SYNNEX CORP
Form 8-K
November 03, 2005

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 8-K

CURRENT REPORT

Pursuant to Section 13 or 15(d) of the

Securities Exchange Act of 1934

Date of Report (Date of Earliest Event Reported): November 2, 2005

SYNNEX CORPORATION

(Exact name of registrant as specified in its charter)

Delaware	**001-31892**	**94-2703333**
(State or Other Jurisdiction of Incorporation)	**(Commission File Number)**	**(I.R.S. Employer Identification Number)**

44201 Nobel Drive

Fremont, California **94538**

(Address of principal executive offices)	**(Zip Code)**

(510) 656-3333

(Registrant s telephone number, including area code)

N/A

(Former name or former address, if changed since last report.)

Check the appropriate box below if the Form 8-K filing is intended to simultaneously satisfy the filing obligations of the registrant under any of the following provisions (see General Instruction A.2. below):

¨ Written communications pursuant to Rule 425 under the Securities Act (17 CFR 230.425)

¨ Soliciting material pursuant to Rule 14a-12 under the Exchange Act (17 CFR 240.14a-12)

¨ Pre-commencement communications pursuant to Rule 14d-2(b) under the Exchange Act (17 CFR 240.14d-2(b))

¨ Pre-commencement communications pursuant to Rule 13e-4(c) under the Exchange Act (17 CFR 240-13e-4(c))

Item 8.01. Other Events

Because of the sale of our Japan subsidiary in the second quarter of fiscal 2005, the financial information included in the Registration Statement (No. 333-128947) filed on October 12, 2005 with the Securities and Exchange Commission was updated to give effect to the sale as discontinued operations in accordance with FASB No. 144. This event occurred after the filing of our Form 10-Q for the quarter ended February 28, 2005, filed with the Securities and Exchange Commission on April 11, 2005. As a result, we are filing this Current Report on Form 8-K to provide investors with this same financial information included in the Registration Statement by updating Part I, Item 1: Financial Statements and Item 2: Management s Discussion and Analysis of Financial Condition and Results of Operations of such Form 10-Q.

PART I FINANCIAL INFORMATION

ITEM 1. Financial Statements

SYNNEX CORPORATION

CONDENSED CONSOLIDATED BALANCE SHEETS

(in thousands)

(unaudited)

	February 28, 2005	November 30, 2004
ASSETS		
Current assets:		
Cash and cash equivalents	$ 21,607	$ 28,726
Restricted cash	1,034	2,020
Short-term investments	6,178	5,051
Accounts receivable, net	392,838	372,604
Receivable from vendors, net	59,930	69,033
Receivable from affiliates	3,523	1,970
Inventories	381,592	408,346
Deferred income taxes	18,299	17,645
Other current assets	9,105	7,599
Total current assets	894,106	912,994
Property and equipment, net	34,125	33,851
Goodwill and intangible assets	46,527	48,722
Deferred income taxes	2,403	1,421
Other assets	5,453	2,709
Total assets	$ 982,614	$ 999,697
LIABILITIES AND STOCKHOLDERS EQUITY		
Current liabilities:		
Borrowings under term loans and lines of credit	$ 72,416	$ 74,996
Accounts payable	375,674	386,638
Payable to affiliates	66,990	68,977
Accrued liabilities	57,459	62,611
Income taxes payable	6,450	2,837
Total current liabilities	578,989	596,059
Long-term borrowings	12,236	13,074
Long-term liabilities	6,282	17,772
Deferred income taxes	820	1,054
Total liabilities	598,327	627,959

Minority interest in subsidiaries	2,104	2,082
Commitments and contingencies (Note 12)		
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, 28,281 and 27,727 shares issued and outstanding	28	28
Additional paid-in capital	151,347	145,423
Accumulated other comprehensive income	10,082	12,086
Retained earnings	220,726	212,119
Total stockholders equity	382,183	369,656
Total liabilities and stockholders equity	$ 982,614	$ 999,697

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

SYNNEX CORPORATION

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

(in thousands, except for per share amounts)

(unaudited)

	Three Months Ended	
	February 28, 2005	February 29, 2004
Revenue	$ 1,309,763	$ 1,174,683
Cost of revenue	(1,253,629)	(1,124,441)
Gross profit	56,134	50,242
Selling, general and administrative expenses	(39,712)	(33,126)
Income from continuing operations before non-operating items, income taxes and minority interest	16,422	17,116
Interest expense and finance charges, net	(3,812)	(2,083)
Other income (expense), net	709	(321)
Income from continuing operations before income taxes and minority interest	13,319	14,712
Provision for income taxes	(5,042)	(5,346)
Minority interest in subsidiary	26	150
Income from continuing operations	8,303	9,516
Income from discontinued operations, net of tax	304	137
Net income	$ 8,607	$ 9,653
Earnings per share:		
Basic		
Income from continuing operations :	$ 0.30	$ 0.37
Discontinued operations :	$ 0.01	
Net income per common share basic:	$ 0.31	$ 0.37
Diluted		
Income from continuing operations :	$ 0.26	$ 0.32
Discontinued operations :	$ 0.01	$ 0.01
Net income per common share diluted:	$ 0.27	$ 0.33
Weighted average common shares outstanding basic	28,005	25,953
Weighted average common shares outstanding diluted	31,450	29,506

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

SYNNEX CORPORATION

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(in thousands)

(unaudited)

	Three Months Ended	
	February 28, 2005	**February 29, 2004**
Cash flows from operating activities:		
Income from continuing operations	$ 8,303	$ 9,516
Income from discontinued operations, net of tax	304	137
Net income	$ 8,607	$ 9,653
Adjustments to reconcile net income to net cash provided by (used in) operating activities:		
Depreciation expense	1,240	927
Amortization of intangible assets	983	687
Amortization of unearned stock-based compensation		137
Provision for doubtful accounts	1,111	1,203
Tax benefits from employee stock plan	2,227	
Unrealized gain on trading securities	(1,122)	(571)
Realized gain on investment	(12)	
Loss on disposal of fixed assets	643	
Minority interest in subsidiaries	22	(128)
Changes in assets and liabilities, net of acquisition of businesses:		
Accounts receivable	(25,733)	(34,449)
Receivable from vendors	8,954	(744)
Receivable from affiliates	(1,554)	(872)
Inventories	24,046	(25,793)
Other assets	(3,380)	8,114
Payable to affiliates	(1,987)	18,704
Accounts payable	587	(6,723)
Accrued liabilities	1,941	(4,727)
Net cash provided by (used in) operating activities	16,573	(34,582)
Cash flows from investing activities:		
Purchases of short-term investments	(192)	
Proceeds from sale of short-term investments	208	
Acquisition of businesses	(2,888)	(272)
Other investment	(3,000)	
Purchase of property and equipment, net	(2,470)	(1,047)
Decrease in restricted cash	987	22
Net cash used in investing activities	(7,355)	(1,297)
Cash flows from financing activities:		
Cash overdraft	(8,653)	3,471
Proceeds from revolving line of credit		28,100
Payments on revolving line of credit		(33,100)
Proceeds from bank loan	278,220	223,317

Repayment of bank loan	(278,571)	(241,513)
Net proceeds under other lines of credit		1,228
Payments of bonds and other long-term liabilities	(11,246)	(374)
Net proceeds from issuance of common stock	3,711	52,254
Net cash provided by (used in) financing activities	(16,539)	33,383
Effect of exchange rate changes on cash and cash equivalents	202	(39)
Net decrease in cash and cash equivalents	(7,119)	(2,535)
Cash and cash equivalents at beginning of period	28,726	22,079
Cash and cash equivalents at end of period	$ 21,607	$ 19,544
Supplemental disclosures of cash flow information:		
Interest paid	$ 1,207	$ 958
Income taxes paid	$ 1,362	$ 2,563

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

SYNNEX CORPORATION

CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(in thousands)

(unaudited)

	Three Months Ended	
	February 28, 2005	**February 29, 2004**
Net income	$ 8,607	$ 9,653
Other comprehensive income (loss):		
Changes in unrealized gains (losses) on available-for-sale securities	(8)	74
Foreign currency translation adjustment	(1,996)	(808)
Total comprehensive income	$ 6,603	$ 8,919

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

SYNNEX CORPORATION

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the three months ended February 28, 2005 and February 29, 2004

(amounts in thousands, except for per share amounts)

(unaudited)

NOTE 1 - ORGANIZATION AND BASIS OF PRESENTATION:

SYNNEX Corporation (together with its subsidiaries, herein referred to as SYNNEX or the Company) is an information technology products supply chain services company. The Company s supply chain outsourcing services include distribution, contract assembly, logistics and demand generation marketing. SYNNEX is headquartered in Fremont, California and has operations in North America, Asia and Europe.

The accompanying interim unaudited condensed consolidated financial statements as of February 28, 2005 and February 29, 2004 and for the three months then ended 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, 2004 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 have been condensed or omitted in accordance with such rules and regulations. In the opinion of management, the accompanying unaudited condensed consolidated financial statements reflect all adjustments, consisting only of normal recurring adjustments, necessary to present 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, 2004, included in the Company s Annual Report on Form 10-K for the fiscal year ended November 30, 2004.

The results of operations for the three months ended February 28, 2005 and February 29, 2004 are not necessarily indicative of the results that may be expected for the year ending November 30, 2005 or any future period and the Company makes no representations related thereto.

The Company is an affiliate of MiTAC International Corporation, a publicly traded corporation in Taiwan. At February 28, 2005, MiTAC International Corporation and its affiliates had a combined ownership of approximately 69% in the Company.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

Use of estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expense during the reporting period. Actual results could differ from those estimates.

Principles of consolidation

The consolidated financial statements include the accounts of the Company and its wholly owned subsidiaries and majority owned subsidiaries in which no substantive participating rights are held by minority stockholders. All significant intercompany accounts and transactions have been eliminated.

Investments in 20% through 50% owned affiliated companies are included under the equity method where the Company exercises significant influence over operating and financial affairs of the investee. Investments in less than 20% owned companies or investments in 20% through 50% owned companies where the Company does not exercise significant influence over operating and financial affairs of the investee are recorded under the cost method.

Cash and cash equivalents

The Company considers all highly liquid debt instruments purchased with an original maturity or remaining maturity at date of purchase of three months or less to be cash equivalents. Cash equivalents consist principally of money market deposit accounts that are stated at cost, which approximates fair value. The Company is exposed to credit risk in the event of default by financial institutions to the extent that cash balances with financial institutions are in excess of amounts that are insured by the Federal Deposit Insurance Corporation.

SYNNEX CORPORATION

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

For the three months ended February 28, 2005 and February 29, 2004

(amounts in thousands, except for per share amounts)

(unaudited)

Restricted cash

The Company provides letters of credit to vendors on behalf of its subsidiary in Asia. The Company is required by the banks to maintain certain balances in its bank accounts as collateral for such credit arrangements. At November 30, 2004 and February 28, 2005, the Company had restricted cash balances of $2,020 and $1,034, respectively.

Investments

The Company classifies its investments in marketable securities as trading and available-for-sale. All securities related to the deferred compensation plan and the Company s investment in MCJ Company Ltd. (MCJ) are classified as trading and are recorded at fair value, based on quoted market prices, and unrealized gains and losses are included in results of operations. All other securities are classified as available-for-sale and are recorded at fair market value, based on quoted market prices, and unrealized gains and losses are included in accumulated other comprehensive income, a component of stockholders equity. Realized gains and losses, which are calculated based on the specific identification method, and declines in value judged to be other than temporary, if any, are recorded in operations as incurred.

To determine whether a decline in value is other-than-temporary, the Company evaluates several factors, including current economic environment, market conditions, operational and financial performance of the investee, and other specific factors relating to the business underlying the investment, including business outlook of the investee, future trends in the investee s industry and the Company s intent to carry the investment for a sufficient period of time for any recovery in fair value. If a decline in value is deemed as other-than-temporary, the Company records reductions in carrying values to estimated fair values, which are determined based on quoted market prices if available or on one or more of the valuation methods such as pricing models using historical and projected financial information, liquidation values, and values of other comparable public companies.

Long-term investments include instruments that the Company has the ability and intent to hold for more than twelve months. The Company classifies its long-term investments as available-for-sale if a readily determinable fair value is available.

The Company has investments in equity instruments of privately held companies. These investments are included in other assets and are accounted for under the cost method, as the Company does not have the ability to exercise significant influence over operations. The Company monitors its investments for impairment by considering current factors, including 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.

Inventories

Inventories are stated at the lower of cost or market. Cost is computed based on the weighted average method. Inventories consist of finished goods purchased from various manufacturers for distribution resale and components used for contract assembly. The Company records inventory reserves for quantities in excess of demand, cost in excess of market value and product obsolescence.

SYNNEX CORPORATION

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

For the three months ended February 28, 2005 and February 29, 2004

(amounts in thousands, except for per share amounts)

(unaudited)

Property and equipment

Property and equipment are stated at cost, less accumulated depreciation. Depreciation and amortization are computed using the straight-line method based upon the shorter of the estimated useful lives of the assets, or the lease term of the respective assets, if applicable. Maintenance and repairs are charged to expense as incurred, and improvements are capitalized. When assets are retired or otherwise disposed of, the cost and accumulated depreciation and amortization are removed from the accounts and any resulting gain or loss is reflected in operations in the period realized. The depreciation and amortization periods for property and equipment categories are as follows:

Equipment and Furniture	5 - 7 years
Software	3 years
Leasehold Improvements	3 - 10 years
Buildings	39 years

Goodwill

The Company has adopted Statement of Financial Accounting Standards No. 142, Goodwill and Other Intangible Assets (SFAS No. 142), which revised the standards of accounting for goodwill, by replacing the amortization of these assets with the requirement that they are reviewed annually for impairment, or more frequently if impairment indicators exist.

Intangible assets

Intangible assets consist of vendor lists, customer lists, trade names and land rights, which are amortized on a straight-line basis over their estimated lives. Intangible assets are amortized over a period of three to ten years.

Software costs

The Company develops software for internal use only. The payroll and other costs of the Company s software department have been expensed as incurred. Excluding the costs of support, maintenance and training functions that are not subject to capitalization, the costs of the software department were not material for the periods presented. If the internal software development costs become material, the Company will capitalize the costs based on the defined criteria for capitalization in accordance with Statement of Position (SOP) 98-1, Accounting for the Costs of Computer Software Developed or Obtained for Internal Use.

Impairment of long-lived assets

The Company reviews the recoverability of its long-lived assets, such as property and equipment, when events or changes in circumstances occur that indicate the carrying value of the asset or asset group may not be recoverable. The assessment of possible impairment is based on the Company s ability to recover the carrying value of the asset or asset group from the expected future pre-tax cash flows, undiscounted and without interest charges, of the related operations. If these cash flows are less than the carrying value of such assets, an impairment loss is recognized for the difference between estimated fair value and carrying value. The measurement of impairment requires management to estimate future cash flows and the fair value of long-lived assets.

SYNNEX CORPORATION

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

For the three months ended February 28, 2005 and February 29, 2004

(amounts in thousands, except for per share amounts)

(unaudited)

Concentration of credit risk

Financial instruments that potentially subject the Company to significant concentration of credit risk consist principally of cash and cash equivalents and accounts receivable. The Company s cash and cash equivalents are maintained with high quality institutions, the compositions and maturities of which are regularly monitored by management. Through February 28, 2005, the Company had not experienced any losses on such deposits.

Accounts receivable include amounts due from customers in the technology industry. The Company believes that the concentration of credit risk on its accounts receivable is substantially mitigated by the Company s evaluation process and relatively short collection terms. 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 28, 2005, such losses have been within management s expectations.

In the three months ended February 29, 2004, one customer accounted for approximately 10% of the Company s total revenues. In the three months ended February 28, 2005, no single customer represented 10% or more of the Company s total revenues. At November 30, 2004 and February 28, 2005, no single customer comprised more than 10% of the total consolidated accounts receivable balance.

Revenue recognition

The Company recognizes revenue as products are shipped, if a purchase order exists, the sale price is fixed or determinable, collection of resulting receivables is reasonably assured, risk of loss and title have transferred and product returns are reasonably estimable. Shipping terms are typically F.O.B. the Company s warehouse. Provisions for sales returns are estimated based on historical data and are recorded concurrently with the recognition of revenue. These provisions are reviewed and adjusted periodically by the Company. Revenue is reduced for early payment discounts and volume incentive rebates offered to customers.

The Company purchases licensed software products from OEM vendors and distributes them to customers. Revenues are recognized upon shipment of software products when a purchase order exists, the sales price is fixed or determinable and collection is determined to be probable. Subsequent to the sale of software products, the Company has no obligation to provide any modification, customization, upgrades, enhancements, or any other post-contract customer support.

Original Equipment Manufacturer (OEM) supplier programs

Funds received from OEM suppliers for inventory volume promotion programs, price protection and product rebates are recorded as adjustments to cost of revenue. The Company tracks vendor promotional programs for volume discounts on a program-by-program basis. Once the program is implemented, the expected benefit of the program based on the estimated volume is recorded as a receivable from vendors with a corresponding reduction in the cost of inventories. As the inventories are sold, the benefit is earned and reflected as a reduction in the cost of revenue. Concurrently, the vendor receivable is collected, generally through reductions authorized by the vendor to accounts payable. The Company monitors the balances of receivables from vendors on a quarterly basis and adjusts the allowance for differences between expected and actual volume sales. For price protection programs, the Company records a reduction in the payable to the vendor and a reduction in the related inventory. Funds received for specific marketing and infrastructure reimbursements are recorded as adjustments to selling, general and administrative expenses, and any excess reimbursement amount is recorded as an adjustment to cost of revenue.

SYNNEX CORPORATION

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

For the three months ended February 28, 2005 and February 29, 2004

(amounts in thousands, except for per share amounts)

(unaudited)

Royalties

The Company purchases licensed software products from OEM vendors and distributes to resellers. Royalties to OEM vendors are accrued for and recorded in cost of revenue when software products are shipped and revenue is recognized.

Warranties

The Company s OEM suppliers generally warrant the products distributed by the Company and allow returns of defective products. The Company generally does not independently warrant the products it distributes; however, the Company does warrant the following: (1) its services with regard to products that it assembles for its customers, and (2) products that it builds to order from components purchased from other sources. Neither warranty expense nor the accrual for warranty costs is material to the Company s consolidated financial statements.

Advertising

Costs related to advertising and promotion expenditures of products are charged to selling, general and administrative expense as incurred. To date, costs related to advertising and promotion expenditures have not been material.

Income taxes

The asset and liability method is used in accounting for income taxes. Under this method, deferred tax assets and liabilities are recognized for the expected tax consequences of temporary differences between the tax basis of assets and liabilities and their reported amounts in the financial statements using enacted tax rates and laws that will be in effect when the difference is expected to reverse. Valuation allowances are provided against assets that are not likely to be realized.

Fair value of financial instruments

For certain of the Company s financial instruments, including cash, accounts receivable and accounts payable, the carrying amounts approximate fair value due to the short maturities. The amount shown for borrowings also approximates fair value since current interest rates offered to the Company for debt of similar maturities are approximately the same. The estimated fair values of foreign exchange contracts are based on market prices or current rates offered for contracts with similar terms and maturities. The ultimate amounts paid or received under these foreign exchange contracts, however, depend on future exchange rates. The gains or losses are recognized as Other income (expense), net based on changes in the fair value of the contracts, which generally occur as a result of changes in foreign currency exchange rates.

Foreign currency translations

The functional currencies of the Company s foreign subsidiaries are their respective local currencies, with the exception of the Company s UK operation, which records its transactions in U.S. dollars. The financial statements of the foreign subsidiaries are translated into U.S. dollars for consolidation as follows: assets and liabilities at the exchange rate as of the balance sheet date, stockholders equity at the historical rates of exchange, and income and expense amounts at the average exchange rate for the quarter. Translation adjustments resulting from the translation of the subsidiaries accounts are included in Accumulated other comprehensive income. Gains and losses resulting from foreign currency transactions are included within Other income (expense), net.

SYNNEX CORPORATION

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

For the three months ended February 28, 2005 and February 29, 2004

(amounts in thousands, except for per share amounts)

(unaudited)

Reclassification

Certain reclassifications have been made to the February 29, 2004 and February 28, 2005 financial statements. These reclassifications did not change previously reported total assets, liabilities, stockholders equity or net income.

Stock-based compensation

The Company s employee stock option plan is accounted for in accordance with Accounting Principles Board No. 25, Accounting for Stock Issued to Employees , (APB No. 25) and complies with the disclosure provisions of Statement of Financial Accounting Standards No. 123, Accounting for Stock-Based Compensation (SFAS No. 123), and Statement of Financial Accounting Standards No. 148, Accounting for Stock-Based Compensation, Transition and Disclosure (SFAS No. 148). Expense associated with stock-based compensation is amortized on a straight-line basis over the vesting period of the individual award.

The Company accounts for stock issued to non-employees in accordance with the provisions of SFAS No. 123 and Emerging Issues Task Force Consensus No. 96-18, Accounting for Equity Instruments That are Issued to Other Than Employees for Acquiring, or in Conjunction with Selling, Goods or Services (EITF No. 96-18). Under SFAS No. 123 and EITF No. 96-18, stock option awards issued to non-employees are accounted for at fair value using the Black-Scholes option-pricing model.

The following table illustrates the effect on net income per share if the Company had applied the fair value recognition provisions of SFAS No. 123 to stock-based employee compensation. The estimated fair value of each Company option is calculated using the Black-Scholes option-pricing model:

		Three Months Ended	
		February 28, 2005	**February 29, 2004**
Net income as reported		$ 8,607	$ 9,653
Plus:	Stock-based employee compensation expense determined under APB No. 25, included in reported net income		137

Less:	Stock-based employee compensation expense determined under fair value based method related to the employee stock purchase plan	(246)	
Less:	Stock-based employee compensation expense determined under fair value based method related to stock options	(1,005)	(777)
Net income as adjusted		$ 7,356	$ 9,013
Net earnings per share basic:			
	As reported	$ 0.31	$ 0.37
	Pro forma	$ 0.26	$ 0.35
Net earnings per share diluted:			
	As reported	$ 0.27	$ 0.33
	Pro forma	$ 0.24	$ 0.31
Shares used in computing net income per share basic:			
	As reported	28,005	25,953
	Pro forma	28,005	25,953
Shares used in computing net income per share diluted:			
	As reported	31,450	29,506
	Pro forma	30,941	29,104

Comprehensive income

Comprehensive income is defined as the change in equity of a business enterprise during a period from transactions and other events and circumstances from non-owner sources. The primary components of

SYNNEX CORPORATION

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

For the three months ended February 28, 2005 and February 29, 2004

(amounts in thousands, except for per share amounts)

(unaudited)

comprehensive income for the Company include foreign currency translation adjustments arising from the consolidation of the Company s foreign subsidiaries and unrealized gains and losses on the Company s available-for-sale securities.

Recently issued accounting pronouncements

In December 2004, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards No. 151, Inventory Costs (SFAS 151), which adopts wording from the International Accounting Standards Board s IAS 2 Inventories in an effort to improve the comparability of international financial reporting. The new standard indicates that abnormal freight, handling costs, and wasted materials (spoilage) are required to be treated as current period charges rather than as a portion of inventory cost. Additionally, the standard clarifies that fixed production overhead should be allocated based on the normal capacity of a production facility. The provisions of SFAS 151 are effective for fiscal years beginning after June 15, 2005. Adoption of SFAS 151 is not expected to have a material impact on the Company s financial position or results of operations.

In December 2004, the FASB issued Statement No. 123R (revised 2004), Share-Based Payment (Statement 123R), which is a revision of FASB Statement No. 123, Accounting for Stock-Based Compensation . Statement 123R supersedes APB Opinion No. 25, Accounting for Stock Issued to Employees , and amends FASB Statement No. 95, Statement of Cash Flows . Generally, the approach in Statement 123R is similar to the approach described in Statement 123. However, Statement 123R requires all share-based payments to employees, including grants of employee stock options, to be recognized in the income statement based on their fair values. Pro forma disclosure will no longer be an alternative. The new standard will be effective for the Company in the quarter ending February 28, 2006. The Company is in the process of assessing the impact of adopting this new standard. The impact will be dependent on the transition method, the option-pricing model used to compute fair values, and the inputs to that model, such as volatility and expected life.

On March 29, 2005, the SEC issued Staff Accounting Bulletin (SAB) 107 which expresses the view of the SEC regarding the interaction between SFAS No. 123R and certain SEC rules and regulations and provides the SEC s views regarding the valuation of share-based payment arrangements for public companies. In particular, SAB 107 provides guidance related to share-based payment transactions with non-employees, the transition from nonpublic to public entity status, valuation methods (including assumptions such as expected volatility and expected term), the accounting for certain redeemable financial instrument issues under shares-based payment arrangements, the classification of compensation expense, non-GAAP financial measures, first-time adoption of SFAS No. 123R in an interim period, capitalization of compensation costs related to share-based payment arrangements, the accounting for income tax effects of share-based payment arrangements, the accounting for income tax effects of share-based payment arrangements upon adoption of SFAS No. 123R, the modification of employee share options prior to adoption of SFAS No. 123R, and disclosures in Management s Discussion and Analysis of Financial Condition and Results of Operations subsequent to adoption of SFAS No. 123R.

In May 2005, the FASB issued SFAS No. 154, Accounting Changes and Error Corrections . SFAS No. 154 replaces APB Opinion No. 20, Accounting Changes and SFAS No. 3, Reporting Accounting Changes in Interim Financial Statements . SFAS No. 154 requires retrospective application to prior periods financial statements of changes in accounting principle, unless it is impracticable to determine either the period-specific effects or the cumulative effect of the change. The Company does not expect the adoption of SFAS No. 154 to have any material impact on its consolidated financial statements.

NOTE 3 DISCONTINUED OPERATIONS:

During the second quarter of fiscal 2005 the Company sold approximately 93% of the equity it held in its subsidiary, SYNNEX K.K. to MCJ, in exchange for eight thousand six hundred three shares of MCJ. The Company

SYNNEX CORPORATION

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

For the three months ended February 28, 2005 and February 29, 2004

(amounts in thousands, except for per share amounts)

(unaudited)

recorded a gain of $12,323, net of tax, as a result of this sale, in the second quarter of fiscal 2005. The Company has no significant continuing involvement in the operations of MCJ or SYNNEX K.K. The Company s remaining equity interest in SYNNEX K.K. is accounted for under the cost method as the Company does not have significant influence over either MCJ or SYNNEX K.K.

Under the provisions of FASB Statement No. 144, Accounting for the Impairment or Disposal of Long-Lived Assets, the sale of SYNNEX K.K. qualifies as a discontinued operation component of the Company. Accordingly, the Company has excluded results of Japan operations from its consolidated statements of operations to present this business in discontinued operations.

Under the terms of the sale, the Company is restricted from selling the shares of MCJ it received until April 19, 2006. As described in Note 2, the shares are classified as trading and are recorded at fair value, based on quoted market prices, and realized gains and losses are included in the results of operations. As of August 31, 2005, the fair value of the shares of MCJ was $19,199, and that amount was included in short term investments.

The results from the operations of SYNNEX K.K., prior to the sale, were as follows:

	Three Months Ended					
	May 31, 2005	**February 28, 2005**	**November 30, 2004**	**August 31, 2004**	**May 31, 2004**	**February 29, 2004**
Revenue	$ 24,815	$ 39,662	$ 37,783	$ 36,440	$ 41,853	$ 47,468
Cost of revenue	(23,143)	(36,773)	(35,451)	(34,401)	(39,338)	(44,748)
Gross profit	1,672	2,889	2,332	2,039	2,515	2,720
Selling, general and administrative expenses	(1,187)	(1,983)	(1,926)	(1,938)	(2,192)	(2,230)
Income from operations before non-operating items, income taxes and minority interest	485	906	406	101	323	490
Interest expense and finance charges, net	(42)	(98)	(94)	(111)	(130)	(129)
Other income (expense), net	(79)	(166)	125	16	94	(77)
Income before income taxes and minority interest	364	642	437	6	287	284
Provision for income taxes	(144)	(290)	(200)	(1)	(132)	(125)

Minority interest	(13)	(48)	(32)	(2)	(21)	(22)
Net income	$ 207	$ 304	$ 205	$ 3	$ 134	$ 137

NOTE 4 - BALANCE SHEET COMPONENTS:

Inventories:

	February 28, 2005	November 30, 2004
Components	$ 50,427	$ 41,309
Finished goods	331,165	367,037
	$ 381,592	$ 408,346

SYNNEX CORPORATION

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

For the three months ended February 28, 2005 and February 29, 2004

(amounts in thousands, except for per share amounts)

(unaudited)

Intangible assets:

	February 28, 2005			November 30, 2004		
	Gross Amount	Accumulated Amortization	Net Amount	Gross Amount	Accumulated Amortization	Net Amount
Goodwill	$ 22,808	$	$ 22,808	$ 23,631	$	$ 23,631
Vendor lists	22,898	(13,381)	9,517	22,898	(12,843)	10,055
Customer lists	12,810	(2,331)	10,479	13,133	(2,204)	10,929
Other intangible assets	4,811	(1,088)	3,723	4,878	(771)	4,107
	$ 63,327	$ (16,800)	$ 46,527	$ 64,540	$ (15,818)	$ 48,722

Amortization expense was $687 and $983 for the three months ended February 29, 2004 and February 28, 2005, respectively. Intangible assets are being amortized over estimated useful lives of between three and ten years.

NOTE 5 - ACCOUNTS RECEIVABLE ARRANGEMENTS:

The Company has established a six-year revolving arrangement (the Arrangement) through a consolidated wholly-owned subsidiary to sell up to $275,000 of U.S. trade accounts receivables (the Receivables) to two financial institutions. In connection with the Arrangement, the Company sells its Receivables to its wholly-owned subsidiary on a continuing basis, which will in turn sell an undivided interest in the Receivables to the financial institutions without recourse, at market value, calculated as the gross receivable amount, less a facility fee. The fee is based on the prevailing commercial paper interest rates plus 0.90%. A separate fee based on the unused portion of the facility, at 0.30% per annum, is also charged by the financial institutions. To the extent that cash was received in exchange, the amount of Receivables sold to the financial institutions has been recorded as a true sale, in accordance with SFAS No. 140, Accounting for Transfer and Servicing of Financial Assets and Extinguishments of Liabilities . The amount of Receivables sold to the financial institutions and not yet collected from customers at November 30, 2004 and February 28, 2005 was $196,300 and $118,600, respectively. The wholly-owned subsidiary is consolidated in the financial statements of the Company, and the remaining balance of unsold Receivables at November 30, 2004 and February 28, 2005 of $213,492 and $236,893, respectively, are included within Accounts receivable, net .

The gross proceeds resulting from the sale of the Receivables totaled approximately $213,750 and $248,100 in the three months ended February 29, 2004 and February 28, 2005, respectively. The gross payments to the financial institutions under the Arrangement totaled approximately $270,050 and $325,800 in the three months ended February 29, 2004 and February 28, 2005, respectively, which arose from the subsequent collection of Receivables. The proceeds (net of the facility fee) are reflected in the consolidated statement of cash flows in operating activities within changes in accounts receivable.

The Company continues to collect the Receivables on behalf of the financial institutions, for which it receives a service fee from the financial institutions, and remits collections to the financial institutions. The Company estimates that the service fee it receives approximates the market rate for such services, and as a result, has recognized no servicing assets or liabilities in its consolidated balance sheet. Facility fees (net of service fees) charged by the financial institutions totaled $807 and $1,162 in the three months ended February 29, 2004 and February 28, 2005, respectively, and were recorded within Interest expense and finance charges, net .

Under the Arrangement, as amended, the Company is required to maintain certain financial covenants to maintain its eligibility to sell additional receivables under the facility. These covenants include minimum net worth, minimum fixed charge ratio, and net worth percentage. The Company was in compliance with the covenants at November 30, 2004 and February 28, 2005.

SYNNEX CORPORATION

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

For the three months ended February 28, 2005 and February 29, 2004

(amounts in thousands, except for per share amounts)

(unaudited)

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 business 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 12, Commitments and Contingencies for additional information. Approximately $248,086 and $285,230 of the Company s net sales were financed under these programs in the three months ended February 29, 2004 and February 28, 2005, respectively. Approximately $54,152 and $49,724 of accounts receivable at November 30, 2004 and February 28, 2005, respectively, were subject to flooring agreements. Flooring fees were approximately $760 and $1,142 in the three months ended February 29, 2004 and February 28, 2005, respectively, and are included within Interest expense and finance charges, net .

NOTE 6 - RESTRUCTURING CHARGES:

Restructuring charges for the three months ended February 28, 2005 were as follows:

In the first quarter of fiscal 2005, the Company announced a restructuring program in its distribution segment that impacted approximately 35 employees across multiple business functions in SYNNEX Canada and closed its facilities in Richmond, British Columbia, Calgary, Alberta and Saint-Laurent, Quebec. This restructuring resulted in employee termination benefits of $691, estimated facilities exit expenses of $828 and other expenses in the amount of $121. All charges were recorded in accordance with Statement of Financial Accounting Standards No. 146, Accounting for Costs Associated with Exit or Disposal Activities . All terminations are expected to be completed by May 31, 2005.

The following table summarizes the activity related to the liability for restructuring charges through February 28, 2005:

	Severance and Benefits	Facility and Exit Costs	Other	Total
Balance of accrual at November 30, 2004	$	$	$	$
Restructuring charge expensed in the quarter ended February 28, 2005	691	828	121	1,640
Cash payments	(74)			(74)
Non-cash charges		(636)		(636)
Balance accrued at February 28, 2005	$ 617	$ 192	$ 121	$ 930

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

SYNNEX CORPORATION

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

For the three months ended February 28, 2005 and February 29, 2004

(amounts in thousands, except for per share amounts)

(unaudited)

NOTE 7 - BORROWINGS:

Borrowings consist of the following:

	February 28, 2005	November 30, 2004
SYNNEX Canada revolving loan	$ 54,585	$ 56,877
SYNNEX Canada term loan	2,101	2,275
SYNNEX K.K. line of credit	16,262	16,521
SYNNEX K.K. term loan	1,913	1,944
SYNNEX K.K. mortgage	995	1,088
SYNNEX K.K. bonds	6,504	6,997
SYNNEX China mortgage	2,292	2,368
	84,652	88,070
Less: Current portion	(72,416)	(74,996)
Non-current portion	$ 12,236	$ 13,074

NOTE 8 - STOCKHOLDERS EQUITY:

Initial Public Offering

The Company completed its initial public offering (IPO) on December 1, 2003 and sold an aggregate of 3,578 shares of its common stock. In January 2004, the underwriters of the Company s IPO exercised a portion of their over-allotment option and purchased an additional 161 shares of common stock from the Company. Net proceeds from the IPO and the exercise of the over-allotment option aggregated approximately $48,800.

Stock Options

During the three months ended February 29, 2004 and February 28, 2005, 18 and 70 stock options, respectively, were granted and at February 28, 2005 options to purchase 7,501 shares of common stock were outstanding.

The fair value of each option grant is estimated on the date of grant using the Black-Scholes option-pricing model. The Black-Scholes model, as well as other currently accepted option valuation models, was developed to estimate the fair value of freely tradable, fully transferable options without vesting restrictions, and these assumptions differ significantly from the characteristics of Company stock option grants. The following weighted average assumptions were used to estimate the fair value of stock option grants in the three months ended February 29, 2004 and February 28, 2005:

	Three Months Ended	
	February 28, 2005	**February 29, 2004**
Expected life (years)	5	5
Risk-free interest rate	3.5%	3.1%
Expected volatility	33%	65%
Dividend yield	0%	0%

SYNNEX CORPORATION

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

For the three months ended February 28, 2005 and February 29, 2004

(amounts in thousands, except for per share amounts)

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The weighted-average per share grant date fair value of options granted during the three months ended February 29, 2004 and February 28, 2005 was $9.29 and $7.36, respectively.

2003 Employee Stock Purchase Plan

The Company s 2003 Employee Stock Purchase Plan (ESPP) permits eligible employees to purchase common stock through payroll deductions, which may not exceed 15% of an employee s total compensation. The maximum number of shares a participant may purchase during a single accumulation period is one thousand two hundred fifty. The plan was approved by the Company s stockholders and approved by its board of directors in 2003. A total of 500 shares of common stock have been reserved for issuance under the ESPP.

The ESPP has been implemented in a series of overlapping offering periods of 24 months duration, with new offering periods, other than the first offering period, beginning in October and April each year. Each offering period will consist of four accumulation periods of up to six months each. During each accumulation period, payroll deductions accumulate, without interest. On the last trading day of each accumulation period, accumulated payroll deductions are used to purchase common stock.

The purchase price equals 85% of the fair market value per share of common stock on either the first trading day of the offering period or on the last trading day of the accumulation period, whichever is less. If the fair market value of the Company s stock at the start of an offering period is higher than the fair market value at the start of a subsequent offering period, then the first offering period will automatically terminate and participants will be automatically re-enrolled in the new offering period.

The payroll deductions in the first two accumulation periods resulted in the purchase of 200 shares of common stock. The fair value of each share is estimated on the date the employee enrolls in the ESPP using the Black-Scholes option-pricing model. The following weighted average assumptions were used to estimate the fair value of ESPP purchases in the accumulation periods ended March 31, 2004 and September 30, 2004:

Expected life (years)	1.3
Risk-free interest rate	2.0%
Expected volatility	57.1%
Dividend yield	0%

The weighted-average per share ESPP enrollment date fair value of common stock purchased during the accumulation periods was $5.23.

In March 2005, the Company s board of directors approved the following amendments to the ESPP to be effective for the accumulation period beginning April 1, 2005:

- Reduction of participant purchase price discount of Company stock from 15% to 5%;
- Reduction of two year offering periods and six month accumulation periods to three month offering and accumulation periods;
- Maximum purchase limit of $10 of stock per calendar year per participant; and
- Director level employees and below are eligible to participate and associate vice president level employees and above are no longer eligible to participate.

SYNNEX CORPORATION

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

For the three months ended February 28, 2005 and February 29, 2004

(amounts in thousands, except for per share amounts)

(unaudited)

NOTE 9 - NET INCOME PER COMMON SHARE:

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

	Three Months Ended	
	February 28, 2005	**February 29, 2004**
Income from continuing operations	$ 8,303	$ 9,516
Income from discontinued operations, net of tax	304	137
Net income	$ 8,607	$ 9,653
Weighted average common share basic	28,005	25,953
Effect of dilutive securities:		
Stock options	3,445	3,553
Weighted average common share diluted	31,450	29,506
Earnings per share:		
Basic		
Income from continuing operations	$ 0.30	$ 0.37
Discontinued operations	$ 0.01	
Net income per common share basic	$ 0.31	$ 0.37
Diluted		
Income from continuing operations	$ 0.26	$ 0.32
Discontinued operations	$ 0.01	$ 0.01
Net income per common share diluted	$ 0.27	$ 0.33

Options to purchase 8 shares of common stock for the three months ended February 29, 2004 have not been included in the computation of diluted net income per share as their effect would have been anti-dilutive. There were no anti-dilutive shares as of February 28, 2005.

NOTE 10 - RELATED PARTY TRANSACTIONS:

Purchases of inventories from MiTAC International Corporation and its affiliates (principally motherboards and other peripherals) were approximately $120,679 and $100,315 during the three months ended February 29, 2004 and February 28, 2005, respectively. Sales to MiTAC International Corporation and its affiliates during the three months ended February 29, 2004 and February 28, 2005, were approximately $140 and $458, respectively. The Company s relationship 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. Accordingly, the Company negotiates manufacturing and pricing terms, including allocating customer revenue, on a case-by-case basis with MiTAC International Corporation.

In October 2001, as a new investment option for the deferred compensation plan, the Company established a brokerage account in Taiwan. The purpose of the account is to hold shares of MiTAC International Corporation and its affiliates. As of November 30, 2004 and February 28, 2005, the fair market value of the common stock acquired was approximately $2,259 and $3,496, respectively.

SYNNEX CORPORATION

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

For the three months ended February 28, 2005 and February 29, 2004

(amounts in thousands, except for per share amounts)

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NOTE 11 - SEGMENT INFORMATION:

Segments were determined based on products and services provided by each segment. The Company has identified the following two reportable business segments:

The Distribution segment distributes computer systems and complementary products to a variety of customers, including value-added resellers, system integrators, retailers and direct resellers.

The Contract Assembly segment provides electronics assembly services to OEMs, including integrated supply chain management, build-to-order and configure-to-order system configurations, materials management and logistics.

Summarized financial information related to the Company s reportable business segments as at February 29, 2004 and February 28, 2005, and for each of the periods then ended, is shown below:

	Distribution	Contract Assembly	Consolidated
Three Months Ended February 28, 2005:			
Revenue	$ 1,180,266	$ 129,497	$ 1,309,763
Income from continuing operations before non-operating items, income taxes and minority interest	13,016	3,406	16,422
Total assets	781,727	200,887	982,614
Three Months Ended February 29, 2004:			
Revenue	$ 1,057,479	$ 117,204	$ 1,174,683
Income from continuing operations before non-operating items, income taxes and minority interest	14,157	2,959	17,116
Total assets	676,194	161,341	837,535

Summarized financial information related to the geographic areas in which the Company operated at February 29, 2004 and February 28, 2005 and for each of the periods then ended is shown below:

	North America	Other	Consolidation Adjustments	Consolidated
Three Months Ended February 28, 2005:				
Revenue	$ 1,254,600	$ 64,361	$ (9,198)	$ 1,309,763
Income from continuing operations	7,167	1,217	(81)	8,303
Other long-lived assets	68,369	20,139		88,508
Three Months Ended February 29, 2004:				
Revenue	$ 1,112,137	$ 67,080	$ (4,534)	$ 1,174,683
Income from continuing operations	9,676	18	(178)	9,516
Other long-lived assets	25,782	19,600		45,382

NOTE 12 - COMMITMENTS AND CONTINGENCIES:

The Company was contingently liable at February 28, 2005, 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 5. Losses, if any, would be the difference between repossession cost and the resale value of the inventory. There have been no repurchases through February 28, 2005 under these agreements nor is the Company aware of any pending customer defaults or repossession obligations.

SYNNEX CORPORATION

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

For the three months ended February 28, 2005 and February 29, 2004

(amounts in thousands, except for per share amounts)

(unaudited)

NOTE 13 - SUBSEQUENT EVENT:

In March 2005, the Company experienced theft as a result of a break-in at its warehouse in the City of Industry, California, in which approximately $4,000 of inventory was stolen. The Company has filed a claim with its insurance provider for the amount of the loss, less a small deductible. Based on the information the Company has received to date from its insurance provider, the claim is expected to be collected. To date, the Company has received $1,800 of the claimed amount. Based on the information the Company has received to date from its insurance provider, the Company expects the remaining claim to be collected.

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, al will and similar expressions are intended to identify forward-looking statements. These are statements that relate to future periods and include statements relating to our services, our relationships with and the value we provide to our OEM suppliers and reseller customers, our relationship with MiTAC, our distribution and contract assembly services, our strategy with respect to international operations, our plan to continue our investment in IT services, adequacy of our facilities, revenue, gross margin, selling, general and administrative expenses, fluctuations in future revenues and operating results and future expenses, our expectation that our total gross margin percentage will likely decline from first quarter 2005 levels, fluctuations in inventory, our estimates regarding our capital requirements and our needs for additional financing, our infrastructure needs and growth, use of our working capital, thefts at our warehouses, our belief that we will be able to collect from our insurance company the insurance claim we have made, market consolidation, expansion of our operations, competition, impact of new rules and regulations affecting public companies, our expectations that in connection with the EMJ acquisition the severance and benefits costs will be paid through the second quarter of fiscal 2006, the adequacy of our cash resources to meet our capital needs, statements regarding our securitization program and sources of revenue and anticipated 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 in Management s Discussion and Analysis of Financial Condition and Results of Operations Factors That May Affect Our Operating Results, as well as the seasonality of the buying patterns of our customers, the concentration of sales to large customers, dependence upon and trends in capital spending budgets in the IT industry, fluctuations in general economic conditions, increased competition and costs related to expansion of our operations. 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 global information technology, or IT, supply chain services company. We offer a comprehensive range of services to IT original equipment manufacturers and software publishers, collectively OEMs, and reseller customers worldwide. The supply chain services that we offer include product distribution, related logistics, contract assembly and demand generation marketing.

We have been in the IT distribution business since 1980 and are one of the largest IT product distributors based on 2004 reported revenue. We focus our core wholesale distribution business on a limited number of leading IT OEMs, which allows us to enhance and increase the value we provide to our OEM suppliers and reseller customers. In the three months ended February 28, 2005 our two largest OEM suppliers, HP and IBM, accounted for approximately 33% of our revenue.

Because we offer distribution, contract assembly and complementary supply chain services, OEM suppliers and resellers can outsource to us multiple areas of their business outside of their core competencies. This model allows us to provide services at several points along the IT product supply chain. We believe that the combination of our broad range of supply chain capabilities, our focus on serving the leading IT OEMs and our efficient operations enable us to realize strong relationships with our OEM suppliers and reseller customers. We are headquartered in Fremont, California and have distribution, sales and assembly facilities in Asia, Europe and North America.

Critical Accounting Policies and Estimates

There have been no material changes in our critical accounting policies and estimates for the three-month period ended February 28, 2005 from our disclosure in our Annual Report on Form 10-K for the year ended November 30, 2004. 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, 2004.

Results of Operations

The following table presents certain consolidated statement of operations data for the periods indicated as a percentage of net sales and is adjusted to give effect to the discontinued operations resulting from the sale of our Japan subsidiary during the second quarter of fiscal 2005.

	Three Months Ended	
	February 28, 2005	February 29, 2004
Statements of Operations Data:		
Revenue	100.00%	100.00%
Cost of revenue	(95.71)	(95.72)
Gross profit	4.29	4.28
Selling, general and administrative expenses	(3.04)	(2.82)
Income from continuing operations before non-operating items, income taxes and minority interest	1.25	1.46
Interest expense and finance charges, net	(0.29)	(0.18)
Other income (expense), net	0.06	(0.03)
Income from continuing operating before income taxes and minority interest	1.02	1.25
Provision for income taxes	(0.39)	(0.45)
Minority interest in subsidiary		0.01
Income from continuing operations	0.63	0.81
Income from discontinued operations, net of tax	0.03	0.01
Net income	0.66%	0.82%

Three Months Ended February 28, 2005 and February 29, 2004

Revenue:

	Three Months Ended February 28, 2005	Three Months Ended February 29, 2004	% Change
	(in thousands)	(in thousands)	
Revenue	$ 1,309,763	$ 1,174,683	11.5%
Distribution revenue	$ 1,180,266	$ 1,057,479	11.6%
Contract assembly revenue	$ 129,497	$ 117,204	10.5%

The increase in our distribution revenue was primarily attributable to increased demand for products through the IT distribution channel, primarily in North America, and the acquisition of EMJ Data Systems Limited (EMJ) in September 2004. Our revenue increase was also a result of our increased selling efforts, including the hiring of additional sales staff in the United States. The increase in our distribution revenue was somewhat mitigated by continued significant competition in the IT distribution marketplace and gradual declines in the average selling price of products we sell. Although the overall demand for IT products, including the sale of products through the IT distribution channel, has improved in recent years, there can be no assurance that it will continue to improve or that our suppliers will not change their marketing and sales strategies and decrease their business through the IT distribution channel. While we continue to address these challenges to our revenue growth, there can be no assurance that we will be successful in reducing the effects of these issues on our future results.

The increase in contract assembly revenue was the result of an increase in sales to new customers. We currently expect our assembly business revenue level to have seasonal fluctuations in the foreseeable quarters, but we currently do not anticipate increases and decreases in revenues as significant as we have experienced over the past two years.

Gross Profit:

	Three Months Ended February 28, 2005	Three Months Ended February 29, 2004	% Change
	(in thousands)	(in thousands)	
Gross Profit	$ 56,134	50,242	11.7%
Percentage of revenue	4.29%	4.28%	0.2%

Our gross margin has been and will continue to be affected by a variety of factors, including competition, the mix and average selling prices of products we sell and the mix of customers to whom we sell, rebate and discount programs from our suppliers, freight costs and reserves for inventory losses. The slight increase in gross margin percentage was primarily a result of higher margins in our distribution segment, primarily from revenue outside of North America. Our contract assembly gross margin percentage decreased slightly due to changes in product and customer mix.

Due to competitive pressures in North America and our increased dependence on North American revenue in future periods, due to our expected divestiture of our Japanese distribution subsidiary in April 2005, we currently expect that our total gross margin percentage will likely decline from first quarter 2005 levels. Our gross margins may decrease further in future periods as a result of the relative mix of our distribution and contract assembly revenue, distribution customer mix, as well as due to potential increased competition, softness in the overall economy or changes to the terms and conditions in which we do business with our OEMs.

Selling, General and Administrative Expenses:

	Three Months Ended February 28, 2005	Three Months Ended February 29, 2004	% Change
	(in thousands)	(in thousands)	
Selling, general and administrative expenses	$ 39,712	$ 33,126	19.9%
Percentage of revenue	3.04%	2.82%	7.8%

Our selling, general and administrative expenses consist primarily of salaries, commissions, bonuses, and related expenses for personnel engaged in sales, product marketing, distribution and contract assembly operations and administration. Selling, general and administrative expenses also include stock-based compensation expense, deferred compensation expense or income, temporary personnel fees, the costs of our facilities, utility expense, professional fees, depreciation expense on our capital equipment and amortization expense on our intangible assets. Selling, general and administrative expenses increased in the first quarter of 2005 from the prior year, and, as a percentage of revenue, selling, general and administrative expenses increased in the three months ended February 28, 2005 to 3.0% from 2.8% in the prior year. The increase was primarily the result of incremental expenses associated with our increased revenue in the United States, including the hiring of additional sales personnel in the United States, the acquisition of EMJ in September 2004 and a $0.6 million increase in deferred compensation expense.

In addition, our selling, general and administrative expenses increased due to a $1.6 million restructuring charge in the three months ended February 28, 2005 in our distribution segment. The restructuring charge was primarily incurred to eliminate duplicate personnel and excess facilities that occurred as a result of our acquisition of EMJ. The restructuring resulted in employee termination benefits of $0.7 million, estimated facilities exit expenses of $0.8 million and other costs of $0.1 million. All charges were recorded in accordance with Statement of Financial Accounting Standards No. 146, Accounting for Costs Associated with Exit or Disposal Activities . The unpaid portion of the restructuring charges is included in the condensed consolidated balance sheets under the caption Accrued liabilities .

Netted against selling, general and administrative expenses are reimbursements from OEM suppliers of $4.6 million for the three months ended February 28, 2005, compared to $3.4 million in the prior year. The reimbursements relate to marketing, infrastructure and promotion programs such as advertisements in trade publications, direct marketing campaigns through mail and e-mail and product demonstrations at trade shows. We make the arrangements and pay for the advertising, facility fees and other costs of the programs, which feature the OEM suppliers products. If our OEM suppliers had not offered reimbursements for these programs, then we might have chosen not to have these programs and incur the related costs.

While we continually strive to maintain the lowest possible cost structure in running our operations, we do expect that our selling, general and administrative expense will increase in future periods due to the related costs associated with being a public entity, and, if we continue to grow our revenues, incremental costs associated with increased revenues.

Income from Continuing Operations Before Non-Operating Items, Income Taxes and Minority Interest:

	Three Months Ended February 28, 2005	Three Months Ended February 29, 2004	% Change
	(in thousands)	(in thousands)	
Income from continuing operations before non-operating items, income taxes and minority interest	$ 16,422	$ 17,116	(4.1%)

Income from continuing operations before non-operating items, income tax and minority interest as a percentage of revenue of 1.3% for the three months ended February 28, 2005 decreased slightly from 1.5% in the prior year due to the increase in selling, general and administrative expenses. Our distribution operating income percentage decreased to 1.1% in the three months ended February 28, 2005 from 1.3% in the prior year primarily due to our restructuring charges in the first quarter of fiscal 2005, incremental expenses associated with our increased revenue in the United States and a $0.6 million increase in deferred compensation expense. This was partially offset by a $0.4 million decrease in the operating loss of our Mexico operation. While the increase in deferred compensation expense had an effect on operating income, there was no effect on net income as the increase in deferred compensation expense was offset by an investment gain, which is recorded in other income and expense. The decrease in the operating loss in Mexico was a result of focused efforts to reduce costs and improve operating effectiveness. Our contract assembly operating income percentage increased to 2.6% in the three months ended February 28, 2005 from 2.5% in the prior year primarily due to higher revenues in the first quarter of fiscal 2005, and increased absorption of fixed overhead and other administrative expenses.

Interest Expense and Finance Charges, net:

	Three Months Ended February 28, 2005	Three Months Ended February 29, 2004	% Change
	(in thousands)	(in thousands)	
Interest expense and finance charges, net	$ 3,812	$ 2,083	83.0%

Amounts recorded in interest expense and finance charges, net are primarily finance fees associated with third party accounts receivable flooring arrangements, finance fees associated with the sale of accounts receivable through our securitization facility, interest expense paid on our lines of credit, long-term debt and deferred compensation liability offset by income earned on our excess cash investments. The increase in interest expense and finance charges, net, was primarily a result of a $0.7 million increase in finance fees as a result of higher interest rates in the current period

versus 2004, $0.5 million related to the repayment of debt resulting from the acquisition of EMJ and higher average borrowings outstanding during the three months ended February 28, 2005 as compared with the same period in the prior year as well as higher interest rates.

Other Income (Expense), net:

	Three Months Ended February 28, 2005	Three Months Ended February 29, 2004	% Change
	(in thousands)	(in thousands)	
Other income (expense), net	$ 709	$ (321)	(320.9)%

Amounts recorded in other income (expense), net include foreign currency transaction gains and losses, investment gains and losses, including those in our deferred compensation plan and other non-operating gains and losses. The increase in other income (expense), net was primarily due to a $0.6 million increase in investment gains related to deferred compensation in the three months ended February 28, 2005 as compared with the same period in the prior year.

Provision for Income Taxes. Income taxes consist of our current and deferred tax expense resulting from our income earned in domestic and foreign jurisdictions. Our effective tax rate was 37.9% in the three months ended February 28, 2005 as compared with an effective tax rate of 36.3% in the prior year. The increase in our effective tax rate from the first quarter of 2005 versus the first quarter of 2004 was primarily a result of a higher percentage of our total taxable income realized in the United States, where our corporate tax rate is generally higher.

Minority Interest. Minority interest is the portion of earnings from operations from our subsidiary in Mexico attributable to others. Minority interest benefit decreased to $26,000 in the three months ended February 28, 2005 from $150,000 in the three months ended February 29, 2004 due to a decrease in losses at our Mexico subsidiary.

Discontinued Operations. During the second quarter of fiscal 2005, we sold approximately 93% of SYNNEX K.K. to MCJ, in exchange for 8,603 shares of MCJ. We have reported the results of operations and financial position of this business in discontinued operations within the condensed consolidated statements of operations for all periods presented.

The results from the operations of SYNNEX K.K., prior to the sale, were as follows (in thousands):

	Three Months Ended	
	February 28, 2005	February 29, 2004
Revenue	$ 39,662	$ 47,468
Cost of revenue	(36,773)	(44,748)
Gross profit	2,889	2,720

Selling, general and administrative expenses	(1,983)	(2,230)
Income from operations before non-operating items, income taxes and minority interest	906	490
Interest expense and finance charges, net	(98)	(129)
Other income (expense), net	(166)	(77)
Income before income taxes and minority interest	642	284
Provision for income taxes	(290)	(125)
Minority interest	(48)	(22)
Net income	$ 304	$ 137

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 program for our working capital needs.

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

We had positive net working capital of $316.9 and $315.1 million at November 30, 2004 and February 28, 2005, respectively. We believe that cash flows from operations, our current cash balance and funds available under our working capital and credit facilities will be sufficient to meet our working capital needs and planned capital expenditures for the next 12 months.

To increase our market share and better serve our customers, we may further expand our operations through investments or acquisitions. We expect that this 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 additional capital stock.

Net cash provided by operating activities was $16.6 million in the three months ended February 28, 2005. Cash provided by operating activities in the three months ended February 28, 2005 was primarily attributable to net income of $8.6 million, depreciation and amortization of $2.2 million and an increase in cash from net working capital of $2.9 million. The increase in cash from net working capital in the three months ended February 28, 2005 was primarily due to decreases in inventory and receivable from vendors, partially offset by an increase in accounts receivable and a decrease in accounts payable**.** The fluctuations in these working capital balances were also affected by a net decrease of $77.7 million in sales of accounts receivable to General Electric Capital Corporation under our securitization program. Absent this net decrease in sales of accounts receivable, our cash provided by working capital would have been $80.6 million and net cash provided by operating activities would have been $94.3 million. These positive amounts are a result of the seasonality of our business where we have lower accounts receivable and inventory in the first quarter of our fiscal year, compared to the preceding fourth quarter, due to lower sales volumes.

Net cash used in investing activities was $7.4 million in the three months ended February 28, 2005. The use of cash was primarily the result of a $3.0 million investment in Microland, the final payment for the acquisition of EMJ of $2.9 million and capital expenditures of $2.5 million. The capital expenditures were mostly for the purchase of land associated with a building we already owned at our UK subsidiary, and computer equipment upgrades.

Net cash used in financing activities was $16.5 million in the three months ended February 28, 2005 and was primarily related to net debt payments of $11.6 million and cash overdraft of $8.7 million, offset by proceeds from stock option exercises of $3.7 million.

Capital Resources

Our cash and cash equivalents totaled $28.7 million and $21.6 million at November 30, 2004 and February 28, 2005, respectively.

Off Balance Sheet Arrangements

We have a six-year revolving accounts receivable securitization program in the United States, which provides for the sale of up to $275.0 million of U.S. trade accounts receivable to two financial institutions, which expires in August 2008. In connection with this program substantially all of our U.S. trade accounts receivable are transferred without recourse to our wholly owned subsidiary, which, in turn, sells the accounts receivable to the financial institutions. Sales of the accounts receivables to the financial institutions under this program result in a reduction of total accounts receivable in our consolidated balance sheet. The remaining accounts receivable not sold to the financial institutions are carried at their net realizable value, including an allowance for doubtful accounts. Our effective borrowing cost under the program is the prevailing commercial paper rate of return plus 0.90% per annum. At November 30, 2004 and February 28, 2005, the amount of our accounts receivable sold to and held by the financial institutions under this accounts receivable securitization program totaled $196.3 million and $118.6 million, respectively. The decrease in the first quarter of fiscal 2005 was due to business seasonality. We believe that available funding under our accounts receivable financing programs provides us increased flexibility to make incremental investments in strategic growth initiatives and to manage working capital requirements, and that there are sufficient trade accounts receivable to support the U.S. financing programs. As we have in prior periods, we expect we will increase this facility if our revenue levels continue to increase. Under the program, we continue to service the accounts receivable, and receive a service fee from the financial institutions. The program contains customary financial covenants, including, but not limited to, requiring us to maintain on a consolidated basis:

a minimum net worth at the end of each fiscal quarter in each fiscal year ending on or after November 30, 2003 of not less than the sum of (i) the minimum net worth required under the arrangement for the immediately preceding fiscal year plus (ii) an amount equal to 50% of the positive net income of us and our subsidiaries on a consolidated basis for the immediately preceding fiscal year plus (iii) an amount equal to 100% of the amount of any equity raised by or capital contributed to us during the immediately preceding fiscal year;

a fixed charge ratio for each rolling period from and after the closing of the arrangement of not less than 1.70 to 1.00. The fixed charge ratio is the ratio of EBITDA for the rolling period ending on such date to fixed charges for such period. Fixed charges means, with respect to any of our fiscal periods the sum of (a) cash interest expense during such period, plus (b) regularly scheduled payments of principal on our debt (other than debt owing under the amended arrangement, as defined) paid during such period, plus (c) the aggregate amount of all capital expenditures made by us during such period other than capital expenditures related to the purchase of and improvements to the building occupied by our subsidiary in China in an amount not to exceed $8.5 million, plus (d) income tax expense during such period, plus (e) any dividend, return of capital or any other distribution in connection with our capital stock. Rolling period means as of the end of any or our fiscal quarters, the immediately preceding four fiscal quarters (including the fiscal quarter then ending); and

with respect to our wholly owned subsidiary, a net worth percentage of not less than 5.0%.

We are also obligated to provide periodic financial statements and investment reports, notices of material litigation and any other information relating to our U.S. trade accounts receivable as requested by the financial institutions.

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 and/or liquidity back-up provider is not replaced. Loss of such financing capacity could have a material adverse effect on our financial condition and results of operations.

We have issued guarantees to certain vendors of our subsidiaries for the total amount of $77.9 million as of November 30, 2004 and $76.4 million as of February 28, 2005.

We have also issued guarantees of C$25.0 million in relation to a revolving loan agreement between SYNNEX Canada.

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 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 have entered into a senior secured revolving line of credit arrangement, or the Revolver, with a group of financial institutions, which is secured by our inventory and expires in 2008. The Revolver s maximum commitment is 40% of eligible inventory valued at the lower of cost or market, less liquidation reserve (as defined) up to a maximum borrowing of $45.0 million. Interest on borrowings under the Revolver is based on the financial institution s prime rate or LIBOR plus 1.75% at our option. There were no borrowings outstanding under the Revolver at November 30, 2004 or February 28, 2005.

Our subsidiary, SYNNEX Canada, has a revolving loan agreement with a group of financial institutions. At February 28, 2005 the credit limit was C$125.0 million and matures in September 2007. Borrowings under the loan agreement are collateralized by substantially all of SYNNEX Canada s assets, including inventories and accounts receivable. Borrowings bear interest at the prime rate of a Canadian bank designated by the financial institution or at the financial institution s Bankers Acceptance rate plus 1.2% for Canadian Dollar denominated loans, at the prime rate of a U.S. bank designated by the financial institution or at LIBOR plus 1.2% for U.S. Dollar denominated loans. The balance outstanding at November 30, 2004 and February 28, 2005 was $56.9 and $54.6 million, respectively.

We have other lines of credit and revolving facilities with financial institutions, which provide for borrowing capacity aggregating approximately $60.6 and $45.1 million at November 30, 2004 and February 28, 2005, respectively. At November 30, 2004 and February 28, 2005, we had borrowings of $16.5 and $16.3 million, respectively, outstanding under these facilities. We also have various term loans, bonds and mortgages with financial institutions totaling approximately $14.7 and $13.8 million at November 30, 2004 and February 28, 2005, respectively. The expiration dates of these facilities range from 2007 to 2012. Future principal payments due under these term loans, bonds and mortgages and payments due under our operating lease arrangements after February 28, 2005 are as follows (in thousands):

	Payments Due By Period				
Contractual obligations	**Total**	**Less than 1 Year**	**1-3 Years**	**3-5 Years**	**>5 Years**
Principal debt payments	$ 13,805	$ 1,569	$ 8,877	$ 1,991	$ 1,368
Non-cancelable operating leases	40,125	8,445	15,842	7,373	8,465
Total	$ 53,930	$ 10,014	$ 24,719	$ 9,364	$ 9,833

We are in compliance with all covenants or other requirements set forth in our accounts receivable financing programs and credit agreements discussed above.

Recent Accounting Pronouncements

In December 2004, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards No. 151, Inventory Costs (SFAS 151), which adopts wording from the International Accounting Standards Board s IAS 2 Inventories in an effort to improve the comparability of international financial reporting. The new standard indicates that abnormal freight, handling costs, and wasted materials (spoilage) are required to be treated as current period charges rather than as a portion of inventory cost. Additionally, the standard clarifies that fixed production overhead should be allocated based on the normal capacity of a production facility. The provisions of SFAS 151 are effective for fiscal years beginning after June 15, 2005. Adoption of SFAS 151 is not expected to have a material impact on our financial position or results of operations.

In December 2004, the FASB issued Statement No. 123R (revised 2004), Share-Based Payment , which is a revision of FASB Statement No. 123, Accounting for Stock-Based Compensation . Statement 123R supersedes APB Opinion No. 25, Accounting for Stock Issued to Employees , and amends FASB Statement No. 95, Statement of Cash Flows . Generally, the approach in Statement 123R is similar to the approach described in Statement 123. However, Statement 123R require*s* all share-based payments to employees, including grants of employee stock options, to be recognized in the income statement based on their fair values. Pro forma disclosure is no longer an alternative. The new standard will be effective for us in the quarter ending February 28, 2006. We are in the process of assessing the impact of adopting this new standard. The impact will be dependent on the transition method, the option-pricing model used to compute fair values, and the inputs to that model, such as volatility and expected life.

On March 29, 2005, the SEC issued Staff Accounting Bulletin (SAB) 107 which expresses the view of the SEC regarding the interaction between SFAS No. 123R and certain SEC rules and regulations and provides the SEC s views regarding the valuation of share-based payment arrangements for public companies. In particular, SAB 107 provides guidance related to share-based payment transactions with non-employees, the transition from nonpublic to public entity status, valuation methods (including assumptions such as expected volatility and expected term), the accounting for certain redeemable financial instrument issues under shares-based payment arrangements, the classification of compensation expense, non-GAAP financial measures, first-time adoption of SFAS No. 123R in an interim period, capitalization of compensation costs related to share-based payment arrangements, the accounting for income tax effects of share-based payment arrangements, the accounting for income tax effects of share-based payment arrangements upon adoption of SFAS No. 123R, the modification of employee share options prior to adoption of SFAS No. 123R, and disclosures in Management s Discussion and Analysis of Financial Condition and Results of Operations subsequent to adoption of SFAS No. 123R.

In May 2005, the FASB issued SFAS No. 154, Accounting Changes and Error Corrections . SFAS No. 154 replaces APB Opinion No. 20, Accounting Changes and SFAS No. 3, Reporting Accounting Changes in Interim Financial Statements . SFAS No. 154 requires retrospective application to prior periods financial statements of changes in accounting principle, unless it is impracticable to determine either the period-specific effects or the cumulative effect of the change. The Company does not expect the adoption of SFAS No. 154 to have any material impact on its consolidated financial statements.

Factors That May Affect Operating Results

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 and product life of the products we assemble and distribute;
- competitive conditions in our industry that impact our margins;
- pricing, margin and other terms with our OEM suppliers; and
- 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.

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 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.

Our future success is highly dependent on our relationships with a small number of OEM suppliers. Sales of HP and IBM products represented approximately 28% and 11%, respectively, of our total revenue in the first quarter of fiscal 2004 and approximately 28% and 5%, respectively, of our total revenue in the first quarter of fiscal 2005. The decline in sales of IBM products was a result of IBM selling its PC division to Lenovo, with whom we have an ongoing business relationship. 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, 2006. 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 industry, our gross margins are low, and we expect them to continue to be low in the future. Increased competition arising from industry consolidation and low demand for certain IT products may hinder our ability to maintain or improve our gross margins. These low gross margins magnify the impact of variations in revenue, operating costs and bad debt on our operating results. A portion of our operating expenses is relatively fixed, and planned expenditures are based in part on anticipated orders that are forecasted with limited visibility of future demand. As a result, we may not be able to reduce our operating expenses as a percentage of revenue to mitigate any further reductions in gross margins in the future. If we cannot proportionately decrease our cost structure in response to competitive price pressures, our business and operating results could suffer.

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

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

We sell to our reseller and contract assembly 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 customers. The level and timing of orders placed by our reseller and contract assembly 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 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.

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 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.

We may suffer adverse consequences from changing interest rates.

Our short-term borrowings and off-balance sheet arrangements are variable rate obligations that could expose us to interest rate risks. At February 28, 2005, we had approximately $173.2 million in such variable rate obligations. If interest rates increase, our interest expense would increase, which would negatively affect our net income. Additionally, increasing interest rates may increase our future borrowing costs and restrict our access to capital.

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 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 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. 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 receivable-based financing, which could negatively impact our cash flow and liquidity position.

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 2003 and fiscal 2005 we experienced theft as a result of break-ins at four of our warehouses in which approximately $13.4 million of inventory was stolen. Based on our investigation, discussions with local law enforcement and meetings with federal authorities, we believe the thefts at our warehouses were part of an organized crime effort that targeted a number of technology equipment warehouses throughout the United States.

As a result of the losses in 2003, we reduced our inventory value by $9.4 million, and recorded estimated proceeds, net of deductibles as a receivable from our insurance company, included within other current assets on our balance sheet as of November 30, 2003. In January 2004 we received a final settlement from our insurance company that amounted to substantially all of the receivables recorded as of November 30, 2003.

In March 2005 approximately $4.0 million of inventory was stolen from our facility in the City of Industry, California. We have filed a claim with our insurance provider for the amount of the loss, less a small deductible. To date, we have received $1.8 million of the claimed amount. Based on the information we have received to date from our insurance provider, we expect the remaining claim to be collected.

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

A significant portion of our contract assembly revenue comes from a single customer, and any decrease in sales from this customer could adversely affect our revenue.

Our primary contract assembly customer, Sun Microsystems, accounted for approximately $116.2 million or 99% of our contract assembly revenue in the first quarter of fiscal 2004 and approximately $117.9 million or 91% in the first quarter of fiscal 2005. Our contract assembly business will remain dependent on our relationship with Sun Microsystems in the foreseeable future, subjecting us to risks with respect to the success and life cycle of Sun Microsystems products we assemble and the pricing terms we negotiate with Sun Microsystems and our suppliers. Accordingly, if we are unable to assemble new and successful products for Sun Microsystems on appropriate pricing terms, our business and operating results would be adversely affected.

The future success of our relationship with Sun Microsystems also depends on MiTAC International continuing to work with us to service Sun Microsystems requirements at an appropriate cost. We rely on MiTAC International to manufacture and supply subassemblies and components for the computer systems we assemble for Sun Microsystems. If we are unable to maintain our relationship and appropriate pricing terms with MiTAC International, our relationship with Sun Microsystems could suffer, which in turn could harm our business, financial position and operating results. In addition, if we were unable to obtain assembly contracts for new and successful products our business and operating results would 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;

an increase in our expenses and working capital requirements;

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

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

Our growth may be limited and our competitive position may be harmed if we are unable to identify, finance and complete 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 Merisel Canada Inc. and we have written off substantial investments in the past, one of which was eManage.com, Inc. Also, our recent acquisition of EMJ Data Systems, Ltd., or EMJ, caused an initial negative effect on our operating margins as we integrated EMJ s systems, operations and personnel. 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.

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 and billing.

Failures or significant downtime of our IT or telecommunications systems could prevent us from taking customer orders, printing product pick-lists, shipping products or billing customers. 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 web sites have experienced a number of disruptions and slowdowns, some of which were caused by organized attacks. In addition, some web sites 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 web site or the Internet in general could impair our order processing or more generally prevent our OEM suppliers or reseller customers from accessing information. The occurrence of any of these events could have an adverse effect on our business and operating 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.

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

A substantial portion of our IT systems operations, including our IT systems support and software development operations, is located in China. In addition, we also conduct general and administrative activities from our facility in China. As of February 28, 2005, we had 338 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.

In addition, external events in Asia, such as the 2003 outbreak of severe acute respiratory syndrome, or SARS, and heightened political tensions in this region may adversely affect our business by disrupting the IT supply chain, restricting travel or interfering with the electronic and communications infrastructure.

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.

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

In the first quarter of fiscal 2004 and 2005, approximately 19% and 21%, 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 revenues related to these purchases are 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. For example, in fiscal 2003 we incurred $3.7 million of foreign currency transaction losses as a result of purchases of forward contracts not conducted within our normal hedging practices and procedures, combined with a weakening U.S.

dollar. There is also additional risk if the currency is not freely or actively traded. Some currencies, such as the Chinese renminbi, are subject to limitations on conversion into other currencies, which can limit our ability to hedge or to otherwise react to rapid foreign currency devaluations. We cannot predict the impact of future exchange rate fluctuations on our business and operating results.

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

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

We may from time to time receive notifications alleging infringements of intellectual property rights allegedly held by others relating to our business or the products we sell or assemble for our OEM suppliers and others. Litigation with respect to patents or other intellectual property matters could result in substantial costs and diversion of management and other resources and could have an adverse effect on our business. Although we generally have various levels of indemnification protection from our OEM suppliers and contract assembly 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. For example, we are currently defending a trademark infringement action and a civil matter involving third party investors in eManage.com, Inc. and are appealing the $4.2 million judgment entered against Daisytek (Canada), Inc., a former wholly owned subsidiary of EMJ, by the U.S. District Court for the Northern District of Texas. 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.

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 program are limited or cash is used for unanticipated needs, we may require additional capital sooner than anticipated. In the event we are required, or elect, to raise additional funds, we may be unable to do so on favorable terms, or at all. Our current and future indebtedness could adversely affect our operating results and severely limit our ability to plan for, or react to, changes in our business or industry. We could also be limited by financial and other restrictive covenants in any credit arrangements, including limitations on our borrowing of additional funds and issuing dividends. Furthermore, the cost of debt financing has increased recently and could significantly increase in the future, making it cost prohibitive to borrow, which could force us to issue new equity securities.

If we issue new equity securities, existing stockholders may experience additional 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 28, 2005, we had approximately $84.7 million in outstanding short and long-term borrowings under term loans and lines of credit, excluding trade payables. As of February 28, 2005, approximately $118.6 million of our accounts receivable were sold to and held by two financial institutions under our accounts receivable securitization program. The terms of our current indebtedness agreements 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, which 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 limited, which could have an adverse effect on our business and operating results.

We have significant operations concentrated in Northern California, South Carolina, Toronto and Beijing 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, Toronto and Beijing. 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. 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 such as SARS 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 and the United Kingdom. In the first quarter of fiscal 2004 and 2005, approximately 19% and 21%, respectively, of our total revenue was generated outside the United States. In the first quarter of fiscal 2004 and 2005, approximately 13% and 16%, 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;
- 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 receivables 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 receivables 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 receivables may be inadequate. 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.

Risks Related to Our Relationship with MiTAC International

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 customers, including Sun Microsystems, our primary contract assembly 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. 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 had an initial term of one year and will automatically renew 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 customer 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. Substantially all of our contract assembly services to Sun Microsystems are covered by the general agreement. The agreement continues indefinitely until terminated in accordance with its terms. Sun Microsystems may terminate this agreement for any reason on 60 days written notice. Any party may terminate the 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. The agreement may also be terminated on written notice if one of the other parties becomes bankrupt or insolvent. If we are unable to maintain our relationship with MiTAC International, our relationship with Sun Microsystems could suffer and we could lose other customer relationships or referrals, which in turn could harm our business, financial position and operating results.

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

MiTAC International s and its affiliates continuing beneficial ownership of our common stock could create conflicts of interest with respect to a variety of matters, such as potential acquisitions, competition, issuance or disposition of securities, election of directors, payment of dividends and other business matters. Similar risks could exist as a result of Matthew Miau s positions as our Chairman, the Chairman of MiTAC International and as a director or officer of MiTAC International s affiliated companies. For fiscal year 2005, Mr. Miau will receive a retainer of $225,000 from us. Compensation payable to Mr. Miau is based upon the recommendation of the Compensation Committee and subject to the approval of the Board of Directors. 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 15.5% of Synnex Technology International and approximately 9.0% of MiTAC International. MiTAC International directly and indirectly owns 0.3% of Synnex Technology International and Synnex Technology International directly and indirectly owns approximately 1.0% of MiTAC International. In addition, MiTAC International directly and indirectly owns approximately 8.9% of Mitac Incorporated and Synnex Technology International directly and indirectly owns approximately 14.4% of Mitac Incorporated. Synnex Technology International indirectly through its ownership of Peer Developments Limited owns approximately 18.7% 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.

As of February 28, 2005, our executive officers, directors and principal stockholders owned approximately 69% of our common stock and this concentration of ownership allows them to control all matters requiring stockholder approval and could delay or prevent a change in control of SYNNEX.

As of February 28, 2005, our executive officers, directors and principal stockholders beneficially owned approximately 69% of our outstanding common stock. In particular, MiTAC International, through its affiliates, beneficially owned approximately 69% of our common stock.

MiTAC International and its affiliates own a controlling interest in us as of February 28, 2005. As a result, MiTAC International will be able to control the outcome of matters submitted to the stockholders including any acquisition or sale of us. 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.

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 were responsible, in part, for a decline in our revenue in fiscal 2001, as well as problems with the saleability of inventory and collection of reseller customer receivables.

The North American economy and market conditions continue to be challenging in the IT industry. As a result, individuals and companies may delay or reduce expenditures, including those for IT products. While in the past we may have benefited from the consolidation in our industry resulting from the slowdown, further delays or reductions in IT spending in particular, and economic weakness generally, could have an adverse effect on our business and operating results.

Our distribution 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 distribution and contract assembly 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 Sun Microsystems contract assembly business with us would have a significant negative effect on our revenue and operating results. A determination by any of our primary OEMs to consolidate their business with other distributors or contract assemblers would negatively affect our business and operating results.

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

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

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

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

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, new Securities and Exchange Commission, or SEC, regulations and New York Stock Exchange 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 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 that assessment has 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 2004 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 controls for the fiscal year ended November 30, 2004, 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 our chief executive officer, chief financial officer or independent registered public accounting firm determines that our internal control over financial reporting is not effective as defined under Section 404, investor perceptions and the reputation of our Company may be adversely affected and could cause a decline in the market price of our stock.

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, or GAAP. These accounting principles are subject to interpretation by the Financial Accounting Standards Board, American Institute of Certified Public Accountants, the SEC and various bodies formed to interpret and create appropriate accounting policies. A change in those policies can have a significant effect on our reported results and may affect our reporting of transactions completed before a change is announced. Changes to those rules or the questioning of current practices may adversely affect our reported financial results or the way we conduct our business. For example, accounting policies affecting many aspects of our business, including rules relating to employee stock option grants, have recently been revised or are under review. The FASB and other agencies have finalized changes to GAAP that will require us, starting in our quarter ending February 28, 2006, to record a charge to earnings for employee stock option grants and other equity incentives. We may have significant and ongoing accounting charges resulting from option grant and other equity incentive expensing that we expect will reduce our overall net income. In addition, since we historically have used equity-related compensation as a component of our total employee compensation program, the accounting change could make the use of equity-related compensation less attractive to us and therefore make it more difficult to attract and retain employees.

SIGNATURE

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 hereunto duly authorized.

Dated: November 2, 2005

SYNNEX CORPORATION

By: /s/ Simon Y. Leung

Simon Y. Leung
General Counsel and
Corporate Secretary