

SYNEX CORP  
Form 10-Q  
April 09, 2009  
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**UNITED STATES**  
**SECURITIES AND EXCHANGE COMMISSION**  
**Washington, D.C. 20549**

**FORM 10-Q**

(Mark One)

**QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**  
For the quarterly period ended February 28, 2009

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: 001-31892

**SYNEX CORPORATION**

(Exact name of registrant as specified in its charter)

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**Delaware**  
(State or other jurisdiction of  
incorporation or organization)

**44201 Nobel Drive**  
**Fremont, California**  
(Address of principal executive offices)

**94-2703333**  
(I.R.S. Employer  
Identification No.)

**94538**  
(Zip Code)

**(510) 656-3333**  
(Registrant's telephone number, including area code)

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  No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non accelerated filer, or a smaller reporting company. See the definitions of accelerated filer, large accelerated filer and smaller reporting company in Rule 12b-2 of the Exchange Act.:

Large accelerated filer  Accelerated filer  Non-accelerated filer  Smaller reporting company   
(Do not check if a smaller reporting company)

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

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

Class	Outstanding at April 1, 2009
Common Stock, \$0.001 par value	32,905,622

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**Table of Contents****PART I FINANCIAL INFORMATION****ITEM 1. Financial Statements****SYNEX CORPORATION****CONSOLIDATED BALANCE SHEETS****(in thousands, except for par values)****(unaudited)**

	<b>February 28, 2009</b>	<b>November 30, 2008</b>
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$ 60,017	\$ 61,081
Short-term investments	8,401	10,345
Accounts receivable, net	656,266	807,206
Receivable from vendors, net	102,396	96,653
Receivable from affiliates	6,626	4,659
Inventories	653,277	696,008
Deferred income taxes	26,001	26,089
Current deferred assets	11,744	13,322
Other current assets	11,975	9,766
Total current assets	1,536,703	1,725,129
Property and equipment, net	83,116	84,602
Goodwill	116,085	113,438
Intangible assets, net	26,924	26,456
Deferred income taxes	6,656	6,036
Long-term deferred assets	35,939	50,907
Other assets	26,976	26,312
Total assets	\$ 1,832,399	\$ 2,032,880
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
Current liabilities:		
Borrowings under securitization, term loans and lines of credit	\$ 150,281	\$ 340,466
Accounts payable	532,275	571,329
Payable to affiliates	100,652	73,631
Accrued liabilities	101,499	113,593
Current deferred liabilities	27,303	30,809
Income taxes payable	6,109	4,713
Total current liabilities	918,119	1,134,541
Long-term borrowings	8,175	8,537
Long-term liabilities	27,383	26,591
Long-term deferred liabilities	24,808	33,567
Convertible debt	143,750	143,750
Deferred income taxes	2,057	1,380
Total liabilities	1,124,292	1,348,366

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Minority interest	4,832	4,673
Commitments and contingencies (Note 15)		
Stockholders' equity:		
Preferred stock, \$0.001 par value, 5,000 shares authorized, no shares issued or outstanding		
Common stock, \$0.001 par value, 100,000 shares authorized, 32,333 and 31,954 shares issued and outstanding		
	32	32
Additional paid-in capital	216,538	207,558
Accumulated other comprehensive income	4,341	9,367
Retained earnings	482,364	462,884
<b>Total stockholders' equity</b>	<b>703,275</b>	<b>679,841</b>
<b>Total liabilities and stockholders' equity</b>	<b>\$ 1,832,399</b>	<b>\$ 2,032,880</b>

The accompanying notes are an integral part of these consolidated financial statements (unaudited).

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**SYNEX CORPORATION**  
**CONSOLIDATED STATEMENTS OF OPERATIONS**

(in thousands, except for per share amounts)

(unaudited)

	Three Months Ended	
	February 28, 2009	February 29, 2008
Revenue	\$ 1,728,892	\$ 1,748,574
Cost of revenue	(1,623,095)	(1,652,724)
Gross profit	105,797	95,850
Selling, general and administrative expenses	(71,097)	(63,070)
Income from operations before non-operating items, income taxes and minority interest	34,700	32,780
Interest expense and finance charges, net	(3,983)	(4,167)
Other income (expense), net	(407)	(2,046)
Income before income taxes and minority interest	30,310	26,567
Provision for income taxes	(10,669)	(9,551)
Minority interest	(161)	(188)
Net income	\$ 19,480	\$ 16,828
Net income per common share - basic	\$ 0.61	\$ 0.54
Net income per common share - diluted	\$ 0.59	\$ 0.51
Weighted-average common shares outstanding - basic	32,113	31,377
Weighted-average common shares outstanding - diluted	32,764	33,043

The accompanying notes are an integral part of these consolidated financial statements (unaudited).

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## SYNEX CORPORATION

## CONSOLIDATED STATEMENTS OF CASH FLOWS

(in thousands)

(unaudited)

	Three Months Ended	
	February 28, 2009	February 29, 2008
<b>Cash flows from operating activities:</b>		
Net income	\$ 19,480	\$ 16,828
Adjustments to reconcile net income to net cash provided by (used in) operating activities:		
Depreciation expense	3,014	2,574
Amortization of intangible assets	2,077	1,814
Share-based compensation	2,000	1,568
Provision for doubtful accounts	3,469	1,269
Tax benefits from employee stock plans	788	217
Excess tax benefit from share-based compensation	(717)	(170)
Realized and unrealized loss on investments and fixed assets	611	899
Other-than-temporary impairment on securities	53	806
Minority interest	161	188
Changes in assets and liabilities, net of acquisition of businesses:		
Accounts receivable	142,262	50,816
Receivable from vendors	(5,263)	(13,061)
Receivable from affiliates	(1,967)	2,279
Inventories	38,542	19,231
Other assets	8,768	15,532
Payable to affiliates	27,021	194
Accounts payable	(20,349)	(10,188)
Accrued liabilities	(8,534)	(13,650)
Other liabilities	(6,474)	(3,971)
Net cash provided by operating activities	204,942	73,175
<b>Cash flows from investing activities:</b>		
Purchase of short-term investments	(1,357)	(4,525)
Proceeds from sale of short-term investments	2,682	6,127
Acquisition of businesses, net of cash acquired	(2,042)	812
Purchase of property and equipment	(2,292)	(3,904)
Increase in restricted cash	(914)	(1,439)
Purchase of intangible asset		(1,495)
Net cash used in investing activities	(3,923)	(4,424)
<b>Cash flows from financing activities:</b>		
Proceeds from revolving line of credit and securitization	606,922	313,107
Payment of revolving line of credit and securitization	(790,220)	(358,983)
Payment of bank loan	(5,654)	(7,464)
Excess tax benefit from share-based compensation	717	170
Bank overdraft	(15,905)	(16,482)
Proceeds from issuance of common stock	1,262	935
Net cash used in financing activities	(202,878)	(68,717)

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Effect of exchange rate changes on cash and cash equivalents	795	645
Net increase (decrease) in cash and cash equivalents	(1,064)	679
Cash and cash equivalents at beginning of period	61,081	42,875
Cash and cash equivalents at end of period	\$ 60,017	\$ 43,554

The accompanying notes are an integral part of these consolidated financial statements (unaudited).



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**SYNEX CORPORATION**  
**CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME**

(in thousands)

(unaudited)

	Three Months Ended	
	February 28, 2009	February 29, 2008
Net income	\$ 19,480	\$ 16,828
Other comprehensive income:		
Reclassification adjustment for other-than-temporary impairment loss on available-for-sale securities		630
Foreign currency translation adjustment	(5,026)	2,308
<b>Total comprehensive income</b>	<b>\$ 14,454</b>	<b>\$ 19,766</b>

The accompanying notes are an integral part of these consolidated financial statements (unaudited).

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**SYNEX CORPORATION**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**For the three months ended February 28, 2009 and February 29, 2008**

**(amounts in thousands, except per share amounts)**

**(unaudited)**

**NOTE 1 ORGANIZATION AND BASIS OF PRESENTATION:**

SYNEX Corporation (together with its subsidiaries, herein referred to as "SYNEX" or the "Company") is a business process services company offering a comprehensive range of services to original equipment manufacturers ("OEMs"), software publishers and reseller customers worldwide. SYNEX's service offering includes product distribution, logistics services, global business services ("GBS") and contract assembly. SYNEX is headquartered in Fremont, California and has operations in the United States, Canada, China, Mexico, Japan, the Philippines and the United Kingdom ("UK").

The accompanying interim unaudited consolidated financial statements as of February 28, 2009 and for the three month periods ended February 28, 2009 and February 29, 2008 have been prepared by the Company in accordance with the rules and regulations of the Securities and Exchange Commission ("SEC"). The amounts as of November 30, 2008 have been derived from the Company's annual audited financial statements. Certain information and footnote disclosures normally included in financial statements prepared in accordance with generally accepted accounting principles ("GAAP") in the United States have been condensed or omitted in accordance with such rules and regulations. In the opinion of management, the accompanying unaudited consolidated financial statements reflect all adjustments, consisting only of normal recurring adjustments, necessary to state fairly the financial position of the Company and its results of operations and cash flows as of and for the periods presented. These financial statements should be read in conjunction with the annual audited financial statements and notes thereto as of and for the year ended November 30, 2008, included in the Company's Annual Report on Form 10-K for the fiscal year then ended.

The results of operations for the three months ended February 28, 2009 are not necessarily indicative of the results that may be expected for the year ending November 30, 2009, or any future period and the Company makes no representations related thereto.

**NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:**

There have been no material changes in the Company's significant accounting policies for the three month period ended February 28, 2009 from its disclosure in the Annual Report on Form 10-K for the year ended November 30, 2008, except as described below. For a discussion of the significant accounting policies, please see the discussion in the Annual Report on Form 10-K for the fiscal year ended November 30, 2008.

***Restricted cash***

As of February 28, 2009 and November 30, 2008, the Company had restricted cash in the amount of \$16,518 and \$15,604, respectively, for future payments to its vendors relating to the long-term projects at the Company's Mexico operation. These amounts are reported in "Other Assets" on the consolidated balance sheet.

***Concentration of credit risk***

Financial instruments that potentially subject the Company to significant concentration of credit risk consist principally of accounts receivable, cash and cash equivalents. The Company's cash and cash equivalents are maintained with high quality institutions, the compositions and maturities of which are regularly monitored by management. Through February 28, 2009, the Company had not experienced any losses on such deposits.

Accounts receivable include amounts due from customers primarily in the technology industry. The Company performs ongoing credit evaluations of its customers' financial condition and limits the amount of credit extended when deemed necessary, but generally requires no collateral. The Company also maintains allowances for potential credit losses. In estimating the required allowances, the Company takes into

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consideration the overall quality and aging of the receivable portfolio, the existence of a limited amount of credit insurance and specifically identified customer risks. Through February 28, 2009, such losses have been within management's expectations.

In the three months ended February 28, 2009 and February 29, 2008, no single customer exceeded 10% or more of the Company's total revenue. At February 28, 2009, no customer accounted for more than 10% of the consolidated accounts receivable balance. At November 30, 2008, one customer accounted for approximately 17% of the total consolidated accounts receivable balance. The Company's largest OEM supplier, Hewlett-Packard Company (HP), accounted for approximately 35% and 27% of the total revenue for the three months ended February 28, 2009 and February 29, 2008, respectively.

### *Net income per common share*

Net income per common share-basic is computed by dividing the net income for the period by the weighted-average number of shares of common stock outstanding during the period. Diluted weighted-average shares include the dilutive effect of stock options, restricted stock and restricted stock units. The calculation of net income per common share is presented in Note 10-Net Income Per Common Share.

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**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**For the three months ended February 28, 2009 and February 29, 2008**

**(amounts in thousands, except per share amounts)**

**(unaudited)**

Statement of Financial Accounting Standards ( SFAS ) No. 128, Earnings per Share requires that employee stock options, non-vested restricted stock and similar equity instruments granted by the Company be treated as potential common shares outstanding in computing diluted earnings per share. Diluted shares outstanding include the dilutive effect of in-the-money options. Under the treasury stock method, the amount the employee must pay for exercising stock options, the amount of compensation cost for future services that the Company has not yet recognized and the amount of tax benefits that would be recorded in additional paid-in capital when the award becomes deductible are assumed to be used to repurchase shares.

With respect to the Company's convertible senior notes, the Company intends to settle its conversion spread (i.e., the intrinsic value of convertible debt based on the conversion price and current market price) in shares. The Company accounts for its conversion spread using the treasury stock method. It is the Company's intent to cash-settle the principal amount of the convertible senior notes; accordingly, the principal amount has been excluded from the determination of diluted earnings per share.

***Reclassifications***

Certain reclassifications have been made to prior period amounts to conform to current period presentation. Such reclassifications have no effect on net income as previously reported.

***Recent accounting pronouncements***

In December 2007, the Financial Accounting Standards Board ( FASB ) issued SFAS No. 141 (revised 2007), Business Combinations ( SFAS No. 141(R) ). SFAS No. 141(R) establishes principles and requirements for how an acquirer recognizes and measures in its financial statements the identifiable assets acquired, the liabilities assumed, any noncontrolling interest in the acquiree and the goodwill acquired. SFAS No. 141(R) also establishes disclosure requirements to enable the evaluation of the nature and financial effects of the business combination. In February 2009, the FASB approved FASB Staff Position ( FSP ) No. Financial Accounting Standards ( FAS ) 141(R)-a Accounting for Assets Acquired and Liabilities Assumed in a Business Combination That Arise from Contingencies, ( FSP No. FAS 141(R)-a ). FSP No. FAS 141(R)-a requires that assets acquired and liabilities assumed in a business combination that arise from contingencies be recognized at fair value if fair value can be reasonably estimated. If the fair value cannot be reasonably estimated, the asset or liability will be recognized in accordance with SFAS No. 5, Accounting for Contingencies and FASB Interpretation ( FIN ) No. 14, Reasonable Estimation of the Amount of a Loss. SFAS No. 141(R) is effective for fiscal years that begin after December 15, 2008, and will be adopted by the Company in the first quarter of fiscal year 2010. The Company is assessing the potential impact, if any, of the adoption of SFAS No. 141(R) and FSP No. FAS 141(R)-a on its consolidated results of operations and financial condition, which will depend on the extent of business combinations completed after the adoption of the standard.

In December 2007, the FASB issued SFAS No. 160, Noncontrolling Interests in Consolidated Financial Statements an amendment of Accounting Research Bulletin No. 51 ( SFAS No. 160 ). SFAS No. 160 establishes accounting and reporting standards for ownership interests in subsidiaries held by parties other than the parent, the amount of consolidated net income attributable to the parent and to the noncontrolling interest, changes in a parent's ownership interest and the valuation of retained noncontrolling equity investments when a subsidiary is deconsolidated. SFAS No. 160 also establishes disclosure requirements that clearly identify and distinguish between the interests of the parent and the interests of the noncontrolling owners. SFAS No. 160 is effective as of the beginning of an entity's fiscal year that begins after December 15, 2008, and will be adopted by the Company in the first quarter of fiscal year 2010. The Company is assessing the potential impact, if any, of the adoption of SFAS No. 160 on its consolidated results of operations and financial condition.

In April 2008, the FASB issued FSP No. FAS 142-3, Determination of the Useful Life of Intangible Assets ( FSP No. FAS 142-3 ). FSP No. FAS 142-3 amends the factors that should be considered in developing renewal or extension assumptions used to determine the useful life of a recognized intangible asset under SFAS No. 142, Goodwill and Other Intangible Assets ( SFAS No. 142 ). The intent of the position is to improve

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the consistency between the useful life of a recognized intangible asset under SFAS No. 142 and the period of expected cash flows used to measure the fair value of the asset under SFAS No. 141(R). FSP No. FAS 142-3 is effective for fiscal years beginning after December 15, 2008. FSP No. FAS 142-3 is effective for the Company from the first quarter of fiscal year 2010. The Company is assessing the potential impact that the adoption of FSP No. FAS 142-3 may have on its consolidated results of operations and financial condition.

In May 2008, the FASB issued FSP No. Accounting Principles Board ( APB ) 14-1 Accounting for Convertible Debt Instruments That May Be Settled in Cash upon Conversion (Including Partial Cash Settlement) ( FSP No. APB 14-1 ). FSP No. APB 14-1 requires the issuer of certain convertible debt instruments that may be settled in cash (or other assets) on conversion to separately account for the liability (debt) and equity (conversion option) components of the instrument in a manner that reflects the issuer's non-convertible debt borrowing rate. FSP No. APB 14-1 is effective for fiscal years beginning after December 15, 2008 on a retroactive basis and will be adopted by the Company in the first quarter of fiscal year 2010. The Company is assessing the potential impact that the adoption of FSP No. APB 14-1 may have on its consolidated results of operations and financial condition. However, it is expected that the allocation of the proceeds to the conversion option will result in an increase in interest expense.

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**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**For the three months ended February 28, 2009 and February 29, 2008**

**(amounts in thousands, except per share amounts)**

**(unaudited)**

In June 2008, the FASB ratified Emerging Issues Task Force ( EITF ) Issue No. 07-5, Determining Whether an Instrument (or Embedded Feature) Is Indexed to an Entity's Own Stock, ( EITF 07-5 ). EITF 07-5 provides guidance for determining whether an equity-linked financial instrument, or embedded feature, is indexed to an entity's own stock. EITF 07-5 is effective for fiscal years beginning after December 15, 2008, and interim periods within those fiscal years and will be adopted by the Company in the first quarter of fiscal year 2010. The Company is assessing the potential impact, if any, of the adoption of EITF 07-5 on its consolidated results of operations and financial condition.

In November 2008, the FASB ratified EITF Issue No. 08-6, Equity Method Investment Accounting Considerations, ( EITF 08-6 ). EITF 08-6 clarifies that the initial carrying value of an equity method investment should be determined in accordance with SFAS No. 141(R). Other-than-temporary impairment of an equity method investment should be recognized in accordance with FSP No. APB 18-1, Accounting by an Investor for Its Proportionate Share of Accumulated Other Comprehensive Income of an Investee Accounted for under the Equity Method in Accordance with APB Opinion No. 18 upon a Loss of Significant Influence. EITF 08-6 is effective on a prospective basis in fiscal years beginning on or after December 15, 2008 and interim periods within those fiscal years, and will be adopted by the Company in the first quarter of fiscal year 2010. The Company is assessing the potential impact, if any, of the adoption of EITF 08-6 on its consolidated results of operations and financial condition.

In November 2008, the FASB ratified EITF Issue No. 08-7, Accounting for Defensive Intangible Assets, ( EITF 08-7 ). EITF 08-7 applies to defensive assets, which are acquired intangible assets which the acquirer does not intend to actively use, but intends to hold to prevent its competitors from obtaining access to the asset. EITF 08-7 clarifies that defensive intangible assets are separately identifiable and should be accounted for as a separate unit of accounting in accordance with SFAS No. 141(R) and SFAS No. 157, Fair Value Measurements ( SFAS No. 157 ). EITF 08-7 is effective for intangible assets acquired in fiscal years beginning on or after December 15, 2008 and will be adopted by the Company in the first quarter of fiscal year 2010. The Company is assessing the potential impact, if any, of the adoption of EITF 08-7 on its consolidated results of operations and financial condition.

In November 2008, the FASB ratified EITF Issue No. 08-8, Accounting for an Instrument (or an Embedded Feature) with a Settlement Amount That Is Based on the Stock of an Entity's Consolidated Subsidiary ( EITF 08-8 ). EITF 08-8 clarifies whether a financial instrument for which the payoff to the counterparty is based, in whole or in part, on the stock of an entity's consolidated subsidiary is indexed to the reporting entity's own stock and therefore should not be precluded from qualifying for the first part of the scope exception in paragraph 11 (a) of SFAS No. 133, Accounting for Derivative Instruments and Hedging Activities ( SFAS No. 133 ) or from being within the scope of EITF No. 00-19, Accounting for Derivative Financial Instruments Indexed to, and, Potentially Settled in, a Company's Own Stock. EITF 08-8 is effective for fiscal years beginning on or after December 15, 2008, and interim periods within those fiscal years and will be adopted by the Company in the first quarter of fiscal year 2010. The Company is assessing the potential impact, if any, of the adoption of EITF 08-8 on its consolidated results of operations and financial condition.

***During the first quarter of fiscal year 2009, the Company adopted the following accounting standards:***

In February 2008, the FASB issued FSP No. FAS 157-2, Effective Date of FASB Statement No. 157 ( FSP No. FAS 157-2 ). FSP No. FAS 157-2 permitted delayed application of SFAS No. 157, Fair Value Measurements, ( SFAS No. 157 ) for all non-financial assets and non-financial liabilities, except for items that are recognized or disclosed at fair value in the financial statements on a recurring basis, until fiscal years beginning after November 15, 2008 and interim periods within those fiscal years. The Company adopted SFAS No. 157 as it applies to its financial instruments, effective December 1, 2007. The Company adopted FSP No. FAS 157-2 as it applies to its non-financial assets and liabilities, effective December 1, 2008. The impact of adoption of SFAS No. 157 is discussed in Note 14 Fair Value Measurements.

In February, 2008, the FASB issued FSP No. FAS 140-3, Accounting for Transfers of Financial Assets and Repurchase Financing Transactions ( FSP No. FAS 140-3 ). FSP No. FAS 140-3 requires that an initial transfer of a financial asset and a repurchase financing that was entered into

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contemporaneously with, or in contemplation of, the initial transfer be evaluated together as a linked transaction under SFAS No. 140,

Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities - a replacement of FASB Statement No. 125 ( SFAS No. 140 ), unless certain criteria are met. FSP No. FAS 140-3 is effective for the Company's financial statements for the fiscal year beginning on December 1, 2008. The Company adopted FSP No. FAS 140-3 effective December 1, 2008 and the adoption had no impact on the financial statements of the Company.

In March 2008, the FASB issued SFAS No. 161, Disclosures about Derivative Instruments and Hedging Activities- an amendment of FASB Statement No. 133 ( SFAS No. 161 ). This new standard requires enhanced disclosures for derivative instruments, including those used in hedging activities. It is effective for fiscal years and interim periods beginning after November 15, 2008, and was adopted by the Company in the first quarter of fiscal year 2009. The impact of the adoption of SFAS No. 161 is discussed in Note 6- Derivative Instruments.

In December 2008, the FASB issued FSP No. FAS 140-4 and FIN 46(R)-8, Disclosures by Public Entities (Enterprises) about Transfers of Financial Assets and Interests in Variable Interest Entities ( FSP No. FAS 140-4 and FIN 46(R)-8 ). FSP No. FAS 140-4 and FIN 46(R)-8 amends the disclosure requirements of FIN 46(R), Consolidation of Variable Interest Entities, for public enterprises that have a variable interest in a variable interest entity and enhances the disclosures required by SFAS No. 140, Accounting for Transfers and Servicing of Financial Assets and Extinguishment of Liabilities ( SFAS No. 140 ). FSP No. FAS 140-4 and FIN 46(R)-8 is effective for the first reporting period ending after December 15, 2008 and was adopted by the Company in the first quarter of fiscal year 2009. The disclosures required by FSP No. FAS 140-4 and FIN 46(R)-8 are included in Note 7-Accounts Receivable Arrangements.

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The Company recognizes share-based compensation expense under the provisions of SFAS No. 123 (revised 2004) Share-Based Payment ( SFAS No. 123(R) ), which requires the measurement and recognition of compensation expense for all share-based payment awards made to employees and directors, including employee stock options and employee stock purchases, based on estimated fair values.

The Company uses the Black-Scholes valuation model to estimate fair value of share-based awards, which requires various assumptions including estimating stock price volatility and expected life. Under the fair value recognition provisions for SFAS No. 123(R), share-based compensation is estimated at the grant-date based on the fair value of the awards expected to vest and recognized as expense ratably over the requisite service period of the award. The expected stock price volatility assumption was determined using historical volatility of the Company's common stock.

During the three months ended February 28, 2009, the Company did not grant any stock options or restricted stock under the Amended and Restated 2003 Stock Incentive Plan. During the three months ended February 29, 2008, the Company granted approximately 40 stock options, with an estimated total grant-date fair value of \$343. During the three months ended February 29, 2008, the Company granted 20 shares of restricted stock with an estimated total grant-date fair value of \$425.

The Company recorded share-based compensation expense, for the three months ended February 28, 2009 and February 29, 2008 of \$2,000 and \$1,568, respectively.

**NOTE 4 BALANCE SHEET COMPONENTS:**

	February 28, 2009	November 30, 2008
<b>Short-term investments</b>		
Trading securities	\$ 5,204	\$ 6,072
Available-for-sale	141	142
Cost securities	3,056	4,131
	\$ 8,401	\$ 10,345
<b>Accounts receivable, net</b>		
Trade accounts receivable	\$ 697,543	\$ 846,668
Less: Allowance for doubtful accounts	(19,993)	(17,820)
Less: Allowance for sales returns	(21,284)	(21,642)
	\$ 656,266	\$ 807,206
<b>Receivable from vendors, net</b>		
Receivables from vendors	\$ 107,967	\$ 101,586
Less: Allowance for doubtful accounts	(5,571)	(4,933)



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	\$	102,396	\$	96,653
<b>Inventories</b>				
Components	\$	74,396	\$	61,902
Finished goods		578,881		634,106
	\$	653,277	\$	696,008
<b>Property and equipment, net</b>				
Land	\$	10,428	\$	11,118
Equipment and computers		61,597		60,848
Furniture and fixtures		11,017		10,175
Buildings, leasehold improvements		68,076		69,554
Construction in progress		2,486		1,489
		153,604		153,184
Less: Accumulated depreciation		(70,488)		(68,582)
	\$	83,116	\$	84,602

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For the three months ended February 28, 2009 and February 29, 2008

(amounts in thousands, except per share amounts)

(unaudited)

**Goodwill**

	Distribution	GBS	Total
Balance at November 30, 2008	\$ 65,159	\$ 48,279	\$ 113,438
Goodwill additions during the period	(292)	4,037	3,745
Adjustments	(2,599)	2,599	
Translation	(1,038)	(60)	(1,098)
Balance at February 28, 2009	\$ 61,230	\$ 54,855	\$ 116,085

Goodwill increased as of February 28, 2009, compared to November 30, 2008, primarily due to acquisitions in the GBS segment.

**Intangible assets, net**

	February 28, 2009			November 30, 2008		
	Gross Amount	Accumulated Amortization	Net Amount	Gross Amount	Accumulated Amortization	Net Amount
Vendor lists	\$ 34,315	\$ (21,871)	\$ 12,444	\$ 34,315	\$ (21,127)	\$ 13,188
Customer lists	25,893	(13,228)	12,665	23,437	(12,197)	11,240
Other intangible assets	4,441	(2,626)	1,815	4,497	(2,469)	2,028
	\$ 64,649	\$ (37,725)	\$ 26,924	\$ 62,249	\$ (35,793)	\$ 26,456

Amortization expense for the three months ended February 28, 2009 and February 29, 2008 was \$2,077 and \$1,814, respectively. Intangible assets increased as of February 28, 2009 compared to November 30, 2008 due to the acquisitions in the GBS segment.

**NOTE 5 INVESTMENTS:**

The carrying amount of the Company's investments is shown in the table below:

	February 28, 2009			November 30, 2008		
	Cost	Unrealized (Losses)/Gains	Fair Value	Cost	Unrealized (Losses)/Gains	Fair Value
<b>Short-term investments</b>						
Trading securities	\$ 10,319	\$ (5,115)	\$ 5,204	\$ 10,551	\$ (4,479)	\$ 6,072
Available-for-sale	194	(53)	141	194	(52)	142

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Cost securities	3,056	3,056	4,131	4,131
	\$ 13,569	\$ (5,168)	\$ 8,401	\$ 14,876
			\$ (4,531)	\$ 10,345

Short-term trading securities generally consist of equity securities relating to the Company's deferred compensation plan. Short-term available-for-sale securities primarily consist of investments in other companies' equity securities. Short-term cost investments primarily consist of investments in private equity funds and in a hedge fund under the Company's deferred compensation plan. During the three months ended February 28, 2009, the Company recorded a realized gain of \$80 and an unrealized loss of \$645 on its trading investments. During the three months ended February 29, 2008, the Company recorded a realized loss of \$77 and an unrealized loss of \$822 on its trading investments.

For the three months ended February 28, 2009, the Company recorded other-than-temporary loss of \$53 on cost securities. For the three months ended February 29, 2008, the Company recorded other-than-temporary loss of \$630 on available-for-sale securities and \$176 on cost securities, respectively.

**NOTE 6 DERIVATIVE INSTRUMENTS:**

In the ordinary course of business, the Company is exposed to foreign currency risk, interest risk, equity risk and credit risk. The Company's transactions in its foreign operations are denominated in the Canadian Dollar, British Pound, Philippines Peso, Japanese Yen, Mexican Peso and Chinese Renminbi. The Company's foreign locations enter into transactions, and own monetary assets and liabilities, that are denominated in currencies other than their functional currency. As part of its risk management strategy, the Company uses short-term forward contracts in most of the above mentioned currencies to minimize its exposure to foreign currency risk. These derivatives are not designated as hedging instruments as the Company uses forward contracts to hedge foreign currency balance sheet exposures. The forward exchange contracts are recorded at fair value in each reporting period and any gains or losses, resulting from the changes in fair value, are recorded in earnings in the period of change. Generally, the Company does not use derivative instruments to cover interest rate risk, equity risk and credit risk. The Company's policy is not to allow the use of derivatives for trading or speculative purposes. The fair value of the Company's forward exchange contracts are also disclosed in Note 14-Fair Value Measurements. The following table summarizes the Company's derivative instruments not designated as hedging instruments under SFAS No. 133, as of February 28, 2009:

	Location of derivative on Balance Sheet	Fair value as of February 28, 2009	Location of realized and unrealized gain/(loss) recognized in income	Realized and unrealized gain/(loss) for the three months ended February 28, 2009
Foreign exchange forward contracts	Other current asset	\$ 1,873	Other income/ (expense)	\$ 3,895
		\$ 1,873		\$ 3,895

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**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

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**NOTE 7 ACCOUNTS RECEIVABLE ARRANGEMENTS:**

The Company primarily finances its U.S. operations with an accounts receivable securitization program (the U.S. Arrangement) by selling up to a maximum of \$350,000 in U.S. trade accounts receivable (U.S. Receivables). On January 23, 2009, the Company amended and restated the U.S. Arrangement (the U.S. Amended and Restated Arrangement) to replace the lead bank and agent. The maturity date of the U.S. Amended and Restated Arrangement was amended from February 11, 2011 to January 22, 2010 and may be renewed upon mutual agreement of the Company and the lenders. The effective borrowing cost under the U.S. Amended and Restated Arrangement is a blend of the prevailing dealer commercial paper rates, plus a program fee of 0.75% per annum based on the used portion of the commitment and a facility fee of 0.75% per annum payable on the commitment. The balance outstanding on the U.S. Amended and Restated Arrangement as of February 28, 2009 was \$114,500. The balance outstanding on the U.S. Arrangement as of November 30, 2008 was \$207,200.

Under the terms of the U.S. Amended and Restated Arrangement, the Company sells, on a revolving basis, its U.S. Receivables to a wholly-owned, bankruptcy-remote subsidiary. The borrowings are funded by pledging all of the rights, title and interest in and to the U.S. Receivables as security. Any borrowings under the U.S. Amended and Restated Arrangement are recorded as debt on the Company's consolidated balance sheet. As is customary in trade accounts receivable securitization arrangements, a credit rating agency's downgrade of the third party issuer of commercial paper or of a back-up liquidity provider (which provides a source of funding if the commercial paper market cannot be accessed) could result in an adverse change or loss of the Company's financing capacity under these programs if the commercial paper issuer or liquidity back-up provider is not replaced. Loss of such financing capacity could have a material adverse effect on the Company's financial condition and results of operations.

SYNNEX Canada Limited (SYNNEX Canada) has a renewable revolving accounts receivable securitization program in Canada (the Canadian Arrangement), which provides for the sale of U.S. and Canadian trade receivables (Canadian Receivables) to a financial institution up to a maximum of C\$110,000. In connection with the Canadian Arrangement, SYNnex Canada sells its rights, title and interest in its Canadian Receivables to the financial institution on a fully-serviced basis. The effective discount rate of the Canadian Arrangement was the prevailing Bankers' Acceptance rate of return or prime rate in Canada plus an initial spread of 1.50%, increasing to 3.50% over time. To the extent that cash was received in exchange, the amount of Canadian Receivables sold to the financial institution has been recorded as a true sale, in accordance with SFAS No. 140 and therefore, is not included in the debt and the related Canadian Receivables on the Company's consolidated balance sheet. The Company provides an allowance for doubtful accounts related to these Canadian Receivables based on the quality and aging of the Canadian Receivables and the Company's historical experience with collections. The amount of Canadian Receivables sold to the financial institution and not yet collected from customers at February 28, 2009 and November 30, 2008 was \$49,918 and \$59,152, respectively. This program is renewed until May 29, 2009.

The Company issued a guarantee of SYNnex Canada's obligations under the Canadian Arrangement in favor of the financial institution. The scope of this guarantee primarily consists of the obligation to guarantee SYNnex Canada's obligations under the Canadian Arrangement. The Company also agreed to certain covenants regarding maintenance of its existence, limitations on changes to its business, reporting requirements, and requirements to maintain a specified net worth on a consolidated basis.

The Company has also entered into financing agreements with various financial institutions (Flooring Companies) to allow certain customers of the Company to finance their purchases directly with the Flooring Companies. Under these agreements, the Flooring Companies pay to the Company the selling price of products sold to various customers, less a discount, within approximately 15 to 30 days from the date of sale. The Company is contingently liable to repurchase inventory sold under flooring agreements in the event of any default by its customers under the agreement and such inventory being repossessed by the Flooring Companies. See Note 15 Commitments and Contingencies for additional information. The net sales financed for the three months ended February 28, 2009 and February 29, 2008 were \$202,209 and \$229,779, respectively. Approximately \$42,223 and \$38,717 of accounts receivable at February 28, 2009 and November 30, 2008, respectively, were

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subject to flooring agreements. Flooring fees were approximately \$883 and \$1,004 in the three months ended February 28, 2009 and February 29, 2008, respectively, and are included within Interest expense and finance charges, net.

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Working capital borrowings consist of the following:

	<b>February 28, 2009</b>	<b>November 30, 2008</b>
SYNEX U.S. securitization	\$ 114,500	\$ 207,200
SYNEX U.S. revolving line of credit	7,800	95,000
SYNEX Canada revolving line of credit	12,578	14,970
SYNEX Canada term loan	8,641	9,162
SYNEX Mexico term loan	12,699	20,169
Others	2,238	2,502
	<b>158,456</b>	<b>349,003</b>
Less: Current portion	(150,281)	(340,466)
Non-current portion	<b>\$ 8,175</b>	<b>\$ 8,537</b>

**SYNEX U.S. securitization**

The U.S. Amended and Restated Arrangement allows the Company to sell up to a maximum of \$350,000 in U.S. Receivables. The maturity date of the U.S. Amended and Restated Arrangement is January 22, 2010. The effective borrowing cost under the U.S. Amended and Restated Arrangement is a blend of the prevailing dealer commercial paper rates plus a program fee of 0.75% per annum based on the used portion of the commitment and a facility fee of 0.75% per annum payable on the commitment.

**SYNEX U.S. senior secured revolving line of credit**

The Company has a senior secured revolving line of credit arrangement (the "Revolver") with a group of financial institutions. On January 23, 2009, the Company amended and restated its U.S. senior secured revolving line of credit arrangement (the "Amended and Restated Revolver") to replace the lead bank and agent. The Amended and Restated Revolver's maximum commitment was amended from \$120,000 to \$80,000. The Amended and Restated Revolver retains an accordion feature to increase the maximum commitment by an additional \$70,000 to \$150,000 at the Company's request, in the event one or more of the existing lenders or another financial institution which becomes a lender agrees to provide the increased commitment. Interest on borrowings under the Amended and Restated Revolver is based on the financial institution's prime rate or LIBOR plus 2.50% per annum at the Company's option. A fee of 0.50% per annum is payable with respect to the unused portion of the commitment. The Amended and Restated Revolver is secured by the Company's inventory and other assets and expires on February 11, 2011. The Revolver was further amended such that it is a default under the Amended and Restated Revolver if the maturity date of the U.S. Amended and Restated Arrangement is not extended. In addition, it is also an event of default under the Amended and Restated Revolver if (1) a lender under the U.S. Amended and Restated Arrangement declines to extend the maturity date at any point within 60 days prior to the maturity date of the U.S. Amended and Restated Arrangement, unless availability under the Amended and Restated Revolver exceeds \$60,000 or the Company has a binding commitment in place to renew or replace the U.S. Amended and Restated Arrangement or (2) at least 20 days prior to the maturity date of the U.S. Amended and Restated Arrangement the Company should have in place a binding commitment to renew or replace the U.S. Amended and Restated Arrangement on substantially similar terms and conditions, unless the Company has no amounts outstanding under the

Amended and Restated Revolver at such time.

**SYNNEX Canada revolving line of credit**

SYNNEX Canada has a revolving line of credit arrangement with a credit limit of C\$30,000. The revolving credit facility expires in April 2010. Interest on this facility is currently based on the Canadian adjusted prime rate plus 2.00%. SYNnex Canada has granted a lien on substantially all of its assets in favor of the lenders under its revolving credit facility.

**SYNNEX Canada term loan**

SYNNEX Canada has a term loan associated with the purchase of its logistics facility in Guelph, Canada. The interest rate for any unpaid principal amount is a fixed rate of 5.374% per annum. The final maturity date for repayment of any unpaid principal is April 1, 2017.

**SYNNEX Mexico secured term loan**

SYNNEX Mexico S.A. de C.V. ( SYNnex Mexico ) established a secured term loan agreement with a group of financial institutions in May 2006. The interest rate for any unpaid principal amount is currently the Equilibrium Interbank Interest Rate, plus 2.00% per annum. The final maturity date for repayment of all unpaid principal is November 24, 2009.

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**Others**

The Company has other overdraft and lines of credit facilities. The balance outstanding as of February 28, 2009 and November 30, 2008 was \$2,238 and \$2,502, respectively.

**SYNEX Canada credit facility**

On September 6, 2007, SYNEX Canada obtained a credit facility with a financial institution in Canada to allow SYNEX Canada to issue documentary letters of credit up to a maximum of C\$30,000 for validity up to 180 days. The letters of credit are issued to secure purchases of inventory from manufacturers and to finance import activities. This facility has an overdraft limit up to a maximum amount of C\$2,000 available in Canadian and U.S. dollars for a maximum of two business days to repay draws under letters of credit or letters of guarantee. SYNEX Canada has granted a lien, in favor of the financial institution in Canada, on the inventory financed under this credit facility, all accounts receivable from the sale of such inventory, all proceeds of sale of such inventory and collection of such accounts receivable and up to C\$3,000 in cash on deposit with the financial institution in Canada. In connection with this credit facility, the Company issued a guarantee of SYNEX Canada's obligations in favor of the financial institution in Canada of up to C\$20,000. Letters of credit issued against this facility were \$1,188 as of February 28, 2009 and \$2,754 as of November 30, 2008.

The total interest expense and finance charges for accounts receivable securitization, revolver, Convertible Senior Notes and all other debt and lines of credit were \$6,441 and \$7,775 for the three months ended February 28, 2009 and February 29, 2008, respectively, and are included in Interest expense and finance charges, net in the consolidated statement of operations. The interest expense for the three months ended February 28, 2009, includes the partial write off of \$769 in unamortized debt costs relating to the amendment of the U.S Arrangement and the Revolver. The range of interest rates was between 1.98% and 10.77% in the first quarter of fiscal year 2009. The range of interest rates in the first quarter of fiscal year 2008 was between 3.81% and 7.97%.

**Covenants compliance**

In relation to the U.S. Amended and Restated Arrangement, the Amended and Restated Revolver, the SYNEX Canada revolving line of credit, Canadian Arrangement and the SYNEX Mexico secured term loan, the Company has a number of covenants and restrictions that, among other things, require the Company to comply with certain financial and other covenants and restrict its ability to incur additional debt. They also restrict the Company's ability to make or forgive intercompany loans, pay dividends and make distributions, make certain acquisitions, repurchase the Company's stock, create liens, cancel debt owed to the Company, enter into agreements with affiliates, modify the nature of the Company's business, enter into sale-leaseback transactions, make certain investments, enter into new real estate leases, transfer and sell assets, cancel or terminate any material contracts and merge or consolidate. The covenants also limit the Company's ability to pay cash upon conversion, redemption or repurchase of its Convertible Senior Notes subject to certain liquidity tests.

As of February 28, 2009, the Company was in compliance with all material covenants for the above arrangements.

**Guarantees**

The Company has issued guarantees to certain vendors and lenders of its subsidiaries for trade credit lines and loans, totaling \$180,180 and \$180,711 as of February 28, 2009 and November 30, 2008, respectively. The Company is obligated under these guarantees to pay amounts due should its subsidiaries not pay valid amounts owed to their vendors or lenders. The vendor guarantees are typically less than one-year arrangements, with 30-day cancellation clauses and the lender guarantees are typically for the term of the loan agreement.



**NOTE 9 CONVERTIBLE DEBT:**

In May 2008, the Company issued \$143,750 of aggregate principal amount of its 4.0% Convertible Senior Notes due 2018 (the Notes) in a private placement. The Notes bear interest at a rate of 4.0% per annum. Interest on the Notes is payable in cash semi-annually in arrears on May 15 and November 15 of each year, beginning November 15, 2008. In addition, the Company will pay contingent interest in respect of any six-month period from May 15 to November 14 or from November 15 to May 14, with the initial six-month period commencing May 15, 2013, if the trading price of the Notes for each of the ten trading days immediately preceding the first day of the applicable six-month period equals 120% or more of the principal amount of the Notes. During any interest period when contingent interest is payable, the contingent interest payable per Note is equal to 0.55% of the average trading price of the Notes during the ten trading days immediately preceding the first day of the applicable six-month interest period. The Notes mature on May 15, 2018, subject to earlier redemption, repurchase or conversion.

Holder may convert their Notes at their option at any time prior to the close of business on the business day immediately preceding the maturity date for such Notes under the following circumstances: (1) during any fiscal quarter after the fiscal quarter ended August 31, 2008 (and only during such fiscal quarter), if the last reported sale price of the Company's common stock for at least 20 trading days in the period of 30 consecutive trading days ending on the last trading day of the immediately preceding fiscal quarter is equal to or more than 130% of the conversion price of the Notes on the last day of such preceding fiscal quarter; (2) during the five business-day period after any five consecutive trading-day period (the Measurement Period) in which the trading price per \$1 principal amount of the Notes for each day of that Measurement Period was less than 98% of the product of the last reported sale price of the common stock and the conversion rate of the Notes on each such day; (3) if the Company has called the particular Notes for

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redemption, until the close of business on the business day prior to the redemption date; or (4) upon the occurrence of certain corporate transactions. In addition, holders may also convert their Notes at their option at any time beginning on November 15, 2017, and ending at the close of business on the business day immediately preceding the maturity date for the Notes, without regard to the foregoing circumstances. Upon conversion, the Company will pay or deliver, as the case may be, cash, shares of the common stock or a combination thereof at the Company's election. The initial conversion rate for the Notes will be 33.9945 shares of common stock per \$1 principal amount of Notes, equivalent to an initial conversion price of approximately \$29.42 per share of common stock. Such conversion rate will be subject to adjustment in certain events but will not be adjusted for accrued interest, including any additional interest and any contingent interest.

The Company may not redeem the Notes prior to May 20, 2013. The Company may redeem the Notes, in whole or in part, for cash on or after May 20, 2013, at a redemption price equal to 100% of the principal amount of the Notes to be redeemed, plus any accrued and unpaid interest to (including any additional interest and any contingent interest), but excluding, the redemption date.

Holders may require the Company to repurchase all or a portion of their Notes for cash on May 15, 2013 at a purchase price equal to 100% of the principal amount of the Notes to be repurchased, plus any accrued and unpaid interest to (including any additional interest and any contingent interest), but excluding, the repurchase date. If the Company undergoes a fundamental change, holders may require it to purchase all or a portion of their Notes for cash at a price equal to 100% of the principal amount of the Notes to be purchased, plus any accrued and unpaid interest to (including any additional interest and any contingent interest), but excluding, the fundamental change repurchase date.

The Notes are senior unsecured obligations of the Company and rank equally in right of payment with other senior unsecured debt and rank senior to subordinated notes, if any. The Notes effectively rank junior to any of the Company's secured indebtedness to the extent of the assets securing such indebtedness. The Notes are also structurally subordinated in right of payment to all indebtedness and other liabilities and commitments (including trade payables) of the Company's subsidiaries. The net proceeds from the Notes were used for general corporate purposes and to reduce outstanding balances under the U.S. Arrangement and the Revolver.

The Notes are governed by an indenture, dated as of May 12, 2008, between the Company and U.S. Bank National Association, as trustee, which contains customary events of default.

The Notes as hybrid instruments are accounted as convertible debt and are recorded at carrying value with no separate accounting for the conversion features. The right of the holders of the Notes to require the Company to repurchase the Notes in the event of a fundamental change and the contingent interest feature would require separate measurement from the Notes; however, the amount is insignificant. The additional shares issuable following certain corporation transactions do not require bifurcation and separate measurement from the Notes.

**NOTE 10 NET INCOME PER COMMON SHARE:**

The following table sets forth the computation of basic and diluted net income per common share for the periods indicated:

	<b>Three Months Ended</b>	
	<b>February 28, 2009</b>	<b>February 29, 2008</b>
Net income	\$ 19,480	\$ 16,828
Weighted-average common shares-basic	32,113	31,377

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Effect of dilutive securities:		
Stock options and restricted stock	651	1,666
Weighted-average common shares-diluted	32,764	33,043
Net income per common share - basic	\$ 0.61	\$ 0.54
Net income per common share - diluted	\$ 0.59	\$ 0.51

Options to purchase 676 and 98 shares of common stock for the three months ended February 28, 2009 and February 29, 2008, respectively, have not been included in the computation of diluted net income per share as their effect would have been anti-dilutive.

### NOTE 11 RELATED PARTY TRANSACTIONS:

The Company has a business relationship with MiTAC International Corporation ( MiTAC International ), a publicly-traded company in Taiwan that began in 1992 when it became its primary investor through its affiliates. As of February 28, 2009, MiTAC International and its affiliates beneficially owned approximately 39% of the Company's common stock. In addition, Matthew Miao, the Company's Chairman Emeritus of the Board of Directors, is also the Chairman of MiTAC International and a director or officer of MiTAC International's affiliates.

The Company works closely with MiTAC International to collaborate on OEM outsourcing opportunities and jointly market MiTAC International's design and electronic manufacturing services and its contract assembly capabilities. This relationship has enabled the Company to build relationships with MiTAC International's customers and it continues to work with and depend on

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MiTAC International to jointly serve its shared customers. The Company purchased inventories, including notebook computers, motherboards and other peripherals, from MiTAC International and its affiliates totaling approximately \$77,878 and \$74,046 for the three months ended February 28, 2009, and February 29, 2008, respectively. The Company's sales to MiTAC International and its affiliates in the three months ended February 28, 2009, and February 29, 2008, totaled approximately \$1,017 and \$308, respectively. Most of these purchases and sales were pursuant to the Company's Master Supply Agreement with MiTAC International and Sun Microsystems, one of its contract assembly customers. The Company's business relationship to date with MiTAC International has been informal and is not governed by long-term commitments or arrangements with respect to pricing terms, revenue or capacity commitments.

Accordingly, the Company negotiates manufacturing, pricing and other material terms on a case-by-case basis with MiTAC International and its contract assembly customers for a given project. While MiTAC International is a related party and a controlling stockholder, the Company believes that the significant terms under these agreements, including pricing, would not materially differ from the terms it could have negotiated with unaffiliated third parties, and it has adopted a policy requiring that material transactions with MiTAC International or its related parties be approved by its Audit Committee, which is composed solely of independent directors. In addition, Mr. Miao's compensation is approved by the Nominating and Corporate Governance Committee, which is also composed solely of independent directors.

The Company remains dependent on MiTAC International as a contract assembly partner, any change in the pricing or other material terms demanded by MiTAC International could have a material adverse effect on its business, particularly its contract assembly business with Sun Microsystems.

***Beneficial Ownership of the Company's Common Stock by MiTAC International***

As noted above, MiTAC International and its affiliates in the aggregate beneficially owned approximately 39% of the Company's common stock as of February 28, 2009. These shares are owned by the following entities:

MiTAC International (1)	7,752,824
Synnex Technology International Corp. (2)	5,039,244
<b>Total</b>	<b>12,792,068</b>

- (1) Shares are held via Silver Star Developments Ltd., a wholly-owned subsidiary of MiTAC International. Excludes 1,233,651 shares (of which 115,150 shares are directly held and 1,118,501 shares are subject to exercisable options) held by Matthew Miao.
- (2) Synnex Technology International Corp. (Synnex Technology International) is a separate entity from the Company and is publicly-traded corporation in Taiwan. Shares are held via Peer Development Ltd, a wholly-owned subsidiary of Synnex Technology International. MiTAC International owns a minority interest in MiTAC Incorporated, a privately-held Taiwanese company, which in turn holds a minority interest in Synnex Technology International.

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While the ownership structure of MiTAC International and its affiliates is complex, it has not had a material adverse effect on the Company's business in the past, and it does not expect it to do so in the future.

The Company purchased shares of MiTAC International and one of its affiliates related to the deferred compensation plan of Robert Huang, Chairman. As of February 28, 2009, the value of the investment was \$1,099. Except as described herein, none of the Company's officers or directors has an interest in MiTAC International or its affiliates.

Synnex Technology International is a publicly-traded corporation in Taiwan that currently provides distribution and fulfillment services to various markets in Asia and Australia, and is also a potential competitor of the Company. Neither MiTAC International nor Synnex Technology International is restricted from competing with the Company.

### **NOTE 12 SEGMENT INFORMATION:**

#### *Description of Segments*

Operating segments are based on products and services provided by each segment, internal organization structure, the manner in which operations are managed, the criteria used by the Chief Operating Decision Maker ( CODM ) to assess the segment performance as well as resources allocation and the availability of discrete financial information. During fiscal year 2008, the Company changed its business strategy on managing its operations which prompted it to change its internal organization structure, resource allocation and measurement of its financial performance. The change in the business strategy enabled the Company to focus on providing a full range of distribution and GBS service offerings to its customers. The Company's operations are organized into two business segments - distribution services and GBS. Accounting policies of the segments are the same as those described in the summary of significant accounting policies.

The distribution services segment distributes computer systems and complementary products to a variety of customers, including value-added resellers, system integrators, retailers, as well as provides assembly services to OEMs, including integrated supply chain management, build-to-order and configure-to-order system configurations, materials management and logistics.

The GBS services segment offers a range of services to the Company's customers that include customer management, software development, web hosting, web development, hosted software, domain name registration, and back office processing on a global platform. The Company delivers these services through various methods including voice, chat, web, email, and digital print. The Company also sells products complementary to these service offerings in China.



\$ 110,092                      \$ 110,914

Revenue in the United States was approximately 80% and 75% of total revenue for the three months ended February 28, 2009 and February 29, 2008, respectively. Revenue in Canada was approximately 17% and 22% of total revenue for the three months ended February 28, 2009 and February 29, 2008, respectively. No other geographical location accounted for more than 10% of the Company's total revenue.

**NOTE 13 ACQUISITIONS:**

In the first quarter of fiscal year 2009, the Company made two acquisitions in the GBS segment. Through these acquisitions, the Company acquired web development services and complementary products for a total consideration of approximately \$6,786.

The above acquisitions, individually and in the aggregate, did not meet the conditions of a material business combination and were not subject to the disclosure requirements of SFAS No. 141, Business Combinations.

**NOTE 14 FAIR VALUE MEASUREMENTS:**

The Company adopted SFAS No. 157 effective December 1, 2007 for financial assets and liabilities. The Company adopted SFAS No. 157 effective December 1, 2008 for non-financial assets and liabilities. SFAS No. 157 applies to all assets and liabilities that are measured and reported on a fair value basis. The statement requires fair value measurements to be classified and disclosed in one of the following three categories:

Level 1: Unadjusted quoted prices in active markets that are accessible at the measurement date for identical, unrestricted assets or liabilities;

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Level 2: Quoted prices in markets that are not active or inputs which are observable, either directly or indirectly, for substantially the full term of the asset or liability;

Level 3: Prices or valuation techniques that require inputs that are both significant to the fair value measurement and unobservable (i.e., supported by little or no market activity).

The following table summarizes the valuation of the Company's short-term investments and financial instruments that are measured at fair value on a recurring basis, as of February 28, 2009:

	Total	February 28, 2009		
		Quoted market prices in active markets (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)
Trading securities	\$ 5,204	\$ 5,204	\$	\$
Available-for-sale securities	141	141		
Forward foreign currency exchange contracts	1,873		1,873	
Long-term accounts receivable	24,187		24,187	

The Company's investments in trading and available-for-sale securities are recorded at fair value based on quoted market prices. The forward exchange contracts are primarily measured based on the foreign currency spot and forward rates quoted by the banks or foreign currency dealers. The fair value of long-term accounts receivable is based on customer rating and creditworthiness.

The Company recorded a realized gain of \$2,103 and an unrealized gain of \$1,228 for the three months ended February 28, 2009, a realized gain of \$2,239 and an unrealized loss of \$1,904 for the three months ending February 29, 2008, in Other income (expense) in the consolidated statement of operations for the changes in the fair value of its financial instruments for trading securities and forward foreign currency exchange contracts.

The following table presents the assets and liabilities that are not carried at fair value as of February 28, 2009 and November 30, 2008:

	As of February 28, 2009		As of November 30, 2008	
	Carrying Value	Fair Value	Carrying Value	Fair Value
Cost investments	\$ 6,606	\$ 6,606	\$ 7,439	\$ 7,439
Long-term debt	8,175	8,175	8,537	8,537
Convertible debt	143,750	100,455	143,750	87,270

The Company's investments accounted for under the cost method consist of equity securities in a private entity, investments in a hedge fund, and investments in a private equity fund. The fair value of the investments in a hedge fund and private equity fund was determined by analyzing the underlying invested assets. The fair value of the equity securities is determined through internal analysis to measure impairment primarily based



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on the operating results and future earning prospects of the investee. In the three months ending February 28, 2009, \$53 was recognized as impairment charges relating to the carrying value of the company's cost investments. The carrying value of the long-term debt approximates fair value since current interest rates offered to the Company for debt of similar terms and maturities are approximately the same. The fair value of convertible debt is based on the closing price of the Convertible Senior Notes traded in a limited trading market.

In the three months ended February 28, 2009, no impairment charge was recorded in accordance with SFAS No. 142, Goodwill and Other Intangible Assets, for the carrying value of goodwill. In the three months ended February 28, 2009, no impairment charge was recorded in accordance with SFAS No. 144, Accounting for the Impairment or Disposal of Long-Lived Assets for the carrying value of long-lived assets held and used.

### **NOTE 15 COMMITMENTS AND CONTINGENCIES:**

The Company was contingently liable as of February 28, 2009, under agreements to repurchase repossessed inventory acquired by Flooring Companies as a result of default on floor plan financing arrangements by the Company's customers. These arrangements are described in Note 7 Accounts Receivable Arrangements. Losses, if any, would be the difference between the repossession cost and the resale value of the inventory. There have been no repurchases through February 28, 2009 under these agreements, nor is the Company aware of any pending customer defaults or repossession obligations.

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**SYNNEX CORPORATION**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**For the three months ended February 28, 2009 and February 29, 2008**

**(amounts in thousands, except per share amounts)**

**(unaudited)**

The Company is from time to time involved in various bankruptcy preference actions where the Company was a supplier to the companies now in bankruptcy. These preference actions are filed by the bankruptcy trustee on behalf of the bankrupt estate and generally seek to have payments made by the debtor within 90 days prior to the bankruptcy returned to the bankruptcy estate for allocation among all of the bankrupt estate's creditors. The Company is not aware of any currently pending preference actions.

The Company does not believe that these proceedings will have a material adverse effect on the Company's results of operations, financial position or cash flows.

**NOTE 16 RESTRUCTURING CHARGES:**

In fiscal year 2007, in connection with the acquisition of the Redmond Group of Companies ( RGC ), the Company announced a restructuring program in Canada under EITF No. 95-3, Recognition of Liabilities in Connection with a Purchase Business Combination ( EITF 95-3 ). The measures, which included workforce reductions, facilities consolidation and other related expenses, are substantially completed. The balance outstanding on facility and exit costs as of February 28, 2009 and November 30, 2008 was \$302.

The property located in Ontario, Canada, that was held for sale, in accordance with SFAS No. 144, Accounting for the Impairment or Disposal of Long-Lived Assets, was sold during the three months ended February 28, 2009 for \$1,597 at a loss of \$46.

**Table of Contents****ITEM 2. Management's Discussion and Analysis of Financial Condition and Results of Operations**  
**Forward-Looking Statements**

*When used in this Quarterly Report on Form 10-Q or Report, the words believes, plans, estimates, anticipates, expects, intends, allows, can, may, designed, will, and similar expressions are intended to identify forward-looking statements. These are statements that relate to future periods and include statements about our business model and our services, expected benefits and developments of our services and operations, potential effects of the economic environment, anticipated benefits of our acquisitions, impact of our acquisitions on our financial position, our revenue and operating results, economic and industry trends, thefts at our warehouses, our gross margins, our agreements with MiTAC International, our relationship with MiTAC International and Sun Microsystems, competition with Synnex Technology International, our estimates regarding our capital requirements and our needs for additional financing, concentration of products and customers, the expansion of our operations, our international operations, our strategic acquisitions of businesses and assets, effect of future expansion on our operations, adequacy of our cash resources to meet our capital needs, adequacy of our disclosure controls and procedures, dependency on personnel, pricing pressures, our effective tax rates, impact of rules and regulations affecting public companies, impact of our accounting policies, and statements regarding our securitization program. Forward-looking statements are subject to risks and uncertainties that could cause actual results to differ materially from those projected. These risks and uncertainties include, but are not limited to, those risks discussed below, as well as the seasonality of the buying patterns of our customers, the concentration of sales to large customers, dependence upon and trends in capital spending budgets in the IT industry, fluctuations in general economic conditions and the risks set forth below under Part II, Item 1A, Risk Factors. These forward-looking statements speak only as of the date hereof. We expressly disclaim any obligation or undertaking to release publicly any updates or revisions to any forward-looking statements contained herein to reflect any change in our expectations with regard thereto or any change in events, conditions or circumstances on which any such statement is based.*

**Overview**

We are a Fortune 500 corporation and a leading business process services company, serving resellers, retailers and original equipment manufacturers, or OEMs, in multiple regions around the world. We provide services in distribution, contract assembly and global business services, or GBS. We operate in two segments, distribution services segment and GBS segment. Our distribution services segment distributes computer systems and complementary products to a variety of customers, including value-added resellers, system integrators, and retailers, and provides assembly services to OEMs, including integrated supply chain management, build-to-order and configure-to-order system configurations, materials management and logistics. Our GBS segment offers a range of services to our customers that include customer management, software development, web hosting, web development, hosted software, domain name registration, and back office processing on a global platform. We deliver these services through various methods including voice, chat, web, email, and digital print. We also sell products complementary to these service offerings in China.

We bring synergy to our customers' business process services requirements. By bringing supply chain management, contract assembly and distribution expertise together under one service provider, the result is high quality products assembled at a lower cost with industry-leading components delivered efficiently and on time. Our business model is flexible and modular to accommodate the specific needs of our customers. To further enhance our business process services solutions, we provide value-added support services such as demand generation, pre-sales support, product marketing, print and fulfillment, back office outsourcing, post-sales technical support, web development, web hosting and domain name registration services.

We combine our core strengths in demand generation, distribution, supply chain management, and contract assembly in an effort to help our customers achieve efficient time to market, cost minimization, real-time linkages in the supply chain and aftermarket product support. As of February 28, 2009, we distributed approximately 15,000 technology products, as measured by active SKUs, from more than 100 IT OEM suppliers to more than 15,000 resellers throughout the United States, Canada and Mexico. As of February 28, 2009, we had over 7,000 full-time and temporary employees worldwide with operations in the United States, Canada, China, Mexico, Japan, the Philippines and the United Kingdom. From a geographic perspective, approximately 97% of our total revenue was from North America for the three months ended February 28, 2009.

We purchase IT systems, peripherals, system components, packaged software and networking equipment from OEM suppliers such as Hewlett-Packard Company, or HP, Panasonic, Seagate and Lenovo and sell them to our reseller customers. We perform the same function for our purchases of licensed software products. Our reseller customers include value-added resellers, or VARs, corporate resellers, government resellers, system integrators, direct marketers and retailers. Our largest OEM supplier, HP, accounted for approximately 35% of our total revenue for the three months ended February 28, 2009.

The distribution and contract assembly industries in which we operate are characterized by low gross profit as a percentage of revenue, or gross margin, and low income from operations as a percentage of revenue, or operating margin. The market for IT products and services is generally characterized by declining unit prices and short product life cycles. We set our sales price based on the market supply and demand

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characteristics for each particular product or bundle of products we distribute and services we provide.

In our distribution segment, we are highly dependent on the end-market demand for IT products and services. This end-market demand is influenced by many factors including the introduction of new IT products and software by OEMs, replacement cycles for existing IT products, overall economic growth and general business activity. A difficult and challenging economic environment may also lead to consolidation or decline in the IT industry or increased price-based competition.

**Table of Contents****Recent Acquisitions and Divestitures**

We seek to augment our services offering with strategic acquisitions of businesses and assets that complement and expand our global business services capabilities. We also divest businesses that we deem not strategic to our ongoing operations. Our historical acquisitions have brought us new reseller customers, retail customers and OEM suppliers, extended the geographic reach of our operations, particularly targeted in international markets, and diversified and expanded the services we provide to our OEM suppliers and customers. We account for acquisitions using the purchase method of accounting and include acquired entities within our consolidated financial statements from the closing date of the acquisition.

In the first quarter of fiscal year 2009, we made two acquisitions in our GBS segment. Through these acquisitions, we acquired web development services and complementary products for a total consideration of approximately \$6.8 million.

The above acquisitions, individually and in the aggregate, did not meet the conditions of a material business combination and were not subject to the disclosure requirements of Statement of Financial Accounting Standards, or SFAS, No. 141, Business Combinations.

**Restructuring Charges**

In fiscal year 2007, in connection with the acquisition of Redmond Group of Companies, or RGC, we announced a restructuring program in Canada under Emerging Issues Task Force, or EITF, No. 95-3, Recognition of Liabilities in Connection with a Purchase Business Combination, or EITF No. 95-3. The measures, which included workforce reductions, facilities consolidation and other related expenses, are substantially completed. The balance outstanding on facility and exit costs as of February 28, 2009 and November 30, 2008 was \$0.3 million.

The property located in Ontario, Canada, which was held for sale, in accordance with SFAS No. 144, Accounting for the Impairment or Disposal of Long-Lived Assets, was sold during the three months ended February 28, 2009 for \$1.60 million at a loss of \$0.05 million.

**Critical Accounting Policies and Estimates**

There have been no material changes in our critical accounting policies and estimates for the three month period ended February 28, 2009 from our disclosure in our Annual Report on Form 10-K for the year ended November 30, 2008. For a discussion of the critical accounting policies, please see the discussion in our Annual Report on Form 10-K for the fiscal year ended November 30, 2008.

**Results of Operations**

The following table sets forth, for the indicated periods, data as percentages of revenue:

	<b>Three Months Ended</b>	
	<b>February 28, 2009</b>	<b>February 29, 2008</b>
<b>Statements of Operations Data:</b>		
Revenue	100.00%	100.00%
Cost of revenue	(93.88)	(94.52)
Gross profit	6.12	5.48
Selling, general and administrative expenses	(4.11)	(3.61)
Income from operations before non-operating items, income taxes and minority interest	2.01	1.87
Interest expense and finance charges, net	(0.23)	(0.24)
Other income (expense), net	(0.02)	(0.11)
Income before income taxes and minority interest	1.76	1.52
Provision for income taxes	(0.62)	(0.55)
Income before minority interest	1.14	0.97
Minority interest	(0.01)	(0.01)

Net income	1.13%	0.96%
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**Table of Contents****Three Months Ended February 28, 2009 and February 29, 2008****Revenue**

	Three Months Ended		% Change
	February 28, 2009	February 29, 2008	
	(in thousands)		
Revenue	\$ 1,728,892	\$ 1,748,574	-1.1%
Distribution Revenue	1,701,139	1,728,037	-1.6%
GBS Revenue	32,923	25,267	30.3%
Inter-Segment Elimination	(5,170)	(4,730)	9.3%

In our distribution business, we sell in excess of 15,000 (as measured by active SKU s) technology products from more than 100 IT OEM suppliers to more than 15,000 resellers. The prices of our products are highly dependent on the volumes purchased within a product category. The products we sell from one period to the next are often not comparable because of rapid changes in product models and features. The revenue generated in our GBS segment relates to services such as demand generation, pre-sales support, product marketing, print and fulfillment, back office IT and development outsourcing, post-sales technical support, web hosting, web development and domain name registration. The programs and customer service requirements change frequently from one period to the next and are often not comparable.

Our decrease in distribution revenue year over year for the three months ended February 28, 2009, was primarily attributable to adverse impact of foreign exchange translation of our Canadian distribution operations offset in part by an increase in revenue in U.S. distribution business mainly due to the acquisition of New Age Electronics, or NAE. On a constant currency basis our growth was approximately 3%.

Our normal revenue growth was somewhat mitigated by continued significant competition in the IT distribution marketplace, vendor direct sales models, our desire to focus on operating income growth before revenue growth, and a softer North American economy.

The increase in our GBS segment revenue was mainly due to higher call volumes in our contact center and additional revenue generated from our smaller acquisitions.

**Gross Profit**

	February 28, 2009	February 29, 2008	% Change
	(in thousands)		
Gross profit	\$ 105,797	\$ 95,850	10.4%
Percentage of revenue	6.12%	5.48%	11.7%

Our gross profit is affected by a variety of factors, including competition, the mix and various selling prices of products and services we sell, the mix of customers to whom we sell, our sources of revenue by division, rebate and discount programs from our suppliers, freight costs, reserves for inventory losses, fluctuations in revenue and overhead costs of our contract assembly business and demand for our GBS services.

Our gross profit as a percentage of revenue increased by 64 basis points over the prior year quarter for the three months ended February 28, 2009 primarily due to product and geographic mix, including higher gross margin profile of our acquisitions, as well as greater success in maximizing our variable incentives, favorable foreign currency impact on inventory purchases and inventory management. The increase was also driven by our continued focus on improving all aspects of gross margin and minimizing costs such as freight.

No specific products or customers, or changes in pricing strategy individually or as a group, contributed significantly to the change in gross profit.

**Selling, General and Administrative Expenses**

Three Months Ended

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	February 28, 2009	February 29, 2008	% Change
	(in thousands)		
Selling, general and administrative expenses	\$ 71,097	\$ 63,070	12.7%
Percentage of revenue	4.11%	3.61%	13.9%



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Approximately two-thirds of our selling, general and administrative expenses consist of personnel costs such as salaries, commissions, bonuses, share-based compensation, deferred compensation expense or income, and temporary personnel fees. Selling, general and administrative expenses also include costs of our facilities, utility expense, professional fees, depreciation expense on our capital equipment, bad debt expense, amortization expense on our intangible assets and marketing expenses, offset in part by reimbursements from OEM suppliers.

Selling, general and administrative expenses increased for the three months ended February 28, 2009 both on a dollar basis as well as percentage of revenue basis from prior year quarter mainly due to an increase in compensation cost of \$3.5 million resulting from an increase in employees. The remainder of the increase was due to an increase of \$4.5 million in bad debt reserve, rent, amortization expenses, professional services fees, decreased deferred compensation liability offset by foreign exchange rate translation impact on expenses. The increase in the selling, general and administrative expenses was also partly due to the impact of our acquisitions made during the previous year.

**Income from Operations before Non-Operating Items, Income Taxes and Minority Interest**

	February 28, 2009	Three Months Ended February 29, 2008	% Change
	(in thousands)		
Income from operations before non-operating items, income taxes and minority interest	\$ 34,700	\$ 32,780	5.9%
Distribution income from operations before non-operating items, income taxes and minority interest	31,127	29,723	4.7%
GBS income from operations before non-operating items, income taxes and minority interest	3,573	3,057	16.9%

Our income from operations before non-operating items, income taxes and minority interest as a percentage of revenue increased to 2.01% for the three months ended February 28, 2009 compared to 1.87% from prior year quarter. The overall improvement in margin was a result of improvement in gross margin in the distribution segment as well as in the GBS segment.

The distribution segment income from operations before non-operating items, income taxes and minority interest as percentage of distribution revenue increased to 1.83% for the three months ended February 28, 2009 from prior year quarter of 1.72%, primarily due to the improvement in gross margin and contributions from our acquisitions offset by higher selling and administrative expenses.

The GBS segment income from operations before non-operating items, income taxes and minority interest as a percentage of revenue decreased to 10.85% for the three months ended February 28, 2009 from prior year quarter of 12.10%, primarily due to continued investments in infrastructure and increased expenses as a result of the acquisitions.

**Interest Expense and Finance Charges, Net**

	February 28, 2009	Three Months Ended February 29, 2008	% Change
	(in thousands)		
Interest expense and finance charges, net	\$ 3,983	\$ 4,167	-4.4%
Percentage of revenue	0.23%	0.24%	-4.2%

Amounts recorded in interest expense and finance charges, net, consist primarily of interest expense paid on our lines of credit, senior convertible notes, other debt, fees associated with third party accounts receivable flooring arrangements and the sale or pledge of accounts receivable through our securitization facilities, offset by income earned on our cash investments and financing income from our Mexico operation.

The decrease in interest expense and finance charges, net, for the three months ended February 28, 2009 compared to the prior year quarter was approximately \$1.0 million as a result of lower borrowings augmented by lower interest rates which was offset in part by a charge of approximately \$0.8 million for the partial write-off of unamortized debt costs associated with our working capital lines that we refinanced in January 2009.



**Table of Contents****Other Income (Expense), Net**

	February 28, 2009	Three Months Ended February 29, 2008	% Change
	(in thousands)		
Other income (expense), net	\$ (407)	\$ (2,046)	-80.1%
Percentage of revenue	-0.02%	-0.11%	-81.8%

Amounts recorded as other income (expense), net include foreign currency transaction gains and losses, investment gains and losses, including those in our deferred compensation plan and other non-operating gains and losses.

The decrease in other income (expense), net for the three months ended February 28, 2009 compared to the prior year quarter was due to decreased losses of \$0.3 million on trading securities related to our deferred compensation program and higher foreign exchange gain of \$0.1 million. For the three months ended February 29, 2008 approximately \$0.8 million other-than-temporary impairment loss was recorded on our cost and available-for-sale securities.

**Provision for Income Taxes**

Our effective tax rate in the three months ended February 28, 2009 was 35.20% compared with an effective tax rate of 36.00% from prior year quarter. The decrease in the effective tax rate was primarily due to slightly higher profit contributions from lower tax jurisdictions.

Our future effective tax rates could be adversely affected by earnings being lower than anticipated in countries where we have lower statutory rates and earnings being higher than anticipated in countries where we have higher statutory rates, by changes in the valuations of our deferred tax assets or liabilities, or by changes or interpretations in tax laws, regulations or accounting principles. In addition, we are subject to the continuous examination of our income tax returns by the Internal Revenue Service and other tax authorities. We regularly assess the likelihood of adverse outcomes resulting from these examinations to determine the adequacy of our provision for income taxes.

**Minority Interest**

Minority interest is the portion of earnings from operations attributable to others. In March 2008, we acquired a controlling interest in Nihon Daiko Shoji Co. Ltd, or NDS, which operates in Japan. On April 5, 2007, we acquired a controlling interest in China Civilink (Cayman), which operates in China as HiChina Web Solutions. Minority interest represents the portion of earnings from the operations from HiChina Web Solutions and NDS which are attributable to others. These minority interests are in the GBS segment.

**Goodwill**

We conducted our annual goodwill impairment testing as of November 30, 2008 and concluded that there was no impairment. Our market capitalization and stock price during the first quarter of fiscal year 2009 were higher than as of November 30, 2008, and there were no significant changes to the key assumptions used in our annual goodwill impairment analysis. Hence, there were no indications of any triggering events that would necessitate further impairment analysis on the fair value of reporting units.

**Liquidity and Capital Resources****Cash Flows**

Our business is working capital intensive. Our working capital needs are primarily to finance accounts receivable and inventory. For our working capital needs, we rely heavily on debt, accounts receivable flooring programs and the sale or pledge of our accounts receivable under our securitization programs.

We have financed our growth and cash needs to date primarily through working capital financing facilities, convertible senior notes, bank credit lines and cash generated from operations. The primary uses of cash have been to fund working capital, acquisitions and the generation of increased sales.

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To increase our market share and better serve our customers, we may further expand our operations through investments or acquisitions. We expect that such expansion would require an initial investment in personnel, facilities and operations. Such investment may be more costly than similar investments in current operations and may not generate normal margins immediately. As a result of these investments, we may experience an increase in cost of sales and operating expenses that is disproportionate to revenue from those operations. These investments or acquisitions would likely be funded primarily by additional borrowings or issuing common stock.

The net cash flow provided by operating activities increased mainly due to collections from our seasonally high fourth quarter. Net cash provided by operating activities was \$204.9 million in the three months ended February 28, 2009. Cash provided by operating activities was primarily attributable to a net decrease in accounts receivable of \$142.3 million, a decrease in inventories of \$38.5 million, an increase in payables to affiliates of \$27.0 million and net income of \$19.5 million, partially offset by a decrease in accounts payable of \$20.3 million.

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Net cash used in investing activities was \$3.9 million in the three months ended February 28, 2009. Cash used in investing activities was primarily for capital expenditures of \$2.3 million and acquisitions of \$2.0 million.

Net cash used in financing activities was \$202.9 million in the three months ended February 28, 2009 and was primarily related to the net repayments of securitization arrangements, bank loans and our revolving line of credit of \$188.9 million and a decrease in bank overdrafts of \$15.9 million.

We had sufficient availability on our credit arrangements to support our operating activities.

### ***Capital Resources***

Our cash and cash equivalents totaled \$60.0 million and \$61.1 million at February 28, 2009 and November 30, 2008, respectively. We believe we will have sufficient resources to meet our present and future working capital requirements for the next twelve months, based on our financial strength and performance, existing sources of liquidity, available cash resources and funds available under our various borrowing arrangements.

### ***Off-Balance Sheet Arrangements***

We have a renewable revolving accounts receivable securitization program in Canada, or Canadian Arrangement, through SYNEX Canada Limited, or SYNEX Canada, which provides for the sale of U.S. and Canadian trade accounts receivable, or Canadian Receivables, to a financial institution up to a maximum of C\$110.0 million. In connection with the Canadian Arrangement, SYNEX Canada sells its rights, title and interest in its Canadian Receivables to the financial institution on a fully-serviced basis. The effective discount rate of the Canadian Arrangement is the prevailing Bankers' Acceptance rate of return or prime rate in Canada plus an initial spread of 1.50%, increasing to 3.50% over time. To the extent that cash was received in exchange, the amount of Canadian Receivables sold to the financial institution has been recorded as a true sale, in accordance with SFAS No. 140, Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities a replacement of FASB Statement No. 125, or SFAS No. 140 and therefore, is not included in the debt and the related Canadian Receivables on our consolidated balance sheet. We provide an allowance for doubtful accounts related to these Canadian Receivables based on the quality and aging of the Canadian Receivables and our historical experience with collections. The amount of our Canadian Receivables sold to the financial institution and not yet collected from customers was \$49.9 million and \$59.2 million as of February 28, 2009 and November 30, 2008, respectively. This program is renewed until May 29, 2009.

We issued a guarantee of SYNEX Canada's obligations under the Canadian Arrangement in favor of the financial institution in Canada. The scope of this guarantee primarily consists of the obligation to guarantee SYNEX Canada's obligations under the Canadian Arrangement. We also agreed to certain covenants regarding maintenance of our existence, limitations on changes to our business, reporting requirements, and requirements to maintain a specified net worth on a consolidated basis.

We have also issued guarantees to certain vendors and lenders of our subsidiaries for an aggregate amount of \$180.2 million as of February 28, 2009 and \$180.7 million as of November 30, 2008. We are obligated under these guarantees to pay amounts due should our subsidiaries not pay valid amounts owed to their vendors or lenders. The vendor guarantees are typically less than one-year arrangements, with 30-day cancellation clauses and the lender guarantees are typically for the term of the loan agreement.

### ***On-Balance Sheet Arrangements***

We primarily finance our U.S. operations with an accounts receivable securitization program, or U.S. Arrangement, by selling up to a maximum of \$350.0 million in U.S. trade accounts receivable, or U.S. Receivables. On January 23, 2009, we amended and restated the U.S. Arrangement, or the U.S. Amended and Restated Arrangement, to replace the lead bank and agent. The maturity date of the U.S. Amended and Restated Arrangement was amended from February 11, 2011 to January 22, 2010 and may be renewed upon our mutual agreement with the lenders. The effective borrowing cost under the U.S. Amended and Restated Arrangement is a blend of the prevailing dealer commercial paper rates plus a program fee of 0.75% per annum based on the used portion of the commitment and a facility fee of 0.75% per annum payable on the commitment. The balance outstanding on the U.S. Amended and Restated Arrangement as of February 28, 2009 was \$114.5 million. The balance outstanding and pledged on the U.S. Arrangement as of November 30, 2008 was \$207.2 million.

Under the terms of the U.S. Amended and Restated Arrangement, we sell, on a revolving basis, our U.S. Receivables to a wholly-owned, bankruptcy-remote subsidiary. The borrowings are funded by pledging all of the rights, title and interest in and to the U.S. Receivables as security. Any borrowings under the U.S. Amended and Restated Arrangement are recorded as debt on our consolidated balance sheet. As is customary in trade accounts receivable securitization arrangements, a credit rating agency's downgrade of the third party issuer of commercial paper or of a back-up liquidity provider (which provides a source of funding if the commercial paper market cannot be accessed) could result in

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an adverse change or loss of our financing capacity under these programs if the commercial paper issuer or liquidity back-up provider is not replaced. Loss of such financing capacity could have a material adverse effect on our financial condition and results of operations.

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We have a senior secured revolving line of credit arrangement, or the Revolver, with a group of financial institutions. On January 23, 2009, we amended and restated the Revolver, or the Amended and Restated Revolver, to replace the lead bank and agent. The Amended and Restated Revolver's maximum commitment was also amended from \$120.0 million to \$80.0 million. The Amended and Restated Revolver retains an accordion feature to increase the maximum commitment by an additional \$70.0 million to \$150.0 million at the Company's request in the event one or more of the existing lenders or another financial institution which becomes a lender agrees to provide the increased commitment. Interest on borrowings under the Amended and Restated Revolver is based on the financial institution's prime rate or LIBOR plus 2.50% per annum at our option. A fee of 0.50% per annum is payable with respect to the unused portion of the commitment. The Amended and Restated Revolver is secured by our inventory and other assets and expires on February 11, 2011. Among other changes, the Revolver was further amended such that it is a default under the Amended and Restated Revolver if the maturity date of the U.S. Amended and Restated Arrangement is not extended. In addition, it is also an event of default under the Amended and Restated Revolver if (1) a lender under the U.S. Amended and Restated Arrangement declines to extend the maturity date at any point within 60 days prior to the maturity date of the U.S. Amended and Restated Arrangement, unless availability under the Amended and Restated Revolver exceeds \$60.0 million or we have a binding commitment in place to renew or replace the U.S. Amended and Restated Arrangement or (2) at least 20 days prior to the maturity date of the U.S. Amended and Restated Arrangement we should have in place a binding commitment to renew or replace the U.S. Amended and Restated Arrangement on substantially similar terms and conditions, unless we have no amounts outstanding under the Amended and Restated Revolver at such time. The borrowing outstanding under the Amended and Restated Revolver as of February 28, 2009 was \$7.8 million. The borrowing outstanding under the Revolver as of November 30, 2008 was \$95 million.

SYNEX Canada has a revolving line of credit arrangement with a credit limit of C\$30.0 million. The revolving credit facility expires in April 2010. Interest on this facility is based on the Canadian adjusted prime rate plus 2.00%. SYNEX Canada has granted a lien on substantially all of its assets in favor of the lenders under its revolving credit facility. In connection with this revolving credit facility, we agreed to subordinate our right to repayment of amounts received from SYNEX Canada to the prior repayment of SYNEX Canada's obligations under its revolving credit facility, except to the extent that SYNEX Canada is permitted to make distributions to us in accordance with the terms of its revolving credit facility. The balance outstanding as of February 28, 2009 and November 30, 2008 was \$12.6 million and \$15.0 million, respectively.

SYNEX Canada has a credit facility with a financial institution in Canada to allow us to issue documentary letters of credit up to a maximum of C\$30.0 million for validity up to 180 days. The letters of credit are issued to secure purchases of inventory from manufacturers and to finance import activities. This facility has an overdraft limit up to a maximum amount of C\$2.0 million available in Canadian and U.S. dollars for a maximum of two business days to repay draws under letters of credit or letters of guarantee. SYNEX Canada has granted a lien, in favor of the financial institution in Canada, on the inventory financed under this credit facility, all accounts receivable from the sale of such inventory, all proceeds of sale of such inventory and collection of such accounts receivable and up to C\$3.0 million in cash on deposit with the financial institution in Canada. In connection with this credit facility, we issued a guarantee of SYNEX Canada's obligations in favor of the financial institution in Canada of up to C\$20.0 million. Letters of credit issued against this facility were \$1.2 million as of February 28, 2009 and \$2.8 million as of November 30, 2008.

Our Mexico subsidiary, SYNEX Mexico S.A. de C.V., or SYNEX Mexico, established a secured term loan agreement, or Mexico Term Loan, with a group of financial institutions in May 2006. The interest rate for any unpaid principal amount is the Equilibrium Interbank Interest Rate, plus 2.00% per annum. The final maturity date for repayment of all unpaid principal is November 24, 2009. The balance outstanding, under the Mexico Term Loan as of February 28, 2009 was \$12.7 million and \$20.2 million as of November 30, 2008. The Mexico Term Loan contains customary financial covenants. In connection with the Mexico Term Loan, we issued a guarantee of SYNEX Mexico's obligations.

We have other lines of credit and revolving facilities with financial institutions, which provide for borrowing capacity aggregating approximately \$5.0 million and \$5.4 million at February 28, 2009 and November 30, 2008, respectively. At February 28, 2009 and November 30, 2008, we had borrowings of \$2.2 million and \$2.5 million, respectively, outstanding under these facilities. We also have various term loans, including a term loan facility in Canada, short-term borrowings and mortgages with financial institutions totaling approximately \$8.6 million and \$9.2 million at February 28, 2009 and November 30, 2008, respectively.

The expiration dates of our various borrowing arrangements range from 2009 to 2017.

***Covenants Compliance***

In relation to our U.S. Amended and Restated Arrangement, the Amended and Restated Revolver, SYNEX Canada revolving line of credit, Canadian Arrangement and SYNEX Mexico Term Loan, we have a number of covenants and restrictions that, among other things, require us to comply with certain financial and other covenants and restrict our ability to incur additional debt. They also restrict our ability to make or forgive intercompany loans, pay dividends and make distributions, make certain acquisitions, repurchase our stock, create liens, cancel debt owed to us, enter into agreements with affiliates, modify the nature of our business, enter into sale-leaseback transactions, make certain investments, enter into new real estate leases, transfer and sell assets, cancel or terminate any material contracts and merge or consolidate. The

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covenants also limit our ability to pay cash upon conversion, redemption or repurchase of the Convertible Senior Notes subject to certain liquidity tests.

As of February 28, 2009, we were in compliance with all material covenants for the above arrangements.



**Table of Contents*****Convertible Debt***

In May 2008, we issued \$143.8 million of aggregate principal amount of our 4.0% Convertible Senior Notes due 2018, or the Notes, in a private placement. The Notes bear interest at a rate of 4.00% per annum. Interest on the Notes is payable in cash semi-annually in arrears on May 15 and November 15 of each year, beginning November 15, 2008. In addition, we will pay contingent interest in respect of any six-month period from May 15 to November 14 or from November 15 to May 14, with the initial six-month period commencing May 15, 2013, if the trading price of the Notes for each of the ten trading days immediately preceding the first day of the applicable six-month period equals 120% or more of the principal amount of the Notes. During any interest period when contingent interest is payable, the contingent interest payable per Note is equal to 0.55% of the average trading price of the Notes during the ten trading days immediately preceding the first day of the applicable six-month interest period. The Notes mature on May 15, 2018, subject to earlier redemption, repurchase or conversion.

Holder may convert their Notes at their option at any time prior to the close of business on the business day immediately preceding the maturity date for such Notes under the following circumstances: (1) during any fiscal quarter after the fiscal quarter ended August 31, 2008 (and only during such fiscal quarter), if the last reported sale price of our common stock for at least 20 trading days in the period of 30 consecutive trading days ending on the last trading day of the immediately preceding fiscal quarter is equal to or more than 130% of the conversion price of the Notes on the last day of such preceding fiscal quarter; (2) during the five business-day period after any five consecutive trading-day period, or the Measurement Period, in which the trading price per \$1,000 principal amount of the Notes for each day of that Measurement Period was less than 98% of the product of the last reported sale price of the common stock and the conversion rate of the Notes on each such day; (3) if we have called the particular Notes for redemption, until the close of business on the business day prior to the redemption date; or (4) upon the occurrence of certain corporate transactions. In addition, holders may also convert their Notes at their option at any time beginning on November 15, 2017, and ending at the close of business on the business day immediately preceding the maturity date for the Notes, without regard to the foregoing circumstances. Upon conversion, we will pay or deliver, as the case may be, cash, shares of the common stock or a combination thereof at our election. The initial conversion rate for the Notes will be 33.9945 shares of common stock per \$1,000 principal amount of Notes, equivalent to an initial conversion price of approximately \$29.42 per share of common stock. Such conversion rate will be subject to adjustment in certain events but will not be adjusted for accrued interest, including any additional interest and any contingent interest.

We may not redeem the Notes prior to May 20, 2013. We may redeem the Notes, in whole or in part, for cash on or after May 20, 2013, at a redemption price equal to 100% of the principal amount of the Notes to be redeemed, plus any accrued and unpaid interest to (including any additional interest and any contingent interest), but excluding, the redemption date.

Holder may require us to repurchase all or a portion of their Notes for cash on May 15, 2013 at a purchase price equal to 100% of the principal amount of the Notes to be repurchased, plus any accrued and unpaid interest to (including any additional interest and any contingent interest), but excluding, the repurchase date. If we undergo a fundamental change, holders may require us to purchase all or a portion of their Notes for cash at a price equal to 100% of the principal amount of the Notes to be purchased, plus any accrued and unpaid interest to (including any additional interest and any contingent interest), but excluding, the fundamental change repurchase date.

The Notes are senior unsecured obligations of ours and rank equally in right of payment with other senior unsecured debt and rank senior to subordinated notes, if any. The Notes effectively rank junior to any of our secured indebtedness to the extent of the assets securing such indebtedness. The Notes are also structurally subordinated in right of payment to all indebtedness and other liabilities and commitments (including trade payables) of our subsidiaries. The net proceeds from the Notes were used for general corporate purposes and to reduce outstanding balances under the U.S. Arrangement and the Revolver.

The Notes are governed by an indenture, dated as of May 12, 2008, between us and U.S. Bank National Association, as trustee, which contains customary events of default.

The Notes as hybrid instruments are accounted as convertible debt and are recorded at carrying value with no separate accounting for the conversion features. The right of the holders of the Notes to require us to repurchase the Notes in the event of a fundamental change and the contingent interest feature would require separate measurement from the Notes; however, the amount is insignificant. The additional shares issuable following certain corporation transactions do not require bifurcation and separate measurement from the Notes.

**Related Party Transactions**

We have a business relationship with MiTAC International, a publicly-traded company in Taiwan, that began in 1992 when it became our primary investor through its affiliates. As of February 28, 2009, MiTAC International and its affiliates beneficially owned approximately 39% of our common stock. In addition, Matthew Miao, the Chairman Emeritus of our Board of Directors, is also the Chairman of MiTAC International and a director or officer of MiTAC International's affiliates. As a result, MiTAC International generally has significant influence over us and

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over the outcome of all matters submitted to stockholders for consideration, including any merger or acquisition of ours. Among other things, this could have the effect of delaying, deterring or preventing a change of control over us with the loss of any premium that stockholders otherwise might receive in connection with such a transaction.

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We work closely with MiTAC International to collaborate on OEM outsourcing opportunities and jointly market MiTAC International's design and electronic manufacturing services and our contract assembly capabilities. This relationship has enabled us to build relationships with MiTAC International's customers and we continue to work with and depend on MiTAC International to jointly serve our shared customers. We purchased inventories, including notebook computers, motherboards and other peripherals, from MiTAC International and its affiliates totaling approximately \$77.9 million and \$74.0 million for the three months ended February 28, 2009 and February 29, 2008, respectively. Our sales to MiTAC International and its affiliates in the three months ended February 28, 2009 and February 29, 2008, totaled approximately \$1.0 million and \$0.3 million, respectively. Most of these purchases and sales were pursuant to our Master Supply Agreement with MiTAC International and Sun Microsystems, one of our contract assembly customers. Our business relationship to date with MiTAC International has been informal and is not governed by long-term commitments or arrangements with respect to pricing terms, revenue or capacity commitments.

Accordingly, we negotiate manufacturing, pricing and other material terms on a case-by-case basis with MiTAC International and our contract assembly customers for a given project. While MiTAC International is a related party and a controlling stockholder, we believe that the significant terms under these agreements, including pricing, would not materially differ from the terms we could have negotiated with unaffiliated third parties, and we have adopted a policy requiring that material transactions with MiTAC International or its related parties be approved by our Audit Committee, which is composed solely of independent directors. In addition, Mr. Miao's compensation is approved by the Nominating and Corporate Governance Committee, which is also composed solely of independent directors. As MiTAC International's ownership interest in us decreases as a result of sales of our stock and additional dilution, its interest in the success of our business and operations may decrease as well.

We remain dependent on MiTAC International as a contract assembly partner, any change in the pricing or other material terms demanded by MiTAC International could have a material adverse effect on our business, particularly our contract assembly business with Sun Microsystems.

***Beneficial Ownership of our Common Stock by MiTAC International***

As noted above, MiTAC International and its affiliates in the aggregate beneficially owned approximately 39% of our common stock as of February 28, 2009. These shares are owned by the following entities:

MiTAC International (1)	7,752,824
Synnex Technology International Corp. (2)	5,039,244
<b>Total</b>	<b>12,792,068</b>

- (1) Shares are held via Silver Star Developments Ltd., a wholly-owned subsidiary of MiTAC International. Excludes 1,233,651 shares (of which 115,150 shares are directly held and 1,118,501 shares are subject to exercisable options) held by Matthew Miao.
- (2) Synnex Technology International Corp., or Synnex Technology International, is a separate entity from us and is a publicly-traded corporation in Taiwan. Shares are held via Peer Development Ltd, a wholly-owned subsidiary of Synnex Technology International. MiTAC International owns a minority interest in MiTAC Incorporated, a privately-held Taiwanese company, which in turn holds a minority interest in Synnex Technology International.

While the ownership structure of MiTAC International and its affiliates is complex, it has not had a material adverse effect on our business in the past, and we do not expect it to do so in the future.

During fiscal year 2007, we purchased shares of MiTAC International and one of its affiliates related to the deferred compensation plan of Robert Huang, our then President and Co-Chief Executive Officer. During fiscal year 2008, we purchased additional shares of MiTAC International related to Mr. Huang's deferred compensation plan. As of February 28, 2009, the value of the investment was \$1.1 million. Except as described herein, none of our officers or directors has an interest in MiTAC International or its affiliates.

Synnex Technology International is a publicly-traded corporation in Taiwan that currently provides distribution and fulfillment services to various markets in Asia and Australia, and is also a potential competitor of ours. Neither MiTAC International nor Synnex Technology International is restricted from competing with us. In the future, we may increasingly compete with Synnex Technology International,

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particularly if our business in Asia expands or Synnex Technology International expands its business into geographies or customers we serve. Although Synnex Technology International is a separate entity from us, it is possible that there will be confusion as a result of the similarity of our names. Moreover, we cannot limit or control the use of the Synnex name by Synnex Technology International in certain geographies and our use of the Synnex name may be restricted as a result of registration of the name by Synnex Technology International or the prior use in jurisdictions where it currently operates.

### **Recent Accounting Pronouncements**

In December 2007, the Financial Accounting Standards Board, or FASB, issued SFAS No. 141 (revised 2007), Business Combinations, or SFAS No. 141(R). SFAS No. 141(R) establishes principles and requirements for how an acquirer recognizes and measures in its financial statements the identifiable assets acquired, the liabilities assumed, any noncontrolling interest in the acquiree and the goodwill acquired. SFAS No. 141(R) also establishes disclosure requirements to enable the evaluation of the nature and financial effects of the business combination. In February 2009, the FASB approved FASB Staff Position, or FSP, No. Financial Accounting Standards, or FAS, 141(R)-a Accounting for Assets Acquired and Liabilities Assumed in a Business Combination That Arise from Contingencies, or FSP No. FAS 141(R)-a. FSP No. FAS 141(R)-a requires that assets acquired and liabilities assumed in a business combination that arise from contingencies be recognized at fair value if fair value can be reasonably estimated. If the fair value cannot be reasonably estimated, the asset or liability will be recognized in accordance with SFAS No. 5, Accounting for

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Contingencies and FASB Interpretation, or FIN, No. 14, Reasonable Estimation of the Amount of a Loss. SFAS No. 141(R) is effective for fiscal years that begin after December 15, 2008, and will be adopted by us in the first quarter of fiscal year 2010. We are assessing the potential impact, if any, of the adoption of SFAS No. 141(R) and FSP No. FAS 141(R)-a on our consolidated results of operations and financial condition, which will depend on the extent of business combinations completed after the adoption of the standard.

In December 2007, the FASB issued SFAS No. 160, Noncontrolling Interests in Consolidated Financial Statements an amendment of Accounting Research Bulletin No. 51, or SFAS No. 160. SFAS No. 160 establishes accounting and reporting standards for ownership interests in subsidiaries held by parties other than the parent, the amount of consolidated net income attributable to the parent and to the noncontrolling interest, changes in a parent's ownership interest and the valuation of retained noncontrolling equity investments when a subsidiary is deconsolidated. SFAS No. 160 also establishes disclosure requirements that clearly identify and distinguish between the interests of the parent and the interests of the noncontrolling owners. SFAS No. 160 is effective as of the beginning of an entity's fiscal year that begins after December 15, 2008, and will be adopted by us in the first quarter of fiscal year 2010. We are assessing the potential impact, if any, of the adoption of SFAS No. 160 on our consolidated results of operations and financial condition.

In April 2008, the FASB issued FSP No. FAS 142-3, Determination of the Useful Life of Intangible Assets, or FSP No. FAS 142-3. FSP No. FAS 142-3 amends the factors that should be considered in developing renewal or extension assumptions used to determine the useful life of a recognized intangible asset under SFAS No. 142, Goodwill and Other Intangible Assets, or SFAS No. 142. The intent of the position is to improve the consistency between the useful life of a recognized intangible asset under SFAS No. 142 and the period of expected cash flows used to measure the fair value of the asset under SFAS No. 141(R). FSP No. FAS 142-3 is effective for fiscal years beginning after December 15, 2008. FSP No. FAS 142-3 is effective for us from the first quarter of fiscal year 2010. We are assessing the potential impact that the adoption of FSP No. FAS 142-3 may have on our consolidated results of operations and financial condition.

In May 2008, the FASB issued FSP No. Accounting Principles Board, or APB, 14-1 Accounting for Convertible Debt Instruments That May Be Settled in Cash upon Conversion (Including Partial Cash Settlement), or FSP No. APB 14-1. FSP No. APB 14-1 requires the issuer of certain convertible debt instruments that may be settled in cash (or other assets) on conversion to separately account for the liability (debt) and equity (conversion option) components of the instrument in a manner that reflects the issuer's non-convertible debt borrowing rate. FSP No. APB 14-1 is effective for fiscal years beginning after December 15, 2008 on a retroactive basis and will be adopted by us in the first quarter of fiscal year 2010. We are assessing the potential impact that the adoption of FSP No. APB 14-1 may have on our consolidated results of operations and financial condition. However, it is expected that the allocation of the proceeds to the conversion option will result in an increase in interest expense.

In June 2008, the FASB ratified EITF Issue No. 07-5, Determining Whether an Instrument (or Embedded Feature) Is Indexed to an Entity's Own Stock, or EITF 07-5. EITF 07-5 provides guidance for determining whether an equity-linked financial instrument, or embedded feature, is indexed to an entity's own stock. EITF 07-5 is effective for fiscal years beginning after December 15, 2008, and interim periods within those fiscal years and will be adopted by us in the first quarter of fiscal year 2010. We are assessing the potential impact, if any, of the adoption of EITF 07-5 on our consolidated results of operations and financial condition.

In November 2008, the FASB ratified EITF Issue No. 08-6, Equity Method Investment Accounting Considerations, or EITF 08-6. EITF 08-6 clarifies that the initial carrying value of an equity method investment should be determined in accordance with SFAS No. 141(R). Other-than-temporary impairment of an equity method investment should be recognized in accordance with FSP No. APB 18-1, Accounting by an Investor for Its Proportionate Share of Accumulated Other Comprehensive Income of an Investee Accounted for under the Equity Method in Accordance with APB Opinion No. 18 upon a Loss of Significant Influence. EITF 08-6 is effective on a prospective basis in fiscal years beginning on or after December 15, 2008 and interim periods within those fiscal years, and will be adopted by us in the first quarter of fiscal year 2010. We are assessing the potential impact, if any, of the adoption of EITF 08-6 on our consolidated results of operations and financial condition.

In November 2008, the FASB ratified EITF Issue 08-7, Accounting for Defensive Intangible Assets, or EITF 08-7. EITF 08-7 applies to defensive assets, which are acquired intangible assets which the acquirer does not intend to actively use, but intends to hold to prevent its competitors from obtaining access to the asset. EITF 08-7 clarifies that defensive intangible assets are separately identifiable and should be accounted for as a separate unit of accounting in accordance with SFAS No. 141(R) and SFAS No. 157, Fair Value Measurements (SFAS No. 157). EITF 08-7 is effective for intangible assets acquired in fiscal years beginning on or after December 15, 2008 and will be adopted by us in the first quarter of fiscal year 2010. We are assessing the potential impact, if any, of the adoption of EITF 08-7 on our consolidated results of operations and financial condition.

In November 2008, the FASB ratified EITF Issue No. 08-8, Accounting for an Instrument (or an Embedded Feature) with a Settlement Amount That Is Based on the Stock of an Entity's Consolidated Subsidiary or EITF 08-8. EITF 08-8 clarifies whether a financial instrument for which the payoff to the counterparty is based, in whole or in part, on the stock of an entity's consolidated subsidiary is indexed to the reporting entity's own

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stock and therefore should not be precluded from qualifying for the first part of the scope exception in paragraph 11 (a) of SFAS No. 133, Accounting for Derivative Instruments and Hedging Activities or from being within the scope of EITF No. 00-19, Accounting for Derivative Financial Instruments Indexed to, and, Potentially Settled in, a Company's Own Stock. EITF 08-8 is effective for fiscal years beginning on or after December 15, 2008, and interim periods within those fiscal years and will be adopted by us in the first quarter of fiscal year 2010. We are assessing the potential impact, if any, of the adoption of EITF 08-8 on our consolidated results of operations and financial condition.

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In February 2008, the FASB issued FSP No. FAS 157-2, *Effective Date of FASB Statement No. 157* ( FSP No. FAS 157-2 ). FSP No. FAS 157-2 permitted delayed application of SFAS No. 157, *Fair Value Measurements*, for all non-financial assets and non-financial liabilities, except for items that are recognized or disclosed at fair value in the financial statements on a recurring basis, until fiscal years beginning after November 15, 2008 and interim periods within those fiscal years. We adopted SFAS No. 157 as it applies to our financial instruments, effective December 1, 2007. We adopted FSP No. FAS 157-2 as it applies to our non-financial assets and liabilities, effective December 1, 2008. The impact of adoption of SFAS No. 157 is discussed in Note 14 to the Consolidated Financial Statements.

In February, 2008, the FASB issued FSP No. FAS 140-3, *Accounting for Transfers of Financial Assets and Repurchase Financing Transactions* ( FSP No. FAS 140-3 ). FSP No. FAS 140-3 requires that an initial transfer of a financial asset and a repurchase financing that was entered into contemporaneously with, or in contemplation of, the initial transfer be evaluated together as a linked transaction under SFAS No. 140,

*Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities* - a replacement of FASB Statement No. 125 ( SFAS No. 140 ), unless certain criteria are met. FSP No. FAS 140-3 is effective for our financial statements for the fiscal year beginning on December 1, 2008. We adopted FSP No. FAS 140-3 effective December 1, 2008 and the adoption has no impact on our financial statements.

In March 2008, the FASB issued SFAS No. 161, *Disclosures about Derivative Instruments and Hedging Activities* an amendment of FASB Statement No. 133, or SFAS No. 161. This new standard requires enhanced disclosures for derivative instruments, including those used in hedging activities. It is effective for fiscal years and interim periods beginning after November 15, 2008, and was adopted by us in the first quarter of fiscal year 2009. The impact of the adoption of SFAS No. 161 is discussed in Note 6 to Consolidated Financial Statements.

In December 2008, the FASB issued FSP No. FAS 140-4 and FIN 46(R)-8, *Disclosures by Public Entities (Enterprises) about Transfers of Financial Assets and Interests in Variable Interest Entities*, or FSP No. FAS 140-4 and FIN 46(R)-8. FSP No. FAS 140-4 and FIN 46(R)-8 amends the disclosure requirements of FIN 46(R), *Consolidation of Variable Interest Entities*, for public enterprises that have a variable interest in a variable interest entity and enhances the disclosures required by SFAS No. 140, *Accounting for Transfers and Servicing of Financial Assets and Extinguishment of Liabilities*. FSP No. FAS 140-4 and FIN 46(R)-8 is effective for the first reporting period ending after December 15, 2008 and was adopted by us in the first quarter of fiscal year 2009. The disclosures required by FSP No. FAS 140-4 and FIN 46(R)-8 are included in Note 7 to the Consolidated Financial Statements.

**ITEM 3. Quantitative and Qualitative Disclosures about Market Risk**

There have been no material changes in our quantitative and qualitative disclosures about market risk for the three month period ended February 28, 2009 from our Annual Report on Form 10-K for the year ended November 30, 2008. For further discussion of quantitative and qualitative disclosures about market risk, reference is made to our Annual Report on Form 10-K for the year then ended.

**ITEM 4. Controls and Procedures**

(a) ***Evaluation of disclosure controls and procedures.*** We maintain disclosure controls and procedures, as such term is defined in Rule 13a-15(e) under the Securities Exchange Act of 1934 (the Exchange Act ), that are designed to ensure that information required to be disclosed by us in reports that we file or submit under the Exchange Act is recorded, processed, summarized, and reported within the time periods specified in Securities and Exchange Commission rules and forms, and that such information is accumulated and communicated to our management, including our Chief Executive Officer and Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosure. In designing and evaluating our disclosure controls and procedures, management recognized that disclosure controls and procedures, no matter how well conceived and operated, can provide only reasonable, not absolute, assurance that the objectives of the disclosure controls and procedures are met. Our disclosure controls and procedures have been designed to meet reasonable assurance standards. Additionally, in designing disclosure controls and procedures, our management necessarily was required to apply its judgment in evaluating the cost-benefit relationship of possible disclosure controls and procedures. The design of any disclosure controls and procedures also is based in part upon certain assumptions about the likelihood of future events, and there can be no assurance that any design will succeed in achieving its stated goals under all potential future conditions.

Based on their evaluation as of the end of the period covered by this Quarterly Report on Form 10-Q, our Chief Executive Officer and Chief Financial Officer have concluded that, as of such date, our disclosure controls and procedures were effective at the reasonable assurance level.

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(b) ***Changes in internal control over financial reporting.*** There was no change in our internal control over financial reporting (as defined in Rule 13a-15(f) under the Exchange Act) identified in connection with management's evaluation during our last fiscal quarter that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.



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**PART II - OTHER INFORMATION**

**ITEM 1A. Risk Factors**

**Risks Related to Our Business**

**We anticipate that our revenue and operating results will fluctuate, which could adversely affect the enterprise value of our Company and our securities.**

Our operating results have fluctuated and will fluctuate in the future as a result of many factors, including:

general economic conditions and level of IT spending;

the loss or consolidation of one or more of our significant OEM suppliers or customers;

market acceptance, product mix and useful life of the products we distribute;

market acceptance, quality, pricing and availability of our services;

competitive conditions in our industry that impact our margins;

pricing, margin and other terms with our OEM suppliers;

decline in inventory value as a result of product obsolescence;

variations in our levels of excess inventory and doubtful accounts, and changes in the terms of OEM supplier-sponsored programs, such as price protection and return rights; and

the impact of the business acquisitions we make.

Although we attempt to control our expense levels, these levels are based, in part, on anticipated revenue. Therefore, we may not be able to control spending in a timely manner to compensate for any unexpected revenue shortfall.

Our operating results also are affected by the seasonality of the IT products and services industry. We have historically experienced higher sales in our fourth fiscal quarter due to patterns in the capital budgeting, federal government spending and purchasing cycles of end-users. These patterns may not be repeated in subsequent periods. You should not rely on period-to-period comparisons of our operating results as an indication of future performance. The results of any quarterly period are not indicative of results to be expected for a full fiscal year. In future quarters, our operating results may be below our expectations or those of our public market analysts or investors, which would likely cause our share price to decline.

**We depend on a small number of OEMs to supply the IT products that we sell and the loss of, or a material change in, our business relationship with a major OEM supplier could adversely affect our business, financial position and operating results.**

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Our future success is highly dependent on our relationships with a small number of OEM suppliers. Sales of Hewlett Packard Company, or HP, products represented approximately 35% and 27% of our total revenue in the three months ended February 28, 2009 and February 29, 2008, respectively. Our OEM supplier agreements typically are short-term and may be terminated without cause upon short notice. For example, our agreement with HP will expire on May 31, 2010. The loss or deterioration of our relationships with a major OEM supplier, the authorization by OEM suppliers of additional distributors, the sale of products by OEM suppliers directly to our reseller customers and end-users, or our failure to establish relationships with new OEM suppliers or to expand the distribution and supply chain services that we provide OEM suppliers could adversely affect our business, financial position and operating results. In addition, OEM suppliers may face liquidity or solvency issues that in turn could negatively affect our business and operating results. For example in fiscal year 2008, International Business Machines Corporation, or IBM, terminated its approval to market IBM System X and related products and services. In addition, OEM suppliers may face liquidity or solvency issues that in turn could negatively affect our business and operating results.

Our business is also highly dependent on the terms provided by our OEM suppliers. Generally, each OEM supplier has the ability to change the terms and conditions of its distribution agreements, such as reducing the amount of price protection and return rights or reducing the level of purchase discounts, rebates and marketing programs available to us. From time to time we may conduct business with a supplier without a formal agreement because the agreement has expired or otherwise. In such case, we are subject to additional risk with respect to products, warranties and returns, and other terms and conditions. If we are unable to pass the impact of these changes through to our reseller customers, our business, financial position and operating results could be adversely affected.

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**Our gross margins are low, which magnifies the impact of variations in revenue, operating costs and bad debt on our operating results.**

As a result of significant price competition in the IT products and services industry, our gross margins are low, and we expect them to continue to be low in the future. Increased competition arising from industry consolidation and low demand for certain IT products may hinder our ability to maintain or improve our gross margins. These low gross margins magnify the impact of variations in revenue, operating costs and bad debt on our operating results. A portion of our operating expenses is relatively fixed, and planned expenditures are based in part on anticipated orders that are forecasted with limited visibility of future demand. As a result, we may not be able to reduce our operating expenses as a percentage of revenue to mitigate any further reductions in gross margins in the future. If we cannot proportionately decrease our cost structure in response to competitive price pressures, our business and operating results could suffer.

We also receive purchase discounts and rebates from OEM suppliers based on various factors, including sales or purchase volume and breadth of customers. A decrease in net sales could negatively affect the level of volume rebates received from our OEM suppliers and thus, our gross margins. Because some rebates from OEM suppliers are based on percentage increases in sales of products, it may become more difficult for us to achieve the percentage growth in sales required for larger discounts due to the current size of our revenue base. A decrease or elimination of purchase discounts and rebates from our OEM suppliers would adversely affect our business and operating results.

**Because we sell on a purchase order basis, we are subject to uncertainties and variability in demand by our reseller and contract assembly services customers, which could decrease revenue and adversely affect our operating results.**

We sell to our reseller and contract assembly services customers on a purchase order basis rather than pursuant to long-term contracts or contracts with minimum purchase requirements. Consequently, our sales are subject to demand variability by our reseller and contract assembly services customers. The level and timing of orders placed by our customers vary for a variety of reasons, including seasonal buying by end-users, the introduction of new hardware and software technologies and general economic conditions. Customers submitting a purchase order may cancel, reduce or delay their orders. If we are unable to anticipate and respond to the demands of our reseller and contract assembly services customers, we may lose customers because we have an inadequate supply of products, or we may have excess inventory, either of which may harm our business, financial position and operating results.

**The success of our contact center business is subject to the terms and conditions of our customer contracts.**

We provide contact center support services to our customers under contracts with provisions that could impact our profitability. Many of our contracts have short termination provisions that could cause fluctuations in our revenue and operating results from period to period. For example, some contracts have performance related bonus or penalty provisions, whereby we could receive a bonus if we satisfy certain performance levels or have to pay a penalty for failing to do so. In addition, our customers may not guarantee a minimum call volume; however, we hire employees based on anticipated average call volumes. The reduction of call volume, loss of any customers, payment of penalties for failure to meet performance levels or our inability to terminate any unprofitable contracts may have an adverse impact on our operations and financial results.

**We are subject to the risk that our inventory value may decline, and protective terms under our OEM supplier agreements may not adequately cover the decline in value, which in turn may harm our business, financial position and operating results.**

The IT products industry is subject to rapid technological change, new and enhanced product specification requirements, and evolving industry standards. These changes may cause inventory on hand to decline substantially in value or to rapidly become obsolete. Most of our OEM suppliers offer limited protection from the loss in value of inventory. For example, we can receive a credit from many OEM suppliers for products held in inventory in the event of a supplier price reduction. In addition, we have a limited right to return a certain percentage of purchases to most OEM suppliers. These policies are subject to time restrictions and do not protect us in all cases from declines in inventory value. In addition, our OEM suppliers may become unable or unwilling to fulfill their protection obligations to us. The decrease or elimination of price protection or the inability of our OEM suppliers to fulfill their protection obligations could lower our gross margins and cause us to record inventory write-downs. If we are unable to manage our inventory with our OEM suppliers with a high degree of precision, we may have insufficient product supplies or we may have excess inventory, resulting in inventory write-downs, either of which may harm our business, financial position and operating results.

**We depend on OEM suppliers to maintain an adequate supply of products to fulfill customer orders on a timely basis, and any supply shortages or delays could cause us to be unable to timely fulfill orders, which in turn could harm our business, financial position and operating results.**

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Our ability to obtain particular products in the required quantities and to fulfill reseller customer orders on a timely basis is critical to our success. In most cases, we have no guaranteed price or delivery agreements with our OEM suppliers. We occasionally experience a supply shortage of certain products as a result of strong demand or problems experienced by our OEM suppliers. If shortages or delays persist, the price of those products may increase, or the products may not be available at all. In addition, our OEM suppliers may decide to distribute, or to substantially increase their existing distribution business, through other distributors, their own dealer networks, or directly to resellers. Accordingly, if we are not able to secure and maintain an adequate supply of products to fulfill our reseller customer orders on a timely basis, our business, financial position and operating results may be adversely affected.

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### **Because we conduct substantial operations in China, risks associated with economic, political and social events in China could negatively affect our business and operating results.**

A substantial portion of our IT systems operations, including our IT systems support and software development operations is located in China. In addition, we also conduct general and administrative activities from our facility in China. As of February 28, 2009, we had 552 support personnel located in China. We expect to increase our operations in China in the future. Our operations in China are subject to a number of risks relating to China's economic and political systems, including:

a government controlled foreign exchange rate and limitations on the convertibility of the Chinese Renminbi;

extensive government regulation;

changing governmental policies relating to tax benefits available to foreign-owned businesses;

the telecommunications infrastructure;

a relatively uncertain legal system; and

uncertainties related to continued economic and social reform.

Our IT systems are an important part of our global operations. Any significant interruption in service, whether resulting from any of the above uncertainties, natural disasters or otherwise, could result in delays in our inventory purchasing, errors in order fulfillment, reduced levels of customer service and other disruptions in operations, any of which could cause our business and operating results to suffer.

### **We may have higher than anticipated tax liabilities.**

We conduct business globally and file income tax returns in various tax jurisdictions. Our effective tax rate could be adversely affected by several factors, many of which are outside of our control, including:

changes in income before taxes in various jurisdictions in which we operate that have differing statutory tax rates;

changing tax laws, regulations, and/or interpretations of such tax laws in multiple jurisdictions;

effect of tax rate on purchase accounting for acquisitions; and

resolution of issues arising from tax audit or examinations and any related interest or penalties.

We report our results of operations based on our determination of the amount of taxes owed in various tax jurisdictions in which we operate. The determination of our worldwide provision for income taxes and other tax liabilities requires estimation, judgment and calculations where the ultimate tax determination may not be certain. Our determination of tax liability is always subject to review or examination by tax authorities in various tax jurisdictions. Any adverse outcome of such review or examination could have a negative impact on our operating results and financial condition. The results from various tax examinations and audit may differ from the liabilities recorded in our financial statements and may adversely affect our financial results and cash flows.

**We have pursued and intend to continue to pursue strategic acquisitions or investments in new markets and may encounter risks associated with these activities, which could harm our business and operating results.**

We have in the past pursued and in the future expect to pursue acquisitions of, or investments in, businesses and assets in new markets, either within or outside the IT products industry, that complement or expand our existing business. Our acquisition strategy involves a number of risks, including:

difficulty in successfully integrating acquired operations, IT systems, customers, and OEM supplier relationships, products and businesses with our operations;

loss of key employees of acquired operations or inability to hire key employees necessary for our expansion;

diversion of our capital and management attention away from other business issues;

increase in our expenses and working capital requirements;

in the case of acquisitions that we may make outside of the United States, difficulty in operating in foreign countries and over significant geographical distances; and

other financial risks, such as potential liabilities of the businesses we acquire.

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Our growth may be limited and our competitive position may be harmed if we are unable to identify, finance, consummate and integrate future acquisitions. We believe that further expansion may be a prerequisite to our long-term success as some of our competitors in the IT product distribution industry have larger international operations, higher revenues and greater financial resources than us. We have incurred costs and encountered difficulties in the past in connection with our acquisitions and investments. For example, our operating margins were initially adversely affected as a result of our acquisition of the Redmond Group of Companies, or RGC. Prior to the acquisition, RGC was not a profitable business. After the acquisition, RGC initially caused a negative effect on our operating margins as we integrated RGC's operations with our business to leverage synergies and consolidate redundant expenses. Future acquisitions may result in dilutive issuances of equity securities, the incurrence of additional debt, large write-offs, a decrease in future profitability, or future losses. The incurrence of debt in connection with any future acquisitions could restrict our ability to obtain working capital or other financing necessary to operate our business. Our recent and future acquisitions or investments may not be successful, and if we fail to realize the anticipated benefits of these acquisitions or investments, our business and operating results could be harmed.

**Because of the capital-intensive nature of our business, we need continued access to capital, which, if not available to us or if not available on favorable terms, could harm our ability to operate or expand our business.**

Our business requires significant levels of capital to finance accounts receivable and product inventory that is not financed by trade creditors. If cash from available sources is insufficient, proceeds from our accounts receivable securitization and revolving credit programs are limited or cash is used for unanticipated needs, we may require additional capital sooner than anticipated. In the event we are required, or elect, to raise additional funds, we may be unable to do so on favorable terms, or at all. Worldwide economic conditions have recently experienced a significant downturn due to the credit conditions impacted by the subprime mortgage crisis and other factors, including slower economic activity which may impact our results of operations. Our current and future indebtedness could adversely affect our operating results and severely limit our ability to plan for, or react to, changes in our business or industry. We could also be limited by financial and other restrictive covenants in any securitization or credit arrangements, including limitations on our borrowing of additional funds and issuing dividends. Furthermore, the cost of securitization or debt financing could significantly increase in the future, making it cost prohibitive to securitize our accounts receivable or borrow, which could force us to issue new equity securities. If we issue new equity securities, existing stockholders may experience dilution, or the new equity securities may have rights, preferences or privileges senior to those of existing holders of common stock. If we cannot raise funds on acceptable terms, we may not be able to take advantage of future opportunities or respond to competitive pressures or unanticipated requirements. Any inability to raise additional capital when required could have an adverse effect on our business and operating results.

**The terms of our debt arrangements impose significant restrictions on our ability to operate which in turn could negatively affect our ability to respond to business and market conditions and therefore could have an adverse effect on our business and operating results.**

As of February 28, 2009, we had approximately \$352.1 million in outstanding short and long-term borrowings under term loans, convertible senior notes and lines of credit, excluding trade payables. The terms of one or more of the agreements under which this indebtedness was incurred may limit or restrict, among other things, our ability to:

incur additional indebtedness;

pay dividends or make certain other restricted payments;

consummate certain asset sales or acquisitions;

enter into certain transactions with affiliates; and

merge, consolidate or sell, assign, transfer, lease, convey or otherwise dispose of all or substantially all of our assets.

We are also required to maintain specified financial ratios and satisfy certain financial condition tests, including minimum net worth and fixed charge coverage ratio as outlined in our senior secured revolving line of credit arrangement. Our inability to meet these ratios and tests could result in the acceleration of the repayment of the related debt, the termination of the facility or the increase in our effective cost of funds. As a result, our ability to operate may be restricted and our ability to respond to business and market conditions may be limited, which could have an

adverse effect on our business and operating results.

**We may not be able to generate sufficient cash to service all of our indebtedness and may be forced to take other actions to satisfy our obligations under our indebtedness or we may experience a financial failure, which may hinder the repayment of our convertible senior notes.**

Our ability to make scheduled debt payments or to refinance our debt obligations depends on our financial and operating performance, which is subject to prevailing economic and competitive conditions and to certain financial, business and other factors beyond our control. We cannot assure that we will maintain a level of cash flows from operating activities sufficient to permit us to pay the principal, premium, if any, and interest on our indebtedness.



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If our cash flows and capital resources are insufficient to fund our debt service obligations, we may be forced to reduce or delay capital expenditures, sell assets or operations, seek additional capital or restructure or refinance our indebtedness. We cannot assure that we would be able to take any of these actions, that these actions would be successful and permit us to meet our scheduled debt service obligations or that these actions would be permitted under the terms of our existing or future debt agreements. In the absence of such operating results and resources, we could face substantial liquidity problems and might be required to dispose of material assets or operations to meet our debt service and other obligations. Some of our credit facilities restrict our ability to dispose of assets and use the proceeds from the disposition. We may not be able to consummate those dispositions or to obtain the proceeds which we could realize from them and these proceeds may not be adequate to meet any debt service obligations then due.

If we cannot make scheduled payments on our debt, we will be in default and, as a result:

our debt holders could declare all outstanding principal and interest to be due and payable;

the lenders under our credit agreement could terminate their commitments to loan us money and foreclose against the assets securing their borrowings; and

we could be forced into bankruptcy or liquidation, which is likely to result in delays in the payment of our indebtedness and in the exercise of enforcement remedies related to our indebtedness.

### **Repayment of our debt is dependent on cash flow generated by our subsidiaries.**

Our ability to service our debt and our ability to repay current or future indebtedness when due, depend in large part upon the earnings of our subsidiaries. Our subsidiaries may not be able to, or may not be permitted to, make distributions to enable us to make payments in respect of our indebtedness, including the convertible senior notes. Each subsidiary is a distinct legal entity and, under certain circumstances, legal and contractual restrictions may limit our ability to obtain cash from our subsidiaries. In the event that we do not receive distributions from our subsidiaries, we may be unable to make required principal and interest payments on our indebtedness.

### **A portion of our revenue is financed by floor plan financing companies and any termination or reduction in these financing arrangements could increase our financing costs and harm our business and operating results.**

A portion of our product distribution revenue is financed by floor plan financing companies. Floor plan financing companies are engaged by our customers to finance, or floor, the purchase of products from us. In exchange for a fee, we transfer the risk of loss on the sale of our products to the floor plan companies. We currently receive payment from these financing companies within approximately 15 to 30 days from the date of the sale, which allows our business to operate at much lower relative working capital levels than if such programs were not available. If these floor plan arrangements are terminated or substantially reduced, the need for more working capital and the increased financing cost could harm our business and operating results.

### **We have significant credit exposure to our reseller customers, and negative trends in their businesses could cause us significant credit loss and negatively impact our cash flow and liquidity position.**

We extend credit to our reseller customers for a significant portion of our sales to them. Resellers and retailers have a period of time, generally 30 days after the date of invoice, to make payment. As a result, we are subject to the risk that our reseller customers will not pay for the products they purchase. In addition, our Mexico subsidiary has entered into contracts with Mexican reseller customers, which involve extended payment terms and could expose us to additional collection risks. Our credit exposure risk may increase due to liquidity or solvency issues experienced by our resellers as a result of an economic downturn or a decrease in IT spending by end-users. If we are unable to collect payment for products we ship to our reseller customers or if our reseller customers are unable to timely pay for the products we ship to them, it will be more difficult or costly to utilize accounts receivable-based financing, which could negatively impact our cash flow and liquidity position.

### **We may suffer adverse consequences from changing interest rates.**

Our borrowings and securitization arrangements are variable-rate obligations that could expose us to interest rate risks. At February 28, 2009, we had approximately \$208.3 million in such variable-rate obligations. If interest rates increase, our interest expense would increase, which would

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negatively affect our net income. An increase in interest rates may increase our future borrowing costs and restrict our access to capital.

Additionally, current market conditions, subprime mortgage crisis, and overall credit conditions could limit our availability of capital, which could cause increases in interest margin spreads over underlying indices, effectively increasing the cost of our borrowing. While some of our credit facilities have contractually negotiated spreads, terms such as these are subject to ongoing negotiations.

### **We experienced theft of product from our warehouses and future thefts could harm our operating results.**

From time to time we have experienced incidents of theft at various facilities.

These types of incidents may make it more difficult or expensive for us to obtain theft coverage in the future. Also, incidents of theft may re-occur for which we may not be fully insured.

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### **We are dependent on a variety of IT and telecommunications systems and any failure of these systems could adversely impact our business and operating results.**

We depend on IT and telecommunications systems for our operations. These systems support a variety of functions including inventory management, order processing, shipping, shipment tracking, billing, contact center support and web hosting.

Failures or significant downtime of our IT or telecommunications systems could prevent us from taking customer orders, printing product pick-lists, shipping products, billing customers, handling call volume or providing web hosting. Sales also may be affected if our reseller customers are unable to access our pricing and product availability information. We also rely on the Internet, and in particular electronic data interchange, or EDI, for a large portion of our orders and information exchanges with our OEM suppliers and reseller customers. The Internet and individual websites have experienced a number of disruptions and slowdowns, some of which were caused by organized attacks. In addition, some websites have experienced security breakdowns. If we were to experience a security breakdown, disruption or breach that compromised sensitive information, it could harm our relationship with our OEM suppliers and reseller customers. Disruption of our website or the Internet in general could impair our order processing or more generally prevent our OEM suppliers and reseller customers from accessing information. Our contact call center is dependent upon telephone and data services provided by third party telecommunications service vendors and our IT and telecommunications system. Any significant increase in our IT and telecommunications costs or temporary or permanent loss of our IT or telecommunications systems could harm our relationships with our customers. The occurrence of any of these events could have an adverse effect on our operations and financial results.

### **We rely on independent shipping companies for delivery of products, and price increases or service interruptions from these carriers could adversely affect our business and operating results.**

We rely almost entirely on arrangements with independent shipping companies, such as FedEx and UPS, for the delivery of our products from OEM suppliers and delivery of products to reseller and retail customers. Freight and shipping charges can have a significant impact on our gross margin. As a result, an increase in freight surcharges due to rising fuel cost or general price increases will have an immediate adverse effect on our margins, unless we are able to pass the increased charges to our reseller customers or renegotiate terms with our OEM suppliers. In addition, in the past, UPS has experienced work stoppages due to labor negotiations with management. An increase in freight or shipping charges, the termination of our arrangements with one or more of these independent shipping companies, the failure or inability of one or more of these independent shipping companies to deliver products, or the unavailability of their shipping services, even temporarily, could have an adverse effect on our business and operating results.

### **Changes in foreign exchange rates and limitations on the convertibility of foreign currencies could adversely affect our business and operating results.**

In the three months ended February 28, 2009 and February 29, 2008, approximately 20% and 25%, respectively, of our total revenue was generated outside the United States. Most of our international revenue, cost of revenue and operating expenses are denominated in foreign currencies. We presently have currency exposure arising from both sales and purchases denominated in foreign currencies. Changes in exchange rates between foreign currencies and the U.S. dollar may adversely affect our operating margins. For example, if these foreign currencies appreciate against the U.S. dollar, it will make it more expensive in terms of U.S. dollars to purchase inventory or pay expenses with foreign currencies. This could have a negative impact to us if revenue related to these purchases is transacted in U.S. dollars. In addition, currency devaluation can result in a loss to us if we hold deposits of that currency and make our products, which are usually purchased by us with U.S. dollars, relatively more expensive than products manufactured locally. We currently conduct only limited hedging activities, which involve the use of currency forward contracts. Hedging foreign currencies can be risky. There is also additional risk if the currency is not freely or actively traded. Some currencies, such as the Chinese renminbi and Philippines peso, are subject to limitations on conversion into other currencies, which can limit our ability to hedge or to otherwise react to rapid foreign currency devaluations. We cannot predict the impact of future exchange rate fluctuations on our business and operating results.

### **Because of the experience of our key personnel in the IT service industry and their technological expertise, if we were to lose any of our key personnel, it could inhibit our ability to operate and grow our business successfully.**

We operate in the highly competitive IT service industry. We are dependent in large part on our ability to retain the services of our key senior executives and other technical experts and personnel. Except for Robert Huang, our Chairman of the Board of Directors, Kevin Murai, our President and Chief Executive Officer, and James Estill, SYNEX Canada Limited's President and Chief Executive Officer, our employees and executives generally do not have employment agreements. Furthermore, we do not carry key person insurance coverage for any of our key executives. We compete for qualified senior management and technical personnel. The loss of, or inability to hire, key executives or qualified employees could inhibit our ability to operate and grow our business successfully.



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**We may become involved in intellectual property or other disputes that could cause us to incur substantial costs, divert the efforts of our management, and require us to pay substantial damages or require us to obtain a license, which may not be available on commercially reasonable terms, if at all.**

We may from time to time receive notifications alleging infringements of intellectual property rights allegedly held by others relating to our business or the products we sell or assemble for our OEM suppliers and others. Litigation with respect to patents or other intellectual property matters could result in substantial costs and diversion of management and other resources and could have an adverse effect on our business. Although we generally have various levels of indemnification protection from our OEM suppliers and contract assembly services customers, in many cases any indemnification to which we may be entitled is subject to maximum limits or other restrictions. In addition, we have developed proprietary IT systems that play an important role in our business. If any infringement claim is successful against us and if indemnification is not available or sufficient, we may be required to pay substantial damages or we may need to seek and obtain a license of the other party's intellectual property rights. We may be unable to obtain such a license on commercially reasonable terms, if at all.

We are from time to time involved in other litigation in the ordinary course of business. We may not be successful in defending these or other claims. Regardless of the outcome, litigation could result in substantial expense and could divert the efforts of our management.

**We have significant operations concentrated in Northern California, South Carolina, Ontario, Beijing, and the Philippines and any disruption in the operations of our facilities could harm our business and operating results.**

Our worldwide operations could be subject to natural disasters and other business disruptions, which could seriously harm our revenue and financial condition and increase our costs and expenses. We have significant operations in our facilities located in Fremont, California, Greenville, South Carolina, Ontario, Canada, Beijing, China and Manila, Cagayan De Oro and Davao, Philippines. As a result, any prolonged disruption in the operations of our facilities, whether due to technical difficulties, power failures, break-ins, destruction or damage to the facilities as a result of a natural disaster, fire or any other reason, could harm our operating results. In addition, our Philippines operation is at greater risk due to adverse weather conditions, such as typhoons. We currently do not have a formal disaster recovery plan and may not have sufficient business interruption insurance to compensate for losses that could occur.

**Global health, economic, political and social conditions may harm our ability to do business, increase our costs and negatively affect our stock price.**

Worldwide economic conditions have recently experienced a significant downturn due to the credit conditions impacted by the subprime mortgage crisis and other factors, including slower economic activity which may impact our results of operations. External factors such as potential terrorist attacks, acts of war, geopolitical and social turmoil or epidemics and other similar outbreaks, in many parts of the world could prevent or hinder our ability to do business, increase our costs and negatively affect our stock price, which in turn, may require us to record an impairment in the carrying value of our goodwill in accordance with Statement of Financial Accounting Standards No. 142, Goodwill and Other Intangible Assets. More generally, these geopolitical social and economic conditions could result in increased volatility in the United States and worldwide financial markets and economy. We are predominantly uninsured for losses and interruptions caused by terrorism, acts of war and similar events. For example, increased instability may adversely impact the desire of employees and customers to travel, the reliability and cost of transportation and our ability to obtain adequate insurance at reasonable rates and may require us to incur increased costs for security measures for our domestic and international operations. These uncertainties make it difficult for us and our customers to accurately plan future business activities.

**Part of our business is conducted outside of the United States, exposing us to additional risks that may not exist in the United States, which in turn could cause our business and operating results to suffer.**

We have international operations in Canada, China, Mexico, Japan, the Philippines and the United Kingdom. For the three months ended February 28, 2009 and February 29, 2008, approximately 20% and 25%, respectively, of our total revenue was generated outside the United States. For the three months ended February 28, 2009 and February 29, 2008, approximately 17% and 22%, respectively, of our total revenue was generated in Canada. No country other than the U.S. and Canada accounted for more than 10% of our total revenue. Our international operations are subject to risks, including:

political or economic instability;



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changes in governmental regulation;

changes in import/export duties;

trade restrictions;

difficulties and costs of staffing and managing operations in certain foreign countries;

work stoppages or other changes in labor conditions;

difficulties in collecting of accounts receivable on a timely basis or at all;

taxes; and

seasonal reductions in business activity in some parts of the world.

We may continue to expand internationally to respond to competitive pressure and customer and market requirements. Establishing operations in any other foreign country or region presents risks such as those described above as well as risks specific to the particular country or region. In addition, until a payment history is established over time with customers in a new geography or region, the likelihood of collecting accounts receivable generated by such operations could be less than our expectations. As a result, there is a greater risk that reserves set with respect to the collection of such accounts receivable may be inadequate. In addition, our Mexico subsidiary has entered into contracts with Mexican reseller customers, which involve extended payment terms and could expose us to additional collection risks. Furthermore, if our international expansion efforts in any foreign country are unsuccessful, we may decide to cease operations, which would likely cause us to incur additional expenses and loss.

In addition, changes in policies or laws of the United States or foreign governments resulting in, among other things, higher taxation, currency conversion limitations, restrictions on fund transfers or the expropriation of private enterprises, could reduce the anticipated benefits of our international expansion. Furthermore, any actions by countries in which we conduct business to reverse policies that encourage foreign trade or investment could adversely affect our business. If we fail to realize the anticipated revenue growth of our future international operations, our business and operating results could suffer.

**Our recent investments in our contact center business could adversely affect our operating results as a result of operation execution risks related to managing and communicating with remote resources, technologies, customer satisfaction and employee turnover.**

Our contact center business in the Philippines may be adversely impacted if we are unable to manage and communicate with these remote resources. Service quality may be placed at risk and our ability to optimize our resources may be more complicated if we are unable to manage our resources remotely. Contact centers use a wide variety of different technologies to allow them to manage a large volume of work. These technologies ensure that employees are kept productive. Any failure in technology may impact the business adversely. The success of our contact center business primarily depends on performance of our employees and resulting customer satisfaction. Any increase in average waiting time or handling time or lack of promptness or technical expertise of our employees will directly impact customer satisfaction. Any adverse customer satisfaction may impact the overall business. Generally, the employee turnover rate in the contact center business and the risk of losing experienced employees to competitors are high. Higher turnover rates increase recruiting and training costs and decrease operating efficiencies and productivity. If we are unable to successfully manage our contact centers, our results of operations could be adversely affected and we may not realize the benefits of our recent acquisitions.

**Our investment in HiChina Web Solutions could be adversely affected by strong competition, loss of market share and pricing pressure in the market for domain name registration and web hosting services, which we expect will continue to intensify.**

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Our investment in HiChina Web Solutions in April 2007 could be adversely impacted due to the market for domain name and web hosting related Internet services, which is intensely competitive and rapidly evolving as participants strive to retain their current customer base and attract new customers and improve their competitive position. We may face continued pricing pressure in order to remain competitive, which would adversely impact our revenues and profitability and result in a loss of market share. Further, we may lose market share if we are unable to keep pace with these evolving markets. While we anticipate that the number of new, renewed and transferred-in domain registrations will incrementally increase, volatility in the market could result in our customers turning to other registrars, thereby impairing growth in the number of domains under our management and our ability to sell multiple services to such customers.



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**Risks Related to Our Relationship with MiTAC International Corporation**

**As of February 28, 2009, our executive officers, directors and principal stockholders owned approximately 42% of our common stock and this concentration of ownership could allow them to control all matters requiring stockholder approval and could delay or prevent a change in control of SYNEX.**

As of February 28, 2009, our executive officers, directors and principal stockholders owned approximately 42% of our outstanding common stock. In particular, MiTAC International and its affiliates owned approximately 39% of our common stock.

In addition, MiTAC International's interests and ours may increasingly conflict. For example, we rely on MiTAC International for certain manufacturing and supply services and for relationships with certain key customers. As a result of a decrease in their ownership in us, we may lose these services and relationships, which may lead to increased costs to replace the lost services and the loss of certain key customers. We cannot predict the likelihood that we may incur increased costs or lose customers if MiTAC International's ownership percentage of us decreases in the future.

**We rely on MiTAC International for manufacturing and contract assembly services and supply components and the loss of these services or components would require us to seek alternate providers that may charge us more for their services and components.**

We rely on MiTAC International to manufacture and supply subassemblies and components for some of our contract assembly services customers, including Sun Microsystems, our primary contract assembly services customer, and our reliance on MiTAC International may increase in the future. Our relationship with MiTAC International has been informal and is not governed by long-term commitments or arrangements with respect to pricing terms, revenue or capacity commitments. Accordingly, we negotiate manufacturing, pricing and other material terms on a project-by-project basis. As MiTAC's ownership interest in us decreases, MiTAC's interest in the success of our business and operations may decrease as well. In the event MiTAC International no longer provides such services and components to us, we would need to find an alternative source for these services and components. We may be unable to obtain alternative services and components on similar terms, which may in turn increase our contract assembly costs. In addition, we may not find manufacturers with sufficient capacity, which may in turn lead to shortages in our product supplies. Increased costs and products shortages could harm our business and operating results.

Our business relationship with MiTAC International has been and will continue to be negotiated as related parties and therefore may not be the result of arms-length negotiations between independent parties. Our relationship, including pricing and other material terms, with our shared customers or with MiTAC International, may or may not be as advantageous to us as the terms we could have negotiated with unaffiliated third parties. We have a joint sales and marketing agreement with MiTAC International, pursuant to which both parties agree to use their commercially reasonable efforts to promote the other party's service offerings to their respective customers who are interested in such product offerings. To date, there has not been a significant amount of sales attributable to the joint marketing agreement. This agreement does not provide for the terms upon which we negotiate manufacturing and pricing terms. These negotiations have been on a case-by-case basis. The agreement has an initial term of one year and automatically renews for subsequent one-year terms unless either party provides written notice of non-renewal within 90 days of the end of any renewal term. The agreement may also be terminated without cause either by the mutual written agreement of both parties or by either party without cause upon 90 days prior written notice of termination to the other party. Either party may immediately terminate the agreement by providing written notice (a) of the other party's material breach of any provision of the agreement and failure to cure within 30 days, or (b) if the other party becomes bankrupt or insolvent. In addition, we are party to a general agreement with MiTAC International and Sun Microsystems under which we work with MiTAC International to provide contract assembly services to Sun Microsystems.

**Some of our customer relationships evolved from relationships between such customers and MiTAC International and the loss of such relationships could harm our business and operating results.**

Our relationship with Sun Microsystems and some of our other customers evolved from relationships that were initiated by MiTAC International. Our relationship with Sun Microsystems is a joint relationship with MiTAC International and us, and the future success of our relationship with Sun Microsystems depends on MiTAC International continuing to work with us to service Sun Microsystems' requirements. The original agreement between Sun Microsystems and MiTAC International was signed on August 28, 1999 and we became a party to the agreement on February 12, 2002. On May 16, 2007, we entered into a new Master Supply Agreement to be effective as of May 1, 2007 with Sun Microsystems and MiTAC International. Pursuant to this new agreement, the terms for the manufacture and purchase of each particular product awarded by Sun Microsystems are individually negotiated and if agreed upon by the parties, such terms are included in a product award letter. There is no minimum level of commitment required by any of the parties under this agreement. As under the prior agreement, we negotiate manufacturing, pricing and other material terms, on a project-by-project basis with MiTAC International and Sun Microsystems for a given project. All of our contract assembly services to Sun Microsystems are covered by this agreement. This agreement has a term of three years and is automatically renewed for one-year periods until terminated in accordance with its terms. Any party may terminate this agreement with

written notice if one

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of the other parties materially breaches any provision of the agreement and the breach is incapable of being cured or is not cured within 30 days. This agreement may also be terminated on written notice if one of the other parties becomes bankrupt or insolvent. If we are unable to maintain our relationship with MiTAC International, our relationship with Sun Microsystems could suffer and we could lose other customer relationships or referrals, which in turn could harm our business, financial position and operating results.

### **There could be potential conflicts of interest between us and MiTAC International and its affiliates, which could impact our business and operating results.**

MiTAC International's and its affiliates' continuing beneficial ownership of our common stock could create conflicts of interest with respect to a variety of matters, such as potential acquisitions, competition, issuance or disposition of securities, election of directors, payment of dividends and other business matters. Similar risks could exist as a result of Matthew Miao's positions as our Chairman Emeritus, the Chairman of MiTAC International and as a director or officer of MiTAC International's affiliates. In fiscal year 2008, Mr. Miao received a \$225,000 retainer from us and was granted a restricted stock award of 2,000 shares of our common stock for his services as Chairman of the Board based primarily upon his non-executive back-up role to Robert Huang, our then President and Chief Executive Officer. Compensation payable to Mr. Miao was based upon approval of the Nominating and Corporate Governance Committee, which is composed of disinterested members of the Board. For fiscal year 2009, Mr. Miao will receive the same compensation as other independent directors. Mr. Miao's compensation is based upon the approval of the Nominating and Corporate Governance Committee. We also have adopted a policy requiring material transactions in which any of our directors has a potential conflict of interest to be approved by our Audit Committee, which is also composed of disinterested members of the Board.

Synnex Technology International Corp., or Synnex Technology International, a publicly-traded company based in Taiwan and affiliated with MiTAC International, currently provides distribution and fulfillment services to various markets in Asia and Australia, and is also a potential competitor of ours. As of February 28, 2009, MiTAC Incorporated, a privately-held company based in Taiwan and a separate entity from MiTAC International, directly and indirectly owned approximately 14.9% of Synnex Technology International and approximately 8.0% of MiTAC International. As of February 28, 2009, MiTAC International directly and indirectly owned 0.3% of Synnex Technology International and Synnex Technology International directly and indirectly owned approximately 0.3% of MiTAC International. In addition, MiTAC International directly and indirectly owned approximately 8.7% of MiTAC Incorporated and Synnex Technology International directly and indirectly owned approximately 14.0% of MiTAC Incorporated as of February 28, 2009. Synnex Technology International indirectly through its ownership of Peer Developments Limited owned approximately 15.4% of our outstanding common stock as of February 28, 2009. Neither MiTAC International, nor Synnex Technology International is restricted from competing with us. In the future, we may increasingly compete with Synnex Technology International, particularly if our business in Asia expands or Synnex Technology International expands its business into geographies or customers we serve. Although Synnex Technology International is a separate entity from us, it is possible that there will be confusion as a result of the similarity of our names. Moreover, we cannot limit or control the use of the Synnex name by Synnex Technology International in certain geographies and our use of the Synnex name may be restricted as a result of registration of the name by Synnex Technology International or the prior use in jurisdictions where it currently operates.

### **Risks Related to Our Industry**

#### **Volatility in the IT industry could have a material adverse effect on our business and operating results.**

The IT industry in which we operate has experienced decreases in demand. Softening demand for our products and services caused by an ongoing economic downturn and over-capacity may impact our revenue, as well the salability of inventory and collection of reseller customer accounts receivable.

While in the past we may have benefited from consolidation in our industry resulting from delays or reductions in IT spending in particular, and economic weakness in general, any such volatility in the IT industry could have an adverse effect on our business and operating results.

#### **Our business may be adversely affected by some OEM suppliers' strategies to increase their direct sales, which in turn could cause our business and operating results to suffer.**

Consolidation of OEM suppliers has resulted in fewer sources for some of the products that we distribute. This consolidation has also resulted in larger OEM suppliers that have significant operating and financial resources. Some OEM suppliers, including some of the leading OEM suppliers that we service, have been selling a greater volume of products directly to end-users, thereby limiting our business opportunities. If large OEM suppliers continue the trend to sell directly to our resellers, rather than use us as the distributor of their products, our business and operating results will suffer.

**OEMs are limiting the number of supply chain service providers with which they do business, which in turn could negatively impact our business and operating results.**

Currently, there is a trend towards reducing the number of authorized distributors used by OEM suppliers. As a smaller market participant in the IT product industries, than some of our competitors, we may be more susceptible to loss of business from further reductions of authorized distributors or contract assemblers by IT product OEMs. For example, the termination of our contract by HP

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with us would have a significant negative effect on our revenue and operating results. A determination by any of our primary OEMs to consolidate their business with other distributors or contract assemblers would negatively affect our business and operating results. For example, IBM recently consolidated its business with distributors, including SYNEX, and, as a result, we no longer distribute certain IBM products and services.

**The IT industry is subject to rapidly changing technologies and process developments, and we may not be able to adequately adjust our business to these changes, which in turn would harm our business and operating results.**

Dynamic changes in the IT industry, including the consolidation of OEM suppliers and reductions in the number of authorized distributors used by OEM suppliers, have resulted in new and increased responsibilities for management personnel and have placed, and continue to place, a significant strain upon our management, operating and financial systems and other resources. We may be unable to successfully respond to and manage our business in light of industry developments and trends. Also crucial to our success in managing our operations will be our ability to achieve additional economies of scale. Our failure to achieve these additional economies of scale or to respond to changes in the IT industry could adversely affect our business and operating results.

**We are subject to intense competition in the IT industry, both in the United States and internationally, and if we fail to compete successfully, we will be unable to gain or retain market share.**

We operate in a highly competitive environment, both in the United States and internationally. The IT product distribution, global business and contract assembly services industries are characterized by intense competition, based primarily on product availability, credit availability, price, speed of delivery, ability to tailor specific solutions to customer needs, quality and depth of product lines, pre-sale and post-sale technical support, flexibility and timely response to design changes, and technological capabilities, service and support. We compete with a variety of regional, national and international IT product distributors and contract manufacturers and assemblers. In some instances, we also compete with our own customers, our own OEM suppliers and MiTAC International.

Our primary competitors are substantially larger and have greater financial, operating, manufacturing and marketing resources than us. Some of our competitors may have broader geographic breadth and range of services than us and may have more developed relationships with their existing customers. We may lose market share in the United States or in international markets, or may be forced in the future to reduce our prices in response to the actions of our competitors and thereby experience a reduction in our gross margins.

In addition, in our contact center business, we also face competition from our customers. For example, some of our customers may have internal capability and resources to provide their own call centers. Furthermore, pricing pressures and quality of services could impact our business adversely. Our ability to provide a high quality of service is dependent on our ability to retain and properly train our employees and to continue investing in our infrastructure, including IT and telecommunications systems.

We may initiate other business activities, including the broadening of our supply chain capabilities, and may face competition from companies with more experience in those new areas. In addition, as we enter new areas of business, we may also encounter increased competition from current competitors or from new competitors, including some who may once have been our OEM suppliers or reseller customers. Increased competition and negative reaction from our OEM suppliers or reseller customers resulting from our expansion into new business areas may harm our business and operating results.

**Compliance with changing regulation of corporate governance and public disclosure may result in additional expenses.**

Changing laws, regulations and standards relating to corporate governance and public disclosure, including the Sarbanes-Oxley Act of 2002, Securities and Exchange Commission, or SEC, regulations and New York Stock Exchange, or NYSE, rules, are creating uncertainty for companies such as ours. These new or changed laws, regulations and standards are subject to varying interpretations in many cases due to their lack of specificity, and as a result, their application in practice may evolve over time as new guidance is provided by regulatory and governing bodies, which could result in continuing uncertainty regarding compliance matters and higher costs necessitated by ongoing revisions to disclosure and corporate governance practices. As a result, our efforts to comply with evolving laws, regulations and standards have resulted in, and are likely to continue to result in, increased general and administrative expenses and a diversion of management time and attention from revenue-generating activities to compliance activities. In particular, our ongoing efforts to comply with Section 404 of the Sarbanes-Oxley Act of 2002 and the related regulations regarding our management's required assessment of our internal control over financial reporting and our independent registered public accounting firm's attestation of the effectiveness of internal control over financial reporting have required the commitment of significant financial and managerial resources. We expect these efforts to require the continued commitment of significant resources. If our efforts to comply with new or changed laws, regulations and standards differ from the activities intended by regulatory or governing bodies due to ambiguities related to practice, our reputation may be harmed.



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**If we are unable to maintain effective internal control over financial reporting, our ability to report our financial results on a timely and accurate basis may be adversely affected, which in turn could cause the market price of our common stock to decline.**

Section 404 of the Sarbanes-Oxley Act of 2002 requires our management to report on, and our independent registered public accounting firm to attest to, the effectiveness of our internal control structure and procedures for financial reporting. We completed an evaluation of the effectiveness of our internal control over financial reporting for the fiscal year ended November 30, 2008, and we have an ongoing program to perform the system and process evaluation and testing necessary to continue to comply with these requirements. In the past, however, our internal controls have not eliminated all error. For example, in fiscal year 2007, we made a reclassification adjustment to our Consolidated Financial Statements and we were unable to timely file a Form 8-K relating to an acquisition. We expect to continue to incur increased expense and to devote additional management resources to Section 404 compliance. In the event that one of our Chief Executive Officer, Chief Financial Officer or independent registered public accounting firm determine that our internal control over financial reporting is not effective as defined under Section 404, investor perceptions and our reputation may be adversely affected and the market price of our stock could decline.

**Changes to financial accounting standards may affect our results of operations and cause us to change our business practices.**

We prepare our financial statements to conform to generally accepted accounting principles in the United States, or GAAP.

These accounting principles are subject to interpretation by the Financial Accounting Standards Board, or FASB, American Institute of Certified Public Accountants, the SEC and various bodies formed to interpret and create appropriate accounting policies. A change in those policies can have a significant effect on our reported results and may affect our reporting of transactions completed before a change is announced. Changes to those rules or the questioning of current practices may adversely affect our reported financial results or the way we conduct our business.

**We are subject to rules and regulations as a public company that will increase our administration costs which, in turn, could harm our operating results.**

As a public company, we incur significant legal, accounting and other expenses. In addition, the Sarbanes-Oxley Act of 2002, as well as rules subsequently implemented by the SEC, has required changes in corporate governance practices of public companies. In addition to final rules and rule proposals already made by the SEC, the NYSE has adopted revisions to its requirements for companies that are NYSE-listed. These rules and regulations have increased our legal and financial compliance costs, and made some activities more time consuming or costly. These rules and regulations could make it more difficult and more expensive for us to obtain director and officer liability insurance, and we may be required to accept reduced coverage or incur substantially higher costs to obtain coverage. These rules and regulations could also make it more difficult for us to attract and retain qualified members of our Board of Directors, particularly to serve on our Audit Committee and Compensation Committee, and qualified executive officers.

**New accounting treatment for cash settled convertible debt instruments like the convertible senior notes would likely cause our reported interest expense on our convertible senior notes to increase.**

FASB recently adopted FASB Staff Position No. Accounting Principles Board 14-1, Accounting for Convertible Debt Instruments That May be Settled in Cash upon Conversion (Including Partial Cash Settlement), reflecting new rules that change the accounting for certain convertible debt instruments, including our convertible senior notes. Under these new rules, an issuer of a convertible debt instrument that may be settled entirely or partially in cash upon conversion is required to account for the liability and equity components of the instrument separately. The debt component is recorded at an estimated fair value, as of the issuance date, of a similar debt instrument without the conversion feature, and the difference between the proceeds for the convertible debt and the amount reflected as a debt liability is recorded as additional paid-in capital. As a result, the debt is treated as if it had been issued at a discount and is subsequently accreted to its par value over its expected life, with a rate of interest that reflects the issuer's nonconvertible debt borrowing rate. The resulting interest expense would likely be significantly higher than the actual cash interest expense payable on the instrument. The new rules are effective for fiscal years and interim periods beginning after December 15, 2008 and are applied retrospectively to all periods presented. We are currently evaluating the new rules and cannot quantify the impact at this time. However, we expect to have higher interest expense starting in 2010 due to the non-cash interest expense accretion.

**ITEM 4. Submission of Matters to a Vote of Security Holders**  
None.

**ITEM 6. Exhibits**

- 10.1 Third Amended and Restated Credit Agreement, dated as of January 23, 2009, by and among the Company, the lender signatories thereto from time to time, and Bank of America, N.A. (incorporated by reference to Exhibit 10.33 to the Company's Annual Report in Form 10-K for the year ended November 30, 2008).
- 10.2 Third Amended and Restated Receivables Sale and Servicing Agreement, dated as of January 23, 2009, by and among the Originator, the Servicer and SIT Funding Corporation (incorporated by reference to Exhibit 10.34 to the Company's Annual Report in Form 10-K for the year ended November 30, 2008).
- 10.3 Third Amended and Restated Receivables Funding and Administration Agreement, dated as of January 23, 2009, by and among SIT Funding Corporation, the lenders party thereto and Bank of America, N.A. (incorporated by reference to Exhibit 10.35 to the Company's Annual Report in Form 10-K for the year ended November 30, 2008).
- 31.1 Rule 13a-14(a) Certification of President and Chief Executive Officer.
- 31.2 Rule 13a-14(a) Certification of Chief Financial Officer.
- 32.1\* Statement of President, Chief Executive Officer and Chief Financial Officer under Section 906 of the Sarbanes-Oxley Act of 2002 (18 U.S.C. Section 1350).

\* In accordance with Item 601(b)(32)(ii) of Regulation S-K and SEC Release Nos. 33-8238 and 34-47986, Final Rule: Management's Reports on Internal Control Over Financial Reporting and Certification of Disclosure in Exchange Act Periodic Reports, the certifications furnished in Exhibit 32.1 hereto are deemed to accompany this Form 10-Q and will not be deemed filed for purpose of Section 18 of the Exchange Act. Such certifications will not be deemed to be incorporated by reference into any filing under the Securities Act or the Exchange Act, except to the extent that the registrant specifically incorporates it by reference.



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**SIGNATURES**

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

Date: April 9, 2009

SYNEX Corporation

By: /s/ KEVIN M. MURAI  
Kevin M. Murai  
President and Chief Executive Officer

By: /s/ THOMAS C. ALSBORG  
Thomas C. Alsborg  
Chief Financial Officer

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**EXHIBIT INDEX**

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