

SYNEX CORP  
Form 10-Q  
July 08, 2015  
Table of Contents

UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549

---

FORM 10-Q

---

(Mark One)

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

For the quarterly period ended May 31, 2015

OR

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

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

Commission File Number: 001-31892

---

SYNEX CORPORATION  
(Exact name of registrant as specified in its charter)

---

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

44201 Nobel Drive Fremont, California (Address of principal executive offices) (510) 656-3333 (Registrant’s telephone number, including area code)	94538 (Zip Code)
--	---------------------

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes  No

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

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

Edgar Filing: SYNEX CORP - Form 10-Q

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

Class	Outstanding as of June 30, 2015
Common Stock, \$0.001 par value	39,632,249

---

Table of Contents

SYNEX CORPORATION

FORM 10-Q

INDEX

	Page
<u>PART I</u>	<u>3</u>
<u>FINANCIAL INFORMATION</u>	<u>3</u>
Item 1. <u>Financial Statements</u>	<u>3</u>
<u>Consolidated Balance Sheets (unaudited) as of May 31, 2015 and November 30, 2014</u>	<u>3</u>
<u>Consolidated Statements of Operations (unaudited) for the Three and Six Months Ended May 31, 2015 and 2014</u>	<u>4</u>
<u>Consolidated Statements of Comprehensive Income (unaudited) for the Three and Six Months Ended May 31, 2015 and 2014</u>	<u>5</u>
<u>Consolidated Statements of Cash Flows (unaudited) for the Six Months Ended May 31, 2015 and 2014</u>	<u>6</u>
<u>Notes to the Consolidated Financial Statements (unaudited)</u>	<u>7</u>
Item 2. <u>Management’s Discussion and Analysis of Financial Condition and Results of Operations</u>	<u>25</u>
Item 3. <u>Quantitative and Qualitative Disclosures about Market Risk</u>	<u>36</u>
Item 4. <u>Controls and Procedures</u>	<u>36</u>
<u>PART II</u>	<u>37</u>
<u>OTHER INFORMATION</u>	<u>37</u>
Item 1A. <u>Risk Factors</u>	<u>37</u>
Item 6. <u>Exhibits</u>	<u>37</u>
<u>Signatures</u>	<u>38</u>
<u>Exhibit</u>	<u>39</u>
<u>Index</u>	<u>39</u>

Table of Contents

## PART I - FINANCIAL INFORMATION

## ITEM 1. Financial Statements

## SYNEX CORPORATION

## CONSOLIDATED BALANCE SHEETS

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

(unaudited)

	May 31, 2015	November 30, 2014
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$215,505	\$180,143
Restricted cash	27,517	34,269
Short-term investments	5,587	7,128
Accounts receivable, net	1,692,087	2,091,511
Receivable from related parties	108	332
Inventories	1,246,498	1,398,463
Current deferred tax assets	33,563	34,310
Other current assets	88,150	153,833
Total current assets	3,309,015	3,899,989
Property and equipment, net	222,504	200,803
Goodwill	312,878	314,213
Intangible assets, net	196,396	229,684
Deferred tax assets	12,251	10,790
Other assets	61,876	57,563
Total assets	\$4,114,920	\$4,713,042
<b>LIABILITIES AND EQUITY</b>		
Current liabilities:		
Borrowings under securitization, term loans and lines of credit	\$81,121	\$716,257
Accounts payable	1,231,085	1,585,606
Payable to related parties	4,145	5,129
Accrued liabilities	336,253	391,608
Income taxes payable	7,519	23,129
Total current liabilities	1,660,123	2,721,729
Long-term borrowings	654,607	264,246
Long-term liabilities	60,001	60,215
Deferred tax liabilities	11,801	12,867
Total liabilities	2,386,532	3,059,057
Commitments and contingencies (Note 16)		
SYNEX Corporation stockholders' equity:		
Preferred stock, \$0.001 par value, 5,000 shares authorized, no shares issued or outstanding	—	—
Common stock, \$0.001 par value, 100,000 shares authorized, 40,070 and 39,847 shares issued as of May 31, 2015 and November 30, 2014, respectively	40	40
Additional paid-in capital	398,351	384,625
Treasury stock, 976 and 923 shares as of May 31, 2015 and November 30, 2014, respectively	(36,904)	(32,723)
Accumulated other comprehensive loss	(30,144)	(6,628)

Edgar Filing: SYNEX CORP - Form 10-Q

Retained earnings	1,396,608	1,308,244
Total SYNEX Corporation stockholders' equity	1,727,951	1,653,558
Noncontrolling interest	437	427
Total equity	1,728,388	1,653,985
Total liabilities and equity	\$4,114,920	\$4,713,042

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

3

---

Table of Contents

## SYNEX CORPORATION

## CONSOLIDATED STATEMENTS OF OPERATIONS

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

(unaudited)

	Three Months Ended		Six Months Ended	
	May 31, 2015	May 31, 2014	May 31, 2015	May 31, 2014
Revenue	\$3,253,785	\$3,453,535	\$6,456,243	\$6,480,519
Cost of revenue	(2,953,726 )	(3,174,521 )	(5,867,966 )	(5,994,859 )
Gross profit	300,059	279,014	588,277	485,660
Selling, general and administrative expenses	(210,698 )	(210,931 )	(419,969 )	(355,627 )
Income before non-operating items, income taxes and noncontrolling interest	89,361	68,083	168,308	130,033
Interest expense and finance charges, net	(5,815 )	(6,160 )	(12,256 )	(10,658 )
Other income (expense), net	(1,584 )	(197 )	(1,517 )	2,771
Income before income taxes and noncontrolling interest	81,962	61,726	154,535	122,146
Provision for income taxes	(30,052 )	(22,147 )	(56,323 )	(44,109 )
Net income	51,910	39,579	98,212	78,037
Net income attributable to noncontrolling interest	(36 )	(28 )	(15 )	(69 )
Net income attributable to SYNEX Corporation	\$51,874	\$39,551	\$98,197	\$77,968
Earnings per share attributable to SYNEX Corporation:				
Basic	\$1.31	\$1.01	\$2.49	\$2.01
Diluted	\$1.30	\$1.00	\$2.47	\$2.00
Weighted-average common shares outstanding:				
Basic	39,054	38,663	39,011	38,165
Diluted	39,343	39,011	39,323	38,544
Cash dividends declared per share	\$0.13	\$—	\$0.25	\$—

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

Table of Contents

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

	Three Months Ended		Six Months Ended	
	May 31, 2015	May 31, 2014	May 31, 2015	May 31, 2014
Net income	\$51,910	\$39,579	\$98,212	\$78,037
Other comprehensive income (loss):				
Unrealized gains on available-for-sale securities, net of tax of \$(79) and \$(202) for the three and six months ended May 31, 2015, respectively, and \$0 for both the three and six months ended May 31, 2014	141	230	364	262
Change in unrealized gain of defined benefit plan, net of tax of \$0 for both the three and six months ended May 31, 2015, and \$(60) for both the three and six months ended May 31, 2014	—	114	—	114
Unrealized losses on cash flow hedges, net of tax of \$733 for both the three and six months ended May 31, 2015, and \$0 for both the three and six months ended May 31, 2014	(1,154)	) —	(1,154)	) —
Foreign currency translation adjustments, net of tax of \$38 and \$1,132 for the three and six months ended May 31, 2015, respectively, and \$(287) and \$235 for the three and six months ended May 31, 2014, respectively	(6,592)	) 11,049	(22,731)	) 8,940
Other comprehensive income (loss)	(7,605)	) 11,393	(23,521)	) 9,316
Comprehensive income:	44,305	50,972	74,691	87,353
Comprehensive income attributable to noncontrolling interest (30	) (31	) (10	) (71	)
Comprehensive income attributable to SYNEX Corporation	\$44,275	\$50,941	\$74,681	\$87,282

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

Table of Contents

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

	Six Months Ended	
	May 31, 2015	May 31, 2014
Cash flows from operating activities:		
Net income	\$98,212	\$78,037
Adjustments to reconcile net income to net cash provided by (used in) operating activities:		
Depreciation expense	22,280	14,856
Amortization of intangible assets	28,055	20,863
Share-based compensation	7,377	5,632
Provision for doubtful accounts	2,550	2,974
Tax benefits from employee stock plans	3,588	2,806
Excess tax benefit from share-based compensation	(3,618)	(2,758)
Deferred income taxes	(1,110)	3,362
Gains on investments	(50)	(96)
Changes in assets and liabilities, net of acquisition of business:		
Accounts receivable	369,475	(200,060)
Receivable from related parties	223	(486)
Inventories	133,400	(332,143)
Other assets	(29,588)	(27,894)
Accounts payable	(256,095)	111,058
Payable to related parties	(981)	12,133
Accrued liabilities	(33,024)	103,911
Other liabilities	(5,121)	8,063
Net cash provided by (used in) operating activities	335,573	(199,742)
Cash flows from investing activities:		
Purchases of trading investments	(83)	(528)
Proceeds from sale of trading investments	2,105	3,453
Purchases of term deposits	(5,689)	(8,817)
Proceeds from maturity of term deposits	5,079	8,683
Acquisition of businesses, net of cash acquired	65,297	(390,433)
Purchases of property and equipment	(45,331)	(20,269)
Repayments received of loans and deposits to third parties	546	1,509
Proceeds from sale of cost investment	—	1,877
Changes in restricted cash	6,736	2,208
Net cash provided by (used in) investing activities	28,660	(402,317)
Cash flows from financing activities:		
Proceeds from securitization and revolving line of credit	1,924,139	2,085,743
Payments of securitization and revolving line of credit	(2,567,069)	(1,652,964)
Proceeds from term loans, net of issuance cost	408,299	225,000
Payments of term loans and capital leases	(6,009)	(519)
Dividends paid	(9,833)	—
Excess tax benefit from share-based compensation	3,618	2,758
Decrease in book overdraft	(78,263)	(1,567)
Payments of acquisition-related contingent consideration	(170)	(5,136)
	(1,394)	2,888



Edgar Filing: SYNEX CORP - Form 10-Q

Proceeds from issuance of common stock, net of taxes paid for settlement of equity awards			
Net cash provided by (used in) financing activities	(326,682	)	656,203
Effect of exchange rate changes on cash and cash equivalents	(2,189	)	(1,171 )
Net increase in cash and cash equivalents	35,362		52,973
Cash and cash equivalents at beginning of period	180,143		151,622
Cash and cash equivalents at end of period	\$215,505		\$204,595
Supplemental disclosure of non-cash investing activities			
Fair value of common stock issued for acquisition of business	\$—		\$71,106
Accrued costs for property and equipment purchases	\$4,786		\$618

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

Table of Contents

SYNEX CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the three and six months ended May 31, 2015 and 2014

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

(unaudited)

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

SYNEX Corporation (together with its subsidiaries, herein referred to as “SYNEX” or the “Company”) is a business process services company headquartered in Fremont, California and has operations in North America, South America, Asia, Australia and Europe.

The Company operates in two segments: Technology Solutions and Concentrix. The Technology Solutions segment distributes a broad range of information technology (“IT”) systems and products and also provides systems design and integration solutions. The Concentrix segment offers a portfolio of strategic solutions and end-to-end business services focused on customer engagement strategy, process optimization, technology innovation, front and back-office automation and business transformation to clients in ten identified industry verticals.

The accompanying interim unaudited Consolidated Financial Statements as of May 31, 2015 and for the three and six months ended May 31, 2015 and 2014 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, 2014 have been derived from the Company’s annual audited financial statements. Certain information and footnote disclosures normally included in financial statements prepared in accordance with generally accepted accounting principles (“GAAP”) in the United States have been condensed or omitted in accordance with such rules and regulations. In the opinion of management, the accompanying unaudited Consolidated Financial Statements reflect all adjustments, consisting only of normal recurring adjustments, necessary to state fairly the financial position of the Company and its results of operations and cash flows as of and for the periods presented. These financial statements should be read in conjunction with the annual audited financial statements and notes thereto included in the Company’s Annual Report on Form 10-K for the fiscal year ended November 30, 2014.

The results of operations for the three months ended May 31, 2015 are not necessarily indicative of the results that may be expected for the fiscal year ending November 30, 2015, or any future period and the Company makes no representations related thereto.

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

The Company’s significant accounting policies are disclosed in the Company’s Annual Report on Form 10-K for the fiscal year ended November 30, 2014. There have been no material changes to these accounting policies. For a discussion of the significant accounting policies, please see the discussion in the Company’s Annual Report on Form 10-K for the fiscal year ended November 30, 2014.

**Concentration of credit risk**

Financial instruments that potentially subject the Company to significant concentration of credit risk consist principally of cash and cash equivalents, accounts receivable and derivative instruments.

The Company’s cash and cash equivalents and derivative instruments are transacted and maintained with financial institutions with high credit standing and the compositions and maturities of which are regularly monitored by management. Through May 31, 2015, the Company had not experienced any credit losses on such deposits and derivative instruments.

Accounts receivable include amounts due from customers and original equipment manufacturer (“OEM”) vendors primarily in the technology industry. The Company performs ongoing credit evaluations of its customers’ financial condition and limits the amount of credit extended when deemed necessary, but generally requires no collateral. The Company also maintains allowances for potential credit losses. In estimating the required allowances, the Company takes into consideration the overall quality and aging of the receivable portfolio, the existence of a limited amount of credit insurance and specifically identified customer and vendor risks. Through May 31, 2015, such losses have been

within management's expectations.

In both the three and six months ended May 31, 2015 and 2014, no customer accounted for 10% or more of the Company's total revenue. Products purchased from the Company's largest OEM supplier, Hewlett-Packard Company ("HP"), accounted for approximately 24% of total revenue for both the three and six months ended May 31, 2015, and for approximately 25% and 26% of total revenue for the three and six months ended May 31, 2014, respectively.

7

---

Table of Contents

SYNEX CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS---(continued)

For the three and six months ended May 31, 2015 and 2014

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

(unaudited)

As of both May 31, 2015 and November 30, 2014, one customer consisted of 16% of the total consolidated accounts receivable balance.

**Inventories**

Inventories are comprised of finished goods and work-in-process. Finished goods include products purchased for resale, system components purchased for both resale and for use in the Company's systems design and integration business, and completed systems. Work-in-process inventories are not material to the Consolidated Financial Statements.

**Reclassifications**

Certain reclassifications have been made to prior period amounts in the Consolidated Balance Sheets and the Consolidated Statements of Cash Flows to conform to current period presentation. Such reclassifications have no effect on either consolidated total assets or the cash flows from operating, investing and financing activities as previously reported.

**Recently issued accounting pronouncements**

In April 2015, the Financial Accounting Standard Board ("FASB") issued a new guidance to customers about whether a cloud computing arrangement includes a software license. If the cloud computing arrangement includes a software license, the customer should account for the software license element of the arrangement consistent with the acquisition of other software licenses. If the cloud computing arrangement does not include a software license, the customer should account for the arrangement as a service contract. The new standard may be applied prospectively or retrospectively and is effective for annual reporting periods beginning after December 15, 2015 and interim periods within those annual periods, with early adoption permitted. The Company is currently evaluating the impact on its Consolidated Financial Statements upon the adoption of this new standard.

In April 2015, the FASB issued a new accounting standard that requires that debt issuance costs related to a recognized debt liability be presented in the balance sheet as a direct deduction from the carrying amount of the corresponding debt liability. The new standard is effective for interim and annual periods beginning after December 15, 2015, with early adoption permitted, and is to be applied on a retrospective basis. The Company does not expect the adoption of this standard to have a material impact on the Company's Consolidated Financial Statements.

In January 2015, the FASB issued a new accounting standard, which eliminates from U.S. GAAP the concept of extraordinary items. The guidance eliminates the separate presentation of extraordinary items on the income statement, net of tax and the related earnings per share, but does not affect the requirement to disclose material items that are unusual in nature or occurring infrequently. The new standard may be applied prospectively or retrospectively and is effective for annual reporting periods beginning after December 15, 2015 and interim periods within those annual periods, with early adoption permitted. The Company does not expect the adoption of this standard to have an impact on the Company's Consolidated Financial Statements.

In May 2014, the FASB issued a comprehensive new revenue recognition standard for contracts with customers that will supersede most current revenue recognition guidance, including industry-specific guidance. The core principle of this standard is that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. To achieve this core principle, the standard provides a five-step analysis of transactions to determine when and how revenue is recognized. Other major provisions include the capitalization and amortization of certain contract costs, ensuring the time value of money is considered in the transaction price, and allowing estimates of variable consideration to be recognized before contingencies are resolved in certain circumstances. This guidance also requires enhanced disclosures regarding the nature, amount, timing and uncertainty of revenue and cash flows arising from an entity's contracts with customers. The new standard is effective for fiscal years, and interim periods within those years, beginning after December 15, 2016. Early application is prohibited. The standard permits the use

of either the retrospective or cumulative effect transition method. This guidance will be applicable to the Company at the beginning of its first quarter of fiscal year 2018. The Company is currently evaluating the impact on its Consolidated Financial Statements upon the adoption of this new standard.

Recently adopted accounting pronouncements

In July 2013, the FASB issued a new accounting standard that requires the presentation of certain unrecognized tax benefits as reductions to deferred tax assets rather than as liabilities in the Consolidated Balance Sheets when a net operating

Table of Contents

## SYNEX CORPORATION

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

For the three and six months ended May 31, 2015 and 2014

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

(unaudited)

loss carryforward, a similar tax loss, or a tax credit carryforward exists. The new accounting update was adopted by the Company in the first quarter of fiscal 2015. The adoption of this new standard did not have a material impact on the Company's Consolidated Financial Statements.

## NOTE 3—ACQUISITIONS:

## Fiscal year 2014 acquisition

In fiscal year 2014, the Company acquired the assets of the customer relationship management business of International Business Machines Corporation, a New York corporation (“IBM”). The transaction was completed in phases with the initial closing completed on January 31, 2014, the second phase closing completed on April 30, 2014 and the final closing completed on September 30, 2014 for an aggregate preliminary purchase price of \$418,315 as of November 30, 2014, subject to certain post-closing adjustments. During the six months ended May 31, 2015 the Company recorded adjustments of \$1,157 to the fair value of acquired net tangible assets and other post-closing adjustments increasing the purchase price by \$7,375 with a net increase in goodwill of \$6,218 and closed the measurement period in relation to the initial and second closings completed on January 31, 2014 and April 30, 2014, respectively. The aggregate purchase price was \$425,690 as of May 31, 2015.

As of May 31, 2015 and November 30, 2014, the Company was obligated to pay an amount of \$28,164 and \$40,000, respectively, in cash and had a receivable of \$737 and \$85,126, respectively from IBM related to working capital adjustments and other post-closing adjustments recognized in accordance with the agreement.

## NOTE 4—SHARE-BASED COMPENSATION:

The Company recognizes share-based compensation expense for all share-based awards made to employees and directors, including employee stock options, restricted stock awards, restricted stock units and employee stock purchases, based on estimated fair values.

The following table summarizes the number of share-based awards granted under the Company's 2013 Stock Incentive Plan, as amended, during the three and six months ended May 31, 2015 and 2014, and the grant-date fair value of the awards:

	Three Months Ended		Six Months Ended	
	May 31, 2015	May 31, 2014	May 31, 2015	May 31, 2014
	Shares awarded	Fair value of grants	Shares awarded	Fair value of grants
Restricted stock awards	14	\$1,059	18	\$1,158
Restricted stock units	—	—	7	500
	14	\$1,059	25	\$1,658
			66	\$5,073
			151	\$8,906

The Company recorded share-based compensation expense in the consolidated statement of operations for the three and six months ended May 31, 2015 and 2014 as follows:

	Three Months Ended		Six Months Ended	
	May 31, 2015	May 31, 2014	May 31, 2015	May 31, 2014
Cost of revenue	\$217	\$—	\$421	\$—
Selling, general and administrative expenses	3,504	3,048	6,956	5,632
Total share-based compensation	3,721	3,048	7,377	5,632
Tax effect on share-based compensation	(1,366)	(1,095)	(2,689)	(2,034)
Net effect on net income	\$2,355	\$1,953	\$4,688	\$3,598



Table of Contents

## SYNEX CORPORATION

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

For the three and six months ended May 31, 2015 and 2014

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

(unaudited)

## NOTE 5—BALANCE SHEET COMPONENTS:

	As of May 31, 2015	November 30, 2014	
Short-term investments:			
Trading securities	\$—	\$1,987	
Held-to-maturity securities	5,587	5,141	
	\$5,587	\$7,128	
	As of May 31, 2015	November 30, 2014	
Accounts receivable, net:			
Accounts receivable	\$1,743,854	\$2,163,690	
Less: Allowance for doubtful accounts	(16,143	) (16,870	)
Less: Allowance for sales returns	(35,624	) (55,309	)
	\$1,692,087	\$2,091,511	
	As of May 31, 2015	November 30, 2014	
Property and equipment, net:			
Land	\$21,990	\$22,402	
Equipment and computers	174,924	157,931	
Furniture and fixtures	41,079	38,113	
Buildings, building improvements and leasehold improvements	148,805	134,291	
Construction-in-progress	17,071	12,783	
Total property and equipment, gross	403,869	365,520	
Less: Accumulated depreciation	(181,365	) (164,717	)
	\$222,504	\$200,803	
Goodwill:			
	Technology Solutions	Concentrix	Total
Balance as of November 30, 2014	\$102,911	\$211,302	\$314,213
Additions from acquisitions, net of adjustments	—	6,218	6,218
Foreign exchange translation	(4,228	) (3,325	) (7,553
Balance as of May 31, 2015	\$98,683	\$214,195	\$312,878



Table of Contents

## SYNEX CORPORATION

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

For the three and six months ended May 31, 2015 and 2014

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

(unaudited)

	As of May 31, 2015			As of November 30, 2014		
	Gross Amounts	Accumulated Amortization	Net Amounts	Gross Amounts	Accumulated Amortization	Net Amounts
Intangible assets, net:						
Customer relationships and lists	\$293,544	\$(108,661 )	\$184,883	\$299,439	\$(83,316 )	\$216,123
Vendor lists	36,815	(32,486 )	4,329	36,815	(31,717 )	5,098
Technology	3,866	(928 )	2,938	2,518	(553 )	1,965
Other intangible assets	9,781	(5,535 )	4,246	11,847	(5,349 )	6,498
	\$344,006	\$(147,610 )	\$196,396	\$350,619	\$(120,935 )	\$229,684

Amortization expense was \$13,462 and \$28,055 for the three and six months ended May 31, 2015, respectively, and \$15,166 and \$20,863 for the three and six months ended May 31, 2014, respectively.

Estimated future amortization expense of the Company's intangible assets is as follows:

Fiscal Years Ending November 30,

2015 (remaining six months)	\$24,724
2016	49,414
2017	37,857
2018	28,671
2019	17,884
thereafter	37,846
Total	\$196,396

	As of May 31, 2015	November 30, 2014
Accrued liabilities:		
Accrued compensation and benefit	\$107,933	\$125,733
Sales tax/Value-added-tax accrual	15,055	31,763
Vendor and other claims payable	49,931	54,434
Accrued customer rebates	19,469	23,702
Deferred revenue	9,953	12,064
Business acquisition holdback payable	28,164	40,000
Other accrued liabilities	105,748	103,912
Total	\$336,253	\$391,608

Other accrued liabilities include accrued expenses, customer credit balances, various third-party liabilities and current deferred tax liabilities.

Table of Contents

## SYNEX CORPORATION

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

For the three and six months ended May 31, 2015 and 2014

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

(unaudited)

## Accumulated other comprehensive loss:

The components of accumulated other comprehensive income (loss), net of tax, excluding noncontrolling interests were as follows:

	Unrealized gains on available-for-sale securities, net of taxes	Unrecognized defined benefit plan costs, net of taxes	Unrealized losses on cash flow hedges, net of taxes	Foreign currency translation adjustment, net of taxes	Total
Balance as of November 30, 2014	\$ 821	\$319	\$—	\$(7,768)	\$(6,628)
Other comprehensive income (loss)	362	—	(1,154)	(22,724)	(23,516)
Balance as of May 31, 2015	\$ 1,183	\$319	\$(1,154)	\$(30,492)	\$(30,144)

## NOTE 6—INVESTMENTS:

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

	As of May 31, 2015			November 30, 2014		
	Cost Basis	Unrealized Gains	Carrying Value	Cost Basis	Unrealized Gains	Carrying Value
Short-term investments:						
Trading securities	\$—	\$—	\$—	\$1,614	\$373	\$1,987
Held-to-maturity investments	5,587	—	5,587	5,141	—	5,141
	\$5,587	\$—	\$5,587	\$6,755	\$373	\$7,128
Long-term investments in other assets:						
Available-for-sale securities	\$820	\$1,410	\$2,230	\$843	\$897	\$1,740
Cost-method investments	\$4,555	\$—	\$4,555	\$4,578	\$—	\$4,578

Short-term trading securities generally consist of equity securities relating to the Company's deferred compensation plan. Held-to-maturity investments primarily consist of term deposits with maturities from the date of purchase greater than three months and less than one year. These term deposits are held until the maturity date and are not traded.

Long-term available-for-sale securities primarily consist of investments in other companies' equity securities.

Long-term cost-method investments consist of investments in equity securities of private entities.

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

The following table summarizes the total gains recorded in "Other income (expense), net" in the Consolidated Statements of Operations for changes in the fair value of the Company's trading investments:

	Three Months Ended		Six Months Ended	
	May 31, 2015	May 31, 2014	May 31, 2015	May 31, 2014
Gains (losses) on trading investments	\$(9)	\$255	\$50	\$314

## NOTE 7—DERIVATIVE INSTRUMENTS:

In the ordinary course of business, the Company is exposed to foreign currency risk, interest rate risk, equity risk and credit risk. The Company's transactions in most of its foreign operations are primarily denominated in local currency. The Company enters into transactions, and owns monetary assets and liabilities, that are denominated in currencies other than the

12

---

Table of Contents

## SYNEX CORPORATION

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

For the three and six months ended May 31, 2015 and 2014

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

(unaudited)

legal entity's functional currency. The Company may enter into forward contracts, option contracts, swaps, or other derivative instruments to offset a portion of the risk on expected future cash flows, on net investments in certain foreign subsidiaries and on certain existing assets and liabilities. However, the Company may choose not to hedge certain exposures for a variety of reasons including, but not limited to, accounting considerations and the prohibitive economic cost of hedging particular exposures. There can be no assurance the hedges will offset more than a portion of the financial impact resulting from movements in foreign currency exchange or interest rates.

All derivatives are recognized on the balance sheet at their fair value. Changes in the fair value of a derivative are recorded in the Consolidated Statements of Operations as "Other income (expense), net" or as a component of "Accumulated other comprehensive income" in the Consolidated Balance Sheets, as discussed below.

As part of its risk management strategy, the Company uses short-term forward contracts to minimize its balance sheet exposure to foreign currency risk. These forward-exchange contracts are not designated as hedging instruments. The forward exchange contracts are recorded at fair value in each reporting period and any gains or losses, resulting from the changes in fair value, are recorded in earnings in the period of change.

In May 2015, the Company entered into interest rate swaps with an aggregate notional amount of \$400,000 to economically convert a portion of its variable-rate debt to fixed-rate debt. The effective portions of cash flow hedges are recorded in "Accumulated other comprehensive income" until the hedged item is recognized in earnings. Deferred gains and losses associated with cash flow hedges of interest expense are recognized in "Other income (expense), net" in the same period as the related expense is recognized. The ineffective portions and amounts excluded from the effectiveness testing of cash flow hedges are recognized in "Other income (expense), net."

Derivative instruments designated as cash flow hedges must be de-designated as hedges when it is probable the forecasted hedged transaction will not occur in the initially identified time period or within a subsequent two-month time period. Deferred gains and losses in "Accumulated other comprehensive income" associated with such derivative instruments are reclassified immediately into "Other income (expense), net." Any subsequent changes in fair value of such derivative instruments are reflected in "Other income (expense), net" unless they are re-designated as hedges of other transactions.

Generally, the Company does not use derivative instruments to cover equity risk and credit risk. The Company's policy is not to allow the use of derivatives for trading or speculative purposes. The fair value of the Company's derivative instruments are also disclosed in Note 8.

The following table summarizes the fair value of the Company's outstanding derivative instruments as of May 31, 2015 and November 30, 2014:

Balance Sheet Line Item	Fair Value as of	
	May 31, 2015	November 30, 2014
Derivative instruments not designated as hedging instruments		
Foreign exchange forward contracts		
Other current assets	\$2,057	\$4,532
Accrued liabilities	\$202	\$145
Derivative instruments designated as cash flow hedges		
Interest rate swaps		
Accrued liabilities	\$264	\$—
Long-term liabilities	\$1,623	\$—

The notional amounts of the foreign exchange forward contracts that were outstanding as of May 31, 2015 and November 30, 2014 were \$198,660 and \$316,365, respectively. The notional amounts represent the gross amounts of foreign currency, including Canadian Dollar, British Pound, Mexican Peso, Brazilian Real, Philippine Peso, Japanese

Yen, Euro and Australian Dollar, that will be bought or sold at maturity. The contracts mature in six months or less. In relation to its forward contracts not designated as hedging instruments, the Company recorded gains (losses) of \$154 and \$11,734 in "Other income (expense), net" during the three and six months ended May 31, 2015, respectively, and \$(2,807) and \$1,162 during the three and

Table of Contents

## SYNEX CORPORATION

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

For the three and six months ended May 31, 2015 and 2014

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

(unaudited)

six months ended on May 31, 2014, respectively. The gains and losses on the Company's foreign currency forward contracts are largely offset by the change in the fair value of the underlying hedged assets or liabilities.

For the three and six months ended May 31, 2015, the Company recorded a loss before tax of \$1,887 in other comprehensive income related to changes in the fair value of its derivative instruments designated as cash flow hedging instruments. For the three and six months ended May 31, 2015, there was no hedge ineffectiveness related to these derivative instruments. For the three and six months ended May 31, 2015, there were no gains or losses recognized in earnings associated with an underlying exposure that did not, or was not expected to, occur; nor are there any anticipated in the normal course of business within the next twelve months. There were no derivatives designated as hedging instruments during the three and six months ended May 31, 2014.

In the Consolidated Balance Sheets, the Company does not offset derivative assets against liabilities in master netting arrangements. If derivative exposures covered by a qualifying master netting agreement had been netted in the Consolidated Statement of Financial Position, the total derivative asset and liability positions would have been reduced by \$333 each as of May 31, 2015 and \$145 each as of November 30, 2014.

## NOTE 8—FAIR VALUE MEASUREMENTS:

The Company's fair value measurements are classified and disclosed in one of the following three categories:

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

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

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

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

	As of May 31, 2015				As of November 30, 2014			
	Total	Fair value measurement category			Total	Fair value measurement category		
		Level 1	Level 2	Level 3		Level 1	Level 2	Level 3
Assets:								
Cash equivalents	\$54,822	\$54,822	\$—	\$—	\$29,823	\$29,823	\$—	\$—
Restricted cash	27,517	27,517	—	—	34,269	34,269	—	—
Trading securities	—	—	—	—	1,987	1,987	—	—
Available-for-sale securities	2,230	2,230	—	—	1,740	1,740	—	—
Forward foreign currency exchange contracts	2,057	—	2,057	—	4,532	—	4,532	—
Liabilities:								
Forward foreign currency exchange contracts	\$202	\$—	\$202	\$—	\$145	\$—	\$145	\$—
Interest rate swaps	1,887	—	1,887	—	—	—	—	—
Acquisition-related contingent consideration	433	—	—	433	867	—	—	867

The Company's cash equivalents consist primarily of highly liquid investments in money market funds and term deposits with maturity periods of three months or less. Restricted cash relates primarily to temporary restrictions

caused by the timing of lockbox collections under the Company's borrowing arrangements and the timing of payments under vendor agreements. The carrying values of the cash equivalents approximate fair value since they are near their maturity. Investments in trading and

Table of Contents

SYNEX CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS---(continued)

For the three and six months ended May 31, 2015 and 2014

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

(unaudited)

available-for-sale securities consist of equity securities and are recorded at fair value based on quoted market prices. The fair values of forward exchange contracts are measured based on the foreign currency spot and forward rates quoted by the banks or foreign currency dealers. Fair values for interest rate swaps are based on mid-market prices provided by the banks or counterparties.

The acquisition-related contingent consideration liability represents the future potential earn-out payments relating to an acquisition. The fair value of the contingent consideration liability is based on the Company's probability assessment of the established profitability measures during the earn-out period ranging from one year to three years from the date of the acquisition.

The carrying values of held-to-maturity securities, accounts receivable, accounts payable and short-term debt approximate fair value due to their short maturities and interest rates which are variable in nature. The carrying value of the Company's term loans approximate their fair value since they bear interest rates that are similar to existing market rates.

During the three and six months ended May 31, 2015 and 2014, there were no transfers between the fair value measurement category levels.

**NOTE 9—ACCOUNTS RECEIVABLE ARRANGEMENTS:**

The Company primarily finances its United States operations with an accounts receivable securitization program (the "U.S. Arrangement"). The U.S. Arrangement has a maturity date of November 4, 2016. The Company's subsidiary, which is the borrower under the U.S. Arrangement, can borrow up to a maximum of \$600,000 based upon eligible trade accounts receivable generated by our parent company and one of its United States subsidiaries. The U.S. Arrangement includes an accordion feature to allow requests for an increase in the lenders' commitment by an additional \$100,000. The effective borrowing cost under the U.S. Arrangement is a blended rate that includes prevailing dealer commercial paper rates and the daily London Interbank Offered Rate ("LIBOR"), plus a program fee of 0.375% per annum based on the used portion of the commitment, and a facility fee of 0.40% per annum payable on the aggregate commitment of the lenders. As of May 31, 2015, there were no borrowings outstanding under the U.S. Arrangement. \$578,000 was outstanding as of November 30, 2014.

Under the terms of the U.S. Arrangement, the Company and one of the Company's United States subsidiaries sell, on a revolving basis, their receivables to a wholly-owned, bankruptcy-remote subsidiary. The borrowings are funded by pledging all of the rights, title and interest in and to the receivables acquired by the Company's subsidiary as security. Any borrowings under the U.S. Arrangement are recorded as debt on the Company's Consolidated Balance Sheets. As is customary in trade accounts receivable securitization arrangements, a credit rating agency's downgrade of the third party issuer of commercial paper or of a back-up liquidity provider (which provides a source of funding if the commercial paper market cannot be accessed) could result in an increase in the Company's cost of borrowing or loss of the Company's financing capacity under these programs if the commercial paper issuer or liquidity back-up provider is not replaced, or if the lender whose commercial paper issuer or liquidity back-up provider is not replaced does not elect to offer the Company an alternative rate. Loss of such financing capacity could have a material adverse effect on the Company's financial condition and results of operations.

The Company also has other financing agreements in North America with various financial institutions ("Flooring Companies") to allow certain customers of the Company to finance their purchases directly with the Flooring Companies. Under these agreements, the Flooring Companies pay to the Company the selling price of products sold to various customers, less a discount, within approximately 15 to 30 days from the date of sale. The Company is contingently liable to repurchase inventory sold under flooring agreements in the event of any default by its customers under the agreement and such inventory being repossessed by the Flooring Companies. Please see Note 16—Commitments and Contingencies for further information.





Table of Contents

## SYNEX CORPORATION

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

For the three and six months ended May 31, 2015 and 2014

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

(unaudited)

The following table summarizes the net sales financed through the flooring agreements and the flooring fees incurred:

	Three Months Ended		Six Months Ended	
	May 31, 2015	May 31, 2014	May 31, 2015	May 31, 2014
Net sales financed	\$299,473	\$351,439	\$615,258	\$633,429
Flooring fees <sup>(1)</sup>	2,081	1,922	4,157	3,492

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

As of May 31, 2015 and November 30, 2014, accounts receivable subject to flooring agreements were \$62,040 and \$93,546, respectively.

SYNEX Infotec, the Company's Japan technology solutions subsidiary, has arrangements with various banks and financial institutions for the sale and financing of approved accounts receivable and notes receivable. The amounts outstanding under these arrangements that were sold, but not collected, as of May 31, 2015 and November 30, 2014 were \$6,807 and \$6,199, respectively.

## NOTE 10—BORROWINGS:

Borrowings consist of the following:

	As of	
	May 31, 2015	November 30, 2014
SYNEX U.S. securitization (See Note 9 - Accounts Receivable Arrangements)	\$—	\$578,000
SYNEX U.S. credit agreement	625,000	279,375
SYNEX Canada term loan and revolver	13,440	36,956
SYNEX Infotec credit facility	68,471	53,954
Other borrowings and capital leases	28,817	32,218
Total borrowings	735,728	980,503
Less: Current portion	(81,121)	(716,257)
Non-current portion	\$654,607	\$264,246
SYNEX U.S. credit agreement		

In November 2013, the Company entered into a senior secured credit agreement (the "U.S. Credit Agreement") which was comprised of a \$275,000 revolving credit facility and a \$225,000 term loan. In May 2015, the U.S. Credit Agreement was amended to increase the term loan to \$625,000. The Company may request incremental commitments to increase the principal amount of revolving loans or term loans available under the U.S. Credit Agreement up to \$350,000. The U.S. Credit Agreement matures in May 2020.

Interest on borrowings under the U.S. Credit Agreement can be based on LIBOR or a base rate at the Company's option. Loans borrowed under the U.S. Credit Agreement bear interest, in the case of LIBOR loans, at a per annum rate equal to the applicable LIBOR, plus a margin which may range from 1.50% to 2.25%, based on the Company's consolidated leverage ratios, as determined in accordance with the U.S. Credit Agreement. Loans borrowed under the U.S. Credit Agreement that are not LIBOR loans, and are instead base rate loans, bear interest at a per annum rate equal to (i) the greatest of (A) the Federal Funds Rate plus a margin of 1/2 of 1.0%, (B) LIBOR plus 1.0% per annum, and (C) the rate of interest announced, from time to time, by the agent, Bank of America, N.A, as its "prime rate," plus (ii) a margin which may range from 0.50% to 1.25%, based on the Company's consolidated leverage ratios as determined in accordance with the U.S. Credit Agreement.

The outstanding principal amount of the term loan is repayable in quarterly installments, in an amount equal to (a) for each of the first eight full calendar quarters ending after the U.S. Credit Agreement amendment entered into May

2015, 1.25% of the amended principal amount of the term loan, (b) for each of the next four calendar quarters ending thereafter, 1.875% of

Table of Contents

SYNEX CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS---(continued)

For the three and six months ended May 31, 2015 and 2014

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

(unaudited)

the amended principal amount of the term loan, (c) for each calendar quarter ending thereafter, 2.50% of the amended principal amount of the term loan and (d) on the May 2020 maturity date of the term loan, the outstanding principal amount of the term loan. The Company's obligations under the U.S. Credit Agreement are secured by substantially all of the parent company's and its United States domestic subsidiaries' assets and are guaranteed by certain of its United States domestic subsidiaries.

As of May 31, 2015 and November 30, 2014, balances outstanding under the term loan component of the U.S. Credit Agreement were \$625,000 and \$219,375, respectively. There were no borrowings outstanding under the revolving credit facility as of May 31, 2015 and \$60,000 was outstanding as of November 30, 2014. In addition, there was \$1,500 outstanding as of both May 31, 2015 and November 30, 2014, in standby letters of credit under the U.S. Credit Agreement.

SYNEX Canada revolving line of credit

SYNEX Canada Limited ("SYNEX Canada") has a revolving line of credit arrangement with a group of financial institutions (the "Canadian Revolving Arrangement") which has a maximum commitment of CAD100,000 and includes an accordion feature to increase the maximum commitment by an additional CAD25,000 to CAD125,000, at SYNEX Canada's request. The Canadian Revolving Arrangement also provides a sublimit of \$5,000 for the issuance of standby letters of credit. As of both May 31, 2015 and November 30, 2014, there were no letters of credit outstanding.

SYNEX Canada has granted a security interest in substantially all of its assets in favor of the lender under the Canadian Revolving Arrangement. In addition, the Company pledged its stock in SYNEX Canada as collateral for the Canadian Revolving Arrangement. The interest rate applicable under the Canadian Revolving Arrangement is equal to (i) the Canadian base rate plus a margin of 0.75% for a Base Rate Loan in Canadian Dollars, (ii) the US base rate plus a margin of 0.75% for a Base Rate Loan in U.S. Dollars, and (iii) the Bankers' Acceptance rate ("BA") plus a margin of 2.00% for a BA Rate Loan. The Canadian base rate means the greater of (a) the prime rate determined by a major Canadian financial institution and (b) the one month Canadian Dealer Offered Rate ("CDOR") (the average rate applicable to Canadian Dollar bankers' acceptances for the applicable period) plus 1.50%. The US base rate means the greater of (a) a reference rate determined by a major Canadian financial institution for US dollar loans made to Canadian borrowers and (b) the US federal funds rate plus 0.50%. A fee of 0.25% per annum is payable with respect to the unused portion of the commitment. The credit arrangement expires in May 2017. Balances outstanding under the Canadian Revolving Arrangement were \$8,047 and \$30,726 as of May 31, 2015 and November 30, 2014, respectively.

SYNEX Canada term loan

SYNEX Canada has a term loan associated with the purchase of its logistics facility in Guelph, Canada. The interest rate for the unpaid principal amount is a fixed rate of 5.374% per annum. The final maturity date for repayment of the unpaid principal is April 1, 2017. The balances outstanding on the term loan as of May 31, 2015 and November 30, 2014 were \$5,393 and \$6,230, respectively.

SYNEX Infotec credit facility

SYNEX Infotec has a credit agreement with a group of financial institutions for a maximum commitment of JPY14,000,000. The credit agreement is comprised of a JPY6,000,000 term loan and a JPY8,000,000 short-term revolving credit facility. SYNEX Infotec's obligations under this credit facility are secured by liens on certain of its assets. The interest rate for the term loan and revolving credit facility is based on the Tokyo Interbank Offered Rate ("TIBOR") plus a margin of 1.40% per annum. The unused line fee on the revolving credit facility was 0.10% per annum. This credit facility expires in December 2016. As of May 31, 2015 and November 30, 2014, the balances outstanding under the credit facility were \$68,471 and \$53,954, respectively. The term loan can be repaid at any time prior to expiration date without penalty. The Company has issued a guarantee to cover up to 110% of the outstanding

principal amount obligations of SYNEX Infotec to the lenders.

Other borrowings and capital leases

In September 2013, SYNEX Infotec established a short-term revolving credit facility of JPY2,000,000 with a financial institution. The interest rate for the credit facility is based on TIBOR plus a margin of 0.50% per annum. In addition, there is a facility fee of 0.425% per annum. The credit facility can be renewed annually. As of May 31, 2015 and November 30, 2014, the balances outstanding under this credit facility were \$16,111 and \$16,861, respectively.

Table of Contents

## SYNEX CORPORATION

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

For the three and six months ended May 31, 2015 and 2014

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

(unaudited)

SYNEX Infotec has a short-term revolving credit facility of JPY1,000,000 with a financial institution. The credit facility can be renewed annually and bears an interest rate that is based on TIBOR plus a margin of 1.20% per annum. As of May 31, 2015 and November 30, 2014, the balances outstanding under this credit facility were \$8,056 and \$8,430, respectively.

As of May 31, 2015 and November 30, 2014, the Company also had \$4,650 and \$6,927, respectively, in obligations for the sale and financing of approved accounts receivable and notes receivable with recourse provisions to SYNEX Infotec and outstanding capital lease obligations.

## Future principal payments

Future principal payments under the above loans and capital leases as of May 31, 2015 are as follows:

Fiscal Years Ending November 30,

2015	\$65,142
2016	31,931
2017	84,206
2018	51,538
2019	63,298
Thereafter	439,613
	\$735,728

## Interest expense and finance charges

Total interest expense and finance charges for the Company's borrowings were \$6,203 and \$13,150 for the three and six months ended May 31, 2015, respectively, and \$6,708 and \$12,301 for the three and six months ended May 31, 2014, respectively. The variable interest rates ranged between 0.59% and 4.50% and 0.57% and 4.50% during the three and six months ended May 31, 2015, respectively, and between 0.61% and 4.25% during both the three and six months ended May 31, 2014.

## Covenant compliance

In relation to the U.S. Arrangement, the U.S. Credit Agreement, the Canadian Revolving Arrangement and the SYNEX Infotec credit facility, the Company has a number of covenants and restrictions that, among other things, require the Company to comply with certain financial and other covenants. These covenants require the Company to maintain specified financial ratios and satisfy certain financial condition tests, including minimum net worth and fixed charge coverage ratios. The covenants also limit the Company's ability to incur additional debt, make or forgive intercompany loans, pay dividends and make other types of distributions, make certain acquisitions, repurchase the Company's stock, create liens, cancel debt owed to the Company, enter into agreements with affiliates, modify the nature of the Company's business, enter into sale-leaseback transactions, make certain investments, enter into new real estate leases, transfer and sell assets, cancel or terminate any material contracts and merge or consolidate.

Table of Contents

## SYNEX CORPORATION

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

For the three and six months ended May 31, 2015 and 2014

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

(unaudited)

## NOTE 11—EARNINGS PER COMMON SHARE:

The following table sets forth the computation of basic and diluted earnings per common share for the periods indicated. The earnings per common share for the prior periods presented below has been revised using the two-class method as described in the Company's Annual Report on Form 10-K for the fiscal year ended November 30, 2014.

	Three Months Ended		Six Months Ended	
	May 31, 2015	May 31, 2014	May 31, 2015	May 31, 2014
Basic earnings per common share:				
Net income attributable to SYNEX Corporation	\$51,874	\$39,551	\$98,197	\$77,968
Less: net income allocated to participating securities <sup>(1)</sup>	(631 )	(551 )	(1,223 )	(1,076 )
Net income attributable to SYNEX Corporation common stockholders	\$51,243	\$39,000	\$96,974	\$76,892
Weighted-average number of common shares - basic	39,054	38,663	39,011	38,165
Basic earnings per common share	\$1.31	\$1.01	\$2.49	\$2.01
Diluted earnings per common share:				
Net income attributable to SYNEX Corporation	\$51,874	\$39,551	\$98,197	\$77,968
Less: net income allocated to participating securities <sup>(1)</sup>	(627 )	(547 )	(1,215 )	(1,066 )
Net income attributable to SYNEX Corporation common stockholders	\$51,247	\$39,004	\$96,982	\$76,902
Weighted-average number of common shares - basic	39,054	38,663	39,011	38,165
Effect of dilutive securities:				
Stock options and restricted stock units	289	348	312	379
Weighted-average number of common shares-diluted	39,343	39,011	39,323	38,544
Diluted earnings per common share	\$1.30	\$1.00	\$2.47	\$2.00
Anti-dilutive shares excluded from diluted earnings per share calculation	1	9	3	10

(1) Restricted stock awards granted to employees and non-employee directors by the Company and its subsidiaries are considered participating securities.

## NOTE 12—SEGMENT INFORMATION:

## Operating segments

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

The Company operates in two segments: Technology Solutions and Concentrix. The Technology Solutions segment distributes peripherals, IT systems including data center server and storage solutions, system components, software, networking equipment, CE, and complementary products. The Technology Solutions segment also provides systems design and integration solutions.

The Concentrix segment offers a portfolio of end-to-end business services focused on customer engagement strategy, process optimization, technology innovation, front and back-office automation and business transformation to clients in ten identified industry verticals.





Table of Contents

## SYNEX CORPORATION

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

For the three and six months ended May 31, 2015 and 2014

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

(unaudited)

Summarized financial information related to the Company's reportable business segments for the three months ended May 31, 2015 and 2014 is shown below:

	Technology Solutions	Concentrix	Inter-Segment Elimination	Consolidated
Three months ended May 31, 2015				
Revenue	\$2,915,557	\$341,805	\$ (3,577 )	\$3,253,785
Income from operations before non-operating items, income taxes and noncontrolling interest	80,230	9,012	119	89,361
Three months ended May 31, 2014				
Revenue	3,162,998	293,482	(2,945 )	3,453,535
Income (loss) from operations before non-operating items, income taxes and noncontrolling interest	70,134	(2,169 )	118	68,083
Six months ended May 31, 2015				
Revenue	\$5,779,845	\$683,567	\$ (7,169 )	\$6,456,243
Income from operations before non-operating items, income taxes and noncontrolling interest	151,480	16,590	238	168,308
Six months ended May 31, 2014				
Revenue	6,065,905	420,447	(5,833 )	6,480,519
Income (loss) from operations before non-operating items, income taxes and noncontrolling interest	133,665	(3,948 )	316	130,033
Total assets as of May 31, 2015	\$3,845,843	\$1,015,474	\$ (746,397 )	\$4,114,920
Total assets as of November 30, 2014	4,422,841	938,450	(648,249 )	4,713,042

Inter-segment elimination represents services and transactions generated between the Company's reportable segments that are eliminated on consolidation.

Geographic information

Shown below is summarized financial information related to the geographic areas in which the Company operates.

The revenue attributable to countries is based on the geography of entities from where the products are distributed or from where customer service contracts are managed.

	Three Months Ended		Six Months Ended	
	May 31, 2015	May 31, 2014	May 31, 2015	May 31, 2014
Revenue:				
United States	\$2,385,956	\$2,435,672	\$4,697,193	\$4,622,685
Canada	349,443	402,381	698,720	795,621
Japan	266,621	384,006	555,527	733,655
Others	251,765	231,476	504,803	328,558
Total	\$3,253,785	\$3,453,535	\$6,456,243	\$6,480,519

Table of Contents

## SYNNEX CORPORATION

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

For the three and six months ended May 31, 2015 and 2014

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

(unaudited)

	As of May 31, 2015	November 30, 2014
Property and equipment, net:		
United States	\$ 105,435	\$ 100,369
Philippines	28,402	27,077
Others	88,667	73,357
Total	\$ 222,504	\$ 200,803

During the three and six months ended May 31, 2015 and 2014, no other country represented more than 10% of the total revenue. As of May 31, 2015 and November 30, 2014, no other country represented more than 10% of the total net property and equipment.

## NOTE 13—RELATED PARTY TRANSACTIONS:

The Company has a business relationship with MiTAC Holdings Corporation (“MiTAC Holdings”), a publicly-traded company in Taiwan, which began in 1992 when MiTAC Holdings became the Company's primary investor through its affiliates. As of both May 31, 2015 and November 30, 2014, MiTAC Holdings and its affiliates beneficially owned approximately 25% of the Company's common stock. Matthew Miao, the Company's Chairman Emeritus of the Board of Directors and a director, is the Chairman of MiTAC Holdings and a director or officer of MiTAC Holdings' affiliates.

Beneficial ownership of the Company's common stock by MiTAC Holdings

As noted above, MiTAC Holdings and its affiliates in the aggregate beneficially owned approximately 25% of the Company's common stock as of May 31, 2015. These shares are owned by the following entities:

	As of May 31, 2015
MiTAC Holdings <sup>(1)</sup>	5,552
Synnex Technology International Corp. <sup>(2)</sup>	4,283
Total	9,835

Shares are held via Silver Star Developments Ltd., a wholly-owned subsidiary of MiTAC Holdings. Excludes 373 (1) shares directly held by Matthew Miao and 224 shares indirectly held by Mathew Miao through a charitable remainder trust.

Synnex Technology International Corp. ("Synnex Technology International") is a separate entity from the Company and is a publicly-traded corporation in Taiwan. Shares are held via Peer Development Ltd., a wholly-owned subsidiary of Synnex Technology International. MiTAC Holdings owns a noncontrolling interest of (2) 8.7% in MiTAC Incorporated, a privately-held Taiwanese company, which in turn holds a noncontrolling interest of 13.6% in Synnex Technology International. Neither MiTAC Holdings nor Mr. Miao is affiliated with any person(s), entity, or entities that hold a majority interest in MiTAC Incorporated.

MiTAC Holdings generally has significant influence over the Company regarding matters submitted to stockholders for consideration, including any merger or acquisition of the Company. Among other things, this could have the effect of delaying, deterring or preventing a change of control over the Company.

The Company purchased inventories from MiTAC Holdings and its affiliates totaling \$20,508 and \$44,100 during the three and six months ended May 31, 2015, respectively, and totaling \$32,615 and \$51,500 during the three and six months ended May 31, 2014, respectively. The Company's sales to MiTAC Holdings and its affiliates during the three and six months ended May 31, 2015 totaled \$307 and \$727, respectively, and during the three and six months ended on May 31, 2014 totaled \$1,028 and \$1,861, respectively. In addition, the Company received reimbursements of rent and overhead costs for facilities used by MiTAC Holdings amounting to \$31 and \$62 during the three and six months

ended May 31, 2015, respectively, and \$29 and \$75 during the three and six months ended May 31, 2014, respectively.

The Company's business relationship with MiTAC Holdings has been informal and is not governed by long-term commitments or arrangements with respect to pricing terms, revenue or capacity commitments. The Company negotiates

21

---

Table of Contents

## SYNEX CORPORATION

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

For the three and six months ended May 31, 2015 and 2014

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

(unaudited)

pricing and other material terms on a case-by-case basis with MiTAC Holdings. While MiTAC Holdings is a related party and a controlling stockholder, the Company believes that the significant terms under its arrangements with MiTAC Holdings, including pricing, do not materially differ from the terms it could have negotiated with unaffiliated third parties, and it has adopted a policy requiring that material transactions with MiTAC Holdings or its related parties be approved by its Audit Committee, which is composed solely of independent directors. In addition, Matthew Miao's compensation is approved by the Nominating and Corporate Governance Committee, which is also composed solely of independent directors.

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

**NOTE 14—PENSION AND EMPLOYEE BENEFITS PLANS:**

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

The components of net periodic pension costs pertaining to the SYNEX Infotec single employer benefit plan during the three and six months ended May 31, 2015 and 2014 were as follows:

	Three Months Ended		Six Months Ended	
	May 31, 2015	May 31, 2014	May 31, 2015	May 31, 2014
Service cost	\$114	\$345	\$236	\$552
Interest cost	10	159	21	227
Expected return on plan assets	(14	) (17	) (29	) (34
Amortization of net loss	—	140	—	176
Net periodic pension costs	\$110	\$627	\$228	\$921

During the three and six months ended May 31, 2015, SYNEX Infotec contributed \$151 and \$300, respectively, to the single-employer benefit plan. During the three and six months ended May 31, 2014, SYNEX Infotec contributed \$312 and \$461, respectively, to the single-employer benefit plan.

In addition to the single employer plan, employees of SYNEX Infotec are also covered by a multi-employer, defined benefit plan. The Company recognizes expense for this plan based on scheduled employer contributions. Consistent with generally accepted accounting principles that address participation in multi-employer plans, the Company does not recognize related plan assets or liabilities in its financial statements. The Company's contributions to the plan during the three and six months ended May 31, 2015 were \$147 and \$294, respectively, and during the three and six months ended May 31, 2014 were \$302 and \$577. Employees also make contributions to this plan.

The Company is in the process of withdrawing from the multi-employer plan. Subsequent to May 31, 2015, the withdrawal has been approved by the employees of SYNEX Infotec. The withdrawal is pending approval from both the Board of Delegates of the plan and the regulatory authorities. To the extent that the plan assets are insufficient to address the projected benefits for past participation through the date of withdrawal, the Company may incur additional costs up to \$3,000.

The Company has defined benefit pension and retirement plans in other geographical locations. However, these pension programs are not material either individually or in aggregate to the Consolidated Financial Statements.



Table of Contents

## SYNNEX CORPORATION

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

For the three and six months ended May 31, 2015 and 2014

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

(unaudited)

## NOTE 15—EQUITY:

## Share repurchase program

In June 2014, the Board of Directors authorized a three-year \$100,000 share repurchase program pursuant to which the Company may repurchase its outstanding common stock from time to time in the open market or through privately negotiated transactions. As of May 31, 2015, no purchases had been made pursuant to this program.

## Dividends

The company paid cash dividends of \$0.125 and \$0.25 per share, totaling \$4,964 and \$9,833, during the three and six months ended May 31, 2015, respectively. On June 25, 2015, the Company announced a cash dividend of \$0.125 per share to stockholders of record as of July 17, 2015, payable on July 31, 2015. Future dividends are subject to declaration by the Board of Directors.

## Changes in equity

A reconciliation of the changes in equity for the six months ended May 31, 2015 and May 31, 2014 is presented below:

	Six Months Ended May 31, 2015			Six Months Ended May 31, 2014		
	Attributable to SYNEX Corporation	Attributable to Noncontrolling interest	Total Equity	Attributable to SYNEX Corporation	Attributable to Noncontrolling interest	Total Equity
Beginning balance:	\$ 1,653,558	\$ 427	\$ 1,653,985	\$ 1,411,222	\$ 419	\$ 1,411,641
Issuance of common stock on exercise of options	1,772	—	1,772	3,809	—	3,809
Issuance of common stock for employee stock purchase plan	1,015	—	1,015	789	—	789
Tax benefit from employee stock plans	3,588	—	3,588	2,806	—	2,806
Taxes paid for the settlement of equity awards	(4,181)	) —	(4,181)	(1,710)	) —	(1,710)
Shares issued for the acquisition of the IBM CRM business	—	—	—	71,106	—	71,106
Share-based compensation	7,351	—	7,351	5,632	—	5,632
Dividend declared	(9,833)	) —	(9,833)	—	—	—
Comprehensive income:						
Net income	98,197	15	98,212	77,968	69	78,037
Other comprehensive income:						
Unrealized gains on available-for-sale securities, net of tax	362	2	364	261	1	262
Change in unrealized gain (loss) in defined benefit plans, net of tax	—	—	—	114	—	114
Unrealized loss on cash flow hedges, net of tax	(1,154)	) —	(1,154)	—	—	—

Edgar Filing: SYNEX CORP - Form 10-Q

Foreign currency translation adjustments, net of tax	(22,724	) (7	) (22,731	) 8,939	1	8,940
Total other comprehensive income (loss)	(23,516	) (5	) (23,521	) 9,314	2	9,316
Total comprehensive income	74,681	10	74,691	87,282	71	87,353
Ending balance:	\$1,727,951	\$ 437	\$ 1,728,388	\$1,580,936	\$ 490	\$ 1,581,426

23

---

Table of Contents

SYNEX CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS---(continued)

For the three and six months ended May 31, 2015 and 2014

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

(unaudited)

## NOTE 16—COMMITMENTS AND CONTINGENCIES:

The Company leases certain of its facilities under operating lease agreements, which expire in various periods through 2025. Future minimum rental obligations under noncancellable lease agreements as of May 31, 2015 were as follow:

Fiscal Years Ending November 30,	
2015 (remaining six months)	\$34,125
2016	52,639
2017	43,495
2018	35,331
2019	27,618
Thereafter	67,519
Total minimum lease payments	\$260,727

The Company was contingently liable as of May 31, 2015 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 9—Accounts Receivable Arrangements. Losses, if any, would be the difference between the repossession cost and the resale value of the inventory. There have been no repurchases through May 31, 2015 under these agreements and the Company is not aware of any pending customer defaults or repossession obligations.

From time to time, the Company receives notices from third parties, including customers and suppliers, seeking indemnification, payment of money or other actions in connection with claims made against them. Also, the Company is involved in various bankruptcy preference actions where the Company was a supplier to the companies now in bankruptcy. In addition, the Company is subject to various other claims, both asserted and unasserted, that arise in the ordinary course of business. The Company is currently not involved in any material proceedings.

In January 2014, the Company received a Civil Investigative Demand in connection with a Federal Trade Commission investigation concerning the use of a database program (the “database program”) that has operated for several years under the auspices of the Global Technology Distribution Council (“GTDC”), a trade group of which the Company is a member. Certain GTDC members who participate in the program provide sales data to a third party independent contractor chosen by the GTDC. The contractor aggregates the data and makes it available to program participants. The Company understands that other GTDC members participating in the program have received similar Civil Investigative Demands.

In July 2014, the Company completed its response to the Civil Investigative Demand. The Civil Investigative Demand merely sought information, and no proceedings have been instituted against any person. The Company does not have any reason to believe that there has been any conduct by the Company or its employees that would be actionable under the antitrust laws in connection with its participation in the database program. As this matter is at a preliminary stage, it is not possible to predict the potential impact, if any, of the Civil Investigative Demand or whether any actions may be instituted by the FTC against any person.

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

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

## Guarantees

The Company, as the ultimate parent, guaranteed the obligations of SYNEX Investment Holdings Corporation up to \$35,035 in connection with the sale of China Civilink (Cayman), which operated in China as HiChina Web Solutions,



to Alibaba.com Limited.

24

---

## Table of Contents

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

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

When used in this Quarterly Report on Form 10-Q or the Report, the words "believes," "plans," "estimates," "anticipates," "expects," "intends," "allows," "can," "may," "designed," "will," and similar expressions are intended to identify forward-looking statements. These are statements that relate to future periods and include statements about market trends, our business model and our services, our market strategy, including expansion of our product lines, our infrastructure, anticipated benefits, costs and timing of our acquisitions, including our acquisition of the customer relationship management business of International Business Machines Corporation, or "IBM", information technology demand, impact of MiTAC Holdings Corporation, or MiTAC Holdings, ownership interest in us, our revenue and operating results, our gross margins, our inventories, competition with Synnex Technology International Corp., our future needs for additional financing and the likely sources for such funding, concentration of customers, our international operations, including our operations in Japan and Canada, expansion of our operations, including our Concentrix business, our strategic acquisitions of businesses and assets, effects of future expansion of our operations, adequacy of our cash resources to meet our current and long term capital needs, the use of cash held by our foreign subsidiaries, our contractual obligations, resolution of contingencies, adequacy of our disclosure controls and procedures, pricing pressures, competition, impact of economic and industry trends, impact of our accounting policies, our tax rates, our anti-dilution share repurchase program, statements regarding our securitization programs and revolving credit lines and our investments in working capital, personnel facilities and operations. 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 herein, as well as the seasonality of the buying patterns of our customers, concentration of sales to large customers, dependence upon and trends in capital spending budgets in the information technology, or IT, and consumer electronics, or CE, industries, fluctuations in general economic conditions, our ability to successfully integrate the acquired IBM customer relationship management business and other risks factors contained in our Annual Report on Form 10-K for the year ended November 30, 2014. These forward-looking statements speak only as of the date hereof. We expressly disclaim any obligation or undertaking to release publicly any updates or revisions to any forward-looking statements contained herein to reflect any change in our expectations with regard thereto or any change in events, conditions or circumstances on which any such statement is based.

#### Overview

We are a Fortune 500 corporation and a leading business process services company, offering a comprehensive range of services to resellers, retailers, original equipment manufacturers, or OEMs, financial and insurance institutions and several other industry verticals worldwide. Our primary business process services are wholesale IT distribution and outsourcing services focused on customer relationship management, or BPO CRM. We operate in two segments: Technology Solutions and Concentrix. Our Technology Solutions segment distributes peripherals, IT systems, system components, software, networking equipment, CE, and complementary products. Within our Technology Solutions segment, we also provide systems design and integration solutions. Our Concentrix segment offers a portfolio of strategic solutions and end-to-end business services focused on customer engagement strategy, process optimization, technology innovation, front and back-office automation and business transformation to clients in ten identified industry verticals.

We combine our core strengths in Technology Solutions with our BPO CRM services to help our customers achieve greater efficiencies in time to market, cost minimization, real-time linkages in the supply chain and after-market product support. We distribute more than 30,000 technology products (as measured by active SKUs) from more than 300 IT, CE and OEM suppliers to more than 20,000 resellers, system integrators, and retailers throughout the United States, Canada, Japan, Mexico and China. As of May 31, 2015, we had over 65,000 full-time and temporary employees worldwide. From a geographic perspective, approximately 73% of our total revenue was from the United States for both the three and six months ended May 31, 2015, and approximately 71% for both the three and six months ended May 31, 2014. The revenues attributable to countries are based on geographical locations from which

the products are distributed and from where customer service contracts are managed.

In our Technology Solutions segment, we purchase peripherals, IT systems, system components, software, networking equipment, including CE and complementary products from our primary suppliers such as Hewlett-Packard, Lenovo, Asus Tek Computer Inc., Microsoft Corporation and Intel Corporation, and sell them to our reseller and retail customers. We perform a

25

---

Table of Contents

similar function for our distribution of licensed software products. Our reseller customers include value-added resellers, or VARs, corporate resellers, government resellers, system integrators, direct marketers, and national and regional retailers. In Technology Solutions, we also provide comprehensive IT solutions in key vertical markets such as government and healthcare and we provide specialized service offerings that increase efficiencies in the areas of print management, renewals, networking, logistics services and supply chain management. Additionally, within our Technology Solutions segment, we provide our customers with systems design and integration solutions for data center servers and storage solutions built specific to our customers' data center environments.

In our Concentrix segment, we provide a comprehensive range of strategic services and solutions to enhance our clients' customer life cycles to acquire, support and renew customer relationships, to automate and optimize processes, to maximize the value of every customer interaction and to improve business outcomes. Our portfolio of services includes end-to-end process outsourcing to customers in various industry vertical markets delivered through omni-channels that include both voice and non-voice mediums in more than 40 languages. Our portfolio of solutions and services support our clients and their customers globally.

**Critical Accounting Policies and Estimates**

There have been no material changes in our critical accounting policies and estimates for the three and six months ended May 31, 2015 from our disclosure in our Annual Report on Form 10-K for the fiscal year ended November 30, 2014. For more information on all of our critical accounting policies, please see the discussion in our Annual Report on Form 10-K for the fiscal year ended November 30, 2014 and Note 2 of the financial statements.

**Acquisitions**

We continually seek to augment our product and service offerings through both internal expansion and strategic acquisitions of businesses and assets that complement and expand our global operational capabilities. We also divest businesses that we deem no longer strategic to our ongoing operations. Our historical acquisitions have extended the geographic reach of our operations, particularly in targeted markets, and have diversified and expanded the services we provide to our customers and OEM suppliers. Our prior acquisitions have brought us new reseller, retail and corporate customers, OEM suppliers, product lines and service offerings, expanded our service portfolio, delivery capabilities and geographic reach, deep process expertise, managerial talent and technological capabilities. We account for acquisitions using the purchase method of accounting and include acquired entities within our Consolidated Financial Statements from the closing date of the acquisition.

**Fiscal year 2014 acquisition**

In fiscal year 2014, we acquired the assets of the customer relationship management business of IBM. The transaction was completed in phases with the initial closing completed on January 31, 2014, the second phase closing completed on April 30, 2014 and the final closing completed on September 30, 2014, for an aggregate purchase price of \$425.7 million. As of May 31, 2015, we were obligated to pay \$28.2 million in cash and had a receivable of \$0.7 million from IBM.

Table of Contents

## Results of Operations

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

Statements of Operations Data:	Three Months Ended		Six Months Ended	
	May 31, 2015	May 31, 2014	May 31, 2015	May 31, 2014
Revenue	100.00	100.00	100.00	100.00
Cost of revenue	(90.78)	(91.92)	(90.89)	(92.51)
Gross profit	9.22	8.08	9.11	7.49
Selling, general and administrative expenses	(6.47)	(6.11)	(6.50)	(5.48)
Income from operations before non-operating items, income taxes and noncontrolling interest	2.75	1.97	2.61	2.01
Interest expense and finance charges, net	(0.18)	(0.18)	(0.20)	(0.16)
Other income (expense), net	(0.05)	(0.01)	(0.02)	0.04
Income from operations before income taxes and noncontrolling interest	2.52	1.78	2.39	1.89
Provision for income taxes	(0.93)	(0.64)	(0.87)	(0.68)
Net income	1.59	1.14	1.52	1.21
Net income attributable to noncontrolling interest	(0.00)	(0.00)	(0.00)	(0.00)
Net income attributable to SYNEX Corporation	1.59	1.14	1.52	1.21

Three and Six Months Ended May 31, 2015 and 2014

Revenue	Three Months Ended			Six Months Ended		
	May 31, 2015	May 31, 2014	Percent Change	May 31, 2015	May 31, 2014	Percent Change
	(in thousands)			(in thousands)		
Revenue	\$3,253,785	\$3,453,535	(5.8)%	\$6,456,243	\$6,480,519	(0.4)%
Technology Solutions revenue	2,915,557	3,162,998	(7.8)%	5,779,845	6,065,905	(4.7)%
Concentrix revenue	341,805	293,482	16.5%	683,567	420,447	62.6%
Inter-segment elimination	(3,577)	(2,945)	21.5%	(7,169)	(5,833)	22.9%

In our Technology Solutions segment, we distribute in excess of 30,000 technology products (as measured by active SKUs) from more than 300 IT, CE and OEM suppliers to more than 20,000 resellers. The prices of our products are highly dependent on the volumes purchased within a product category. The products we sell from one period to the next are often not comparable because of rapid changes in product models and features. The revenue generated in our Concentrix segment relates to end-to-end business services around customer engagement strategy, process optimization, technology innovation, front and back-office automation and business transformation to clients in ten identified industry verticals. Inter-segment elimination represents services and transactions generated between our reportable segments that are eliminated on consolidation.

Revenue in our Technology Solutions segment during the three and six months ended May 31, 2015 decreased, compared to the prior year periods, primarily due to the loss of a significant vendor providing consumer retail products, as a result of its acquisition by a third party, and the negative impact of foreign currency translation, primarily from the weakening of the Japanese Yen and Canadian Dollar. This decrease was partially offset by increased demand for our systems design and integration solutions.

The increase in revenue in our Concentrix segment during the three and six months ended May 31, 2015, compared to the prior year periods, was primarily due to the full period impact of the acquisition of the IBM CRM business with the initial closing completed on January 31, 2014 and the second closing completed on April 30, 2014, partially offset by the adverse impact of foreign currency translation of \$23.9 million and \$40.8 million, respectively, for the three and six months ended



Table of Contents

May 31, 2015, primarily associated with the Japanese Yen, the Australian Dollar, the British Pound and Euro. Adjusting for foreign currency translation and the acquisition of the IBM CRM business, revenue in our Concentrix segment increased 10.2% and 5.8% for the three and six months ended May 31, 2015, respectively, compared to the prior year periods, due to additional customer contract signings and increased volumes from existing customers.

**Gross Profit**

	Three Months Ended			Six Months Ended			
	May 31, 2015	May 31, 2014	Percent Change	May 31, 2015	May 31, 2014	Percent Change	
	(in thousands)			(in thousands)			
Gross profit	\$300,059	\$279,014	7.5	% \$588,277	\$485,660	21.1	%
Gross margin	9.22	% 8.08	%	9.11	% 7.49	%	

Our gross profit is affected by a variety of factors, including our sources of revenue by segments, competition, average selling prices, mix of products and services we sell, our customers, product costs along with rebate and discount programs from our suppliers, reserves or settlement adjustments, freight costs, charges for inventory losses, acquisitions and divestitures of business units and fluctuations in revenues. Concentrix margins, which are generally higher than those in our Technology Solution segment, can also be impacted by additional lead time for programs to be fully scalable and transition and initial set-up costs.

Gross margin during the three months and six months ended May 31, 2015 increased from the prior year periods primarily due to favorable product and service mix and higher gross margin in our Technology Solutions segment. Gross profit and gross margin in our Technology Solutions segment increased during the three and six months ended May 31, 2015, compared to the prior year periods, primarily due to strong product pricing, foreign currency exchange benefits associated with our system design and integration solutions and lower inventory reserve provision. This increase in gross profit during the three and six months ended May 31, 2015 was partially offset by lower gross profit from consumer sales in the U.S. and in Japan and the translation loss of foreign exchange rates, primarily due to the weakening of the Canadian Dollar and the Japanese Yen.

Gross profit in our Concentrix segment during the three and six months ended May 31, 2015 increased from the prior year periods primarily due to the full period impact of our acquisition of the IBM CRM business with the initial closing completed on January 31, 2014 and the second closing completed on April 30, 2014. Gross profit and gross margin were adversely affected by foreign exchange and losses of \$6.3 million and \$15.3 million for the three and six months ended May 31, 2015, respectively, due to the delayed launch associated with one of our customers.

**Selling, General and Administrative Expenses**

	Three Months Ended			Six Months Ended			
	May 31, 2015	May 31, 2014	Percent Change	May 31, 2015	May 31, 2014	Percent Change	
	(in thousands)			(in thousands)			
Selling, general and administrative expenses	\$210,698	\$210,931	(0.1)	% \$419,969	\$355,627	18.1	%
Percentage of revenue	6.47	% 6.11	%	6.50	% 5.48	%	

Our selling, general and administrative expense primarily consists of personnel costs such as salaries, commissions, bonuses, share-based compensation and temporary personnel costs. Selling, general and administrative expenses also include costs incurred in relation to the acquisition and integration of businesses, cost of facilities, utility expenses, professional fees, depreciation on our capital equipment, bad debt expense, amortization of our intangible assets, and marketing expenses, offset in part by reimbursements from our OEM suppliers.

The decrease in our selling, general and administrative expenses in the three months ended May 31, 2015, compared to the prior year period, was due to the favorable impact of foreign currency translation, primarily from the weakening of the Japanese Yen, the Canadian Dollar and Euro. In constant currency, our selling, general and administrative expenses increased in

Table of Contents

the three months ended May 31, 2015, compared to prior year period, primarily due to the completion of the second phase of IBM CRM business acquisition on April 30, 2014 in the Concentrix segment. In addition, we incurred approximately \$2.0 million in acquisition-related and integration expenses in our Concentrix segment related to the IBM CRM business acquisition during the three months ended May 31, 2015, compared to \$15.7 million during the three months ended May 31, 2014.

The increase in our selling, general and administrative expenses in the six months ended May 31, 2015, compared to the prior year period, was primarily the result of the full period impact of our acquisition of the IBM CRM business in the Concentrix segment in fiscal year 2014. The higher expenses were partially offset by the favorable impact of foreign currency translation, primarily due to the weakening of the Japanese Yen and the Canadian Dollar. We incurred approximately \$6.0 million in acquisition-related and integration expenses in our Concentrix segment related to the IBM CRM business acquisition during the six months ended May 31, 2015, compared to \$24.7 million during the six months ended May 31, 2014.

Included in our selling, general and administrative expenses was the amortization of intangible assets of approximately \$13.2 million and \$27.6 million during the three and six months ended May 31, 2015, respectively, compared to \$13.2 million and \$16.9 million during the three and six months ended May 31, 2014, respectively, primarily as a result of the acquisition of the IBM CRM business.

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

	Three Months Ended			Six Months Ended			Percent Change
	May 31, 2015	May 31, 2014	Percent Change	May 31, 2015	May 31, 2014	Percent Change	
Income from operations before non-operating items, income taxes and noncontrolling interest	\$89,361	\$68,083	31.3 %	\$168,308	\$130,033	29.4 %	
Percentage of total revenue (operating margin)	2.75 %	1.97 %		2.61 %	2.01 %		
Technology Solutions income from operations before non-operating items, income taxes and noncontrolling interest	80,230	70,134	14.4 %	151,480	133,665	13.3 %	
Percentage of Technology Solutions revenue (Technology Solutions operating margin)	2.75 %	2.22 %		2.62 %	2.20 %		
Concentrix income (loss) from operations before non-operating items, income taxes and noncontrolling interest	9,012	(2,169)	515.5 %	16,590	(3,948)	520.2 %	
Percentage of Concentrix revenue (Concentrix operating margin)	2.64 %	(0.74) %		2.43 %	(0.94) %		
Inter-segment eliminations	119	118	0.8 %	238	316	(24.7) %	

The operating income and margin in our Technology Solutions segment during the three and six months ended May 31, 2015 increased from the prior year periods primarily due to our product mix, favorable product pricing and operational efficiencies.

The operating income and margin of our Concentrix segment in the three and six months ended May 31, 2015 improved from the prior year periods primarily due to the full period impact of the acquisition of the IBM CRM business in the prior year. We incurred \$14.8 million and \$32.8 million of acquisition-related and integration expenses and intangible amortization expenses, during the three and six months ended May 31, 2015, respectively, compared to \$30.0 million and \$43.6 million during the three and six months ended May 31, 2014, respectively, which favorably impacted our operating margin. Operating income was adversely impacted by approximately \$7.4 million and \$17.7



million of loss due to the delayed launch associated with one of our Concentrix customers for the three and six months ended May 31, 2015, respectively.

29

---

Table of Contents

## Interest Expense and Finance Charges, Net

	Three Months Ended			Six Months Ended		
	May 31, 2015 (in thousands)	May 31, 2014	Percent Change	May 31, 2015 (in thousands)	May 31, 2014	Percent Change
Interest expense and finance charges, net	\$5,815	\$6,160	(5.6 )%	\$12,256	\$10,658	15.0 %
Percentage of revenue	0.18	% 0.18	%	0.20	% 0.16	%

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

The decrease in our interest expense and finance charges, net during the three months ended May 31, 2015 compared to the prior year period was primarily the result of a decrease in borrowing levels.

The increase in our interest expense and finance charges, net during the six months ended May 31, 2015 compared to the prior year period was primarily due to higher flooring charges in the current year period of \$0.7 million and the interest income of \$0.8 million from multi-year contracts in our Mexico operations in the prior year period.

## Other Income (Expense), Net

	Three Months Ended			Six Months Ended		
	May 31, 2015 (in thousands)	May 31, 2014	Percent Change	May 31, 2015 (in thousands)	May 31, 2014	Percent Change
Other income (expense), net	\$(1,584 )	\$(197 )	704.1 %	\$(1,517 )	\$2,771	(154.7 )%
Percentage of revenue	(0.05 )%	(0.01 )%		(0.02 )%	0.04 %	

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

The decrease in other income (expense), net in the three months ended May 31, 2015 compared to the prior year period was due to higher foreign currency losses of \$1.4 million.

The decrease in other income (expense), net in the six months ended May 31, 2015 compared to the prior year period was due to higher foreign currency losses of \$1.6 million and \$2.9 million received from a class-action legal settlement in the prior year period.

## Provision for Income Taxes

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

Our effective tax rate for the three and six months ended May 31, 2015 was 36.7% and 36.4%, respectively, compared to 35.9% and 36.1% for the three and six months ended May 31, 2014, respectively. The effective tax rate for the three and six months ended May 31, 2015 increased due to the mix of income in different geographic regions.

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

## Table of Contents

### Net Loss (Income) Attributable to Noncontrolling Interests

Net loss (income) attributable to noncontrolling interests represents the share of net income attributable to others, which is recognized for the portion of our subsidiaries' equity not owned by us. The change in the net income attributable to noncontrolling interests in the three and six months ended May 31, 2015 as compared to the prior year period was not material to our results of operations.

### Liquidity and Capital Resources

#### Cash Flows

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

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

To increase our market share and better serve our customers, we may further expand our operations through investments or acquisitions. We expect that such expansion would require an initial investment in working capital, personnel, facilities and operations. These investments or acquisitions would likely be funded primarily by additional borrowings or issuing common stock.

Net cash provided by operating activities was \$335.6 million for the six months ended May 31, 2015, primarily due to net income of \$98.2 million, adjustments for non-cash items of \$59.1 million, a decrease in accounts receivables of \$369.5 million and a decrease in inventories of \$133.4 million. These cash inflows were partially offset by a decrease in accounts payable of \$256.1 million, a decrease in accrued liabilities of \$33.0 million and an increase in other assets of \$29.6 million. The decrease in accounts receivable, accounts payable and inventories was primarily due to lower revenue in our Technology Solutions segment during the three months ended May 31, 2015 compared to the three months ended November 30, 2014. The adjustments for non-cash items consist primarily of amortization, depreciation, tax benefit from employee stock plans, stock-based compensation expense and the provision for doubtful accounts.

Net cash used in operating activities was \$199.7 million for the six months ended May 31, 2014, primarily due to an increase in inventories of \$332.1 million and accounts receivables of \$200.1 million. These cash outflows were partially offset by our net income of \$78.0 million, adjustments for non-cash items of \$47.6 million, an increase in accounts payable of \$111.1 million and an increase in accrued liabilities of \$103.9 million. The increase in inventories was primarily due to the growth of our Technology Solutions segment. The increase in accounts receivables was the result of the receivables from the newly acquired IBM CRM business. The increase in accounts payable and accrued liabilities was primarily due to the newly acquired IBM CRM business. The adjustments for non-cash items consist primarily of depreciation, amortization and stock-based compensation expense.

Net cash provided by investing activities for the six months ended May 31, 2015 was \$28.7 million, primarily due to the receipt of \$65.3 million towards working capital and other post-closing adjustments related to the acquisition of the IBM CRM business. This cash inflow was offset, in part, by our capital expenditures during the period of \$45.3 million primarily to support our Concentrix segment growth.

Net cash used in investing activities for the six months ended May 31, 2014 was \$402.3 million, which was primarily due to a cash payment of \$390.4 million for the acquisition of the IBM CRM business. Our capital expenditures during the period were \$20.3 million to support our growth and higher business volumes. These cash outflows were offset in part by \$2.9 million of proceeds from the sale of our trading investments, net of purchases and a \$2.2 million change in restricted cash due to the timing of our lockbox collections under our borrowing arrangements.

Net cash used in financing activities for the six months ended May 31, 2015 was \$326.7 million, consisting primarily of \$642.9 million net repayments of our securitization arrangements and revolving lines of credit and a \$78.3 million decrease in book overdraft, partially offset by \$408.3 million of proceeds from an increase in our term loan, net of issuance cost.



Table of Contents

Net cash provided by financing activities for the six months ended May 31, 2014 was \$656.2 million, consisting primarily of \$657.8 million of net receipts on our securitization arrangement, revolving lines of credit and other credit facility arrangements. The increase in borrowings was primarily to fund the acquisition and working capital requirements of the newly acquired CRM business from IBM and our systems design and integration services business. These cash inflows were partially offset by payment of contingent consideration of \$5.1 million and a decrease in our book overdraft of \$1.6 million.

Capital Resources

Our cash and cash equivalents totaled \$215.5 million and \$180.1 million as of May 31, 2015 and November 30, 2014, respectively. Of our total cash and cash equivalents, the cash held by our foreign subsidiaries was \$165.0 million and \$174.8 million as of May 31, 2015 and November 30, 2014, respectively. Repatriation of the cash held by our foreign subsidiaries would be subject to United States federal income taxes. Also, repatriation of some foreign balances is restricted by local laws. However, we have historically fully utilized and reinvested all foreign cash to fund our foreign operations and expansion. If in the future our intentions change and we repatriate the cash back to the United States, we will report in our consolidated financial statements the expected impact of the applicable taxes depending upon the planned timing and manner of such repatriation. Presently, we believe that we have sufficient resources, cash flow and liquidity within the United States to fund current and expected future working capital requirements.

We believe that our available cash balances, the cash flows expected to be generated from operations and our existing sources of liquidity will be sufficient to satisfy our current and planned working capital and investment needs for the next twelve months in all geographies. We also believe that our longer-term working capital, planned capital expenditures, anticipated stock repurchases, dividend payments and other general corporate funding requirements will be satisfied through cash flows from operations and, to the extent necessary, from our borrowing facilities and future financial market activities.

Our accounts receivable securitization program and our U.S. credit facility agreement are renewable on their expiration dates. We have no reason to believe that these arrangements will not be renewed as we continue to be in good credit standing with the participating financial institutions. We have had similar borrowing arrangements with various financial institutions throughout our years as a public company.

On-Balance Sheet Arrangements

In the United States, we have an accounts receivable securitization program, or the U.S. Arrangement. The U.S. Arrangement has a maturity date of November 4, 2016. Our subsidiary, which is the borrower under the U.S. Arrangement, can borrow up to a maximum of \$600.0 million based upon eligible trade accounts receivable generated by our parent company and one of its United States subsidiaries. The U.S. Arrangement includes an accordion feature to allow requests for an increase in the lenders' commitment by an additional \$100.0 million. The effective borrowing cost under the U.S. Arrangement is a blended rate that includes prevailing dealer commercial paper rates and the daily London Interbank Offered Rate, or LIBOR, rate, plus a program fee of 0.375% per annum based on the used portion of the commitment, and a facility fee of 0.40% per annum payable on the aggregate commitment of the lenders. As of May 31, 2015, there were no outstanding balances under the U.S. Arrangement, and there was \$578.0 million outstanding as of November 30, 2014.

Under the terms of the U.S. Arrangement, our parent company and one of its United States subsidiaries sell, on a revolving basis, their receivables to a wholly-owned, bankruptcy-remote subsidiary. The borrowings are funded by pledging all of the rights, title and interest in and to the receivables acquired by our subsidiary as security. Any borrowings under the U.S. Arrangement are recorded as debt on our Consolidated Balance Sheets. As is customary in trade accounts receivable securitization arrangements, a credit rating agency's downgrade of the third party issuer of commercial paper or of a back-up liquidity provider (which provides a source of funding if the commercial paper market cannot be accessed) could result in an increase in our cost of borrowing or loss of our financing capacity under these programs if the commercial paper issuer or liquidity back-up provider is not replaced, or if the lender whose commercial paper issuer or liquidity back-up provider is not replaced does not elect to offer us an alternate rate. Loss of such financing capacity could have a material adverse effect on our financial condition and results of operations. We have a senior secured credit agreement, or the U.S. Credit Agreement, which is comprised of a \$275.0 million revolving credit facility and a \$625.0 million term loan. We may request incremental commitments to increase the

principal amount of revolving loans or term loans available under the U.S. Credit Agreement up to \$350.0 million. The U.S. Credit Agreement matures in May 2020. Interest on borrowings under the U.S. Credit Agreement can be based on a LIBOR rate, or a base rate, at our option. Loans borrowed under the U.S. Credit Agreement bear interest, in the case of LIBOR loans, at a per

Table of Contents

annum rate equal to the applicable interest period for a LIBOR loan, plus a margin which may range from 1.50% to 2.25%, based on our consolidated leverage ratios, as determined in accordance with the U.S. Credit Agreement. Loans borrowed under the Credit Agreement that are not LIBOR loans, and are instead base rate loans, bear interest at a per annum rate equal to (i) the greatest of (A) the Federal Funds Rate plus a margin of 1/2 of 1.0%, (B) LIBOR plus 1.0% per annum, and (C) the rate of interest announced, from time to time, by the agent, Bank of America, N.A., as its “prime rate,” plus (ii) a margin which may range from 0.50% to 1.25%, based on our consolidated leverage ratio, as determined in accordance with the U.S. Credit Agreement. The outstanding principal amount of the term loan is repayable in quarterly installments, in an amount equal to (a) for each of the first eight full calendar quarters ending after the U.S. Credit Agreement amendment entered into May 2015, 1.25% of the amended principal amount of the term loan, (b) for each of the next four calendar quarters ending thereafter, 1.875% of the amended principal amount of the term loan, (c) for each calendar quarter ending thereafter, 2.50% of the amended principal amount of the term loan and (d) on the May 2020 maturity date of the term loan, the outstanding principal amount of the term loan. Our obligations under the U.S. Credit Agreement are secured by substantially all of the parent company and its United States domestic subsidiaries’ assets and are guaranteed by certain of our United States domestic subsidiaries. As of May 31, 2015 and November 30, 2014, \$625.0 million and \$219.4 million, respectively, were outstanding under the term loan component of the U.S. Credit Agreement. There were no borrowings outstanding under the secured revolver as of May 31, 2015. \$60.0 million was outstanding as of November 30, 2014. In addition, there was \$1.5 million outstanding as of both May 31, 2015 and November 30, 2014 in standby letters of credit under the U.S. Credit Agreement.

SYNEX Canada Limited, or SYNEX Canada, has a revolving line of credit arrangement with a group of financial institutions, or the Canadian Revolving Arrangement, which has a maximum commitment of CAD100.0 million and includes an accordion feature to increase the maximum commitment by an additional CAD25.0 million to CAD125.0 million, at SYNEX Canada’s request. The Canadian Revolving Arrangement also provides a sublimit of \$5.0 million for the issuance of standby letters of credit. There were no letters of credit outstanding as of both May 31, 2015 and November 30, 2014. SYNEX Canada has granted a security interest in substantially all of its assets in favor of the lender under the Canadian Revolving Arrangement. In addition, we pledged our stock in SYNEX Canada as collateral for the Canadian Revolving Arrangement. The interest rate applicable under the Canadian Revolving Arrangement is equal to (i) the Canadian base rate plus a margin of 0.75% for a Base Rate Loan in Canadian Dollars, (ii) the US base rate plus a margin of 0.75% for a Base Rate Loan in U.S. Dollars, and (iii) the Bankers’ Acceptance rate, or BA, plus a margin of 2.00% for a BA Rate Loan. The Canadian base rate means the greater of (a) the prime rate determined by a major Canadian financial institution and (b) the one month Canadian Dealer Offered Rate, or CDOR, (the average rate applicable to Canadian Dollar bankers’ acceptances for the applicable period) plus 1.50%. The US base rate means the greater of (a) a reference rate determined by a major Canadian financial institution for US dollar loans made to Canadian borrowers and (b) the US federal funds rate plus 0.50%. A fee of 0.25% per annum is payable with respect to the unused portion of the commitment. \$8.0 million and \$30.7 million were outstanding under the Canadian Revolving Arrangement as of May 31, 2015 and November 30, 2014, respectively.

SYNEX Canada has a term loan associated with the purchase of its logistics facility in Guelph, Canada. The interest rate for the unpaid principal amount is a fixed rate of 5.374% per annum. The final maturity date for repayment of the unpaid principal is April 1, 2017. The balances outstanding on the term loan as of May 31, 2015 and November 30, 2014 were \$5.4 million and \$6.2 million, respectively.

SYNEX Infotec has a credit agreement with a group of financial institutions for a maximum commitment of JPY14.0 billion. The credit agreement is comprised of a JPY6.0 billion long-term loan and a JPY8.0 billion short-term revolving credit facility. SYNEX Infotec’s obligations under this credit facility are secured by liens on certain of its assets. The interest rate for the long-term and short-term loans is based on the Tokyo Interbank Offered Rate, or TIBOR, plus a margin of 1.40% per annum. The unused line fee on the revolving credit facility was 0.10% per annum. As of May 31, 2015 and November 30, 2014, the balances outstanding under the credit facility were \$68.5 million and \$54.0 million, respectively. The long-term loan can be repaid at any time prior to expiration date without penalty. We have issued a guarantee to cover up to 110% of the outstanding principal amount obligations of SYNEX Infotec to the lenders. This credit facility expires in December 2016.

In September 2013, SYNEX Infotec established a short-term revolving credit facility of JPY2.0 billion with a financial institution. The interest rate for the credit facility is based on TIBOR plus a margin of 0.50% per annum. In addition, there is a facility fee of 0.425% per annum. The credit facility can be renewed annually. As of May 31, 2015 and November 30, 2014, the balances outstanding under this credit facility were \$16.1 million and \$16.9 million, respectively.

SYNEX Infotec has a short-term revolving credit facility of JPY1.0 billion with a financial institution. The credit facility can be renewed annually and bears an interest rate that is based on TIBOR plus a margin of 1.20% per annum. As of



Table of Contents

May 31, 2015 and November 30, 2014, the balances outstanding under the credit facility were \$8.1 million and \$8.4 million, respectively.

As of May 31, 2015 and November 30, 2014, we also had \$4.7 million and \$6.9 million, respectively, in outstanding capital lease obligations and obligations for the sale and financing of approved accounts receivable and notes receivable with recourse provisions to SYNEX Infotec.

Off-Balance Sheet Arrangements

In Japan, we have a factoring program under which trade accounts receivable of certain customers may be sold, without recourse, to financial institutions. Available capacity under these programs is dependent on the level of our trade accounts receivable eligible to be sold into these programs and the financial institutions' willingness to purchase such receivables. At May 31, 2015 and November 30, 2014, we had a total of \$6.8 million and \$6.2 million, respectively, of trade accounts receivable sold to and held by the financial institutions under this program.

We have third-party revolving short-term financing arrangements intended to facilitate the working capital requirements of certain customers. Under these agreements, the financial institutions pay us the selling price of products sold to various customers, less a discount, within approximately 15 to 30 days from the date of sale. We are contingently liable to repurchase inventory sold under flooring agreements in the event of any default by our customers under the agreement and such inventory being repossessed by the financial institutions. There have been no repurchases through May 31, 2015 under these agreements and we are not aware of any pending customer defaults or repossession obligations. As of May 31, 2015 and November 30, 2014, accounts receivable subject to flooring agreements were \$62.0 million and \$93.5 million, respectively. For more information on our third-party revolving short-term financing arrangements, see Note 9 to the Consolidated Financial Statements.

Covenant Compliance

In relation to the U.S. Arrangement, the U.S. Credit Agreement, the Canadian Revolving Arrangement and the SYNEX Infotec credit facility, we have a number of covenants and restrictions that, among other things, require us to comply with certain financial and other covenants. These covenants require us to maintain specified financial ratios and satisfy certain financial condition tests, including leverage and fixed charge coverage ratios. They also limit our ability to incur additional debt, make intercompany loans, pay dividends and make other types of distributions, make certain acquisitions, repurchase our stock, create liens, cancel debt owed to us, enter into agreements with affiliates, modify the nature of our business, enter into sale-leaseback transactions, make certain investments, enter into new real estate leases, transfer and sell assets, cancel or terminate any material contracts and merge or consolidate. As of May 31, 2015, we were in compliance with all material covenants for the above arrangements.

Contractual Obligations

Our contractual obligations consist of future payments due under the above loans, capital leases and operating lease arrangements. The following table summarizes our contractual obligations at May 31, 2015 (prepared on a fiscal year basis with the remaining six months of fiscal 2015 representing the less than 1 year obligations):

	Payments Due by Period				
	Total	Less than 1 Year	1 - 3 Years	3 - 5 Years	> 5 Years
	(in thousands)				
Contractual Obligations:					
Principal debt payments	\$735,680	\$65,094	\$116,137	\$114,836	\$439,613
Interest on debt	88,152	8,077	35,283	34,815	9,977
Non-cancellable capital leases	48	48	—	—	—
Non-cancellable operating leases	260,727	34,125	96,134	62,949	67,519
Total	\$1,084,607	\$107,344	\$247,554	\$212,600	\$517,109

Table of Contents

We, as the ultimate parent, guaranteed the obligations of SYNEX Investment Holdings Corporation up to \$35.0 million in connection with the sale of China Civilink (Cayman), which operated in China as HiChina Web Solutions, to Alibaba.com Limited.

We are contingently liable under agreements to repurchase repossessed inventory acquired by flooring companies as a result of default on a floor plan financing arrangement by our customers. As of May 31, 2015 and November 30, 2014, accounts receivable subject to flooring agreements were \$62.0 million and \$93.5 million, respectively.

Related Party Transactions

We have a business relationship with MiTAC Holdings, a publicly-traded company in Taiwan, which began in 1992 when MiTAC Holdings became our primary investor through its affiliates. As of both May 31, 2015 and November 30, 2014, MiTAC Holdings and its affiliates beneficially owned approximately 25% of our common stock. Matthew Miao, our Chairman Emeritus of the Board of Directors and director, is the Chairman of MiTAC Holdings' and a director or officer of MiTAC Holdings' affiliates.

The shares owned by MiTAC Holdings are held by the following entities:

	As of May 31, 2015 (in thousands)
MiTAC Holdings <sup>(1)</sup>	5,552
Synex Technology International Corp. <sup>(2)</sup>	4,283
Total	9,835

Shares are held via Silver Star Developments Ltd., a wholly-owned subsidiary of MiTAC Holdings. Excludes 373 (1) thousand shares directly held by Matthew Miao and 224 thousand shares indirectly held by Matthew Miao through a charitable remainder trust.

Synex Technology International Corp. ("Synex Technology International") is a separate entity from us and is a publicly-traded corporation in Taiwan. Shares are held via Peer Development Ltd., a wholly-owned subsidiary of Synex Technology International. MiTAC Holdings owns a noncontrolling interest of 8.7% in MiTAC (2) Incorporated, a privately-held Taiwanese company, which in turn holds a noncontrolling interest of 13.6% in Synex Technology International. Neither MiTAC Holdings nor Mr. Miao is affiliated with any person(s), entity, or entities that hold a majority interest in MiTAC Incorporated.

MiTAC Holdings generally has significant influence over us regarding matters submitted to stockholders for consideration, including any merger or acquisition of ours. Among other things, this could have the effect of delaying, deterring or preventing a change of control over us.

We purchased inventories from MiTAC Holdings and their affiliates totaling \$20.5 million and \$44.1 million during the three and six months ended May 31, 2015, respectively, and totaling \$32.6 million and \$51.5 million during the three and six months ended May 31, 2014, respectively. Our sales to MiTAC Holdings, and its affiliates totaled \$0.3 million and \$0.7 million during the three and six months ended May 31, 2015, respectively, and totaled \$1.0 million and \$1.9 million during the three and six months ended May 31, 2014, respectively. In addition, we received reimbursements of rent and overhead costs for facilities used by MiTAC Holdings amounting to \$31,000 and \$62,000 during the three and six months ended May 31, 2015, respectively, and \$29,000 and \$75,000 during the three and six months ended May 31, 2014, respectively.

Our business relationship with MiTAC Holdings and its affiliates has been informal and is not governed by long-term commitments or arrangements with respect to pricing terms, revenue or capacity commitments. We negotiate pricing and other material terms on a case-by-case basis with MiTAC Holdings. While MiTAC Holdings is a related party and a controlling stockholder, we believe that the significant terms under our arrangements with MiTAC Holdings, including pricing, do not materially differ from the terms we could have negotiated with unaffiliated third parties, and we have adopted a policy requiring that material transactions with MiTAC Holdings or its related parties be approved by its Audit Committee, which is composed solely of independent directors. In addition, Matthew Miao's compensation is approved by the Nominating and Corporate Governance Committee, which is also composed solely of independent directors.



Table of Contents

Synnex Technology International is a publicly-traded corporation in Taiwan that currently provides distribution and fulfillment services to various markets in Asia and Australia, and is also our potential competitor. MiTAC Holdings and its affiliates are not restricted from competing with us.

Recent Issued and Adopted Accounting Pronouncements

For a summary of recently issued accounting pronouncements, the anticipated effects on our consolidated financial statements and recently adopted accounting pronouncements, see Note 2 to the Consolidated Financial Statements.

ITEM 3. Quantitative and Qualitative Disclosures about Market Risk

To manage interest rate risk on the U.S. dollar-denominated floating-rate term loan maturing in 2020, the Company entered into interest rate swaps with an aggregate notional amount of \$400 million, which effectively converted the floating rate debt to a fixed interest rate. Notwithstanding the above, there have been no material changes in our quantitative and qualitative disclosures about market risk for the six months ended May 31, 2015 from our Annual Report on Form 10-K for the fiscal year ended November 30, 2014. For further discussion of quantitative and qualitative disclosures about market risk, reference is made to our Annual Report on Form 10-K for the fiscal year then ended.

ITEM 4. Controls and Procedures

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

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

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

Table of Contents

## PART II - OTHER INFORMATION

## ITEM 1A. Risk Factors

There have been no material changes from the risk factors disclosed in Part I, Item 1A of our Annual Report on Form 10-K for the year ended November 30, 2014.

## ITEM 6. Exhibits

Exhibit Number	Description of Document
10.1	Second Amendment to Credit Agreement, dated May 21, 2015, by and among SYNEX Corporation, the subsidiaries of SYNEX Corporation named therein, the lenders signatories thereto from time to time, and Bank of America, N.A., as agent. (incorporated herein by reference to Exhibit 10.1 to SYNEX's Current Report on Form 8-K filed on May 22, 2015).
10.2	Fifth Omnibus Amendment to Fourth Amended and Restated Receivables Funding and Administration Agreement and Third Amended and Restated Receivables Sale and Servicing Agreement, dated as of June 16, 2015, by and among SIT Funding Corporation, SYNEX Corporation, Hyve Solutions Corporation, the lenders party thereto and The Bank of Nova Scotia.
31.1	Rule 13a-14(a) Certification of Chief Executive Officer.
31.2	Rule 13a-14(a) Certification of Chief Financial Officer.
32.1*	Statement of the Chief Executive Officer and Chief Financial Officer under Section 906 of the Sarbanes-Oxley Act of 2002 (18 U.S.C. Section 1350).
101.INS	XBRL Instance Document.
101.SCH	XBRL Taxonomy Extension Schema Document.
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document.
101.DEF	XBRL Taxonomy Extension Definition Linkbase Document.
101.LAB	XBRL Taxonomy Extension Label Linkbase Document.
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document.

---

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

Table of Contents

SIGNATURES

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

Date: July 8, 2015

SYNEX CORPORATION

By: /s/ Kevin M. Murai  
Kevin M. Murai  
President and Chief Executive Officer  
(Duly authorized officer and principal executive officer)

By: /s/ Marshall W. Witt  
Marshall W. Witt  
Chief Financial Officer  
(Duly authorized officer and principal financial officer)

Table of Contents

## EXHIBIT INDEX

Exhibit Number	Description of Document
10.1	Second Amendment to Credit Agreement, dated May 21, 2015, by and among SYNEX Corporation, the subsidiaries of SYNEX Corporation named therein, the lenders signatories thereto from time to time, and Bank of America, N.A., as agent. (incorporated herein by reference to Exhibit 10.1 to SYNEX's Current Report on Form 8-K filed on May 22, 2015).
10.2	Fifth Omnibus Amendment to Fourth Amended and Restated Receivables Funding and Administration Agreement and Third Amended and Restated Receivables Sale and Servicing Agreement, dated as of June 16, 2015, by and among SIT Funding Corporation, SYNEX Corporation, Hyve Solutions Corporation, the lenders party thereto and The Bank of Nova Scotia.
31.1	Rule 13a-14(a) Certification of Chief Executive Officer.
31.2	Rule 13a-14(a) Certification of Chief Financial Officer.
32.1*	Statement of the Chief Executive Officer and Chief Financial Officer under Section 906 of the Sarbanes-Oxley Act of 2002 (18 U.S.C. Section 1350).
101.INS	XBRL Instance Document.
101.SCH	XBRL Taxonomy Extension Schema Document.
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document.
101.DEF	XBRL Taxonomy Extension Definition Linkbase Document.
101.LAB	XBRL Taxonomy Extension Label Linkbase Document.
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document.

---

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