliverable forward contracts covering

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Brazilian R$2,047,000, or US $1,000,000. These contracts were accounted for as speculative forward contracts. These contracts were settled in March 2001 at a gain of $33,000. The Company has no future plans to enter into foreign exchange forward or option contracts to hedge foreign currency transactions. These were isolated transactions. Generally, it is the Company's policy not to enter into derivative contracts for speculative trading purposes.

The Company's cash equivalents and short-term investments and its outstanding debt bear variable interest rates. The rates adjust to market conditions. Changes in the market rate affects interest earned and paid by the Company. The Company does not use derivative instruments to offset the exposure to changes in interest rates. Changes in the interest rates are not expected to have a material impact on the Company's results of operations.

Item 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

INDEPENDENT AUDITORS' REPORT

Board of Directors

SED International Holdings, Inc.

We have audited the accompanying consolidated balance sheet of SED International Holdings, Inc. and subsidiaries as of June 30, 2001, and the related consolidated statements of operations, shareholders' equity and cash flows for the year then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of SED International Holdings, Inc. and subsidiaries as of June 30, 2001 and the consolidated results of their operations and their cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

ERNST & YOUNG LLP

Atlanta, Georgia

October 15, 2001

INDEPENDENT AUDITORS' REPORT

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Board of Directors

SED International Holdings, Inc.

We have audited the accompanying consolidated balance sheet of SED International Holdings, Inc. and subsidiaries as of June 30, 2000, and the related consolidated statements of operations, shareholders' equity and cash flows for each of the two years in the period ended June 30, 2000. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, such consolidated financial statements present fairly, in all material respects, the financial position of SED International Holdings, Inc. and subsidiaries as of June 30, 2000 and the results of their operations and their cash flows for each of the two years in the period ended June 30, 2000 in conformity with accounting principles generally accepted in the United States of America.

DELOITTE & TOUCHE LLP

Atlanta, Georgia

September 26, 2000

SED INTERNATIONAL HOLDINGS, INC.

AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

June 30,

2001 2000

ASSETS

Current assets:

Cash and cash equivalents $ 4,243,000 $ 6,614,000

Restricted cash 700,000 700,000

Trade accounts receivable, less allowance for doubtful

accounts of $5,631,000 (2001) and $3,761,000 (2000) 40,236,000 49,183,000

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Inventories 47,507,000 42,733,000

Deferred income taxes 355,000 360,000

Other current assets 2,349,000 2,886,000

Total current assets 95,390,000 102,476,000

Property and equipment-net 5,708,000 7,827,000

Intangibles-net 6,368,000 11,016,000

Total assets $107,466,000 $121,319,000

LIABILITIES AND SHAREHOLDERS' EQUITY

Current liabilities:

Trade accounts payable $ 55,449,000 $55,076,000

Accrued and other current liabilities 5,858,000 6,994,000

Short term subsidiary bank debt 3,544,000 3,900,000

Total current liabilities 64,851,000 65,970,000

Revolving bank debt

Commitments

Shareholders' equity:

Preferred stock, $1.00 par value;

129,500 shares authorized, none issued

Common stock, $.01 par value;

100,000,000 shares authorized, 11,126,411(2001) and

11,126,911 (2000) shares issued, 8,060,954 (2001) and

7,374,888 (2000) shares outstanding 112,000 112,000

Additional paid-in capital 68,361,000 70,544,000

Retained earnings (Accumulated deficit) (9,224,000) 2,621,000

Accumulated other comprehensive loss (3,564,000) (1,583,000)

Treasury stock, 3,065,457 (2001) and 3,752,023 (2000) shares, at cost (12,612,000) (15,515,000)

Unearned compensation - stock awards (458,000) (830,000

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)

Total shareholders' equity 42,615,000 55,349,000

Total liabilities and shareholders' equity $107,466,000 $121,319,000

See notes to consolidated financial statements

SED INTERNATIONAL HOLDINGS, INC.

AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF OPERATIONS

Year ended June 30,

2001 2000 1999

Net sales $525,338,000 $612,140,000 $711,450,000

Cost of sales, including buying and

occupancy expenses 494,383,000 573,818,000 681,674,000

Gross profit 30,955,000 38,322,000 29,776,000

Selling, general and administrative expenses 35,249,000 35,597,000 52,974,000

Impairment charges 6,547,000 15,386,000

Operating income (loss) (10,841,000) 2,725,000 (38,584,000)

Interest expense-net 660,000 458,000 731,000

Earnings (loss) before income taxes (11,501,000) 2,267,000 (39,315,000)

Income taxes (benefit) 344,000 578,000 (1,407,000

)

Net earnings (loss) $(11,845,000) $ 1,689,000 $(37,908,000

)

Net earnings (loss) per common share:

Basic $(1.64) $.25 $(4.36)

Diluted $(1.64) $.25 $(4.36)

Weighted average number of shares outstanding:

Basic 7,236,000 6,727,000 8,698,000

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Diluted 7,236,000 6,772,000 8,698,000

See notes to consolidated financial statements

SED INTERNATIONAL HOLDINGS, INC.

AND SUBSIDARIES

CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY

Common Stock Retained Accumulated Treasury Stock

Additional Earnings Other Unearned Total

Par Paid-In (Accumulated Comprehensive Compensation Shareholders'

Shares Value Capital Deficit) Loss Shares Cost Stock Awards Equity

BALANCE, JUNE 30, 1998 10,862,211 $108,000 $70,659,000 $38,840,000 $(119,000) 345,608 $(2,937,000) $(276,000) $106,275,000

Stock awards issued 305,000 4,000 1,118,000 (1,122,000)

Amortization of stock awards 132,000 132,000

Stock awards cancelled (9,300) (68,000) 68,000

Stock options exercised 400 3,000 3,000

Treasury stock purchased 3,946,250 (14,827,000) (14,827,000)

Net loss (37,908,000) (37,908,000)

Translation adjustments (865,000) (865,000)

Comprehensive loss (38,773,000

)

BALANCE, JUNE 30, 1999 11,158,311 112,000 71,712,000 932,000 (984,000) 4,291,858 (17,764,000) (1,198,000) 52,810,000

Stock awards issued (180,000) (150,000) 621,000 (441,000)

Amortization of stock awards 676,000 676,000

Stock awards cancelled (31,400) (133,000) 133,000

Treasury shares purchased 10,165 (27,000) (27,000)

Issuance of common stock

for business acquired (855,000) (400,000) 1,655,000 800,000

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Net earnings 1,689,000 1,689,000

Translation adjustments (599,000) (599,000)

Comprehensive earnings 1,090,000

BALANCE, JUNE 30, 2000

11,126,911 112,000 70,544,000 2,621,000 (1,583,000) 3,752,023 (15,515,000) (830,000) 55,349,000

Stock awards issued (1,241,000) (407,956) 1,687,000 (446,000)

Amortization of stock awards 814,000 814,000

Stock awards cancelled (500) (2,000) 1,540 (2,000) 4,000

Treasury shares purchased 19,850 (22,000) (22,000)

Issuance of common stock

for business acquired (940,000) (300,000) 1,240,000 300,000

Net loss (11,845,000) (11,845,000)

Translation adjustments (1,981,000) (1,981,000)

Comprehensive earnings (13,826,000)

BALANCE, JUNE 30, 2001 11,126,411 $112,000 $68,361,000 $

(9,224,000) $(3,564,000) 3,065,457 $(12,612,000) $(458,000) $ 42,615,000

See notes to consolidated financial statements.

SED INTERNATIONAL HOLDINGS, INC.

AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

Year ended June 30,

2001 2000 1999

Operating Activities:

Net earnings (loss) $(11,845,000) $ 1,689,000 $(37,908,000)

Adjustments to reconcile net earnings (loss) to net

cash provided by (used in) operating activities:

Impairment charges for long-lived assets 6,547,000 15,386,000

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Depreciation and amortization 2,824,000 2,554,000 3,206,000

Compensation stock awards 814,000 676,000 132,000

Provision for losses on accounts receivable 4,476,000 3,808,000 13,622,000

Changes in assets and liabilities, net of effects of

acquired businesses in fiscal 1999:

Restricted cash (700,000)

Trade accounts receivable 4,471,000 5,094,000 17,639,000

Inventories (4,774,000) 14,359,000 86,489,000

Refundable income taxes 3,801,000 (312,000)

Deferred income taxes 5,000 (70,000) 1,823,000

Other current assets 537,000 (447,000) (865,000)

Trade accounts payable 373,000 (13,834,000) (53,582,000)

Accrued and other current liabilities (1,136,000) (411,000) (92,000

)

Net cash provided by

operating activities 2,292,000 16,519,000 45,538,000

Investing Activities:

Purchase of equipment (842,000) (3,014,000) (2,470,000)

Purchase of businesses, net of cash acquired (1,462,000) (1,466,000) (4,306,000

)

Net cash used in investing activities (2,304,000) (4,480,000) (6,776,000

)

Financing Activities:

Net payments of revolving bank debt (8,500,000) (22,500,000)

Proceeds from short term bank debt of foreign subsidiaries 31,331,000 700,000

Repayments of short term bank debt of foreign subsidiaries (31,687,000) (265,000)

Net proceeds from issuance of common stock 3,000

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Purchase of treasury stock (22,000) (27,000) (14,827,000

)

Net cash used in financing activities (378,000) (8,092,000) (37,324,000

)

Effect of exchange rate changes on cash (1,981,000) (599,000) (865,000

)

Increase (decrease) in cash and cash equivalents (2,371,000) 3,348,000 573,000

Cash and Cash Equivalents

Beginning of year 6,614,000 3,266,000 2,693,000

End of year $ 4,243,000 $ 6,614,000 $ 3,266,000

Supplemental Disclosures of

Cash Flow Information-

Cash paid (received) during the year for:

Interest $ 514,000 $ 725,000 $ 956,000

Income taxes 414,000 (3,017,000) 316,000

Liabilities assumed in acquisitions 4,163,000

See notes to consolidated financial statements

SED INTERNATIONAL HOLDINGS, INC.

AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Years ended June 30, 2001, 2000, and 1999

1. Summary Of Significant Accounting Policies

Principles of Consolidation

-The consolidated financial statements include the accounts of SED International Holdings, Inc. and its wholly-owned subsidiaries, SED International, Inc. (formerly Southern Electronics Distributors, Inc.), SED International do Brasil Ltda. (formerly SED Magna Distribuidora Ltda.), SED Magna (Miami), Inc., SED International de Colombia Ltda., Intermaco S.R.L., and E-store.com, Inc. (collectively the "Company"). All intercompany accounts and transactions have been eliminated.

Description of Business

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-The Company is a wholesale distributor of microcomputers, computer peripheral products and wireless telephone products, serving value-added resellers and dealers in the United States and Latin America. The Company does not require collateral from its customers.

Risks and Uncertainties

-The Company has incurred a decline in net sales in the United States since fiscal 1998 and has incurred operating losses in either its domestic or certain of its foreign operations at various times during the past four fiscal years. To address these declines, Company management is continuing to focus on increasing profit margins and reducing administrative and overhead costs. There is no assurance the Company will be successful in connection with these efforts. Failure to effectively implement the plan could adversely effect the Company's profitability and financial condition.

Numerous factors and conditions impact the Company's ability to adequately effect this plan, including, but not limited to, the following:

- *Continuation of distribution agreements*
  - The Company operates under formal but cancellable distribution agreements with certain of its suppliers. If these agreements were cancelled, the Company would be forced to obtain its products through wholesalers. This would reduce the Company's profit margin on the affected products.

- *Availability of certain products*
  - From time to time, due to production limitations or heavy demand, the Company may only be able to purchase a limited amount of popular products from its suppliers.

- *Product margins*
  - The Company operates in a very competitive business environment. Accordingly, product margins are continually under pricing pressure.

- *Vendor credit*
  - The Company significantly relies on its suppliers for trade credit. Changes by the suppliers in their credit terms could force the Company to obtain less favorable financing for its purchases.

    - *Product obsolescence*
      - The Company offers a broad line of products that are subject to fast technological obsolescence, which increases the risk of inventory markdown. Through its vendor agreements, the Company has certain stock return privileges, which vary from supplier to supplier.

- *Credit decisions and losses*
  - The Company maintains an experienced customer credit staff and relies on customer payment history and third party data to make customer credit decisions. Nevertheless, the Company may experience customer credit losses in excess of its expectations. The Company also maintains credit insurance for customers located in the United States (subject to certain terms and conditions).

- *Proportionate control of general and administrative costs*
  - The Company attempts to control its overhead costs to keep such costs in line with its sales volume. As sales volumes fluctuate, the Company must continually monitor its overhead costs and make adjustments timely and appropriately.

- *Uncertain and possibly volatile economic and political environment in Latin America*
  - The general economic and political environment in all of the countries in which the Company operates in Latin America are uncertain and, at times, volatile. As a result of these conditions, the Company could experience unexpected costs from its operations in these countries.

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- *Availability of credit facilities*
  - The Company has operated under a formal credit facility with a bank for many years that is subject to certain collateral limitations and contains certain compliance covenants (as more further described in Note 4). One of the most restrictive covenants requires the Company to maintain positive earnings before taxes, interest, depreciation and amortization on a quarterly basis. The Company has violated certain of the facility covenants in the past, but has been able to obtain waivers of such violations. In the event the Company borrows or requests to borrow under the credit facility and it fails to maintain covenant compliance, there is no assurance that waivers requested will be granted.

- *Cash flows*
  - The Company's continued operation in Latin America may require additional capital infusion (in the form of equity from the parent company or debt borrowings by the subsidiary). Banking agreements restrict the future funding of operations of the Brazil subsidiary from cash flows or borrowing in the United States. Operating needs and regulatory matters restrict the Company's ability to repatriate cash flows to the United States.

Revenue Recognition

-Sales are recorded upon shipment. The Company allows its customers to return product for exchange or credit subject to certain limitations. Provision for estimated losses on such returns are recorded at the time of sale. Funds received from vendors for product rebates are accounted for as a reduction of product cost. Shipping and handling revenues are included in net sales and shipping costs are included in the cost of sales.

Use of Estimates

-The preparation of financial statements in conformity with accounting principles generally accepted in the United States requires 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.

Cash Equivalents

-Cash equivalents are short-term investments purchased with a maturity of three months or less.

Inventories

-Inventories are stated at the lower of cost (first-in, first-out method) or market and include in-transit inventory of $7,332,000 at June 30, 2001 and $7,852,000 at June 30, 2000.

Property and Equipment

-Property and equipment are recorded at cost less accumulated depreciation and amortization. Depreciation is computed principally by the straight-line method over the estimated useful lives, which generally range from three to seven years, of the related assets. Leasehold improvements are amortized ratably over the lesser of the useful lives of the improvements or the related lease terms.

Intangible Assets

-Intangible assets consist primarily of goodwill. Goodwill represents the excess of the cost of an acquired business over the fair value of net identifiable assets acquired and is amortized using the straight-line method principally over 30 years.

Long-Lived Assets and Impairment

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-The Company periodically reviews long-lived assets, including goodwill, for impairment based on judgments as to the future undiscounted cash flows from related operations. An impaired asset is written down to its estimated fair market value based on the information available; estimated fair market value is generally measured by discounting estimated future cash flows.

Foreign Currency Translation

-The assets and liabilities of foreign operations are translated at the exchange rates in effect at the balance sheet date, with related translation gains or losses reported as a separate component of shareholders' equity. The results of foreign operations are translated at the weighted average exchange rates for the year. Gains or losses resulting from foreign currency transactions are included in the statement of earnings.

Earnings Per Common Share (EPS)

-Basic EPS is computed by dividing income available to common stockholders by the weighted average number of common shares outstanding for the period. Diluted EPS is computed using the weighted-average number of common shares and dilutive potential common shares outstanding. Dilutive potential common shares represent additional common shares assumed to be issued.

For the years ended June 30, 2001, 2000, and 1999 (fiscal 2001, 2000, and 1999, respectively) options for approximately 1,777,000, 2,641,000, and 1,678,000 common shares, respectively, were excluded from the diluted EPS calculation due to their antidilutive effect.

Recently Issued Accounting Pronouncements

-In December 1999, the Securities and Exchange Commission ("SEC") issued Staff Accounting Bulletin No. 101 ("SAB 101"), "Revenue Recognition in Financial Statements". This was followed by Staff Accounting Bulletin No. 101A, "Implementation Issues Related to SAB 101", in March 2000 and by Staff Accounting Bulletin No. 101B, "Second Amendment: Revenue Recognition in Financial Statements" ("SAB 101B"), in June 2000. These bulletins summarize certain of the SEC's views about applying generally accepted accounting principles to revenue recognition in financial statements. The impact of SAB 101B on the Company was to delay the implementation date of SAB101 until the fourth quarter of fiscal year 2001. The adoption of these bulletins had no affect on the Company's results of operations.

In 2000, the Emerging Issues Task Force of the FASB reached a consensus on Issue 00-10, "Accounting for Shipping and Handling Fees and Costs" ("the Issue"). The Company adopted the Issue in the fourth quarter of 2001 and prior year financial statements have been reclassified to conform to the requirements of the Issue. There was no effect on net income or loss as a result of the adoption of the Issue. The net effect of the adoption of the Issue was an increase in net sales of $1,902,000, $2,691,000 and $3,880,000, an increase in cost of sales of $3,395,000, $4,395,000 and $5,332,000; and a decrease in selling, general, and administrative expenses of $1,493,000, $1,704,000 and $1,452,000 in the years ended June 30, 2001, 2000, and 1999, respectively.

In June 2001, the Financial Accounting Standards Board issued Statements of Financial Accounting Standards No. 141, *Business Combinations*, and No. 142, *Goodwill and Other Intangible Assets*, effective for fiscal years beginning after December 15, 2001. Under the new rules, goodwill will no longer be amortized but will be subject to annual impairment tests in accordance with the Statements.

The Company will apply the new rules on accounting for goodwill and other intangible assets beginning in the first quarter of fiscal 2002. Application of the non-amortization provisions of the Statement is expected to result in an increase in net income of $234,000 per year. During 2002, the Company will perform the first of the required impairment tests of goodwill and indefinite lived intangible assets as of July 1, 2001 and has not yet determined what the effect of these tests will be on the earnings and financial position of the Company.

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Fair Value of Financial Instruments

-Financial instruments that are subject to fair value disclosure requirements are carried in the consolidated financial statements at amounts that approximate their fair value.

Reclassifications-

Certain prior year balances have been reclassified to conform with the current year presentation.

2. Acquisitions

The Company previously acquired Intermaco S.R.L. ("Intermaco"), a Buenos Aires, Argentina, distributor of Hewlett-Packard products and other computer peripherals, on November 1, 1998. Consideration for the acquisition consisted of an initial cash payment at closing of $4,417,000, and two subsequent payments based on a multiple of Intermaco's net earnings for each of the succeeding twelve-month periods. For the first twelve-month period, ended October 31, 1999, the Company paid an additional $2,030,000, consisting of $1,230,000 in cash and 400,000 shares of the Company's common stock valued at $800,000 in February 2000. For the second twelve-month period ended October 31, 2000, the Company paid in April 2001 an additional $1,400,000 in cash and issued 300,000 shares of the Company's common stock valued at $300,000. This acquisition was recorded under the purchase method of accounting.

The operating results of the acquired business is included in the Company's consolidated statements of earnings from the acquisition date. The pro forma impact of the business acquisition on operations for fiscal 1999 was not material.

3. Long-Lived Assets and Impairment Charges

Long-lived assets are comprised of the following:

	June 30,	
	2001	2000
Property and equipment:		
Furniture and equipment	$13,475,000	$13,541,000
Leasehold improvements	1,312,000	1,813,000
Other	231,000	164,000
	15,018,000	15,518,000
Less accumulated depreciation	9,310,000	7,691,000
	$ 5,708,000	$ 7,827,000
Intangibles:		
Goodwill	$ 6,706,000	$ 12,104,000

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Distribution rights 226,000

6,706,000 12,330,000 Less accumulated amortization 338,000 1,314,000

$ 6,368,000 $ 11,016,000

Approximately $6,486,000 and $4,927,000 of all long-lived assets at June 30, 2001 and 2000 respectively, relate to the Company's subsidiary Intermaco S.R.L., in Argentina. Amortization expense of intangibles was $433,000, $373,000 and $888,000 in the years ended June 30, 2001, 2000, and 1999, respectively.

2001 Impairment Charges

In the fourth quarter of the year ended June 30, 2001, the Company recorded a non-cash impairment charges totaling $6,547,000. The non-cash accounting charge was determined based on a detailed analysis of the Company's long-lived assets and their estimated future cash flows. The analysis resulted in the identification and measurement of an impairment loss of $5,947,000 in goodwill and approximately $600,000 in property and equipment. Substantially all of the goodwill impairment relate to the Company's acquired export distribution rights in connection with the fiscal 1996 acquisition of substantially all of the net assets of U.S. Computer of North America, Inc. This impairment results from a gradual, but significant, decline in sales volumes and adverse changes in the competitive environment for the distribution of the corresponding product lines. The goodwill is not considered recoverable through other means. The impairment loss of approximately $600,000 relates to the Company's property and equipment in Brazil ($400,000) as well as certain domestic assets ($200,000). Management estimated the undiscounted cash flows to be generated by the assets for the respective operations and compared them to their carrying values. Since the estimated undiscounted future cash flows were less than the carrying values of the assets, the carrying values were adjusted to estimated fair values.

1999 Impairment Charges

The Company recorded impairment charges aggregating $15,386,000 during the year ended June 30, 1999 for the following:

- As a result of declining U.S. sales, the Company reviewed the intangible assets related to distribution rights acquired in June 1997 from Globelle for possible impairment. This evaluation resulted in a $11,994,000 writeoff, and in some cases writedown, of these rights to their estimated fair value (based on estimated future associated cash flows).

- In response to the poor operating performance realized at SED Magna Distribuidora Ltda. in Brazil since its December 1997 acquisition and risks inherent in its future operations, the Company recorded an impairment charge of $738,000 for the write-off of the goodwill related to this entity (as this goodwill did not appear to be recoverable).

- Property and equipment was reviewed and written down by $2,654,000 primarily for computer equipment and capitalized software costs.

4. Bank Debt

Revolving Bank Debt

-The Company has a credit agreement with Wachovia Bank N.A. ("Wachovia"), as amended on October 12, 2001, which provides for borrowing under a line of credit of up to $25.0 million ($35.0 million at June 30, 2001.) At June 30, 2001 and 2000, the Company had no borrowings outstanding under this facility. Maximum borrowings under the credit agreement are generally based on eligible accounts receivable and inventory (as defined in the credit agreement) less a $9.5 million reserve. This reserve can be drawn upon, if necessary, to finance obligations to IBM Credit Corporation,

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which finances the Company's purchases from certain vendors. Available borrowings under this agreement at June 30, 2001, based on collateral limitations, were $23.5 million ($9.5 million of which would only be available to finance obligations due to IBM, if necessary).

The Wachovia credit agreement is secured by accounts receivable and inventory of SED International, Inc. and requires maintenance of certain minimum working capital and other financial ratios and has certain dividend restrictions. The Company may borrow at Wachovia's prime rate (6.75% at June 30, 2001) plus .50% or the Company may fix the interest rate for periods of 30 to 180 days under various interest rate options. The credit agreement requires a commitment fee of .50% of the unused commitment and expires November 1, 2002. Average borrowings, maximum borrowings and the weighted average interest rate for fiscal 2001 were $1.2 million, $10.0 million and 6.75%, respectively. Average borrowings, maximum borrowings and the weighted average interest rate for fiscal 2000 were $4.5 million, $19.0 million and 9.5%, respectively. At June 30, 2001 the Company was not in compliance with certain agreement covenants; however, the Company subsequently obtained an amendment of the covenants.

Subsidiary Bank Debt -

The Company's subsidiary, SED International do Brasil, operates under line of credit agreements with several Brazilian banks. Interest rates on borrowings are negotiated at the time of borrowing. The credit agreements are secured by the subsidiary's accounts receivable and requires the maintenance of certain financial ratios. At June 30, 2001, the Company had $3.3 million of borrowings outstanding under these facilities. Average borrowings, maximum borrowings and the weighted average monthly interest rate under these loan agreements for fiscal 2001 were $2.5 million, $4.0 million and 1.62%, respectively. At June 30, 2000, there were $3.5 million of outstanding borrowings under these lines of credit. Average borrowings, maximum borrowings and the weighted average monthly interest rate under these loan agreements for fiscal 2000 were $1.3 million, $3.5 million and 2.02%, respectively.

In March 2001, the Company's subsidiary, SED International de Colombia Ltda., entered into a six month loan with a Colombian bank. Interest rates on borrowings are negotiated at the time of borrowing. The credit agreement is secured by a savings deposit of $.7 million held in a bank in the United States. At June 30, 2001, the Company had $.3 million of borrowings outstanding under this facility. Average borrowings, maximum borrowings and the weighted average monthly interest rate under this loan agreement for fiscal 2001 were $.4 million, $.6 million and 2.32%, respectively. At June 30, 2000, the Company had $.4 million of borrowings under a similar facility. Average borrowings, maximum borrowings and the weighted average monthly interest rate for fiscal 2000 were $.1 million, $.7 million and 2.12%, respectively.

The carrying value of all bank debt at June 30, 2001 and 2000 approximates its fair value based on interest rates that are believed to be available to the Company for debt with similar provisions.

5. Income Taxes

Deferred income taxes reflect the net tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes. The tax effects of significant items comprising the Company's deferred tax assets are as follows:

	June 30,	
	2001	2000
U.S. federal and state operating loss carryforwards	$ 9,927,000	$ 8,460,000
Foreign operating loss carryforwards	2,633,000	2,175,000
Reserves not currently deductible	4,588,000	1,654,000

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Other 565,000 302,000

Valuation allowance (17,358,000) (12,231,000

)

$ 355,000 $ 360,000

At June 30, 2001, the Company has gross net operating loss carryforwards for federal and state income tax purposes in the United States of approximately $23 million and $35 million, respectively, expiring at various dates through 2021 and gross net operating loss carryforwards for income tax purposes in Brazil of approximately $7.9 million which generally do not expire. At June 30, 2001 and 2000, the Company has recorded a valuation allowance for principally all deferred tax assets, except for those relating to Intermaco S.R.L., as there is no assurance that these assets will be realized.

Components of income tax expense (benefit) are as follows:

Year Ended June 30,

2001 2000 1999

Current:

Federal $(2,795,000)

State (252,000)

Foreign $339,000 $648,000 128,000

339,000 648,000 (2,919,000

)

Deferred:

Federal 1,203,000

State 313,000

Foreign 5,000 (70,000) (4,000

)

5,000 (70,000) 1,512,000

$344,000 $578,000 $(1,407,000)

The Company's effective tax rates differ from statutory rates as follows:

Year Ended June 30,

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2001 2000 1999

Statutory federal rate (benefit) (34.0)% 34.0% (34.0)%

State income taxes net of

federal income tax benefit (3.2) 3.6 0.1 Non-deductible goodwill

amortization 15.1 3.6 1.0

Valuation allowance 24.7 (51.6) 24.7

Other 0.5 35.9 4.6

3.1% 25.5% (3.6)%

The valuation allowance increased (decreased) during fiscal 2001, 2000 and 1999 by $5,127,000, $(1,172,000), and $13,074,000, respectively.

6. Lease Obligations

SED International leases its main office facility under an operating lease with an entity owned by certain minority shareholders of the Company. Rent expense for this facility for the years ended June 30, 2001, 2000, and 1999 was $259,000, $234,000, and $176,000 respectively. This lease, as of October 2001, provides for an annual rent of $269,000 with annual increases of three percent through September 2006. The Company leases additional distribution center and sales office space under other operating leases. Rent expense, net of sublease rental income, under all operating leases for the years ended June 30, 2001, 2000, and 1999 was $1,622,000, $1,736,000, and $2,573,000, respectively.

The Company is obligated under lease agreements for its closed Harrisburg distribution center and portions of other distribution centers which are not being utilized by the Company. Most of such distribution space has been sublet to third parties. Sublease rental income was $738,000, $240,000 and $127,000 for the years ended June 30, 2001, 1999, respectively.

As of June 30, 2001, future minimum rental commitments under noncancelable operating leases and rental income under sublease agreements are:

Future Sublease

Year Ending June 30, Rent Rental Income

2002 $2,501,000 $ 427,000

2003 2,166,000 377,000

2004 1,196,000

2005 591,000

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2006 591,000

2007 and thereafter 95,000

$ 7,140,000 $ 804,000

7. Shareholders' Equity

Common Stock

-During fiscal years 2001, 2000, and 1999, the Company repurchased 19,850, 10,165, and 3,946,250 shares, respectively, of its common stock in open market and private transactions for $22,000, $27,000, and $14,827,000, respectively.

Stock Options

-The Company maintains stock option plans under which 2,858,902 shares of common stock have been reserved at June 30, 2001 for outstanding and future incentive and nonqualified stock option grants as well as stock awards to officers and key employees. In September 2000, the Company's directors reseved an additional 1,000,000 shares under one of the stock option plans. Incentive stock options must be granted at not less than the fair market value of the common stock at the date of grant and expire 10 years from the date of grant. Nonqualified stock options may be granted at a price of not less than 85% of the fair market value of the common stock at the date of grant and expire 20 years from the date of grant. Options granted under the plans are exercisable in installments ranging from 20% to 50% per year. Upon the occurrence of a "change of control" (as defined), all outstanding options become immediately exercisable.

Stock option activity and related information under these plans is as follows:

Weighted

Average

Shares Exercise Price

Shares under options at June 30, 1998 1,520,035 $ 7.66

Granted 225,550 4.10

Exercised (400) 7.50

Canceled (178,350)

4.89

Shares under options at June 30, 1999 1,566,835 4.87

Granted 1,234,050 3.01

Exercised

Canceled (313,600)

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3.69

Shares under options at June 30, 2000 2,487,285 5.12

Granted 127,100 2.36

Exercised

Canceled (2,023,598)

4.28

Shares under options at June 30, 2001 590,787

7.38

Option exercisable at June 30:

1998 828,347 $ 4.96

1999 1,007,558 4.98

2000 1,190,193 4.89

2001 207,736 3.43

Additionally, since 1992, the Board of Directors has granted vested nonqualified options to purchase 213,000 shares of common stock to certain directors of the Company at exercise prices ranging from $5.00 to $15.25 (fair market value of the Company's common stock at date of grant). Such options expire 10 years from the date of grant. Options to purchase 10,000 shares of common stock by a director were forfeited during fiscal 1997. Options to purchase 61,500 shares of common stock were exercised by certain directors at a weighted average price of $7.73 during fiscal 1998. At June 30, 2001, 52,000 options granted to directors of the Company were outstanding and exercisable at a weighted average exercise price of $3.56.

The following table summarizes information pertaining to all options outstanding and exercisable at June 30, 2001:

Outstanding Options Exercisable Options

Weighted

Average Weighted

Remaining Average Average

Range of Number Contractual Exercise Number Exercise

Exercise Prices Outstanding Life (Years) Price Exercisable Price

$1.19-$2.94 464,817 1.29 $2.78 158,222 $2.90

$3.41-$5.06 177,970 1.51 $4.12 101,514 $4.33

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Fair Value

-The weighted average fair value of options granted in fiscal 2001, 2000, and 1999 was $2.35, $1.90 and $2.52, respectively, using the Black-Scholes option pricing model with the following assumptions:

Year Ended June 30,

2001 2000 1999

Dividend yield 0.0% 0.0% 0.0%

Expected volatility 84.5% 57.0% 58.4%

Risk free interest rate 5.3% 5.9% 5.1%

Expected life, in years 10.0 6.9 6.6

Had compensation cost for grants under the Company's stock option plans in fiscal 2001, 2000, and 1999 been determined based on the fair value at the date of grant consistent with the method of SFAS 123, the Company's pro forma net earnings (loss) and net earnings (loss) per share would have been as follows:

Year Ended June 30,

2001 2000 1999

Pro forma net earnings (loss) (12,607,438) $143,000 $(39,027,000)

Pro forma net earnings (loss) per common share:

Basic $(1.74) $ .02 $ (4.49)

Diluted $(1.74) $ .02 $ (4.49)

Results may vary depending on the assumptions within the model.

Restricted Stock

- The Company's stock option plan extablished in 1988 permited the grant of restricted stock awards to officers, key employees and directors. Individual awards under this plan vest generally after three to ten years. At June 30, 2000, no shares of common stock were available for issuance under this 1988 plan. The Company's stock option plan established in 1999 also permits the grant of restricted stock awards. Awards which have been granted under this 1999 plan vest ratably over two years. Restricted stock activity is as follows:

Year Ended June 30,

2001 2000 1999

Shares of restricted stock

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beginning of year 409,000 337,900 67,200

Issued 407,956 150,000 280,000

Vested (498,200) (47,500)

Canceled (2,040) (31,400) (9,300

)

Shares of restricted stock

end of year 316,716 409,000 337,900

The value of restricted stock awards is determined using the market price of the Company's common stock on the grant date and is amortized over the vesting period. The unamortized portion of such awards is deducted from stockholders' equity.

Stockholder Rights Agreement

- In October 1996, the Company adopted a stockholder rights agreement under which one common stock purchase right is presently attached to and trades with each outstanding share of the Company's common stock. The rights become exercisable and transferable apart from the common stock ten days after a person or group, without the Company's consent, acquires beneficial ownership of 12% or more of the Company's common stock or announces or commences a tender or exchange offer that could result in 12% ownership (the "Change Date"). Once exercisable, each right entitles the holder to purchase shares of common stock in number equal to eight multiplied by the product of the number of shares outstanding on the Change Date divided by the number of rights outstanding on the Change Date not owned by the person or group and at a price of 20% of the per share market value as of the Change Date. The rights have no voting power and, until exercisable, no dilutive effect on net earnings per common share. The rights expire in October 2006 and are redeemable at the discretion of the Company's Board of Directors at $.01 per right.

Exchange Plan-

In February 2001, the Company made an offer to employees of the Company to exchange stock options they previously received in the Company's 1991 Stock Option Plan (1991 Plan Options) for awards of restricted stock under the Company's 1997 and 1999 Stock Option Plan. Under the exchange, an employee received one share of restricted common stock for each option to purchase five shares of common stock surrendered. Employees who exchanged 100% of their 1991 Plan Options were also allowed to exchange options under other Company Plans at the same exchange ratio. A similar exchange offer was made to non-employee Directors for options they received in the Company's Director Plans and the 1999 Stock Option Plan. Based on the five-for-one exchange ratio, 2,039,778 options were exchanged for awards of 407,956 shares of restricted common stock. The exchanged options had an exercise price from $2.625 to $5.0625 and the average exercise price for the exchanged options was $4.39. The total valuation placed on the awards issued was approximately $446,000, based on the closing price of the common stock of $1.094 on February 28, 2001. The exchange increased the number of shares of the Company's common stock outstanding by 5.5%, but reduced potential dilutive impact on the Company's common stock associated with the 2,039,778 options exchanged and cancelled. Options returned to Plans will be available for re-issuance under those Plans.

The exchange valuation of $446,000 resulted in non-cash deferred compensation in the amount of $413,000 for the employees' portion of the exchange, and the expense of $33,000 for the immediate vesting of the outside Directors' restricted stock.

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Subsequent to the exchange settlement, stock awards issued to certain officers of the Company and its subsidiary, SED International, Inc., were accelerated and immediately vested. The accelerated vesting

resulted in the recognition of non-cash awards compensation expense of $462,000 in the March 31, 2001 quarter consisting of $186,000 for the exchange awards and $276,000 for previously issued awards.

8. Employee Benefit Plan

SED International, Inc. maintains a voluntary retirement benefit program, the SED International, Inc. 401(k) Plan. All employees of SED International, Inc. who have attained the age of 21 are eligible to participate after completing one year of service. SED International, Inc. matches a portion of employee contributions to the plan. Employees are immediately vested in their own contributions. Vesting in SED International, Inc.'s matching contributions is based on years of continuous service. SED International, Inc.'s matching contribution expense for the years ended June 30, 2001, 2000, and 1999 was $125,000, $137,000 and $142,000, respectively.

9. Segment Information

The Company operates in one business segment as a wholesale distributor of microcomputer and wireless telephone products. The Company operates and manages in two geographic regions, the United States and Latin America. Financial information by geographic region is as follows:

United States Latin America Eliminations Consolidated

Fiscal 2001

Net sales:

Unaffiliated customers $399,733,000 $125,605,000 $525,338,000

Foreign subsidiaries 1,585,000 $ (1,585,000)

Total $401,318,000 $125,605,000 $ (1,585,000) $525,338,000

Gross profit $ 18,911,000 $ 12,044,000 $ 30,955,000

Loss from operations (9,188,000) (1,653,000) (10,841,000)

Total assets at year-end 98,017,000 30,021,000 $ 20,572,000 107,466,000

Fiscal 2000

Net sales:

Unaffiliated customers $490,061,000 $122,079,000 $612,140,000

Foreign subsidiaries 3,528,000 $ (3,528,000)

Total $493,589,000 $122,079,000 $ (3,528,000) $612,140,000

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Gross profit $ 25,262,000 $ 13,060,000 $ 38,322,000

Income from operations 1,692,000 1,033,000 2,725,000

Total assets at year-end 107,716,000 35,327,000 $(21,724,000) 121,319,000

Fiscal 1999

Net sales:

Unaffiliated customers $628,570,000 $ 82,880,000 $711,450,000

Foreign subsidiaries 7,362,000 $ (7,362,000)

Total $635,932,000 $ 82,880,000 $ (7,362,000) $711,450,000

Gross profit $ 21,966,000 $ 7,810,000 $ 29,776,000

Loss from operations (33,588,000) (4,996,000) (38,584,000)

Total assets at year-end 128,379,000 28,882,000 $(16,171,000) 141,090,000

Sales of products between the Company's geographic regions are made at market prices and are eliminated in consolidation. Net sales in Brazil (included in Latin America net sales in the table above) aggregated $79,758,000, $81,351,000, and $49,403,000 during fiscal 2001, 2000 and 1999, respectively. All corporate overhead is included in the results of U.S. operations.

Net sales by product category is as follows:

Shipping and

Microcomputer Wireless Telephone Handling

Year Ended June 30, Products Products Revenue Total

2001 $489,609,000 $33,827,000 $1,902,000 $525,338,000

2000 520,984,000 88,465,000 2,691,000 612,140,000

1999 612,847,000 94,723,000 3,880,000 711,450,000

Approximately 43.7%, 44.2%, and 37.5% of the Company's net sales in the fiscal years ended June 30, 2001, 2000, and 1999, respectively, consisted of sales to customers for export principally into Latin America and direct sales to customers in Brazil, Colombia and Argentina.

10. Significant Vendors

During the year ended June 30, 2001, the Company purchased approximately 38.6% of its product from two vendors. During the year ended June 30, 2000, the Company purchased approximately 18.7% of its product from one vendor. During the year ended June 30, 1999, the Company purchased approximately 21.0% of its product from three vendors.

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11. Supplemental Disclosures

An analysis of allowances for doubtful accounts is as follows:

Balance at Charged to Charged to Balance at

Beginning Costs and to Other End

Year Ended June 30, of Year Expenses Deductions(1) Account(2) of Year

2001 $ 3,761,000 $ 4,476,000 $ (2,606,000) $5,631,000

2000 3,253,000 3,808,000 (3,300,000) 3,761,000

1999 2,362,000 13,622,000 (13,091,000) $360,000 3,253,000

1. Deductions represent actual write-offs of specific accounts receivable charged against the allowance account, net of amounts recovered.

(2) Represents balances of acquired businesses.

Item 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE.

Deloitte & Touche LLP ("D&T") served as the Company's independent accountant through the year ended June 30, 2000. On September 7, 2000, D&T notified the Company that they declined to stand for reappointment as the Company's independent accountant after completion of their audit of the Company's consolidated financial statements for the year ended June 30, 2000.

During the Company's fiscal years ended June 30, 1999 and 2000 (the "Past Two Fiscal Years"), there were no disagreements with D&T on any matter of accounting principle or practices, financial statement disclosure, or auditing scope or procedures, which disagreements if not resolved to their satisfaction would have caused them to make reference to the subject matter of the disagreements in connection with their report.

D&T's reports on the Company's consolidated financial statements for the Past Two Fiscal Years did not contain an adverse opinion or a disclaimer of opinion and were not qualified or modified as to uncertainty, audit scope or accounting principles.

During the Past Two Fiscal Years there were no reportable events as defined by Item 304(a)(i)(v) of Regulation S-K.

D&T was required to furnish a letter, addressed to the Securities and Exchange Commission, stating whether D&T agreed or disagreed with the statements made by the Company under this item. D&T's letter is included as an exhibit to this Form 10-K in accordance with paragraph (a)(3) of Item 304 of Regulation S-K.

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PART III

Item 10. DIRECTORS AND EXECUTIVE OFFICERS OF THE COMPANY

The information called for by this item is incorporated herein by reference to the section of the Proxy Statement entitled "Proposal 1 - Election of Directors" contained in the definitive Proxy Statement to be filed with the Securities and Exchange Commission no later than one hundred twenty (120) days after the year ended June 30, 2001 and delivered to stockholders in connection with the annual meeting of stockholders to be held on November 20, 2001.

Item 11. EXECUTIVE COMPENSATION

The information called for by this item is incorporated herein by reference to the sections of the Proxy Statement entitled "Proposal 1 - Election of Directors" and "Executive Compensation" contained in the definitive Proxy Statement to be filed with the Securities and Exchange Commission no later than one hundred twenty (120) days after the year ended June 30, 2001 and delivered to stockholders in connection with the annual meeting of stockholders to be held on November 20, 2001.

Item 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

The information called for by this item is incorporated herein by reference to the section of the Proxy Statement entitled "Ownership of Shares" contained in the definitive Proxy Statement to be filed with the Securities and Exchange Commission no later than one hundred twenty (120) days after the year ended June 30, 2001 and delivered to stockholders in connection with the annual meeting of stockholders to be held on November 20, 2001.

Item 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

The information called for by this item is incorporated herein by reference to the section of the Proxy Statement entitled "Compensation Committee Interlocks and Insider Participation" contained in the definitive Proxy Statement to be filed with the Securities and Exchange Commission no later than one hundred twenty (120) days after the year ended June 30, 2001 and delivered to stockholders in connection with the annual meeting of stockholders to be held on November 20, 2001.

PART IV

Item 14. EXHIBITS, FINANCIAL STATEMENT SCHEDULES, AND REPORTS ON FORM 8-K

(a) The following documents are filed as part of this Report:

1. Financial Statements. The following financial statements and the report of the Registrant's independent auditors thereon, are filed herewith.

- Independent Auditors' Report (Ernst & Young LLP - 2001)
- Independent Auditors' Report (Deloitte & Touche LLP - 2000 and 1999)

- Consolidated Balance Sheets at June 30, 2001 and 2000

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- Consolidated Statements of Operations for the years ended June 30, 2001, 2000 and 1999
- Consolidated Statements of Shareholders' Equity for the years ended June 30, 2001, 2000 and 1999
- Consolidated Statements of Cash Flows for the years ended June 30, 2001, 2000, and 1999
- Notes to Consolidated Financial Statements

2. Financial Statement Schedules.

- Schedules:

Schedule II regarding Valuation and Qualifying accounts is filed herewith under "Supplemental Disclosures" in Note 11 of the notes to consolidated financial statements

Schedules other than the schedule presented are omitted because the information required is not applicable or the required information is shown in the consolidated financial statements or notes thereto.

3. Exhibits Incorporated by Reference or Filed with this Report.

Exhibit

Number

Description

3.1 Articles of Incorporation of the Registrant.(1)

3.2 Amendment to Articles of Incorporation

3.3 Bylaws of the Registrant.(2)

4.1 See Exhibits 3.1 and 3.2 for provisions of the Articles of Incorporation and Bylaws of the Registrant, respectively, defining rights of holders of common stock of the Registrant.

4.2 Form of Rights Agreement, dated as of October 31, 1996 between the Registrant and National City Bank.(3)

10.1 Form of Lease Agreement dated as of January 1, 1991 between Royal Park, Registrant and SED International, Inc. (Formerly Southern Electronics Distributors, Inc.) ("SED International").(4)

10.2 Lease Agreement dated May 16, 1990 between The Equitable Life Assurance Society of the United States and SED International(5), as amended March 20, 1992.(6)

10.3 Southern Electronics Corporation 1986 Stock Option Plan dated September 3, 1986, together with related forms of Incentive Stock Option Agreement and NonQualified Stock Option Agreement.(7)/*/

10.4 Form of First Amendment dated September 14, 1989 to Southern Electronics Corporation 1986 Stock Option Plan.(8)/*/

10.5 Second Amendment dated November 7, 1989 to Southern Electronics Corporation 1996 Stock Option Plan.(9)/*/

10.6 Third Amendment dated July 17, 1992 to Southern Electronics Corporation 1986 Stock Option Plan.(10)/*/

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10.7 Southern Electronics Corporation 1988 Restricted Stock Plan, together with related form of Restricted Stock Agreement.(11)/*/

10.8 First Amendment dated November 7, 1989 to Southern Electronics Corporation 1988 Restricted Stock Plan.(12)/*/

10.9 Second Amendment dated July 17, 1992 to Southern Electronics Corporation 1988 Restricted Stock Plan.(13)/*/

10.10 Form of Southern Electronics Corporation 1991 Stock Option Plan, together with related forms of Incentive Stock Option Agreement and NonQualified Stock Option Agreement. (14)/*/

10.11 First Amendment dated July 17, 1992 to Southern Electronics Corporation 1991 Stock Option Plan.(15)/*/

10.12 Second Amendment dated August 30, 1996 to Southern Electronics Corporation 1991 Stock Option Plan.(16)/*/

10.13 Form of NonQualified Stock Option Agreement dated as of August 28, 1992 between the Registrant and Cary Rosenthal.(17)/*/

10.14 Employment Agreements dated November 7, 1989, between the Registrant, SED International and each of Gerald Diamond and Jean Diamond (18)/*/, each as amended by form of Amendment No. 1 dated September 24, 1991.(19)/*/

10.15 SED International, Inc. Savings Plan effective as of January 1, 1991, together with Savings Plan Trust and Savings Plan Adoption Agreement.(20)/*/

10.16 Lease Agreement dated November 1992 between H.G. Pattillo and Elizabeth M. Pattillo and SED International.(21)

10.17 Lease Agreement dated August 9, 1993 between New World Partners Joint Venture and SED International and Addendum I thereto ("NWPJV Lease"). (22)

10.18 Second Addendum to NWPJV Lease dated January 10, 1996 among New World Partners Joint Venture, New World Partners Joint Venture Number Two and SED International. (23)

10.19 Third Addendum to NWPJV Lease dated July 24, 1996 between New World Partners Joint Venture Number Two and SED International. (24)

10.20 Amendment to Lease for 4775 N. Royal Atlanta Drive.(25)

10.21 Form of NonQualified Stock Option Agreement dated as of May 21, 1993 between the Registrant and Cary Rosenthal (see Exhibit 10.13)./*/

10.22 Form of NonQualified Stock Option Agreement, dated as of September 13, 1994 between the Registrant and Cary Rosenthal (see Exhibit 10.13)./*/

10.23 Form of NonQualified Stock Option Agreement for Directors. (26)/*/

10.24 1995 Formula Stock Option Plan, together with related form of NonQualified Stock Option Agreement.(27)

10.25 Adoption Agreement for Swerdlin & Registrant Regional Prototype Standardized 401(k) Profit Sharing Plan and Trust, as amended. (28)/*/

10.26 Third Amendment dated September 12, 1996 to the Southern Electronics Corporation Stock Option Plan.(29)/*/

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10.27 Industrial Real Estate Lease (Multi-Tenant Facility) dated as of March 6, 1997, between Majestic Realty Co. and Patrician Associates, Inc., as landlord (the "Landlord"), and SED International, as Tenant, together with Option to Extend Term dated as of March 26, 1997, between the Landlord and SED International, as Tenant. (30)

10.28 Lease Agreement made August 11, 1997, between Gwinnett Industries, Inc. and SED International. (31)

10.29 Lease Agreement made February 3, 1998, between First Industrial Harrisburg, L.P. and SED International. (32)

10.30 Second Amendment to Employment Agreement effective July 1, 1998 between SED International and Gerald Diamond. (33)/*/

10.31 Second Amendment to Employment Agreement effective July 1, 1998 between SED International and Jean Diamond. (34)/*/

10.32 1999 Stock Option Plan dated July 20, 1999, together with related forms of Stock Option Agreement and Restriction Agreement. (35)/*/

10.33 Third Amendment to Employment Agreement effective December 16, 1998 between SED International and Jean Diamond. (36)/*/

10.34 Third Amendment to Employment Agreement effective July 1, 1999 between SED International and Gerald Diamond. (37)/*/

10.35 Fourth Amendment to Employment Agreement effective July 1, 1999 between SED International and Jean Diamond. (38)/*/

10.36 Employment Agreement effective June 1, 1999, between SED International and Ronell Rivera. (39)/*/

10.37 Form of Second Amended and Restated Credit Agreement dated as of August 31, 1999, among the Registrant and SED International as Borrowers and Wachovia Bank, N.A. as Agent. (40)/*/

10.38 Form of Indemnification Agreement entered into with each of the directors of the Registrant and the Registrant. (41)/*/

10.39 Form of Indemnification Agreement entered into with each of the officers of the Registrant and the Registrant. (42)/*/

40. Form of Lease Agreement dated as of April 1, 1999 between Diamond Chip Group, L.L.C. and SED International. (43)

41. Fourth Amendment to Second Amended and Restated Credit Agreement dated October 12, 2001 between SED International Holdings, Inc. and Wachovia Bank, N.A.

42. Employment Agreement effective November 11, 1999 between SED International, Inc. and Barry Diamond.

43. First Amendment to Employment Agreement effective June 1, 2001 between SED International, Inc. and Barry Diamond.

21 Subsidiaries of the Registrant.

23 Independent Auditors' Consent - Ernst & Young LLP

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23.1 Independent Auditors' Consent - Deloitte & Touche LLP

24 Power of Attorney (see signature page to this Registration Statement).

/*/Management contract or compensatory plan or arrangement with one or more directors or executive officers.

(1) Incorporated herein by reference to Exhibit 3.1 to the Registrant's 1999 Form 10-K.

(2) Incorporated herein by refernece to Exhibit 3.2 to the Registrant's 1999 Form 10-K.

(3) Incorporated herein by reference to Exhibit 7 to the Registrant's Current Report on Form 8-K dated October 30, 1996.

(4) Incorporated herein by reference to exhibit of same number to Registrant's Annual Report on Form 10-K for the fiscal year ended June 30, 1991 (SEC File No. 0-16345) ("1991 Form 10-K").

(5) Incorporated herein by reference to Exhibit 10.8 to Registrant's Annual Report on Form 10-K for the fiscal year ended June 30, 1990 (SEC File No. 0-16345) ("1990 Form 10-K").

(6) Incorporated herein by reference to Exhibit 10.5 to Registrant's Annual Report on Form 10-K for the fiscal year ended June 30, 1992 (SEC File No. 0-16345) ("1992 Form 10-K").

(7) Incorporated herein by reference to Exhibit 10.12 to Registrant's ("Registration Statement") on Form S1, filed September 5, 1986 (Reg. No. 338494).

(8) Incorporated herein by reference to Exhibit 10.22 to Registrant's Annual Report on Form 10-K for the fiscal year ended June 30, 1988 (SEC File No. 0-16345).

(9) Incorporated herein by reference to Exhibit 10.25 to Registrant's 1990 Form 10-K.

(10) Incorporated herein by reference to Exhibit 10.12 to Registrant's 1992 Form 10-K.

(11) Incorporated herein by reference to Exhibit 10.21 to Registrant's Annual Report on Form 10-K for the fiscal year ended June 30, 1988 (SEC File No. 0-16345).

(12) Incorporated herein by reference to Exhibit 10.26 to Registrant's 1990 Form 10-K.

(13) Incorporated herein by reference to Exhibit 10.15 to Registrant's 1992 Form 10-K.

(14) Incorporated herein by reference to Annex A to Registrant's definitive Supplemental Proxy Statement dated October 18, 1991 (SEC File No. 0-16345).

(15) Incorporated herein by reference to Exhibit 10.17 to Registrant's 1992 Form 10-K.

(16) Incorporated herein by reference to Appendix A to Registrant's Proxy Statement pertaining to Registrant's 1995 Annual Meeting of Stockholders dated October 1, 1995 (SEC File No. 0-16345).

(17) Incorporated herein by reference to Exhibit 10.18 to Registrant's 1992 Form 10-K.

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(18) Incorporated herein by reference to Exhibit 6(a) to Registrant's Quarterly Report on Form 10-Q for the quarterly period ended December 31, 1989 (SEC File No. 0-16345).

(19) Incorporated herein by reference to Exhibit 10.13 to Registrant's 1991 Form 10-K.

(20) Incorporated herein by reference to Exhibit 10.15 to Registrant's 1991 Form 10-K.

(21) Incorporated herein by reference to Exhibit 10.24 to Registrant's Annual Report on Form 10-K for the fiscal year ended June 30, 1993 (SEC File No. 0-16345) ("1993 Form 10-K").

(22) Incorporated herein by reference to Exhibit 10.25 to Registrant's 1993 Form 10-K.

(23) Incorporated herein by reference to Exhibit 10.32 to Registrant's Annual Report on Form l0-K for the fiscal year ended June 30, 1996 (SEC File No. 0-16345) ("1996 Form 10-K").

(24) Incorporated herein by reference to Exhibit 10.33 to Registrant's 1996 Form 10-K.

(25) Incorporated herein by reference to Exhibit 10.26 to Registrant's Annual Report on Form 10-K for the fiscal year ended June 30, 1995 (SEC File No. 0-16345) ("1995 Form 10-K").

(26) Incorporated herein by reference to Exhibit 10.29 to Registrant's 1995 Form 10-K.

(27) Incorporated herein by reference to Appendix B to Registrant's Proxy Statement pertaining to Registrant's 1995 Annual Meeting of Stockholders dated October 1, 1995 (SEC File No. 0-16345).

(28) Incorporated herein by reference to Exhibit 10.41 to Registrant's 1996 Form 10-K.

(29) Incorporated herein by reference to Appendix A to Registrant's Proxy Statement pertaining to Registrant's 1996 Annual Meeting of Stockholders dated October 1, 1996 (SEC File No. 0-16345).

(30) Incorporated herein by reference to Exhibit 10.2 to the Registrant's Quarterly Report on Form 10-Q for the quarterly period ended March 31, 1997 (SEC File No. 0-16345).

(31) Incorporated herein by reference to Exhibit 10.40 to Registrant's Annual Report on Form 10-K for the fiscal year ended June 30, 1997 (SEC File No. 0-16345).

(32) Incorporated herein by reference to Exhibit 10.45 to Registrants Annual Report on Form 10-K for the fiscal year ended June 30, 1998 (SEC File No. 01-6345) ("1998 Form 10-K").

(33) Incorporated herein by reference to Exhibit 10.48 to Registrant's 1998 Form 10-K.

(34) Incorporated herein by reference to Exhibit 10.49 to Registrant's 1998 Form 10-K.

(35) Incorporated heren by reference to Exhibit 10.39 to Registratn's 1999 Form 10-K.

(36) Incorporated herein by reference to Exhibit 10.1 to the Registrant's Quarterly Report on Form 10-Q for the quarterly period ended December 31, 1998 (SEC File No. 0-16345).

(37) Incorporated herein by reference to Exhibit 10.34 of Registrant's 1999 Form 10-K.

(38) Incorporated herein by reference to Exhibit 10.35 of Registrant's 1999 Form 10-K.

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(39) Incorporated herein by reference to Exhibit 10.36 of Registrant's 1999 Form 10-K.

(40) Incorporated herein by reference to Exhibit 10.37 of Registrant's 1999 Form 10-K.

(41) Incorporated herein by reference to Exhibit 10.38 of Registrant's 1999 Form 10-K.

(42) Incorporated herein by reference to Exhibit 10.39 of Registrant's 1999 Form 10-K.

(43) Incorporated herein by reference to Exhibit 10.40 to Amendment No. 1 to the Registrant's Annual Report on Form 10-K/A for the fiscal year ended June 30, 1999 (SED File No. 0-16345).

(b) Reports on Form 8-K.

None

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) 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.

SED INTERNATIONAL HOLDINGS, INC.

Date: October 15, 2001 By: /s/ Larry G. Ayers

Larry G. Ayers

Vice President - Finance, Chief Financial Officer,

Secretary and Treasurer

POWER OF ATTORNEY

KNOW ALL MEN BY THESE PRESENTS that each person whose signature appears below constitutes and appoints Gerald Diamond, Mark Diamond, and Larry G. Ayers, and any of them, as his true and lawful attorneys-in-fact, each acting alone, with full powers of substitution and resubstitution, for him and in his name, place and stead, in any and all capacities, to sign any and all amendments to the Annual Report on Form 10-K of SED International Holdings, Inc., and to file the same, with all exhibits thereto, and other documents in connection therewith, with the Securities and Exchange Commission and other appropriate agencies, granting unto said attorneys-in-fact, and any of them, full power and authority to do and perform each and every act and thing requisite and necessary to be done in and about the premises, as fully to all intents and purposes as he might or could do in person, hereby ratifying and confirming all that said attorneys-in-fact, or any of them, or their substitutes, each acting alone, may lawfully do or cause to be done by virtue hereof.

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Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the Registrant and in the capacities indicated this 15th day of October, 2001.

/s/ Gerald Diamond

Gerald Diamond

Chairman of the Board, Chief Executive Officer and Director (principal executive officer)

[Signatures continued on following page]

/s/ Larry G. Ayers

Larry G. Ayers

Vice President - Finance, Chief Financial Officer, Secretary and Treasurer (principal financial and accounting officer) and Director

/s/ Stewart I. Aaron

Stewart I. Aaron

Director

/s/ Elliott Cohen

Elliott Cohen

Director

/s/ Joel Cohen

Joel Cohen

Director

/s/ Melvyn I. Cohen

Melvyn I. Cohen

Director

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/s/ Mark Diamond

Mark Diamond

President, Chief Operating Officer and Director

/s/ Cary Rosenthal

Cary Rosenthal

Director

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ARTICLES OF AMENDMENT

TO THE

ARTICLES OF INCORPORATION

OF

SED INTERNATIONAL HOLDINGS, INC.

I.

The name of the Corporation is SED International Holdings, Inc.

II.

Effective the date hereof, the first paragraph of Article II of the Articles of Incorporation of SED International Holdings, Inc. is amended to read as follows:

"AUTHORIZED SHARES

The corporation is authorized to issue two classes of shares to be designated respectively "Common Stock" and "Preferred Stock". The total number of shares which the corporation is authorized to issue is one hundred million one hundred twenty-nine thousand five hundred (100,129,500) shares. The number of shares of Common Stock authorized is one hundred million (100,000,000) shares, and the par value of each share is $.01. The number of shares of Preferred Stock authorized is one hundred twenty-nine thousand five hundred shares (129,500), and the par value of each share is $1.00. The corporation, pursuant to Section 14-2-631 of the Georgia Business Corporation Code, may acquire its own shares and any such reacquired shares may, at the discretion of the Board of Directors, be designated as treasury shares of the corporation. The Board of Directors shall designate all shares that are to be classified as treasury shares at the time of the adoption of these amended articles."

All other provisions of the Articles of Incorporation shall remain in full force and effect.

III.

The Amendment set forth herein was adopted on May 1, 2001.

IV.

This amendment was duly approved by the directors without shareholder action in accordance with the provisions of Section 14-2-1002 and 14-2-631 of the Georgia Business Corporation Code, and pursuant to such sections no shareholder action was required.

IN WITNESS WHEREOF, the Corporation has caused these Articles of Amendment to be executed and attested by its duly authorized officers on May _____, 2001.

SED INTERNATIONAL HOLDINGS, INC. ATTEST:

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By: /s/ Mark Diamond, President /s/ Larry G. Ayers

Authorized Officer Secretary

CERTIFICATE OF MERGER

OF SED INTERNATIONAL HOLDINGS, INC.

WITH AND INTO SED MERGER CORP.

Pursuant to Section 14-2-1105 of the Georgia Business Corporation Code, the undersigned corporation does hereby certified, as follows:

I.

The name and state of incorporation of each entity which is merging is as follows:

Name State of Incorporation/Organization

SED International Holdings, Inc. Delaware

SED Merger Corp. Georgia

II.

Pursuant to an Agreement and Plan of Merger (the "Plan of Merger"), SED International Holdings, Inc., a Delaware corporation, will merge with and into SED Merger Corp., a Georgia corporation (the "Merger"). SED Merger Corp. will be the surviving entity in the Merger (hereinafter sometimes referred to as the "Surviving Company").

III.

The Articles of Incorporation of SED Merger Corp. shall continue in full force and effect as the Articles of Incorporation of the Surviving Company, amended only to change the name of the Surviving Company to SED International Holdings, Inc.

IV.

An executed copy of the Plan of Merger is on file at the principal place of business of the Surviving Company, which will be 4916 North Royal Atlanta Drive, Tucker, Georgia 30085. A copy of the Plan of Merger will be furnished by the Surviving Company, on request and without cost, to any shareholder of any corporation that is a party to the merger.

V.

The Merger was duly approved by the stockholders of SED International Holdings, Inc., and the sole shareholder of SED Merger Corp.

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VI.

The request for publication of a Notice of Filing of the Certificate of Merger and payment therefore will be made as required by Section 14-2-1105.1 of the Georgia Business Corporation Code.

IN WITNESS WHEREOF, the undersigned has executed this Certificate of Merger on November 10, 1998.

SED MERGER CORP.

By: /s/ Ray D. Risner

Name: Ray D. Risner

Title: President and Chief Operating Officer

Attest: /s/ Larry G. Ayers

Larry G. Ayers, Secretary

ARTICLES OF INCORPORATION

OF

SED MERGER CORP.

I.

CORPORATE NAME

The name of the corporation is:

SED MERGER CORP.

II.

AUTHORIZED SHARES

The corporation is authorized to issue two classes of shares to be designated respectively "Common Stock" and "Preferred Stock." The total number of shares which the corporation is authorized to issue is one hundred million one

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hundred twenty-nine thousand five hundred (100,129,500) shares. The number of shares of Common Stock authorized is one hundred million (100,000,000) shares, and the par value of each share is $.01. The number of shares of Preferred Stock authorized is one hundred twenty-nine thousand five hundred shares (129,500), and the par value of each share is $1.00.

Authority is hereby expressly granted to the board of directors from time to time to issue the Preferred Stock as Preferred Stock of one or more series and in connection with the creation of any such series to fix by the resolution or resolutions providing for the issue of shares thereof the designation, powers, preferences and relative, participating, optional or other special rights of such series, and the qualifications, limitations or restrictions thereof. Such authority of the board of directors with respect to each such series shall include, but not be limited to, the determination of the following:

(a) the distinctive designation of, and the number of shares comprising, such series, which number may be increased (except where otherwise provided by the board of directors in creating such series) or decreased (but not below the number of shares thereof then outstanding) from time to time by like action of the board of directors;

(b) the dividend rate or amount for such series, the conditions and dates upon which such dividends shall be payable, the relation which such dividends shall bear to the dividends payable on any other class or classes or any other series of any class or classes of stock, and whether such dividends shall be cumulative, and if so, from which date or dates for such series;

(c) whether or not the shares of such series shall be subject to redemption by the corporation and the times, prices, and other terms and conditions of such redemption;

(d) whether or not the shares of such series shall be subject to the operation of a sinking fund or purchase fund to be applied to the redemption or purchase of such shares and if such a fund be established, the amount thereof and the terms and provisions relative to the application thereof;

(e) whether or not the shares of such series shall be convertible into or exchangeable for shares of any other class or classes of stock of the corporation and if provision be made for conversion or exchange, the times, prices, rates, adjustments, and other terms and conditions of such conversion or exchange;

(f) whether or not the shares of such series shall have voting rights, in addition to the voting rights provided by law, and if they are to have such additional voting rights, the extent thereof;

(g) the rights of the shares of such series in the event of any liquidation, dissolution or winding up of the corporation or upon any distribution of its assets; and

(h) any other powers, preferences, and relative, participating, optional, or other special rights of the shares of such series, and the qualifications, limitations, or restrictions thereof, to the full extent now or hereinafter permitted by law and not inconsistent with the provisions hereof.

All shares of any one series of Preferred Stock shall be identical in all respects except as to the dates from which dividends thereon may be cumulative. All series of the Preferred Stock shall rank equally and be identical in all respects except as otherwise provided in the resolution or resolutions providing for the issue of any series of Preferred Stock.

Whenever dividends upon the Preferred Stock at the time outstanding, to the extent of the preference to which such stock is entitled, shall have been paid in full or declared and set apart for payment for all past dividend periods, and after the provisions for any sinking or purchase fund or funds for any series of Preferred Stock shall have been complied with, the board of directors may declare and pay dividends on the Common Stock, payable in cash, stock, or

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otherwise, and the holders of shares of Preferred Stock shall not be entitled to share therein, subject to the provisions of the resolution or resolutions creating any series of Preferred Stock.

In the event of any liquidation, dissolution, or winding up of the corporation or upon the distribution of the assets of the corporation remaining, after the payment to the holders of the Preferred Stock of the full preferential amounts to which they shall be entitled as provided in the resolution or resolutions creating any series thereof, shall be divided and distributed among the holders of the Common Stock ratably, except as may otherwise be provided in any such resolution or resolutions.

Neither the merger or consolidation of the corporation with another corporation nor the sale or lease of all or substantially all the assets of the corporation shall be deemed to be a liquidation, dissolution, or winding up of the corporation or a distribution of its assets.

III.

INITIAL REGISTERED OFFICE AND AGENT

The street address and county of the initial registered office of the corporation is 4916 North Royal Atlanta Drive, Tucker, Georgia 30085. The initial registered agent at such office shall be Harvey R. Linder.

IV.

INCORPORATOR

The name and address of the incorporator are as follows:

Harvey R. Linder, Esq.

c/o SED International Holdings, Inc.

4916 North Royal Atlanta Drive

Tucker, Georgia 30085

V.

INITIAL PRINCIPAL OFFICE

The mailing address of the initial principal office of the corporations 4916 North Royal Atlanta Drive, Tucker, Georgia 30085.

V1.

INITIAL DIRECTORS

The board of directors shall be divided into three classes, designated as Class I, Class 11 and Class III. Each class shall consist, as nearly as may be possible, of one-third of the total number of directors constituting the entire board of directors. The term of office of one class of directors shall expire each year. At each annual meeting of shareholders, the directors of one class shall be elected to hold office for a term expiring at the third annual meeting following the election and until a successor shall have been duly elected and qualified. During the intervals between annual meetings of shareholders, any vacancy occurring in the board of directors caused by resignation, removal, death or other incapacity, and any newly created directorships resulting from an increase in the number of directors may be filled by

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a majority vote of the directors then in office, whether or not a quorum. Each director chosen to fill a vacancy shall hold office for the unexpired term in respect of which such vacancy occurred. When the number of directors is changed, any newly created directorships or any decrease in directorships shall be so apportioned among the classes as to make all classes as nearly equal in number as possible. The shareholders may, at any meeting called for the purpose or by unanimous written consent of the shareholders in lieu of a meeting, remove any director from office, but only for cause, and may elect his successor.

The initial board of directors of the corporation shall consist of six members, and the name, address and initial term of office of each member is set forth below:

Class I directors to hold office until the 2001 Annual Meeting of Shareholders:

Stewart I. Aaron

7585-D Ponce de Leon Circle

Doraville, Georgia 303140-3162

Mark Diamond

4916 North Royal Atlanta Drive

Tucker, Georgia 30085

Class II directors to hold office until the 1999 Annual Meeting of Shareholders:

Ray D. Risner

4916 North Royal Atlanta Drive

Tucker, Georgia 30085

Cary Rosenthal

5664 New Peachtree Road

Atlanta, Georgia-3) 0341

Class III directors to hold office until the 2000 Annual Meeting of Shareholders:

Gerald Diamond

4916 North Royal Atlanta Drive

Tucker, Georgia 30085

Joel Cohen

P.O. Box 1527

Dalton, Georgia 30720

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Notwithstanding any other provisions of the Articles of Incorporation or the Bylaws (and notwithstanding the fact that a lesser percentage for separate class votes for certain actions may be permitted by law, by the Articles of Incorporation or by the Bylaws), the affirmative vote of the holders of not less than 80% of the votes entitled to be cast by the holders of all then outstanding shares of voting stock, voting together as a single class, will be required to amend or repeal any provision of the Articles of Incorporation or the Bylaws to the extent that such action is inconsistent with the purpose of this Article VI; *provided, however,* that the provisions of this paragraph shall not apply to amendments to the Bylaws or Articles of Incorporation that are recommended by not less than 75% of the members of the board of directors.

VII.

LIMITATIONS ON DIRECTOR LIABILITY

No director of the corporation shall be personally liable to the corporation or its shareholders for monetary damages for any action taken, or any failure to take any action, as a director, except for liability (i) for any appropriation, in violation of his duties, of any business opportunity of the corporation; (ii) for acts or omissions which involve intentional misconduct or a knowing violation of the law; (iii) for the types of liability set forth in Section 14-2-832 of the Georgia Business Corporation Code; or (iv) for any transaction from which the director received an improper personal benefit. If the Georgia Business Corporation Code is amended after the effective date of this Article to authorize corporate action further limiting the personal liability of directors, then the liability of a director of the corporation shall be limited to the fullest extent permitted by the Georgia Business Corporation Code, as so amended. Any repeal or modification of the foregoing paragraph by the shareholders of the corporation shall not adversely affect any right or protection of a director of the corporation existing at the time of such repeal or modification.

VIII.

ACTION WITHOUT MEETING

Any action required or permitted to be taken at a shareholders meeting may be taken without a meeting of the shareholders only if the action is evidenced by one or more written consents describing the action taken, signed by the holders of not less than 100% of the shares that would be entitled to vote at a meeting of shareholders. No written consent signed under this provision shall be valid unless the consenting shareholder has been furnished the same material that, under the Georgia Business Corporation Code, would have been required to be sent to shareholders in a notice of a meeting at which the proposed action would have been submitted to the shareholders for action, or it contains an express waiver of the rights to receive such material.

Notwithstanding any other provisions of the Articles of Incorporation or the Bylaws (and notwithstanding the fact that a lesser percentage for separate class votes for certain actions may be permitted by law, by the Articles of Incorporation or by the Bylaws), the affirmative vote of the holders of not less than 80% of the votes entitled to be cast by the holders of all then outstanding shares of voting stock, voting together as a single class, will be required to amend or repeal any provision of the Articles of Incorporation or the Bylaws to the extent that such action is inconsistent with the purpose of this Article VIII; *provided, however,* that the provisions of this paragraph shall not apply to amendments to the Bylaws or Articles of Incorporation that are recommended by not less than 75% of the members of the board of directors.

IX.

ADVANCE NOTIFICATION OF SHAREHOLDER PROPOSALS

The annual meeting of the shareholders of the corporation shall be held each year for the purposes of electing directors and of transacting such other business as properly may be brought before the meeting. To be properly brought before the meeting, business must be brought (i) by or at the direction of the board of directors or (ii) by any shareholder of

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the corporation entitled to vote at the meeting who complies with the procedures set forth in this Article IX; provided, in each case, that such business proposed to be conducted is, under the law, an appropriate subject for shareholder action.

For business to be properly brought before an annual meeting by a shareholder, the shareholder must give timely notice thereof in writing to the Secretary of the corporation. To be timely, a shareholder's notice must be received 'by the Secretary at the principal executive offices of the corporation not fewer than 120 calendar days prior to the first anniversary of the date that the corporation's proxy statement (or, in the event the stockholders of SED International Holdings, Inc., a Delaware corporation (the "Predecessor Corporation") approve the merger of the Predecessor Corporation with and into the corporation at the 1998 Annual Meeting of Stockholders of the Predecessor Corporation, then the Predecessor Corporation's proxy statement) was released to shareholders in connection with the preceding year's annual meeting of shareholders. However, if no annual meeting of shareholders of either the corporation or the Predecessor Corporation, as the case may be, were held in the previous year or if the date of the annual meeting of shareholders of such corporation has been changed by more than 30 calendar days from the date contemplated at the time of the previous year's proxy statement of such corporation, the notice shall be received by the Secretary at the principal executive offices of the corporation no later than the later of (i) 150 days prior to the date of the contemplated annual meeting or (ii) the date which is 10 calendar days after the date of the first public announcement or other notification to the shareholders of the date of the contemplated annual meeting.

Such shareholder's notice to the Secretary shall set forth as to each matter such shareholder proposes to bring before the annual meeting (i) a brief description of the business desired to be brought before the annual meeting and the reasons for conducting such business at the annual meeting; (ii) the name and address, as they appear on the corporation's books, of the shareholder proposing such business; (iii) the class and number of shares of the corporation which are beneficially owned by such shareholder; (iv) the dates upon which the shareholder acquired such shares; (v) documentary support for any claim of beneficial ownership; (vi) any material interest of such shareholder in such business; (vii) a statement in support of the matter and any other information required by Securities and Exchange Commission Rule 14a-8, as may be amended; and (viii) as to each person whom the shareholder proposes to nominate for election or reelection as director all information relating to such person that is required to be disclosed in solicitations of proxies for election of directors in an election contest, or is otherwise required, in each case pursuant to Regulation 14A under the Securities Exchange Act of 1934, as amended (including such person's written consent to being named in the proxy statement as a nominee and to serving as a director if elected, and evidence satisfactory to the corporation that such nominee has no interests that would limit his or her ability to fulfill his or her duties of office).

In addition, if the shareholder intends to solicit proxies from the shareholders of the corporation, such shareholder shall notify the corporation of this intent in accordance with Securities and Exchange Commission Rules 14a-8 and l4a-4(c)(2)(i), as such rules may be amended.

Notwithstanding any other provisions of the Articles of Incorporation or the Bylaws (and notwithstanding the fact that a lesser percentage for separate class votes for certain actions may be permitted by law, by the Articles of Incorporation or by the Bylaws), the affirmative vote of the holders of not less than 80% of the votes entitled to be cast by the holders of all then outstanding shares of voting stock, voting together as a single class, will be required to amend or repeal any provision of the Articles of Incorporation or the Bylaws to the extent that such action is inconsistent with the purpose of this Article IX; *provided, however,* that the provisions of this paragraph shall not apply to amendments to the Bylaws or Articles of Incorporation that are recommended by not less than 75% of the members of the board of directors.

X.

INDEMNIFICATION OF DIRECTORS AND OFFICERS

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Each person who was or is made a party or is threatened to be made a party to or is otherwise involved in any threatened, pending or completed action, suit or proceeding, whether civil, criminal, administrative or investigative including any proceeding brought by or in the right of the corporation (hereinafter a "proceeding"), by reason of the fact he or she, or a person of whom he or she is a legal representative, is or was a director or officer of the corporation or a designated officer of an operating division or subsidiary of the corporation, or who, while a director or officer of the corporation, is or was serving at the request of the corporation as a director or officer of another foreign or domestic corporation, partnership, joint venture, trust, employee benefit plan, or other enterprise, shall be indemnified and held harmless by the corporation to the fullest extent authorized by the Georgia Business Corporation Code, as the same exists or may hereafter be amended (but in the case of any such amendment, only to the extent that such amendment permits the corporation to provide broader indemnification rights than the Georgia Business Corporation Code permitted the corporation to provide prior to such amendment), against all expense, liability and loss (including attorneys' fees, judgments, fines, ERISA excise taxes or penalties, and amounts paid or to be paid in settlement) actually and reasonably incurred or suffered by such director or officer in connection with any such proceeding. Such indemnification shall continue as to a director or officer who has ceased to be a director or officer, as applicable, and shall inure to the benefit of the heirs, executors and administrators of the director or officer. Except with respect to proceedings to enforce rights to indemnification by a director or officer, the corporation shall indemnify any such director or officer in connection with a proceeding (or part thereof) initiated by such director or officer only if such proceeding (or part thereof) was authorized by the board of directors of the corporation. The right to indemnification conferred in this Article shall be a contract right.

The corporation shall pay for or reimburse the actual and reasonable expenses incurred by a director or officer who is a party to a proceeding in advance of final disposition of the proceeding if the director or officer furnishes the corporation: (i) a written affirmation of his or her good faith belief that he or she has met the standard of conduct set forth in Georgia Business Corporation Code Section 14-2-851 (a); and (ii) a written undertaking, executed personally or on his or her behalf, to repay any advances if it is ultimately determined that he or she is not entitled to indemnification for such expenses under this Article or otherwise. The undertaking must be an unlimited general obligation of the director or officer but need not be secured and may be accepted without reference to director's financial ability to make repayment.

IN WITNESS WHEREOF, the undersigned incorporator has executed these Articles of Incorporation as of the 29th day of September, 1998.

/s/ Harvey R. Linder

Harvey R. Linder, Incorporator

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FOURTH AMENDMENT TO SECOND AMENDED AND RESTATED CREDIT AGREEMENT

THIS FOURTH AMENDMENT TO SECOND AMENDED AND RESTATED CREDIT AGREEMENT (this "Amendment") is dated and is effective as of October 12, 2001, among SED INTERNATIONAL HOLDINGS, INC. and SED INTERNATIONAL, INC., jointly and severally (collectively, the "Borrowers"), WACHOVIA BANK, N.A., as Agent (the "Agent") and the Banks party to the "Credit Agreement" defined below (collectively, the "Banks");

W I T N E S S E T H:

WHEREAS, the Borrowers, the Agent and the Banks executed and delivered that certain $50,000,000 Second Amended and Restated Credit Agreement, dated as of August 31, 1999 (as amended by the First Amendment thereto dated as of September 30, 2000, as further amended by that certain letter dated February, 2001, as further amended by that certain Second Amendment dated as of March 30, 2001, and as further amended by that certain Third Amendment dated May 2, 2001 to Amended and Restated Credit Agreement, the "Credit Agreement");

WHEREAS, the Borrowers have requested and the Agent and the Banks have agreed to make certain amendments to the Credit Agreement, subject to the terms and conditions hereof;

NOW, THEREFORE, for and in consideration of the above premises and other good and valuable consideration, the receipt and sufficiency of which hereby is acknowledged by the parties hereto, the Borrowers, the Agent and the Banks hereby covenant and agree as follows:

1. Definitions. Unless otherwise specifically defined herein, each term used herein which is defined in the Credit Agreement has the meaning assigned to such term in the Credit Agreement. Each reference to "hereof", "hereunder", "herein" and "hereby" and each other similar reference and each reference to "this Agreement" and each other similar reference contained in the Credit Agreement from and after the date hereof refer to the Credit Agreement as amended hereby.

2. Waiver. The Borrowers have advised the Agent and the Banks that the Borrowers were in Default under Sections 6.21, 6.23(a), 6.23(b), and 6.24 of the Credit Agreement during the period from June 30, 2001, through and including the date of this Amendment, which Default constitutes an Event of Default under the Credit Agreement (the "Financial Covenant Event of Default"). The Borrowers have requested that the Agent and the Banks waive such Financial Covenant Event of Default solely for the period from June 30, 2001, through and including the date of this Amendment (the "Waiver Period"). The Agent and each of the Banks hereby waive the Financial Covenant Event of Default solely for the Waiver Period. Such waiver of the Financial Covenant Event of Default granted by the Agent and the Banks under this letter shall not extend beyond the Waiver Period and shall thereafter be null and void, and of no force or effect. The waiver of the Financial Covenant Event of Default contained in this letter shall not extend to any other existing Default or Event of Default or other provision of the Credit Agreement or any of the other Loan Documents, whether now existing or hereafter arising. All other provisions of the Credit Agreement and the other Loan Documents remain in full force and effect.

3. Amendments to Credit Agreement. The following amendments are made to the Credit Agreement:

(a) The Aggregate Commitments are reduced from $35,000,000 to $25,000,000.

(b) The following new definitions are hereby added to the Section 1.01:

"Delinquent Trade Payables Reserve" means, at the time of determination, the aggregate amount payable by Borrowers (after deducting any discounts, forgiveness, and allowances actually granted, but including, without limitation, any late fees, charges, and accrued but unpaid interest) under each of the Borrowers' trade payables which, by the original terms

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of such trade payables, are overdue for payment, without considering any extensions to the time of payment granted by, or on behalf of, the Person to whom such trade payable is due.

"SED Magna Note" means a promissory note made by SED Magna and payable to Borrowers in the original face principal amount of $2,000,000, which note shall (a) evidence all loans made by Borrowers to SED Magna in accordance with Section 6.17; (b) constitute additional collateral security for Borrowers' payment and performance of the Obligations and, in furtherance thereof, shall be promptly delivered to Agent's possession upon its execution by SED Magna and delivery to Borrowers; and (c) be in form and substance satisfactory to Agent.

(c) The definition of "Borrowing Base" is amended and restated in its entirety as follows:

"Borrowing Base" means the following sum:

(i) (A) an amount equal to 70% (or such greater or lesser percentage which the Agent shall establish by written notice to the Borrowers in its good faith discretion) of the face dollar amount of Eligible Accounts as at the date of determination,

PLUS

(B) an amount equal to the lesser of

(x) 40% (or such greater or lesser percentage which the Agent shall establish by written notice to the Borrowers in its good faith discretion) of the dollar amount of the Eligible Inventory, valued at the lower of its FIFO ("first-in, first-out") cost or market value, as at the date of determination, and

(y) the lesser of

(1) 50% of the Aggregate Commitments, and

(2) the amount of clause (i)(A) of this definition,

MINUS

(ii) (A) the IBM Reserve,

PLUS

(B) the Delinquent Trade Payables Reserve,

PLUS

(C) any additional reserve determined by the Agent, in its sole discretion, as the Agent deems necessary as security for payment of the Obligations.

(d) The definition of "Termination Date" is amended and restated in its entirety as follows:

"Termination Date" means whichever is applicable of (i) November 1, 2002, (ii) the date the Commitments are terminated pursuant to Section 7.01 following the occurrence of an Event of Default, or (iii) the date the Borrowers terminate the Commitments entirely pursuant to Section 2.07.

(e) Section 2.04(b) is amended and restated in its entirety as follows:

(b) Notwithstanding the foregoing, the outstanding principal amount of the Loans, if any, together with all accrued but unpaid interest thereon, if any, shall be due and payable on the Termination Date; provided, however, the Termination Date will be automatically extended (subject to the terms of this Agreement, including, without limitation, Sections 7.01 and 2.07) for additional periods of 12 months each ending on November 1 of each year, unless the Agent, on behalf of the Lenders, or the Borrowers, send written notice to other parties hereto terminating such automatic extension on or before September 1 of the then current year.

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(f) Section 2.05(a) is amended so that it reads, in its entirety, as follows:

(a) "Applicable Margin" means, with respect to Euro-Dollar Loans, 2.75%, and, with respect to Base Rate Loans, 0.50%.

(g) The reference to "0.375%" contained in Section 2.06(a)(i) is amended to read "0.50%".

(h) The beginning clause of Section 6.01(f), which currently reads "(f) at the end of each calendar week," is amended so that it reads, in its entirety, "(f) on each Domestic Business Day". The remainder of Section 6.01(f) remains unchanged.

(i) Section 6.17 is amended so that it reads, in its entirety, as follows:

SECTION 6.17. Investments. Neither the Borrowers nor any of the Subsidiaries shall make any Restricted Investments; provided, however, Borrowers may from time to time make loans to SED Magna in an aggregate initial principal amount not to exceed $2,000,000, but only if (i) none of such loans exceeds, by itself, $500,000; (ii) each of such loans is made on a different Domestic Business Day; (iii) no Default or Event of Default is in existence at the time any of such loans is made; (iv) each of such loans is evidenced by the SED Magna Note; (v) the SED Magna Note, before any such loan is made, has been executed by SED Magna and delivered to Borrowers, and Borrowers have, in turn, delivered such SED Magna Note to Agent to perfect Agent's security interest in the SED Magna Note granted below; (vi) the SED Magna Note is, at the time each loan is made, subject to a first priority, perfected security interest in favor of Agent; and (vii) immediately after giving effect to any such loan, (A) no Default or Event of Default will be in existence, and (B) the Borrowers will have sufficient availability to borrow at least $7,500,000 in Loans in accordance with the terms of Section 2.01 of this Agreement. The loans permitted under this Section 6.17 shall be non-revolving, which means that repayments of such loans shall not allow Borrowers to make additional loans to SED Magna. Borrowers hereby grant Agent, for itself and the Banks, a security interest in and to the SED Magna Note as additional collateral security for the Borrowers' payment and performance of the Obligations.

(j) Section 6.21 is amended so that it reads, in its entirety, as follows:

SECTION 6.21. Fixed Charge Coverage. Commencing on December 31, 2001, and tested on such date and at the end of each Fiscal Quarter thereafter, the ratio of EBILTDA to Consolidated Fixed Charges shall not at any time be less than the following amounts as of the end of each of the following Fiscal Quarters:

Fiscal Quarter Ending	Ratio
December 31, 2001	1.0 to 1.0
March 31, 2001	1.25 to 1.0
June 30, 2002, and each Fiscal Quarter	
thereafter	1.5 to 1.0

The foregoing ratio shall be calculated on a cumulative basis for the Fiscal Quarter just ended and the immediately preceding three Fiscal Quarters; provided, however, for the 3 consecutive Fiscal Quarters ending on or after December 31, 2001, the foregoing ratio shall be calculated

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as follows: (i) for the Fiscal Quarter ending December 31, 2001, times 4, (ii) for the Fiscal Quarters ending December 31, 2001, and March 31, 2002, on a cumulative basis, times 2, and (iii) for the first, second and third consecutive Fiscal Quarters ending on or after December 31, 2001, on a cumulative basis, times 1.3333.

(k) Section 6.23 is amended so that it reads, in its entirety, as follows:

SECTION 6.23. Minimum Profitability. (a) Tested at the end of each Fiscal Quarter, the Borrowers' EBITDA shall be greater than the minimum levels as set froth below opposite such Fiscal Quarter ended:

Fiscal Quarter Ending	Minimum Level:
December 31, 2001	$0
March 31, 2001	$500,000
June 30, 2002, and each Fiscal Quarter	
thereafter	$850,000

(b) Tested at the end of each Fiscal Quarter, the EBITDA of SEDI and SED E-Store, on a consolidated basis as between them, but otherwise on a non-consolidated basis as to all other members of the consolidated group to which they might otherwise belong (and notwithstanding any reference to the term "consolidated basis" or the like contained in any defined term used in this clause (b)), shall be greater than the minimum levels as set forth below opposite such Fiscal Quarter ended:

Fiscal Quarter Ending	Minimum Level:
December 31, 2001	$400,000
March 31, 2002	$850,000
June 30, 2002, and each Fiscal Quarter	
Thereafter	$1,000,000

(l) Section 6.24 is amended so that it reads, in its entirety, as follows:

SECTION 6.24. Minimum Consolidated Tangible Net Worth. Consolidated Tangible Net Worth will as of June 30, 2001, be not less than $32,000,000, and at all times thereafter will not be less than (x) $32,000,000 plus (y) the sum of (i) 75% of the cumulative Reported Net Income of the Borrowers and the Consolidated Subsidiaries during any period after March 31, 2001 (taken as one accounting period), calculated quarterly at the end of each Fiscal Quarter (but excluding from such calculations of Reported Net Income for purposes of this clause (i), any Fiscal Quarter in which the Reported Net Income of the Borrowers and the Consolidated Subsidiaries is negative), and (ii) 100% of the

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cumulative Net Proceeds of Capital Stock received during any period after March 31, 2001, calculated quarterly at the end of each Fiscal Quarter.

4. Landlord Lien Waiver. Within sixty days of the date of this Amendment, the Borrowers shall deliver to Agent a fully executed Landlord Agreement with respect to SEDI for its City of Industry, California, location, along with copies of the executed leases therefor, and each of the Borrowers agrees that the failure to comply with this Section 4 shall constitute an a breach of covenant as contemplated in Section 7.01(c) of the Credit Agreement.

5. Exhibits and Schedules. Paragraphs 4, 6, and 7 of the Compliance Certificate attached to Exhibit H of the Credit Agreement is amended and restated in its entirety as set forth on Exhibit A to this Amendment.

6. Effect of Amendment. Except as set forth expressly hereinabove, all terms of the Credit Agreement and the other Loan Documents remain in full force and effect, and constitute the legal, valid, binding and enforceable obligations of the Borrowers. The amendments contained herein will be deemed to have prospective application only, unless otherwise specifically stated herein.

7. Ratification. Each of the Borrowers hereby restates, ratifies and reaffirms each and every term, covenant and condition set forth in the Credit Agreement and the other Loan Documents effective as of the date hereof.

8. Counterparts. This Amendment may be executed in any number of counterparts and by different parties hereto in separate counterparts, each of which when so executed and delivered will be deemed to be an original and all of which counterparts, taken together, will constitute but one and the same instrument.

9. Section References. Section titles and references used in this Amendment have no substantive meaning or content of any kind whatsoever and are not a part of the agreements among the parties hereto evidenced hereby.

10. No Default; Release. To induce the Agent and the Banks to enter into this Amendment and to continue to make advances pursuant to the Credit Agreement, each of the Borrowers hereby acknowledges and agrees that, as of the date hereof, and after giving effect to the terms hereof, (i) there exists no Default or Event of Default, (ii) there exists no right of offset, defense, counterclaim, claim or objection in favor of the Borrowers arising out of or with respect to any of the Loans or other obligations of the Borrowers owed to the Banks under the Credit Agreement, and (iii) the Agent and each of the Banks has acted in good faith and has conducted its relationships with each of the Borrowers in a commercially reasonable manner in connection with the negotiations, execution and delivery of this Amendment and in all respects in connection with the Credit Agreement, each of the Borrowers hereby waiving and releasing any such claims to the contrary. A default or breach of representation or warranty by the Borrowers under this Amendment shall constitute an Event of Default under the Credit Agreement.

11. Further Assurances. Each of the Borrowers agrees to take such further actions as the Agent reasonably requests in connection herewith to evidence the amendments herein contained.

12. Governing Law. This Amendment is governed by, and construed and interpreted in accordance with, the laws of the State of Georgia.

13. Conditions Precedent; Amendment Fee. This Amendment becomes effective only upon the execution and delivery of this Amendment by each of the parties hereto. The Borrower agrees to pay the Banks a fully earned and non-refundable amendment fee equal to $20,000 in the aggregate upon the execution and delivery of this Amendment.

[Signatures on Following page]

IN WITNESS WHEREOF, the Borrowers, the Agent and each of the Banks has caused this Amendment to be duly executed, under seal, by its duly authorized officer as of the day and year first above written.

SED INTERNATIONAL HOLDINGS, INC.

By:_________________________ (SEAL)

Title:

SED INTERNATIONAL, INC.

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By:_________________________ (SEAL)

Title:

WACHOVIA BANK, N.A.,

as Agent and as the sole Bank

By:_________________________ (SEAL)

Title:

EXHIBIT A

(Amended and restated paragraphs 4, 6, and 7 contained in the

Compliance Certificate set forth on Exhibit H to the Credit Agreement)

4. Fixed Charge Coverage (Section 6.21)

Commencing on December 31, 2001, and tested on such date and at the end of each Fiscal Quarter thereafter, the ratio of EBILTDA to Consolidated Fixed Charges shall not at any time be less than the following amounts as of the end of each of the following Fiscal Quarters:

Fiscal Quarter Ending	Ratio
December 31, 2001	1.0 to 1.0
March 31, 2002	1.25 to 1.0
June 30, 2002, and each Fiscal Quarter	
thereafter	1.5 to 1.0

The foregoing ratio shall be calculated on a cumulative basis for the Fiscal Quarter just ended and the immediately preceding three Fiscal Quarters; provided, however, for the 3 consecutive Fiscal Quarters ending on and after December 31, 2001, the foregoing ratio shall be calculated as follows: (i) for the Fiscal Quarter ending December 31, 2001, times 4, (ii) for the Fiscal Quarters ending December 31, 2001, and March 31, 2002, on a cumulative basis, times 2, and (iii) for the first, second and third consecutive Fiscal Quarters ending on or after December 31, 2001, on a cumulative basis, times 1.3333.

6. Minimum Profitability (Section 6.23)

(a) Tested at the end of each Fiscal Quarter, the Borrower's EBITDA for such Fiscal Quarter shall be greater than the minimum levels set forth in Section 6.23 of the Credit Agreement.

(a) EBITDA - Schedule 5 $_____________

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(b) Requirement (minimum level) $_____________

(b) Tested at the end of each Fiscal Quarter, the EBITDA for such Fiscal Quarter of SEDI and SED E-Store, on a consolidated basis as between them, but otherwise on a non-consolidated basis as to all other members of the consolidated group to which they might otherwise belong (and notwithstanding any reference to the term "consolidated basis" or the like contained in any defined term used in this clause (b)), shall be greater than the minimum level as set forth in Section 6.23 of the Credit Agreement.

(a) EBITDA - Schedule 5(A) $_____________

(b) Requirement (minimum level) $_____________

7. Minimum Consolidated Tangible Net Worth (Section 6.24)

Consolidated Tangible Net Worth will as of June 30, 2001, be not less than $32,000,000, and at all times thereafter will not be less than (x) $32,000,000 plus (y) the sum of (i) 75% of the cumulative Reported Net Income of the Borrowers and the Consolidated Subsidiaries during any period after March 31, 2001 (taken as one accounting period), calculated monthly at the end of each month (but excluding from such calculations of Reported Net Income for purposes of this clause (i), any month in which the Reported Net Income of the Borrowers and the Consolidated Subsidiaries is negative), and (ii) 100% of the cumulative Net Proceeds of Capital Stock received during any period after March 31, 2001, calculated monthly at the end of each month.

(a) $32,000,000

(b) 75% of positive Reported Net Income

after March 31, 2001 $

(c) 100% of cumulative Net Proceeds of Capital

Stock received after March 31, 2001 $

Actual Consolidated Tangible

Net Worth - Schedule 4 $

Required Consolidated Tangible Net

Worth (sum of (a) plus (b) plus (c)) $

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EMPLOYMENT AGREEMENT

THIS EMPLOYMENT AGREEMENT (the "Agreement") is made as of the 11th day of November, 1999 between Barry Diamond (the "Employee") and SED International, Inc., a Georgia corporation (the "Subsidiary") and wholly-owned subsidiary of SED International Holdings, Inc., a Georgia corporation (the "Company").

W I T N E S S E T H :

WHEREAS, the Subsidiary desires to enter into this Agreement regarding Employee's employment by the Subsidiary and Employee desires to accept the terms of said employment;

NOW, THEREFORE, for good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, it is hereby agreed as follows:

1. Employment of Employee. This Agreement is effective for a period of three (3) years commencing as of November 11, 1999, unless this Agreement is sooner terminated pursuant to the provisions hereof. Employee agrees to such employment on the terms and conditions herein set forth and agrees to devote his best efforts to his duties under this Agreement and to perform such duties diligently and efficiently and in accordance with the directions of the Subsidiary.

During the term of this Agreement, Employee shall be employed as Vice President -- Cellular Division of the Subsidiary reporting to the President. In Employee's capacity as Vice President -- Cellular Division of the Subsidiary, Employee shall be responsible for all management of wireless phone sales, purchasing and pricing of the Subsidiary and otherwise have the duties and responsibilities accorded to such position as set forth in the Subsidiary's Bylaws, and such other and further duties as may from time to time become necessary for the management of the Subsidiary, as determined by the Board of Directors.

Employee shall devote substantially all of Employee's business time, attention and energies to the business of the Subsidiary shall act at all times in the best interests of the Subsidiary and shall not during the term of this Agreement be engaged in any other significant business activity, whether or not such business is pursued for gain, profit or other pecuniary advantage, except as contemplated by this Agreement.

2. Compensation and Benefits.

(a) Employee's annual base salary during the term of this Agreement shall be $160,000.00.

(b) Employee's base salary shall be paid by the Subsidiary pursuant to its customary payroll practices.

(c) Commencing on November 11, 2000 and on each November 11 thereafter during the term of this Agreement, the annual base salary shall be increased (but not decreased) by an amount equal to five percent (5%) of the then annual base salary, together with such other increases, if any, as shall be approved by the Subsidiary's Board of Directors.

(d) The Subsidiary shall provide Employee such medical coverage and other benefits as are provided to its other employees, subject to Employee meeting any eligibility or other requirements of such coverages or benefits. The Subsidiary has the right to change or eliminate any of its benefits plans at any time. The Employee shall also be entitled during the term of this Agreement to the use of an automobile, with the premiums for the automobile insurance coverage thereon, together with the reasonable cost of maintenance and other expenses (including gasoline) being payable by the Subsidiary or its designee. The Employee shall have the option to have the use of a new (replacement) automobile on the third anniversary of this Agreement. The amount of insurance coverage shall be determined by the Subsidiary or

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its designee in accordance with the policies of the Subsidiary, from time to time in effect. As a condition to the use of such automobile, Employee shall cooperate fully with the Subsidiary or its designee in connection with obtaining and maintaining in effect any such policy of insurance.

(e) Employee shall be entitled to four (4) weeks of paid vacation per year.

3. Personnel Policies. Employee shall conduct himself at all times in a businesslike and professional manner as appropriate for a person in his position and shall represent the Subsidiary in all respects as complies with good business and ethical practices. In addition, Employee shall be subject to and abide by the policies and procedures of the Subsidiary.

4. Business Expenses. Employee shall be reimbursed by the Subsidiary for ordinary, necessary and reasonable business expenses consistent with the Subsidiary's policies concerning reimbursement of such expenses; provided that, Employee shall first document said business expenses in the manner generally required by the Subsidiary under its policies and procedures, and in any event, the manner required to meet applicable regulations of the Internal Revenue Service relating to the deductibility of such expenses.

5. Location of Employment. At no time during the term of this Agreement shall the Employee be asked or required to transfer his place of employment to a location that is of a radius more than thirty five (35) miles from the Subsidiary's current offices located at 4916 North Royal Atlanta Drive, Tucker, Georgia 30085.

6. Termination.

(a) This Agreement may be terminated for good cause by the Subsidiary upon written notice to Employee. As used herein, "good cause" means: (i) any act of fraud or dishonesty; (ii) any act of theft or embezzlement; (iii) the breach of any material provision of this Agreement by Employee (provided that such breach is not cured by Employee within 30 days of receiving written notice of such breach from the Subsidiary); (iv) violation of the policies and procedures of the Subsidiary; (v) failure to comply with the directions of the Board of Directors of the Subsidiary; (vi) engaging in any unlawful harassment or discrimination; (vii) the conviction of Employee of any crime involving moral turpitude (whether felony or misdemeanor) or involving any felony; (viii) any act of moral turpitude by Employee that materially adversely affects the Subsidiary or its business reputation; (ix) violation of state or federal securities laws; (x) violation of the laws, rules and regulations of any stock exchange, over-the-counter trading system, including the Nasdaq Stock Market, Inc., or the National Association of Securities Dealers, Inc.; or (xi) any other matter constituting "good cause" under the laws (including, inter alia, statutes, regulations or judicial case law) of the State of Georgia.

(b) This Agreement also shall terminate immediately upon the death of Employee, or immediately upon written notice to Employee if Employee shall at any time be unable to perform the essential functions of his job hereunder, by reason of a physical or mental illness or condition, with or without reasonable accommodation, for a continuous period of 180 consecutive days, as certified by a physician or physicians selected by the Board of Directors of the Subsidiary.

(c) In the event of termination under subsections (a) of this Section 6, the base salary, less applicable withholdings, and other benefits provided herein shall be paid to Employee up to the effective date of termination of this Agreement, and not thereafter, subject to any benefit continuation requirements under applicable laws or regulations.

(d) In the event of termination under subsection (b) of this Section 6, the Subsidiary shall pay to Employee or Employee's estate or personal representative, as appropriate, the greater of (i) Employee's base salary, less applicable withholdings, plus benefits, for the remaining period of the Agreement or (ii) twelve (12) months of base salary, less applicable withholdings, plus benefits for such monthly period.

(e) The Subsidiary may terminate this Agreement at any time without "good cause" upon written notice to Employee. In the event of such termination, the Subsidiary shall pay to Employee the greater of (i) Employee's base salary, less

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applicable withholdings, plus benefits, for the remaining period of the Agreement or (ii) twelve (12) months of base salary, less applicable withholdings.

(f) All such payments owing under this Section 6 shall be payable concurrently at the time of termination. Other than the payments of the base salary and benefits amounts as specified herein, no further payments of any kind shall be made to Employee.

7. Products, Notes, Records and Software. All memoranda, notes, records and other documents and computer software created, developed, compiled or used by Employee or made available to Employee during the term of this Agreement concerning or relative to the business of the Subsidiary, including without limitation, all customer data, marketing and sales information, billing information, service data and other technical material of the Subsidiary, is the Subsidiary's property. Employee agrees to deliver all such materials to the Subsidiary within three (3) business days after the termination of this Agreement.

8. Nondisclosure. Employee acknowledges and agrees that during the term of this Agreement, he will have access to and become familiar with information that the parties acknowledge to be confidential, valuable and uniquely proprietary information regarding the Subsidiary, its customers and employees. Employee further acknowledges that the disclosure or unauthorized use of Trade Secrets, as defined under applicable state law, or confidential information by Employee would harm the Subsidiary's business. Employee therefore promises and agrees that, during the term of Employee's employment and for two (2) years thereafter, Employee shall not use or disclose, directly or indirectly, for any purpose any such confidential or proprietary information which includes, without limitation, technical materials of the Subsidiary, sales and marketing information, customer account records, billing information, training and operations information, materials and memoranda, personnel records and pricing and financial information relating to the business, accounts, vendors, suppliers, customers, prospective customers, employees and affairs of the Subsidiary. Employee further agrees that Employee will not, at any time during or after the term of Employee's employment with the Subsidiary, use, reveal or divulge any Trade Secrets.

9. Restrictive Covenants. Employee acknowledges and agrees that, because of his employment he has access to confidential or proprietary information concerning vendors, suppliers and customers of the Subsidiary and has established relationships with such vendors, suppliers and customers. In exchange for valuable consideration to be given by the Subsidiary to Employee, as provided herein, Employee agrees to the following provisions:

(a) Employee agrees that during the term of his employment and for a period of one (1) year thereafter, Employee shall not, directly or indirectly, either individually, in partnership, jointly, or in conjunction with, or on behalf of, any person, firm, partnership, corporation, or unincorporated association or entity of any kind, (i) provide domestic or international sales, purchasing, human resources, distribution operations, marketing services as an officer or management level employee to any competitor of the Subsidiary listed on Exhibit A attached hereto, which purchase, market and sell computer and related products and/or cellular telephones and related products (collectively, the "Business"); or (ii) otherwise obtain any interest in (except as a stockholder holding less than two percent (2%) interest in a corporation which is traded on a national exchange or in an automated quotations system), or perform consulting services for, or otherwise participate in the ownership, management, or control of, the companies listed on Exhibit A attached hereto;

(b) Employee agrees that during the term of his employment and for a period of one (1) year thereafter, Employee shall not, directly or indirectly, either individually, in partnership, jointly, or in conjunction with, or on behalf of, any person, firm, partnership, corporation, unincorporated association or other entity of any kind, solicit or contact, for the purpose of providing products or services the same as or substantially similar to those provided by the Subsidiary in connection with the Business, any person or entity that, during the term of Employee's employment with the Subsidiary, was a vendor, supplier or customer of the Subsidiary with whom Employee had contact during the last twelve (12) months of his employment, or was a prospective vendor, supplier or customer of the Subsidiary with whom Employee had contact during the last twelve (12) months of his employment; and

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(c) Employee agrees that during the term of his employment and for a period of one (1) year thereafter, Employee shall not, directly or indirectly, either individually, in partnership, jointly, or in conjunction with, or on behalf of, any person, firm, partnership, corporation, unincorporated association or other entity of any kind, hire or solicit, or attempt to hire or solicit, for employment any person who was employed by the Subsidiary up to 90 days prior to the date of termination of the Employee's employment or persuade or attempt to persuade any such person to terminate or modify his or her employment relationship, whether or not pursuant to a written agreement, with the Subsidiary.

Employee acknowledges that the time restrictions and scope included in this Section 9 are as narrow as possible and cannot be reduced and still adequately protect the Subsidiary's business interests. Employee acknowledges that the scope of this Section 9 is reasonable and necessary to protect the Subsidiary's legitimate business interests.

10. Remedy for Breach. Employee agrees that the damage to the Subsidiary resulting from any actual or threatened breach by Employee of any of the covenants contained in Sections 7, 8 and 9 of this Agreement would be immediate, irreparable and difficult to measure, and that money damages would not be an adequate remedy. Therefore, Employee agrees that the Subsidiary shall be entitled to specific performance of the covenants in any of such sections or injunctive relief, by temporary or permanent injunction or other appropriate judicial remedy, writ or order, or both, in addition to any damages and legal expenses (including attorneys' fees) which the Subsidiary may be legally entitled to recover.

11. Survival. The provisions of Sections 7, 8, 9 and 10 shall survive termination of this Agreement.

12. Change of Control. If a Change of Control occurs while the Employee is employed by the Subsidiary during the term of this Agreement, or during any extension thereof, and:

(a) the Employee's employment is terminated involuntarily, or voluntarily by the Employee based on (i) material changes in the nature or scope of the Employee's duties or employment, (ii) a reduction in compensation of the Employee made without the Employee's consent, (iii) a relocation of the Subsidiary's executive offices outside the Atlanta, Georgia Metropolitan Area or farther than 35 miles from the present location of the executive offices, or (iv) a good faith determination made by the Employee, upon consultation with the Board of Directors of the Subsidiary, that it is necessary or appropriate for the Employee to relocate from the Atlanta, Georgia Metropolitan Area to enable Employee to perform his duties hereunder, the Employee may, in his sole discretion, give written notice within thirty (30) days after the date of termination of employment to the Secretary or Assistant Secretary of the Subsidiary that he is exercising his rights hereunder and requests payment of the amounts provided for under this Section 12; or

(b) the Employee gives written notice of his termination of employment for any reason concurrently with the time a Change of Control occurs or any time within thirty (30) days after the date the Change of Control becomes effective to the Secretary or Assistant Secretary of the Subsidiary, he may exercise his rights hereunder and request payment of the amounts provided for under this Section 12 (the notice provided pursuant to Subsection 12(a) or Subsection 12(b) is referred to as the "Notice of Exercise").

If the Employee gives a Notice of Exercise to receive the payments provided for hereunder, the Subsidiary shall pay to or for the benefit of the Employee, immediately upon the Subsidiary's receipt of the Notice of Exercise, a single cash payment for damages suffered by the Employee by reason of the Change in Control (the "Executive Payment") in an amount equal to 2.99 times the aggregated of Employee's annual base salary, bonuses and other benefits owing to Employee, subject to the provisions of Sections 21, 22 and 23.

The Executive Payment shall be in addition to and shall not be offset or reduced by (i) any other amounts that have been earned or accrued or that have otherwise become payable or will become payable to the Employee or his beneficiaries, but have not been paid by the Subsidiary at the time the Employee gives the Notice of Exercise including, without limitation, salary, bonuses, severance pay, consulting fees, disability benefits, termination benefits, retirement benefits, life and health insurance benefits or any other compensation or benefit payment that is part of any previous, current or future contract, plan or agreement, written or oral, and (ii) any indemnification payments that may have accrued but not paid or that may thereafter become payable to the Employee pursuant to the provisions of the Subsidiary's Articles

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of Incorporation, Bylaws or similar policies, plans or agreements relating to the indemnification of Employee under certain circumstances. The Executive Payment shall not be reduced by any present value calculations.

In the event the Employee dies after giving the Notice of Exercise but prior to receipt of the Executive Payment, then the Employee's estate or legal representative shall be entitled to receive the Executive Payment.

13. Certain Additional Definitions.

"Affiliate"

or **"Affiliated"** means any person, firm, corporation, partnership, association or entity, either directly or indirectly, that controls, is controlled by, or is under common control with a specified person, firm, corporation, partnership, association or entity.

"Associate"

means (1) any corporation, partnership or other entity of which a specified person is an officer or partner, or is, directly or indirectly, the beneficial owner of ten percent (10%) or more of any class of equity securities thereof, (2) any trust or estate in which the specified person has a substantial beneficial interest or as to which the specified person serves as trustee or in a similar fiduciary capacity, (3) any relative or spouse of such specified person, or any relative of such spouse, who has the same home as such specified person, and (4) any person who is a trustee, officer or partner of such specified person or of any corporation, partnership or other entity that is an Affiliate of such specified person.

"Atlanta, Georgia Metropolitan Area"

means the counties of Clayton, Cobb, DeKalb, Fulton and Gwinnett, Georgia

"Beneficial Owner"

shall be defined by reference to Rule 13d-3 under the Exchange Act as such Rule may be amended from time to time; provided, however, that any individual, corporation, partnership, Group, association or other person or entity which, directly or indirectly, owns or has the right to acquire any of the Company's or the Subsidiary's outstanding securities entitled to vote generally in the election of directors at any time in the future, whether such right is contingent, absolute, direct or indirect, pursuant to any agreement, arrangement or understanding or upon exercise of conversion rights, warrants or options or otherwise, shall be deemed the Beneficial Owner of such securities.

"Change of Control"

shall be deemed to have occurred if and when (1) any individual, corporation, partnership, Group, association or other person or entity, together with his, its or their Affiliates or Associates (other than a trustee or other fiduciary holding securities under an employee benefit plan of the Company) hereafter becomes the Beneficial Owner of securities of the Company representing thirty percent (30%) or more of the combined voting power of the Company's then outstanding securities entitled to vote generally in the election of directors; (2) the Continuing Directors of the Company shall at any time fail to constitute a majority of the members of the Board of Directors of the Company; (3) all or substantially all of the assets of the Company are sold, conveyed, transferred or otherwise disposed of, whether through one event or a series of related events, without being Duly Approved by the Continuing Directors of the Company; (4) any individual, corporation, partnership, Group, association or other person or entity, together with his, its or their Affiliates or Associates, other than a trustee or other fiduciary holding securities under an employee benefit plan of the Subsidiary, becomes the Beneficial Owner of securities of the Subsidiary representing thirty percent (30%) or more of the combined voting power of the Subsidiary's then outstanding securities entitled to vote generally in the election of directors; or (5) all or substantially all of the assets of the Subsidiary are sold, conveyed, transferred or

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otherwise disposed of, whether through one event or a series of related events, without being Duly Approved by the Continuing Directors of the Subsidiary.

"Continuing Director"

means a director who either was a member of the Board of Directors of either the Company or the Subsidiary, as the case may be, on the date hereof, or who becomes a member of the Board of Directors of either the Company or the Subsidiary, as the case may be, subsequent to such date and whose election or nomination for election by the Board of Directors of that company was Duly Approved by the Continuing Directors of that company at the time of such election or nomination, either by a specific vote or by approval of the proxy statement issued by that company on behalf of the Board of Directors of that company in which such person is named as a nominee for director.

"Duly Approved by the Continuing Directors"

means an action approved by the vote of at least a majority of the Continuing Directors then on the Board of Directors of either the Company or the Subsidiary, as the case may be; provided, however, if the votes of such Continuing Directors in favor of such action would be insufficient to constitute an act of the entire Board of Directors of that company as if a vote by all of its members had been taken, or if the number of persons constituting the Continuing Directors of that company shall be equal to or less than three, then the term Duly Approved by the Continuing Directors shall mean an action approved by the unanimous vote of the Continuing Directors then on the Board of Directors of that company.

"Exchange Act"

means the Securities Exchange Act of 1934, as amended.

"Group"

means persons who act in concert as described in Section 13(d)(3) of the Exchange Act as may be amended from time to time.

14. Invalidity of Any Provision. It is the intent of the parties hereto that the provisions of this Agreement shall be enforced to the fullest extent permissible under the laws and public policies of each state and jurisdiction in which such enforcement is sought, but that the unenforceability (or the modification to conform with such laws or public policies) of any provision hereof shall not render unenforceable or impair the remainder of this Agreement which shall be deemed amended to delete or modify, as necessary, the invalid or unenforceable provisions. The parties further agree to alter the balance of this Agreement in order to render the same valid and enforceable.

15. Applicable Law. This Agreement is being executed in the State of Georgia and shall be construed and enforced in accordance with the laws of said jurisdiction.

16. Waiver of Breach. The waiver by the Subsidiary of a breach by Employee of any provision of this Agreement may only be made in writing and shall not operate or be construed as a waiver of any subsequent breach by Employee.

17. Successors and Assigns. This Agreement shall inure to the benefit of the Subsidiary, its subsidiaries and affiliates, and their respective successors and assigns.

18. Entire Agreement. This Agreement contains the entire agreement of the parties and supersedes all prior agreements regarding Employee's employment by the Subsidiary, including, but not limited to, oral discussions, letter agreements, or any other document concerning the possibility of employment with the Subsidiary. This Agreement may only be changed by an agreement in writing signed by the party against whom enforcement of any waiver, changes, modification, extension or discharge is sought. It cannot be changed orally.

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19. Headings. The headings of the Sections of this Agreement are included solely for convenience of reference and shall not control the meaning or interpretation of any of the provisions of this Agreement.

20. Interest on Amounts Payable. If any amounts that are required or determined to be paid or payable or reimbursed or reimbursable to the Employee under this Agreement, under any other plan, agreement, policy or arrangement with the Subsidiary are not paid promptly at the times provided herein or therein, such amounts shall accrue interest at an annual percentage rate of ten percent (10%) from the date such amounts were required or determined to have been paid or payable or reimbursed or reimbursable to the Employee until such amounts and any interest accrued thereon are finally and fully paid; provided, however, that in no event shall the amount of interest contracted for, charged or received hereunder exceed the maximum non-usurious amount of interest allowed by applicable law.

21. Limitation on Payment. If the benefits provided to Employee under this Agreement or under any other agreement with, or plan of, the Subsidiary (in the aggregate, the "Total Payment") constitute a payment so that an excise tax (the "Excise Tax") is due under Section 280G, Section 4999 or other provision of the Internal Revenue Code of 1986, as amended (the "Code"), then the benefits provided under this Agreement shall be limited to the Reduced Amount. The "Reduced Amount" shall be the largest amount that could be received by Employee under this Agreement such that no part of the Total Payment provided to Employee shall be subject to the Excise Tax. The Reduced Amount shall be calculated by a nationally recognized benefits consulting firm or accounting firm, and such amount shall be presented to Employee for review and approval. If the amount payable to Employee is limited to the Reduced Amount, Employee shall have the right, in Employee=s sole discretion, to designate the portion of the Total Payment that should be reduced or eliminated so as to avoid having the benefits provided to Employee under this Agreement be subject to the Excise Tax.

22. Notification. If the Internal Revenue Service claims in writing that any benefit received under this Agreement constitutes an "excess parachute payment" under Section 280G of the Code, Employee shall notify the Subsidiary in writing of such claim within 10 business days of the claim. Employee shall apprise the Subsidiary of the nature of such claim and the date on which such claim is requested to be paid. Employee shall not pay such claim prior to the expiration of the 30-day period following the date on which Employee provides notice of the claim to the Subsidiary (or such shorter period ending on the date that any payment of taxes with respect to the claim is due). If the Subsidiary notifies Employee in writing prior to the expiration of such period that it desires to contest such claim, Employee shall (i) give the Subsidiary any information reasonably requested by the Subsidiary relating to such claim; (ii) take such action in connection with contesting such claim as the Subsidiary shall reasonably request in writing from time to time; (iii) cooperate with the Subsidiary in good faith in order to effectively contest such claim; and (iv) permit the Subsidiary to participate in any proceedings relating to such claim; provided, however, that the Subsidiary shall bear and pay directly all costs and expenses (including, but not limited to, additional interest and penalties and related legal, consulting or similar fees) incurred in connection with such contest and shall indemnify and hold Employee harmless, on an after-tax basis, for any Excise Tax or other tax (including interest and penalties with respect thereto) imposed as a result of such representation and payment of costs and expenses.

23. Excise Tax Refund. If, after the receipt by Employee of an amount advanced by the Subsidiary in connection with the contest of the Excise Tax claim, Employee becomes entitled to receive any refund with respect to such claim, Employee shall promptly pay to the Subsidiary the amount of such refund (together with any interest paid or credited thereon after taxes applicable thereto); provided, however, that if the amount of that refund exceeds the amount advanced by the Subsidiary or it is otherwise determined for any reason that additional amounts could be paid to Employee without incurring any Excise Tax, any such amount will be promptly paid by the Subsidiary to Employee. If, after the receipt of an amount advanced by the Subsidiary in connection with an Excise Tax claim, a determination is made that Employee shall not be entitled to any refund with respect to such claim and the Subsidiary does not notify Employee in writing of its intent to contest the denial of such refund prior to the expiration of 30 days after such determination, such advance shall be forgiven and shall not be required to be repaid and shall be deemed to be in consideration for services rendered after date of the termination of Employee's employment.

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24. Employee's Expenses. All costs and expenses, including reasonable legal, accounting and other advisory fees, incurred by the Employee to prepare responses to an Internal Revenue Service audit of, and otherwise defend, his personal income tax return for any year that is the subject of any such audit or an adverse determination, administrative proceeding or civil litigation arising therefrom that is occasioned by, or related to, an audit by the Internal Revenue Service of the Subsidiary's consolidated income tax returns are, upon written demand by the Employee explaining the basis for the request for such reimbursement or advancement, to be promptly advanced or reimbursed to the Employee or paid directly, on a current basis, by the Subsidiary or its successors.

Subject to the first paragraph of this Section 24 and except as otherwise provided in this Agreement, if at any time during the term of this Agreement or afterwards there should arise any litigation, hearing or arbitration as to the interpretation or application of any term or condition of this Agreement, the Subsidiary agrees, upon written demand by the Employee (and the employee shall be entitled upon application to any court of competent jurisdiction, to the entry of a mandatory injunction, without the necessity of posting any bond with respect thereto, compelling the Subsidiary), promptly to provide sums sufficient to pay on a current basis, either directly or by reimbursing the Employee, the Employee's costs and reasonable attorneys' fees, including, without limitation, expenses of investigation and disbursements for the fees and expenses of experts, incurred by the Employee in connection with any such litigation, hearing or arbitration; provided, however, if the Employee is not the prevailing party in such litigation, hearing or arbitration, then Employee shall pay or reimburse the Subsidiary for its costs and reasonable attorneys' fees, including, without limitation, expenses of investigation and disbursements for the fees and expenses of experts (other than Affiliates), incurred by the Subsidiary in connection with any such litigation, hearing or arbitration, together with all such costs and fees previously paid by the Subsidiary to or for the benefit of Employee in connection with such litigation, hearing or arbitration.

IN WITNESS WHEREOF, the parties hereto have executed this Agreement under seal as of the date first above shown.

Employee:

______________________________(SEAL)

BARRY DIAMOND

Subsidiary:

SED INTERNATIONAL, INC.

By: _________________________________

Title:________________________________

(CORPORATE SEAL)

EXHIBIT A

Competitors

ASI Corp.

Brightpoint, Inc.

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Cellstar, Corp.

CHS Electronics, Inc.

Ingram Micro, Inc.

Merisel, Inc.

Microage, Inc.

Supercom, Inc.

Tech Data Corp.

or any of their respective Affiliates.

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FIRST AMENDMENT TO EMPLOYMENT AGREEMENT

This FIRST AMENDMENT TO EMPLOYMENT AGREEMENT (the "First Amendment"), dated as of November 11, 1999 (the "Effective Date"), is by and between Barry Diamond ("Employee") and SED International, Inc., a Georgia corporation (the "Company");

WITNESSETH

:

WHEREAS

, Employee and the Company desire to continue the employment relationship established by the Employment Agreement dated as of June 1, 2001 between Employee and the Company (the "Agreement"), with certain modifications to the terms of that relationship; and

WHEREAS

, Employee and the Company desire to memorialize those modifications in this First Amendment;

NOW THEREFORE

, in consideration of the mutual promises and covenants contained herein, the Agreement is hereby modified and amended as follows:

1. Section 2 of the Agreement is amended by deleting the first sentence of the existing Section a and adding the following sentence in its place:

(a) Employee's annual base salary during the term of this Agreement shall be $175,000.00.

Except as modified, amended, or deleted herein, all other provisions of the Agreement shall continue in full force and effect until the termination or expiration of the Agreement as amended herein.

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IN WITNESS WHEREOF

, the parties hereto have signed this FIRST AMENDMENT TO EMPLOYMENT AGREEMENT as of the date first above written.

Employee:

_______________________________ (SEAL)

Barry Diamond

-

Company:

SED INTERNATIONAL, INC.

By: __________________________________

Name: Mark Diamond

Title: President and COO

(CORPORATE SEAL)

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EXHIBIT 21

SUBSIDIARIES OF THE REGISTRANT

SED International, Inc., a Georgia corporation

SED Magna (Miami), Inc., a Delaware corporation

SED Retail, Inc., a Georgia corporation

SED International do Brasil Ltda., a Brazilian corporation

SED International de Colombia Ltda., a Colombian corporation

Intermaco S.R.L., an Argentinean corporation

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Exhibit 23 - Consent of Independent Auditors

We consent to the incorporation by reference in the Registration Statements of SED International Holdings, Inc. listed below of our report dated October 15, 2001, with respect to the consolidated financial statements of SED International Holdings, Inc. included in the Annual Report (Form 10-k) for the year ended June 30, 2001.

- Registration Statement No. 333-47172 on Form S-8 pertaining to the 1999 Stock Option Plan
- Registration Statement No. 333-44103 on Form S-8 pertaining to the 1997 Stock Option Plan
- Registration Statement No. 333-35055 on Form S-8 pertaining to the Southern Electronics Corporation 1997 Stock Option Plan
- Registration Statement No. 33-64133 on Form S-8 pertaining to the Southern Electronics Corporation 1991 Stock Option Plan
- Registration Statement No. 33-64135 on Form S-8 pertaining to the Southern Electronics Corporation 1995 Formula Stock Option Plan
- Registration Statement No. 33-55730 on Form S-8 pertaining to the Southern Electronics Corporation 1991 Stock Option Plan

/s/ Ernst & Young LLP

Atlanta, Georgia

October 15, 2001

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Exhibit 23.2

INDEPENDENT AUDITORS' CONSENT

We consent to the incorporation by reference in Registration Statement Nos. 333-47172, 333-44103, 333-35055, 33-64133, 33-64135, and 33-55730 of SED International Holdings, Inc. on Form S-8 of our report dated September 26, 2000 appearing in the Annual Report on Form 10-K of SED International Holdings, Inc. for the year ended June 30, 2001.

DELOITTE & TOUCHE LLP

Atlanta, Georgia

October 15, 2001

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