

SYNEX CORP
Form 10-Q
July 08, 2013
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, 2013

OR

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

For the transition period from _____ to _____

Commission File Number: 001-31892

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

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

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

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

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

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

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

Edgar Filing: SYNEX CORP - Form 10-Q

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

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

Class	Outstanding as of June 28, 2013
Common Stock, \$0.001 par value	37,552,538

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, 2013 and November 30, 2012</u>	<u>3</u>
<u>Consolidated Statements of Operations (unaudited) for the Three and Six Months Ended May 31, 2013 and 2012</u>	<u>4</u>
<u>Consolidated Statements of Comprehensive Income (unaudited) for the Three and Six Months Ended May 31, 2013 and 2012</u>	<u>5</u>
<u>Consolidated Statements of Cash Flows (unaudited) for the Six Months Ended May 31, 2013 and 2012</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>38</u>
<u>OTHER INFORMATION</u>	<u>38</u>
Item 1A. <u>Risk Factors</u>	<u>38</u>
Item 2. <u>Unregistered Sales of Equity Securities and Use of Proceeds</u>	<u>51</u>
Item 6. <u>Exhibits</u>	<u>51</u>
<u>Signatures</u>	<u>53</u>
<u>Exhibit</u>	<u>54</u>
<u>Index</u>	<u>54</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, 2013	November 30, 2012
ASSETS		
Current assets:		
Cash and cash equivalents	\$216,386	\$163,699
Short-term investments	14,542	15,933
Accounts receivable, net	1,223,212	1,401,087
Receivable from affiliates	260	285
Inventories	946,737	923,340
Current deferred tax assets	23,396	23,390
Other current assets	66,439	52,727
Total current assets	2,490,972	2,580,461
Property and equipment, net	120,698	122,923
Goodwill	189,044	189,088
Intangible assets, net	27,515	29,049
Deferred tax assets	9,941	619
Other assets	37,764	41,122
Total assets	\$2,875,934	\$2,963,262
LIABILITIES AND EQUITY		
Current liabilities:		
Borrowings under securitization, term loans and lines of credit	\$85,821	\$52,698
Convertible debt	143,750	141,436
Accounts payable	968,818	1,111,833
Accrued liabilities	196,475	181,270
Income taxes payable	425	7,470
Total current liabilities	1,395,289	1,494,707
Long-term borrowings	67,175	81,152
Long-term liabilities	54,288	58,783
Deferred tax liabilities	3,146	9,265
Total liabilities	1,519,898	1,643,907
Commitments and contingencies (Note 17)		
SYNEX Corporation stockholders' equity:		
Preferred stock, \$0.001 par value, 5,000 shares authorized, no shares issued or outstanding	—	—
Common stock, \$0.001 par value, 100,000 shares authorized, 37,642 and 37,348 shares issued as of May 31, 2013 and November 30, 2012, respectively	37	37
Additional paid-in capital	312,598	324,292
Treasury stock, 780 and 720 shares as of May 31, 2013 and November 30, 2012, respectively	(23,646	) (21,611
Accumulated other comprehensive income	21,644	35,405
Retained earnings	1,045,038	980,900

Edgar Filing: SYNEX CORP - Form 10-Q

Total SYNEX Corporation stockholders' equity	1,355,671	1,319,023
Noncontrolling interest	365	332
Total equity	1,356,036	1,319,355
Total liabilities and equity	\$2,875,934	\$2,963,262

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, 2013	May 31, 2012	May 31, 2013	May 31, 2012
Revenue	\$2,591,361	\$2,482,799	\$5,052,200	\$4,943,493
Cost of revenue	(2,436,571	) (2,326,363	) (4,741,323	) (4,617,785
Gross profit	154,790	156,436	310,877	325,708
Selling, general and administrative expenses	(102,826	) (97,115	) (202,973	) (202,399
Income before non-operating items, income taxes and noncontrolling interest	51,964	59,321	107,904	123,309
Interest expense and finance charges, net	(4,863	) (5,519	) (10,356	) (11,554
Other income (expense), net	528	(382	) 1,789	1,717
Income before income taxes and noncontrolling interest	47,629	53,420	99,337	113,472
Provision for income taxes	(16,837	) (18,590	) (35,154	) (39,488
Net income	30,792	34,830	64,183	73,984
Net income attributable to noncontrolling interest	(23	) (456	) (45	) (1,387
Net income attributable to SYNEX Corporation	\$30,769	\$34,374	\$64,138	\$72,597
Earnings per share attributable to SYNEX Corporation:				
Basic	\$0.84	\$0.94	\$1.75	\$1.99
Diluted	\$0.81	\$0.90	\$1.69	\$1.91
Weighted-average common shares outstanding:				
Basic	36,783	36,607	36,724	36,456
Diluted	37,869	38,348	37,950	37,990

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, 2013	May 31, 2012	May 31, 2013	May 31, 2012
Net income	\$30,792	\$34,830	\$64,183	\$73,984
Other comprehensive income (loss):				
Unrealized gains (losses) on available-for-sale securities, net of \$0 tax for both the three and six months ended May 31, 2013 and 2012	(51	) (66	) 188	21
Foreign currency translation adjustments, net of \$0 and \$448 tax for the three and six months ended May 31, 2013, respectively, and net of \$0 tax for both the three and six months ended May 31, 2012, respectively	(2,999	) (10,755	) (13,961	) (4,954
Total other comprehensive loss	(3,050	) (10,821	) (13,773	) (4,933
Comprehensive income:	27,742	24,009	50,410	69,051
Comprehensive income attributable to noncontrolling interest	(19	) (610	) (33	) (1,084
Comprehensive income attributable to SYNEX Corporation	\$27,723	\$23,399	\$50,377	\$67,967

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, 2013	May 31, 2012
Cash flows from operating activities:		
Net income	\$64,183	\$73,984
Adjustments to reconcile net income to net cash provided by (used in) operating activities:		
Depreciation expense	8,269	8,202
Amortization of intangible assets	3,924	4,146
Accretion of convertible notes discount	2,314	2,584
Share-based compensation	4,698	4,225
Provision for doubtful accounts	4,255	1,067
Tax benefits from employee stock plans	1,554	2,736
Excess tax benefit from share-based compensation	(1,765)	(2,691)
Gains on investments	(832)	(1,705)
Changes in assets and liabilities, net of acquisition of businesses:		
Accounts receivable	194,418	174,031
Inventories	(1,036)	96,836
Other assets	(11,160)	(9,140)
Accounts payable	(147,284)	(218,317)
Accrued liabilities	(22,467)	(22,965)
Deferred liabilities	(7,599)	9,376
Net cash provided by operating activities	91,472	122,369
Cash flows from investing activities:		
Purchase of trading investments	(261)	(3,711)
Proceeds from sale of trading investments	3,149	4,886
Proceeds from maturity of (investment in) held-to-maturity term deposits, net	(129)	—
Acquisition of businesses, net of cash acquired	(21,578)	(269)
Purchase of property and equipment	(8,127)	(7,295)
Loans and deposits to third parties, net of payments received	762	635
Proceeds from sale of equity method investments	4,153	3,480
Purchase of cost investment	(1,705)	—
Changes in restricted cash	(441)	12,438
Net cash provided by (used in) investing activities	(24,177)	10,164
Cash flows from financing activities:		
Proceeds from securitization and revolving line of credit	256,038	1,139,537
Payment of securitization and revolving line of credit	(266,825)	(1,231,978)
Payment of long-term bank loans, capital leases and other borrowings	(941)	(1,472)
Excess tax benefit from share-based compensation	1,765	2,691
Decrease in book overdraft	—	(14,288)
Payment of acquisition related contingent consideration	—	(1,052)
Cash paid for repurchase of treasury stock	(1,882)	—
Proceeds from issuance of common stock, net of taxes paid for settlement of equity awards	3,646	7,838
Payment for purchase of shares of subsidiary from noncontrolling interest	(11,400)	(6,046)

Edgar Filing: SYNEX CORP - Form 10-Q

Net cash used in financing activities	(19,599	) (104,770)
Effect of exchange rate changes on cash and cash equivalents	4,991	1,880	
Net increase in cash and cash equivalents	52,687	29,643	
Cash and cash equivalents at beginning of period	163,699	67,571	
Cash and cash equivalents at end of period	\$216,386	\$97,214	

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, 2013 and 2012

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

(unaudited)

NOTE 1—ORGANIZATION AND BASIS OF PRESENTATION:

SYNEX Corporation (together with its subsidiaries, herein referred to as “SYNEX” or the “Company”) is a business process services company offering a comprehensive range of services to resellers, retailers, and original equipment manufacturers (“OEMs”) worldwide. SYNEX’s business process services include wholesale distribution and business process outsourcing (“BPO”) services. SYNEX is headquartered in Fremont, California and has operations in North America, Central America, Asia and Europe.

The accompanying interim unaudited Consolidated Financial Statements as of May 31, 2013 and for the three and six month periods ended May 31, 2013 and 2012 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, 2012 have been derived from the Company’s annual audited financial statements. Certain information and footnote disclosures normally included in financial statements prepared in accordance with generally accepted accounting principles (“GAAP”) in the United States have been condensed or omitted in accordance with such rules and regulations. In the opinion of management, the accompanying unaudited Consolidated Financial Statements reflect all adjustments, consisting only of normal recurring adjustments, necessary to state fairly the financial position of the Company and its results of operations and cash flows as of and for the periods presented. These financial statements should be read in conjunction with the annual audited financial statements and notes thereto as of and for the fiscal year ended November 30, 2012, included in the Company’s Annual Report on Form 10-K for the fiscal year then ended.

The results of operations for the three and six months ended May 31, 2013 are not necessarily indicative of the results that may be expected for the fiscal year ending November 30, 2013, 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, 2012. There have been no material changes to these accounting policies, except as described below. For a discussion of the significant accounting policies, please see the discussion in the Annual Report on Form 10-K for the fiscal year ended November 30, 2012.

Restricted cash

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

The following table summarizes the restricted cash balances as of May 31, 2013 and November 30, 2012 and the location where these amounts are recorded on the Consolidated Balance Sheets:

	As of	
	May 31, 2013	November 30, 2012
Related to borrowing arrangements and others:		
Other current assets	\$25,539	\$23,247
Related to long-term projects:		
Other assets	4,345	6,103
Total restricted cash	\$29,884	\$29,350

Table of Contents

SYNEX CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS---(continued)

For the three and six months ended May 31, 2013 and 2012

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

(unaudited)

Concentration of credit risk

Financial instruments that potentially subject the Company to significant concentration of credit risk consist principally of accounts receivable, and cash and cash equivalents. The Company's cash and cash equivalents are maintained with high quality institutions, the compositions and maturities of which are regularly monitored by management. Through May 31, 2013, the Company had not experienced any losses on such deposits.

Accounts receivable include amounts due from customers and vendors primarily in the technology industry. The Company performs ongoing credit evaluations of its customers' financial condition and limits the amount of credit extended when deemed necessary, but generally requires no collateral. The Company also maintains allowances for potential credit losses. In estimating the required allowances, the Company takes into consideration the overall quality and aging of the receivable portfolio, the existence of a limited amount of credit insurance and specifically identified customer and vendor risks. Through May 31, 2013, such losses have been within management's expectations.

In both the three and six months ended May 31, 2013, one customer accounted for 10% of the Company's total revenue. In the three and six months ended May 31, 2012, 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 32% for both the three and six months ended May 31, 2013 and 36% of the total revenue for both the three and six months ended May 31, 2012, respectively.

As of May 31, 2013, no customer exceeded 10% of the total consolidated accounts receivable balance. As of November 30, 2012, one customer accounted for 10% of the consolidated accounts receivable balance.

Revenue recognition

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

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

The Company's operation in Mexico primarily focuses on projects with the Mexican government and other local agencies that are long-term in nature. Under the agreements, the Company sells computers and equipment to contractors that provide services to the Mexican government. The Company also sells computer equipment and services directly to the Mexican government. The payments are due on a monthly basis and contingent upon the satisfactory performance of certain services, fulfillment of certain obligations and meeting certain conditions. The Company recognizes revenue and cost of revenue on a straight-line basis over the term of the contract, as the contingencies are satisfied and payments become due.

Earnings per common share

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

Earnings per common share-diluted is computed by adding the dilutive effect of in-the-money employee stock options, restricted stock awards, restricted stock units and similar equity instruments granted by the Company to the

basic weighted-average number of outstanding common shares. The Company uses the treasury stock method, under which, the amount the employee must pay for exercising stock options, the amount of compensation cost for future services that the Company has not yet recognized and the amount of tax benefits that would be recorded in "Additional paid-in capital" when the award becomes deductible are assumed to be used to repurchase shares.

8

Table of Contents

SYNEX CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS---(continued)

For the three and six months ended May 31, 2013 and 2012

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

(unaudited)

It has been the Company's intent to settle the principal amount of the convertible debt in cash; accordingly, the principal amount has been excluded from the determination of diluted earnings per share. On April 18, 2013, the Company decided to settle the payment of the conversion spread in cash as discussed in Note 11—Convertible Debt. Through April 18, 2013, the Company accounted for the conversion spread using the treasury stock method by adjusting the diluted weighted average common shares if the effect was dilutive. From April 18, 2013, the numerator for the computation of earnings per common share-diluted will be adjusted for any changes in the fair value of the conversion spread until the final settlement date. For the three and six months ended May 31, 2013, since the effect was anti-dilutive, there was no impact on the numerator of earnings per common share-diluted.

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

Reclassifications

Certain reclassifications have been made to prior period amounts in the Consolidated Statements of Cash Flows to conform to current period presentation. Such reclassifications have no effect on the cash flow from operating, investing and financing activities as previously reported.

Recent accounting pronouncements

In February 2013, the Financial Accounting Standards Board ("FASB") issued an accounting update which requires companies to provide information about the amounts reclassified out of accumulated other comprehensive income by component. In addition, an entity is required to present significant amounts reclassified out of accumulated other comprehensive income but only if the amount reclassified is required under U.S. GAAP to be reclassified to net income in its entirety in the same reporting period. The amendments are effective prospectively for reporting periods beginning after December 15, 2012 with early adoption permitted. The accounting update will be applicable to the Company in the first quarter of fiscal year 2014.

In March 2013, the FASB issued an accounting update that clarifies the applicable guidance for the release of the cumulative translation adjustment when an entity ceases to have a controlling financial interest in a subsidiary or a group of assets that is a business within a foreign entity. The guidance clarifies that the accounting for the release of cumulative translation adjustment into net income for sales or transfers of a controlling financial interest within a foreign entity is the same irrespective of whether the sale or transfer is of a subsidiary or a group of assets that is a business. The accounting update is applicable for fiscal years and interim reporting periods within those years beginning after December 15, 2013 with early adoption permitted. The accounting update will be applicable for the Company in the second quarter of fiscal year 2014.

During fiscal year 2013, the following accounting standards were adopted:

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

NOTE 3—ACQUISITIONS AND DIVESTITURES:

Fiscal year 2013 acquisitions

In April 2013, the Company acquired substantially all of the assets of Supercom Canada Limited ("Supercom Canada"), a distributor of information technology ("IT") and consumer electronics products and services in Canada. The purchase price was approximately CAD36,500, or US\$35,599, in cash, including CAD4,450, or US\$4,340, in deferred payments, subject to certain post-closing conditions, payable within 18 months. Subsequent to the acquisition, the Company repaid debt and working capital lines in the amount of \$53,721. Based on the preliminary purchase allocation, the Company recorded net tangible assets of \$26,946, goodwill of \$5,852 and intangible assets of \$3,901 in relation to this acquisition. The determination of the fair value of the assets and liabilities acquired is

preliminary and subject to the finalization of more detailed analysis. This acquisition did not meet the conditions of a material business combination and was not subject to the disclosure requirements of accounting guidance for business combinations utilizing the purchase method of accounting. The acquisition is integrated into the distribution services segment and is expected to expand the Company's existing product and service offerings in Canada.

Table of Contents

SYNEX CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS---(continued)

For the three and six months ended May 31, 2013 and 2012

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

(unaudited)

Fiscal year 2012 acquisitions and divestitures

In fiscal year 2012, the Company purchased all the shares of its subsidiary SYNEX Infotec Corporation ("Infotec Japan") held by the noncontrolling interest SB Pacific Corporation Limited ("SB Pacific") for \$17,450, of which \$11,400 was paid during the six months ended May 31, 2013. The transaction increased the Company's ownership interest in Infotec Japan from 70.0% to 99.8%. In fiscal year 2012, the Company also sold its 33.3% noncontrolling interest in SB Pacific, its equity-method investee at that time, back to SB Pacific. During the six months ended May 31, 2013, the Company received the final payment of \$4,153 of the sale price.

In fiscal year 2012, the Company acquired a business in the Global Business Services ("GBS") segment for a purchase price of \$6,200 with \$1,200 payable upon the completion of certain post-closing procedures and \$1,300 contingent consideration payable upon the achievement of certain target earnings. The Company recorded goodwill of \$6,150 in relation to this acquisition. This acquisition did not meet the conditions of a material business combination and was not subject to the disclosure requirements of accounting guidance for business combinations utilizing the purchase method of accounting.

NOTE 4—SHARE-BASED COMPENSATION:

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

The Company uses the Black-Scholes valuation model to estimate fair value of stock options. The Black-Scholes option-pricing model was developed for use in estimating the fair value of short-lived exchange traded options that have no vesting restrictions and are fully transferable. In addition, option-pricing models require the input of highly subjective assumptions, including the option's expected life and the price volatility of the underlying stock. The expected stock price volatility assumption was determined using historical volatility of the Company's common stock. The following table summarizes the number of share-based awards granted under the Company's Amended and Restated 2003 Stock Incentive Plan, as amended, during the three and six months ended May 31, 2013 and 2012 and the grant-date fair value of the awards:

	Three Months Ended				Six Months Ended			
	May 31, 2013		May 31, 2012		May 31, 2013		May 31, 2012	
	Number of grants	Fair value of grants	Number of grants	Fair value of grants	Number of grants	Fair value of grants	Number of grants	Fair value of grants
Stock options	—	—	20	301	—	—	20	301
Restricted stock awards	36	1,275	32	1,196	38	1,329	36	1,350
Restricted stock units	8	268	46	1,964	106	3,736	46	1,964
	44	\$1,543	98	\$3,461	144	\$5,065	102	\$3,615

The Company recorded share-based compensation expenses of \$2,215 and \$4,698 in "Selling, general and administrative expenses" for the three and six months ended May 31, 2013, respectively, and \$2,216 and \$4,225 for the three and six months ended May 31, 2012, respectively.

Table of Contents

SYNEX CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS---(continued)

For the three and six months ended May 31, 2013 and 2012

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

(unaudited)

NOTE 5—BALANCE SHEET COMPONENTS:

	As of		
	May 31, 2013		November 30, 2012
Short-term investments:			
Trading securities	\$4,196		\$5,709
Available-for-sale securities	45		44
Held-to-maturity securities	8,557		8,297
Cost method investments	1,744		1,883
	\$14,542		\$15,933
	As of		
	May 31, 2013		November 30, 2012
Accounts receivable, net:			
Accounts receivable	\$1,278,954		\$1,461,796
Less: Allowance for doubtful accounts	(19,247)		(18,229)
Less: Allowance for sales returns	(36,495)		(42,480)
	\$1,223,212		\$1,401,087
	As of		
	May 31, 2013		November 30, 2012
Property and equipment, net:			
Land	\$19,320		\$18,699
Equipment and computers	101,947		101,994
Furniture and fixtures	20,569		21,373
Buildings and leasehold improvements	103,154		101,848
Construction in progress	1,729		1,804
Total property and equipment, gross	246,719		245,718
Less: Accumulated depreciation	(126,021)		(122,795)
	\$120,698		\$122,923
Goodwill:			
	Distribution	GBS	Total
Balance as of November 30, 2012	\$105,860	\$83,228	\$189,088
Additions from acquisitions, net of adjustments	6,088	123	6,211
Foreign exchange translation	(5,026)	(1,229)	(6,255)
Balance as of May 31, 2013	\$106,922	\$82,122	\$189,044

The additions to "Goodwill" recorded during the six months ended May 31, 2013 relate primarily to the acquisition of Supercom Canada in the distribution segment and adjustments for the purchase price allocation for a prior period acquisition in the GBS segment.

Table of Contents

SYNEX CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS---(continued)

For the three and six months ended May 31, 2013 and 2012

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

(unaudited)

Intangible assets, net:

	As of May 31, 2013			As of November 30, 2012		
	Gross Amounts	Accumulated Amortization	Net Amounts	Gross Amounts	Accumulated Amortization	Net Amounts
Vendor lists	\$36,940	\$(29,473)	) \$7,467	\$36,945	\$(28,684)	) \$8,261
Customer lists	51,883	(32,362)	) 19,521	50,406	(30,360)	) 20,046
Other intangible assets	4,888	(4,361)	) 527	4,962	(4,220)	) 742
	\$93,711	\$(66,196)	) \$27,515	\$92,313	\$(63,264)	) \$29,049

Amortization expenses were \$1,971 and \$3,924 for the three and six months ended May 31, 2013, respectively, and \$2,071 and \$4,146 for the three and six months ended May 31, 2012, respectively.

NOTE 6—INVESTMENTS:

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

	May 31, 2013			November 30, 2012		
	Cost Basis	Unrealized Gains	Carrying Value	Cost Basis	Unrealized Gains	Carrying Value
Short-term:						
Trading securities	\$3,688	\$508	\$4,196	\$5,636	\$73	\$5,709
Available-for-sale securities	—	45	45	—	44	44
Held-to-maturity investments	8,557	—	8,557	8,297	—	8,297
Cost method securities	1,744	—	1,744	1,883	—	1,883
	\$13,989	\$553	\$14,542	\$15,816	\$117	\$15,933
Long-term investments in other assets:						
Available-for-sale securities	\$915	\$176	\$1,091	\$1,095	\$22	\$1,117
Cost-method investments	4,983	—	4,983	3,313	—	3,313

Short-term trading securities generally consist of equity securities relating to the Company's deferred compensation plan. Short-term and long-term available-for-sale securities primarily consist of investments in other companies' equity securities. Held-to-maturity investments primarily consist of term deposits with maturities from the date of purchase greater than three months and less than one year. These term deposits are held until the maturity date and are not traded. Short-term cost-method securities primarily consist of investments in a hedge fund and a private equity fund under the Company's deferred compensation plan. 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 the cost-method investments is based on (i) the published fund values, (ii) a valuation model developed internally based on the published value of the securities held by the fund or (iii) an internal valuation of the investee.

The following table summarizes the total gains and losses recorded in "Other income, net" in the Consolidated Statements of Operations for changes in the fair value of the Company's trading investments during the three and six months ended May 31, 2013 and 2012:

Three Months Ended		Six Months Ended	
May 31, 2013	May 31, 2012	May 31, 2013	May 31, 2012

Edgar Filing: SYNEX CORP - Form 10-Q

Gain on trading investments, net	\$671	\$25	\$1,240	\$1,114
----------------------------------	-------	------	---------	---------

12

Table of Contents

SYNEX CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS---(continued)

For the three and six months ended May 31, 2013 and 2012

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

(unaudited)

NOTE 7—DERIVATIVE INSTRUMENTS:

In the ordinary course of business, the Company is exposed to foreign currency risk, interest risk, equity risk and credit risk. The Company's transactions in some of its foreign operations are denominated in local currency. The Company's foreign locations enter into transactions, and own monetary assets and liabilities, that are denominated in currencies other than their functional currency. As part of its risk management strategy, the Company uses short-term forward contracts to minimize its balance sheet exposure to foreign currency risk. These derivatives 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. Generally, the Company does not use derivative instruments to cover equity risk and credit risk. The Company's policy is not to allow the use of derivatives for trading or speculative purposes. The fair value of the Company's forward exchange contracts are also disclosed in Note 8.

The following table summarizes the fair value of the Company's foreign exchange forward contracts as of May 31, 2013 and November 30, 2012:

Location	Fair Value as of	
	May 31, 2013	November 30, 2012
Other current assets	\$2,487	\$1,292
Accrued liabilities	215	—

The notional amounts of the foreign exchange forward contracts that were outstanding as of May 31, 2013 and November 30, 2012 were \$175,227 and \$128,518, respectively. The notional amounts represent the gross amounts of foreign currency that will be bought or sold at maturity. In relation to its forward contracts, the Company recorded gains of \$3,052 and \$6,480 in "Other income (expense), net" during the three and six months ended May 31, 2013, respectively, and gains of \$2,324 and \$1,368, during the three and six months ended May 31, 2012, respectively.

NOTE 8—FAIR VALUE MEASUREMENTS:

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

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

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

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

Table of Contents

SYNEX CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS---(continued)

For the three and six months ended May 31, 2013 and 2012

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

(unaudited)

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

	As of May 31, 2013				As of November 30, 2012			
	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	\$ 118,518	\$ 118,518	\$—	\$—	\$ 95,074	\$ 95,074	\$—	\$—
Trading securities	4,196	4,196	—	—	5,709	5,709	—	—
Available-for-sale securities in short-term investments	45	45	—	—	44	44	—	—
Available-for-sale securities in other assets	1,091	1,091	—	—	1,117	1,117	—	—
Forward foreign currency exchange contracts	2,487	—	2,487	—	1,292	—	1,292	—
Liabilities:								
Forward foreign currency exchange contracts	\$ 215	\$—	\$ 215	\$—	\$—	\$—	\$—	\$—
Acquisition-related contingent consideration	2,070	—	—	2,070	2,611	—	—	2,611

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. The carrying value of the cash equivalents approximates the fair value since they are near their maturity. Investments in trading and available-for-sale securities consist of equity securities and are recorded at fair value based on quoted market prices. The fair values of forward exchange contracts are measured based on the foreign currency spot and forward rates quoted by the banks or foreign currency dealers. The acquisition-related contingent consideration liability represents the future potential earn-out payments relating to the acquisitions in the GBS segment. The fair values of the contingent consideration liabilities are based on the Company's probability assessment of the established profitability measures during the periods ranging from one year to three years from the date of the acquisitions. During the three and six months ended May 31, 2013, the fair value of the contingent consideration liability was remeasured and the resulting decrease of \$142 and \$447, respectively, were recorded as a benefit to "Selling, general and administrative expenses" in the Consolidated Statements of Operations. The change in the fair value was due to updated estimates of expected revenue and gross profit related to the achievement of established earn-out targets. The remaining change in the carrying value of the liability is due to the translation effect of foreign currencies.

The carrying value of held-to-maturity securities, accounts receivable, accounts payable and short-term debt, approximate fair value due to their short maturities and the 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. The convertible debt had a carrying value of \$143,750 and \$141,436 as of May 31, 2013 and November 30, 2012, respectively. The fair value of the convertible debt was \$167,735 as of November 30, 2012, which is based on the closing price of the convertible debt traded in a limited trading market and is categorized as level 2 in the fair value measurement category levels. On April 16, 2013, the Company called all of the outstanding convertible debt, as a result, the financial instrument was no longer traded. The Company gave notice to the converting noteholders that it will settle all of the convertible debt in cash. The final settlement of amounts due upon conversion of the convertible

debt will be made during the three months ending August 31, 2013.

During the three and six months ended May 31, 2013, 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 Company can finance up to a maximum of \$400,000 in U.S. trade accounts receivable (“U.S. Receivables”). The maturity date of the U.S. Arrangement is October 18, 2015. The effective borrowing cost under the U.S.

Table of Contents

SYNEX CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS---(continued)

For the three and six months ended May 31, 2013 and 2012

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

(unaudited)

Arrangement is a blend of the prevailing dealer commercial paper rates plus a program fee of 0.425% per annum based on the used portion of the commitment, and a facility fee of 0.425% per annum payable on the aggregate commitment of the lenders. As of both May 31, 2013 and November 30, 2012 there were no borrowings outstanding under the U.S. Arrangement.

Under the terms of the U.S. Arrangement, the Company sells, on a revolving basis, its U.S. Receivables to a wholly-owned, bankruptcy-remote subsidiary. The borrowings by this subsidiary are secured by pledging all of such subsidiary's rights, title and interest in and to the U.S. Receivables as security for repayment of its borrowings. 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. 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 the Company directly on behalf of the customer and typically charge certain fees which the Company records as flooring fees. The Company is contingently liable to repurchase inventory sold under flooring agreements in the event of any default by its customers under the agreement and such inventory being repossessed by the Flooring Companies. Please see Note 17—Commitments and Contingencies for further information.

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

	Three Months Ended		Six Months Ended	
	May 31, 2013	May 31, 2012	May 31, 2013	May 31, 2012
Net sales financed	\$219,602	\$202,933	\$405,937	\$373,825
Flooring fees ⁽¹⁾	1,217	1,173	2,444	2,195

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

As of May 31, 2013 and November 30, 2012, accounts receivable subject to flooring agreements were \$58,641 and \$55,963, respectively.

Infotec Japan has arrangements with various banks and financial institutions for the sale and financing of approved accounts receivable and notes receivable. The amount outstanding under these arrangements that was sold, but not collected as of May 31, 2013 and November 30, 2012 was \$14,783 and \$11,233, respectively.

NOTE 10—BORROWINGS:

Borrowings consist of the following:

	As of	
	May 31, 2013	November 30, 2012
Convertible debt	\$143,750	\$141,436
SYNEX Canada revolving line of credit	18	—
SYNEX Canada term loan	7,946	8,648
Infotec Japan credit facility	134,355	111,542
Other borrowings and capital leases	10,677	13,660

Edgar Filing: SYNEX CORP - Form 10-Q

Total borrowings	296,746	275,286	
Less: Current portion	(229,571)	(194,134))
Non-current portion	\$67,175	\$81,152)

15

Table of Contents

SYNEX CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS---(continued)

For the three and six months ended May 31, 2013 and 2012

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

(unaudited)

Convertible debt

In May 2008, the Company issued \$143,750 of aggregate principal amount of its 4.0% Convertible Senior Notes due 2018 (the "Convertible Senior Notes") in a private placement. The carrying amount of the Convertible Senior Notes, net of the unamortized debt discount, was \$143,750 and \$141,436 as of May 31, 2013 and November 30, 2012, respectively. See Note 11—Convertible Debt.

SYNEX U.S. securitization

The Company can finance up to a maximum of \$400,000 in U.S. Receivables under its U.S. Arrangement. See Note 9—Accounts Receivable Arrangements. The effective borrowing cost under the U.S. Arrangement is a blend of the prevailing dealer commercial paper rates, plus a program fee on the used portion of the commitment and a facility fee payable on the aggregate commitment. As of both May 31, 2013 and November 30, 2012 there were no borrowings outstanding under the U.S. Arrangement.

SYNEX U.S. senior secured revolving line of credit

The Company has a senior secured revolving line of credit arrangement (the "Revolver") with a financial institution which provides a maximum commitment of \$100,000 which expires in October 2017. The Revolver includes an accordion feature to increase the maximum commitment by an additional \$50,000 to \$150,000 at the Company's request, in the event the current lender consents to such increase or another lender participates in the Revolver. Interest on borrowings under the Revolver is based on a base rate or London Interbank Offered Rate ("LIBOR"), at the Company's option. The margin on the LIBOR is determined in accordance with the Company's fixed charge coverage ratio and is currently 1.50% per annum. The Company's base rate is based on the financial institution's prime rate. The Revolver also contains an unused line fee of 0.30% per annum. The Revolver is secured by the Company's inventory and other assets. It would be an event of default under the Revolver if a lender under the U.S. Arrangement declines to extend the maturity date at any point within thirty days prior to the maturity date of the U.S. Arrangement, unless the Company has a binding commitment in place to renew or replace the U.S. Arrangement. There is no event of default if within the thirty day period prior to maturity of the Revolver: (a) borrowing availability exceeds 90% of the commitment amount and (b) the fixed charge coverage ratio, when measured at the end of the fiscal quarter on a trailing four quarter basis, is greater than or equal to 1.75 to 1.00. There were no borrowings outstanding under this credit arrangement as of both May 31, 2013 and November 30, 2012.

SYNEX Canada revolving line of credit

SYNEX Canada Limited ("SYNEX Canada") has a revolving line of credit arrangement with a financial institution (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 May 31, 2013 and November 30, 2012, outstanding standby letters of credit totaled \$3,323 and \$3,447, respectively. SYNEX Canada has granted a security interest in substantially all of its assets in favor of the lender under the Canadian Revolving Arrangement. In addition, the Company pledged its stock in SYNEX Canada as collateral for the Canadian Revolving Arrangement. The 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. As of May 31, 2013, there was \$18 outstanding under the Canadian Revolving Arrangement. There was no borrowing outstanding as of November 30, 2012.

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.

Table of Contents

SYNEX CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS---(continued)

For the three and six months ended May 31, 2013 and 2012

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

(unaudited)

Infotec Japan credit facility

Infotec Japan 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 long-term loan and a JPY8,000,000 short-term revolving credit facility. The credit agreement was refinanced in December 2012, to increase the short-term revolving credit facility to JPY8,000,000 from JPY4,000,000. The interest rate for the long-term and short-term loans is based on the Tokyo Interbank Offered Rate ("TIBOR") plus a margin of 1.90% per annum. The refinanced credit facility expires in December 2015. The long-term loan can be repaid at any time prior to December 2015 without penalty. The Company has issued a guarantee to cover all obligations of Infotec Japan to the lenders.

Other borrowings and capital leases

Infotec Japan has a short-term revolving credit facility of JPY1,000,000 with a financial institution. The credit facility was renewed for one year in March 2013 and bears an interest rate that is based on TIBOR plus a margin of 1.60% per annum. As of May 31, 2013 and November 30, 2012, the balances outstanding under this credit facility were \$9,953 and \$12,124, respectively. In addition, as of November 30, 2012, Infotec Japan had a term loan with a financial institution with a balance of \$424, which was repaid in December 2012 and bore a fixed interest rate of 1.50%. As of May 31, 2013 and November 30, 2012, the Company also had \$724 and \$1,112, respectively, outstanding in capital lease obligations primarily pertaining to Infotec Japan and under arrangements with various banks and financial institutions for the sale and financing of approved accounts receivable and notes receivable with recourse provisions to Infotec Japan.

Interest expense and finance charges

For the three and six months ended May 31, 2013, the total interest expense and finance charges for the Company's borrowings were \$5,757 and \$12,313, respectively, including non-cash interest expenses of \$926 and \$2,314, respectively, for the Convertible Senior Notes. For the three and six months ended May 31, 2012, the total interest expense and finance charges for the Company's borrowings were \$7,043 and \$13,997, respectively, including non-cash interest expenses of \$1,301 and \$2,585, respectively, for the Convertible Senior Notes. The variable interest rates ranged between 0.67% and 3.43% and 0.67% and 3.53%, respectively, during the three and six months ended May 31, 2013 and between 0.87% and 4.24% during both the three and six months ended May 31, 2012.

Covenants compliance

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

Guarantees

The Company has issued guarantees to certain vendors and lenders of its subsidiaries for trade credit lines and loans to ensure compliance with subsidiary sales agreements. In addition, the Company, as the ultimate parent, guaranteed the obligations of SYNEX Investment Holdings Corporation up to \$35,035 in connection with the December 2009 sale of China Civilink (Cayman), which operated in China as HiChina Web Solutions, to Alibaba.com Limited. The total guarantees issued by the Company as of May 31, 2013 and November 30, 2012 were \$327,981 and \$264,162,

respectively. The Company is obligated under these guarantees to pay amounts due should its subsidiaries not pay valid amounts owed to their vendors or lenders or not comply with subsidiary sales agreements.

Table of Contents

SYNEX CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS---(continued)

For the three and six months ended May 31, 2013 and 2012

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

(unaudited)

NOTE 11—CONVERTIBLE DEBT:

	As of	
	May 31, 2013	November 30, 2012
Principal amount	\$ 143,750	\$ 143,750
Less: Unamortized debt discount	—	(2,314)
Net carrying amount	\$ 143,750	\$ 141,436

In May 2008, the Company issued \$143,750 of aggregate principal amount of the Convertible Senior Notes in a private placement. The Convertible Senior Notes had a cash coupon interest rate of 4.0% per annum with a maturity date of May 15, 2018, subject to earlier redemption, repurchase or conversion. Interest on the Convertible Senior Notes was payable in cash semi-annually in arrears on May 15 and November 15 of each year, and commenced on November 15, 2008. The Convertible Senior Notes were senior unsecured obligations of the Company and ranked equally in right of payment with other senior unsecured debt and ranked senior to subordinated debt, if any. The Convertible Senior Notes effectively ranked junior to any of the Company's secured indebtedness to the extent of the assets securing such indebtedness. The Convertible Senior Notes were also structurally subordinated in right of payment to all indebtedness and other liabilities and commitments (including trade payables) of the Company's subsidiaries.

The Convertible Senior Notes are governed by an indenture, dated as of May 12, 2008, between U.S. Bank National Association, as trustee, and the Company (the "Indenture"), which contains customary events of default. Holders could convert their Convertible Senior Notes at their option at any time prior to the close of business on the business day immediately preceding the maturity date for such Convertible Senior Notes under the following circumstances: (1) during any fiscal quarter after the fiscal quarter ended August 31, 2008 (and only during such fiscal quarter), if the last reported sale price of the Company's common stock for at least twenty trading days in the period of thirty consecutive trading days ending on the last trading day of the immediately preceding fiscal quarter is equal to or more than 130% of the conversion price of the Convertible Senior Notes on the last day of such preceding fiscal quarter; (2) during the five business-day period after any five consecutive trading-day period (the "Measurement Period") in which the trading price per \$1 principal amount of the Convertible Senior Notes for each day of that Measurement Period was less than 98% of the product of the last reported sale price of the common stock and the conversion rate of the Convertible Senior Notes on each such day; (3) if the Company has called the particular Convertible Senior Notes for redemption, until the close of business on the business day prior to the redemption date; or (4) upon the occurrence of certain corporate transactions. On April 16, 2013, the Company announced that holders had the right to surrender their Convertible Senior Notes for repurchase by the Company pursuant to their option (the "Put Option") under the Indenture. The Put Option entitled each holder of the Convertible Senior Notes to require the Company to repurchase all or a portion (in principal amount equal to \$1 or integral multiples thereof) of such holder's Convertible Senior Notes at a purchase price (the "Repurchase Price") equal to 100% of the principal amount of the Convertible Senior Notes plus any accrued and unpaid interest up to, but not including, May 15, 2013 upon the terms and subject to the conditions set forth in the Indenture and the Convertible Senior Notes. No Convertible Senior Notes were surrendered for repurchase pursuant to the Put Option.

In addition, the Company announced on April 16, 2013 that it would redeem all of the outstanding Convertible Senior Notes on May 20, 2013 (the "Redemption Date") at a redemption price equal to 100% of the principal amount of the Convertible Senior Notes redeemed plus any accrued and unpaid interest (including any contingent interest) up to, but not including, the Redemption Date, as provided for in the Indenture and the Convertible Senior Notes. As of May 17, 2013, all of the outstanding Convertible Senior Notes were converted and, accordingly, none were redeemed on the

Redemption Date.

The conversion rate for the Convertible Senior Notes was 33.9945 shares of common stock per \$1 principal amount of Convertible Senior Notes, equivalent to an initial conversion price of \$29.42 per share of common stock. The Convertible Senior Notes were convertible at the option of the Company into cash, shares of Common Stock or a combination of cash and shares of Common Stock in accordance with and subject to the terms of the Indenture and the Convertible Senior Notes. The Company gave notice to the converting noteholders that it will settle all of the Convertible Senior Notes in cash.

As of May 31, 2013, the Company recorded an estimated liability of \$35,646 for the difference between the conversion value of the Convertible Senior Notes and the principal amount of the Convertible Senior Notes (the "Conversion Spread") by adjusting "Additional paid-in-capital." The final settlement amount due will be calculated in accordance with the

Table of Contents

SYNEX CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS---(continued)

For the three and six months ended May 31, 2013 and 2012

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

(unaudited)

Indenture based on the volume weighted-average trading price of the Company's common stock over the 60 consecutive trading-day period beginning on and including the third trading day after the related conversion date. The payments will be made in the third quarter of fiscal year 2013.

The Company maintains within its U.S. Arrangement and Revolver ongoing features that allow the Company to utilize cash from these facilities to cash settle conversions of the Convertible Senior Notes.

Based on a cash coupon interest rate of 4.0%, the Company recorded contractual interest expense of \$1,387 and \$3,010 during the three and six months ended May 31, 2013, respectively, and \$1,624 and \$3,248 during the three and six months ended May 31, 2012, respectively. Based on an effective rate of 8.0%, the Company recorded non-cash interest expenses of \$926 and \$2,314, respectively, during the three and six months ended May 31, 2013 and \$1,301 and \$2,585, respectively, during the three and six months ended May 31, 2012. As of both May 31, 2013 and November 30, 2012, the carrying value of the initial equity component of the Convertible Senior Notes, net of allocated issuance costs, was \$22,836.

NOTE 12—EARNINGS PER COMMON SHARE:

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

	Three Months Ended		Six Months Ended	
	May 31, 2013	May 31, 2012	May 31, 2013	May 31, 2012
Net income attributable to SYNEX Corporation	\$30,769	\$34,374	\$64,138	\$72,597
Weighted-average common shares - basic	36,783	36,607	36,724	36,456
Effect of dilutive securities:				
Stock options, restricted stock awards and restricted stock units	529	641	524	638
Conversion spread of convertible debt	557	1,100	702	896
Weighted-average common shares - diluted	37,869	38,348	37,950	37,990
Earnings per share attributable to SYNEX Corporation:				
Basic	\$0.84	\$0.94	\$1.75	\$1.99
Diluted	\$0.81	\$0.90	\$1.69	\$1.91

It has been the Company's intent to settle the principal amount of the Convertible Senior Notes in cash; accordingly, the principal amount has been excluded from the determination of diluted earnings per share. On April 18, 2013, the Company decided to settle the payment of the conversion spread in cash as discussed in Note 11—Convertible Debt. Through April 18, 2013, the Company accounted for the conversion spread using the treasury stock method by adjusting the diluted weighted average common shares if the effect was dilutive. From April 18, 2013, the numerator for the computation of earnings per common share-diluted will be adjusted for any dilutive changes in the fair value of the conversion spread until the final settlement date. For the three and six months ended May 31, 2013, fair value of the conversion spread decreased \$1,981 and therefore was excluded from the computation of diluted earnings per common share since the effect was anti-dilutive.

Options to purchase 14 and 16 shares of common stock during the three and six months ended May 31, 2013, respectively, and 3 and 5 shares during the three and six months ended May 31, 2012, respectively, have not been included in the computation of diluted earnings per share as their effect would have been anti-dilutive.

NOTE 13—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.

Table of Contents

SYNEX CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS---(continued)

For the three and six months ended May 31, 2013 and 2012

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

(unaudited)

The distribution services segment distributes IT systems, peripherals, system components, software, networking equipment, consumer electronics ("CE") and complementary products and offers data center server and storage solutions. The distribution services segment also provides contract assembly services.

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

Summarized financial information related to the Company's reportable business segments for the three and six months ended May 31, 2013 and 2012 is shown below:

	Distribution	GBS	Inter-Segment Elimination	Consolidated
Three months ended May 31, 2013				
Revenue	\$2,544,709	\$55,050	\$ (8,398)	\$2,591,361
Income from operations before non-operating items, income taxes and noncontrolling interest	47,747	4,352	(135)	51,964
Three months ended May 31, 2012				
Revenue	2,442,963	47,714	(7,878)	2,482,799
Income from operations before non-operating items, income taxes and noncontrolling interest	56,387	2,578	356	59,321
Six months ended May 31, 2013				
Revenue	\$4,961,613	\$107,533	\$ (16,946)	\$5,052,200
Income from operations before non-operating items, income taxes and noncontrolling interest	99,809	8,250	(155)	107,904
Six months ended May 31, 2012				
Revenue	4,866,227	92,776	(15,510)	4,943,493
Income from operations before non-operating items, income taxes and noncontrolling interest	118,752	4,570	(13)	123,309
Total assets as of May 31, 2013	\$2,761,136	\$311,125	\$ (196,327)	\$2,875,934
Total assets as of November 30, 2012	2,848,689	316,993	(202,420)	2,963,262

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

Segment by geography

The Company primarily operates in North America. The United States and Canada are included in the "North America" operations. China, India, Japan and the Philippines are included in "Asia-Pacific" operations and the remaining countries it operates in are included in "Other" operations. The revenues attributable to countries are based on geography of entities from where the products are distributed or services are provided.

Table of Contents

SYNEX CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS---(continued)

For the three and six months ended May 31, 2013 and 2012

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

(unaudited)

Shown below is summarized financial information related to the geographic areas in which the Company operated during the three and six months ended May 31, 2013 and 2012:

	Three Months Ended		Six Months Ended	
	May 31, 2013	May 31, 2012	May 31, 2013	May 31, 2012
Revenue:				
North America	\$2,269,339	\$2,126,226	\$4,398,852	\$4,236,065
Asia-Pacific	301,049	333,944	612,673	671,077
Other	20,973	22,629	40,675	36,351
	\$2,591,361	\$2,482,799	\$5,052,200	\$4,943,493
			As of	
			May 31, 2013	November 30, 2012
Property and equipment, net:				
North America			\$85,902	\$87,689
Asia-Pacific			20,569	22,782
Other			14,227	12,452
			\$120,698	\$122,923

Revenue in the United States was approximately 74% of the total revenue for both the three and six months ended May 31, 2013, and 72% and 71% of the total revenue for the three and six months ended May 31, 2012, respectively. Revenue in Canada was approximately 14% and 13% of total revenue for the three and six months ended May 31, 2013, respectively and 14% for both the three and six months ended May 31, 2012. Revenue in Japan was approximately 11% of the total revenue for both the three and six months ended May 31, 2013, respectively and 13% of the total revenue for both the three and six months ended May 31, 2012.

Net property and equipment in the United States was approximately 57% of the total as of both May 31, 2013 and November 30, 2012. Net property and equipment in Canada was approximately 14% of the total as of both May 31, 2013 and November 30, 2012. No other country represented more than 10% of the total net property and equipment.

NOTE 14—RELATED PARTY TRANSACTIONS:

The Company has a business relationship with MiTAC International Corporation ("MiTAC International"), a publicly-traded company in Taiwan, which began in 1992 when MiTAC International became the Company's primary investor through its affiliates. As of both May 31, 2013 and November 30, 2012, MiTAC International and its affiliates beneficially owned approximately 27% 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 International and a director or officer of MiTAC International's affiliates. The shares owned by MiTAC International are held by the following entities:

	As of May 31, 2013
MiTAC International ⁽¹⁾	5,908
Synnex Technology International Corp. ⁽²⁾	4,283
Total	10,191

Shares are held via Silver Star Developments Ltd., a wholly-owned subsidiary of MiTAC International. Excludes (1) 594 shares (of which 534 shares are directly held and 60 shares are subject to exercisable options) held by Matthew Miao.

(2) Synnex Technology International Corp. ("Synnex Technology International") is a separate entity from the Company and is a publicly-traded corporation in Taiwan. Shares are held via Peer Development Ltd., a

wholly-owned subsidiary of Synnex Technology International. MiTAC International owns a noncontrolling interest of 8.7% in MiTAC Incorporated, a privately-held Taiwanese company, which in turn holds a noncontrolling interest of 13.6% in Synnex Technology International.

Table of Contents

SYNEX CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS---(continued)

For the three and six months ended May 31, 2013 and 2012

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

(unaudited)

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

The Company purchased inventories from MiTAC International and its affiliates totaling \$139 and \$2,865 during the three and six months ended May 31, 2013, respectively, and \$738 and \$979 during the three and six months ended May 31, 2012, respectively. The Company's sales to MiTAC International and its affiliates during the three and six months ended May 31, 2013, totaled \$280 and \$575, respectively, and during the three and six months ended May 31, 2012, totaled \$1,089 and \$2,223, respectively. In addition, the Company received reimbursements of rent and overhead costs for facilities used by MiTAC International amounting to \$793 and \$1,724, during the three and six months ended May 31, 2013, respectively, and \$926 and \$1,872, during the three and six months ended May 31, 2012, respectively.

The Company's business relationship with MiTAC International has been informal and is not governed by long-term commitments or arrangements with respect to pricing terms, revenue or capacity commitments. The Company negotiates manufacturing, pricing and other material terms on a case-by-case basis with MiTAC International and its contract assembly customers for a given project. While MiTAC International is a related party and a controlling stockholder, the Company believes that the significant terms under its arrangements with MiTAC International, including pricing, will not materially differ from the terms it could have negotiated with unaffiliated third parties, and it has adopted a policy requiring that material transactions with MiTAC International or its related parties be approved by its Audit Committee, which is composed solely of independent directors. In addition, Matthew Miao's compensation is approved by the Nominating and Corporate Governance Committee, which is also composed solely of independent directors.

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

NOTE 15—PENSION AND EMPLOYEE BENEFITS PLANS:

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

The components of net periodic pension costs pertaining to the Company's single employer benefit plan during the three and six months ended May 31, 2013 and 2012 were as follows:

	Three Months Ended		Six Months Ended	
	May 31, 2013	May 31, 2012	May 31, 2013	May 31, 2012
Service cost	\$146	\$192	\$308	\$369
Interest cost	37	50	77	96
Expected return on plan assets	(15	) (30	) (31	) (58
Net periodic pension costs	\$168	\$212	\$354	\$407

During the three and six months ended May 31, 2013, the Company contributed \$164 and \$337, respectively, to the single-employer benefit plan. During the three and six months ended May 31, 2012, the Company contributed \$236 and \$434, to the plan, respectively.

NOTE 16—EQUITY:

Share repurchase program

In June 2011, the Board of Directors authorized a three-year \$65,000 share repurchase program. During the three and six months ended May 31, 2013, the Company purchased 52 shares and 55 shares at a weighted-average price of \$34.40 per share and \$34.28 per share, respectively. As of May 31, 2013 the Company has purchased 361 shares for a total cost of \$11,340.

Table of Contents

SYNEX CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS---(continued)

For the three and six months ended May 31, 2013 and 2012

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

(unaudited)

The share purchases were made on the open market and the shares repurchased by the Company are held in treasury for general corporate purposes.

Changes in equity

A reconciliation of the changes in equity for the six months ended May 31, 2013 and May 31, 2012 is presented below:

	Six Months Ended May 31, 2013			Six Months Ended May 31, 2012		
	Attributable to SYNEX Corporation	Attributable to Noncontrolling interest	Total Equity	Attributable to SYNEX Corporation	Attributable to Noncontrolling interest	Total Equity
Beginning balance of equity:	\$1,319,023	\$ 332	\$ 1,319,355	\$1,158,379	\$ 10,079	\$ 1,168,458
Issuance of common stock on exercise of options	3,088	—	3,088	7,402	—	7,402
Issuance of common stock for employee stock purchase plan	710	—	710	677	—	677