

SYNEX CORP  
Form 10-Q  
April 06, 2012  
Table of Contents

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 29, 2012

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)

---

Delaware (State or other jurisdiction of incorporation or organization)	94-2703333 (IRS Employer Identification No.)
---	--

44201 Nobel Drive Fremont, California (Address of principal executive offices) (510) 656-3333 (Registrant's telephone number, including area code)	94538 (Zip 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 has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes  No

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

Large accelerated filer  Accelerated filer  Non-accelerated filer  Smaller reporting company

Edgar Filing: SYNEX CORP - Form 10-Q

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 as of March 30, 2012
Common Stock, \$0.001 par value	37,186,183

---

Table of Contents

SYNEX CORPORATION

FORM 10-Q

INDEX

	Page
<u>PART I</u>	<u>3</u>
<u>FINANCIAL INFORMATION</u>	<u>3</u>
Item 1. <u>Financial Statements</u>	<u>3</u>
<u>Consolidated Balance Sheets (unaudited) as of February 29, 2012 and November 30, 2011</u>	<u>3</u>
<u>Consolidated Statements of Operations (unaudited) for the Three Months Ended February 29, 2012 and February 28, 2011</u>	<u>4</u>
<u>Consolidated Statements of Comprehensive Income (unaudited) for the Three Months Ended February 29, 2012 and February 28, 2011</u>	<u>5</u>
<u>Consolidated Statements of Cash Flows (unaudited) for the Three Months Ended February 29, 2012 and February 28, 2011</u>	<u>6</u>
<u>Notes to the Consolidated Financial Statements (unaudited)</u>	<u>7</u>
Item 2. <u>Management’s Discussion and Analysis of Financial Condition and Results of Operations</u>	<u>27</u>
Item 3. <u>Quantitative and Qualitative Disclosures about Market Risk</u>	<u>38</u>
Item 4. <u>Controls and Procedures</u>	<u>38</u>
<u>PART II</u>	<u>38</u>
<u>OTHER INFORMATION</u>	<u>38</u>
Item 1A. <u>Risk Factors</u>	<u>38</u>
Item 6. <u>Exhibits</u>	<u>50</u>
<u>Signatures</u>	<u>52</u>
<u>Exhibit</u>	<u>53</u>
<u>Index</u>	<u>53</u>

Table of Contents

## PART I - FINANCIAL INFORMATION

## ITEM 1. Financial Statements

## SYNEX CORPORATION

## CONSOLIDATED BALANCE SHEETS

(currency and share amounts in thousands, except for par value)

(unaudited)

	February 29, 2012	November 30, 2011
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$68,756	\$67,571
Short-term investments	16,419	16,017
Accounts receivable, net	1,173,150	1,293,027
Receivable from affiliates	1,570	1,344
Inventories	952,993	975,047
Current deferred tax assets	28,579	28,241
Other current assets	56,512	57,168
Total current assets	2,297,979	2,438,415
Property and equipment, net	125,815	125,157
Goodwill	184,543	185,312
Intangible assets, net	35,368	37,539
Deferred tax assets	625	590
Other assets	54,834	46,282
Total assets	\$2,699,164	\$2,833,295
<b>LIABILITIES AND EQUITY</b>		
Current liabilities:		
Borrowings under securitization, term loans and lines of credit	\$80,068	\$159,200
Accounts payable	928,267	1,035,691
Accrued liabilities	163,206	172,226
Income taxes payable	11,021	5,136
Total current liabilities	1,182,562	1,372,253
Long-term borrowings	83,343	87,659
Convertible debt	137,447	136,163
Long-term liabilities	63,581	60,676
Deferred tax liabilities	8,568	8,086
Total liabilities	1,475,501	1,664,837
Commitments and contingencies (Note 17)		
SYNEX Corporation 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, 36,948 and 36,571 shares issued as of February 29, 2012 and November 30, 2011, respectively	37	37
Additional paid-in capital	320,573	310,316
Treasury stock, 409 and 407 shares as of February 29, 2012 and November 30, 2011, respectively	(11,621	) (11,524
Accumulated other comprehensive income	36,374	30,026
Retained earnings	867,747	829,524

Edgar Filing: SYNEX CORP - Form 10-Q

Total SYNEX Corporation stockholders' equity	1,213,110	1,158,379
Noncontrolling interest	10,553	10,079
Total equity	1,223,663	1,168,458
Total liabilities and equity	\$2,699,164	\$2,833,295

The accompanying notes are an integral part of these Consolidated Financial Statements (unaudited).

3

---

Table of Contents

## SYNEX CORPORATION

## CONSOLIDATED STATEMENTS OF OPERATIONS

(currency and share amounts in thousands, except for per share amounts)

(unaudited)

	Three Months Ended	
	February 29, 2012	February 28, 2011
Revenue	\$2,460,694	\$2,500,934
Cost of revenue	(2,291,422	) (2,357,138
Gross profit	169,272	143,796
Selling, general and administrative expenses	(105,284	) (92,943
Income before non-operating items, income taxes and noncontrolling interest	63,988	50,853
Interest expense and finance charges, net	(6,035	) (6,169
Other income, net	2,099	965
Income before income taxes and noncontrolling interest	60,052	45,649
Provision for income taxes	(20,898	) (15,978
Net income	39,154	29,671
Net (income) loss attributable to noncontrolling interest	(931	) 50
Net income attributable to SYNEX Corporation	\$38,223	\$29,721
Net income per share attributable to SYNEX Corporation:		
Basic	\$1.05	\$0.83
Diluted	\$1.02	\$0.80
Weighted-average common shares outstanding:		
Basic	36,303	35,600
Diluted	37,632	36,963

The accompanying notes are an integral part of these Consolidated Financial Statements (unaudited).

Table of Contents

SYNEX CORPORATION  
 CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME  
 (currency in thousands)  
 (unaudited)

	Three Months Ended	
	February 29, 2012	February 28, 2011
Net income	\$39,154	\$29,671
Other comprehensive income (loss):		
Unrealized gain on available-for-sale securities	87	72
Foreign currency translation adjustment	5,801	10,872
Total other comprehensive income	5,888	10,944
Comprehensive income:	45,042	40,615
Comprehensive (income) loss attributable to noncontrolling interest	(474	) 50
Comprehensive income attributable to SYNEX Corporation	\$44,568	\$40,665

The accompanying notes are an integral part of these Consolidated Financial Statements (unaudited).

Table of Contents

SYNEX CORPORATION  
CONSOLIDATED STATEMENTS OF CASH FLOWS  
(currency in thousands)  
(unaudited)

	Three Months Ended	
	February 29, 2012	February 28, 2011
Cash flows from operating activities:		
Net income	\$39,154	\$29,671
Adjustments to reconcile net income to net cash provided by (used in) operating activities:		
Depreciation expense	4,041	3,979
Amortization of intangible assets	2,075	2,049
Accretion of convertible notes discount	1,284	1,187
Share-based compensation	2,009	1,941
Provision for doubtful accounts	2,052	2,382
Tax benefits from employee stock plans	2,043	1,737
Excess tax benefit from share-based compensation	(2,056)	(943)
Realized/Unrealized gain on investments	(1,332)	(641)
Changes in assets and liabilities, net of acquisition of businesses:		
Accounts receivable	113,939	157,844
Receivables from affiliates, net	(227)	3,940
Inventories	22,157	43,792
Other assets	(15,371)	(13,062)
Accounts payable	(95,294)	(161,189)
Accrued liabilities	(9,654)	(5,751)
Deferred liabilities	9,358	(7,513)
Net cash provided by operating activities	74,178	59,423
Cash flows from investing activities:		
Purchase of trading investments	(3,085)	(643)
Proceeds from sale of trading investments	3,876	496
Acquisition of businesses, net of cash acquired	(8)	(42,834)
Purchase of property and equipment	(4,605)	(8,629)
Loans and deposits to third parties, net of payments received	217	(2,430)
Investment in equity-method investee	—	(3,682)
Changes in restricted cash	10,657	(14,759)
Net cash provided by (used in) investing activities	7,052	(72,481)
Cash flows from financing activities:		
Proceeds from securitization and revolving line of credit	740,830	1,162,839
Payment of securitization and revolving line of credit	(818,035)	(1,123,823)
Proceeds from long-term credit facility and term loans	—	85,023
Payment of long-term bank loans, capital leases and other borrowings	(749)	(116,143)
Excess tax benefit from share-based compensation	2,056	943
Book overdraft	(9,465)	12,837
Proceeds from issuance of common stock, net of taxes paid for settlement of equity awards	5,731	(742)
Capital contribution by noncontrolling interest	—	6,484
Net cash provided by (used in) financing activities	(79,632)	27,418
Effect of exchange rate changes on cash and cash equivalents	(413)	(1,227)



Edgar Filing: SYNEX CORP - Form 10-Q

Net increase in cash and cash equivalents	1,185	13,133
Cash and cash equivalents at beginning of year	67,571	88,038
Cash and cash equivalents at end of year	\$68,756	\$101,171

The accompanying notes are an integral part of these Consolidated Financial Statements (unaudited).

6

---

Table of Contents

## SYNEX CORPORATION

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the three months ended February 29, 2012 and February 28, 2011

(currency and share 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 resellers, retailers, and original equipment manufacturers (“OEMs”) worldwide. SYNEX’ business process services include distribution and business process outsourcing (“BPO”) services. SYNEX is headquartered in Fremont, California and has operations in the United States, Canada, China, Costa Rica, Hungary, India, Japan, Mexico, Nicaragua, the Philippines and the United Kingdom (“UK”).

The accompanying interim unaudited Consolidated Financial Statements as of February 29, 2012 and for the three month periods ended February 29, 2012 and February 28, 2011 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, 2011 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, 2011, 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 29, 2012 are not necessarily indicative of the results that may be expected for the fiscal year ending November 30, 2012, or any future period and the Company makes no representations related thereto.

## NOTE 2—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

The Company’s significant accounting policies are disclosed in the Company’s Annual Report on Form 10-K for the fiscal year ended November 30, 2011. There have been no material changes to these accounting policies, 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, 2011.

## Restricted cash

Restricted cash balances relate to temporary restrictions caused by the timing of lockbox collections under the Company’s borrowing arrangements, amounts held for outstanding letters of credit and future payments to contractors for the long-term projects at the Company’s Mexico operation.

The following table summarizes the restricted cash balances as of February 29, 2012 and November 30, 2011 and the location where these amounts are recorded on the Consolidated Balance Sheets:

	As of February 29, 2012	November 30, 2011
Related to borrowing arrangements and others:		
Other current assets	\$17,290	\$28,279
Related to long-term projects:		
Other assets	3,611	2,938
Total restricted cash	\$20,901	\$31,217



Table of Contents

SYNEX CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS---(continued)

For the three months ended February 29, 2012 and February 28, 2011

(currency and share amounts in thousands, except per share amounts)

(unaudited)

Concentration of credit risk

Financial instruments that potentially subject the Company to significant concentration of credit risk consist principally of accounts receivable, and 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 29, 2012, the Company had not experienced any losses on such deposits. Accounts receivable include amounts due from customers and vendors 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 consideration the overall quality and aging of the receivable portfolio, the existence of a limited amount of credit insurance and specifically identified customer and vendor risks. Through February 29, 2012, such losses have been within management's expectations. In the three months ended February 29, 2012 and February 28, 2011, no customer accounted for 10% or more of the Company's total revenue. Products purchased from the Company's largest OEM supplier, Hewlett-Packard Company ("HP"), accounted for approximately 35% and 33% of the total revenue for three months ended February 29, 2012 and February 28, 2011, respectively.

As of February 29, 2012 and November 30, 2011, no customer exceeded 10% of the total consolidated accounts receivable balance.

Revenue recognition

The Company generally recognizes revenue on the sale of hardware and software products when they are shipped and on services when they are performed, if a purchase order exists, the sales price is fixed or determinable, collection of resulting accounts receivable is reasonably assured, risk of loss and title have transferred and product returns are reasonably estimable. Provisions for sales returns are estimated based on historical data and are recorded concurrently with the recognition of revenue. These provisions are reviewed and adjusted periodically by the Company. Revenue is reduced for early payment discounts and volume incentive rebates offered to customers. The Company recognizes revenue on certain service contracts, post-contract software support services, and extended warranty contracts, where it is not the primary obligor, on a net basis.

The Company provides services such as call center, renewals, maintenance and contract management services to its customers under contracts that typically consist of a master services agreement or statement of work, which contains the terms and conditions of each program and service offerings. Typically the contracts are time-based or transactions or volume based. Revenue is generally recognized over the term of the contract or when service has been rendered, the sales price is fixed or determinable and collection of the resulting accounts receivable is reasonably assured.

The Company's operation in Mexico primarily focuses on projects with the Mexican government and other local agencies that are long-term in nature. Under the agreements, the Company sells computers and equipment to contractors that provide services to the Mexican government. The Company also sells computer equipment and services directly to the Mexican government. The payments are due on a monthly basis and contingent upon the satisfactory performance of certain services, fulfillment of certain obligations and meeting certain conditions. The Company recognizes revenue and cost of revenue on a straight-line basis over the term of the contract, which coincides with payments no longer being contingent.

Net income per common share

Net income per common share-basic is computed by dividing the net income attributable to SYNEX Corporation for the period by the basic weighted-average number of outstanding common shares.

Net income per common share-diluted is computed by adding the dilutive effect of in-the-money employee stock options, restricted stock awards, restricted stock units and similar equity instruments granted by the Company to the basic weighted-average number of outstanding common shares. The Company uses the treasury stock method, under

which, 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 debt, the Company intends to settle its conversion spread (i.e., the intrinsic

Table of Contents

SYNEX CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS---(continued)

For the three months ended February 29, 2012 and February 28, 2011

(currency and share amounts in thousands, except per share amounts)

(unaudited)

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 debt; accordingly, the principal amount has been excluded from the determination of diluted earnings per share.

The calculation of net income per common share attributable to SYNEX Corporation is presented in Note 12.

Reclassifications

Certain reclassifications have been made to prior period amounts to conform to current period presentation. On the Consolidated Balance Sheets and the Consolidated Statements of Cash Flows, the Company combined the balances of "Receivable from vendors, net" with "Accounts receivable, net." This reclassification had no effect on "Total current assets" and "Net cash provided by operating activities."

Recent accounting pronouncements

In May 2011, the Financial Accounting Standards Board ("FASB") issued an accounting update that amends existing guidance regarding fair value measurements and disclosure requirements. The amendments are effective during interim and annual periods beginning after December 15, 2011 and are to be applied prospectively. The accounting update will be applicable to the Company beginning in the second quarter of fiscal year 2012. The Company is evaluating the impact of this new accounting update on its Consolidated Financial Statements.

In June 2011, the FASB issued an accounting update that amends the presentation of "Comprehensive income" in the financial statements. The new guidance is effective for fiscal years, and interim periods within those years, beginning after December 15, 2011, with early adoption permitted. The accounting update will be applicable to the Company beginning in the first quarter of fiscal year 2013. The Company will update its presentation of "Comprehensive income" to comply with the updated disclosure requirements.

During fiscal year 2012, the following accounting standards are applicable:

In September 2011, the FASB issued an accounting update that gives companies the option to make a qualitative evaluation about the likelihood of goodwill impairment. Companies will be required to perform the two-step impairment test only if it concludes that the fair value of a reporting unit is more likely than not, less than its carrying value. The accounting update is effective for annual and interim goodwill impairment tests performed for fiscal years beginning after December 15, 2011, with early adoption permitted. The Company will adopt the accounting update for its goodwill impairment test to be performed for the fiscal year ending November 30, 2012.

In September 2011, the FASB issued an accounting update that requires additional qualitative and quantitative disclosures by employers that participate in multi-employer pension plans. The amendments are effective for annual periods for the fiscal years ending after December 15, 2011, with early adoption permitted. The Company adopted the new disclosure requirements in the fiscal year ending November 30, 2012. The accounting update did not have a material impact on the Company's financial statements.

NOTE 3—ACQUISITIONS AND DIVESTITURES:

Fiscal year 2011 acquisitions

On December 1, 2010, the Company acquired 70.0% of the capital stock of Marubeni Infotec Corporation, a subsidiary of Marubeni Corporation. SB Pacific Corporation Limited ("SB Pacific"), the Company's equity-method investee, acquired the remaining 30.0% noncontrolling interest. The Company's total direct and indirect ownership of Marubeni Infotec Corporation is 80.0%. Marubeni Infotec Corporation, now known as SYNEX Infotec Corporation ("Infotec Japan") is a distributor of IT equipment, electronic components and software in Japan. This acquisition is in the distribution segment and enabled the Company's expansion into Japan. The aggregate consideration for the transaction initially was JPY700,000, or approximately \$8,392, of which the Company's direct share was \$5,888. During the three months ended February 29, 2012, the Company reached an agreement with the sellers to reduce the

purchase price by JPY125,233, which was recorded as a reduction of goodwill. The purchase price as adjusted is JPY574,767 or approximately \$6,891. On April 1, 2012, the Company purchased additional shares of Infotec Japan from SB Pacific. As a result, its direct ownership interest in Infotec Japan increased from 70.0% to 81.0% and its total direct and indirect ownership interest increased from 80.0% to 84.7%.

Table of Contents

## SYNEX CORPORATION

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS---(continued)

For the three months ended February 29, 2012 and February 28, 2011

(currency and share amounts in thousands, except per share amounts)

(unaudited)

The purchase price allocation based on the fair value of the assets acquired and liabilities assumed is as follows:

	Fair Value	
Purchase consideration:		
Cash payment	\$5,888	
Contribution from noncontrolling interest	2,504	
Receivable from seller	(1,501	)
	\$6,891	
Allocation:		
Cash	\$1,371	
Accounts receivable	186,909	
Inventories	84,553	
Other current assets	2,119	
Property, plant and equipment	5,521	
Goodwill	16,952	
Intangible assets <sup>(1)</sup>	9,103	
Other long-term assets	4,398	
Short-term borrowings	(103,646	)
Accounts payable	(161,228	)
Accrued liabilities	(15,151	)
Long-term borrowings	(2,088	)
Other long-term liabilities	(21,922	)
	\$6,891	

<sup>(1)</sup> Intangibles will be amortized over a period of 3-10 years.

During the fiscal year 2011, the Company acquired certain businesses of e4e, Inc. ("e4e"), 100.0% of the stock of the global email company limited ("gem") and certain assets of VisionMAX Solutions Inc. ("VisionMAX") for an aggregate purchase price of \$44,156, including \$1,000 payable upon the completion of certain post-closing conditions. The acquisitions were integrated into the Company's Global Business Services ("GBS") segment and brought additional BPO scale, complemented the Company's service offerings in social media and cloud computing and expanded its customer base and geographic presence. The net tangible assets acquired were \$10,155 and the Company recorded \$34,001 in goodwill and intangibles. The Company expects to finalize the purchase price allocation on the recent acquisitions upon completion of valuation procedures.

With the exception of Infotec Japan, the above acquisitions in fiscal year 2011, individually and in the aggregate, did not meet the conditions of a material business combination and were not subject to the disclosure requirements of accounting guidance for business combinations utilizing the purchase method of accounting.

**NOTE 4—SHARE-BASED COMPENSATION:**

The Company recognizes share-based compensation expense for all share-based awards made to employees and directors, including employee stock options, restricted stock awards, restricted stock units 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. The Black-Scholes option-pricing model was developed for use in estimating the fair value of short-lived exchange traded options that have no vesting restrictions and are fully transferable. In addition, option-pricing models require the input of highly subjective assumptions, including the option's expected life and the price volatility of the underlying stock. The expected stock price volatility assumption was determined using historical volatility of the Company's common



stock.

The following table summarizes the number of share-based awards granted under the Company's Amended and Restated

10

---

Table of Contents

## SYNEX CORPORATION

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS---(continued)

For the three months ended February 29, 2012 and February 28, 2011

(currency and share amounts in thousands, except per share amounts)

(unaudited)

2003 Stock Incentive Plan, as amended, during the three months ended February 29, 2012 and February 28, 2011 and the grant-date fair value of the awards:

	Three months ended February 29, 2012		Three months ended February 28, 2011	
	Number of grants	Fair value of grants	Number of grants	Fair value of grants
Restricted stock awards	4	\$154	5	\$167

The Company recorded share-based compensation expense of \$2,009 and \$1,941 in "Selling, general and administrative expenses" for the three months ended February 29, 2012 and February 28, 2011, respectively.

## NOTE 5—BALANCE SHEET COMPONENTS:

The Company's inventories substantially consist of finished goods.

	As of	
	February 29, 2012	November 30, 2011
Short-term investments		
Trading securities	\$6,194	\$5,808
Available-for-sale securities	53	37
Held-to-maturity securities	7,942	7,843
Cost method investments	2,230	2,329
	\$16,419	\$16,017

	As of	
	February 29, 2012	November 30, 2011
Accounts receivable, net		
Accounts receivable	\$1,239,508	\$1,351,305
Less: Allowance for doubtful accounts	(24,788 )	(22,803 )
Less: Allowance for sales returns	(41,570 )	(35,475 )
	\$1,173,150	\$1,293,027

The Company combined "Receivable from vendors, net" with "Accounts Receivable, net" as of November 30, 2011 to conform to the current year presentation as described in Note 2- Summary of Significant Accounting Policies.

	As of	
	February 29, 2012	November 30, 2011
Property and equipment, net		
Land	\$18,730	\$18,566
Equipment and computers	98,702	95,149
Furniture and fixtures	20,314	19,566
Buildings and leasehold improvements	99,246	97,261
Construction in progress	560	1,762
Total property and equipment, gross	237,552	232,304
Less: Accumulated depreciation	(111,737 )	(107,147 )
	\$125,815	\$125,157

Table of Contents

## SYNEX CORPORATION

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS---(continued)

For the three months ended February 29, 2012 and February 28, 2011

(currency and share amounts in thousands, except per share amounts)

(unaudited)

## Goodwill

	Distribution	GBS	Total
Balance as of November 30, 2011	\$107,498	\$77,814	\$185,312
Goodwill adjustments during the period	(1,543	) (191	) (1,734
Translation	392	573	965
Balance as of February 29, 2012	\$106,347	\$78,196	\$184,543

The adjustments recorded to "Goodwill" during the three months ended February 29, 2012, primarily pertain to the reduction of the purchase price of Infotec Japan.

## Intangible assets, net

	As of February 29, 2012			As of November 30, 2011		
	Gross Amounts	Accumulated Amortization	Net Amounts	Gross Amounts	Accumulated Amortization	Net Amounts
Vendor lists	\$36,946	\$(27,499	) \$9,447	\$36,815	\$(27,104	) \$9,711
Customer lists	50,579	(25,664	) 24,915	51,088	(23,879	) 27,209
Other intangible assets	4,952	(3,946	) 1,006	4,446	(3,827	) 619
	\$92,477	\$(57,109	) \$35,368	\$92,349	\$(54,810	) \$37,539

Amortization expense for the three months ended February 29, 2012 and February 28, 2011 was \$2,075 and \$2,049, respectively.

## NOTE 6—INVESTMENTS:

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

	As of February 29, 2012			As of November 30, 2011		
	Cost Basis	Unrealized (Losses)/ Gains	Carrying Value	Cost Basis	Unrealized (Losses)/ Gains	Carrying Value
<b>Short-Term:</b>						
Trading Securities	\$6,519	\$(325	) \$6,194	\$11,503	\$(5,695	) \$5,808
Available-for-sale securities	—	53	53	—	37	37
Held-to-maturity investments	7,942	—	7,942	7,843	—	7,843
Cost method securities	2,230	—	2,230	2,329	—	2,329
	\$16,691	\$(272	) \$16,419	\$21,675	\$(5,658	) \$16,017
<b>Long-term investments in other assets</b>						
Available-for-sale securities	\$1,048	\$96	\$1,144	\$939	\$168	\$1,107

Short-term trading securities generally consist of equity securities relating to the Company's deferred compensation plan. Short-term and long-term available-for-sale securities primarily consist of investments in other companies' equity securities. Held-to-maturity investments primarily consist of term deposits with maturities from the date of purchase greater than three months and less than one year. These term deposits are held until the maturity date and are not traded. Cost-method securities primarily consist of investments in a hedge fund and a private equity fund under the Company's deferred compensation plan.

Trading securities and available-for-sale securities are recorded at fair value in each reporting period and therefore the carrying value of these securities equals their fair value. For cost-method securities, the Company records an impairment charge when the decline in fair value is determined to be other-than-temporary.

Table of Contents

## SYNEX CORPORATION

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS---(continued)

For the three months ended February 29, 2012 and February 28, 2011

(currency and share amounts in thousands, except per share amounts)

(unaudited)

The following table summarizes the total realized and unrealized gains and losses recorded on the Company's trading investments:

	Three Months Ended	
	February 29, 2012	February 28, 2011
Realized and unrealized gain on trading investments	\$1,089	\$722

## NOTE 7—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 British Pound, Canadian Dollar, Chinese Renminbi, Costa Rican Colon, Hungarian Forint, Indian Rupee, Japanese Yen, Mexican Peso, Nicaraguan Cordoba, and Philippine Peso. 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 balance sheet exposure to foreign currency risk. These derivatives are not designated as hedging instruments as the Company uses forward contracts to hedge foreign currency 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 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 8. The following table summarizes the fair value of the Company's foreign exchange forward contracts as of February 29, 2012 and November 30, 2011:

Location	Fair Value as of	
	February 29, 2012	November 30, 2011
Other current assets	\$178	\$1
Accrued liabilities	1,506	324

The notional amounts of the foreign exchange forward contracts that were outstanding as of February 29, 2012 and November 30, 2011 were \$104,049 and \$79,468, respectively. The notional amounts represent the gross amounts of foreign currency that will be bought or sold at maturity. During the three months ended February 29, 2012 and February 28, 2011 in relation to its forward contracts, the Company recorded in "Other income, net" total realized and unrealized losses of \$956 and \$3,545, respectively.

## NOTE 8—FAIR VALUE MEASUREMENTS:

The Company's fair value measurements are 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;

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).

Table of Contents

## SYNEX CORPORATION

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS---(continued)

For the three months ended February 29, 2012 and February 28, 2011

(currency and share amounts in thousands, except per share amounts)

(unaudited)

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

	As of February 29, 2012				As of November 30, 2011			
	Total	Fair value measurement category			Total	Fair value measurement category		
		Level 1	Level 2	Level 3		Level 1	Level 2	Level 3
<b>Assets</b>								
Cash equivalents	\$18,014	\$18,014	\$—	\$—	\$25,638	\$25,638	\$—	\$—
Trading securities	6,194	6,194	—	—	5,808	5,808	—	—
Available-for-sale securities in short-term investments	53	53	—	—	37	37	—	—
Available-for-sale securities in other assets	1,144	1,144	—	—	1,107	1,107	—	—
Forward foreign currency exchange contracts	178	—	178	—	1	—	1	—
<b>Liabilities:</b>								
Forward foreign currency exchange contracts	\$1,506	\$—	\$1,506	\$—	\$324	\$—	\$324	\$—
Acquisition-related contingent consideration	3,065	—	—	3,065	3,065	—	—	3,065

The Company's investments in trading and available-for-sale securities consist of equity securities and are recorded at fair value based on quoted market prices. The fair values of forward exchange contracts are measured based on the foreign currency spot and forward rates quoted by the banks or foreign currency dealers. Cash equivalents consist primarily of highly liquid investments in money market funds and term deposits with maturity periods of three months or less. The carrying value of the cash equivalents approximates the fair value since they are near their maturity. The acquisition-related contingent consideration represents the future earn-out payments relating to the acquisitions in the GBS segment. The fair values of the contingent consideration are based on the Company's probability assessment of the established profitability measures during the periods ranging from one year to three years from the date of the acquisitions.

During the three months ended February 29, 2012, there were no transfers between the fair value measurement category levels.

The following table summarizes the realized and unrealized gains and losses recorded in "Other income, net" in the Consolidated Statements of Operations for the changes in the fair value of its financial instruments for trading securities and forward foreign currency contracts:

	Three Months Ended	
	February 29, 2012	February 28, 2011
Realized losses	\$(1,218)	\$(1,774)
Unrealized gain (loss)	1,351	(1,049)
Total realized and unrealized gain (losses)	\$133	\$(2,823)

Table of Contents

## SYNEX CORPORATION

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS---(continued)

For the three months ended February 29, 2012 and February 28, 2011

(currency and share amounts in thousands, except per share amounts)

(unaudited)

The following table presents the assets and liabilities that are not carried at fair value as of February 29, 2012 and November 30, 2011:

	As of February 29, 2012		As of November 30, 2011	
	Carrying Value	Fair Value	Carrying Value	Fair Value
Cost method investments in short-term investments	\$2,230	\$3,892	\$2,329	\$3,898
Long-term accounts receivable	10,862	10,862	5,853	5,853
SYNEX Canada term loan	9,209	9,209	9,118	9,118
Long-term Infotec Japan credit facility	73,937	73,937	77,290	77,290
Infotec Japan term loans	14,048	14,048	15,136	15,136
Convertible debt	137,447	210,651	136,163	165,386

The Company's cost-method securities in short-term investments consist of investments in a hedge fund and a private equity fund. The fair value of the cost-method investments is based on either (i) the published fund values or (ii) a valuation model developed internally based on the published value of the securities held by the fund. The Company records an impairment charge when the decline in fair value is determined to be other-than-temporary.

The fair value of long-term accounts receivable is based on customer rating and creditworthiness. The carrying values of the SYNEX Canada Limited ("SYNEX Canada") term loan, the long-term Infotec Japan credit facility and the Infotec Japan term loans approximate their fair value since 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 debt traded in a limited trading market.

The cost method investments in "Other assets" consist of investments in equity securities of private entities. The carrying value of the investments was \$3,559 as of February 29, 2012 and \$3,575 as of November 30, 2011. As of November 30, 2011, the fair value of these cost method investments is greater than the carrying value. There have been no significant changes to the fair value of the investments as of February 29, 2012.

The Company's 33.3% noncontrolling investment in SB Pacific is recorded under the equity method of accounting and is included in "Other assets." The investment was made in fiscal year 2010 and the carrying value of the investment as of February 29, 2012 and November 30, 2011 was \$6,189 and \$5,950, respectively. As of February 29, 2012 and November 30, 2011, the fair value of this investment exceeded its carrying value.

The carrying value of other financial instruments, such as held-to-maturity securities, accounts receivable, accounts payable and short-term debt, approximate fair value due to their short maturities or variable-rate nature of the respective borrowings.

The Company monitors its investments for impairment by considering current factors, including the economic environment, market conditions, operational performance and other specific factors relating to the business underlying the investment, and records reductions in carrying values when necessary. Any impairment loss is reported under "Other income, net" in the Consolidated Statements of Operations.

**NOTE 9—ACCOUNTS RECEIVABLE ARRANGEMENTS:**

The Company primarily finances its United States operations with an accounts receivable securitization program (the "U.S. Arrangement"). In November 2010, the Company amended and restated the U.S. Arrangement ("Amended and Restated U.S. Arrangement") replacing the lenders and the lead agent. The Company can now pledge up to a maximum of \$400,000 in U.S. trade accounts receivable ("U.S. Receivables") as compared to a maximum of \$350,000 under the previous U.S. Arrangement. The maturity date of the Amended and Restated U.S. Arrangement is November 12, 2013. The effective borrowing cost under the Amended and Restated U.S. Arrangement is a blend of the prevailing

dealer commercial paper rates plus a program fee of 0.60% per annum based on the used portion of the commitment, and a facility fee of 0.60% per annum payable on the aggregate commitment of the lenders. Prior to the amendment, the effective borrowing cost was a blend of the prevailing dealer commercial paper rates, plus a program fee of 0.65% per annum based on the used portion of the commitment



Table of Contents

## SYNEX CORPORATION

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS---(continued)

For the three months ended February 29, 2012 and February 28, 2011

(currency and share amounts in thousands, except per share amounts)

(unaudited)

and a facility fee of 0.65% per annum payable on the aggregate commitment. The balances outstanding under the U.S. Arrangement as of February 29, 2012 and November 30, 2011 were \$5,400 and \$64,500, respectively.

Under the terms of the Amended and Restated U.S. 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 Amended and Restated U.S. Arrangement are recorded as debt on the Company's Consolidated Balance Sheets. 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 increase in the Company's cost of borrowing 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.

The Company also has other financing agreements in North America 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. Please see Note 17—Commitments and Contingencies for further information. The following table summarizes the net sales financed through the flooring agreements and the flooring fees incurred:

	Three Months Ended	
	February 29, 2012	February 28, 2011
Net sales financed	\$ 170,892	\$ 159,059
Flooring fees <sup>(1)</sup>	1,022	434

(1) Flooring fees are included within "Interest expense and finance charges, net."

As of February 29, 2012 and November 30, 2011, accounts receivable subject to flooring agreements were \$49,117 and \$63,031, respectively.

Infotec Japan has arrangements with various banks and financial institutions for the sale and financing of approved accounts receivable and notes receivable. The amount outstanding under these arrangements that was sold, but not collected as of February 29, 2012 and November 30, 2011 was \$11,465 and \$10,980, respectively.

Table of Contents

## SYNEX CORPORATION

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS---(continued)

For the three months ended February 29, 2012 and February 28, 2011

(currency and share amounts in thousands, except per share amounts)

(unaudited)

## NOTE 10—BORROWINGS:

Borrowings consist of the following:

	As of	
	February 29, 2012	November 30, 2011
Convertible debt	\$137,447	\$136,163
SYNEX U.S. securitization	5,400	64,500
SYNEX Canada revolving line of credit	9,861	27,285
SYNEX Canada term loan	9,209	9,118
Infotec Japan credit facility	123,228	128,816
Term loans, capital leases and other borrowings	15,713	17,140
Total borrowings	300,858	383,022
Less: Current portion	(80,068	) (159,200
Non-current portion	\$220,790	\$223,822
Convertible debt		

In May 2008, the Company issued \$143,750 of aggregate principal amount of its 4.0% Convertible Senior Notes due 2018 (the “Convertible Senior Notes”) in a private placement. The carrying amount of the Convertible Senior Notes, net of the unamortized debt discount, was \$137,447 and \$136,163 as of February 29, 2012 and November 30, 2011, respectively. The Convertible Senior Notes are senior unsecured obligations of the Company and have a cash coupon interest rate of 4.0% per annum. The Company may redeem the Convertible Senior 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 Convertible Senior Notes to be redeemed, plus any accrued and unpaid interest (including any additional interest and any contingent interest) up to, but excluding, the redemption date. See Note 11 - Convertible Debt. Also, the Convertible Senior Notes contain various features which under certain circumstances could allow the holders to convert the Convertible Senior Notes into shares before their ten-year maturity. Further, the date of settlement of the convertible Senior Notes is uncertain due to various features including put and call elements which occur in May, 2013.

## SYNEX U.S. securitization

The Company can pledge up to a maximum of \$400,000 in U.S. Receivables under its Amended and Restated U.S. Arrangement. See Note 9 — Accounts Receivable Arrangements. The effective borrowing costs under the Amended and Restated U.S. Arrangement is a blend of the prevailing dealer commercial paper rates, plus a program fee on the used portion of the commitment and a facility fee payable on the aggregate 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 financial institution. In November 2010, the Company amended and restated the Revolver (the “Amended and Restated Revolver”) to remove one of the lenders and increase the maximum commitment of the remaining lender from \$80,000 to \$100,000. The Amended and Restated Revolver retains an accordion feature to increase the maximum commitment by an additional \$50,000 to \$150,000 at the Company’s request, in the event the current lender consents to such increase or another lender participates in the Amended and Restated Revolver. Interest on borrowings under the Amended and Restated Revolver is based on a base rate or London Interbank Offered Rate (“LIBOR”), at the Company’s option. The margin on the LIBOR is determined in accordance with its fixed charge coverage ratio under the Amended and Restated Revolver and is currently 2.25%. The Company’s base rate is determined based on the higher of (i) the financial institution’s prime rate, (ii) the overnight federal funds rate plus 0.50% or (iii) one month LIBOR plus 1.00%. An unused line fee of 0.50% per annum is payable if the outstanding principal amount of the Amended and Restated Revolver is less than half of the lenders’ commitments; however, that fee is reduced to 0.35% if the outstanding

principal amount of the Amended and Restated Revolver is greater than half of the lenders' commitments. The Amended and Restated Revolver is secured by the Company's inventory and other assets and expires in November 2013. It would be an event of default under the Amended and Restated Revolver if (1) a lender under the Amended and Restated U.S. Arrangement declines to extend the maturity date at any point within sixty days prior to the maturity date of the Amended and

Table of Contents

SYNEX CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS---(continued)

For the three months ended February 29, 2012 and February 28, 2011

(currency and share amounts in thousands, except per share amounts)

(unaudited)

Restated U.S. 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 Amended and Restated U.S. Arrangement or (2) at least twenty days prior to the maturity date of the Amended and Restated U.S. Arrangement, the Company does not have in place a binding commitment to renew or replace the Amended and Restated U.S. Arrangement on substantially similar terms and conditions, unless the Company has no amounts outstanding under the Amended and Restated Revolver at such time. There was no borrowing outstanding as of February 29, 2012 and November 30, 2011.

SYNEX U.S. unsecured revolving line of credit

In February 2011, the Company entered into an arrangement with a financial institution to provide an unsecured revolving line of credit for general corporate purposes. The maximum commitment under the arrangement is \$25,000. The arrangement includes an unused line fee of 0.50% per annum. Interest on borrowings under the line of credit is determined by either a base rate or LIBOR, at the Company's option. The margin on the LIBOR is 2.00%. The Company's base rate is the financial institution's prime rate minus 0.25%. The agreement expires in February 2014. There were no borrowings outstanding under this arrangement, as of both February 29, 2012 and November 30, 2011.

SYNEX Canada revolving line of credit

SYNEX Canada has a revolving line of credit arrangement with a financial institution for a maximum commitment of C\$125,000 ("Canadian Revolving Arrangement"). The Canadian Revolving Arrangement also provides a sublimit of \$5,000 for the issuance of standby letters of credit. As of February 29, 2012 and November 30, 2011, outstanding standby letters of credit totaled \$3,461 and \$3,368, respectively. SYNEX Canada has granted a security interest in substantially all of its assets in favor of the lender under the Canadian Revolving Arrangement. In addition, the Company pledged its stock in SYNEX Canada as collateral for the Canadian Revolving Arrangement. The Canadian Revolving Arrangement expires in May 2012. The interest rate applicable is equal to (i) a minimum rate of 2.50% plus a margin of 1.25% for a Base Rate Loan in Canadian Dollars, (ii) a minimum rate of 3.25% plus a margin of 2.50% for a Base Rate Loan in U.S. Dollars, and (iii) a minimum rate of 1.00% plus a margin of 2.75% for a BA (Bankers Acceptance) Rate Loan. A fee of 0.375% per annum is payable with respect to the unused portion of the commitment.

SYNEX Canada term loan

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

Infotec Japan credit facility

Infotec Japan has a credit agreement with a group of financial institutions for a maximum commitment of JPY10,000,000. The credit agreement is comprised of a JPY6,000,000 long-term loan and a JPY4,000,000 short-term revolving credit facility. The interest rate for the long-term and short-term loans is based on the Tokyo Interbank Offered Rate ("TIBOR") plus a margin of 2.25% per annum. The credit facility expires in November 2013. The long-term loan can be repaid at any time prior to maturity without penalty. The Company has issued a guarantee of JPY7,000,000 under this credit facility.

Term loans, capital leases and other borrowings

Infotec Japan has two term loans with financial institutions that consists of a short-term revolving credit facility of JPY1,000,000 and a term loan of JPY140,000. As of November 30, 2011, Infotec Japan had a short-term loan of JPY1,000,000, which was refinanced upon maturity for the same amount during the three months ended February 29, 2012, with a new lender. The new loan is a one-year revolving credit facility that expires in February 2013 and bears an interest rate that is based on TIBOR plus a margin of 1.75%. The term loan of JPY140,000, expires in December

2012 and bears a fixed interest rate of 1.50%.

In addition, as of February 29, 2012 and November 30, 2011, Infotec Japan had \$240 and \$536, respectively, outstanding under arrangements with various banks and financial institutions for the sale and financing of approved accounts receivable and notes receivable with recourse provisions to Infotec Japan.

As of February 29, 2012 and November 30, 2011, the Company had capital lease obligations of \$1,424 and \$1,467,

18

---

Table of Contents

## SYNEX CORPORATION

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS---(continued)

For the three months ended February 29, 2012 and February 28, 2011

(currency and share amounts in thousands, except per share amounts)

(unaudited)

respectively, primarily pertaining to Infotec Japan.

## Interest expense and finance charges

For the three months ended February 29, 2012 and February 28, 2011, the total interest expense and finance charges for the Company's borrowings were \$6,954 and \$6,933, respectively, including non-cash debt accretion expenses of \$1,284 and \$1,187, respectively, for the Convertible Senior Notes. The variable interest rates ranged between 0.87% and 3.92% and between 0.91% and 4.25% during the three months ended February 29, 2012 and February 28, 2011, respectively.

## Covenants compliance

In relation to the Amended and Restated U.S. Arrangement, Amended and Restated Revolver, Infotec Japan credit facility, Canadian Revolving Arrangement and the U.S. unsecured revolving line of credit, the Company has a number of covenants and restrictions that, among other things, require the Company to comply with certain financial and other covenants. These covenants require the Company to maintain specified financial ratios and satisfy certain financial condition tests, including minimum net worth and fixed charge coverage ratios. They also limit the Company's ability to incur additional debt, make or forgive intercompany loans, pay dividends and make other types of 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 the Convertible Senior Notes subject to certain liquidity tests. As of February 29, 2012, 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 and to certain acquirers of the Company's divestitures to ensure compliance with subsidiary sales agreements, totaling \$233,793 and \$238,723 as of February 29, 2012 and November 30, 2011, 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 or not comply with subsidiary sales agreements.

## NOTE 11—CONVERTIBLE DEBT:

	As of	
	February 29, 2012	November 30, 2011
Principal amount	\$ 143,750	\$ 143,750
Less: Unamortized debt discount	(6,303	) (7,587
Net carrying amount	\$ 137,447	\$ 136,163

In May 2008, the Company issued \$143,750 of aggregate principal amount of the Convertible Senior Notes in a private placement. The Convertible Senior Notes have a cash coupon interest rate of 4.0% per annum. Interest on the Convertible Senior Notes is payable in cash semi-annually in arrears on May 15 and November 15 of each year, and commenced on 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 Convertible Senior 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 Convertible Senior 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 Convertible Senior Notes during the ten trading

days immediately preceding the first day of the applicable six-month interest period. The Convertible Senior Notes mature on May 15, 2018, subject to earlier redemption, repurchase or conversion.

holders may convert their Convertible Senior Notes at their option at any time prior to the close of business on the business day immediately preceding the maturity date for such Convertible Senior 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

Table of Contents

SYNEX CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS---(continued)

For the three months ended February 29, 2012 and February 28, 2011

(currency and share amounts in thousands, except per share amounts)

(unaudited)

reported sale price of the Company's common stock for at least twenty trading days in the period of thirty 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 Convertible Senior 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 Convertible Senior 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 Convertible Senior Notes on each such day; (3) if the Company has called the particular Convertible Senior 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. These contingencies were not triggered as of February 29, 2012. In addition, holders may also convert their Convertible Senior 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 Convertible Senior 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 Convertible Senior Notes is 33.9945 shares of common stock per \$1 principal amount of Convertible Senior Notes, equivalent to an initial conversion price of \$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 Convertible Senior Notes prior to May 20, 2013. The Company may redeem the Convertible Senior 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 Convertible Senior Notes to be redeemed, plus any accrued and unpaid interest (including any additional interest and any contingent interest) up to, but excluding, the redemption date.

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

The Convertible Senior 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 debt, if any. The Convertible Senior Notes effectively rank junior to any of the Company's secured indebtedness to the extent of the assets securing such indebtedness. The Convertible Senior 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 Convertible Senior Notes were used for general corporate purposes and to reduce outstanding balances under the U.S. Arrangement and the Revolver.

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

The Convertible Senior Notes as hybrid instruments are accounted for as convertible debt and are recorded at carrying value. The right of the holders of the Convertible Senior Notes to require the Company to repurchase the Convertible Senior Notes in the event of a fundamental change and the contingent interest feature would require separate measurement from the Convertible Senior Notes; however, the amount is insignificant. The additional shares issuable following certain corporate transactions do not require bifurcation and separate measurement from the Convertible Senior Notes.



In accordance with the provisions of the standards for accounting for convertible debt, the Company recognized both a liability and an equity component of the Convertible Senior Notes in a manner that reflects its non-convertible debt borrowing rate at the date of issuance of 8.0%. The value assigned to the debt component, which is the estimated fair value, as of the issuance date, of a similar note without the conversion feature, was determined to be \$120,332. The difference between the Convertible Senior Note cash proceeds and this estimated fair value was estimated to be \$23,418 and was retroactively recorded as a debt discount and will be amortized to "Interest expense and finance charges, net" over the five-year period to the first put date, utilizing the effective interest method.

As of February 29, 2012, the remaining amortization period is approximately fourteen months assuming the redemption of the Convertible Senior Notes at the first purchase date of May 20, 2013. Based on a cash coupon interest rate of 4.0%, the

Table of Contents

## SYNEX CORPORATION

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS---(continued)

For the three months ended February 29, 2012 and February 28, 2011

(currency and share amounts in thousands, except per share amounts)

(unaudited)

Company recorded contractual interest expense of \$1,624 during both the three months ended February 29, 2012 and February 28, 2011. Based on an effective rate of 8.0%, the Company recorded non-cash interest expense of \$1,284 and \$1,187 during the three months ended February 29, 2012 and February 28, 2011, respectively. As of both February 29, 2012 and November 30, 2011, the carrying value of the equity component of the Convertible Senior Notes, net of allocated issuance costs, was \$22,836.

The Convertible Senior Notes contain various features that under certain circumstances could allow the holders to convert the Convertible Senior Notes into shares before their ten-year maturity. Further, the date of settlement of the Convertible Senior Notes is uncertain due to the various features of the Convertible Senior Notes including put and call elements. Because the Company currently intends to settle the Convertible Senior Notes using cash at some future date, the Company maintains within its Amended and Restated U.S. Arrangement, Amended and Restated Revolver and U.S. unsecured revolving line of credit ongoing features that allow the Company to utilize cash from these facilities to cash settle the Convertible Senior Notes, if desired.

## NOTE 12—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:

	Three months ended	
	February 29, 2012	February 28, 2011
Net income attributable to SYNEX Corporation	\$38,223	\$29,721
Weighted-average common shares - basic	36,303	35,600
Effect of dilutive securities:		
Stock options, restricted stock awards and restricted stock units	635	848
Conversion spread of convertible debt	694	515
Weighted-average common shares - diluted	37,632	36,963
Net income per share attributable to SYNEX Corporation:		
Basic	\$ 1.05	\$ 0.83
Diluted	\$ 1.02	\$ 0.80

Options to purchase 7 and 24 shares of common stock during the three months ended February 29, 2012 and February 28, 2011, respectively, have not been included in the computation of diluted net income per share as their effect would have been anti-dilutive.

## NOTE 13—SEGMENT INFORMATION:

## Description of segments

Operating segments are based on components of the Company that engage in business activity that earns revenue and incurs expenses and (a) whose operating results are regularly reviewed by the chief operating decision maker to make decisions about resource allocation and performance and (b) for which discrete financial information is available.

The distribution services segment provides value-added services and distributes IT systems, peripherals, system components, software, networking equipment, consumer electronics ("CE") and complementary products. The distribution segment also provides contract assembly services.

The GBS services segment offers a range of BPO services to customers that include technical support, renewals management, lead management, direct sales, customer service, back office processing and information technology outsourcing ("ITO"). Many of these services are delivered and supported on the proprietary software platforms that the Company has developed to provide additional value to its customers.



Table of Contents

## SYNEX CORPORATION

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS---(continued)

For the three months ended February 29, 2012 and February 28, 2011

(currency and share amounts in thousands, except per share amounts)

(unaudited)

Summarized financial information related to the Company's reportable business segments for the three months ended February 29, 2012 and February 28, 2011 is shown below:

	Distribution	GBS	Inter-Segment Elimination	Consolidated
Three months ended February 29, 2012				
Revenue	\$2,423,264	\$45,062	\$ (7,632 )	\$2,460,694
Income from operations before non-operating items, income taxes and noncontrolling interest	62,365	1,992	(369 )	63,988
Three months ended February 28, 2011				
Revenue	2,468,614	39,238	(6,918 )	2,500,934
Income from operations before non-operating items, income taxes and noncontrolling interest	47,219	3,634	—	50,853
Total assets as of February 29, 2012	\$2,600,281	\$301,970	\$ (203,087 )	\$2,699,164
Total assets as of November 30, 2011	2,737,600	295,600	(199,905 )	2,833,295

The inter-segment elimination relates to the inter-segment, back office support services provided by the GBS segment to the distribution segment, elimination of inter-segment profit, inter-segment investments and inter-segment receivables.

## Segment by geography

The Company primarily operates in North America. The United States and Canada are included in the "North America" operations. China, India, Japan and the Philippines are included in "Asia-Pacific" operations and Costa Rica, Hungary, Mexico, Nicaragua and the UK are included in "Other" operations. The revenues attributable to countries are based on geography of entities from where the products are distributed or services are provided. Long-lived assets include "Property and equipment, net" and certain "Other assets." Shown below is summarized financial information related to the geographic areas in which the Company operated during the three months ended February 29, 2012 and February 28, 2011:

	Three Months Ended	
	February 29, 2012	February 28, 2011
Revenue		
North America	\$2,109,839	\$2,122,603
Asia-Pacific	337,133	317,476
Other	13,722	60,855
	\$2,460,694	\$2,500,934
As of		
	February 29, 2012	November 30, 2011
Long-lived assets		
North America	\$107,378	\$105,318
Asia-Pacific	33,696	34,974
Other	22,852	22,313
	\$163,926	\$162,605

Revenue in the United States was approximately 71% and 70% of the total revenue for the three months ended February 29, 2012 and February 28, 2011, respectively. Revenue in Canada was approximately 15% of total revenue for both the three months ended February 29, 2012 and February 28, 2011. Revenue in Japan was approximately 13%

and 12% of the total revenue for the three months ended February 29, 2012 and February 28, 2011.  
Long-lived assets in the United States were approximately 54% and 52% of total long-lived assets as of February 29,

Table of Contents

SYNEX CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS---(continued)

For the three months ended February 29, 2012 and February 28, 2011

(currency and share amounts in thousands, except per share amounts)

(unaudited)

2012 and November 30, 2011, respectively. Long-lived assets in Canada were approximately 12% of total long-lived assets as of both February 29, 2012 and November 30, 2011. Long-lived assets in Japan were approximately 10% and 12% of total long-lived assets as of February 29, 2012 and November 30, 2011, respectively.

NOTE 14—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 29, 2012 and November 30, 2011, MiTAC International and its affiliates beneficially owned approximately 27% and 29%, respectively, of the Company’s common stock. In addition, Matthew Miao, the Company’s Chairman Emeritus of the Board of Directors, is 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 the Company and over the outcome of all matters submitted to stockholders for consideration, including any merger or acquisition of the Company. Among other things, this could have the effect of delaying, deterring or preventing a change of control over the Company.

Until July 31, 2010, the Company worked with MiTAC International on OEM outsourcing and jointly marketed MiTAC International’s design and electronic manufacturing services and its contract assembly capabilities. This relationship enabled the Company to build relationships with MiTAC International’s customers. On July 31, 2010, MiTAC International purchased certain assets related to the Company’s contract assembly business, including inventory and customer contracts, primarily related to customers then being jointly serviced by MiTAC International and the Company. As part of this transaction, the Company provided MiTAC International certain transition services for the business for a monthly fee over a period of twelve months. The sales agreement also included earn-out and profit sharing provisions, which were based on operating performance metrics achieved over twelve to eighteen months from the closing date for the defined customers included in this transaction. During the three months ended February 29, 2012 and February 28, 2011, the Company recorded \$945 and \$1,510, respectively, for service fees earned and reimbursements for facilities and overhead costs.

The Company purchased inventories from MiTAC International and its affiliates totaling \$241 and \$1,387 during the three months ended February 29, 2012 and February 28, 2011, respectively. The Company’s sales to MiTAC International and its affiliates during the three months ended February 29, 2012 and February 28, 2011, totaled \$1,134 and \$286, respectively.

The Company’s business 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.

During the period of time that the Company worked with MiTAC International, the Company negotiated 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 its arrangements with MiTAC International, including pricing, will 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, Matthew Miao’s compensation is approved by the Nominating and Corporate Governance Committee, which is also composed solely of independent directors.

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 27% of the Company’s common stock as of February 29, 2012. These shares are owned by the following entities:

	As of February 29,
MiTAC International <sup>(1)</sup>	2012
Synnex Technology International Corp. <sup>(2)</sup>	5,908
Total	4,283
	10,191

---

Shares are held via Silver Star Developments Ltd., a wholly-owned subsidiary of MiTAC International. Excludes (1)589 shares (of which 379 shares are directly held and 210 shares are subject to exercisable options) held by Matthew Miao.

Table of Contents

## SYNEX CORPORATION

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS---(continued)

For the three months ended February 29, 2012 and February 28, 2011

(currency and share amounts in thousands, except per share amounts)

(unaudited)

Synnex Technology International Corp. ("Synnex Technology International") is a separate entity from the Company 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 noncontrolling interest of 8.7% in MiTAC Incorporated, a privately-held Taiwanese company, which in turn holds a noncontrolling interest of 13.9% in Synnex Technology International. Neither MiTAC International nor Mr. Miao is affiliated with any person(s), entity, or entities that hold a majority interest in MiTAC Incorporated.

The Company owns shares of MiTAC International and one of its affiliates related to the deferred compensation plan of Robert Huang, the Company's founder and former Chairman. As of February 29, 2012, the value of the investment was \$920. 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.

**Others**

On August 31, 2010, the Company acquired a 33.3% noncontrolling interest in SB Pacific. The Company is not the primary beneficiary in SB Pacific. The controlling shareholder of SB Pacific is Robert Huang, who is the Company's founder and former Chairman. The Company's 33.3% investment in SB Pacific is accounted for as an equity-method investment and is included in "Other assets." The balances of the investment as of February 29, 2012 and November 30, 2011 were \$6,189 and \$5,950, respectively. The Company regards SB Pacific to be a variable interest entity and as of February 29, 2012, its maximum exposure to loss was limited to its investment of \$6,189. As of February 29, 2012, SB Pacific owned a 30.0% noncontrolling interest in Infotec Japan.

On April 1, 2012, the Company reduced its ownership in SB Pacific from 33.3% to 19.7%.

**NOTE 15—PENSION AND EMPLOYEE BENEFITS PLANS:**

The employees of SYNEX Infotec Corporation ("Infotec Japan") are covered by certain defined benefit pension plans, including a multi-employer pension plan. Full-time employees are eligible to participate in the plans on the first day of February following their date of hire and are not required to contribute to the plans.

The components of net periodic pension costs during the three months ended February 29, 2012 and February 28, 2011 were as follows:

	Three Months Ended	
	February 29, 2012	February 28, 2011
Service cost	\$177	\$171
Interest cost	46	44
Expected return on plan assets	(28	) (26
Net periodic pension costs	\$195	\$189

During the three months ended February 29, 2012, the Company contributed \$198 to the plan.

**NOTE 16—EQUITY:****Share Repurchase Program**

In June 2011, the Board of Directors authorized a three-year \$65,000 share repurchase program. As of November 30, 2011, the Company has purchased 62 shares for an aggregate cost of \$1,676, under the program. The share purchases were made on the open market and the shares repurchased by the Company are held in treasury for general corporate purposes. No additional purchases were made during the three months ended February 29, 2012.





Table of Contents

## SYNEX CORPORATION

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS---(continued)

For the three months ended February 29, 2012 and February 28, 2011

(currency and share amounts in thousands, except per share amounts)

(unaudited)

## Changes in Equity

A reconciliation of the changes in equity for the three months ended February 29, 2012 and February 28, 2011 is presented below:

	Three Months Ended February 29, 2012			Three Months Ended February 28, 2011		
	Attributable to SYNEX Corporation	Attributable to Noncontrolling interest	Total Equity	Attributable to SYNEX Corporation	Attributable to Noncontrolling interest	Total Equity
Beginning balance of equity:	\$ 1,158,379	\$ 10,079	\$ 1,168,458	\$ 992,670	\$ 157	\$ 992,827
Proceeds from the issuance of common stock on exercise of options	5,873	—	5,873	1,939	—	1,939
Proceeds from the issuance of common stock for employee stock purchase plan	333	—	333	262	—	262
Tax benefit from exercise of non-qualified stock options	2,043	—	2,043	1,737	—	1,737
Taxes paid for the settlement of equity awards	(95 )	—	(95 )	(2,946 )	—	(2,946 )
Share-based compensation	2,009	—	2,009	1,941	—	1,941
Capital contribution by noncontrolling interest	—	—	—	—	8,988	8,988
Comprehensive income:						
Net income	38,223	931	39,154	29,721	(50 )	29,671
Other comprehensive income (loss):						
Changes in unrealized gain (loss) on available-for-sale securities	15	72	87	72	—	72
Net unrealized components of defined benefit pension plans	64	(64 )	—	—	—	—
	6,266	(465 )	5,801	10,872	—	10,872

Foreign currency translation adjustment						
Total other comprehensive income	6,345	(457	) 5,888	10,944	—	10,944
(loss)						
Total comprehensive income	44,568	474	45,042	40,665	(50	) 40,615
Ending balance of equity:	\$1,213,110	\$ 10,553	\$ 1,223,663	\$1,036,268	\$ 9,095	\$ 1,045,363

## NOTE 17—COMMITMENTS AND CONTINGENCIES:

The Company was contingently liable as of February 29, 2012 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

Table of Contents

SYNEX CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS---(continued)

For the three months ended February 29, 2012 and February 28, 2011

(currency and share amounts in thousands, except per share amounts)

(unaudited)

arrangements are described in Note 9—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 29, 2012 under these agreements and the Company is not aware of any pending customer defaults or repossession obligations.

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 currently involved in any material preference proceedings.

On December 28, 2009, the Company sold China Civilink (Cayman), which operated in China as HiChina Web Solutions, to Alibaba.com Limited. In conjunction with this sale, the Company has recorded a contingent indemnification liability of \$4,122.

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

NOTE 18—SUBSEQUENT EVENTS:

On April 1, 2012, the Company purchased additional shares of Infotec Japan from SB Pacific. As a result, the Company's direct ownership in Infotec Japan increased from 70.0% to 81.0% and its total direct and indirect ownership interest increased from 80.0% to 84.7%.

Table of Contents

ITEM 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

The following discussion and analysis of our financial condition and results of operations should be read in conjunction with the Consolidated Financial Statements and related Notes included elsewhere in this Report.

When used in this Quarterly Report on Form 10-Q or the 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, our market strategy, including expansion of our product lines, our infrastructure, anticipated benefits of our acquisitions, impact of MiTAC International Corporation, or MiTAC International, ownership interest in us, our revenue and operating results, our gross margins, competition with Synnex Technology International Corp., our future needs for additional financing, concentration of customers, our international operations, including our operations in Japan, expansion of our operations, our strategic acquisitions of businesses and assets, effects of future expansion of our operations, adequacy of our cash resources to meet our capital needs, cash held by our foreign subsidiaries, our convertible notes, including the settlement of our convertible notes, adequacy of our disclosure controls and procedures, pricing pressures, competition, impact of our accounting policies, our anti-dilution share repurchase program, and statements regarding our securitization programs and revolving credit lines. 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, as well as the seasonality of the buying patterns of our customers, concentration of sales to large customers, dependence upon and trends in capital spending budgets in the IT and consumer electronics, or CE, industries, fluctuations in general economic conditions and risks set forth 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, servicing resellers, retailers and original equipment manufacturers, or OEMs, in multiple regions around the world. Our primary business process services are wholesale distribution and business process outsourcing, or BPO. We operate in two segments: distribution services and global business services, or GBS. Our distribution services segment provides value-added services and distributes information technology, or IT, systems, peripherals, system components, software, networking equipment, CE, and complementary products. We also provide contract assembly services within our distribution segment. Our GBS segment offers a range of BPO services to customers that include technical support, renewals management, lead management, direct sales, customer service, back office processing and information technology outsourcing, or ITO. Many of these services are delivered and supported on the proprietary software platforms we have developed to provide additional value to our customers.

We combine our core strengths in distribution with our BPO services to help our customers achieve greater efficiencies in time to market, cost minimization, real-time linkages in the supply chain and after-market product support. We distribute more than 25,000 technology products (as measured by SKUs) from more than 200 IT and CE OEM suppliers to more than 20,000 resellers, system integrators, and retailers throughout the United States, Canada, Japan and Mexico. As of February 29, 2012, we had over 10,000 full-time and temporary employees worldwide. From a geographic perspective, approximately 86% and 85% of our total revenue was from North America for the three months ended February 29, 2012 and February 28, 2011, respectively.

In our distribution segment, we purchase IT systems, peripherals, system components, software, networking equipment,

Table of Contents

CE and complementary products from our primary suppliers such as Hewlett-Packard Company, or HP, Microsoft, Panasonic, Lenovo and Seagate and sell them to our reseller and retail customers. We perform a similar function for our distribution of licensed software products. Our reseller customers include value-added resellers, or VARs, corporate resellers, government resellers, system integrators, direct marketers, and national and regional retailers. In our broadline distribution business, we add value-added service offerings in key vertical markets such as government and healthcare and we have specialized service offerings increasing efficiencies in areas like print management, renewals, networking and other services. In our GBS segment, our customers are primarily manufacturers of IT hardware and CE devices, developers of software, cloud service providers, and broadcast and social media.

**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 29, 2012 from our disclosure in our Annual Report on Form 10-K for the year ended November 30, 2011. For more information on our critical accounting policies, please see the discussion in our Annual Report on Form 10-K for the fiscal year ended November 30, 2011.

**Recent Acquisitions and Divestitures**

We seek to augment our services offering expansion with strategic acquisitions of businesses and assets that complement and expand our global BPO capabilities. We also divest businesses that we deem no longer strategic to our ongoing operations. Our historical acquisitions have brought us new reseller and retail customers, OEM suppliers, and product lines, have extended the geographic reach of our operations, particularly in targeted markets, and have 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.

**Acquisitions during the fiscal year 2011**

During the first quarter of fiscal year 2011, we acquired 70.0% of the capital stock of Marubeni Infotec Corporation, a subsidiary of Marubeni Corporation. SB Pacific Corporation Limited, or SB Pacific, our equity-method investee, acquired the remaining 30.0% noncontrolling interest. Our total direct and indirect ownership of Marubeni Infotec Corporation is 80.0%. Marubeni Infotec Corporation, now known as SYNEX Infotec Corporation, or Infotec Japan, is a distributor of IT equipment, electronic components and software in Japan. On April 1, 2012, we purchased additional shares of Infotec Japan from SB Pacific. As a result, our direct ownership interest in Infotec Japan increased from 70.0% to 81.0% and our total direct and indirect ownership interest increased from 80.0% to 84.7%.

The aggregate consideration for the transaction was JPY700.0 million or approximately \$8.4 million, of which our direct share was \$5.9 million. During the three months ended February 29, 2012, we reached an agreement with the sellers to reduce the purchase price by JPY125.2 million. The purchase price as adjusted is JPY574.8 million or approximately \$6.9 million. The total net tangible liabilities in excess of net tangible assets acquired were \$19.2 million. We recorded \$26.1 million in goodwill and intangibles. This acquisition is in the distribution segment and enabled our expansion into Japan.

Infotec Japan has arrangements with various banks and financial institutions for the sale and financing of approved accounts receivable and notes receivable. The amounts outstanding under these arrangements that were sold, but not yet collected as of February 29, 2012 and November 30, 2011 were \$11.5 million and \$11.0 million, respectively. During fiscal year 2011, we acquired certain businesses of e4e, Inc., or e4e, 100% of the stock of the global email company limited, or gem, and certain assets of VisionMAX Solutions Inc., or VisionMAX, for an aggregate purchase price of \$44.2 million, with \$1.0 million payable upon the completion of certain post-closing conditions. The acquisitions were integrated into our GBS segment and brought additional BPO scale, complemented our service offerings in social media and cloud computing and expanded our customer base and geographic presence. The net tangible assets acquired were \$10.2 million and we recorded \$34.0 million in goodwill and intangibles. We expect to finalize the purchase price allocation on our recent acquisitions upon completion of valuation procedures. With the exception of Infotec Japan, 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 accounting guidance for business combinations utilizing the purchase method of accounting.



Table of Contents

## Results of Operations

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

Statements of Operations Data:	Three Months Ended			
	February 29, 2012		February 28, 2011	
Revenue	100.00	%	100.00	%
Cost of revenue	(93.12	)	(94.25	)
Gross profit	6.88		5.75	
Selling, general and administrative expenses	(4.28	)	(3.72	)
Income from operations before non-operating items, income taxes and noncontrolling interest	2.60		2.03	
Interest expense and finance charges, net	(0.25	)	(0.24	)
Other income, net	0.09		0.04	
Income from operations before income taxes and noncontrolling interest	2.44		1.83	
Provision for income taxes	(0.85	)	(0.64	)
Net income	1.59		1.19	
Net income attributable to noncontrolling interest	(0.04	)	0.00	
Net income attributable to SYNEX Corporation	1.55	%	1.19	%

Three Months Ended February 29, 2012 and February 28, 2011

Revenue	Three Months Ended			Percent Change
	February 29, 2012	February 28, 2011		
	(in thousands)			
Revenue	\$2,460,694	\$2,500,934	(1.6	)%
Distribution Revenue	2,423,264	2,468,614	(1.8	)%
GBS Revenue	45,062	39,238	14.8	%
Inter-Segment Elimination	(7,632	) (6,918	) 10.3	%

In our distribution business, we sell in excess of 25,000 technology products (as measured by active SKUs) from more than 200 IT, CE and OEM suppliers to more than 20,000 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 BPO services such as post-sales technical support, demand generation, renewals management, back office support, ITO, product marketing, pre-sales support and print and fulfillment. The inter-segment elimination relates to the inter-segment, back office support services provided by our GBS segment to our distribution segment. Third-party GBS revenue can be derived by netting the inter-segment eliminations into GBS revenue. The GBS programs and customer service requirements change frequently from one period to the next and are often not comparable.

During the three months ended February 29, 2012, our revenue in the distribution segment decreased compared to the three months ended February 28, 2011 primarily due to the effects of transitioning a certain customer contract from a traditional full service distribution relationship that had existed, to a fee-for-service basis starting in the fourth quarter of fiscal year 2011. The impact of this change resulted in approximately \$150.0 million lower revenue recorded during the three months ended February 29, 2012. In comparison to the three months ended February 28, 2011, our sales of systems and system components increased by 7% and 6%, respectively, our sales of peripherals, networking and software decreased by 10%, 11% and 6%, respectively. The change in the customer contract to fee-for-service basis resulted in lower revenue recorded in all product categories and was the primary cause for the decrease in revenue recorded for software and networking sales. The demand environment in North America for IT products was stable during the first quarter of 2012.

In our GBS segment, the increase in revenue in the three months ended February 29, 2012 from the three months ended February 28, 2011 was primarily due to revenue generated from businesses acquired in the fourth quarter of fiscal year 2011.





Table of Contents

## Gross Profit

	Three Months Ended			
	February 29, 2012	February 28, 2011	Percent Change	
	(in thousands)			
Gross Profit	\$ 169,272	\$ 143,796	17.7	%
Percentage of Revenue	6.88	% 5.75	%	

Our gross profit is affected by a variety of factors, including competition, average selling prices, the variety of products and services we sell, our customers, our sources of revenue by segments, rebate and discount programs from our suppliers, freight costs, charges for inventory losses, acquisitions and divestitures of business units, fluctuations in revenue, and our mix of business including our GBS services.

Our gross profit as a percentage of revenue in the three months ended February 29, 2012 increased by 113 basis points over the three months ended February 28, 2011. Our margins benefited from the transitioning a certain distribution customer's revenue to a fee-for-service basis beginning in the fourth quarter of fiscal year 2011. In addition, our gross margin was favorably impacted by the continuing supply-demand constraints of certain products and changes in our product mix.

## Selling, General and Administrative Expenses

	Three Months Ended			
	February 29, 2012	February 28, 2011	Percent Change	
	(in thousands)			
Selling, General and Administrative Expenses	\$ 105,284	\$ 92,943	13.3	%
Percentage of Revenue	4.28	% 3.72	%	

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 costs. 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 our OEM suppliers.

The increase in selling, general and administrative expenses in the three months ended February 29, 2012 from the three months ended February 28, 2011 was primarily due to an increase in personnel costs of approximately \$4.8 million to support the organic growth in our business and an increase in operating expenses of approximately \$3.5 million for our fiscal year 2011 fourth quarter acquisitions. In addition, our allowance for doubtful accounts was higher by approximately \$1.0 million, the impact of fluctuation in foreign exchange rates was approximately \$0.7 million and the increase in deferred compensation was \$0.7 million.

## Income from Operations before Non-Operating Items, Income Taxes and Noncontrolling Interests

	Three Months Ended			
	February 29, 2012	February 28, 2011	Percent Change	
	(in thousands)			
Income from operations before non-operating items, income taxes and noncontrolling interest	\$ 63,988	\$ 50,853	25.8	%
Percentage of Total Revenue	2.60	% 2.03	%	
Distribution income from operations before non-operating items, income taxes and noncontrolling interest	62,365	47,219	32.1	%
Percentage of Distribution Revenue	2.57	% 1.91	%	
GBS income from operations before non-operating items, income taxes and noncontrolling interest	1,992	3,634	-45.2	%

Edgar Filing: SYNEX CORP - Form 10-Q

Percentage of GBS Revenue	4.42	%	9.26	%
Inter-segment eliminations	(369)		—	

Our income from operations before non-operating items, income taxes and noncontrolling interest as a percentage of revenue increased to 2.60% in the three months ended February 29, 2012 from 2.03% in the three months ended February 28,

30

---

Table of Contents

2011, primarily as a result of transitioning certain distribution customer revenue to a fee-for-service basis beginning from the fourth quarter of fiscal year 2011 and due to changes in our product mix. The benefits from our higher gross margins were partially offset by higher selling, general and administrative expenses.

Our distribution segment income from operations before non-operating items, income taxes and noncontrolling interest as a percentage of distribution revenue improved by 66 basis points to 2.57% during the three months ended February 29, 2012 as compared with 1.91% in the three months ended February 28, 2011. The improvement in our margins was mainly driven by the impact of transitioning a certain customer's revenue to a fee-for-service basis in the fourth quarter of fiscal year 2011, the continuing supply-demand constraints of certain products and by changes in our product mix. These increases were offset by higher selling, general and administrative expenses.

Our GBS segment income from operations before non-operating items, income taxes and noncontrolling interest as a percentage of GBS revenue decreased by 484 basis points to 4.42% during the three months ended February 29, 2012 as compared to 9.26% in three months ended February 28, 2011. This decrease in our margins was due to higher operating costs pertaining to our recent acquisitions and increase in selling, general and administrative expenses due to continued investments in growth including investments in our sales organization.

**Interest Expense and Finance Charges, Net**

	Three Months Ended			
	February 29, 2012	February 28, 2011	Percent Change	
	(in thousands)			
Interest expense and finance charges, net	\$6,035	\$6,169	-2.2	%
Percentage of revenue	0.25	% 0.24	%	

Amounts recorded in interest expense and finance charges, net, consist primarily of interest expense paid on our lines of credit and other debt, fees associated with third party accounts receivable flooring arrangements, non-cash interest expense on our convertible debt 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 multi-year contracts in our Mexico operation.

The decrease in interest expense and finance charges, net, during the three months ended February 29, 2012 was due to higher interest income from our Mexico contracts compared to the three months ended February 28, 2011.

**Other Income, Net**

	Three Months Ended			
	February 29, 2012	February 28, 2011	Percent Change	
	(in thousands)			
Other income, net	\$2,099	\$965	117.5	%
Percentage of revenue	0.09	% 0.04	%	

Amounts recorded as other income, 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 increase in other income, net during the three months ended February 29, 2012 from the three months ended February 28, 2011 was primarily due to higher foreign exchange gains of approximately \$0.6 million, higher gains from our deferred compensation investments of approximately \$0.2 million and higher income of \$0.2 million from our equity method investee.

**Provision for Income Taxes**

Income taxes consist of our current and deferred tax expense resulting from our income earned in domestic and foreign jurisdictions.

Our effective tax rate for the three months ended February 29, 2012 was 34.8% as compared to 35.0% for the three months ended February 28, 2011. Our effective tax rate was impacted by changes in the mix of income in the different tax jurisdictions in which we operate.

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

31

---

## Table of Contents

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.

### Net Income Attributable to Noncontrolling Interests

Net income attributable to noncontrolling interests represents the share of net income attributable to others, which is recognized for the portion of subsidiaries' equity not owned by us. The noncontrolling interest primarily represents SB Pacific's 30% ownership of Infotec Japan and has been reflected in the results of our distribution segment.

## Liquidity and Capital Resources

### Cash Flows

Our business is working capital intensive. Our working capital needs are primarily to finance accounts receivable and inventory. We rely heavily on debt, accounts receivable arrangements, our securitization programs and our revolver programs for our working capital needs.

We have financed our growth and cash needs to date primarily through working capital financing facilities, convertible debt, bank credit lines and cash generated from operations.

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. These investments or acquisitions would likely be funded primarily by additional borrowings or issuing common stock or debt securities.

Net cash provided by operating activities was \$74.2 million for the three months ended February 29, 2012, primarily due to the changes in our working capital, following our seasonally high fourth quarter of fiscal year 2011, and our net income of \$39.2 million. The changes in our working capital included \$113.9 million lower accounts receivable and \$22.2 million lower inventory balances, offset by \$95.3 million lower accounts payable. Net cash provided by operating activities for the three months ended February 28, 2011 was \$59.4 million primarily due to \$158.0 million lower accounts receivable, \$43.8 million lower inventory and our net income of \$29.7 million, offset by \$161.2 million lower accounts payable.

Net cash provided by investing activities for the three months ended February 29, 2012 was \$7.1 million, which was primarily due to the \$10.7 million decrease in our restricted cash. The changes in our restricted cash are caused by the timing of lockbox collections under our borrowing arrangements. Our capital expenditure during the period was \$4.6 million, which was used for the investment in equipment and infrastructure. Net cash used in investing activities in the three months ended February 28, 2011 was \$72.5 million which included \$38.3 million used for our acquisition of Encover, Inc. and e4e, Inc. in our GBS segment and \$4.5 million used for the acquisition of Infotec Japan, net of cash acquired in our distribution segment. Our capital expenditures during the quarter were \$8.6 million, which included a \$2.4 million deposit for a warehouse and logistics facility in the United States, the purchase of which was completed in the fourth quarter of fiscal year 2011, and \$1.3 million invested in property in Costa Rica. In addition, we invested \$3.7 million in SB Pacific, our equity-method investee.

Net cash used in financing activities for the three months ended February 29, 2012 was \$79.6 million, consisting primarily of \$78.0 million net payments on our securitization arrangements, revolving lines of credit, and our term loans. The book overdraft was higher by \$9.5 million, due to timing of payments. Proceeds from the exercise of employee stock options was \$5.7 million during the period. Net cash provided by financing activities for the three months ended February 28, 2011 was \$27.4 million, consisting primarily of \$7.9 million net receipts from our securitization arrangements, our revolving lines of credit and the debt refinancing of Infotec Japan with a new credit facility. The book overdraft was lower by \$12.8 million, due to timing of payments. In addition, the capital contribution by noncontrolling interests in Infotec Japan was \$6.5 million and financing from the exercise of employee stock options was \$2.2 million during the quarter, offset by taxes paid for net share settlement of equity awards of \$2.9 million.

We have also issued guarantees to certain vendors and lenders of our subsidiaries for trade credit lines and loans, totaling \$233.8 million as of February 29, 2012 and \$238.7 million as of November 30, 2011. We are obligated under

these guarantees to pay amounts due should our subsidiaries not pay valid amounts owed to their vendors or lenders.  
Capital Resources  
Our cash and cash equivalents totaled \$68.8 million and \$67.6 million as of February 29, 2012 and November 30, 2011,

32

---

Table of Contents

respectively. Of our total cash and cash equivalents the cash held by our foreign subsidiaries was \$64.5 million and \$59.5 million as of February 29, 2012 and November 30, 2011, respectively. Repatriation of the cash held by our foreign subsidiaries would be subject to United States federal income taxes. Also, repatriation of some foreign balances is restricted by local laws. However, we have historically fully utilized and reinvested all foreign cash to fund our foreign operations and expansion. If in the future, our intentions change and we repatriate the cash back to the United States, we will report the expected impact of the applicable taxes depending upon the planned timing and manner of such repatriation. Presently, the Company believes it has sufficient resources, cash flow and liquidity within the United States to fund current and expected future working capital requirements.

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.

In May 2008, we issued \$143.8 million of aggregate principal amount of our 4.0% Convertible Senior Notes due 2018, or the Convertible Senior Notes, in a private placement. However, under certain circumstances we may redeem the Convertible Senior 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 plus any accrued and unpaid interest. In addition, if certain triggering events are met, the Convertible Senior Notes can be converted into shares of common stock at any time before their maturity. Because we currently intend to settle the Convertible Senior Notes using cash at some future date, we maintain within our Amended and Restated U.S. Arrangement, the Amended and Restated Revolver and the U.S. unsecured revolving line of credit ongoing features that allow us to utilize cash from these facilities to cash settle the Convertible Senior Notes. (See On-Balance Sheet Arrangements below). These borrowing arrangements are renewable on their expiration dates. We have no reason to believe that these arrangements will not be renewed as we continue to be in good credit standing with the participating financial institutions. We have had similar borrowing arrangements with various financial institutions throughout our years as a public company. We also retain the ability to issue equity securities and utilize the proceeds to cash-settle the Convertible Senior Notes. See Note 11— Convertible Debt.

On-Balance Sheet Arrangements

We primarily finance our United States operations with an accounts receivable securitization program, or the U.S. Arrangement. In November 2010, we amended and restated the U.S. Arrangement, or the Amended and Restated U.S. Arrangement, replacing the lenders and the lead agent. We can now pledge up to a maximum of \$400.0 million in United States trade accounts receivable, or the U.S. Receivables, as compared to a maximum of \$350.0 million under the previous U.S. Arrangement. The maturity date of the Amended and Restated U.S. Arrangement is November 12, 2013. The effective borrowing cost under the Amended and Restated U.S. Arrangement is a blend of the prevailing dealer commercial paper rates plus a program fee of 0.60% per annum based on the used portion of the commitment, and a facility fee of 0.60% per annum payable on the aggregate commitment of the lenders. Prior to the amendment, the effective borrowing cost was a blend of the prevailing dealer commercial paper rates, plus a program fee of 0.65% per annum based on the used portion of the commitment and a facility fee of 0.65% per annum payable on the aggregate commitment. The balances outstanding under the Amended and Restated U.S. Arrangement as of February 29, 2012 and November 30, 2011 were \$5.4 million and \$64.5 million, respectively.

Under the terms of the Amended and Restated U.S. 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 Amended and Restated U.S. 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 an increase in our cost of borrowing 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.

We have a senior secured revolving line of credit arrangement, or the Revolver, with a financial institution. In November 2010, we amended and restated the Revolver, or the Amended and Restated Revolver, to remove one of the lenders and increase the maximum commitment of the remaining lender from \$80.0 million to \$100.0 million. The



Amended and Restated Revolver retains an accordion feature to increase the maximum commitment by an additional \$50.0 million to \$150.0 million at our request, in the event the current lender consents to such increase or another lender participates in the Amended and Restated Revolver. Interest on borrowings under the Amended and Restated Revolver is based on a base rate or London Interbank Offered Rate, or LIBOR, at our option. The margin on the LIBOR is determined in accordance with our fixed charge coverage ratio under the Amended and Restated Revolver and is currently 2.25%. Our base rate is determined based on the higher of (i) the financial institution's prime rate, (ii) the overnight federal funds rate plus 0.50% or (iii) one month LIBOR plus 1.00%. An unused line fee of 0.50% per annum is payable if the outstanding principal amount of the Amended and

Table of Contents

Restated Revolver is less than half of the lenders' commitments; however, that fee is reduced to 0.35% if the outstanding principal amount of the Amended and Restated Revolver is greater than half of the lenders' commitments. The Amended and Restated Revolver is secured by our inventory and other assets and expires in November 2013. It would be an event of default under the Amended and Restated Revolver if (1) a lender under the Amended and Restated U.S. Arrangement declines to extend the maturity date at any point within sixty days prior to the maturity date of the Amended and Restated U.S. 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 Amended and Restated U.S. Arrangement or (2) at least twenty days prior to the maturity date of the Amended and Restated U.S. Arrangement, we do not have in place a binding commitment to renew or replace the Amended and Restated U.S. Arrangement on substantially similar terms and conditions, unless we have no amounts outstanding under the Amended and Restated Revolver at such time. There were no borrowings outstanding as of both February 29, 2012 and November 30, 2011. In February 2011, we entered into an arrangement with a financial institution to provide an unsecured revolving line of credit for general corporate purposes. The maximum commitment under the arrangement is \$25.0 million. The arrangement includes an unused line fee of 0.50% per annum. Interest on borrowings under the line of credit is determined by either a base rate or the LIBOR, at our option. The margin on the LIBOR is 2.00%. Our base rate is the financial institution's prime rate minus 0.25%. The agreement expires in February 2014. As of both February 29, 2012 and November 30, 2011 there were no borrowings outstanding under this arrangement.

SYNEX Canada, has a revolving line of credit arrangement with a financial institution for a maximum commitment of C\$125.0 million, or the Canadian Revolving Arrangement. The Canadian Revolving Arrangement also provides a sublimit of \$5.0 million for the issuance of standby letters of credit. As of February 29, 2012, outstanding standby letters of credit totaled \$3.5 million. SYNEX Canada has granted a security interest in substantially all of its assets in favor of the lender under the Canadian Revolving Arrangement. In addition, we pledged our stock in SYNEX Canada as collateral for the Canadian Revolving Arrangement. The Canadian Revolving Arrangement expires in May 2012. The interest rate applicable is equal to (i) a minimum rate of 2.50% plus a margin of 1.25% for a Base Rate Loan in Canadian Dollars, (ii) a minimum rate of 3.25% plus a margin of 2.50% for a Base Rate Loan in U.S. Dollars, and (iii) a minimum rate of 1.00% plus a margin of 2.75% for a BA (Bankers Acceptance) Rate Loan. A fee of 0.375% per annum is payable with respect to the unused portion of the commitment. The balances outstanding under our Canadian Revolving Arrangement as of February 29, 2012 and November 30, 2011 were \$9.9 million and \$27.3 million, respectively.

SYNEX Canada has a term loan associated with the purchase of its logistics facility in Guelph, Canada. The interest rate for the unpaid principal amount is a fixed rate of 5.374% per annum. The final maturity date for repayment of the unpaid principal is April 1, 2017. The balance outstanding on the term loan as of February 29, 2012 and November 30, 2011 was \$9.2 million and \$9.1 million, respectively.

Infotec Japan has a credit agreement with a group of financial institutions for a maximum commitment of JPY10.0 billion. The credit agreement is comprised of a JPY6.0 billion long-term loan and a JPY4.0 billion short-term revolving credit facility. The interest rate for the long-term and short-term loans is based on the Tokyo Interbank Offered Rate, or TIBOR, plus a margin of 2.25% per annum. The credit facility expires in November 2013. The long-term loan can be repaid at any time prior to maturity without penalty. We have issued a guarantee of JPY7.0 billion under this credit facility. As of February 29, 2012, the balance outstanding under the term loan was \$73.9 million and the revolving credit facility was \$49.3 million.

Infotec Japan has term loans from financial institutions with an aggregate amount outstanding of \$14.0 million and \$15.1 million as of February 29, 2012 and November 30, 2011, respectively. This includes a one-year revolving credit facility of JPY1.0 billion, which expires in February 2013 and bears an interest rate that is based on TIBOR plus a margin of 1.75%, and a term loan of JPY140.0 million, which expires in December 2012 and bears a fixed interest rate of 1.50%. In addition, as of February 29, 2012 and November 30, 2011, there was \$0.2 million and \$0.5 million, respectively, outstanding under arrangements with various banks and financial institutions for the sale and financing of approved accounts receivable and notes receivable with recourse provisions to Infotec Japan.

As of February 29, 2012 and November 30, 2011, we had capital lease obligations of \$1.4 million and \$1.5 million, respectively, primarily pertaining to Infotec Japan.

Covenants Compliance

In relation to our Amended and Restated U.S. Arrangement, the Amended and Restated Revolver, the Infotec Japan credit facility, the Canadian Revolving Arrangement and the U.S. unsecured revolving line of credit, we have a number of covenants and restrictions that, among other things, require us to comply with certain financial and other covenants. These covenants require us to maintain specified financial ratios and satisfy certain financial condition tests, including minimum net worth and fixed charge coverage ratios. They also limit our ability to incur additional debt, make or forgive intercompany loans, pay dividends and make other types of distributions, make certain acquisitions, repurchase our stock, create liens,

Table of Contents

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 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 29, 2012, we were in compliance with all material covenants for the above arrangements.

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 Convertible Senior Notes, in a private placement. The Convertible Senior Notes have a cash coupon interest rate of 4.0% per annum. Interest on the Convertible Senior Notes is payable in cash semi-annually in arrears on May 15 and November 15 of each year and commenced on 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 Convertible Senior 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 Convertible Senior Notes. During any interest period when contingent interest is payable, the contingent interest payable per Convertible Senior Note is equal to 0.55% of the average trading price of the Convertible Senior Notes during the ten trading days immediately preceding the first day of the applicable six-month interest period. The Convertible Senior Notes mature on May 15, 2018, subject to earlier redemption, repurchase or conversion.

Holder may convert their Convertible Senior Notes at their option at any time prior to the close of business on the business day immediately preceding the maturity date for such Convertible Senior 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 twenty trading days in the period of thirty 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 Convertible Senior 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 Convertible Senior 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 Convertible Senior Notes on each such day; (3) if we have called the particular Convertible Senior 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. These contingencies were not triggered as of February 29, 2012. In addition, holders may also convert their Convertible Senior 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 Convertible Senior 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 Convertible Senior Notes is 33.9945 shares of common stock per \$1,000 principal amount of Convertible Senior Notes, equivalent to an initial conversion price of \$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 enter into convertible hedge arrangements to hedge the in-the-money feature of the Convertible Senior Notes to counter the potential share dilution.

We may not redeem the Convertible Senior Notes prior to May 20, 2013. We may redeem the Convertible Senior 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 Convertible Senior Notes to be redeemed, plus any accrued and unpaid interest (including any additional interest and any contingent interest) up to, but excluding, the redemption date.

Holder may require us to repurchase all or a portion of their Convertible Senior Notes for cash on May 15, 2013 at a purchase price equal to 100% of the principal amount of the Convertible Senior Notes to be repurchased, plus any accrued and unpaid interest up 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 Convertible Senior Notes for cash at a price equal to 100% of the principal amount of the Convertible Senior Notes to be purchased, plus any accrued and unpaid interest up to (including any additional interest and any contingent

interest), but excluding, the fundamental change repurchase date.

The Convertible Senior Notes are senior unsecured obligations and rank equally in right of payment with other senior unsecured debt and rank senior to subordinated debt, if any. The Convertible Senior Notes effectively rank junior to any of our secured indebtedness to the extent of the assets securing such indebtedness. The Convertible Senior 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 Convertible Senior Notes were used for general corporate purposes and to reduce outstanding balances under the U.S. Arrangement and the Revolver. The Convertible Senior Notes are governed by an indenture, dated as of May 12, 2008, between U.S. Bank National

Table of Contents

Association, as trustee, and us, which contains customary events of default.

The Convertible Senior Notes as hybrid instruments are accounted as convertible debt and are recorded at carrying value. The right of the holders of the Convertible Senior Notes to require us to repurchase the Convertible Senior Notes in the event of a fundamental change and the contingent interest feature would require separate measurement from the Convertible Senior Notes; however, the amount is insignificant. The additional shares issuable following certain corporate transactions do not require bifurcation and separate measurement from the Convertible Senior Notes. In accordance with the provisions of the standards for accounting for convertible debt, we recognized both a liability and an equity component of the Convertible Senior Notes in a manner that reflects our non-convertible debt borrowing rate at the date of issuance of 8.0%. The value assigned to the debt component, which is the estimated fair value, as of the issuance date, of a similar note without the conversion feature, was determined to be \$120.3 million. The difference between the Convertible Senior Note cash proceeds and this estimated fair value was estimated to be \$23.4 million and was retroactively recorded as a debt discount and will be amortized to interest expense and finance charges, net over the five-year period to the first put date, utilizing the effective interest method.

As of February 29, 2012, the remaining amortization period is approximately fourteen months assuming the redemption of the Convertible Senior Notes at the first purchase date of May 20, 2013. Based on a cash coupon interest rate of 4.0%, we recorded contractual interest expense of \$1.6 million during both the three months ended February 29, 2012 and February 28, 2011. Based on an effective rate of 8.0%, we recorded non-cash interest expense of \$1.3 million and \$1.2 million during the three months ended February 29, 2012 and February 28, 2011, respectively. As of both February 29, 2012 and November 30, 2011, the carrying value of the equity component of the Convertible Senior Notes, net of allocated issuance costs, was \$22.8 million.

The Convertible Senior Notes contain various features that under certain circumstances could allow the holders to convert the Convertible Senior Notes into shares before their ten-year maturity. Further, the date of settlement of the Convertible Senior Notes is uncertain due to the various features of the Convertible Senior Notes including put and call elements. Because we currently intend to settle the Convertible Senior Notes using cash at some future date, we maintain within our Amended and Restated U.S. Arrangement, Amended and Restated Revolver and U.S. unsecured revolving line of credit ongoing features that allow us to utilize cash from these facilities to cash settle the Convertible Senior Notes, if desired.

#### Related Party Transactions

We have a business relationship with MiTAC International Corporation, or MiTAC International, a publicly-traded company in Taiwan that began in 1992 when it became our primary investor through its affiliates. As of February 29, 2012 and November 30, 2011, MiTAC International and its affiliates beneficially owned approximately 27% and 29%, respectively, of our common stock. In addition, Matthew Miao, our Chairman Emeritus of the Board of Directors, is 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 over the outcome of all matters submitted to stockholders for consideration, including any of our mergers or acquisitions. Among other things, this could have the effect of delaying, deterring or preventing a change of control over us.

Until July 31, 2010, we worked with MiTAC International on OEM outsourcing and jointly marketed MiTAC International's design and electronic manufacturing services and its contract assembly capabilities. This relationship enabled us to build relationships with MiTAC International's customers. On July 31, 2010, MiTAC International purchased certain assets related to our contract assembly business, including inventory and customer contracts, primarily related to customers then being jointly serviced by MiTAC International and us. As part of this transaction, we provided MiTAC International certain transition services for the business for a monthly fee over a period of twelve months. The sales agreement also included earn-out and profit sharing provisions, which were based on operating performance metrics achieved over twelve to eighteen months from the closing date for the defined customers included in this transaction. During the three months ended February 29, 2012 and February 28, 2011, we recorded \$0.9 million and \$1.5 million, respectively, for service fees earned and reimbursements for facilities and overhead costs.

We purchased inventories, from MiTAC International and its affiliates totaling \$0.2 million and \$1.4 million during the three months ended February 29, 2012 and February 28, 2011, respectively. Our sales to MiTAC International and

its affiliates during the three months ended February 29, 2012 and February 28, 2011 totaled \$1.1 million and \$0.3 million, respectively.

Our business 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.

During the period of time that we worked with MiTAC International, we negotiated 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, we believe that the significant terms under our arrangements with MiTAC International, including pricing, will not materially differ from the terms we could have negotiated

Table of Contents

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, Matthew 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 the business and operations may decrease as well.

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

As noted above, MiTAC International and our affiliates in the aggregate beneficially owned approximately 27% of our common stock as of February 29, 2012. These shares are owned by the following entities:

	As of February 29, 2012 (shares in thousands)
MiTAC International <sup>(1)</sup>	5,908
Synnex Technology International Corp. <sup>(2)</sup>	4,283
Total	10,191

Shares are held via Silver Star Developments Ltd., a wholly-owned subsidiary of MiTAC International. Excludes (1) 589 thousand shares (of which 379 thousand shares are directly held and 210 thousand shares are subject to exercisable options) held by Matthew Miao.

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 (2) Synnex Technology International. MiTAC International owns a noncontrolling interest of 8.7% in MiTAC Incorporated, a privately-held Taiwanese company, which in turn holds a noncontrolling interest of 13.9% in Synnex Technology International. Neither MiTAC International nor Mr. Miao is affiliated with any person(s), entity, or entities that hold a majority interest in MiTAC Incorporated.

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.

We own shares of MiTAC International and one of its affiliates related to the deferred compensation plan of Robert Huang, our founder and former Chairman. As of February 29, 2012, the value of the investment was \$0.9 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 our potential competitor. Neither MiTAC International, nor Synnex Technology International is restricted from competing with us.

**Others**

On August 31, 2010, we acquired a 33.3% noncontrolling interest in SB Pacific. We are not the primary beneficiary in SB Pacific. The controlling shareholder of SB Pacific is Robert Huang, who is our founder and former Chairman. Our 33.3% investment in SB Pacific is accounted for as an equity-method investment and is included in other assets. The balances of our investment as of February 29, 2012 and November 30, 2011 were \$6.2 million and \$6.0 million, respectively. We regard SB Pacific to be a variable interest entity and as of February 29, 2012, our maximum exposure to loss was limited to our investment of \$6.2 million. As of February 29, 2012, SB Pacific owned a 30.0% noncontrolling interest in Infotec Japan.

As of April 1, 2012, we reduced our ownership in SB Pacific from 33.3% to 19.7%.

**Recent Accounting Pronouncements**

In May 2011, the Financial Accounting Standards Board, or FASB, issued an accounting update that amends existing guidance regarding fair value measurements and disclosure requirements. The amendments are effective during interim and annual periods beginning after December 15, 2011 and are to be applied prospectively. The accounting update will be applicable to us beginning in the second quarter of fiscal year 2012. We are evaluating the impact of this new accounting update on our consolidated financial statements.



In June 2011, the FASB issued an accounting update that amends the presentation of comprehensive income in the financial statements. The new guidance is effective for fiscal years, and interim periods within those years, beginning after December 15, 2011, with early adoption permitted. The accounting update will be applicable to us beginning in the first quarter of fiscal year 2013. We will update our presentation of comprehensive income to comply with the updated disclosure requirements.

37

---

## Table of Contents

During fiscal year 2012, the following accounting standards are applicable:

In September 2011, the FASB issued an accounting update that gives companies the option to make a qualitative evaluation about the likelihood of goodwill impairment. Companies will be required to perform the two-step impairment test only if it concludes that the fair value of a reporting unit is more likely than not, less than its carrying value. The accounting update is effective for annual and interim goodwill impairment tests performed for fiscal years beginning after December 15, 2011, with early adoption permitted. We will adopt the accounting update for our goodwill impairment test to be performed for the fiscal year ending November 30, 2012.

In September 2011, the FASB issued an accounting update that requires additional qualitative and quantitative disclosures by employers that participate in multi-employer pension plans. The amendments are effective for annual periods for the fiscal years ending after December 15, 2011, with early adoption permitted. We adopted the new disclosure requirements in the fiscal year ending November 30, 2012. The accounting update did not have a material impact on our 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 29, 2012 from our Annual Report on Form 10-K for the year ended November 30, 2011. 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 disclosures. 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.

(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.

## PART II - OTHER INFORMATION

### ITEM 1A. Risk Factors

The following are certain risk factors that could affect our business, financial results and results of operations. These risk factors should be considered in connection with evaluating the forward-looking statements contained in this Quarterly Report on Form 10-Q because these factors could cause the actual results and conditions to differ materially from those projected in the forward-looking statements. Before you invest in our Company, you should know that

making such an investment involves some risks, including the risks described below. The risks that have been highlighted here are not the only ones that we face. If any of the risks actually occur, our business, financial condition or results of operations could be negatively affected. In that case, the trading price of our common stock could decline, and you may lose all or part of your investment.

## Table of Contents

### 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 and CE spending;
- the loss or consolidation of one or more of our significant OEM suppliers or customers;
- market acceptance, product mix, quality, pricing, availability and useful life of our products;
- market acceptance, quality, pricing and availability of our services;
- competitive conditions in our industry;
- pricing, margin and other terms with our OEM suppliers;
- decline in inventory value as a result of product obsolescence and market acceptance;
- variations in our levels of excess inventory and doubtful accounts;
- changes in the terms of OEM supplier-inventory protections, such as price protection and return rights; and
- the impact of the business acquisitions and dispositions 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 and CE 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 and CE products and services 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.

Our future success is highly dependent on our relationships with a small number of OEM suppliers. Sales of HP products and services represented approximately 35% and 33% of our total revenue in the three months ended February 29, 2012 and February 28, 2011, respectively. Our OEM supplier agreements typically are short-term and may be terminated without cause upon short notice. 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 and retail 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. 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 terminated. 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 and retail customers, our business, financial position and operating results could be adversely affected.

## Table of Contents

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 and CE 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 and CE products and services 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 expense 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 expense 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, retail and contract assembly services customers, which could decrease revenue and adversely affect our operating results.

We sell to our reseller, retail 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, retail 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, retail 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 could harm our business, financial position and operating results. The success of our contact center and renewals management business is subject to the terms and conditions of our customer contracts.

We provide contact center support services and renewals management 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. The programs that we put in place for our customer products may not be accepted by the market. In addition, with respect to our contact center business, 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 any penalties for failure to meet performance levels or inability to terminate any unprofitable contracts could have an adverse impact on our operations and financial results. Our renewals management business is subject to dynamic changes in the business model and competition, which in turn could cause our GBS operations to suffer.

The software and hardware renewals management and the customer management operations of our GBS segment represent emerging markets that are vulnerable to numerous changes that could cause a shift in the business and size of the market. For example, if software and hardware customers move to a utility or fee-for-service based business model, this business model change could significantly impact operations or cause a significant shift in the way business is currently conducted. If OEMs place more focus in this area and internalize these operations, then this could also cause a significant reduction in the size of the available market for third party service providers. Similarly, if competitors offer their services at below market margin rates to “buy” business, or use other lines of business to subsidize the renewals management business, then this could cause a significant reduction in the size of the available

market. In addition, if a cloud-based solution or some other technology were introduced, this new technology could cause an adverse shift in the way our renewals management operations are conducted or decrease the size of the available market.

40

---

## Table of Contents

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 and CE 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 often 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 could 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.

Our ability to obtain particular products in the required quantities and to fulfill reseller and retail 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. For example, in fiscal year 2011, we experienced shortage in hard drives from OEM suppliers in Thailand due to floods. 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, retailers or end-users. Accordingly, if we are not able to secure and maintain an adequate supply of products to fulfill our reseller and retail customer orders on a timely basis, our business, financial position and operating results could be adversely affected.

The market for our video game titles and video game hardware is characterized by short product life cycles. Increased competition for limited shelf space, decreased promotional support from resellers or retailers or increased popularity of downloadable or online games could adversely impact our revenue.

The market for video games is characterized by short product life cycles and frequent introductions of new products. The life cycle of a video game generally involves a relatively high level of sales during the first few months after introduction followed by a rapid decline in sales and may result in product obsolescence. Therefore, the markets in which we compete frequently introduce new products. As a result, competition is intense for resellers' and retailers' limited shelf space and promotions. If our vendors' new products are not introduced in a timely manner or do not achieve significant market acceptance, we may not generate sufficient sales or profitability. Further, if we are unable to successfully compete for resellers' or retailers' space and promotional resources, this could negatively impact market acceptance of our products and negatively impact our business and operating results.

In addition to competing with video game manufacturers, we compete with downloadable and online gaming providers and used video game resellers. The popularity of downloadable and online games has increased and continued increases in downloadable and online gaming may result in a reduced level of over-the-counter retail video games sales. In addition, certain of our video game reseller and retail customers sell used video games that are generally priced lower than new video games, which could result in an increase in pricing pressure. If such customers increase their mix of sales of used video games relative to new video games, it could negatively impact our sales of new video games.

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 29, 2012, we had over 1,000 support personnel located in China.



Table of Contents

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 accounting for acquisitions and dispositions;
- issues arising from tax audit or examinations and any related interest or penalties; and
- uncertainty in obtaining tax holiday extensions or expiration or loss of tax holidays in various jurisdictions.

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 could 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 and CE products and services 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 services 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.

We may incur additional costs and consolidate certain redundant expenses in connection with our acquisitions and

Table of Contents

investments, which may have an adverse impact on our operating margins. 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, and may incur expenses in raising the additional funds. 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 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 29, 2012, we had \$300.9 million in outstanding short and long-term borrowings under term loans, convertible senior notes, lines of credit and capital leases, 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 a minimum net worth and a 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, the increase in our effective cost of funds or the cross-default of other credit and securitization arrangements. 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 debt.

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 be certain 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. If our cash flows and capital resources are insufficient to fund our debt service obligations, we may be forced to reduce or



Table of Contents

delay capital expenditures, sell assets or operations, seek additional capital or restructure or refinance our indebtedness. We cannot be certain 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 assets and use the proceeds from the disposition. As such, we may not be able to consummate those dispositions or use any resulting proceeds and, in addition, such 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.

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 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 customers for a significant portion of our sales to them and they 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 customers will not pay on time or at all. The majority of our customers are small and medium sized businesses. Our credit exposure risk may increase due to financial difficulties or liquidity or solvency issues experienced by our customers, resulting in their inability to repay us. The liquidity or solvency issues may increase as a result of an economic downturn or a decrease in IT or CE spending by end-users. If we are unable to collect payments in a timely manner from our customers due to changes in financial or economic conditions, or for other reasons, and we are unable to collect under our credit insurance policies, we may write-off the amount due from the customers. These write-offs may result in more expensive credit insurance and negatively impact our ability to utilize accounts receivable-based financing. These circumstances could negatively impact our cash flow and liquidity position. Further, we are exposed to higher collection risk as we continue to expand internationally, where the payment cycles are generally longer and the credit rating process may not be as robust as in the United States.

In addition, our Mexico operation primarily focuses on various long-term projects with government and other local agencies, which often involve extended payment terms and could expose us to additional collection risks.

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. As of February 29, 2012, we had approximately \$138.7 million in such variable-rate obligations. If interest rates increase, our interest expense would increase, which would 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.



Table of Contents

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, and contact center support. 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 and handling call volume. Sales also may be affected if our reseller and retail 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 and retail 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 and retail customers. Disruption of our website or the Internet in general could impair our order processing or more generally prevent our OEM suppliers and reseller and retail 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 and retail 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 29, 2012 and February 28, 2011, approximately 29% and 30% of our total revenue, respectively, were 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, Indian Rupee 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 and CE industries and their technological and industry 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 and CE industries. We are dependent in large part on our ability to retain the services of our key senior executives and other technological and industry experts and personnel. Except for Kevin Murai, our 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

45

---

Table of Contents

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.

We may experience theft of product from our warehouses, water damage to our properties and other casualty events which could harm our operating results.

From time to time, we have experienced incidents of theft at various facilities, water damages to our properties and other casualty events. These types of incidents may make it more difficult or expensive for us to obtain insurance coverage in the future. Also, the same or similar incidents may occur in the future for which we may not have sufficient insurance coverage or policy limits to be fully compensated for the loss, which may have an adverse effect on our business and financial results. For example, in fiscal year 2010, we experienced a loss of product as a result of a train derailment.

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.

From time to time, we 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, mobile applications, and cloud-based technology and acquired GBS related renewals technology 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 the United States, Canada, China, Costa Rica, India, Japan, Mexico, Nicaragua, the Philippines, and the United Kingdom, 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 the United States, Canada, China, Costa Rica, India, Japan, Mexico, Nicaragua, the Philippines, and the United Kingdom. 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. For example, in March 2011, Japan experienced a 9.0 magnitude earthquake followed by tsunami waves and aftershocks. These events affected the infrastructure in the country, caused power outages and have temporarily disrupted the local and international, supply chains for some vendors. Our facilities in Japan suffered nominal inventory and facility damages. We may experience supply shortages or delays in receiving products from our OEM suppliers or experience other delays in shipping to our customers. If we are unable to fulfill customer orders in a timely manner, this could harm our operating results. We expect our operations in Japan will continue to be affected by the continuing consequences of such natural disasters. In addition, our Philippines operation is at greater risk due to adverse weather conditions, such as typhoons, mudslides and floods. 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 and 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 experienced significant volatility 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. More generally,

## Table of Contents

these geopolitical social and economic conditions could result in increased volatility in the United States and worldwide financial markets and economy. 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. We are predominantly uninsured for losses and interruptions caused by terrorism, acts of war and similar events. These uncertainties make it difficult for us and our customers to accurately plan future business activities. While general economic conditions have recently begun to improve, there is no assurance that this trend will continue or at what rate.

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 which are subject to risks, including:

- political or economic instability;
- changes in governmental regulation;
- changes in import/export duties;
- trade restrictions;
- compliance with the Foreign Corrupt Practices Act, U.K. bribery laws and similar laws;
- 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 operation primarily focuses on various long-term projects with government and other public agencies that 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 expense 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. 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 growth of our future international operations, our business and operating results could suffer.

Our 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 India and 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 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



## Table of Contents

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 fully realize the anticipated benefits of our recent acquisitions.

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

As of February 29, 2012, our executive officers, directors and principal stockholders owned approximately 29% of our common stock and this concentration of ownership could allow them to influence all matters requiring stockholder approval and could delay or prevent a change in control of SYNEX.

As of February 29, 2012, our executive officers, directors and principal stockholders owned approximately 29% of our outstanding common stock. In particular, MiTAC International and its affiliates owned approximately 27% of our common stock.

In addition, MiTAC International's interests and ours may increasingly conflict. For example, until July 2010, we relied on MiTAC International for certain manufacturing and supply services and for relationships with certain key customers. In July 2010, we announced that we had signed a definitive sales agreement to sell certain assets related to our contract assembly business to MiTAC International. The transaction included the sale of inventory and customer contracts, primarily related to customers then being jointly serviced by MiTAC International and us. Also, as part of the transaction, we provided MiTAC International with certain transition services for the business on a fee basis over the next several quarters. Since completion of the transition services, we no longer jointly service any current customers with MiTAC International. In addition, we may not solicit the same contract assembly customers in the future.

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. For fiscal year 2011, Mr. Miao received the same compensation as our independent directors. For fiscal year 2012, Mr. Miao will receive the same compensation as our independent directors. Mr. Miao's compensation as one of our directors is based upon the approval of the Nominating and Corporate Governance Committee, which is solely composed of independent members of the Board. 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 independent 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 29, 2012, MiTAC Incorporated, a privately-held company based in Taiwan and a separate entity from MiTAC International, directly and indirectly owned approximately 13.9% of Synnex Technology International and approximately 8.0% of MiTAC International. As of February 29, 2012, MiTAC International directly and indirectly owned 0.1% of Synnex Technology International and Synnex Technology International directly and indirectly owned approximately 0.9% 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 18.4% of MiTAC Incorporated as of February 29, 2012. Synnex Technology International indirectly through its ownership of Peer Developments Limited owned approximately 12.0% of our outstanding common stock as of February 29, 2012. 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 and CE industries could have a material adverse effect on our business and operating results. The IT and CE industries in which we operate have experienced decreases in demand. Softening demand for our products

48

---

Table of Contents

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 and retail customer accounts receivable.

While in the past, we may have benefited from consolidation in our industry resulting from delays or reductions in IT or CE spending in particular, and economic weakness in general, any such volatility in the IT and CE industries 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 and services 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 products and services directly to reseller and retail customers and end-users, thereby limiting our business opportunities. If large OEM suppliers increasingly sell directly to end-users or our resellers and retailers, rather than use us as the distributor of their products and services, our business and operating results will suffer.

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

A determination by any of our primary OEMs to consolidate their business with other distributors or contract assemblers could negatively affect our business and operating results. In particular, the termination of our contract by HP would have a significant negative effect on our revenue and operating results. For example, in 2008, IBM consolidated its business with distributors, including SYNEX, and, as a result, we no longer distribute certain IBM products and services.

The IT and CE industries are 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 and CE industries, 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 is 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 and CE industries could adversely affect our business and operating results.

We are subject to intense competition in the IT and CE industries, 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 and CE product and service distribution, BPO and contract assembly services industries are characterized by intense competition, based primarily on product and service availability, credit availability, price, speed of delivery, ability to tailor specific solutions to customer needs, quality and depth of product and service 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 and CE product and service distributors and contract manufacturers and assemblers. In some instances, we also compete with our own customers, our own OEM suppliers and MiTAC International and its affiliates.

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 capabilities 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

49

---

Table of Contents

also encounter increased competition from current competitors or from new competitors, including some that may once have been our OEM suppliers or reseller and retail customers. Increased competition and negative reaction from our OEM suppliers or reseller and retail customers resulting from our expansion into new business areas could harm our business and operating results.

Compliance with changing regulation of corporate governance and public disclosure may result in additional expense. Changing laws, regulations and standards relating to corporate governance and public disclosure, including the Dodd-Frank Wall Street Reform and Consumer Protection Act, 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 expense and a diversion of management time and attention from revenue-generating activities to compliance activities. For example, in fiscal year 2011, we incurred additional expense related to SEC compliance with XBRL-tagged interactive data-files. 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.

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 fiscal year 2011, 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. 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 determines 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. These accounting principles are subject to interpretation by the Financial Accounting Standards Board, 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.



Table of Contents

## ITEM 6. Exhibits

Exhibit Number	Description of Document
31.1	Rule 13a-14(a) Certification of Chief Executive Officer.
31.2	Rule 13a-14(a) Certification of Chief Financial Officer.
32.1*	Statement of the Chief Executive Officer and Chief Financial Officer under Section 906 of the Sarbanes-Oxley Act of 2002 (18 U.S.C. Section 1350).
101.INS**	XBRL Instance Document
101.SCH**	XBRL Taxonomy Extension Schema Document
101.CAL**	XBRL Taxonomy Extension Calculation Linkbase Document
101.DEF**	XBRL Taxonomy Extension Label Linkbase Document
101.LAB**	XBRL Taxonomy Extension Label Linkbase Document
101.PRE**	XBRL Taxonomy Extension Presentation Linkbase Document

\* 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.

\*\*Furnished herewith. In accordance with Rule 406T of Regulation S-T, the information in these exhibits shall not be deemed to be "filed" for purposes of Section 18 of the Exchange Act, or otherwise subject to liability under that section, and shall not be incorporated by reference into any registration statement or other document filed under the Securities Act, except as expressly set forth by specific reference in such filing.

Table of Contents

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 6, 2012

SYNEX CORPORATION

By: /s/ Kevin M. Murai  
Kevin M. Murai

President and Chief Executive Officer  
(Duly authorized officer and principal executive officer)

By: /s/ Thomas C. Alsborg  
Thomas C. Alsborg

Chief Financial Officer  
(Duly authorized officer and principal financial officer)

Table of Contents

## EXHIBIT INDEX

Exhibit Number	Description of Document
31.1	Rule 13a-14(a) Certification of Chief Executive Officer.
31.2	Rule 13a-14(a) Certification of Chief Financial Officer.
32.1*	Statement of the Chief Executive Officer and Chief Financial Officer under Section 906 of the Sarbanes-Oxley Act of 2002 (18 U.S.C. Section 1350).
101.INS**	XBRL Instance Document
101.SCH**	XBRL Taxonomy Extension Schema Document
101.CAL**	XBRL Taxonomy Extension Calculation Linkbase Document
101.DEF**	XBRL Taxonomy Extension Label Linkbase Document
101.LAB**	XBRL Taxonomy Extension Label Linkbase Document
101.PRE**	XBRL Taxonomy Extension Presentation Linkbase Document

---

\* 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.

\*\*Furnished herewith. In accordance with Rule 406T of Regulation S-T, the information in these exhibits shall not be deemed to be "filed" for purposes of Section 18 of the Exchange Act, or otherwise subject to liability under that section, and shall not be incorporated by reference into any registration statement or other document filed under the Securities Act, except as expressly set forth by specific reference in such filing.