

SYNEX CORP  
Form 10-Q  
October 10, 2008  
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**UNITED STATES**  
**SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C. 20549

**FORM 10-Q**

(Mark One)

**QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the quarterly period ended August 31, 2008

OR

**TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the transition period from \_\_\_\_\_ to \_\_\_\_\_

Commission File Number: 001-31892

**SYNEX CORPORATION**

(Exact name of registrant as specified in its charter)

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

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

**44201 Nobel Drive**

**Fremont, California**  
(Address of principal executive offices)

**94538**  
(Zip Code)

**(510) 656-3333**

(Registrant's telephone number, including area code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes  No

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

Large accelerated filer  Accelerated filer

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

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

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

| Class                           | Outstanding at October 2, 2008 |
|---------------------------------|--------------------------------|
| Common Stock, \$0.001 par value | 32,271,251                     |

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

|   | <b>August 31, 2008</b> | <b>November 30, 2007</b> |
|---|------------------------|--------------------------|
| <b>ASSETS</b>   |                        |                          |
| Current assets:   |                        |                          |
| Cash and cash equivalents                                       | \$ 59,773              | \$ 42,875                |
| Short-term investments  | 13,794                 | 17,257                   |
| Accounts receivable, net  | 776,337                | 729,797                  |
| Receivable from vendors, net                                    | 115,289                | 96,035                   |
| Receivable from affiliates                                      | 7,766                  | 9,790                    |
| Inventories   | 738,015                | 642,524                  |
| Deferred income taxes   | 18,083                 | 18,612                   |
| Current deferred assets   | 17,860                 | 14,478                   |
| Other current assets  | 12,746                 | 16,859                   |
| Total current assets  | 1,759,663              | 1,588,227                |
| Property and equipment, net                                     | 82,209                 | 59,440                   |
| Goodwill  | 126,239                | 96,350                   |
| Intangible assets, net  | 24,863                 | 21,590                   |
| Deferred income taxes   | 6,255                  | 5,416                    |
| Long-term deferred assets                                       | 79,653                 | 97,171                   |
| Other assets  | 27,890                 | 18,909                   |
| Total assets  | \$ 2,106,772           | \$ 1,887,103             |
| <b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>                     |                        |                          |
| Current liabilities:  |                        |                          |
| Borrowings under securitization, term loans and lines of credit | \$ 313,069             | \$ 351,142               |
| Accounts payable  | 639,108                | 588,801                  |
| Payable to affiliates   | 65,326                 | 67,334                   |
| Accrued liabilities   | 133,915                | 120,617                  |
| Current deferred liabilities                                    | 39,209                 | 35,522                   |
| Income taxes payable  |                        | 5,103                    |
| Total current liabilities                                       | 1,190,627              | 1,168,519                |
| Long-term borrowings  | 21,864                 | 37,537                   |
| Long-term liabilities   | 24,858                 | 14,533                   |
| Long-term deferred liabilities                                  | 50,903                 | 60,565                   |
| Convertible debt  | 143,750                |                          |
| Deferred income taxes   | 383                    | 437                      |
| Total liabilities   | 1,432,385              | 1,281,591                |

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|  |              |              |
|--|--------------|--------------|
| Minority interest  | 4,419        | 958          |
| Commitments and contingencies (Note 16)  |              |              |
| 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,<br>31,769 and 31,328 shares issued and outstanding | 32           | 31           |
| Additional paid-in capital   | 205,083      | 196,128      |
| Accumulated other comprehensive income   | 28,366       | 28,939       |
| Retained earnings  | 436,487      | 379,456      |
| Total stockholders' equity   | 669,968      | 604,554      |
| Total liabilities and stockholders' equity   | \$ 2,106,772 | \$ 1,887,103 |

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

**Table of Contents****SYNEX CORPORATION****CONSOLIDATED STATEMENTS OF OPERATIONS****(in thousands, except for per share amounts)****(unaudited)**

|   | <b>Three Months Ended</b> |                        | <b>Nine Months Ended</b> |                        |
|---|---------------------------|------------------------|--------------------------|------------------------|
|   | <b>August 31, 2008</b>    | <b>August 31, 2007</b> | <b>August 31, 2008</b>   | <b>August 31, 2007</b> |
| Revenue   | \$ 2,045,689              | \$ 1,760,360           | \$ 5,672,335             | \$ 5,033,444           |
| Cost of revenue   | (1,932,790)               | (1,669,134)            | (5,362,781)              | (4,783,549)            |
| Gross profit  | 112,899                   | 91,226                 | 309,554                  | 249,895                |
| Selling, general and administrative expenses  | (73,394)                  | (63,960)               | (205,597)                | (171,874)              |
| Restructuring charges   |                           | (2,744)                |                          | (2,744)                |
| Income from operations before non-operating items, income taxes and minority interest | 39,505                    | 24,522                 | 103,957                  | 75,277                 |
| Interest expense and finance charges, net   | (3,137)                   | (3,472)                | (10,614)                 | (10,225)               |
| Other income (expense), net   | (1,787)                   | (132)                  | (3,252)                  | 930                    |
| Income before income taxes and minority interest                                      | 34,581                    | 20,918                 | 90,091                   | 65,982                 |
| Provision for income taxes  | (12,427)                  | (6,452)                | (32,253)                 | (22,908)               |
| Income before minority interest   | 22,154                    | 14,466                 | 57,838                   | 43,074                 |
| Minority interest   | (94)                      | (70)                   | (440)                    | (132)                  |
| Net income  | \$ 22,060                 | \$ 14,396              | \$ 57,398                | \$ 42,942              |
| Earnings per share:   |                           |                        |                          |                        |
| Basic   | \$ 0.70                   | \$ 0.46                | \$ 1.82                  | \$ 1.39                |
| Diluted   | \$ 0.66                   | \$ 0.44                | \$ 1.72                  | \$ 1.32                |
| Weighted-average common shares outstanding - basic                                    | 31,665                    | 31,076                 | 31,529                   | 30,836                 |
| Weighted-average common shares outstanding - diluted                                  | 33,657                    | 32,742                 | 33,319                   | 32,502                 |

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

**Table of Contents****SYNEX CORPORATION****CONSOLIDATED STATEMENTS OF CASH FLOWS****(in thousands)****(unaudited)**

|   | <b>Nine Months Ended</b> |                        |
|---|--------------------------|------------------------|
|   | <b>August 31, 2008</b>   | <b>August 31, 2007</b> |
| <b>Cash flows from operating activities:</b>  |                          |                        |
| Net income  | \$ 57,398                | \$ 42,942              |
| Adjustments to reconcile net income to net cash provided by (used in) operating activities: |                          |                        |
| Depreciation expense  | 8,091                    | 6,559                  |
| Amortization of intangible assets   | 6,004                    | 4,703                  |
| Share-based compensation  | 4,829                    | 3,536                  |
| Provision for doubtful accounts   | 4,522                    | 5,309                  |
| Excess tax benefit from share-based compensation  | (1,395)                  |                        |
| Unrealized (gain) loss on trading securities  | 1,558                    | (575)                  |
| Realized loss on investments and fixed assets   | 347                      | 38                     |
| Other-than-temporary impairment on securities   | 1,288                    |                        |
| Minority interest   | 440                      | 132                    |
| Changes in assets and liabilities, net of acquisition of businesses:                        |                          |                        |
| Accounts receivable   | 15,357                   | (200,674)              |
| Receivable from vendors   | (13,427)                 | 641                    |
| Receivable from affiliates  | 2,023                    | (7,698)                |
| Inventories   | (33,066)                 | 43,217                 |
| Other assets  | 26,088                   | 27,968                 |
| Payable to affiliates   | (2,008)                  | (21,425)               |
| Accounts payable  | (2,578)                  | 44,213                 |
| Accrued liabilities   | (4,944)                  | 14,821                 |
| Other liabilities   | (12,590)                 | (23,461)               |
| <b>Net cash provided by (used in) operating activities</b>                                  | <b>57,937</b>            | <b>(59,754)</b>        |
| <b>Cash flows from investing activities:</b>  |                          |                        |
| Purchase of short-term investments  | (12,986)                 | (5,370)                |
| Proceeds from sale of short-term investments  | 14,012                   | 3,226                  |
| Acquisition of businesses, net of cash acquired   | (22,643)                 | (107,765)              |
| Purchase of property and equipment  | (25,834)                 | (20,132)               |
| Increase in restricted cash   | (3,118)                  | (3,259)                |
| Purchase of intangible asset  | (1,482)                  |                        |
| <b>Net cash used in investing activities</b>  | <b>(52,051)</b>          | <b>(133,300)</b>       |
| <b>Cash flows from financing activities:</b>  |                          |                        |
| Proceeds from revolving line of credit and securitization                                   | 1,252,582                | 990,052                |
| Payment of revolving line of credit and securitization                                      | (1,379,340)              | (783,736)              |
| Proceeds from bank loan   |                          | 10,704                 |
| Payment of bank loan  | (19,322)                 | (18,236)               |
| Proceeds from issuance of convertible debt (net of issuance costs of \$3,575)               | 140,175                  |                        |
| Excess tax benefit from share-based compensation  | 1,395                    |                        |
| Bank overdraft  | 6,674                    | 7,273                  |
| Proceeds from issuance of common stock  | 3,697                    | 6,373                  |

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|  |           |           |
|--|-----------|-----------|
| Net cash provided by financing activities                    | 5,861     | 212,430   |
| Effect of exchange rate changes on cash and cash equivalents | 5,151     | (3,115)   |
| Net increase in cash and cash equivalents                    | 16,898    | 16,261    |
| Cash and cash equivalents at beginning of period             | 42,875    | 27,881    |
| Cash and cash equivalents at end of period                   | \$ 59,773 | \$ 44,142 |

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



**Table of Contents****SYNEX CORPORATION****CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME****(in thousands)****(unaudited)**

|   | <b>Three Months Ended</b> |                        | <b>Nine Months Ended</b> |                        |
|---|---------------------------|------------------------|--------------------------|------------------------|
|   | <b>August 31, 2008</b>    | <b>August 31, 2007</b> | <b>August 31, 2008</b>   | <b>August 31, 2007</b> |
| Net income  | \$ 22,060                 | \$ 14,396              | \$ 57,398                | \$ 42,942              |
| Other comprehensive income:   |                           |                        |                          |                        |
| Reclassification adjustment for other-than-temporary impairment loss on available-for-sale securities |                           |                        | 630                      |                        |
| Changes in unrealized gains (losses) on available- for-sale securities                                | (15)                      | (12)                   | (26)                     | 8                      |
| Foreign currency translation adjustment   | (6,252)                   | 1,751                  | (1,177)                  | 8,596                  |
| Total comprehensive income  | \$ 15,793                 | \$ 16,135              | \$ 56,825                | \$ 51,546              |

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

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**SYNEX CORPORATION**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**For the three and nine months ended August 31, 2008 and 2007**

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

**(unaudited)**

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

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

The accompanying interim unaudited consolidated financial statements as of August 31, 2008 and for the three and nine month periods ended August 31, 2008 and 2007 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, 2007 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, 2007, included in the Company's Annual Report on Form 10-K for the fiscal year then ended.

The results of operations for the nine months ended August 31, 2008 are not necessarily indicative of the results that may be expected for the year ending November 30, 2008, or any future period and the Company makes no representations related thereto.

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

There have been no material changes in the Company's significant accounting policies for the three and nine month periods ended August 31, 2008 from its disclosure in the Annual Report on Form 10-K for the year ended November 30, 2007, 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, 2007.

***Restricted cash***

As of August 31, 2008 and November 30, 2007, the Company had restricted cash in the amount of \$15,311 and \$12,192, respectively, for future payments to its vendors relating to the long-term projects at the Company's Mexico operation. These amounts are reported in "Other assets."

***Concentration of credit risk***

Financial instruments that potentially subject the Company to significant concentration of credit risk consist principally of accounts receivable, cash and cash equivalents. The Company's cash and cash equivalents are maintained with high quality institutions, the compositions and maturities of which are regularly monitored by management. Through August 31, 2008, the Company had not experienced any losses on such deposits.

Accounts receivable include amounts due from customers primarily in the technology industry. The Company performs ongoing credit evaluations of its customers' financial condition and limits the amount of credit extended when deemed necessary, but generally requires no collateral. The Company also maintains allowances for potential credit losses. In estimating the required allowances, the Company takes into consideration the overall quality and aging of the receivable portfolio, the existence of a limited amount of credit insurance and specifically identified customer risks. Through August 31, 2008, such losses have been within management's expectations.

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In the three and nine months ended August 31, 2008 and 2007, no single customer exceeded 10% or more of the Company's total revenue. At August 31, 2008 and November 30, 2007 no single customer comprised more than 10% of the total consolidated accounts receivable balance. The Company's largest OEM supplier, Hewlett-Packard Company ( HP ), accounted for approximately 35% and 28% of the total revenue for the three months ended August 31, 2008 and 2007, and 32% and 28% of the total revenue for the nine months ended August 31, 2008 and 2007, respectively.

### *Fair value of financial instruments*

The Company adopted Statement of Financial Accounting Standards ( SFAS ) No. 157, Fair Value Measurements ( SFAS No. 157 ) in the first quarter of 2008, which did not have a material impact on the financial statements of the Company. See Note 15 Fair Value of Financial Instruments for additional disclosure on the fair values of foreign exchange contracts, long-term accounts receivable, trading and available-for-sale securities.

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

**(unaudited)**

***Net income per common share***

Net income per common share-basic is computed by dividing the net income for the period by the weighted-average number of shares of common stock outstanding during the period. Diluted weighted-average shares include the dilutive effect of stock options, restricted stock and restricted stock units. The calculation of net income per common share is presented in Note 9.

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

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

***Reclassifications***

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

***Recent accounting pronouncements***

In December 2007, the Financial Accounting Standards Board (FASB) issued SFAS No. 141 (revised 2007), *Business Combinations* (SFAS No. 141R). SFAS No. 141R establishes principles and requirements for how an acquirer recognizes and measures in its financial statements the identifiable assets acquired, the liabilities assumed, any noncontrolling interest in the acquiree and the goodwill acquired. SFAS No. 141R also establishes disclosure requirements to enable the evaluation of the nature and financial effects of the business combination. SFAS No. 141R is effective as of the beginning of an entity's fiscal year that begins after December 15, 2008, and will be adopted by the Company in the first quarter of fiscal year 2010. The Company is currently evaluating the potential impact, if any, of the adoption of SFAS No. 141R on its consolidated results of operations and financial condition.

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

On February 20, 2008, the FASB issued Staff Position (FSP) No. FAS 140-3, *Accounting for Transfers of Financial Assets and Repurchase Financing Transactions* (FSP FAS 140-3). FSP FAS 140-3 requires that an initial transfer of a financial asset and a repurchase financing that was

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entered into contemporaneously with, or in contemplation of, the initial transfer be evaluated together as a linked transaction under SFAS No. 140, Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities - a replacement of FASB Statement No. 125 ( SFAS No. 140 ), unless certain criteria are met. FSP FAS 140-3 is effective for the Company's financial statements for the fiscal year beginning on December 1, 2008 and earlier adoption is not permitted. The Company is assessing the potential impact that the adoption of FSP FAS 140-3 may have on its consolidated results of operations and financial condition.

In March 2008, the FASB issued SFAS No. 161, Disclosures about Derivative Instruments and Hedging Activities- an amendment of FASB Statement No. 133 ( SFAS No. 161 ). This new standard requires enhanced disclosures for derivative instruments, including those used in hedging activities. It is effective for fiscal years and interim periods beginning after November 15, 2008, and will be applicable to the Company in the first quarter of fiscal year 2009. The Company is assessing the potential impact that the adoption of SFAS No. 161 may have on its consolidated results of operations and financial condition.

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

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**For the three and nine months ended August 31, 2008 and 2007**

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

**(unaudited)**

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

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

In May 2008, the FASB issued SFAS No. 162, The Hierarchy of Generally Accepted Accounting Principles ( SFAS No. 162 ). SFAS No. 162 identifies the sources of accounting principles and the framework for selecting the principles used in the preparation of financial statements of nongovernmental entities that are presented in conformity with GAAP. This statement will be effective 60 days following the Securities and Exchange Commission's approval of the Public Company Accounting Oversight Board amendments to AU Section 411, The Meaning of Present Fairly in Conformity With Generally Accepted Accounting Principles. The Company is assessing the potential impact that the adoption of SFAS No. 162 may have on its consolidated results of operations and financial condition.

***During the first quarter of fiscal year 2008, the Company adopted the following accounting standards:***

In June 2006, the FASB issued Interpretation No. 48, Accounting for Uncertainty in Income Taxes an interpretation of FASB Statement No. 109 ( FIN 48 ). FIN 48 clarifies the accounting for uncertainty in income taxes recognized in an enterprise's financial statements in accordance with SFAS No. 109, Accounting for Income Taxes, ( SFAS No. 109 ) and prescribes a recognition threshold and measurement process for financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. FIN 48 also provides guidance on derecognition, classification, interest and penalties, accounting in interim periods, disclosure and transition. The Company adopted FIN 48 effective December 1, 2007. See Note 14 Income Taxes for the effect of its application of FIN 48.

In September 2006, the FASB issued SFAS No. 157, Fair Value Measurements ( SFAS No. 157 ). SFAS No. 157 provides guidance for using fair value to measure assets and liabilities. It also responds to investors' requests for expanded information about the extent to which companies measure assets and liabilities at fair value, the information used to measure fair value, and the effect of fair value measurements on earnings. SFAS No. 157 applies whenever other standards require (or permit) assets or liabilities to be measured at fair value, and does not expand the use of fair value in any new circumstances. In February 2008, the FASB issued FSP No. FAS 157-1, Application of FASB Statement No. 157 to FASB Statement No. 13 and Other Accounting Pronouncements That Address Fair Value Measurements for Purposes of Lease Classification or Measurement under Statement 13 ( FSP FAS 157-1 ) and FSP No. FAS 157-2, Effective Date of FASB Statement No. 157 ( FSP FAS 157-2 ). FSP FAS 157-1 amends SFAS No. 157 to remove certain leasing transactions from its scope. FSP FAS 157-2 delays the effective date of SFAS No. 157 for all non-financial assets and non-financial liabilities, except for items that are recognized or disclosed at fair value in the financial statements on a recurring basis. These nonfinancial items include assets and liabilities such as reporting units measured at fair value in a goodwill impairment test and nonfinancial assets acquired and liabilities assumed in a business combination. SFAS No. 157 was adopted by the Company, as it applies to its financial instruments, effective December 1, 2007. The impact of adoption of SFAS No. 157 is discussed in Note 15 Fair Value of Financial Instruments.

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In February 2007, the FASB issued SFAS No. 159, The Fair Value Option for Financial Assets and Financial Liabilities Including an amendment of FASB Statement No. 115, ( SFAS No. 159 ) which permits entities to elect to measure many financial instruments and certain other items at fair value that are not currently required to be measured at fair value. This election is irrevocable. SFAS No. 159 was effective in the first quarter of fiscal year 2008. The Company has not elected to apply the fair value option to any of its financial instruments.

### **NOTE 3 SHARE-BASED COMPENSATION:**

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

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

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During the three months ended August 31, 2008, no stock options were granted by the Company. During the nine months ended August 31, 2008, the Company granted approximately 40 stock options, with an estimated total grant-date fair value of \$343. During the three months ended August 31, 2008, approximately 12 shares of restricted stock were granted, with an estimated total grant date value of \$294 and during the nine months ended August 31, 2008, approximately 34 shares of restricted stock were granted, with an estimated total grant date value of \$773.

The Company recorded share-based compensation expense, for the three months ended August 31, 2008 and 2007 of \$1,592 and \$1,303, and for the nine months ended August 31, 2008 and 2007 of \$4,829 and \$3,536, respectively.

**NOTE 4 BALANCE SHEET COMPONENTS:**

|                                       | August 31, 2008 | November 30, 2007 |
|---------------------------------------|-----------------|-------------------|
| <b>Short-term investments</b>         |                 |                   |
| Trading securities                    | \$ 9,471        | \$ 12,336         |
| Available-for-sale                    | 164             | 142               |
| Cost securities                       | 4,159           | 4,779             |
|                                       | \$ 13,794       | \$ 17,257         |
| <b>Accounts receivable, net</b>       |                 |                   |
| Trade accounts receivable             | \$ 810,809      | \$ 763,723        |
| Less: Allowance for doubtful accounts | (14,426)        | (13,258)          |
| Less: Allowance for sales returns     | (20,046)        | (20,668)          |
|                                       | \$ 776,337      | \$ 729,797        |
| <b>Receivable from vendors, net</b>   |                 |                   |
| Receivables from vendors              | \$ 118,574      | \$ 98,737         |
| Less: Allowance for doubtful accounts | (3,285)         | (2,702)           |
|                                       | \$ 115,289      | \$ 96,035         |
| <b>Inventories</b>                    |                 |                   |
| Components                            | \$ 72,779       | \$ 39,712         |
| Finished goods                        | 665,236         | 602,812           |
|                                       | \$ 738,015      | \$ 642,524        |
| <b>Property and equipment, net</b>    |                 |                   |



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|  |    |          |    |          |
|--|----|----------|----|----------|
| Equipment and computers                    | \$ | 60,833   | \$ | 59,344   |
| Furniture and fixtures                     |    | 10,704   |    | 10,714   |
| Buildings, leasehold improvements and land |    | 62,083   |    | 55,237   |
| Construction in progress                   |    | 17,593   |    | 150      |
|  |    | 151,213  |    | 125,445  |
| Less: Accumulated depreciation             |    | (69,004) |    | (66,005) |
|  | \$ | 82,209   | \$ | 59,440   |

**Goodwill**

|          |                          |                  |                    |                        |
|----------|--------------------------|------------------|--------------------|------------------------|
|          | <b>November 30, 2007</b> | <b>Additions</b> | <b>Translation</b> | <b>August 31, 2008</b> |
| Goodwill | \$ 96,350                | \$ 30,584        | \$ (695)           | \$ 126,239             |

Goodwill increased as of August 31, 2008, compared to November 30, 2007, primarily due to \$24,599 for the acquisition of New Age Electronics, Inc. ( NAE ) based on the preliminary purchase price allocation (see Note 12 Acquisitions for additional information) and earn-out payments of \$4,000 related to SYNEX-Concentrix Corporation (formerly Link2Support, Inc.).

**Intangible assets, net**

|                         | August 31, 2008 |                          |            | November 30, 2007 |                          |            |
|-------------------------|-----------------|--------------------------|------------|-------------------|--------------------------|------------|
|                         | Gross Amount    | Accumulated Amortization | Net Amount | Gross Amount      | Accumulated Amortization | Net Amount |
| Vendor lists            | \$ 30,062       | \$ (20,622)              | \$ 9,440   | \$ 22,062         | \$ (18,458)              | \$ 3,604   |
| Customer lists          | 24,772          | (11,740)                 | 13,032     | 25,108            | (8,677)                  | 16,431     |
| Other intangible assets | 4,813           | (2,422)                  | 2,391      | 3,443             | (1,888)                  | 1,555      |
|                         | \$ 59,647       | \$ (34,784)              | \$ 24,863  | \$ 50,613         | \$ (29,023)              | \$ 21,590  |

Amortization expense for the three months ended August 31, 2008 and 2007 was \$2,168 and \$1,786, and for the nine months

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ended August 31, 2008 and 2007 was \$6,004 and \$4,703, respectively. Intangible assets increased as of August 31, 2008 compared to November 30, 2007 due to the purchase of a brand name by SYNEX Canada for \$1,493 and \$8,000 for intangible assets associated with the purchase of NAE based on a preliminary valuation (see Note 12 Acquisitions for additional information).

**NOTE 5 INVESTMENTS:**

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

|                               | August 31, 2008 |                              |            | November 30, 2007 |                              |            |
|-------------------------------|-----------------|------------------------------|------------|-------------------|------------------------------|------------|
|                               | Cost            | Unrealized<br>(Losses)/Gains | Fair Value | Cost              | Unrealized<br>(Losses)/Gains | Fair Value |
| <b>Short-term investments</b> |                 |                              |            |                   |                              |            |
| Trading securities            | \$ 10,754       | \$ (1,283)                   | \$ 9,471   | \$ 11,731         | \$ 605                       | \$ 12,336  |
| Available-for-sale            | 190             | (26)                         | 164        | 772               | (630)                        | 142        |
| Cost securities               | 4,159           |                              | 4,159      | 4,779             |                              | 4,779      |
|                               | \$ 15,103       | \$ (1,309)                   | \$ 13,794  | \$ 17,282         | \$ (25)                      | \$ 17,257  |

Short-term trading securities generally consist of equity securities relating to the Company's deferred compensation plan. Short-term available-for-sale securities primarily consist of investments in other companies' equity securities. Short-term cost investments primarily consist of investments in private equity funds and in a hedge fund under the Company's deferred compensation plan.

For the three months ended August 31, 2008, the Company recorded an other-than-temporary loss of \$45 on cost securities and for the nine months ended August 31, 2008, the Company recorded an other-than-temporary loss of \$630 on available-for-sale securities and \$658 on cost securities, respectively.

**NOTE 6 ACCOUNTS RECEIVABLE ARRANGEMENTS:**

The Company primarily finances its U.S. operations with an accounts receivable securitization program (the U.S. Arrangement) by selling up to a maximum of \$350,000 in U.S. trade accounts receivable (U.S. Receivables). The maturity date of the U.S. Arrangement is February 2011. The effective borrowing cost under the U.S. Arrangement is a blend of the prevailing dealer commercial paper rate and LIBOR plus 0.55% per annum. The Company funds its borrowings by pledging all of its rights, title and interest in and to the U.S. Receivables as security. The balance outstanding on the U.S. Arrangement as of August 31, 2008 and November 30, 2007 was \$270,000 and \$299,900, respectively.

As is customary in trade accounts receivable securitization arrangements, a credit rating agency's downgrade of the third party issuer of commercial paper or of a back-up liquidity provider (which provides a source of funding if the commercial paper market cannot be accessed) could result in an adverse change or loss of the Company's financing capacity under these programs if the commercial paper issuer or liquidity back-up provider is not replaced. Loss of such financing capacity could have a material adverse effect on the Company's financial condition and results of operations.

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SYNEX Canada Limited ( SYNEX Canada ) has a one-year revolving accounts receivable securitization program in Canada (the Canadian Arrangement ), which provides for the sale of U.S. and Canadian trade receivables ( Canadian Receivables ) to a financial institution up to a maximum of C\$125,000. In connection with the Canadian Arrangement, SYNEX Canada sells its Canadian Receivables to the financial institution on a fully-serviced basis. The effective discount rate of the Canadian Arrangement is the prevailing Bankers' Acceptance rate of return or prime rate in Canada plus 0.60% per annum. To the extent that cash was received in exchange, the amount of Canadian Receivables sold to the financial institution has been recorded as a true sale, in accordance with SFAS No. 140. The amount of Canadian Receivables sold to the financial institution and not yet collected from customers at August 31, 2008 and November 30, 2007 was \$68,011 and \$115,900, respectively.

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

The Company has also entered into financing agreements with various financial institutions ( Flooring Companies ) to allow certain customers of the Company to finance their purchases directly with the Flooring Companies. Under these agreements, the Flooring Companies pay to the Company the selling price of products sold to various customers, less a discount, within approximately 15 to 30 days from the date of sale. The Company is contingently liable to repurchase inventory sold under flooring agreements in the event of any default by its customers under the agreement and such inventory being repossessed by the Flooring Companies. See Note 16 Commitments and Contingencies for additional information. The net sales financed for the three months ended August 31, 2008 and 2007 were \$250,421 and \$239,422, and for the nine months ended August 31, 2008 and 2007 were \$718,865 and \$685,340, respectively. Approximately \$43,596 and \$68,839 of accounts receivable at August 31, 2008 and November 30, 2007, respectively, were subject to flooring agreements. Flooring fees were approximately \$1,097 and \$1,298 in the three months ended August 31, 2008 and 2007, and \$3,058 and \$3,972 in the nine months ended August 31, 2008 and 2007, respectively, and are included within Interest expense and finance charges, net.

**Table of Contents****SYNNEX CORPORATION****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS****For the three and nine months ended August 31, 2008 and 2007****(amounts in thousands, except per share amounts)****(unaudited)****NOTE 7 BORROWINGS:**

Borrowings consist of the following:

|  | <b>August 31, 2008</b> | <b>November 30, 2007</b> |
|--|------------------------|--------------------------|
| SYNNEX U.S. securitization             | \$ 270,000             | \$ 299,900               |
| SYNNEX U.S. revolving line of credit   |                        | 10,900                   |
| SYNNEX Canada revolving line of credit | 19,781                 | 17,470                   |
| SYNNEX Canada term loan                | 10,912                 | 12,368                   |
| SYNNEX Mexico term loan                | 31,967                 | 47,874                   |
| Others                                 | 2,273                  | 167                      |
|  | <b>334,933</b>         | <b>388,679</b>           |
| Less: Current portion                  | (313,069)              | (351,142)                |
| Non-current portion                    | <b>\$ 21,864</b>       | <b>\$ 37,537</b>         |

**SYNNEX U.S. securitization**

The U.S. Arrangement allows the Company to sell up to a maximum of \$350,000 in U.S. Receivables. The maturity date of the U.S. Arrangement is February 2011. The effective borrowing cost under the U.S. Arrangement is currently a blend of the prevailing dealer commercial paper rate and LIBOR plus 0.55% per annum.

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

The Company has a senior secured revolving line of credit arrangement (the "Revolver") with a group of financial institutions. The Revolver's maximum commitment was amended from \$100,000 to \$120,000 in April 2008. Interest on borrowings under the Revolver is currently based on the financial institution's prime rate or LIBOR plus 1.50% per annum at the Company's option. The Revolver is secured by the Company's inventory and its other assets (including the assets of its domestic subsidiaries, but excluding the assets of and ownership in its foreign subsidiaries) and expires in February 2011.

**SYNNEX Canada revolving line of credit**

SYNNEX Canada has a revolving line of credit arrangement with a credit limit of C\$30,000. The revolving credit facility expires in April 2010. Interest on this facility is currently based on the Canadian adjusted prime rate. SYNnex Canada has granted a lien on substantially all of its assets in favor of the lenders under its revolving credit facility. In connection with this revolving credit facility, the Company issued a guarantee of SYNnex Canada's obligations, of up to C\$20,000.

**SYNNEX Canada term loan**

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

### **SYNEX Mexico secured term loan**

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

### **Others**

SYNEX UK has a British pound denominated loan agreement with a financial institution. The total credit available under this facility was \$911 as of August 31, 2008. The interest rate on this credit facility is LIBOR plus 1.50% per annum. There were no borrowings outstanding at August 31, 2008 and November 30, 2007.

SYNEX UK has a second British pound denominated loan agreement with a financial institution. The total credit available under this facility was \$6,380 as of August 31, 2008. The interest rate for this facility is the financial institution's prime rate plus 1.50% per annum. The balance outstanding at August 31, 2008 and November 30, 2007 was \$178 and \$158, respectively.

The Company has other overdraft and lines of credit facilities. The balance outstanding as of August 31, 2008 was \$2,095 and there were no outstanding balances as of November 30, 2007.

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**SYNEX CORPORATION**

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**SYNEX Canada credit facility**

SYNEX Canada obtained a credit facility with a financial institution in Canada to allow SYNEX Canada to issue documentary letters of credit up to a maximum of C\$30,000 for validity up to 180 days on September 6, 2007. The letters of credit are issued to secure purchases of inventory from manufacturers and to finance import activities. This facility has an overdraft limit up to a maximum amount of C\$2,000 available in Canadian and U.S. dollars for a maximum of two business days to repay draws under letters of credit or letters of guarantee. SYNEX Canada has granted a lien, in favor of the financial institution in Canada, on the inventory financed under this credit facility, all accounts receivable from the sale of such inventory, all proceeds of sale of such inventory and collection of such accounts receivable and up to C\$3,000 in cash on deposit with the financial institution in Canada. In connection with this credit facility, the Company issued a guarantee of SYNEX Canada's obligations in favor of the financial institution in Canada of up to C\$20,000. Letters of credit issued against this facility were \$6,824 as of August 31, 2008 and \$13,880 as of November 30, 2007.

The total interest expense and finance charges for accounts receivable securitization, revolver, convertible debt and all other debt and lines of credit were \$6,052 and \$5,975 for the three months ended August 31, 2008 and 2007, and \$18,706 and \$18,110 for the nine months ended August 31, 2008 and 2007, respectively, and are included in Interest expense and finance charges, net in the consolidated statement of operations. The range of interest rates was between 1.93% and 10.19% in the third quarter of fiscal year 2008.

**Covenants compliance**

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

As of August 31, 2008, the Company was in compliance with all material covenants for the above arrangements.

**Guarantees**

The Company has issued guarantees to certain vendors and lenders of its subsidiaries for trade credit lines and loans, totaling \$202,605 and \$206,100 as of August 31, 2008 and November 30, 2007, respectively. The Company is obligated under these guarantees to pay amounts due should its subsidiaries not pay valid amounts owed to their vendors or lenders. The vendor guarantees are typically less than one-year arrangements, with 30-day cancellation clauses and the lender guarantees are typically for the term of the loan agreement.

**NOTE 8 CONVERTIBLE DEBT:**

In May 2008, the Company issued \$143,750 of aggregate principal amount of its 4.0% Convertible Senior Notes due 2018 (the Notes) in a private placement. The Notes bear interest at a rate of 4.0% per annum. Interest on the Notes is payable in cash semi-annually in arrears on May 15 and November 15 of each year, beginning November 15, 2008. In addition, the Company will pay contingent interest in respect of any six-month period from May 15 to November 14 or from November 15 to May 14, with the initial six-month period commencing May 15, 2013,

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if the trading price of the Notes for each of the ten trading days immediately preceding the first day of the applicable six-month period equals 120% or more of the principal amount of the Notes. During any interest period when contingent interest is payable, the contingent interest payable per Note is equal to 0.55% of the average trading price of the Notes during the ten trading days immediately preceding the first day of the applicable six-month interest period. The Notes mature on May 15, 2018, subject to earlier redemption, repurchase or conversion.

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

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

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

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

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

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

**NOTE 9 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 |                 | Nine Months Ended |                 |
|--|--------------------|-----------------|-------------------|-----------------|
|  | August 31, 2008    | August 31, 2007 | August 31, 2008   | August 31, 2007 |
| Net income                             | \$ 22,060          | \$ 14,396       | \$ 57,398         | \$ 42,942       |
| Weighted-average common shares-basic   | 31,665             | 31,076          | 31,529            | 30,836          |
| Effect of dilutive securities:         |                    |                 |                   |                 |
| Stock options and restricted stock     | 1,992              | 1,666           | 1,790             | 1,666           |
| Weighted-average common shares-diluted | 33,657             | 32,742          | 33,319            | 32,502          |
| Earnings per share:                    |                    |                 |                   |                 |
| Basic                                  | \$ 0.70            | \$ 0.46         | \$ 1.82           | \$ 1.39         |
| Diluted                                | \$ 0.66            | \$ 0.44         | \$ 1.72           | \$ 1.32         |



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Options to purchase 22 and 59 shares of common stock for the three and nine months ended August 31, 2008 and 544 shares of common stock for the three and nine months ended August 31, 2007, respectively, have not been included in the computation of diluted net income per share as their effect would have been anti-dilutive.

### **NOTE 10 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 August 31, 2008, MiTAC International and its affiliates beneficially owned approximately 40% of the Company's common stock. In addition, Matthew Miao, the Company's Chairman of the Board of Directors and a non-executive director since 1992, is also the Chairman of MiTAC International and each of its affiliated entities below.

The Company works closely with MiTAC International to collaborate on OEM outsourcing opportunities and jointly market MiTAC International's design and electronic manufacturing services and its contract assembly capabilities. This relationship has enabled the Company to build relationships with MiTAC International's customers and it continues to work with and depend on MiTAC International to jointly serve its shared customers. The Company purchased inventories, including notebook computers, motherboards and other peripherals, from MiTAC International and its affiliates totaling approximately \$56,304 and \$72,249 for the three months ended August 31, 2008 and 2007, respectively, and \$195,849 and \$216,734 for the nine months ended August 31, 2008 and 2007, respectively. The Company's sales to MiTAC International and its affiliates in the three months ended August 31, 2008 and 2007, totaled approximately \$624 and \$220, respectively, and \$1,317 and \$1,497 for the nine months ended August 31, 2008 and

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2007, respectively. Most of these purchases and sales were pursuant to the Company's Master Supply Agreement with MiTAC International and Sun Microsystems, one of its contract assembly customers. The Company's business relationship to date with MiTAC International has been informal and is not governed by long-term commitments or arrangements with respect to pricing terms, revenue or capacity commitments.

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

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

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

As noted above, MiTAC International and its affiliates in the aggregate beneficially owned approximately 40% of the Company's common stock as of August 31, 2008. These shares are owned by the following entities:

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

- (1) Shares held via Silver Star Developments Ltd., a wholly-owned subsidiary of MiTAC International. Excludes 1,267,651 shares (of which 45,150 shares are directly held and 1,222,501 shares are subject to exercisable options) held by Matthew Miao.
- (2) Synnex Technology International Corp. (Synnex Technology International) is a separate entity from the Company and is publicly-traded corporation in Taiwan. Shares held via Peer Development Ltd, a wholly-owned subsidiary of Synnex Technology International. MiTAC International owns a minority interest in MiTAC Incorporated, a privately-held Taiwanese company, which in turn holds a minority interest in Synnex Technology International.

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

During fiscal year 2007, the Company purchased shares of MiTAC International related to the deferred compensation plan of Robert Huang, its President and Co-Chief Executive Officer. As of August 31, 2008, the value of the stock acquired was \$1,153. Except as described herein, none of the Company's officers or directors has an interest in MiTAC International or its affiliates.

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

### NOTE 11 GEOGRAPHIC INFORMATION:

The Company primarily operates in North America. The U.S. and Canada are included in the North America operations and China, Mexico, Japan, the Philippines and the UK are included in Other operations. Shown below is summarized financial information related to the geographic areas in which the Company operated in the three and nine months ended August 31, 2008 and 2007 and for each of the periods then ended:

|                | Three Months Ended |                 | Nine Months Ended |                 |
|----------------|--------------------|-----------------|-------------------|-----------------|
|                | August 31, 2008    | August 31, 2007 | August 31, 2008   | August 31, 2007 |
| <b>Revenue</b> |                    |                 |                   |                 |
| North America  | \$ 1,998,315       | \$ 1,698,201    | \$ 5,526,091      | \$ 4,857,101    |
| Other          | 47,374             | 62,159          | 146,244           | 176,343         |
|                | \$ 2,045,689       | \$ 1,760,360    | \$ 5,672,335      | \$ 5,033,444    |

|                          | As of              |                   |
|--------------------------|--------------------|-------------------|
|                          | August 31,<br>2008 | November 30, 2007 |
| <b>Long-lived assets</b> |                    |                   |
| North America            | \$ 76,757          | \$ 55,719         |
| Other                    | 33,342             | 22,630            |
|                          | \$ 110,099         | \$ 78,349         |

Revenue in the U.S. was approximately 81% and 78% of total revenue for the three months ended August 31, 2008 and 2007, and 79% and 78% of total revenue for the nine months ended August 31, 2008 and 2007, respectively. Revenue in Canada was

**Table of Contents****SYNEX CORPORATION****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS****For the three and nine months ended August 31, 2008 and 2007****(amounts in thousands, except per share amounts)****(unaudited)**

approximately 17% and 18% of total revenue for the three months ended August 31, 2008 and 2007, and 19% of total revenue for the nine months ended August 31, 2008 and 2007, respectively. No other geographical location accounted for more than 10% of the Company's total revenue.

**NOTE 12 ACQUISITIONS:**

On April 1, 2008, the Company purchased substantially all of the assets of NAE, a privately-held distributor of IT and consumer electronics products to the retail sector. The Company expects this acquisition will expand its consumer electronics distribution business. The Company paid a purchase price of \$31,500 in cash and accrued \$11,750, to be paid subject to compliance with certain post-closing conditions. As of August 31, 2008 the Company has paid \$4,158 of the accrual. The acquisition agreement provides for additional earn-out payments of up to \$11,000 to be paid subject to achieving certain milestones after the first 12 months from the date of acquisition. In connection with the net assets acquired, the Company refinanced approximately \$84,003 in working capital debt. The NAE business has been substantially integrated into the Company's operations.

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

|  | <b>Fair Value</b> |
|--|-------------------|
| <b>Purchase consideration</b>              |                   |
| Cash paid                                  | \$ 35,658         |
| Accrual subject to post-closing conditions | 7,099             |
|  | \$ 42,757         |
| <b>Allocation</b>                          |                   |
| Cash                                       | \$ 11,164         |
| Accounts receivable                        | 69,600            |
| Inventories                                | 72,073            |
| Program receivable                         | 4,771             |
| Fixed assets                               | 1,248             |
| Prepaid expenses and other assets          | 648               |
| Goodwill                                   | 24,599            |
| Intangible assets                          | 8,000             |
| Accounts payable                           | (53,953)          |
| Accrued liabilities                        | (11,188)          |
| Lease obligations                          | (202)             |
| Loan payable                               | (84,003)          |
|  | \$ 42,757         |

The following unaudited pro forma financial information combines the consolidated results of operations as if the acquisition of NAE had occurred as of the beginning of the periods presented. Pro forma adjustments include only the effects of events directly attributable to

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transactions that are factually supportable and expected to have a continuing impact. The pro forma results contained in the table below include pro forma adjustments for amortization of acquired intangibles and depreciation expense.

|                                     | Three Months Ended |                 | Nine Months Ended |                 |
|-------------------------------------|--------------------|-----------------|-------------------|-----------------|
|                                     | August 31, 2008    | August 31, 2007 | August 31, 2008   | August 31, 2007 |
| Revenue                             | \$ 2,045,689       | \$ 1,987,815    | \$ 5,971,987      | \$ 5,657,267    |
| Net income                          | 22,060             | 16,236          | 58,151            | 42,761          |
| Net income per common share-basic   | \$ 0.70            | \$ 0.52         | \$ 1.84           | \$ 1.39         |
| Net income per common share-diluted | 0.66               | 0.50            | 1.75              | 1.32            |

The pro forma financial information is not necessarily indicative of the operating results that would have occurred had the acquisition been consummated as of the beginning of the periods presented, nor are they necessarily indicative of future operating results.

### *Other fiscal year 2008 acquisitions*

The Company's other fiscal year 2008 acquisitions, which were all in the Company's BPO business, were not significant individually or in the aggregate. In the second quarter of fiscal year 2008, the Company acquired three companies for an estimated total cash consideration of approximately \$2,954.

**Table of Contents****SYNEX CORPORATION****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS****For the three and nine months ended August 31, 2008 and 2007****(amounts in thousands, except per share amounts)****(unaudited)**

The allocation of purchase price in the above acquisitions is preliminary and the estimates and assumptions used are subject to change. The Company is continuing to evaluate the allocation of the purchase price to net tangible and identifiable intangible assets and does not expect the final allocation of the purchase price to have a material impact on the Company's financial position, results of operations, or cash flows.

**NOTE 13 RESTRUCTURING CHARGES:**

In fiscal year 2007, in connection with the acquisition of the Redmond Group of Companies ( RGC ), the Company announced a restructuring program in Canada. The measures, which included workforce reductions, facilities consolidation and other related expenses, were intended to align the Company's capacity and infrastructure, and utilize synergies within the business to provide more cost effective services to the Company's customers. During fiscal year 2007, the Company accrued \$2,358 in restructuring costs against goodwill related to the RGC acquisition in Canada under Emerging Issues Task Force 95-3 Recognition of Liabilities in Connection with a Purchase Business Combination ( EITF 95-3 ). These charges were primarily associated with facilities consolidation of \$1,050, workforce reductions of \$691 and contract termination costs of \$617.

In fiscal year 2007, the Company recorded \$2,744 for the restructuring and consolidation of its Canadian operations as a result of the acquisition of RGC and the purchase of a new logistics facility in Guelph, Canada in March 2007. These charges were primarily associated with \$1,107 for facilities consolidation, \$508 for workforce reductions, and \$278 for other costs. These charges were recorded in accordance with SFAS No. 146, Accounting for Costs Associated with Exit or Disposal Activities ( SFAS No. 146 ). The majority of all employees' terminations were completed by November 30, 2007. The Company recorded an impairment loss of \$851 included in the above \$2,744 restructuring cost for a property located in Ontario, Canada, that was held for sale, based on the fair value less costs to sell in accordance with SFAS No. 144,

Accounting for the Impairment or Disposal of Long-Lived Assets. The net book value of the property was \$1,978 at August 31, 2008 and \$2,149 as of November 30, 2007.

The following table summarizes the activity related to the liability for restructuring charges through August 31, 2008:

Restructuring charges per EITF 95-3:

|   | <b>Severance<br/>and Benefits</b> | <b>Facility and<br/>Exit Costs</b> | <b>Contractual<br/>Obligations</b> | <b>Other</b> | <b>Total</b> |
|---|-----------------------------------|------------------------------------|------------------------------------|--------------|--------------|
| Balance of accrual at November 30, 2007 | \$ 120                            | \$ 1,050                           | \$ 219                             | \$ 23        | \$ 1,412     |
| Cash payments                           | (95)                              | (748)                              |                                    |              | (843)        |
| Non-cash adjustments                    |                                   |                                    | (94)                               |              | (94)         |
| Balance of accrual at August 31, 2008   | \$ 25                             | \$ 302                             | \$ 125                             | \$ 23        | \$ 475       |

Restructuring charges per SFAS No. 146:

**Severance      Facility and**

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|  | <b>and Benefits</b> | <b>Exit Costs</b> | <b>Other</b> | <b>Total</b>  |
|--|---------------------|-------------------|--------------|---------------|
| Balance of accrual at November 30, 2007      | \$ 8                | \$ 489            | \$ 37        | \$ 534        |
| Cash payments                                | (8)                 | (334)             | (37)         | (379)         |
| <b>Balance of accrual at August 31, 2008</b> | <b>\$</b>           | <b>\$ 155</b>     | <b>\$</b>    | <b>\$ 155</b> |

The unpaid portion of the restructuring charges is included in the consolidated balance sheet under the caption Accrued liabilities.

The cash payments for all the amounts accrued related to these restructuring activities will be paid in fiscal year 2009.

In fiscal year 2008, in connection with the acquisition of NAE, the Company recorded liabilities of \$601 under EITF 95-3. The measures, which included workforce reductions and facilities consolidation, were intended to align the Company's capacity and infrastructure, and utilize synergies within the business to provide more cost effective services to the Company's customers. These charges were primarily associated with workforce reductions of \$435 and facilities consolidation of \$166. These items are subject to change based on the actual costs incurred. Changes to these estimates could increase or decrease the amount of the purchase price allocated to goodwill.

Restructuring charges per EITF 95-3:

|  | <b>Severance<br/>and Benefits</b> | <b>Facility and<br/>Exit Costs</b> | <b>Total</b> |
|--|-----------------------------------|------------------------------------|--------------|
| Accrual on April 1, 2008                     | \$ 435                            | \$ 166                             | \$ 601       |
| Cash payments                                | (435)                             | (119)                              | (554)        |
| <b>Balance of accrual at August 31, 2008</b> | <b>\$</b>                         | <b>\$ 47</b>                       | <b>\$ 47</b> |

The cash payments for all the amounts accrued related to these restructuring activities will be paid by the end of fiscal year 2008.

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**SYNEX CORPORATION**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**For the three and nine months ended August 31, 2008 and 2007**

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

**(unaudited)**

**NOTE 14 INCOME TAXES:**

Effective December 1, 2007, the Company adopted the provisions of FIN 48. FIN 48 clarifies the accounting for uncertainty in income taxes recognized in an enterprise's financial statements in accordance with SFAS No. 109, and prescribes a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. FIN 48 also provides guidance on derecognition, classification, interest and penalties, accounting in interim periods, disclosure and transition.

In adopting FIN 48, the Company has reclassified liabilities for unrecognized tax benefits for which the Company does not anticipate payment within one year to long-term income taxes payable. In addition, the Company has presented long-term deferred tax assets for certain benefits associated with the FIN 48 liability on a gross basis. The Company recognizes penalties and accrued interest related to unrecognized tax benefits in income tax expense.

The adoption of FIN 48 resulted in the reduction of the Company's consolidated beginning retained earnings by \$370. As of the adoption date, the Company had gross unrecognized tax benefits of \$5,107, of which \$2,483 would affect the effective tax rate if realized. The Company has accrued interest of \$635 for unrecognized tax benefits. The Company does not expect significant changes in its unrecognized tax benefits in the next 12 months.

The Company conducts business globally and files income tax returns in various U.S. and foreign tax jurisdictions. The Company is subject to continuous examination and audits by various tax authorities. In the U.S. and Canada, the Company is subject to examination and audits by tax authorities for tax years after fiscal 2003. Currently the Company is undergoing a U.S. Internal Revenue Service audit for the 2004 and 2005 tax years. The Company is unable to estimate the range of any possible adjustments due to uncertainty in the timing of the closure and/or resolution of the audit.

**NOTE 15 FAIR VALUE OF FINANCIAL INSTRUMENTS:**

The Company adopted SFAS No. 157 effective December 1, 2007 for financial assets and liabilities measured on a recurring basis. SFAS No. 157 applies to all financial assets and financial liabilities that are being measured and reported on a fair value basis. SFAS No. 157 establishes a framework for measuring fair value and expands disclosure about fair value measurements. The statement requires fair value measurements to be classified and disclosed in one of the following three categories:

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

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).

There was no impact for the adoption of SFAS No. 157 to the consolidated financial statements. The following table summarizes the valuation of the Company's short-term investments and financial instruments by the above SFAS No. 157 categories as of August 31, 2008:



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|   | August 31, 2008 |   |  |  |
|---|-----------------|---|--|--|
|   | <b>Total</b>    | <b>Quoted<br/>market<br/>prices in<br/>active<br/>markets<br/>(Level 1)</b> | <b>Significant<br/>other<br/>observable<br/>inputs<br/>(Level 2)</b> | <b>Significant<br/>unobservable<br/>inputs<br/>(Level 3)</b> |
| Trading securities                          | \$ 9,471        | \$ 9,471  | \$   | \$   |
| Available-for-sale securities               | 164             | 164   |  |  |
| Forward foreign currency exchange contracts | (1,905)         |   | (1,905)  |  |
| Long-term accounts receivable               | 53,557          |   | 53,557   |  |

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

The Company recorded a gain of \$5,647 and \$3,083 for the three and nine months ended August 31, 2008 and a loss of \$2,636 and \$3,015 for the three and nine months ended August 31, 2007, respectively, under Other income (expense) in the consolidated statement of operations for the changes in the fair value of its financial instruments for trading securities and forward foreign currency exchange contracts.

**Table of Contents****SYNEX CORPORATION****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS****For the three and nine months ended August 31, 2008 and 2007****(amounts in thousands, except per share amounts)****(unaudited)**

The following table presents the financial instruments that are not carried at fair value but which require fair value disclosure as of August 31, 2008 and November 30, 2007:

|                  | As of August 31, 2008 |            | As of November 30, 2007 |            |
|------------------|-----------------------|------------|-------------------------|------------|
|                  | Carrying Value        | Fair Value | Carrying Value          | Fair Value |
| Cost investments | \$ 7,317              | \$ 7,317   | \$ 7,779                | \$ 7,779   |
| Long-term debt   | 21,864                | 21,864     | 37,537                  | 37,537     |
| Convertible debt | 143,750               | 147,531    |                         |            |

The Company's investments accounted for under the cost method consist of equity securities in a private entity, investments in a hedge fund, and investments in a private equity fund. The fair value of the investments in a hedge fund and private equity fund was determined by analyzing the underlying invested assets. The fair value of the equity securities is based on a valuation model developed internally to measure impairment primarily based on the operating results and future earning prospects of the investee. The carrying value of long-term debt approximates fair value since current interest rates offered to the Company for debt of similar terms and maturities are approximately the same. The fair value of convertible debt is based on the closing price of the convertible debt traded in the limited trading market.

The carrying value of other financial instruments, including cash, 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 (expense) in the consolidated statement of operations.

The Company has adopted SFAS No. 159 effective December 1, 2007. The Company has not elected the fair value option for its financial instruments. The Company has reclassified all cash flows related to securities classified as trading from operating to investing activities in its consolidated statement of cash flows to reflect the nature of the investments in accordance with paragraph 16 of SFAS No. 159. The cash flows from the purchase and proceeds of \$5,370 and \$3,226, respectively, for trading securities, were reclassified from operating activities to investing activities for the nine months ended August 31, 2007.

**NOTE 16 COMMITMENTS AND CONTINGENCIES:**

The Company was contingently liable at August 31, 2008, under agreements to repurchase repossessed inventory acquired by Flooring Companies as a result of default on floor plan financing arrangements by the Company's customers. These arrangements are described in Note 6 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 August 31, 2008 under these agreements, nor is the Company 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 aware of any currently pending preference actions.

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

### **NOTE 17 LEGAL SETTLEMENT:**

In May 2002, Seanix Technology Inc. filed a trademark infringement action in the Federal Court of Canada against the Company and SYNEX Canada. The suit claimed that the Company and SYNEX Canada infringed on Seanix's exclusive rights to its Canadian trademark registration and caused confusion between the companies resulting from, among other things, the Company's and SYNEX Canada's use of trademarks confusingly similar to the Seanix trademarks. The complaint sought injunctive relief and monetary damages. In April 2008, the matter was settled on terms that were not material to the Company or SYNEX Canada.

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

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

**Overview**

We are a Fortune 500 Corporation and a leading business process services company, serving resellers and original equipment manufacturers, or OEMs, in multiple regions around the world. We provide services in IT distribution, supply chain management, contract assembly and business process outsourcing, or BPO. Our BPO services solutions include: demand generation, pre-sales support, product marketing, print and fulfillment, back office outsourcing and post-sales technical support.

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

We combine our core strengths in demand generation, IT distribution, supply chain management, and contract assembly in an effort to help our customers achieve efficient time to market, cost minimization, real-time linkages in the supply chain and aftermarket product support. As of August 31, 2008, we distributed approximately 15,000 technology products, as measured by active SKUs, from more than 100 IT OEM suppliers to more than 15,000 resellers throughout the United States, Canada and Mexico. As of August 31, 2008, we had over 6,000 full-time employees worldwide with operations in the United States, Canada, China, Mexico, Japan, the Philippines and the United Kingdom. From a geographic perspective, approximately 98% and 97% of our total revenue was from North America for the three and nine months ended August 31, 2008, respectively.

We purchase IT systems, peripherals, system components, packaged software and networking equipment from OEM suppliers such as Hewlett-Packard Company, or HP, Panasonic, Lenovo, IBM and Acer and sell them to our reseller customers. We perform the same function for our purchases of licensed software products. Our reseller customers include value-added resellers, or VARs, corporate resellers, government resellers, system integrators, direct marketers and retailers. Our largest OEM supplier, HP, accounted for approximately 35% and 32% of our total revenue for the three and nine months ended August 31, 2008, respectively.

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

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

**Recent Acquisitions and Divestitures**

We seek to augment our services offering with strategic acquisitions of businesses and assets that complement and expand our business process capabilities. We also divest businesses that we deem not strategic to our ongoing operations. Our historical

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acquisitions have brought us new reseller customers and OEM suppliers, extended the geographic reach of our operations, particularly in international markets, and diversified and expanded the services we provide to our OEM suppliers and customers. We account for acquisitions using the purchase method of accounting and include acquired entities within our consolidated financial statements from the closing date of the acquisition.

On April 1, 2008, we purchased substantially all of the assets of New Age Electronics Inc., or NAE, a privately-held distributor of IT and consumer electronics products to the retail sector. We expect this acquisition will expand our consumer electronics distribution business. We have paid a purchase price of \$31.5 million in cash and accrued \$11.8 million, to be paid subject to compliance with certain post-closing conditions. As of August 31, 2008, we have paid \$4.2 million of the accrual. The acquisition agreement provides for additional earn-out payments of up to \$11.0 million to be paid subject to achieving certain milestones after the first 12 months from the date of acquisition. In connection with the net assets acquired, we refinanced approximately \$84.0 million in working capital debt. The NAE business has been substantially integrated into our operations.

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

|  | <b>Fair Value<br/>(in thousands)</b> |
|--|--------------------------------------|
| <b>Purchase consideration</b>              |                                      |
| Cash paid                                  | \$ 35,658                            |
| Accrual subject to post-closing conditions | 7,099                                |
|  | \$ 42,757                            |
| <b>Allocation</b>                          |                                      |
| Cash                                       | \$ 11,164                            |
| Accounts receivable                        | 69,600                               |
| Inventories                                | 72,073                               |
| Program receivable                         | 4,771                                |
| Fixed assets                               | 1,248                                |
| Prepaid expenses and other assets          | 648                                  |
| Goodwill                                   | 24,599                               |
| Intangible assets                          | 8,000                                |
| Accounts payable                           | (53,953)                             |
| Accrued liabilities                        | (11,188)                             |
| Lease obligations                          | (202)                                |
| Loan payable                               | (84,003)                             |
|  | \$ 42,757                            |

The following unaudited pro forma financial information combines the consolidated results of operations as if the acquisition of NAE had occurred as of the beginning of the periods presented. Pro forma adjustments include only the effects of events directly attributable to transactions that are factually supportable and expected to have a continuing impact. The pro forma results contained in the table below include pro forma adjustments for amortization of acquired intangibles and depreciation expense.

|                                     | <b>Three Months Ended</b>                       |                        | <b>Nine Months Ended</b> |                        |
|-------------------------------------|---|------------------------|--------------------------|------------------------|
|                                     | <b>August 31, 2008</b>                          | <b>August 31, 2007</b> | <b>August 31, 2008</b>   | <b>August 31, 2007</b> |
|                                     | <b>(in thousands, except per share amounts)</b> |                        |                          |                        |
| Revenue                             | \$ 2,045,689                                    | \$ 1,987,815           | \$ 5,971,987             | \$ 5,657,267           |
| Net income                          | 22,060  | 16,236                 | 58,151                   | 42,761                 |
| Net income per common share-basic   | \$ 0.70   | \$ 0.52                | \$ 1.84                  | \$ 1.39                |
| Net income per common share-diluted | 0.66  | 0.50                   | 1.75                     | 1.32                   |

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The pro forma financial information is not necessarily indicative of the operating results that would have occurred had the acquisition been consummated as of the beginning of the periods presented, nor are they necessarily indicative of future operating results.

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### ***Other Fiscal Year 2008 Acquisitions***

Our other fiscal year 2008 acquisitions, which were all in our BPO business, were not significant individually or in the aggregate. In the second quarter of fiscal year 2008, we acquired three companies for an estimated total cash consideration of approximately \$3.0 million.

The allocation of purchase price in the above acquisitions is preliminary and the estimates and assumptions used are subject to change. We are continuing to evaluate the allocation of the purchase price to net tangible and identifiable intangible assets and do not expect the final allocation of the purchase price to have a material impact on our financial position, results of operations or cash flows.

### **Restructuring Charges**

In fiscal year 2007, in connection with the acquisition of substantially all of the assets of the Redmond Group of Companies, or RGC, we announced a restructuring program in Canada. The measures, which included workforce reductions, facilities consolidation and other related expenses, were intended to align our capacity and infrastructure, and utilize synergies within the business to provide more cost effective services to our customers. During fiscal year 2007, we accrued \$2.4 million in restructuring costs against goodwill related to the RGC acquisition in Canada under Emerging Issues Task Force 95-3 Recognition of Liabilities in Connection with a Purchase Business Combination, or EITF 95-3. These charges were primarily associated with facilities consolidation of \$1.1 million, workforce reductions of \$0.7 million and contract termination costs of \$0.6 million.

In fiscal year 2007, we recorded \$2.7 million for the restructuring, impairment and consolidation of our Canadian operations as a result of the acquisition of RGC and the purchase of our logistics facility in Guelph, Canada in March 2007. These charges were primarily associated with \$1.1 million for facilities consolidation, \$0.5 million for workforce reductions, and \$0.3 million for other costs. All charges were recorded in accordance with Statement of Financial Accounting Standards, or SFAS, No. 146, Accounting for Costs Associated with Exit or Disposal Activities. The majority of all employee terminations were completed by the end of November 30, 2007.

In conjunction with the above restructuring, we recorded an impairment loss of \$0.8 million for a property located in Ontario, Canada that was held for sale based on the fair value less costs to sell in accordance with SFAS No. 144, Accounting for the Impairment or Disposal of Long-Lived Assets. The net book value of the property was \$2.0 million at August 31, 2008 and \$2.1 million at November 30, 2007.

In fiscal year 2008, in connection with the acquisition of NAE, we recorded liabilities of \$0.6 million under EITF 95-3. The measures, which included workforce reductions and facilities consolidation, were intended to align our capacity and infrastructure, and utilize synergies within the business to provide more cost effective services to our customers. These charges were primarily associated with workforce reductions of \$0.4 million and facilities consolidation of \$0.2 million. These items are subject to change based on the actual costs incurred. Changes to these estimates could increase or decrease the amount of the purchase price allocated to goodwill.

### **Critical Accounting Policies and Estimates**

There have been no material changes in our critical accounting policies and estimates for the three and nine-month periods ended August 31, 2008 from our disclosure in our Annual Report on Form 10-K for the year ended November 30, 2007. For a discussion of the critical accounting policies, please see the discussion in our Annual Report on Form 10-K for the fiscal year ended November 30, 2007.



**Table of Contents****Results of Operations**

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

|   | Three Months Ended |                 | Nine Months Ended |                 |
|---|--------------------|-----------------|-------------------|-----------------|
|   | August 31, 2008    | August 31, 2007 | August 31, 2008   | August 31, 2007 |
| <b>Statements of Operations Data:</b>   |                    |                 |                   |                 |
| Revenue   | 100.00%            | 100.00%         | 100.00%           | 100.00%         |
| Cost of revenue   | (94.48)            | (94.82)         | (94.54)           | (95.04)         |
| Gross profit  | 5.52               | 5.18            | 5.46              | 4.96            |
| Selling, general and administrative expenses  | (3.59)             | (3.63)          | (3.62)            | (3.41)          |
| Restructuring charges   | 0.00               | (0.16)          | 0.00              | (0.05)          |
| Income from operations before non-operating items, income taxes and minority interest | 1.93               | 1.39            | 1.84              | 1.50            |
| Interest expense and finance charges, net   | (0.15)             | (0.20)          | (0.19)            | (0.21)          |
| Other income (expense), net   | (0.09)             | (0.01)          | (0.06)            | 0.02            |
| Income before income taxes and minority interest                                      | 1.69               | 1.18            | 1.59              | 1.31            |
| Provision for income taxes  | (0.61)             | (0.36)          | (0.57)            | (0.46)          |
| Income before minority interest   | 1.08               | 0.82            | 1.02              | 0.85            |
| Minority interest   | 0.00               | 0.00            | (0.01)            | 0.00            |
| Net income  | 1.08%              | 0.82%           | 1.01%             | 0.85%           |

**Three and Nine Months Ended August 31, 2008 and 2007****Revenue.**

|         | Three Months Ended |                 |          | Nine Months Ended |                 |          |
|---------|--------------------|-----------------|----------|-------------------|-----------------|----------|
|         | August 31, 2008    | August 31, 2007 | % Change | August 31, 2008   | August 31, 2007 | % Change |
| Revenue | \$ 2,045,689       | \$ 1,760,360    | 16.2%    | \$ 5,672,335      | \$ 5,033,444    | 12.7%    |

We sell in excess of 15,000 (as measured by active SKU's) technology products from more than 100 IT OEM suppliers to more than 15,000 resellers. The prices of our products are highly dependent on the volumes purchased within a product category. The products we sell from one period to the next are often not comparable because of rapid changes in product models and features.

Our increase in revenue year over year for the three months ended August 31, 2008, was primarily attributable to an increase in our U.S. and Canadian distribution operations. More than three-fourths of the increase in the U.S. was attributable to our acquisition of NAE on April 1, 2008.

More than half of the increase in revenue year over year for the nine months ended August 31, 2008 was attributable to our acquisition of NAE and the full impact of nine months operations of PC Wholesale and RGC, which were acquired in the first and second quarter of fiscal year 2007, respectively. The remaining increase in revenue was a result of continued organic growth in our business in all major categories, primarily due to increased volumes resulting from market share gains, augmented by stronger execution and increased selling and marketing efforts. The BPO services revenue was not material to our overall revenue growth.

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

**Gross Profit.**

|                       | Three Months Ended                |                 |          | Nine Months Ended                 |                 |          |
|-----------------------|-----------------------------------|-----------------|----------|-----------------------------------|-----------------|----------|
|                       | August 31, 2008<br>(in thousands) | August 31, 2007 | % Change | August 31, 2008<br>(in thousands) | August 31, 2007 | % Change |
| Gross profit          | \$ 112,899                        | \$ 91,226       | 23.8%    | \$ 309,554                        | \$ 249,895      | 23.9%    |
| Percentage of revenue | 5.52%                             | 5.18%           | 6.6%     | 5.46%                             | 4.96%           | 10.1%    |

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

Our gross profit as a percentage of revenue increased by 34 basis points over the prior year quarter for the three months ended

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August 31, 2008 primarily due to greater success in maximizing our variable incentives and continued focus on costs, inventory and freight management. The increase was also driven by our continued focus to improve all aspects of our gross margin as well as the continuing impact of expansion of our business process services model.

The increase of 50 basis points in our gross profit as a percentage of revenue over the prior year period for the nine months ended August 31, 2008 was primarily due to higher gross margin profile for our BPO acquisitions made in fiscal year 2007 and also including all the above mentioned factors.

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

**Selling, General and Administrative Expenses.**

|  | Three Months Ended                |                                   |          | Nine Months Ended                 |                                   |          |
|--|-----------------------------------|-----------------------------------|----------|-----------------------------------|-----------------------------------|----------|
|  | August 31, 2008<br>(in thousands) | August 31, 2007<br>(in thousands) | % Change | August 31, 2008<br>(in thousands) | August 31, 2007<br>(in thousands) | % Change |
| Selling, general and administrative expenses | \$ 73,394                         | \$ 63,960                         | 14.7%    | \$ 205,597                        | \$ 171,874                        | 19.6%    |
| Percentage of revenue                        | 3.59%                             | 3.63%                             | -1.1%    | 3.62%                             | 3.41%                             | 6.2%     |

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

Selling, general and administrative expenses increased in the third quarter of fiscal year 2008, on a dollar basis mainly due to an increase in compensation cost of \$7.4 million resulting from an increase in employees, primarily from acquisitions and the remainder was due to an increase of \$1.5 million in professional services fees, rent, amortization and costs to support our increased revenue partially offset by \$1.5 million of increased losses related to our deferred compensation program. Selling, general and administrative expenses decreased as a percentage of revenue as a result of revenue leverage and our continued focus on managing our costs.

Selling, general and administrative expenses increased in the nine months ended August 31, 2008, both on a dollar basis as well as percentage of revenue due to an increase in compensation cost of \$25.7 million resulting from an increase in employees, primarily from partial impact of acquisitions made in fiscal year 2008 and the full impact of acquisitions made in fiscal year 2007, an increase in professional fees of \$2.0 million, an increase in amortization expense of intangible assets of \$1.3 million and an increase in travel expenses of \$1.1 million partially offset by \$3.1 million of increased losses related to our deferred compensation program. The remaining increase was mainly due to an increase in variable operating costs to support our increased revenue.

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

|   | Three Months Ended                |                                   |          | Nine Months Ended                 |                                   |          |
|---|-----------------------------------|-----------------------------------|----------|-----------------------------------|-----------------------------------|----------|
|   | August 31, 2008<br>(in thousands) | August 31, 2007<br>(in thousands) | % Change | August 31, 2008<br>(in thousands) | August 31, 2007<br>(in thousands) | % Change |
| Income from operations before non-operating items, income taxes and minority interest | \$ 39,505                         | \$ 24,522                         | 61.1%    | \$ 103,957                        | \$ 75,277                         | 38.1%    |
| Percentage of revenue   | 1.93%                             | 1.39%                             | 38.8%    | 1.84%                             | 1.50%                             | 22.7%    |

The increase in our income from operations before non-operating items, income taxes and minority interest as a percentage of revenue was primarily a result of an increase in our revenue as well as an increase in gross margin. This increase was slightly offset in part by increases in selling, general and administrative expenses. The percentage of income from operations before non-operating items, income taxes and minority interest for the three and nine months ended August 31, 2007 was also impacted by a \$2.7 million restructuring charge taken in Canada.

**Interest Expense and Finance Charges, Net.**

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|  | Three Months Ended                |                                   |          | Nine Months Ended                 |                                   |          |
|--|-----------------------------------|-----------------------------------|----------|-----------------------------------|-----------------------------------|----------|
|  | August 31, 2008<br>(in thousands) | August 31, 2007<br>(in thousands) | % Change | August 31, 2008<br>(in thousands) | August 31, 2007<br>(in thousands) | % Change |
| Interest expense and finance charges,<br>net | \$ 3,137                          | \$ 3,472                          | -9.6%    | \$ 10,614                         | \$ 10,225                         | 3.8%     |
| Percentage of revenue                        | 0.15%                             | 0.20%                             | -25.0%   | 0.19%                             | 0.21%                             | -9.5%    |

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

The decrease in interest expense and finance charges, net, for the three months ended August 31, 2008 compared to the prior year quarter was due to lower finance charges of \$0.3 million primarily as a result of lower interest rates.

The increase in interest expense and finance charges, net, for the nine months ended August 31, 2008 compared to the prior year period was due to higher finance charges of \$0.6 million primarily as a result of increased borrowings to support our business growth and acquisitions, partially offset by decreased interest rates. In addition, our interest income from our Mexico operation and other deposits decreased by \$0.7 million offset by decreased finance charges on reduced flooring sales of \$0.9 million.

**Other Income (Expense), Net.**

|                             | Three Months Ended                |                                   |          | Nine Months Ended                 |                                   |          |
|-----------------------------|-----------------------------------|-----------------------------------|----------|-----------------------------------|-----------------------------------|----------|
|                             | August 31, 2008<br>(in thousands) | August 31, 2007<br>(in thousands) | % Change | August 31, 2008<br>(in thousands) | August 31, 2007<br>(in thousands) | % Change |
| Other income (expense), net | \$ (1,787)                        | \$ (132)                          | 1253.8%  | \$ (3,252)                        | \$ 930                            | -449.7%  |
| Percentage of revenue       | 0.09%                             | 0.01%                             | 800.0%   | 0.06%                             | 0.02%                             | 200.0%   |

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 expense, net for the three months ended August 31, 2008 compared to the prior year quarter was due to increased losses of \$1.6 million of trading securities related to our deferred compensation program.

The decrease in Other income (expense), net for the nine months ended August 31, 2008 compared to the prior year period was due to losses of \$3.4 million of trading securities related to our deferred compensation program. In addition, Other expense, net also included approximately \$1.0 million in fiscal year 2008 for other-than-temporary impairment of our securities related to our deferred compensation program and available-for-sale securities, offset by a foreign exchange gain of \$0.5 million.

**Provision for Income Taxes.**

Our effective tax rate in the three and nine months ended August 31, 2008 was 35.9% and 35.8% as compared with an effective tax rate of 30.8% and 34.7% in the three and nine months ended August 31, 2007, respectively. The effective income tax rate for the three month and nine months ended August 31, 2007 was lower primarily due to a one-time benefit of \$1.1 million resulting from the conclusion of a Canadian tax audit.

**Minority Interest.**

Minority interest represents the portion of earnings attributable to other minority shareholders.

**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 flooring programs and the sale or pledge of our accounts receivable under our securitization 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. The primary uses of cash have been to fund working capital for acquisitions and for increased sales.

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To increase our market share and better serve our customers, we may further expand our operations through investments or acquisitions. We expect that such expansion would require an initial investment in personnel, facilities and operations, which may be more costly than similar investments in current operations. As a result of these investments, we may experience an increase in cost of sales and operating expenses that is disproportionate to revenue from those operations. These investments or acquisitions would likely be funded primarily by additional borrowings or issuing common stock.

The net cash flow provided by operating activities increased mainly due to increased earnings. Net cash provided by operating activities was \$57.9 million in the nine months ended August 31, 2008. Cash provided by operating activities was primarily attributable to net income of \$57.4 million, a decrease in other assets of \$26.1 million, a net decrease in accounts receivable of \$15.4 million and depreciation and amortization of \$14.1 million, partially offset by an increase in inventories of \$33.1 million, an increase in vendor receivable of \$13.4 million and a decrease in accounts payable of \$2.6 million.

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Net cash used in investing activities was \$52.1 million in the nine months ended August 31, 2008. Cash used in investing activities was primarily for the acquisitions of NAE and others of \$22.6 million (net of cash acquired of \$16.9 million) and capital expenditures of \$25.8 million, which was primarily for the construction of a new logistics facility in Mississippi and the expansion of our sales and marketing headquarters in Greenville, South Carolina.

We adopted SFAS No. 159 *The Fair Value Option for Financial Assets and Financial Liabilities* Including an amendment of FASB Statement No. 115, or SFAS No. 159 effective December 1, 2007. We did not elect the fair value option for our financial instruments. In accordance with paragraph 16 of SFAS No. 159, we have reclassified all cash flows related to securities classified as trading from operating to investing activities in our consolidated statement of cash flows to reflect the nature of the investments. The cash flows from the purchase and proceeds of \$5.4 million and \$3.2 million, respectively, for trading securities, were reclassified from operating activities to investing activities for the nine months ended August 31, 2007.

Net cash provided by financing activities was \$5.9 million in the nine months ended August 31, 2008, and was primarily related to the proceeds from the issuance of convertible debt of \$140.2 million, net, offset by the net repayments of securitization arrangements, bank loans and our revolving line of credit of \$146.1 million and bank overdraft of \$6.7 million.

### ***Capital Resources.***

Our cash and cash equivalents totaled \$59.8 million and \$42.9 million at August 31, 2008 and November 30, 2007, respectively. We believe we will have sufficient resources to meet our present and future working capital requirements for the next 12 months, based on our financial strength and performance, existing sources of liquidity, available cash resources and funds available under our various borrowing arrangements.

### ***Off Balance Sheet Arrangements.***

We have a one-year revolving accounts receivable securitization program in Canada, or Canadian Arrangement, through SYNEX Canada Limited, or SYNEX Canada, which provides for the sale of U.S. and Canadian trade accounts receivable, or Canadian Receivables, to a financial institution up to a maximum of C\$125.0 million. In connection with the Canadian Arrangement, SYNEX Canada sells its Canadian Receivables to the financial institution on a fully-serviced basis. The effective discount rate of the Canadian Arrangement is the prevailing Bankers' Acceptance rate of return or prime rate in Canada plus 0.60% per annum. To the extent that cash was received in exchange, the amount of Canadian Receivables sold to the financial institution has been recorded as a true sale, in accordance with SFAS No. 140, *Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities* - a replacement of FASB Statement No. 125, or SFAS No. 140. The amount of our accounts receivable sold to and held by the financial institution under our Canadian Arrangement totaled \$68.0 million and \$115.9 million as of August 31, 2008 and November 30, 2007, respectively.

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

We have also issued guarantees to certain vendors and lenders of our subsidiaries for an aggregate amount of \$202.6 million as of August 31, 2008 and \$206.1 million as of November 30, 2007. We are obligated under these guarantees to pay amounts due should our subsidiaries not pay valid amounts owed to their vendors or lenders. The vendor guarantees are typically less than one-year arrangements, with 30-day cancellation clauses and the lender guarantees are typically for the term of the loan agreement.

### ***On Balance Sheet Arrangements.***

We primarily finance our U.S. operations with an accounts receivable securitization program, or U.S. Arrangement, by selling up to a maximum of \$350.0 million in U.S. trade accounts receivable, or U.S. Receivables. The maturity date of the U.S. Arrangement is February 2011. The effective borrowing cost under the U.S. Arrangement is a blend of the prevailing dealer commercial paper rate and LIBOR plus 0.55% per annum. We fund our borrowings by pledging all of our rights, title and interest in and to the U.S. Receivables as security. The balance outstanding and pledged on the U.S. Arrangement as of August 31, 2008 and November 30, 2007 was \$270.0 million and \$299.9 million, respectively.

As is customary in trade accounts receivable securitization arrangements, a credit rating agency's downgrade of the third party issuer of commercial paper or of a back-up liquidity provider (which provides a source of funding if the commercial paper market cannot be accessed) could result in an adverse change or loss of our financing capacity under these programs if the commercial paper issuer or liquidity back-up

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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 group of financial institutions. The Revolver's maximum commitment was amended from \$100.0 million to \$120.0 million in April 2008. Interest on borrowings under the Revolver is based on the financial institution's prime rate or LIBOR plus 1.50% per annum at our option. The Revolver is secured by our inventory and other assets (including the assets of our domestic subsidiaries, but excluding the assets of and ownership in our foreign subsidiaries) and expires in February 2011. There were no borrowings outstanding under the Revolver as of August 31, 2008, and as of November 30, 2007, the borrowings outstanding were \$10.9 million.



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SYNEX Canada has a revolving line of credit arrangement with a credit limit of C\$30.0 million. The revolving credit facility expires in April 2010. Interest on this facility is based on the Canadian adjusted prime rate. SYNEX Canada has granted a lien on substantially all of its assets in favor of the lenders under its revolving credit facility. In connection with this revolving credit facility, we issued a guarantee of SYNEX Canada's obligations, of up to C\$20.0 million, and agreed to subordinate our right to repayment of amounts received from SYNEX Canada to the prior repayment of SYNEX Canada's obligations under its revolving credit facility, except to the extent that SYNEX Canada is permitted to make distributions to us in accordance with the terms of its revolving credit facility. The balance outstanding as of August 31, 2008 and November 30, 2007 was \$19.8 million and \$17.5 million, respectively.

SYNEX Canada obtained a credit facility with a financial institution in Canada to allow us to issue documentary letters of credit up to a maximum of C\$30.0 million for validity up to 180 days on September 6, 2007. The letters of credit are issued to secure purchases of inventory from manufacturers and to finance import activities. This facility has an overdraft limit up to a maximum amount of C\$2.0 million available in Canadian and U.S. dollars for a maximum of two business days to repay draws under letters of credit or letters of guarantee. SYNEX Canada has granted a lien, in favor of the financial institution in Canada, on the inventory financed under this credit facility, all accounts receivable from the sale of such inventory, all proceeds of sale of such inventory and collection of such accounts receivable and up to C\$3.0 million in cash on deposit with the financial institution in Canada. In connection with this credit facility, we issued a guarantee of SYNEX Canada's obligations in favor of the financial institution in Canada of up to C\$20.0 million. Letters of credit issued against this facility were \$6.8 million as of August 31, 2008 and \$13.9 million as of November 30, 2007.

Our Mexico subsidiary, SYNEX Mexico S.A. de C.V., or SYNEX Mexico, established a secured term loan agreement, or Term Loan, with a group of financial institutions in May 2006. The interest rate for any unpaid principal amount is the Equilibrium Interbank Interest Rate, plus 2.00% per annum. The final maturity date for repayment of all unpaid principal is November 24, 2009. The balance outstanding, under the Term Loan as of August 31, 2008 was \$32.0 million and \$47.9 million as of November 30, 2007. The Term Loan contains customary financial covenants. In connection with this Term Loan, we issued a guarantee of SYNEX Mexico's obligations.

We have other lines of credit and revolving facilities with financial institutions, which provide for borrowing capacity aggregating approximately \$7.3 million and \$13.4 million at August 31, 2008 and November 30, 2007, respectively. At August 31, 2008 and November 30, 2007, we had borrowings of \$2.3 million and \$0.2 million, respectively, outstanding under these facilities. We also have various term loans, including a term loan facility in Canada, short-term borrowings and mortgages with financial institutions totaling approximately \$10.9 million and \$12.4 million at August 31, 2008 and November 30, 2007, respectively. The expiration dates of these facilities range from 2008 to 2017.

***Covenants Compliance***

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

As of August 31, 2008, 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 Notes, in a private placement. The Notes bear interest at a rate of 4.0% per annum. Interest on the Notes is payable in cash semi-annually in arrears on May 15 and November 15 of each year, beginning November 15, 2008. In addition, we will pay contingent interest in respect of any six-month period from May 15 to November 14 or from November 15 to May 14, with the initial six-month period commencing May 15, 2013, if the trading price of the Notes for each of the ten trading days immediately preceding the first day of the applicable six-month period equals 120% or more of the principal amount of the Notes. During any interest period when contingent interest is payable, the contingent interest payable per Note is equal to 0.55% of the average trading price of the Notes during the ten trading days immediately preceding the first day of the applicable six-month interest period. The Notes mature on May 15, 2018, subject to earlier redemption, repurchase or conversion.

Holder may convert their Notes at their option at any time prior to the close of business on the business day immediately preceding the maturity date for such Notes under the following circumstances: (1) during any fiscal quarter after the fiscal quarter ended August 31, 2008 (and only during such fiscal quarter), if the last reported sale price of our common stock for at least 20 trading days in the period of 30 consecutive trading

days ending on the last trading day of the immediately preceding fiscal quarter is equal to

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

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

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

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

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

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

**Related Party Transactions**

We have a business relationship with MiTAC International 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 August 31, 2008, MiTAC International and its affiliates beneficially owned approximately 40% of our common stock. In addition, Matthew Miao, the Chairman of our Board of Directors and a non-executive director since 1992, is also the Chairman of MiTAC International and each of its affiliated entities below. As a result, MiTAC International is generally able to control us and to determine the outcome of all matters submitted to stockholders for consideration, including any merger or acquisition of ours. Among other things, this could have the effect of delaying, deterring or preventing a change of control over us with the loss of any premium that stockholders otherwise might receive in connection with such a transaction.

We work closely with MiTAC International to collaborate on OEM outsourcing opportunities and jointly market MiTAC International's design and electronic manufacturing services and our contract assembly capabilities. This relationship has enabled us to build relationships with MiTAC International's customers and we continue to work with and depend on MiTAC International to jointly serve our shared customers. We purchased inventories, including notebook computers, motherboards and other peripherals, from MiTAC International and its affiliates totaling approximately \$56.3 million and \$72.2 million for the three months ended August 31, 2008 and 2007, respectively, and \$195.8 million and \$216.7 million during the nine months ended August 31, 2008 and 2007, respectively. Our sales to MiTAC International and its affiliates in the three months ended August 31, 2008 and 2007, totaled approximately \$0.6 million and \$0.2 million, respectively, and \$1.3 million and \$1.5 million for the nine months ended August 31, 2008 and 2007, respectively. Most of these purchases and sales were pursuant to our Master Supply Agreement with MiTAC International and Sun Microsystems, one of our contract assembly customers. Our business relationship to date with MiTAC International has been informal and is not governed by long-term commitments or arrangements with respect to pricing terms, revenue or capacity commitments.

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Accordingly, we negotiate manufacturing and pricing terms on a case-by-case basis with MiTAC International and our contract assembly customers for a given project. While MiTAC International is a related party and a controlling stockholder, we believe that the significant terms under these agreements, including pricing, would not materially differ from the terms we could have negotiated

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with unaffiliated third parties, and we have adopted a policy requiring that material transactions with MiTAC International or its related parties be approved by our Audit Committee, which is composed solely of independent directors. In addition, Mr. Miao's compensation is approved by the Nominating and Corporate Governance Committee, which is also composed solely of independent directors. As MiTAC International's ownership interest in us decreases as a result of sales of our stock and additional dilution, its interest in the success of our business and operations may decrease as well.

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

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

As noted above, MiTAC International and its affiliates in the aggregate beneficially owned approximately 40% of our common stock as of August 31, 2008. These shares are owned by the following entities:

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

- (1) Shares held via Silver Star Developments Ltd., a wholly-owned subsidiary of MiTAC International. Excludes 1,267,651 shares (of which 45,150 shares are directly held and 1,222,501 shares are subject to exercisable options) held by Matthew Miao.
- (2) Synnex Technology International Corp., or Synnex Technology International, is a separate entity from us and is a publicly-traded corporation in Taiwan. Shares held via Peer Development Ltd, a wholly-owned subsidiary of Synnex Technology International. MiTAC International owns a minority interest in MiTAC Incorporated, a privately-held Taiwanese company, which in turn holds a minority interest in Synnex Technology International.

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

During fiscal year 2007, we purchased shares of MiTAC International related to the deferred compensation plan of Robert Huang, our President and Co-Chief Executive Officer. As of August 31, 2008, the value of the stock acquired was \$1.2 million. Except as described herein, none of our officers or directors has an interest in MiTAC International or its affiliates.

Synnex Technology International is a publicly-traded corporation in Taiwan that currently provides distribution and fulfillment services to various markets in Asia and Australia, and is also a potential competitor of ours. Neither MiTAC International nor Synnex Technology International is restricted from competing with us. In the future, we may increasingly compete with Synnex Technology International, particularly if our business in Asia expands or Synnex Technology International expands its business into geographies or customers we serve. Although Synnex Technology International is a separate entity from us, it is possible that there will be confusion as a result of the similarity of our names. Moreover, we cannot limit or control the use of the Synnex name by Synnex Technology International in certain geographies and our use of the Synnex name may be restricted as a result of registration of the name by Synnex Technology International or the prior use in jurisdictions where it currently operates.

**Recent Accounting Pronouncements**

In December 2007, the Financial Accounting Standards Board, or FASB, issued SFAS No. 141 (revised 2007), Business Combinations, or SFAS No. 141R. SFAS No. 141R establishes principles and requirements for how an acquirer recognizes and measures in its financial statements the identifiable assets acquired, the liabilities assumed, any noncontrolling interest in the acquiree and the goodwill acquired. SFAS No. 141R also establishes disclosure requirements to enable the evaluation of the nature and financial effects of the business combination. SFAS No. 141R is effective as of the beginning of an entity's fiscal year that begins after December 15, 2008, and will be adopted by us in the first quarter of fiscal year 2010. We are currently evaluating the potential impact, if any, of the adoption of SFAS No. 141R on our consolidated results of operations and financial condition.

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

On February 20, 2008, the FASB issued Staff Position, or FSP No. FAS 140-3, Accounting for Transfers of Financial Assets and Repurchase Financing Transactions, or FSP FAS 140-3. FSP FAS 140-3 requires that an initial transfer of a financial asset and a repurchase financing that was entered into contemporaneously with, or in contemplation of, the initial transfer be evaluated together as a linked transaction under SFAS 140, unless certain criteria are met. FSP FAS 140-3 is effective for our financial statements for the fiscal year beginning on December 1, 2008 and earlier adoption is not permitted. We are assessing the potential impact that the adoption of FSP FAS 140-3 may have on our consolidated results of operations and financial condition.

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In March 2008, the FASB issued SFAS No. 161, *Disclosures about Derivative Instruments and Hedging Activities* an amendment of FASB Statement No. 133, or SFAS No. 161. This new standard requires enhanced disclosures for derivative instruments, including those used in hedging activities. It is effective for fiscal years and interim periods beginning after November 15, 2008, and will be applicable to us in the first quarter of fiscal year 2009. We are assessing the potential impact that the adoption of SFAS No. 161 may have on our consolidated results of operations and financial condition.

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

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

In May 2008, the FASB issued SFAS No. 162, *The Hierarchy of Generally Accepted Accounting Principles*, or SFAS No. 162. SFAS No. 162 identifies the sources of accounting principles and the framework for selecting the principles used in the preparation of financial statements of nongovernmental entities that are presented in conformity with generally accepted accounting principles, or GAAP. This statement will be effective 60 days following the Securities and Exchange Commission's approval of the Public Company Accounting Oversight Board amendments to AU Section 411, *The Meaning of Present Fairly in Conformity With Generally Accepted Accounting Principles*. We are assessing the potential impact that the adoption of SFAS No. 162 may have on our consolidated results of operations and financial condition.

***During the first quarter of fiscal year 2008, we adopted the following accounting standards:***

In June 2006, the FASB issued Interpretation No. 48, *Accounting for Uncertainty in Income Taxes* an interpretation of FASB Statement No. 109, or FIN 48. FIN 48 clarifies the accounting for uncertainty in income taxes recognized in an enterprise's financial statements in accordance with SFAS No. 109, *Accounting for Income Taxes*, and prescribes a recognition threshold and measurement process for financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. FIN 48 also provides guidance on derecognition, classification, interest and penalties, accounting in interim periods, disclosure and transition. We adopted FIN 48 effective December 1, 2007. See Note 14 to Consolidated Financial Statements for the effect of our application of FIN 48.

In September 2006, the FASB issued SFAS No. 157, *Fair Value Measurements*, or SFAS No. 157. SFAS No. 157 provides guidance for using fair value to measure assets and liabilities. It also responds to investors' requests for expanded information about the extent to which companies measure assets and liabilities at fair value, the information used to measure fair value, and the effect of fair value measurements on earnings. SFAS No. 157 applies whenever other standards require (or permit) assets or liabilities to be measured at fair value, and does not expand the use of fair value in any new circumstances. In February 2008, the FASB issued FSP No. FAS 157-1, *Application of FASB Statement No. 157 to FASB Statement No. 13 and Other Accounting Pronouncements That Address Fair Value Measurements for Purposes of Lease Classification or Measurement under Statement 13*, or FSP FAS 157-1, and FSP No. FAS No. 157-2, *Effective Date of FASB Statement No. 157*, or FSP FAS 157-2. FSP FAS 157-1 amends SFAS No. 157 to remove certain leasing transactions from its scope. FSP FAS 157-2 delays the effective date of SFAS No. 157 for all non-financial assets and non-financial liabilities, except for items that are recognized or disclosed at fair value in the financial statements on a recurring basis. These nonfinancial items include assets and liabilities such as reporting units measured at fair value in a goodwill impairment test and nonfinancial assets acquired and liabilities assumed in a business combination. We adopted SFAS No. 157, as it applies to our financial instruments, effective December 1, 2007. The impact of adoption of SFAS No. 157 is discussed in Note 15 to Consolidated Financial Statements.

In February 2007, the FASB issued SFAS No. 159, *The Fair Value Option for Financial Assets and Financial Liabilities* Including an amendment of FASB Statement No. 115, or SFAS No. 159, which permits entities to elect to measure many financial instruments and certain other items at fair value that are not currently required to be measured at fair value. This election is irrevocable. SFAS No. 159 was effective in the first quarter of fiscal year 2008. We did not elect to apply the fair value option to any of our financial instruments.





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**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 and nine-month period ended August 31, 2008 from our Annual Report on Form 10-K for the year ended November 30, 2007. 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 Co-Chief Executive Officers and Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosure. In designing and evaluating our disclosure controls and procedures, management recognized that disclosure controls and procedures, no matter how well conceived and operated, can provide only reasonable, not absolute, assurance that the objectives of the disclosure controls and procedures are met. Our disclosure controls and procedures have been designed to meet reasonable assurance standards. Additionally, in designing disclosure controls and procedures, our management necessarily was required to apply its judgment in evaluating the cost-benefit relationship of possible disclosure controls and procedures. The design of any disclosure controls and procedures also is based in part upon certain assumptions about the likelihood of future events, and there can be no assurance that any design will succeed in achieving its stated goals under all potential future conditions.

Based on their evaluation as of the end of the period covered by this Quarterly Report on Form 10-Q, our Co-Chief Executive Officers 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.

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**PART II - OTHER INFORMATION**

**ITEM 1A. Risk Factors**

**Risks Related to Our Business**

**We anticipate that our revenue and operating results will fluctuate, which could adversely affect the price of our common stock.**

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

general economic conditions and level of IT spending;

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

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

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

competitive conditions in our industry that impact our margins;

pricing, margin and other terms with our OEM suppliers;

decline in inventory value as a result of product obsolescence;

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

the impact of the business acquisitions we make.

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

Our operating results also are affected by the seasonality of the IT products and services industry. We have historically experienced higher sales in our fourth fiscal quarter due to patterns in the capital budgeting, federal government spending and purchasing cycles of end-users. These patterns may not be repeated in subsequent periods. You should not rely on period-to-period comparisons of our operating results as an indication of future performance. The results of any quarterly period are not indicative of results to be expected for a full fiscal year. In future quarters, our operating results may be below our expectations or those of our public market analysts or investors, which would likely cause our share price to decline. For example, in March 2005, we announced that our revenue and net income for the three months ended February 28, 2005 would be lower than our previously released guidance and, as a result, our share price subsequently declined substantially.

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

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Our future success is highly dependent on our relationships with a small number of OEM suppliers. Sales of HP products represented approximately 32% and 28% of our total revenue in the nine months ended August 31, 2008 and 2007, respectively. Our OEM supplier agreements typically are short-term and may be terminated without cause upon short notice. For example, our agreement with HP will expire on May 31, 2009. The loss or deterioration of our relationships with a major OEM supplier, the authorization by OEM suppliers of additional distributors, the sale of products by OEM suppliers directly to our reseller customers and end-users, or our failure to establish relationships with new OEM suppliers or to expand the distribution and supply chain services that we provide OEM suppliers could adversely affect our business, financial position and operating results. In addition, OEM suppliers may face liquidity or solvency issues that in turn could negatively affect our business and operating results.

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

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

As a result of significant price competition in the IT products and services industry, our gross margins are low, and we expect

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

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

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

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

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

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

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

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

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

Our ability to obtain particular products in the required quantities and to fulfill reseller customer orders on a timely basis is critical to our success. In most cases, we have no guaranteed price or delivery agreements with our OEM suppliers. We occasionally experience a supply shortage of certain products as a result of strong demand or problems experienced by our OEM suppliers. If shortages or delays persist, the price of those products may increase, or the products may not be available at all. In addition, our OEM suppliers may decide to distribute, or to

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substantially increase their existing distribution business, through other distributors, their own dealer networks, or directly to resellers. Accordingly, if we are not able to secure and maintain an adequate supply of products to fulfill our reseller customer orders on a timely basis, our business, financial position and operating results may be adversely affected.

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

A substantial portion of our IT systems operations, including our IT systems support and software development operations is located in China. In addition, we also conduct general and administrative activities from our facility in China. As of August 31, 2008, we had 648 support personnel located in China. We expect to increase our operations in China in the future. Our operations in China are subject to a number of risks relating to China's economic and political systems, including:

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

extensive government regulation;

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

the telecommunications infrastructure;

a relatively uncertain legal system; and

uncertainties related to continued economic and social reform.

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

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

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

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

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

effect of tax rate on purchase accounting for acquisitions; and

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

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

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

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

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

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

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

increase in our expenses and working capital requirements;

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

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

Our growth may be limited and our competitive position may be harmed if we are unable to identify, finance and complete

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

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

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

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

As of August 31, 2008, we had approximately \$546.7 million in outstanding short and long-term borrowings under term loans and lines of credit, excluding trade payables. The terms of one or more of the agreements under which this indebtedness was incurred may limit or restrict, among other things, our ability to:

incur additional indebtedness;

pay dividends or make certain other restricted payments;

consummate certain asset sales or acquisitions;

enter into certain transactions with affiliates; and

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

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



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

Our ability to make scheduled debt payments or to refinance our debt obligations depends on our financial and operating performance, which is subject to prevailing economic and competitive conditions and to certain financial, business and other factors beyond our control. We cannot assure you 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 delay capital expenditures, sell assets or operations, seek additional capital or restructure or refinance our indebtedness. We cannot assure you 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

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absence of such operating results and resources, we could face substantial liquidity problems and might be required to dispose of material assets or operations to meet our debt service and other obligations. Some of our credit facilities restrict our ability to dispose of assets and use the proceeds from the disposition. We may not be able to consummate those dispositions or to obtain the proceeds which we could realize from them and these proceeds may not be adequate to meet any debt service obligations then due.

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

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

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

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

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

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

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

A portion of our product distribution revenue is financed by floor plan financing companies. Floor plan financing companies are engaged by our customers to finance, or floor, the purchase of products from us. In exchange for a fee, we transfer the risk of loss on the sale of our products to the floor plan companies. We currently receive payment from these financing companies within approximately 15 to 30 business 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 not experienced any termination or significant reduction in floor plan arrangements in the past.

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

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

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

Our borrowings and securitization arrangements are variable-rate obligations that could expose us to interest rate risks. At August 31, 2008, we had approximately \$402.9 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, market conditions could limit our availability of capital, which could cause increases in interest margin spreads over underlying indexes, 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.

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

From time to time we have experienced incidents of theft at various facilities. In fiscal year 2005 we experienced theft as a result of break-in at one of our warehouses in which approximately \$4.0 million of inventory was stolen.

We filed a claim with our insurance providers for the amount of the losses, less a small deductible. We have received substantially all of the claimed amounts.

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

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

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

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

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

We rely almost entirely on arrangements with independent shipping companies, such as FedEx and UPS, for the delivery of our products from OEM suppliers and delivery of products to reseller customers. Freight and shipping charges can have a significant impact on our gross margin. As a result, an increase in freight surcharges due to rising fuel cost or general price increases will have an immediate adverse effect on our margins, unless we are able to pass the increased charges to our reseller customers or renegotiate terms with our OEM suppliers. In addition, in the past, UPS has experienced work stoppages due to labor negotiations with management. 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 nine months ended August 31, 2008 and 2007, approximately 21% and 22%, respectively, of our total revenue was generated outside the United States. Most of our international revenue, cost of revenue and operating expenses are denominated in foreign currencies. We presently have currency exposure arising from both sales and purchases denominated in foreign currencies. Changes in exchange rates between foreign currencies and the U.S. dollar may adversely affect our operating margins. For example, if these foreign currencies appreciate against the U.S. dollar, it will make it more expensive in terms of U.S. dollars to purchase inventory or pay expenses with foreign currencies. This could have a negative impact to us if revenue related to these purchases is transacted in U.S. dollars. In addition, currency devaluation can result in a loss to us if we hold deposits of that currency as well as make our products, which are usually purchased by us with U.S. dollars, relatively more expensive than products manufactured locally. We currently conduct only limited hedging activities, which involve the use of currency forward contracts. Hedging foreign currencies can be risky. There is also additional risk if the currency is not freely or actively traded. Some currencies, such as the Chinese Renminbi and Philippines Peso, are subject to limitations on conversion into other currencies, which can limit our ability to hedge or to otherwise react to rapid foreign currency devaluations. We cannot predict the impact of future exchange rate fluctuations on our business and operating results.

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

We operate in the highly competitive IT service industry. We are dependent in large part on our ability to retain the services of our key senior executives and other technical experts and personnel. Except for Robert Huang, our President and Co-Chief Executive Officer, Kevin Murai, our Co-Chief Executive Officer, and James Estill, SYNEX Canada's President and Chief Executive Officer,

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our employees and executives generally do not have employment agreements. Furthermore, we do not carry key person insurance coverage for any of our key executives. We compete for qualified senior management and technical personnel. The loss of, or inability to hire, key executives or qualified employees could inhibit our ability to operate and grow our business successfully.

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

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

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

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

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

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

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. For example, increased instability may adversely impact the desire of employees and customers to travel, the reliability and cost of transportation, our ability to obtain adequate insurance at reasonable rates or require us to incur increased costs for security measures for our domestic and international operations. These uncertainties make it difficult for us and our customers to accurately plan future business activities. More generally, these geopolitical social and economic conditions could result in increased volatility in the United States and worldwide financial markets and economy. We are predominantly uninsured for losses and interruptions caused by terrorist acts and acts of war.

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

We have international operations in Canada, China, Mexico, Japan, the Philippines and the United Kingdom. In the nine months ended August 31, 2008 and 2007, approximately 21% and 22%, respectively, of our total revenue was generated outside the United States. In both the nine months ended August 31, 2008 and 2007, approximately 19%, of our total revenue was generated in Canada. No other country or region accounted for more than 10% of our total revenue. Our international operations are subject to risks, including:

political or economic instability;

changes in governmental regulation;

changes in import/export duties;

trade restrictions;

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

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work stoppages or other changes in labor conditions;

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

taxes; and

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

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

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

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

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

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

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

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

**As of August 31, 2008, our executive officers, directors and principal stockholders owned approximately 41% of our common stock and this concentration of ownership could allow them to control all matters requiring stockholder approval and could delay or prevent a change in control of SYNEX.**



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As of August 31, 2008, our executive officers, directors and principal stockholders owned approximately 41% of our outstanding common stock. In particular, MiTAC International and its affiliates owned approximately 40% of our common stock.

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

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

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

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

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

Our relationship with Sun Microsystems and some of our other customers evolved from relationships that were initiated by MiTAC International. Our relationship with Sun Microsystems is a joint relationship with MiTAC International and us, and the future success of our relationship with Sun Microsystems depends on MiTAC International continuing to work with us to service Sun Microsystems' requirements. The original agreement between Sun Microsystems and MiTAC International was signed on August 28, 1999 and we became a party to the agreement on February 12, 2002. On May 16, 2007, we entered into a new Master Supply Agreement to be effective as of May 1, 2007 with Sun Microsystems and MiTAC International. Pursuant to this new agreement, the terms for the manufacture and purchase of each particular product awarded by Sun Microsystems are individually negotiated and if agreed upon by the parties, such terms are included in a product award letter. There is no minimum level of commitment required by any of the parties under this agreement. As under the prior agreement, we will negotiate manufacturing and pricing terms, on a project-by-project basis with MiTAC International and Sun Microsystems for a given project. All of our contract assembly services to Sun Microsystems will be covered by this agreement. This agreement has a term of three years and is automatically renewed for one-year periods until terminated in accordance with its terms. Any party may terminate this agreement with written notice if one of the other parties materially breaches any provision of the agreement and the breach is incapable of being cured or is not cured within 30 days. This agreement may also be terminated on written notice if one of the other parties becomes bankrupt or insolvent. If we are unable to maintain our relationship with MiTAC International, our relationship with Sun Microsystems could suffer and we could lose other customer relationships or referrals, which in turn could harm our business, financial position and operating results.

### **There could be potential conflicts of interest between us and affiliates of MiTAC International, 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, the Chairman of MiTAC International and as a director or officer of MiTAC International's affiliated companies. In fiscal year 2007, Matthew Miao received a \$225,000 retainer from us and was granted a restricted stock award of 2,000 shares of our common stock for his services as Chairman of the Board based primarily upon his non-executive back-up role to our President and Chief Executive Officer. Compensation payable to Mr. Miao was based upon

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approval of the Compensation Committee. For fiscal year 2008, Mr. Miao will receive a \$225,000 retainer and a restricted stock award of 2,000 shares of our common stock for providing the same services. Mr. Miao's compensation is based upon the approval of the Nominating and Corporate Governance Committee

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which is composed of disinterested 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 composed of disinterested members of the Board.

Synnex Technology International Corp., or Synnex Technology International, a publicly-traded company based in Taiwan and affiliated with MiTAC International, currently provides distribution and fulfillment services to various markets in Asia and Australia, and is also a potential competitor of ours. As of August 31, 2008, MiTAC Incorporated, a privately-held company based in Taiwan and a separate entity from MiTAC International, directly and indirectly owned approximately 14.9% of Synnex Technology International and approximately 8.0% of MiTAC International. As of August 31, 2008, MiTAC International directly and indirectly owned 0.3% of Synnex Technology International and Synnex Technology International directly and indirectly owned approximately 0.3% of MiTAC International. In addition, MiTAC International directly and indirectly owned approximately 8.7% of MiTAC Incorporated and Synnex Technology International directly and indirectly owned approximately 14.0% of MiTAC Incorporated as of August 31, 2008. Synnex Technology International indirectly through its ownership of Peer Developments Limited owned approximately 15.7% of our outstanding common stock as of August 31, 2008. Neither MiTAC International nor Synnex Technology International is restricted from competing with us. In the future, we may increasingly compete with Synnex Technology International, particularly if our business in Asia expands or Synnex Technology International expands its business into geographies or customers we serve. Although Synnex Technology International is a separate entity from us, it is possible that there will be confusion as a result of the similarity of our names. Moreover, we cannot limit or control the use of the Synnex name by Synnex Technology International in certain geographies and our use of the Synnex name may be restricted as a result of registration of the name by Synnex Technology International or the prior use in jurisdictions where it currently operates.

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

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

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

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

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

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

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

Currently, there is a trend towards reducing the number of authorized distributors used by OEM suppliers. As a smaller market participant in the IT product industries, than some of our competitors, we may be more susceptible to loss of business from further reductions of authorized distributors or contract assemblers by IT product OEMs. For example, the termination of our contract by HP with us would have a significant negative effect on our revenue and operating results. A determination by any of our primary OEMs to consolidate their business with other distributors or contract assemblers would negatively affect our business and operating results.

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

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

could adversely affect our business and operating results.

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

We operate in a highly competitive environment, both in the United States and internationally. The IT product distribution,

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

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

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

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

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

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

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

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

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

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

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

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

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

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

FASB recently adopted FASB Staff Position No. Accounting Principles Board 14-1, reflecting new rules that change the accounting for certain convertible debt instruments, including our convertible notes. Under these new rules, an issuer of a convertible debt instrument that may be settled entirely or partially in cash upon conversion will be required to account for the liability and equity components of the instrument separately. The debt component would be recorded at an estimated fair value, as of the issuance date, of a similar debt instrument without the conversion feature, and the difference between the proceeds for the convertible debt and the amount reflected as a debt liability would be recorded as additional paid-in capital. As a result, the debt is treated as if it had been issued at a discount and would subsequently be accreted to its par value over its expected life, with a rate of interest that reflects the issuer's nonconvertible debt borrowing rate. The resulting interest expense would likely be significantly higher than the actual cash interest expense payable on the instrument. The new rules are effective for fiscal years and interim periods beginning after December 15, 2008 and will be applied retrospectively to all periods presented. We are currently evaluating the new rules and cannot quantify the impact at this time. However, we expect to have higher interest expense starting in 2009 due to the non-cash interest expense accretion.

**ITEM 4. Submission of Matters to a Vote of Security Holders**

We held a special meeting of our stockholders on August 19, 2008 at our principal executive offices at 44201 Nobel Drive, Fremont, California 94538. The proposal considered at the special meeting was whether or not to approve the material terms of our 2003 Stock Incentive Plan, solely to preserve our ability to receive corporate income tax deductions that may otherwise be disallowed pursuant to Internal Revenue Code Section 162(m). The results of this first proposal were as follows: 27,710,370 shares voted in favor, 1,292,749 shares voted against and 18,538 shares abstained. This proposal was approved by our stockholders.

**ITEM 6. Exhibits**

- 10.1# Amended and Restated 2003 Stock Incentive Plan and form agreements thereunder.
- 10.2# Amended and Restated 2003 Employee Stock Purchase Plan.
- 10.3# Amendment to 2003 Employee Stock Purchase Plan.
- 31.1 Rule 13a-14(a) Certification of President and Co-Chief Executive Officer.
- 31.2 Rule 13a-14(a) Certification of Co-Chief Executive Officer.
- 31.3 Rule 13a-14(a) Certification of Chief Financial Officer.
- 32.1\* Statement of President, Co-Chief Executive Officers and Chief Financial Officer under Section 906 of the Sarbanes-Oxley Act of 2002 (18 U.S.C. Section 1350).

# Indicates management contract or compensatory plan or arrangement.



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

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**SIGNATURES**

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

Date: October 9, 2008

SYNEX Corporation

By: /s/ ROBERT T. HUANG  
Robert T. Huang  
President and Co-Chief Executive Officer

By: /s/ KEVIN M. MURAI  
Kevin M. Murai  
Co-Chief Executive Officer

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

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**EXHIBIT INDEX**

| <b>Exhibit Number</b> | <b>Description of Document</b>  |
|-----------------------|---|
| 10.1#                 | Amended and Restated 2003 Stock Incentive Plan and form agreements thereunder.  |
| 10.2#                 | Amended and Restated 2003 Employee Stock Purchase Plan.   |
| 10.3#                 | Amendment to 2003 Employee Stock Purchase Plan.   |
| 31.1                  | Rule 13a-14(a) Certification of President and Co-Chief Executive Officer.   |
| 31.2                  | Rule 13a-14(a) Certification of Co-Chief Executive Officer.   |
| 31.3                  | Rule 13a-14(a) Certification of Chief Financial Officer.  |
| 32.1*                 | Statement of President, Co-Chief Executive Officers and Chief Financial Officer under Section 906 of the Sarbanes-Oxley Act of 2002 (18 U.S.C. Section 1350). |

# Indicates management contract or compensatory plan or arrangement.

\* 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.