

SYNEX CORP
Form 10-Q
April 09, 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 February 29, 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
Common Stock, \$0.001 par value

Outstanding at March 31, 2008
31,867,896

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SYNEX CORPORATION

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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)**

| | February 29, 2008 | November 30, 2007 |
|---|-------------------|-------------------|
| ASSETS | | |
| Current assets: | | |
| Cash and cash equivalents | \$ 43,554 | \$ 42,875 |
| Short-term investments | 14,583 | 17,257 |
| Accounts receivable, net | 678,757 | 729,797 |
| Receivable from vendors, net | 109,746 | 96,035 |
| Receivable from affiliates | 7,511 | 9,790 |
| Inventories | 625,069 | 642,524 |
| Deferred income taxes | 18,132 | 18,612 |
| Current deferred assets | 14,746 | 14,478 |
| Other current assets | 10,589 | 16,859 |
| Total current assets | 1,522,687 | 1,588,227 |
| Property and equipment, net | 61,348 | 59,440 |
| Goodwill | 104,434 | 96,350 |
| Intangible assets, net | 21,504 | 21,590 |
| Deferred income taxes | 6,262 | 5,416 |
| Long-term deferred assets | 88,064 | 97,171 |
| Other assets | 23,697 | 18,909 |
| Total assets | \$ 1,827,996 | \$ 1,887,103 |
| LIABILITIES AND STOCKHOLDERS' EQUITY | | |
| Current liabilities: | | |
| Borrowings under securitization, term loans and lines of credit | \$ 304,198 | \$ 351,142 |
| Accounts payable | 563,675 | 588,801 |
| Payable to affiliates | 67,527 | 67,334 |
| Accrued liabilities | 113,891 | 120,617 |
| Current deferred liabilities | 33,970 | 35,522 |
| Income taxes payable | 5,300 | 5,103 |
| Total current liabilities | 1,088,561 | 1,168,519 |
| Long-term borrowings | 32,507 | 37,537 |
| Long-term liabilities | 23,480 | 14,533 |
| Long-term deferred liabilities | 56,367 | 60,565 |
| Deferred income taxes | 452 | 437 |
| Total liabilities | 1,201,367 | 1,281,591 |
| Minority interest in a subsidiary | 1,146 | 958 |

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Commitments and contingencies (Note 11)

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, 31,465 and 31,328 shares issued and outstanding | 31 | 31 |
| Additional paid-in capital | 197,660 | 196,128 |
| Accumulated other comprehensive income | 31,877 | 28,939 |
| Retained earnings | 395,915 | 379,456 |
| Total stockholders' equity | 625,483 | 604,554 |
| Total liabilities and stockholders' equity | \$ 1,827,996 | \$ 1,887,103 |

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

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SYNEX CORPORATION
CONSOLIDATED STATEMENTS OF OPERATIONS

(in thousands, except for per share amounts)

(unaudited)

| | Three Months Ended | |
|---|--------------------|-------------------|
| | February 29, 2008 | February 28, 2007 |
| Revenue | \$ 1,748,574 | \$ 1,588,276 |
| Cost of revenue | (1,652,724) | (1,513,852) |
| Gross profit | 95,850 | 74,424 |
| Selling, general and administrative expenses | (63,070) | (49,481) |
| Income from operations before non-operating items, income taxes and minority interest | 32,780 | 24,943 |
| Interest expense and finance charges, net | (4,167) | (3,058) |
| Other income (expense), net | (2,046) | 158 |
| Income before income taxes and minority interest | 26,567 | 22,043 |
| Provision for income taxes | (9,551) | (8,168) |
| Income before minority interest | 17,016 | 13,875 |
| Minority interest in a subsidiary | (188) | |
| Net income | \$ 16,828 | \$ 13,875 |
| Earnings per share: | | |
| Basic | \$ 0.54 | \$ 0.45 |
| Diluted | \$ 0.51 | \$ 0.43 |
| Weighted-average common shares outstanding - basic | 31,377 | 30,548 |
| Weighted-average common shares outstanding - diluted | 33,043 | 32,372 |

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

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SYNEX CORPORATION

CONSOLIDATED STATEMENTS OF CASH FLOWS

(in thousands)

(unaudited)

| | Three Months Ended | |
|---|--------------------|-------------------|
| | February 29, 2008 | February 28, 2007 |
| Cash flows from operating activities: | | |
| Net income | \$ 16,828 | \$ 13,875 |
| Adjustments to reconcile net income to net cash provided by (used in) operating activities: | | |
| Depreciation expense | 2,574 | 1,634 |
| Amortization of intangible assets | 1,814 | 1,198 |
| Share-based compensation | 1,568 | 1,004 |
| Provision for doubtful accounts | 1,269 | 2,043 |
| Excess tax benefit from share-based compensation | (170) | |
| Unrealized (gain) loss on trading securities | 822 | (220) |
| Realized (gain) loss on investments | 77 | (58) |
| Other-than-temporary impairment on securities | 806 | |
| Minority interest in a subsidiary | 188 | |
| Changes in assets and liabilities, net of acquisition of businesses: | | |
| Accounts receivable | 50,816 | (224,568) |
| Receivable from vendors | (13,061) | 6,216 |
| Receivable from affiliates | 2,279 | (3,355) |
| Inventories | 19,231 | 67,906 |
| Other assets | 15,532 | 8,535 |
| Payable to affiliates | 194 | (19,806) |
| Accounts payable | (10,188) | 7,725 |
| Accrued liabilities | (13,650) | (3,263) |
| Other liabilities | (3,754) | (8,628) |
| Net cash provided by (used in) operating activities | 73,175 | (149,762) |
| Cash flows from investing activities: | | |
| Purchase of short-term investments | (4,525) | (2,206) |
| Proceeds from sale of short-term investments | 6,127 | 802 |
| Acquisition of businesses, net of cash acquired | 812 | (33,213) |
| Purchase of property and equipment | (3,904) | (1,884) |
| Increase in restricted cash | (1,439) | (947) |
| Purchase of intangible asset | (1,495) | |
| Net cash used in investing activities | (4,424) | (37,448) |
| Cash flows from financing activities: | | |
| Proceeds from revolving line of credit and securitization | 313,107 | 324,380 |
| Payment of revolving line of credit and securitization | (358,983) | (130,182) |
| Payment of bank loan | (7,464) | (7,343) |
| Net proceeds under other lines of credit | | 73 |
| Excess tax benefit from share-based compensation | 170 | |
| Bank overdraft | (16,482) | (7,515) |
| Proceeds from issuance of common stock | 935 | 1,980 |

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| | | |
|--|-----------|-----------|
| Net cash provided by (used in) financing activities | (68,717) | 181,393 |
| Effect of exchange rate changes on cash and cash equivalents | 645 | 409 |
| Net increase in cash and cash equivalents | 679 | (5,408) |
| Cash and cash equivalents at beginning of period | 42,875 | 27,881 |
| Cash and cash equivalents at end of period | \$ 43,554 | \$ 22,473 |

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)**

| | Three Months Ended | |
|---|---------------------------|--------------------------|
| | February 29, 2008 | February 28, 2007 |
| Net income | \$ 16,828 | \$ 13,875 |
| Other comprehensive income: | | |
| Reclassification adjustment for other-than-temporary impairment loss on available-for-sale securities | 630 | |
| Foreign currency translation adjustment | 2,308 | (1,817) |
| Total comprehensive income | \$ 19,766 | \$ 12,058 |

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

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SYNEX CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the three months ended February 29, 2008 and February 28, 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 and contract assembly. SYNEX is headquartered in Fremont, California and has operations in the United States, Canada, China, Mexico, the Philippines and the United Kingdom ("UK").

The accompanying interim unaudited consolidated financial statements as of February 29, 2008 and for the three month periods ended February 29, 2008 and February 28, 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 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 three months ended February 29, 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-month period ended February 29, 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 February 29, 2008 and November 30, 2007, the Company had restricted cash in the amount of \$13,631 and \$12,192, respectively, for future payments to one of its vendors relating to a long-term project 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 February 29, 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 February 29, 2008, such losses have been within management's expectations.

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In the three months ended February 29, 2008 and February 28, 2007, no single customer exceeded 10% or more of the Company's total revenue. At February 29, 2008 one customer accounted for approximately 12% of the total consolidated accounts receivable balance. At 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 27% and 26% of the total revenue for the three months ended February 29, 2008 and February 28, 2007, respectively.

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SYNEX CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the three months ended February 29, 2008 and February 28, 2007

(amounts in thousands, except per share amounts)

(unaudited)

Fair value of financial instruments

The Company adopted Statement of Financial Accounting Standards (SFAS) No. 157, Fair Value Measurements 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 debt, trading and available-for-sale securities.

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 shares and restricted stock units. The calculation of net income per common share is presented in Note 8.

SFAS No. 128, Earnings per Share requires that employee stock options, non-vested restricted shares 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.

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 141R). SFAS 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 141R also establishes disclosure requirements to enable the evaluation of the nature and financial effects of the business combination. SFAS 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 2010. The Company is currently evaluating the potential impact, if any, of the adoption of SFAS 141R on the 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 160). SFAS 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 160 also establishes disclosure requirements that clearly identify and distinguish between the interests of the parent and the interests of the noncontrolling owners. SFAS 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 2010. The Company is currently evaluating the potential impact, if any, of the adoption of SFAS 160 on the 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 (SFAS 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 2009. The Company is assessing the potential impact that the adoption of SFAS 161 may have on its financial statements.

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During the first quarter of fiscal 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 FASB Statement No. 109, Accounting for Income Taxes, (SFAS 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. FIN 48 is effective for the fiscal years beginning after December 15, 2006 and 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 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

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SYNEX CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the three months ended February 29, 2008 and February 28, 2007

(amounts in thousands, except per share amounts)

(unaudited)

fair value, and does not expand the use of fair value in any new circumstances. In February 2008, the FASB issued FASB Staff Position 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 157-1) and FSP 157-2, Effective Date of FASB Statement No. 157 (FSP 157-2). FSP 157-1 amends SFAS No. 157 to remove certain leasing transactions from its scope. FSP 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 is effective for financial statements issued for fiscal years beginning after November 15, 2007 and 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 the Note 15 Fair Value of Financial Instruments.

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, 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 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.

During the three months ended February 29, 2008, the Company granted approximately forty thousand stock options, with an estimated total grant-date fair value of \$343. During the three months ended February 29, 2008, approximately twenty thousand shares of restricted stock were granted with an estimated total grant date value of \$425. During the three months ended February 29, 2008 and February 28, 2007, the Company recorded share-based compensation cost of \$1,568 and \$1,004, respectively.

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| | February 29, 2008 | November 30, 2007 |
|--|--------------------------|--------------------------|
| Short-term investments | | |
| Trading securities | \$ 9,938 | \$ 12,336 |
| Available-for-sale | 145 | 142 |
| Cost securities | 4,500 | 4,779 |
| | \$ 14,583 | \$ 17,257 |
| Accounts receivable, net | | |
| Trade accounts receivable | \$ 713,086 | \$ 763,723 |
| Less: Allowance for doubtful accounts | (13,779) | (13,258) |
| Less: Allowance for sales returns | (20,550) | (20,668) |
| | \$ 678,757 | \$ 729,797 |
| Receivable from vendors, net | | |
| Receivables from vendors | \$ 112,429 | \$ 98,737 |
| Less: Allowance for doubtful accounts | (2,683) | (2,702) |
| | \$ 109,746 | \$ 96,035 |
| Inventories | | |
| Components | \$ 53,477 | \$ 39,712 |
| Finished goods | 571,592 | 602,812 |
| | \$ 625,069 | \$ 642,524 |
| Property and equipment, net | | |
| Equipment and computers | \$ 54,261 | \$ 60,856 |
| Furniture and fixtures | 10,724 | 10,715 |
| Buildings, leasehold improvements and land | 58,156 | 53,874 |
| | 123,141 | 125,445 |

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| | | |
|--------------------------------|-----------|-----------|
| Less: Accumulated depreciation | (61,793) | (66,005) |
| | \$ 61,348 | \$ 59,440 |

Goodwill:

| | November 30, 2007 | Additions | Translation | February 29, 2008 |
|----------|-------------------|-----------|-------------|-------------------|
| Goodwill | \$ 96,350 | \$ 6,433 | \$ 1,651 | \$ 104,434 |

Goodwill increased as of February 29, 2008, compared to November 30, 2007, due to earn-out payments related to the SYNEX-Concentrix Corporation (formerly Link2Support, Inc.) and HiChina Web Solutions acquisitions.

Intangible assets, net:

| | February 29, 2008 | | | November 30, 2007 | | |
|-------------------------|-------------------|--------------------------|------------|-------------------|--------------------------|------------|
| | Gross Amount | Accumulated Amortization | Net Amount | Gross Amount | Accumulated Amortization | Net Amount |
| Vendor lists | \$ 22,062 | \$ (18,996) | \$ 3,066 | \$ 22,062 | \$ (18,458) | \$ 3,604 |
| Customer lists | 25,396 | (9,844) | 15,552 | 25,108 | (8,677) | 16,431 |
| Other intangible assets | 4,986 | (2,100) | 2,886 | 3,443 | (1,888) | 1,555 |
| | \$ 52,444 | \$ (30,940) | \$ 21,504 | \$ 50,613 | \$ (29,023) | \$ 21,590 |

Amortization expense was \$1,814 and \$1,198 for the three months ended February 29, 2008 and February 28, 2007, respectively. Intangible assets increased as of February 29, 2008 due to the purchase of a brand name by SYNEX Canada for \$1,495.

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

| | February 29, 2008 | | | November 30, 2007 | | |
|--------------------|-------------------|------------------------------|------------|-------------------|------------------------------|------------|
| | Cost | Unrealized (Losses)/Gains | Fair Value | Cost | Unrealized (Losses)/Gains | Fair Value |
| SHORT-TERM | | | | | | |
| Trading | \$ 10,552 | \$ (614) | \$ 9,938 | \$ 11,731 | \$ 605 | \$ 12,336 |
| Available-for-sale | 145 | | 145 | 772 | (630) | 142 |
| Cost securities | 4,500 | | 4,500 | 4,779 | | 4,779 |
| | \$ 15,197 | \$ (614) | \$ 14,583 | \$ 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.

During the first quarter of fiscal 2008 the Company recorded an other-than-temporary loss of \$630 on available-for-sale securities and \$176 on cost securities.

NOTE 6 ACCOUNTS RECEIVABLE ARRANGEMENTS:

The Company primarily finances its North America operations through two accounts receivable securitization programs, a U.S. facility (the "U.S. Arrangement") and a Canadian facility (the "Canadian Arrangement").

The U.S. Arrangement allows the Company to sell up to a maximum of \$350,000 in U.S. trade account receivables ("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 and pledged on the U.S. Arrangement as of February 29, 2008 and November 30, 2007 was \$262,900 and \$299,900, respectively.

SYNEX Canada Limited ("SYNEX Canada") has a one-year revolving Canadian Arrangement to sell a maximum of C\$125,000 of U.S. and Canadian trade receivables ("Canadian Receivables"). 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." In connection with this Canadian Arrangement, the Company issued a guarantee of SYNEX Canada's performance. The amount of Canadian Receivables sold to the financial institution and not yet collected from customers at February 29, 2008 and November 30, 2007 was \$85,238 and \$115,900, respectively.

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Under the U.S. and Canadian Arrangements the Company is required to maintain certain financial covenants to maintain its eligibility to sell additional U.S. and Canadian Receivables under the facilities. These covenants include minimum net worth, minimum fixed charge coverage ratio, and net worth percentage. These covenants also restrict the Company from paying dividends. The Company was in compliance with the material covenants as of February 29, 2008.

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.

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 11, Commitments and Contingencies for additional information. Approximately \$229,779 and \$204,849 of the Company's net sales were financed under these programs in the three months ended February 29, 2008 and February 28, 2007, respectively. Approximately \$52,131 and \$68,839 of accounts receivable at February 29, 2008 and November 30, 2007, respectively, were subject to flooring agreements. Flooring fees were approximately \$1,004 and \$1,212 in the three months ended February 29, 2008 and February 28, 2007, respectively, and are included within Interest expense and finance charges, net.

Table of Contents**SYNEX CORPORATION****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS****For the three months ended February 29, 2008 and February 28, 2007****(amounts in thousands, except per share amounts)****(unaudited)****NOTE 7 BORROWINGS:**

Borrowings consist of the following:

| | February 29, 2008 | November 30, 2007 |
|---------------------------------------|--------------------------|--------------------------|
| SYNEX U.S. securitization | \$ 262,900 | \$ 299,900 |
| SYNEX U.S. revolving line of credit | | 10,900 |
| SYNEX Canada revolving line of credit | 19,811 | 17,470 |
| SYNEX Canada term loan | 12,294 | 12,368 |
| SYNEX Mexico term loan | 41,537 | 47,874 |
| Others | 163 | 167 |
| | 336,705 | 388,679 |
| Less: Current portion | (304,198) | (351,142) |
| Non-current portion | \$ 32,507 | \$ 37,537 |

SYNEX 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 a blend of the prevailing dealer commercial paper rate and LIBOR plus 0.55% per annum.

SYNEX U.S. senior secured revolving line of credit

The Company has a senior secured U.S. revolving line of credit arrangement, (the Revolver), with a group of financial institutions. The Revolver is secured by the Company's inventory and other assets and expires in February 2011. The Revolver's maximum commitment was amended from \$100,000 to \$120,000 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.

SYNEX Canada revolving line of credit

SYNEX Canada has a revolving line of credit arrangement with a group of financial institutions that is secured by SYNEX Canada's inventory and other assets. The revolving credit facility expires in January 2010. The maximum credit limit on this line is C\$30,000. Interest on this facility is based on the Canadian adjusted prime rate.

SYNEX Canada term loan

SYNEX Canada has a term loan associated with the purchase of its logistics facility in Guelph, Canada. The interest rate for 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 has a secured term loan agreement (Term Loan). 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 any 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 \$1,987 as of February 29, 2008. The interest rate on this credit facility is LIBOR plus 1.5% per annum. There were no borrowings outstanding at February 29, 2008 and November 30, 2007, respectively.

SYNEX UK has a second British pound denominated loan agreement with a financial institution. The total credit available under this facility was \$10,930 as of February 29, 2008. The interest rate for this facility is the financial institution's prime rate plus 1.5% per annum. The balance outstanding at February 29, 2008 and November 30, 2007 was \$160 and \$158, respectively.

SYNEX Canada credit facility

SYNEX Canada obtained a credit facility with HSBC Bank Canada to allow the Company to issue documentary letters of credit up to a maximum of C\$30,000 for validity up to 180 days. The letters of credit are issued to secure purchases of inventory from manufacturers and to finance import activities. This facility can be used for the issuance of a letter of guarantee up to a maximum amount of C\$2,000 available in Canadian and U.S. dollars for a maximum two business days to repay draws under letters of credit or letters of guarantee.

The total interest expense and finance charges for accounts receivable securitization, revolver, debt and all other lines of credit was \$7,775 and \$7,137 for the three months ended February 29, 2008 and February 28, 2007, respectively, and is included in interest expense and finance charges, net in the statement of operations. The range of interest rates was between 3.81% and 7.97% in the first quarter of fiscal 2008.

The Company was in compliance with the material covenants as of February 29, 2008.

Table of Contents**SYNEX CORPORATION****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS****For the three months ended February 29, 2008 and February 28, 2007****(amounts in thousands, except per share amounts)****(unaudited)****Guarantees**

The Company has issued guarantees to certain vendors and lenders of its subsidiaries for trade credit lines and loans, totaling \$205,786 and \$206,100 as of February 29, 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 NET INCOME PER COMMON SHARE:

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

| | Three Months Ended | |
|--|---------------------------|--------------------------|
| | February 29, 2008 | February 28, 2007 |
| Net income | \$ 16,828 | \$ 13,875 |
| Weighted-average common shares-basic | 31,377 | 30,548 |
| Effect of dilutive securities: | | |
| Stock options and restricted stock | 1,666 | 1,824 |
| Weighted-average common shares-diluted | 33,043 | 32,372 |
| Earnings per share: | | |
| Basic | \$ 0.54 | \$ 0.45 |
| Diluted | \$ 0.51 | \$ 0.43 |

Options to purchase 98 and 521 shares of common stock as at February 29, 2008 and November 30, 2007, respectively, have not been included in the computation of diluted net income per share as their effect would have been anti-dilutive.

NOTE 9 RELATED PARTY TRANSACTIONS:

MiTAC International Corporation and its affiliates held approximately 44% of the Company's common stock as of February 29, 2008. The Chairman of the Board of Directors of the Company is also the Chairman of MiTAC International and a director or officer of MiTAC International's affiliated companies. Purchases of inventories from MiTAC International and its affiliates (principally motherboards and other peripherals) were approximately \$74,046 and \$79,646 during the three months ended February 29, 2008 and February 28, 2007, respectively. Sales to MiTAC International and its affiliates during the three months ended February 29, 2008 and February 28, 2007, were approximately \$308 and \$1,089, respectively. The Company's 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, the Company negotiates manufacturing and pricing terms, on a case-by-case basis with MiTAC International.

During fiscal 2007, the Company purchased shares of MiTAC International related to a deferred compensation plan participant's desired investment rate of return. As of February 29, 2008 the fair market value of the common stock acquired was \$1,755 and is included in the

Company's trading securities.

The Company's 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. The Company's relationship, including pricing and other material terms with its shared customers or with MiTAC International, may or may not be as advantageous to the Company as the terms it could have negotiated with unaffiliated third parties.

Table of Contents**SYNEX CORPORATION****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS****For the three months ended February 29, 2008 and February 28, 2007****(amounts in thousands, except per share amounts)****(unaudited)****NOTE 10 GEOGRAPHIC INFORMATION:**

The Company primarily operates in North America. The U.S. and Canada are included in the North America operations and China, the Philippines, Mexico 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 months ended February 29, 2008 and February 28, 2007 and for each of the periods then ended:

| | Three Months Ended | |
|--------------------------|---------------------------|--------------------------|
| | February 29, 2008 | February 28, 2007 |
| | (in thousands) | |
| Revenue | | |
| North America | \$ 1,696,281 | \$ 1,531,228 |
| Other | 52,293 | 57,048 |
| | \$ 1,748,574 | \$ 1,588,276 |
| | | |
| | As of | |
| | February 29, 2008 | November 30, 2007 |
| | (in thousands) | |
| Long-lived assets | | |
| North America | \$ 61,054 | \$ 55,719 |
| Other | 23,991 | 22,630 |
| | \$ 85,045 | \$ 78,349 |

Revenue in the U.S. was approximately 75% and 78% of total revenue for the three months ended February 29, 2008 and February 28, 2007, respectively. Revenue in Canada was approximately 22% and 19% of total revenue for the three months ended February 29, 2008 and February 28, 2007, respectively. No other geographical location accounted for more than 10% of the Company's total revenue.

NOTE 11 COMMITMENTS AND CONTINGENCIES:

The Company was contingently liable at February 29, 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 February 29, 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.

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 12 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.

NOTE 13 RESTRUCTURING CHARGES:

In fiscal 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 2007, the Company accrued \$2,358 in restructuring costs against goodwill related to the RGC acquisition in Canada under Emerging Issues Task Force (EITF) 95-3 Recognition of Liabilities in Connection with a Purchase Business Combination. These charges were primarily associated with facilities consolidation of \$1,050, workforce reductions of \$691 and contract termination costs of \$617. 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.

In fiscal 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

Table of Contents**SYNEX CORPORATION****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS****For the three months ended February 29, 2008 and February 28, 2007****(amounts in thousands, except per share amounts)****(unaudited)**

recorded in accordance with SFAS No. 146, Accounting for Costs Associated with Exit or Disposal Activities. The majority of all non-continuing 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, which is 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 \$2,133 at February 29, 2008.

The following table summarizes the activity related to the liability for restructuring charges through February 29, 2008:

Restructuring charges per EITF 95-3:

| | Severance and Benefits | Facility and Exit Costs | Contractual Obligations | Other | Total |
|---|-----------------------------------|------------------------------------|------------------------------------|--------------|--------------|
| Balance of accrual at November 30, 2007 | \$ 120 | \$ 1,050 | \$ 219 | \$ 23 | \$ 1,412 |
| Cash payments | (86) | (75) | | | (161) |
| Non-cash adjustments | | | (94) | | (94) |
| Balance of accrual at February 29, 2008 | \$ 34 | \$ 975 | \$ 125 | \$ 23 | \$ 1,157 |

Restructuring charges per SFAS No. 146:

| | Severance and Benefits | Facility and Exit Costs | Other | Total |
|---|-----------------------------------|------------------------------------|--------------|--------------|
| Balance of accrual at November 30, 2007 | \$ 8 | \$ 489 | \$ 37 | \$ 534 |
| Cash payments | (3) | (161) | (37) | (201) |
| Balance of accrual at February 29, 2008 | \$ 5 | \$ 328 | \$ | \$ 333 |

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 out by the end of fiscal year 2009.

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 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.

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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 recognized 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 accrued interest of \$635 for unrecognized tax benefits. The Company does not expect significant changes in its unrecognized tax benefits in the next twelve months.

The Company conducts business globally and files income tax returns in the U.S. and various state, local and foreign tax jurisdictions. The Company is subject to examination and audit by taxing authorities in the U.S. and Canada for tax years after fiscal 2003.

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. There was no impact for adoption of SFAS No. 157 to the consolidated financial statements. SFAS No. 157 requires disclosure that establishes a framework for measuring fair value and expands disclosure about fair value measurements. The statement requires fair value measurement 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).

Table of Contents**SYNEX CORPORATION****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS****For the three months ended February 29, 2008 and February 28, 2007****(amounts in thousands, except per share amounts)****(unaudited)**

The following table summarizes the valuation of our short-term investments and financial instruments by the above SFAS No. 157 pricing levels as of February 29, 2008:

| | As of February 29, 2008 | | | |
|---|-------------------------|---|---|--|
| | Total | Quoted market prices in active markets (Level 1) | Significant other observable inputs (Level 2) | Significant unobservable inputs (Level 3) |
| Trading securities | \$ 9,938 | \$ 9,938 | \$ | \$ |
| Available-for-sale securities | 145 | 145 | | |
| Forward foreign currency exchange contracts | (1,081) | | (1,081) | |
| Long-term accounts receivable | 59,476 | | 59,476 | |

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 credit worthiness.

The company recorded a loss of \$1,904 and a gain of \$354, for the three months ended February 29, 2008 and February 28, 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.

The following table presents the financial instruments that are not carried at fair value but which require fair value disclosure as of February 29, 2008 and November 30, 2007:

| | As of February 29, 2008 | | As of November 30, 2007 | |
|------------------|-------------------------|------------|-------------------------|------------|
| | Carrying Value | Fair Value | Carrying Value | Fair Value |
| Cost investments | \$ 7,500 | \$ 7,500 | \$ 7,779 | \$ 7,779 |
| Long-term debt | 32,507 | 32,507 | 37,537 | 37,537 |

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. Fair value of investment in a hedge fund and private equity fund was determined by analyzing the underlying invested assets. The fair value of equity investment is based on a valuation model developed internally to measure impairment primarily based on the operating results and future 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 maturities are approximately the same.

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.

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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 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 \$2,206 and \$802, respectively, for trading securities, were reclassified from operating activities to investing activities for the three months ended February 28, 2007.

NOTE 16 SUBSEQUENT EVENTS:

On April 1, 2008, the Company purchased substantially all of the assets of New Age Electronics, Inc. (NAE), a privately-held distributor of IT and consumer electronics products to the retail sector. This acquisition is expected to expand SYNEX existing consumer electronics product offering by adding consumer products and retail customers. The Company paid a purchase price of \$31,500 in cash. The acquisition agreement provides for additional deferred and earn-out payments of up to \$22,750 to be paid subject to certain post-closing conditions and on achieving certain milestones within the first 15 months from the date of acquisition. In connection with the net assets acquired, the Company refinanced approximately \$82,000 in working capital debt.

On March 31, 2008, Kevin M. Murai was appointed Co-Chief Executive Officer of the Company. He has been elected to the SYNEX Board of Directors and also appointed to the Company s Executive Committee. Mr. Murai will share the Chief Executive Officer role with current President and Chief Executive Officer, Robert Huang, and will have co-responsibility for the leadership of the entire SYNEX organization.

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, 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, anticipated benefits of our acquisitions, our revenue and operating results, economic and industry trends, thefts at our warehouses, gross margin, 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 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, estimates regarding judgments under our accounting policies, statements regarding future unrecognized tax benefits, and statements regarding our securitization program and sources of revenue. 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 condition and the risks set forth above 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 and delivered on time. Our business model is flexible 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 to provide our customers greater efficiencies in time to market, cost minimization, real-time linkages in the supply chain and aftermarket product support. We distribute approximately 15,000, as measured by active SKUs, technology products from more than 100 IT OEM suppliers to more than 15,000 resellers throughout the United States, Canada and Mexico. We employ over 6,000 employees worldwide and operate in the United States, Canada, China, Mexico, the Philippines and the United Kingdom. From a geographic perspective, approximately 97% of our total revenue was from North America for the three months ended February 29, 2008.

We purchase IT systems, peripherals, system components, packaged software and networking equipment from OEM suppliers such as HP, Panasonic, IBM, Intel and Lenovo and sell them to our reseller customers. We perform the same function for our purchases of licensed software products. Our reseller customers include value-added resellers, or VARs, corporate resellers, government resellers, system integrators, direct marketers and retailers. Our largest OEM supplier, HP, accounted for approximately 27% of our total revenue for the three months ended February 29, 2008.

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 and increased price-based competition.

Recent Acquisitions and Divestitures

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We seek to augment our services offering growth 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 acquisitions have brought us new reseller customers and OEM suppliers, extended the geographic reach of our operations, particularly in international markets, 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.

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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. This acquisition is expected to expand our existing consumer electronics product offering by adding consumer products and retail customers. We paid a purchase price of \$31.5 million in cash. The acquisition agreement provides for additional deferred and earn-out payments of up to \$22.8 million to be paid subject to certain post-closing conditions and on achieving certain milestones within the first 15 months from the date of acquisition. In connection with the net assets acquired, we refinanced approximately \$82.0 million in working capital debt.

Restructuring Charges

In fiscal 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 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. 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. 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.

In fiscal 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 non-continuing employees 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 which is 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 \$2.1 million at February 29, 2008.

Critical Accounting Policies and Estimates

There have been no material changes in our critical accounting policies and estimates for the three-month period ended February 29, 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.

Results of Operations

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

| | Three Months Ended | |
|---|------------------------------|------------------------------|
| | February 29, 2008 | February 28, 2007 |
| Statements of Operations Data: | | |
| Revenue | 100.00% | 100.00% |
| Cost of revenue | (94.52) | (95.31) |
| Gross profit | 5.48 | 4.69 |
| Selling, general and administrative expenses | (3.61) | (3.12) |
| Income from operations before non-operating items, income taxes and minority interest | 1.87 | 1.57 |
| Interest expense and finance charges, net | (0.24) | (0.19) |
| Other income (expense), net | (0.11) | 0.01 |
| Income before income taxes and minority interest | 1.52 | 1.39 |

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| | | |
|-----------------------------------|--------|--------|
| Provision for income taxes | (0.55) | (0.52) |
| Income before minority interest | 0.97 | 0.87 |
| Minority interest in a subsidiary | (0.01) | 0.00 |
| Net income | 0.96% | 0.87% |

Table of Contents**Three Months Ended February 29, 2008 and February 28, 2007***Revenue.*

| | Three Months Ended | | |
|---------|------------------------------|------------------------------|---------------------|
| | February 29, 2008 | February 28, 2007 | % Change |
| | (in thousands) | | |
| Revenue | \$ 1,748,574 | \$ 1,588,276 | 10.1% |

Our increase in revenue year over year is primarily attributable to increases in our U.S. and Canadian distribution operations. More than half of this revenue increase is the result of the acquisitions of PC Wholesale and RGC. These acquisitions did not contribute any meaningful revenue in the first quarter of fiscal 2007. The remaining increase in revenue was a result of continued organic growth in our business, primarily due to increased volumes resulting from higher demand in most all of our major product categories, augmented by increased selling and marketing efforts. The year over year increase in revenue from our BPO services was not material to the overall revenue growth.

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

Gross Profit.

| | Three Months Ended | | |
|-----------------------|------------------------------|------------------------------|---------------------|
| | February 29, 2008 | February 28, 2007 | % Change |
| | (in thousands) | | |
| Gross profit | \$ 95,850 | \$ 74,424 | 28.8% |
| Percentage of revenue | 5.48% | 4.69% | 16.8% |

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 and BPO services.

Our gross profit dollars increased primarily due to acquisitions and growth in our core business. Our gross profit as a percentage of revenue increased by 79 basis points over the prior year quarter, of which slightly more than half was driven by the impact of acquisitions made during fiscal year 2007 of RGC, PC Wholesale, SYNnex-Concentrix Corporation (formerly Link2Support, Inc.) and China Civilink (Cayman). China Civilink (Cayman) operates in China as HiChina Web Solutions. The balance of the increase was due to contributions from our core product distribution businesses resulting from our continued focus on improving all aspects of operations. No specific products or customers, individually or as a group, contributed significantly to the change.

Selling, General and Administrative Expenses.

| | Three Months Ended | | |
|--|------------------------------|------------------------------|---------------------|
| | February 29, 2008 | February 28, 2007 | % Change |
| | (in thousands) | | |
| Selling, general and administrative expenses | \$ 63,070 | \$ 49,481 | 27.5% |
| Percentage of revenue | 3.61% | 3.12% | 15.7% |

Our selling, general and administrative expenses consist of approximately 65% in 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 by reimbursements from OEM suppliers.

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Selling, general and administrative expenses increased in the first quarter of fiscal 2008, both on a dollar basis as well as percentage of revenue due to an increase in compensation cost of \$8.9 million resulting from an increase in employees, primarily from acquisitions, an increase in share-based compensation expense of \$0.5 million and an increase in amortization expense of intangible assets of \$0.6 million. The remaining increase was due to an increase in variable operating costs to support our increased revenues. These increases are offset in part, by decreased deferred compensation expense due to unrealized losses of \$1.2 million.

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

| | Three Months Ended | | |
|---|----------------------|----------------------|--------|
| | February 29, 2008 | February 28, 2007 | % |
| | (in thousands) | | Change |
| Income from operations before non-operating items, income taxes and minority interest | \$ 32,780 | \$ 24,943 | 31.4% |
| Percentage of revenue | 1.87% | 1.57% | 19.1% |

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 our increase in revenue as well as the increase in gross margin. This increase was slightly offset in part by increases in selling, general and administrative expenses.

Interest Expense and Finance Charges, Net.

| | Three Months Ended | | |
|---|----------------------|----------------------|--------|
| | February 29, 2008 | February 28, 2007 | % |
| | (in thousands) | | Change |
| Interest expense and finance charges, net | \$ 4,167 | \$ 3,058 | 36.3% |
| Percentage of revenue | 0.24% | 0.19% | 26.3% |

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

The increase in interest expense and finance charges, net, was due to higher finance charges of \$0.6 million as a result of an increased borrowing base, partially offset by decreased interest rates. In addition, our interest income from our Mexico operation decreased by \$0.6 million.

Other Income (Expense), Net.

| | Three Months Ended | | |
|-----------------------------|----------------------|----------------------|----------|
| | February 29, 2008 | February 28, 2007 | % |
| | (in thousands) | | Change |
| Other income (expense), net | \$ (2,046) | \$ 158 | -1394.9% |
| Percentage of revenue | 0.11% | 0.01% | 1000.0% |

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

The increase in other income (expense), net for the three months ended February 29, 2008 was due to unrealized losses of \$1.2 million trading securities related to our deferred compensation program. In addition, other expense also included approximately \$0.8 million for other-than-temporary impairment of our securities and foreign exchange loss of \$0.3 million.

Provision for Income Taxes.

Our effective tax rate was 36.0% in the three months ended February 29, 2008 as compared with an effective tax rate of 37.1% in the three months ended February 28, 2007. The effective tax rate in fiscal 2008 was slightly lower than in fiscal 2007, primarily due to higher profit in lower tax jurisdictions.

Minority Interest.

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On April 5, 2007, we acquired a controlling interest in HiChina Web Solutions. Minority interest is the portion of earnings from operations from HiChina Web Solutions, attributable to others.

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 of our accounts receivable under our securitization programs for our working capital needs.

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We have financed our growth and cash needs to date primarily through working capital financing facilities, bank credit lines and cash generated from operations. The primary uses of cash have been to fund increases in inventory and accounts receivable resulting from increased sales, and for acquisitions.

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 incurring additional debt or issuing common stock.

Net cash provided by operating activities was \$73 million in the three months ended February 29, 2008. Cash provided by operating activities was primarily attributable to the net decrease in accounts receivable of \$51 million, a decrease in inventories of \$19 million, a decrease in other assets of \$16 million, depreciation and amortization of \$4 million, and net income of \$17 million partially offset by a decrease in accounts payable of \$10 million, a decrease in accrued liabilities of \$14 million and an increase in vendor receivable of \$13 million.

Net cash used in investing activities was \$4 million in the three months ended February 29, 2008. Cash used in investing activities was primarily due to the capital expenditures of \$4 million, purchase of intangible asset of \$1 million and an increase in restricted cash of \$1 million offset by net proceeds from short-term investments.

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. We have reclassified all cash flows related to securities classified as trading from operating to investing activities in its 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 \$2.2 million and \$0.8 million, respectively, for trading securities, were reclassified from operating activities to investing activities for the three months ended February 28, 2007.

Net cash used in financing activities was \$69 million in the three months ended February 29, 2008, and was primarily related to net repayments of securitization arrangements, bank loans and our revolving line of credit of \$53 million and bank overdraft of \$16 million.

Capital Resources

Our cash and cash equivalents totaled \$43.6 million and \$42.9 million at February 29, 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 twelve months, based on our financial strength and performance, existing sources of liquidity, available cash resources and funds available under our various borrowing arrangements.

Off Balance Sheet Arrangements

We have a one-year revolving accounts receivable securitization program in Canada through SYNEX Canada, or Canadian Arrangement, 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. In connection with this Canadian Arrangement, we issued a guarantee of SYNEX Canada's performance under the Canadian Arrangement. The amount of our accounts receivable sold to and held by the financial institutions under our Canadian Arrangement totaled \$85.2 million and \$115.9 million as of February 29, 2008 and November 30, 2007, respectively.

We have also issued guarantees to certain vendors and lenders of our subsidiaries for an aggregate amount of \$205.8 million as of February 29, 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 the U.S. Arrangement, to sell up to a maximum of \$350.0 million in U.S. trade account receivables, or U.S. Receivables. The maturity date of the U.S. Arrangement is February 2011. The

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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 February 29, 2008 and November 30, 2007 was \$262.9 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 provider is not replaced. Loss of such financing capacity could have a material adverse effect on our financial condition and results of operations.

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We have a senior secured revolving line of credit arrangement, or the Revolver, with a group of financial institutions. The Revolver is secured by our inventory and other assets and expires in 2011. 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. There were no borrowings outstanding under the Revolver as of February 29, 2008, as of November 30, 2007 the borrowings outstanding were \$10.9 million.

SYNEX Canada has a revolving line of credit arrangement with a credit limit of C\$30.0 million. The revolving credit facility expires in January 2010. Interest on this facility is based on the Canadian adjusted prime rate. The balance outstanding as of February 29, 2008 and November 30, 2007 was \$19.8 million and \$17.5 million, respectively. In connection with this revolving credit facility, we issued a guarantee of SYNEX Canada's obligations.

SYNEX Canada obtained a credit facility with HSBC Bank 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 can be used for the issuance of a letter of guarantee 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 letter of guarantee.

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 February 29, 2008 was \$41.5 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 \$12.9 million and \$13.4 million at February 29, 2008 and November 30, 2007, respectively. At February 29, 2008 and November 30, 2007, we had borrowings of \$0.2 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 \$12.3 million and \$12.4 million at February 29, 2008 and November 30, 2007, respectively. The expiration dates of these facilities range from 2008 to 2017.

We are in compliance with all material covenants or other requirements set forth on the above arrangements.

Related Party Transactions.

Our business relationship to date with MiTAC International Corporation has been informal and is not governed by long term commitments or arrangements with respect to pricing terms, revenue or capacity commitments. We have several standing master agreements with MiTAC International, however these agreements do not require or obligate either party to purchase products or services from the other party. Accordingly, we negotiate pricing terms, on a case-by-case basis with MiTAC International and our contract assembly customers for a given project. Risks related to our relationship with MiTAC International are discussed in our risks factors.

MiTAC International and its affiliates held approximately 44% of our common stock as of February 29, 2008. The Chairman of our Board of Directors is also the Chairman of MiTAC International and a director or officer of MiTAC International's affiliated Companies. MiTAC International manufactures and supplies subassemblies and components for some of our contract assembly services customers, including Sun Microsystems, our primary contract assembly services customer. 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, including allocating customer revenue, on a project-by-project basis with MiTAC International. Purchases of inventories from MiTAC International Corporation and its affiliates (principally motherboards and other peripherals) were approximately \$74.0 million and \$79.6 million during the three months ended February 29, 2008 and February 28, 2007 respectively. Sales to MiTAC International and its affiliates during the three months ended February 29, 2008 and February 28, 2007, were approximately \$0.3 million and \$1.1 million, respectively.

During fiscal 2007, we purchased shares of MiTAC International related to a deferred compensation plan participant's desired investment rate of return. As of February 29, 2008 the fair market value of the common stock acquired was \$1.7 million and is included in our trading securities.

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

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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.

Recent Accounting Pronouncements

In December 2007, the Financial Accounting Standards Board, or FASB, issued the Statement of Financial Accounting Standards, or SFAS, No. 141 (revised 2007), Business Combinations, or SFAS 141R. SFAS 141R establishes principles and requirements for how an acquirer recognizes and measures in its financial statements the identifiable assets acquired, the liabilities

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assumed, any noncontrolling interest in the acquiree and the goodwill acquired. SFAS 141R also establishes disclosure requirements to enable the evaluation of the nature and financial effects of the business combination. SFAS 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 2010. We are currently evaluating the potential impact, if any, of the adoption of SFAS 141R on our 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 Accounting Research Bulletin No. 51, or SFAS 160. SFAS 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 160 also establishes disclosure requirements that clearly identify and distinguish between the interests of the parent and the interests of the noncontrolling owners. SFAS 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 2010. We are currently evaluating the potential impact, if any, of the adoption of SFAS 160 on our consolidated results of operations and financial condition.

In March 2008, the FASB issued Statement No. 161, Disclosures about Derivative Instruments and Hedging Activities, an amendment of FASB Statement No. 133, or SFAS 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 2009. We are assessing the potential impact that the adoption of SFAS 161 may have on our financial statements.

During the first quarter of fiscal 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 FASB Statement 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. FIN 48 is effective for the fiscal years beginning after December 15, 2006 and we adopted FIN 48 effective December 1, 2007. See Note 14 for the effect of our application of FIN 48.

In September 2006, the FASB issued SFAS No. 157, Fair Value Measurements. 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 FASB Staff Position 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 157-1, and FSP 157-2, Effective Date of FASB Statement No. 157, or FSP 157-2. FSP 157-1 amends SFAS No. 157 to remove certain leasing transactions from its scope. FSP 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. SFAS No. 157 is effective for financial statements issued for fiscal years beginning after November 15, 2007; we adopted the standard, 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, 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 2008. We did not elect to apply the fair value option to any of our financial instruments.

ITEM 3. Quantitative and Qualitative Disclosures about Market Risk

There have been no material changes in our quantitative and qualitative disclosures about market risk for the three-month period ended February 29, 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

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(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,

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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 27% and 26% of our total revenue in the three months ended February 29, 2008 and February 28, 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 February 29, 2008, we had 655 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 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;

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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 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

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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 indebtedness agreements 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 February 29, 2008, we had approximately \$421.9 million in outstanding short and long-term borrowings under term loans and lines of credit, excluding trade payables. The terms of our current indebtedness agreements 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. We may be unable to meet these ratios and tests, this 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.

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 February 29, 2008, we had approximately \$421.9 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 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 three months ended February 29, 2008 and February 28, 2007, approximately 25% 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.

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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, 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 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, the Philippines and the United Kingdom. In the three months ended February 29, 2008 and February 28, 2007, approximately 25% and 22%, respectively, of our total revenue was generated outside the United States. In the three months ended February 29, 2008 and February 28, 2007, approximately 22% and 19%, respectively, 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;

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changes in governmental regulation;

changes in import/export duties;

trade restrictions;

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

work stoppages or other changes in labor conditions;

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

taxes; and

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

We may continue to expand internationally to respond to competitive pressure and customer and market requirements. Establishing operations in any other foreign country or region presents risks such as those described above as well as risks specific to the particular country or region. In addition, until a payment history is established over time with customers in a new geography or region, the likelihood of collecting accounts receivable generated by such operations could be less than our expectations. As a result, there is a greater risk that reserves set with respect to the collection of such accounts receivable may be inadequate. In addition, our Mexico subsidiary has entered into 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 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 impact directly on 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.

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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.

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Risks Related to Our Relationship with MiTAC International

As of February 29, 2008, our executive officers, directors and principal stockholders owned approximately 45% of our common stock and this concentration of ownership could allow them to control all matters requiring stockholder approval and could delay or prevent a change in control of SYNEX.

As of February 29, 2008, our executive officers, directors and principal stockholders owned approximately 45% of our outstanding common stock. In particular, MiTAC International and its affiliates, owned approximately 44% of our common stock.

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

We rely on MiTAC International for certain manufacturing and 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

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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.

Table of Contents**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. For fiscal 2007, Mr. Miao received a retainer of \$225,000 from us and was granted a restricted stock award for two thousand shares of our common stock. Compensation payable to Mr. Miao was based upon approval of the Compensation Committee. For fiscal 2008, Mr. Miao will receive a retainer of \$225,000 from us and a restricted stock grant of two thousand shares of our common stock. Mr. Miao's compensation is based upon the approval of the Nominating and Corporate Governance Committee 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. Mitac Incorporated, a privately-held company based in Taiwan and a separate entity from MiTAC International, directly and indirectly owns approximately 15.0% of Synnex Technology International and approximately 8.1% of MiTAC International. MiTAC International directly and indirectly owns 0.3% of Synnex Technology International and Synnex Technology International directly and indirectly owns approximately 0.4% of MiTAC International. In addition, MiTAC International directly and indirectly owns approximately 8.8% of Mitac Incorporated and Synnex Technology International directly and indirectly owns approximately 14.1% of Mitac Incorporated. Synnex Technology International indirectly through its ownership of Peer Developments Limited owns approximately 16.6% of our outstanding common stock. 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 or MiTAC International, 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 they currently operate.

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

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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,

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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, 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.

While we believe that we currently have adequate internal control over financial reporting, we are exposed to risks from legislation requiring companies to evaluate those internal controls.

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. 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

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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.

Risks Related to Our Common Stock

Our common stock has been subject to substantial price and volume fluctuations due to a number of factors, some of which are beyond our control.

Share prices and trading volumes for many distribution and contract assembly services related companies fluctuate widely for a number of reasons, including some reasons which may be unrelated to their businesses or results of operations. This market volatility, as well as general domestic or international economic, market and political conditions, could materially adversely affect the price of our common stock without regard to our operating performance. In addition, our operating results may be below the expectations of public market analysts and investors. If this were to occur, the market price of our common stock would likely decrease.

Significant fluctuations in the market price of our common stock could result in securities class action claims against us, which could seriously harm our operating results.

Securities class action claims have been brought against companies in the past where volatility in the market price of that company's securities has taken place. This kind of litigation could be very costly and divert our management's attention and resources, and any adverse determination in this litigation could also subject us to significant liabilities, any or all of which could adversely affect our business and operating results.

Anti-takeover provisions in our certificate of incorporation may make it more difficult for someone to acquire us in a hostile takeover.

Our Board of Directors has the authority to issue up to 5,000,000 shares of preferred stock and to determine the price, rights, preferences, privileges and restrictions, including voting rights, of those shares without any further vote or action by our stockholders. The rights of the holders of our common stock will be subject to, and may be adversely affected by, the rights of the holders of any preferred stock that we may issue in the future. The issuance of preferred stock, while providing flexibility in connection with possible acquisitions and other corporate purposes, could have the effect of making it more difficult for a third-party to acquire a majority of our outstanding voting shares.

In addition, our certificate of incorporation contains certain provisions that, together with the ownership position of our officers, directors and their affiliates, could discourage potential takeover attempts and make attempts by stockholders to change management more difficult, which could adversely affect the market price of our common stock.

If securities or industry analysts do not publish research or reports about our business, our stock price and trading volume could decline.

The trading market for our common stock will depend on the research and reports that industry or securities analysts publish about us or our business. We do not have any control over these analysts. If one or more of the analysts who covers us were to downgrade our stock, our stock price would likely decline. If one or more of these analysts ceases coverage of our Company or fails to regularly publish reports on us, we could lose visibility in the financial markets, which in turn could cause our stock price or trading volume to decline.

We are subject to additional rules and regulations as a public company, which 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.

ITEM 6. Exhibits

- 10.1 Amendment No. 4, effective as of February 11, 2008, to Second Amended and Restated Receivables Sale and Servicing Agreement and Second Amended and Restated Receivables Funding and Administration Agreement, by and among the Company, SIT Funding Corporation, Sumitomo Mitsui Banking Corporation, Manhattan Asset Funding Company LLC and General Electric Capital Corporation (incorporated by reference to Exhibit 10.1 to the Company's Current Report filed on Form 8-K filed on February 15, 2008).

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- 10.2 Amendment No. 8, effective as of February 11, 2008, to Second Amended and Restated Credit Agreement, 2008, by and among the Company, General Electric Capital Corporation, Bank of America, N.A. and Sumitomo Mitsui Banking Corporation (incorporated by reference to Exhibit 10.2 to the Company's Current Report filed on Form 8-K filed on February 15, 2008).
- 10.3 Asset Purchase Agreement dated February 25, 2008, by and among the Company and New Age Electronics, Inc., a California corporation.
- 10.4 First Amendment to Asset Purchase Agreement dated March 31, 2008, by and among the Company and New Age Electronics, Inc., a California corporation.
- 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).

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

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SIGNATURES

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

Date: April 9, 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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