SYNNEX CORP
Form S-1/A
November 12, 2003
Table of Contents

Index to Financial Statements

As filed with the Securities and Exchange Commission on November 12, 2003

Registration No. 333-108543

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

AMENDMENT NO. 3

FORM S-1

REGISTRATION STATEMENT

Under

The Securities Act of 1933

SYNNEX Corporation

(Exact Name of Registrant as Specified in its Charter)

Delaware	**33411**	**94-2703333**
(State or Other Jurisdiction of Incorporation or Organization)	**(Primary Standard Industrial Classification Code Number)**	**(I.R.S. Employer Identification No.)**

3797 Spinnaker Court, Fremont, CA 94538

(510) 656-3333

(Address, Including Zip Code, and Telephone Number, Including Area Code, of Registrant s Principal Executive Offices)

ROBERT T. HUANG

President and Chief Executive Officer

SYNNEX CORPORATION

3797 Spinnaker Court, Fremont, CA 94538

(510) 656-3333

(Name, Address, Including Zip Code, and Telephone Number, Including Area Code, of Agent for Service)

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Approximate date of commencement of proposed sale to the public: As soon as practicable after this Registration Statement becomes effective.

If any of the securities being registered on this Form are to be offered on a delayed or continuous basis pursuant to Rule 415 under the Securities Act of 1933, check the following box. ¨

If this Form is filed to register additional securities for an offering pursuant to Rule 462(b) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. ¨ ____________

If this Form is a post-effective amendment filed pursuant to Rule 462(c) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. ¨ ____________

If this Form is a post-effective amendment filed pursuant to Rule 462(d) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. ¨ ____________

If delivery of the prospectus is expected to be made pursuant to Rule 434, check the following box. ¨

The Registrant hereby amends this Registration Statement on such date or dates as may be necessary to delay its effective date until the Registrant shall file a further amendment which specifically states that this Registration Statement shall thereafter become effective in accordance with Section 8(a) of the Securities Act of 1933, or until the Registration Statement shall become effective on such date as the Commission acting pursuant to such Section 8(a), may determine.

Table of Contents

Index to Financial Statements

The information in this prospectus is not complete and may be changed. We may not sell these securities until the Securities and Exchange Commission declares our registration statement effective. This prospectus is not an offer to sell these securities and is not soliciting an offer to buy these securities in any state where the offer or sale is not permitted.

SUBJECT TO COMPLETION, DATED NOVEMBER 12, 2003

Prospectus

5,400,000 shares

SYNNEX Corporation

Common Stock

This is the initial public offering of 5,400,000 shares of common stock of SYNNEX Corporation. No public market currently exists for our shares.

We currently anticipate the initial public offering price of our common stock to be between $14.00 and $16.00 per share. We intend to apply to have our shares approved for listing on the New York Stock Exchange under the symbol SNX .

We are selling 3,577,500 of the shares of common stock under this prospectus, and certain of our stockholders, referred to in this prospectus as selling stockholders, are offering an additional 1,822,500 shares. We will not receive any of the proceeds from the sale of the shares being sold by the selling stockholders.

See Risk Factors beginning on page 5 to read about certain risks that you should consider before buying shares of our common stock.

	Per Share	Total
Public Offering Price	$	$
Underwriting Discount	$	$
Proceeds, Before expenses, to SYNNEX	$	$
Proceeds, Before expenses, to the Selling Stockholders	$	$

We and certain of the selling stockholders identified in this prospectus have granted the underwriters a 30-day option to purchase up to 810,000 additional shares to cover any over-allotments.

Delivery of shares will be made on or about , 2003.

Neither the Securities and Exchange Commission nor any state securities commission has approved or disapproved of these securities or passed upon the adequacy or accuracy of this prospectus. Any representation to the contrary is a criminal offense.

Bear, Stearns & Co. Inc.

Banc of America Securities LLC

Raymond James

The date of this prospectus is , 2003.

Table of Contents

Index to Financial Statements

Table of Contents

Index to Financial Statements

PROSPECTUS SUMMARY

This summary highlights information contained elsewhere in this prospectus. This summary does not contain all of the information that you should consider before investing in our common stock. You should read the entire prospectus carefully, including the section entitled Risk Factors and our consolidated financial statements and the related notes and pro forma financial data before making an investment decision.

SYNNEX Corporation

Our Business

We are a global information technology, or IT, supply chain services company. We offer a comprehensive range of services to IT original equipment manufacturers and software publishers, collectively OEMs, and reseller customers worldwide. The supply chain services that we offer include product distribution, related logistics and contract assembly.

We have been in the IT distribution business since 1980 and are one of the largest IT product distributors based on 2002 reported revenue. We focus our core wholesale distribution business on a limited number of leading IT OEMs, which allows us to enhance and increase the value we provide to our OEM suppliers and reseller customers.

In our distribution operations, we purchase IT systems, peripherals, system components, packaged software and networking equipment from OEM suppliers such as HP, IBM, Intel, Microsoft Corporation and Seagate and sell them to our reseller customers. We perform the same function for our purchases of licensed software products. Our reseller customers include value added resellers, or VARs, corporate resellers, government resellers, system integrators, direct marketers and retailers. We currently distribute and market approximately 15,000 products (as measured by active SKUs) from over 100 OEM suppliers to more than 15,000 resellers.

Our contract assembly operations are generally related to building IT systems such as personal computers, workstations and servers. By leveraging the inventory management capabilities and system component supplier relationships of our distribution business, we provide cost-effective IT system contract assembly.

Because we offer distribution, contract assembly and complementary logistics support, OEM suppliers and resellers can outsource to us multiple areas of their business outside of their core competencies. This model allows us to provide services at several points along the IT product supply chain. We believe that the combination of our broad range of supply chain capabilities, our focus on serving the leading IT OEMs and our efficient operations enables us to realize strong and expanding relationships with these OEMs and our reseller customers.

Our Strategy

We intend to continue to expand our business by pursuing the following strategies:

Deepen relationships with our existing OEM suppliers and reseller customers by expanding the supply chain services we offer to them.

Establish new strategic relationships with leading OEMs to increase the breadth of product lines that we distribute.

Increase our reseller customer base by offering competitive pricing, in-depth product expertise and a comprehensive selection of IT products.

Expand our contract assembly operations to benefit from the continuing trend of OEMs outsourcing their production activities.

Table of Contents

Index to Financial Statements

Control costs by maintaining our low cost operations and seeking ways to further reduce costs in all areas of our business.

Pursue strategic acquisitions and investments to increase our OEM and reseller relationships, enhance our supply chain capabilities and expand our geographic reach.

Our Relationship with MiTAC International

In 1992, MiTAC International Corporation, or MiTAC International, acquired a controlling interest in us. Since 1992, MiTAC International, through its affiliates, has increased its beneficial ownership interest in us to approximately 98%.

MiTAC International, established in 1982, is a publicly held, original design manufacturing company based in Taiwan. MiTAC International specializes in the development and manufacture of motherboards, servers, LCD PCs, mobile wireless handheld devices, such as wireless PDAs and smart phones. In the last 20 years, MiTAC International has expanded its presence in more than 20 countries around the world. In 1994, we began offering contract assembly that we jointly market with MiTAC International s manufacturing and design capabilities.

All of the selling stockholders are related to MiTAC International. After completion of this offering, MiTAC International and its affiliates will beneficially own approximately 77.3% of our outstanding common stock, assuming the underwriters do not exercise their over-allotment option, and approximately 74.6% if the underwriters exercise their over-allotment option in full. As a result of this ownership interest, MiTAC International and its affiliates control us and they will continue to control us upon completion of the offering.

There are potential conflicts of interest between us and MiTAC International and its affiliates. Synnex Technology International, a publicly traded company based in Taiwan affiliated with MiTAC International, currently provides distribution and fulfillment services to various markets in Asia and Australia. Synnex Technology International is a separate entity from us and is also a potential competitor of ours. Although Synnex Technology International is a separate entity from us, it is possible that there will be confusion as a result of the similarity of our names. Mitac Incorporated, a privately held company based in Taiwan and a separate entity from MiTAC International, owns approximately 16.0% of Synnex Technology International and approximately 9.6% of MiTAC International. MiTAC International indirectly owns 0.41% of Synnex Technology International and Synnex Technology International owns approximately 1.3% of MiTAC International. In addition, MiTAC International indirectly owns approximately 9.0% of Mitac Incorporated and Synnex Technology International owns approximately 14.4% of Mitac Incorporated. Each of MiTAC International and Synnex Technology International indirectly owns 50% of Abundant Investment Group Limited, a selling stockholder. Synnex Technology International also indirectly owns 100% of Peer Developments Ltd., which in turns owns approximately 24% of our common stock. Also, our Chairman, Mr. Matthew Miau, is the chairman of MiTAC International and is the chairman or officer of several of the companies affiliated with MiTAC International, including Synnex Technology International. Mr. Miau s positions with us and MiTAC International and some of its affiliated entities could create actual or perceived conflicts of interest with respect to a variety of matters, such as matters requiring stockholder approval, corporate opportunities and business relationships.

We were incorporated in the State of California as COMPAC Microelectronics, Inc. on November 18, 1980, and we changed our name to SYNNEX Information Technologies, Inc. on February 4, 1994. We reincorporated in the State of Delaware under the name SYNNEX Corporation in October 2003. Our principal offices are located at 3797 Spinnaker Court, Fremont, CA 94538, and our telephone number is (510) 656-3333. We have distribution, sales and assembly facilities located in Asia, Europe and North America. Our website is located at www.synnex.com. The information contained on our website is not a part of this prospectus.

2

Table of Contents

Index to Financial Statements

THE OFFERING

Shares of common stock being offered by us	3,577,500 shares
Shares of common stock being offered by the selling stockholders	1,822,500 shares
Shares of common stock to be outstanding after this offering	25,667,791 shares
Use of proceeds	We intend to use all of the estimated net proceeds from this offering of $48.2 million first to reduce the amounts outstanding under our U.S. credit facility when this offering is completed, if any, and then to reduce the use of our accounts receivable securitization program under which the amount of our accounts receivable sold was $196.5 million at August 31, 2003.
Dividend policy	We have not declared or paid any cash dividends since our inception. We currently intend to retain future earnings, if any, for use in our operations and the expansion of our business.
Proposed New York Stock Exchange symbol	SNX

The number of shares of common stock to be outstanding after this offering is based on our outstanding shares as of August 31, 2003. These shares exclude:

- 8,502,497 shares issuable upon the exercise of options outstanding at August 31, 2003 under our stock option plans with a weighted average exercise price of $7.37 per share;
- 5,422,144 shares reserved for future grant under our stock option plans at August 31, 2003; and
- 500,000 shares reserved for issuance under our employee stock purchase plan.

Except when otherwise indicated, all information in this prospectus:

- *has been adjusted to give effect to a 1 for 2 reverse stock split of our common stock to be effected prior to the consummation of this offering; and*
- *assumes no exercise by the underwriters of their option to purchase additional shares of common stock from us and some of the selling stockholders to cover over-allotments, if any.*

Table of Contents

Index to Financial Statements

SUMMARY HISTORICAL FINANCIAL AND OPERATING DATA

The following table presents our summary consolidated historical financial information. The statement of operations data generally includes the operating results of our acquisitions from the closing date of each acquisition. You should read this information together with the consolidated financial statements and related notes, unaudited as adjusted financial information and the information under Management s Discussion and Analysis of Financial Condition and Results of Operations included elsewhere in this prospectus.

	Years Ended November 30,			Nine Months Ended August 31,	
	2000	**2001**	**2002**	**2002**	**2003**
	(in thousands, except per share data)				
Statement of Operations Data:					
Revenue	$ 3,802,629	$ 3,224,390	$ 3,767,882	$ 2,694,376	$ 2,873,293
Cost of revenue	3,626,317	3,060,304	3,593,982	2,568,419	2,741,446
Gross profit	176,312	164,086	173,900	125,957	131,847
Selling, general and administrative expenses	106,489	106,197	123,418	88,638	91,968
Income from operations	69,823	57,889	50,482	37,319	39,879
Income from continuing operations	42,011	25,797	28,032	20,344	21,371
Loss from discontinued operations	(5,577)				
Net income	$ 36,434	$ 25,797	$ 28,032	$ 20,344	$ 21,371
Net income per common share diluted:					
Income from continuing operations	$ 1.72	$ 1.06	$ 1.16	$ 0.83	$ 0.87

	August 31, 2003	
	Actual	**As Adjusted**
	(in thousands)	
Balance Sheet Data:		
Cash and cash equivalents	$ 23,174	$ 23,174
Working capital	206,602	254,808
Total assets	707,553	755,759
Current borrowings under term loans and lines of credit	51,447	51,447
Long-term borrowings	7,852	7,852
Total stockholders equity	239,538	287,744

As adjusted information gives effect to the application of the net proceeds from the sale of 3,577,500 shares of our common stock offered by us at an assumed initial public offering price of $15.00 per share and after deducting estimated offering expenses and underwriting discounts and commissions. In addition to the repayment of any outstanding borrowings under our U.S. credit facility, we intend to use the remaining portion of the net proceeds received by us from this offering to reduce the use of our accounts receivable securitization program. The impact to our financial statements of this reduction will be to increase our accounts receivable.

	Years Ended November 30,			Nine Months Ended August 31,	
	2000	**2001**	**2002**	**2002**	**2003**
			(in thousands)		
Other Data:					
Depreciation and Amortization	$ 6,753	$ 9,350	$ 8,337	$ 6,008	$ 5,685

4

Table of Contents

Index to Financial Statements

RISK FACTORS

An investment in our common stock involves a high degree of risk. Before you invest in our common stock, you should carefully consider all of the risks of our business, including those described below, together with all of the other information included in this prospectus. Our business and operating results could be materially and adversely affected by any of these risks. The trading price of our common stock could decline, and you may lose all or part of your investment.

Risks Related to Our Business

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

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

- general economic conditions and weakness in IT spending;
- the loss or consolidation of one or more of our significant original equipment manufacturer, or OEM, suppliers or customers;
- market acceptance and product life of the products we assemble and distribute;
- competitive conditions in our industry, which may impact our margins;
- pricing, margin and other terms with our OEM suppliers;
- variations in our levels of excess inventory and doubtful accounts, and changes in the terms of OEM supplier-sponsored programs, such as price protection and return rights;
- changes in our costs and operating expenses; and
- the contribution to our total revenue of our international operations.

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

Our operating results also are affected by the seasonality of the IT products industry. We have historically experienced higher sales in our fourth fiscal quarter due to patterns in the capital budgeting and purchasing cycles of end-users. These patterns may not be repeated in subsequent periods.

You should not rely on period-to-period comparisons of our operating results as an indication of future performance. The results of any quarterly period are not indicative of results to be expected for a full fiscal year. In future quarters, our operating results may be below the expectations of public market analysts or investors, which would likely cause our share price to decline.

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

Our future success is highly dependent on our relationships with a small number of OEM suppliers. Sales of HP products represented approximately 35.0% of our total revenue in fiscal 2002 and 31.5% in the nine months ended August 31, 2003. Our OEM supplier agreements typically are short-term and may be terminated without cause upon short notice. The loss or deterioration of our relationships with a major OEM supplier, the authorization by OEM suppliers of additional distributors, the sale of products by OEM suppliers directly to our reseller customers and end users, or our failure to establish relationships with new OEM suppliers or to expand the distribution and supply chain services that we provide OEM suppliers could adversely affect our business,

Table of Contents

Index to Financial Statements

financial position and operating results. In addition, OEM suppliers may face liquidity or solvency issues which in turn could negatively affect our business and operating results.

Our business is also highly dependent on the terms provided by our OEM suppliers. Generally, each OEM supplier has the ability to change the terms and conditions of their sales agreements, such as reducing the amount of price protection and return rights or reducing the level of purchase discounts, rebates and marketing programs available to us. If we are unable to pass the impact of these changes through to our reseller customers, our business, financial position and operating results could be adversely affected.

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

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

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

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

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

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

The IT products industry is subject to rapid technological change, new and enhanced product specification requirements, and evolving industry standards. These changes may cause inventory on hand to decline substantially in value or to rapidly become obsolete. Most of our OEM suppliers offer limited protection from the loss in value of inventory. For example, we can receive a credit from many OEM suppliers for products held in inventory in the event of a supplier price reduction. In addition, we have a limited right to return a certain percentage of purchases to most OEM suppliers. These policies are subject to time restrictions and do not protect

Table of Contents

Index to Financial Statements

us in all cases from declines in inventory value. In addition, our OEM suppliers may become unable or unwilling to fulfill their protection obligations to us. The decrease or elimination of price protection or the inability of our OEM suppliers to fulfill their protection obligations could lower our gross margins and cause us to record inventory write-downs. If we are unable to manage our inventory with our OEM suppliers with a high degree of precision, we may have insufficient product supplies or we may have excess inventory, resulting in inventory write downs, either of which may harm our business, financial position and operating results.

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

Our ability to obtain particular products in the required quantities and to fulfill reseller customer orders on a timely basis is critical to our success. In most cases, we have no guaranteed price or delivery agreements with our OEM suppliers. We occasionally experience a supply shortage of certain products as a result of strong demand or problems experienced by our OEM suppliers. If shortages or delays persist, the price of those products may increase, or the products may not be available at all. In addition, our OEM suppliers may decide to distribute, or to substantially increase their existing distribution business, through other distributors, their own dealer networks, or directly to resellers. Accordingly, if we are not able to secure and maintain an adequate supply of products to fulfill our reseller customer orders on a timely basis, our business, financial position and operating results may be adversely affected.

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

A portion of our distribution revenue is financed by floor plan financing companies. Floor plan financing companies are engaged by our customers to finance, or floor, the purchase of products from us. In exchange for a fee, we transfer the risk of loss on the sale of our products to the floor plan companies. We currently receive payment from these financing companies within approximately 15 business days from the date of the sale, which allows our business to operate at much lower relative working capital levels than if such programs were not available. If these floor plan arrangements are terminated or substantially reduced, the need for more working capital and the increased financing cost could harm our business and operating results. We have not experienced any termination or significant reduction in floor plan arrangements in the past.

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

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

We experienced theft of product from our warehouses. Future thefts could harm our operating results.

We recently experienced theft as a result of break-ins at three of our warehouses in which approximately $9.4 million of inventory was stolen. Based on our investigation, discussions with local law enforcement and meetings with federal authorities, we believe the thefts at our warehouses, which occurred between February and May 2003, were part of an organized crime effort that targeted a number of technology equipment warehouses throughout the United States. As a result of the loss, we reduced our inventory value by $9.4 million, expensed

Table of Contents

Index to Financial Statements

the deductible of $75,000 and recorded the net amount as a receivable from our insurance company, within other current assets on our balance sheet. Based on the notification we have received from our insurance broker, we expect to collect the receivable from the insurance company. These incidents may make it more difficult or expensive for us to obtain theft coverage in the future. We have from time to time also experienced incidents of theft at various facilities. There is no assurance that future incidents of theft will not re-occur.

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

Our primary contract assembly customer, Sun Microsystems, accounted for approximately $203.5 million or 54.5% of our contract assembly revenue in fiscal 2002 and approximately $131.7 million or 96.1% of our contract assembly revenue in the nine months ended August 31, 2003. Sun Microsystems accounted for less than 10% of our total revenue in fiscal 2002 and the nine months ended August 31, 2003. Revenue from Sun Microsystems has decreased over the past three years and could decrease in the future. Our business with Sun Microsystems is dependent upon obtaining new orders from this customer. In addition, the future success of our relationship with Sun Microsystems depends on MiTAC International continuing to work with us to service Sun Microsystems needs. Our relationship with Sun Microsystems evolved from a customer relationship initiated by MiTAC International and is a joint relationship with MiTAC International. We rely on MiTAC International to manufacture and supply subassemblies and components for the computer systems we assemble for Sun Microsystems. If we are unable to maintain our relationship with MiTAC International, our relationship with Sun Microsystems could suffer, which in turn could harm our business, financial position and operating results. In addition, if we are unable to obtain assembly contracts for new and successful products as a result of the current economic downturn or other reasons, our business and operating results would suffer. For example, our loss of contract assembly business from Compaq Computer Corporation, or Compaq, in fiscal 2001 had a material adverse effect on our revenue and operating results in subsequent periods.

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

The distribution and contract assembly industries have experienced significant consolidation due to price erosion and market competition, augmented by the economic downturn. We expect this consolidation to continue. We have in the past pursued and in the future expect to pursue acquisitions of, or investments in, businesses and assets in new markets, either within or outside the IT products industry, that complement or expand our existing business. Our acquisition strategy involves a number of risks, including:

- difficulty in successfully integrating acquired operations, IT systems, customers, OEM supplier and partner relationships, products and businesses with our operations;
- loss of key employees of acquired operations or inability to hire key employees necessary for our expansion;
- diversion of our capital and management attention away from other business issues;
- an increase in our expenses and working capital requirements;

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

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

Table of Contents

Index to Financial Statements

Our growth may be limited and our competitive position may be harmed if we are unable to identify, finance and complete future acquisitions. We believe that further expansion may be a prerequisite to our long-term success as some of our competitors in the IT product distribution industry have larger international operations, higher revenues and greater financial resources than us. We have incurred costs and encountered difficulties in the past in connection with our acquisitions and investments. For example, our operating margins were adversely affected as a result of our acquisition of Merisel Canada Inc. and we have written off substantial investments in the past, one of which was eManage.com. Future acquisitions may result in dilutive issuances of equity securities, the incurrence of additional debt, large write-offs, a decrease in future profitability, or future losses. The incurrence of debt in connection with any future acquisitions could restrict our ability to obtain working capital or other financing necessary to operate our business. Our recent and future acquisitions or investments may not be successful, and if we fail to realize the anticipated benefits of these acquisitions or investments, our business and operating results could be harmed.

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

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

Failures or significant downtime of our IT or telecommunications systems could prevent us from taking customer orders, printing product pick-lists, operating our automated product pick machinery, shipping products or billing customers. Sales also may be affected if our reseller customers are unable to access our price and product availability information. We also rely on the Internet, and in particular electronic data interchange or EDI, for a large portion of our orders and information exchanges with our OEM suppliers and reseller customers. The Internet and individual websites have experienced a number of disruptions and slowdowns, some of which were caused by organized attacks. In addition, some websites have experienced security breakdowns. If we were to experience a security breakdown, disruption or breach that compromised sensitive information, it could harm our relationship with our OEM suppliers or reseller customers. Disruption of our website or the Internet in general could impair our order processing or more generally prevent our OEM suppliers or reseller customers from accessing information. The occurrence of any of these events could have an adverse effect on our business and operating results.

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

We rely almost entirely on arrangements with independent shipping companies, such as FedEx and UPS, for the delivery of our products from OEM suppliers and delivery of products to reseller customers. Freight and shipping charges are a substantial portion of our cost of goods sold. As a result, an increase in freight surcharges due to rising fuel cost or general price increases will have an immediate adverse effect on our margins, unless we are able to pass the increased charges to our reseller customers or renegotiate terms with our OEM suppliers. In addition, in the past, UPS has experienced work stoppages due to labor negotiations with management. The termination of our arrangements with one or more of these independent shipping companies, the failure or inability of one or more of these independent shipping companies to deliver products, or the unavailability of their shipping services, even temporarily, could have an adverse effect on our business and operating results.

Table of Contents

Index to Financial Statements

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

We have international operations in Canada, China, Japan, Mexico and the United Kingdom. In fiscal 2002 and the nine months ended August 31, 2003, approximately 21% and 22%, respectively, of our total revenue was generated outside the United States. In fiscal 2002 and the nine months ended August 31, 2003, approximately 13% of our total revenue was generated in Canada. No other country or region accounted for more than 10% of our total revenue. Our international operations are subject to risks, including:

- political or economic instability;
- changes in governmental regulation;
- changes in import/export duties;
- trade restrictions;
- difficulties and costs of staffing and managing operations in certain foreign countries;
- work stoppages or other changes in labor conditions;
- difficulties in collecting of accounts receivables on a timely basis or at all;
- taxes; and
- seasonal reductions in business activity in some parts of the world, such as Europe.

We may continue to expand internationally to respond to competitive pressure and customer and market requirements. For example, we commenced our Mexico operations in April 2002. Establishing operations in any other foreign country or region presents risks such as those described above as well as risks specific to the particular country or region. In addition, until a payment history is established over time with customers in a new geography or region, the likelihood of collecting receivables generated by such operations could be less than our expectations. As a result, there is a greater risk that reserves set with respect to the collection of such receivables may be inadequate. We have established and subsequently ceased operations in foreign countries in the past, which caused us to incur additional expense and loss. If our international expansion efforts in any foreign country are unsuccessful, we may decide to cease operations, which would likely cause us to incur similar additional expenses and loss.

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

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

A substantial portion of our IT systems operations, including our IT systems support and software development operations, are located in China. As of August 31, 2003, we had 130 personnel in IT systems support and software development, of which 70 are located in China. In addition, we also conduct general and administrative activities from our facility in China. We expect to increase our operations in China in the future. Our operations in China are subject to a number of risks relating to China s economic and political systems, including:

- a government fixed foreign exchange rate and limitations on the convertibility of the Chinese renminbi;

- extensive government regulation;

Table of Contents

Index to Financial Statements

- changing governmental policies relating to tax benefits available to foreign-owned businesses;
- the telecommunications infrastructure;
- a relatively uncertain legal system; and
- uncertainties related to continued economic and social reform, including the effect of China s recent entry into the World Trade Organization.

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

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

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

In fiscal 2002 and the nine months ended August 31, 2003, approximately 21% and 22%, respectively, of our total revenue was generated outside the United States. Our international revenue, cost of revenue and operating expenses are denominated in foreign currencies. We presently have currency exposure arising from both sales and purchases denominated in foreign currencies. Changes in exchange rates between foreign currencies and the U.S. dollar may adversely affect our operating margins. For example, if these foreign currencies appreciate against the U.S. dollar, it will make it more expensive in terms of U.S. dollars to purchase inventory or pay expenses with foreign currencies. In addition, currency devaluation can result in a loss to us if we hold deposits of that currency as well as make our products, which are usually purchased by us with U.S. dollars, relatively more expensive than products manufactured locally. We currently conduct only limited hedging activities, which involve the use of currency forward contracts. Hedging foreign currencies can be risky, especially if the currency is not freely or actively traded. In addition, some currencies, such as the Chinese renminbi, are subject to limitations on conversion into other currencies, which can limit our ability to hedge or to otherwise react to rapid foreign currency devaluations. We cannot predict the impact of future exchange rate fluctuations on our business and operating results.

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

We operate in the highly competitive IT products industry. We are dependent in large part on our ability to retain the services of our key senior executives and other technical experts and personnel. Our employees and executives do not have employment agreements. Furthermore, we do not carry key person insurance coverage for any of our key executives. We compete for qualified senior management and technical personnel. The loss of, or inability to hire, key executives or qualified employees could inhibit our ability to operate and grow our business successfully.

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

We may from time to time receive notifications alleging infringements of intellectual property rights allegedly held by others relating to our business or the products we sell or assemble for our OEM suppliers and

Table of Contents

Index to Financial Statements

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

We are from time to time involved in other litigation in the ordinary course of business. For example, we are currently defending a trademark infringement action, a civil matter involving third party investors in eManage.com and various bankruptcy preference actions. We may not be successful in defending these or other claims. Regardless of the outcome, litigation can result in substantial expense and could divert the efforts of our management.

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

Our business requires significant levels of capital to finance accounts receivable and product inventory that is not financed by trade creditors. If cash from available sources is insufficient, or if cash is used for unanticipated needs, we may require additional capital sooner than anticipated. In the event we are required, or elect, to raise additional funds, we may be unable to do so on favorable terms, or at all. Our current and future indebtedness could adversely affect our operating results and severely limit our ability to plan for, or react to, changes in our business or industry. We could also be limited by financial and other restrictive covenants in any credit arrangements, including limitations on our borrowing of additional funds and issuing dividends. Furthermore, the cost of debt financing could significantly increase, making it cost prohibitive to borrow, which could force us to issue new equity securities.

If we issue new equity securities, existing stockholders may experience additional dilution, or the new equity securities may have rights, preferences or privileges senior to those of existing holders of common stock. If we cannot raise funds on acceptable terms, we may not be able to take advantage of future opportunities or respond to competitive pressures or unanticipated requirements. Any inability to raise additional capital when required could have an adverse effect on our business and operating results.

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

As of August 31, 2003, we had approximately $59.3 million in outstanding short and long-term borrowings under term loans and lines of credit, excluding trade payables. As of August 31, 2003, approximately $196.5 million of our accounts receivable were sold to and held by General Electric Capital Corporation under our accounts receivable securitization program. The terms of our current indebtedness agreements restrict, among other things, our ability to:

- incur additional indebtedness;

pay dividends or make certain other restricted payments;

consummate certain asset sales or acquisitions;

enter into certain transactions with affiliates; and

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

Table of Contents

Index to Financial Statements

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

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

Our worldwide operations could be subject to natural disasters and other business disruptions, which could seriously harm our revenue and financial condition and increase our costs and expenses. We have significant operations in our facilities located in Fremont, California, Greenville, South Carolina and Toronto. As a result, any prolonged disruption in the operations of our facilities, whether due to technical difficulties, power failures, destruction or damage to the facilities as a result of a natural disaster, fire or any other reason, could harm our operating results. For example, the California energy crisis in 2001 affected our ability to meet our customer obligations. Should an energy crisis occur again, it could harm our business and operating results. In addition, some of our OEM suppliers are located in areas geographically close to us. We currently do not have a formal disaster recovery plan and may not have sufficient business interruption insurance to compensate for losses that could occur.

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

External factors such as the SARS virus, potential terrorist attacks, acts of war or geopolitical and social turmoil in many parts of the world could prevent or hinder our ability to do business, increase our costs and negatively affect our stock price. For example, increased instability may adversely impact the desire of employees and customers to travel, the reliability and cost of transportation, our ability to obtain adequate insurance at reasonable rates or require us to incur increased costs for security measures for our domestic and international operations. These uncertainties make it difficult for us and our customers to accurately plan future business activities. More generally, these geopolitical social and economic conditions could result in increased volatility in the United States and worldwide financial markets and economy. We are predominantly uninsured for losses and interruptions caused by terrorist acts and acts of war.

If we account for employee stock option and employee stock purchase plans using the fair value method, it could significantly reduce our net income and earnings per share.

There has been ongoing public debate whether employee stock option and employee stock purchase plans shares should be treated as a compensation expense and, if so, how to properly value these charges. If we elected or were required to record a non-cash expense for our stock-based compensation plans using the fair value method, we could have significant accounting charges. For example in fiscal 2002, had we accounted for stock-based compensation plans under Statement 123 as amended by Statement 148, earnings per share would have been reduced by $0.07 per share. Although we are not currently required to record any compensation expense using the fair value method in connection with option grants that have an exercise price at or above fair market value and for shares issued under our employee stock purchase plan, it is possible that future laws or regulations will require us to treat all stock-based compensation as a compensation expense using the fair value method.

13

Table of Contents

Index to Financial Statements

Risks Related to Our Relationship with MiTAC and its Affiliated Entities

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

We rely on MiTAC International to manufacture and supply subassemblies and components for some of our contract assembly customers, including Sun Microsystems, currently our primary contract assembly customer, and our reliance on MiTAC International may increase in the future. Our relationship with MiTAC International has been informal and is not governed by long-term commitments or arrangements with respect to pricing terms, revenue or capacity commitments. Accordingly, we negotiate manufacturing and pricing terms on a project-by-project basis, based on manufacturing services rendered by MiTAC International or us. In the event MiTAC International no longer provides such services and components to us, we would need to find an alternative source for these services and components. There can be no assurance that we would be able to obtain alternative services and components on similar terms, which may in turn increase our manufacturing costs. In addition, we may not find manufacturers with sufficient capacity, which may in turn lead to shortages in our product supplies. Increased costs and products shortages could harm our business and operating results. In fiscal 2000, 2001 and 2002 and the nine months ended August 31, 2003, we purchased inventories, including notebook computers, motherboard and other peripherals, from MiTAC International and its affiliates totaling approximately $392.0 million, $236.0 million, $142.4 million and $90.3 million, respectively. Our sales to MiTAC International and its affiliates during fiscal 2000, 2001, 2002 and the nine months ended August 31, 2003, totaled approximately $8.6 million, $4.7 million, $2.4 million and $2.3 million, respectively. The payment terms relating to the purchase and sale of product to MiTAC International are similar to the terms that we have with non-affiliated customers and vendors.

Our business relationship to date with MiTAC International has been informal and is not governed by long-term commitments or arrangements with respect to pricing terms, revenue or capacity commitments. Accordingly, we negotiate manufacturing and pricing terms, including allocating customer revenue, on a case-by-case basis with MiTAC International. Our business relationship with MiTAC International has been and will continue to be negotiated as related parties and therefore may not be the result of arms -length negotiations between independent parties. Our relationship, including pricing and other material terms with our shared customers or with MiTAC International, may or may not be as advantageous to us as the terms we could have negotiated with unaffiliated third parties. We have a joint sales and marketing agreement with MiTAC International, pursuant to which both parties agree to use their commercially reasonable efforts to promote the other party s service offerings to their respective customers who are interested in such product offerings. This agreement does not provide for the terms upon which we negotiate manufacturing and pricing terms. To date, these negotiations have been on a case-by-case basis. In addition, we are party to a general agreement with MiTAC International and Sun Microsystems under which we work with MiTAC International to provide contract assembly services to Sun Microsystems. We do not currently anticipate entering into any long-term commitments or arrangements with MiTAC International. We have adopted a policy requiring material transactions in which any of our directors has a potential conflict of interest to be approved by our Audit Committee, which is composed of disinterested members of the board. Fred Breidenbach, David Rynne and Dwight Steffensen are the current members of our Audit Committee.

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

Our relationship with Sun Microsystems and some of our other customers evolved from customer relationships that were initiated by MiTAC International. Our relationship with Sun Microsystems is a joint relationship with MiTAC International and us, and the future success of our relationship with Sun Microsystems depends on MiTAC International continuing to work with us to service Sun Microsystems requirements. If we are unable to maintain our relationship with MiTAC International, our relationship with Sun Microsystems could suffer and we could lose other customer relationships or referrals, which in turn could harm our business, financial position and operating results.

14

Table of Contents

Index to Financial Statements

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

MiTAC International s and its affiliates continuing beneficial ownership of our common stock could create conflicts of interest with respect to a variety of matters, such as potential acquisitions, competition, issuance or disposition of securities, election of directors, payment of dividends and other business matters. Similar risks could exist as a result of Matthew Miau s positions as our Chairman, the Chairman of MiTAC International and as a director or officer of MiTAC International s affiliated companies. In fiscal 2002, Mr. Miau received a discretionary bonus of $550,000 for his performance of Chairman and it is expected that Mr. Miau will receive a similar discretionary bonus in fiscal 2003. We have adopted a policy requiring material transactions in which any of our directors has a potential conflict of interest to be approved by our Audit Committee, which is composed of disinterested members of the board. Fred Breidenbach, David Rynne and Dwight Steffensen are the current members of our Audit Committee.

Synnex Technology International Corp., or Synnex Technology International, a publicly traded company based in Taiwan and affiliated with MiTAC International, currently provides distribution and fulfillment services to various markets in Asia and Australia, and is also a potential competitor of ours. Mitac Incorporated, a privately held company based in Taiwan and a separate entity from MiTAC International, owns approximately 16.0% of Synnex Technology International and approximately 9.6% of MiTAC International. MiTAC International indirectly owns 0.41% of Synnex Technology International and Synnex Technology International owns approximately 1.3% of MiTAC International. In addition, MiTAC International indirectly owns approximately 9.0% of Mitac Incorporated and Synnex Technology International owns approximately 14.4% of Mitac Incorporated. Prior to this offering, Synnex Technology International indirectly through its ownership of Peer Developments Limited owns approximately 24% of our outstanding common stock. In addition, each of MiTAC International and Synnex Technology International indirectly owns 50% of Abundant Investment Group Limited, a selling stockholder. Neither MiTAC International nor Synnex Technology International is restricted from competing with us. In the future, we may increasingly compete with Synnex Technology International, particularly if our business in Asia expands or Synnex Technology International expands its business into geographies or customers we serve. Although Synnex Technology International is a separate entity from us, it is possible that there will be confusion as a result of the similarity of our names. Moreover, we cannot limit or control the use of the Synnex name by Synnex Technology International or MiTAC International, and our use of the Synnex name may be restricted as a result of registration of the name by Synnex Technology International or their prior use in jurisdictions where they currently operate.

After completion of this offering, our executive officers, directors and principal stockholders will own approximately 77.9% of our common stock and this concentration of ownership will allow them to control all matters requiring stockholder approval and could delay or prevent a change in control of SYNNEX.

Upon completion of this offering, our executive officers, directors and principal stockholders will beneficially own approximately 77.9% of our outstanding common stock. In particular, upon completion of this offering, MiTAC International, through its affiliates, will beneficially own approximately 77.3% of our outstanding common stock, assuming the underwriters do not exercise their over-allotment option, and approximately 74.6% if the underwriters exercise their over-allotment option in full. All selling stockholders in this offering are affiliates of MiTAC International. The beneficial ownership of MiTAC International and its affiliates will decrease as a result of this offering and it will decrease further if MiTAC International or any of its affiliates elects to sell additional shares of our common stock or we issue additional shares for capital purposes, strategic acquisitions or otherwise.

Despite the decrease in their ownership percentage as a result of the offering, MiTAC International and its affiliates will continue to own a controlling interest in us upon completion of the offering. As a result, MiTAC International s interests and ours may increasingly conflict. For example, we rely on MiTAC International for

Table of Contents

Index to Financial Statements

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

Risks Related to Our Industry

The recent economic downturn in the IT industry could continue to have a material adverse effect on our business and operating results.

The IT industry in which we operate has experienced a decrease in demand. Softening demand for our products and services caused by the ongoing economic downturn and over-capacity was responsible in part for a decline in our revenue in fiscal 2001, as well as problems with the saleability of inventory and collection of reseller customer receivables.

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

Our distribution business may be adversely affected by OEM suppliers increasing their commitment to direct sales, which in turn could cause our business and operating results to suffer.

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

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

Currently, there is a trend towards reducing the number of authorized distributors used by the OEM suppliers. As a smaller market participant in the IT product distribution and contract assembly industries, than some of our competitors, we may be more susceptible to loss of business from further reductions of authorized distributors or contract assemblers by IT product OEMs. For example, the termination of Compaq s contract assembly business with us in fiscal 2001 had a significant negative effect on our revenue and operating results. A determination by any of our primary OEMs to consolidate their business with other distributors or contract assemblers would negatively affect our business and operating results.

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

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

Table of Contents

Index to Financial Statements

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

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

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

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

Table of Contents

Index to Financial Statements

Risks Related to Our Offering

There may not be an active market for our common stock, making it difficult for you to sell your shares.

This is our initial public offering, which means that there is no current market for our common stock. The initial public offering price will be determined by negotiations between us and the representatives of the underwriters and may bear no relationship to the price at which shares of our common stock will trade upon completion of this offering. Our common stock may not be traded actively after this offering. An illiquid market for shares of our common stock may result in lower trading prices and increased volatility, which could negatively affect the value of your investment.

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

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

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

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

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

Upon completion of this offering, our board of directors will have the authority to issue up to shares of preferred stock and to determine the price, rights, preferences, privileges and restrictions, including voting rights, of those shares without any further vote or action by our stockholders. The rights of the holders of our common stock will be subject to, and may be adversely affected by, the rights of the holders of any preferred stock that we may issue in the future. The issuance of preferred stock, while providing flexibility in connection with possible acquisitions and other corporate purposes, could have the effect of making it more difficult for a third party to acquire a majority of our outstanding voting shares. We have no current plans to issue any shares of the preferred stock.

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

The sale of shares eligible for future sale in the open market could depress our share price.

Sales of substantial amounts of common stock (including shares issued upon the exercise of outstanding options) in the public market after this offering could cause the market price of our common stock to decline. Those sales also might make it more difficult for us to sell equity-related securities in the future or reduce the price at which we could sell any such equity-related securities.

Table of Contents

Index to Financial Statements

All of the shares sold in this offering will be freely tradable without restriction under the Securities Act unless those shares are held by affiliates, as that term is defined in Rule 144 under the Securities Act. Of the outstanding shares not sold in this offering and assuming no exercise by the underwriters of their option to purchase additional shares of common stock from the selling stockholders, 105,994 shares will be immediately eligible for sale as of the date of this prospectus, 38,862 shares will become eligible for sale between the date of this prospectus and 180 days after the date of this prospectus, and 20,122,935 shares will be eligible for sale in the public markets 180 days after the date of this prospectus pursuant to Rules 701 or 144 upon expiration of the lock-up agreement with our underwriters, a portion of which will be subject to Rule 144 volume limitations. Bear, Stearns & Co. Inc. may, in its sole discretion at any time without public notice, release all or any portion of the shares subject to lockup agreements.

Of the 20,122,935 shares eligible for sale upon expiration of the underwriters lock-up and assuming no exercise by the underwriters of their option to purchase additional shares of common stock from the selling stockholders, 19,838,550 shares are held by MiTAC International and its affiliates. MiTAC International and its affiliates have advised us that they presently do not intend to distribute or dispose of their shares of our common stock held upon completion of this offering. However, following the lock-up period with the underwriters, and prior thereto with the consent of the Bear, Stearns & Co. Inc., MiTAC International and its affiliates may elect to distribute or sell some or all of their shares. In this regard, MiTAC International and its affiliates could effect a pro rata distribution of its shares to their public and private shareholders without compliance with Rule 144 or further registration under the Securities Act. These shares also may be resold in the public market pursuant to the volume, reporting and other requirements of Rule 144 or by registration. We have entered into a registration rights agreement with MiTAC International and its affiliates requiring us to register these shares for resale to the public.

As of August 31, 2003, options to purchase a total of 8,502,497 shares of our common stock were outstanding, of which 6,003,836 are currently exercisable. We intend to file a Form S-8 registration statement under the Securities Act to register all of the shares issuable under our 2003 Stock Incentive Plan and our Employee Stock Purchase Plan. Accordingly, the shares underlying these options will be eligible for sale in the public markets, subject to vesting restrictions or the lock-up agreements described above.

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

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

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

As a public company, we will incur significant legal, accounting and other expenses that we did not incur as a private company. In addition, the Sarbanes-Oxley Act of 2002, as well as new rules subsequently implemented by the Securities and Exchange Commission, have required changes in corporate governance practices of public companies. In addition to final rules and rule proposals already made by the Securities and Exchange Commission, the New York Stock Exchange has proposed revisions to its requirements for companies that are NYSE-listed. We expect these new rules and regulations to increase our legal and financial compliance costs, and to make some activities more time consuming and/or costly. We also expect these new rules and regulations to make it more difficult and more expensive for us to obtain director and officer liability insurance, and we may be required to accept reduced coverage or incur substantially higher costs to obtain coverage. These new rules and regulations could also make it more difficult for us to attract and retain qualified members of our board of directors, particularly to serve on our audit committee, and qualified executive officers.

Table of Contents

Index to Financial Statements

CAUTIONARY NOTE ON FORWARD-LOOKING STATEMENTS

We have made forward-looking statements in this prospectus, including in the sections entitled Management s Discussion and Analysis of Financial Condition and Results of Operations, and Business and elsewhere in this prospectus that are based on our management s beliefs and assumptions and on information currently available to our management. Forward-looking statements include, but are not limited to, statements regarding:

- our possible or assumed future results of operations, business strategies, financing plans, competitive position and industry environment;
- the anticipated impact on our business and financial results of recent and future acquisitions;
- potential growth opportunities; and
- the effects of competition.

Forward-looking statements include all statements that are not historical facts and generally can be identified by the use of terminology such as the words may, will, should, potential, continue, expects, anticipates, intends, plans, believes, estimates or similar expressi

Forward-looking statements involve risks, uncertainties and assumptions. Actual results may differ materially from those expressed in the forward-looking statements for a number of reasons, including those appearing elsewhere in this prospectus under the caption Risk Factors. Except as required by law, we undertake no obligation to update or revise publicly any forward-looking statements after the date of this prospectus.

Table of Contents

Index to Financial Statements

USE OF PROCEEDS

The net proceeds to us from this offering, at an assumed initial public offering price of $15.00 per share, are estimated to be approximately $48.2 million ($55.3 million if the underwriters over-allotment option is exercised in full), after deducting estimated underwriting discounts and commissions and expenses payable by us. We will not receive any of the proceeds from the sale of shares offered by the selling stockholders. We intend to use all of the net proceeds received by us from this offering first to repay outstanding borrowings under our U.S. credit facility when this offering is completed, if any, and then to reduce the use of our accounts receivable securitization program. From time to time thereafter, we may increase the amounts outstanding under our term loans and lines of credit and accounts receivable securitization program and use the proceeds therefrom for working capital and other general corporate purposes, including:

- to finance our growth;
- for capital expenditures made in the ordinary course of business; and
- for acquisitions of businesses and assets that complement and expand our supply chain service capabilities.

At August 31, 2003, we had no outstanding borrowings under our U.S. revolving credit facility, which expires in 2008. Our effective borrowing cost under this facility at August 31, 2003 was 3.10% per annum.

At August 31, 2003, the amount of our accounts receivable sold to and held by General Electric Capital Corporation under our revolving accounts receivable securitization program, which expires in 2008, was $196.5 million. Our effective borrowing cost under the program at August 31, 2003 was 1.95% per annum. A description of our accounts receivable securitization program is contained in Management s Discussion and Analysis of Financial Condition and Results of Operations.

DIVIDEND POLICY

We have not declared or paid any cash dividends since our inception. We currently intend to retain future earnings, if any, for use in our operations and the expansion of our business. If we elect to pay cash dividends in the future, payment will depend on our financial condition, results of operations and capital requirements, as well as other factors deemed relevant by our board of directors. In addition, our credit facilities place restrictions on our ability to pay dividends.

Table of Contents

Index to Financial Statements

CAPITALIZATION

The following table sets forth, as of August 31, 2003, our capitalization:

- on an actual basis; and
- on an as adjusted basis to give effect to the sale of 3,577,500 shares of common stock offered by us in this offering at an assumed initial public offering price of $15.00 per share, after deducting the underwriting discounts and commissions and estimated offering expenses payable by us, and the application of the estimated net proceeds from this offering to reduce the amounts outstanding under our U.S. credit facility, if any, and to reduce the use of our accounts receivable securitization program.

This information should be read together with Management s Discussion and Analysis of Financial Condition and Results of Operations, the consolidated financial statements and the notes related thereto and pro forma financial information appearing elsewhere in this prospectus.

	August 31, 2003	
	Actual	As Adjusted
	(in thousands, except share and per share data)	
Cash and cash equivalents	$ 23,174	$ 23,174
Borrowings under term loans and lines of credit	$ 51,447	$ 51,447
Long-term borrowings	7,852	7,852
Minority interest in subsidiaries	2,733	2,733
Stockholders equity:		
Preferred stock, $0.001 par value, 5,000,000 shares authorized, no shares issued and outstanding, actual or as adjusted		
Common stock, $0.001 par value, 100,000,000 shares authorized, 22,090,291 shares issued and outstanding, actual; and 25,667,791 shares issued and outstanding, as adjusted	22	26
Additional paid-in capital	79,282	127,484
Unearned stock-based compensation	(340)	(340)
Accumulated other comprehensive income	3,645	3,645
Retained earnings	156,929	156,929
Total stockholders equity	239,538	287,744
Total capitalization	$ 301,570	$ 349,776

In addition to the repayment of any outstanding borrowings under our U.S. credit facility we intend to use the remaining portion of the net proceeds received by us from this offering to reduce the use of our accounts receivable securitization program. At August 31, 2003, the amount of our accounts receivable sold to and held by General Electric Capital Corporation under our accounts receivable securitization program was $196.5 million. The impact to our financial statements of this reduction will be to increase our accounts receivable by approximately $48.2 million.

The number of shares of our common stock outstanding excludes the following:

- 8,502,497 shares issuable upon exercise of options outstanding at August 31, 2003 under our stock option plans, with a weighted average exercise price of $7.37 per share;

- 5,422,144 shares reserved for future grant under our stock option plans at August 31, 2003; and

- 500,000 shares reserved for issuance under our employee stock purchase plan.

Table of Contents

Index to Financial Statements

DILUTION

Our net tangible book value as of August 31, 2003 was approximately $219.7 million, or $9.95 per share. Net tangible book value per share is calculated by subtracting our total liabilities, including minority interest, from our total tangible assets, which equals total assets less intangible assets, and dividing this amount by the number of shares of common stock outstanding at August 31, 2003.

Dilution in net tangible book value per share represents the difference between the amount per share paid by purchasers of shares of our common stock in this offering and the as adjusted net tangible book value per share of our common stock immediately after completion of this offering. Assuming the sale by us of 3,577,500 shares of common stock offered in this offering at an assumed initial public offering price of $15.00 per share and after deducting underwriting discounts and commissions and estimated offering expenses and taking into account our intended application of the estimated net proceeds from the offering, our as adjusted net tangible book value at August 31, 2003 would have been $267.9 million, or $10.44 per share. Assuming completion of this offering, there will be an immediate increase in the net tangible book value of $0.49 per share to our existing stockholders and an immediate dilution in the net tangible book value of $4.56 per share to new investors. The following table illustrates this per share dilution:

Assumed initial public offering price per share		$ 15.00
Net tangible book value per share as of August 31, 2003	$ 9.95	
Increase per share attributable to new investors	0.49	
As adjusted net tangible book value per share after the offering		10.44
Dilution per share to new investors		$ 4.56

The following table summarizes the total number of shares of common stock purchased from us, the total consideration paid to us and the average price per share paid by existing stockholders and by new investors, in each case based upon the number of shares of common stock outstanding at August 31, 2003.

	Shares Purchased		Total Consideration		Average Price
	Number	Percent	Amount	Percent	Per Share
Existing stockholders	22,090,291	86.1%	$ 61,664,000	53.5%	$ 2.79
New investors	3,577,500	13.9%	$ 53,662,500	46.5%	$ 15.00
Total	25,667,791	100.0%	$ 115,326,500	100.0%	

Sales by the selling stockholders in this offering will cause the number of shares held by existing stockholders to be reduced to 20,267,791, or 79.0% of the total number of shares of our common stock outstanding after this offering, and will increase the number of shares held by new investors to 5,400,000, or 21.0% of the total number of shares of our common stock outstanding after this offering. If the underwriters over-allotment option is exercised in full, the number of shares held by existing stockholders after this offering would be reduced to 19,967,791, or 76.3% and the number of shares held by new investors would increase to 6,210,000, or 23.7% of the total number of shares of our common stock outstanding after this offering.

The tables and calculations above assume no exercise of outstanding options. At August 31, 2003, there were 8,502,497 shares of our common stock issuable upon exercise of options outstanding with a weighted average exercise price of $7.37 per share and 5,422,144 shares reserved for future issuance under our stock option plans. To the extent that these options are exercised, there will be further dilution to new investors. In addition, 500,000 shares are reserved for issuance under our employee stock purchase plan.

Table of Contents

Index to Financial Statements

SELECTED CONSOLIDATED FINANCIAL DATA

The following selected consolidated financial data should be read together with our consolidated financial statements and related notes to those statements, pro forma financial information and Management s Discussion and Analysis of Financial Condition and Results of Operations included elsewhere in this prospectus. The consolidated statement of operations and cash flow data presented below for the fiscal years ended November 30, 2000, 2001 and 2002 and the nine months ended August 31, 2003 and the consolidated balance sheet data as of November 30, 2001 and 2002 and August 31, 2003 have been derived from our audited consolidated financial statements included elsewhere in this prospectus. The consolidated statements of operations and other data for the fiscal years ended November 30, 1998 and 1999 and the consolidated balance sheet data as of November 30, 1998, 1999 and 2000 have been derived from our audited consolidated financial statements that are not included in this prospectus. The consolidated financial statements of operations and other data for the nine months ended August 31, 2002 have been derived from our unaudited consolidated financial statements that appear elsewhere in this prospectus. These unaudited consolidated financial statements include all adjustments that we consider necessary for a fair presentation of that information. These adjustments are only of a normal and recurring nature. The consolidated statement of operations data generally include the operating results from our acquisitions from the closing date of each acquisition. Historical operating results are not necessarily indicative of the results that may be expected for any future period. Please see Management s Discussion and Analysis of Financial Condition and Results of Operations and note 2 and note 4 to our consolidated financial statements included elsewhere in this prospectus for a discussion of factors such as business combinations that affect the comparability of the following selected consolidated financial data.

	Years Ended November 30,					Nine Months Ended August 31,	
	1998	**1999**	**2000**	**2001**	**2002**	**2002**	**2003**
	(in thousands, except per share data)						
Statement of Operations Data:							
Revenue	$ 2,422,832	$ 3,173,602	$ 3,802,629	$ 3,224,390	$ 3,767,882	$ 2,694,376	$ 2,873,293
Cost of revenue	2,313,019	3,039,923	3,626,317	3,060,304	3,593,982	2,568,419	2,741,446
Gross profit	109,813	133,679	176,312	164,086	173,900	125,957	131,847
Selling, general and administrative expenses	79,839	90,016	106,489	106,197	123,418	88,638	91,968
Income from operations	29,974	43,663	69,823	57,889	50,482	37,319	39,879
Interest expense, net	(1,559)	(1,111)	(452)	(1,397)	(1,422)	(1,069)	(1,437)
Other income (expense), net	(7,371)	(3,946)	6,845	(12,813)	(4,207)	(3,347)	(4,901)
Income from continuing operations before income taxes and minority interest	21,044	38,606	76,216	43,679	44,853	32,903	33,541
Provision for income taxes	9,006	15,680	33,373	17,608	16,837	12,735	12,276
Minority interest in subsidiaries		329	832	274	(16)	(176)	(106)
Income from continuing operations	12,038	22,597	42,011	25,797	28,032	20,344	21,371
Loss from discontinued operations		(921)	(5,577)				
Net income	$ 12,038	$ 21,676	$ 36,434	$ 25,797	$ 28,032	$ 20,344	$ 21,371

Net income per common share, basic:							
Income from continuing operations	$ 0.61	$ 1.15	$ 1.96	$ 1.18	$ 1.27	$ 0.92	$ 0.97
Loss from discontinued operations		(0.05)	(0.26)				
Net income per common share, basic	$ 0.61	$ 1.10	$ 1.70	$ 1.18	$ 1.27	$ 0.92	$ 0.97
Net income per common share, diluted:							
Income from continuing operations	$ 0.60	$ 1.10	$ 1.72	$ 1.06	$ 1.16	$ 0.83	$ 0.87
Loss from discontinued operations		(0.05)	(0.23)				
Net income per common share, diluted	$ 0.60	$ 1.05	$ 1.49	$ 1.06	$ 1.16	$ 0.83	$ 0.87

Table of Contents

Index to Financial Statements

	November 30,					August 31,
	1998	1999	2000	2001	2002	2003
	(in thousands)					
Balance Sheet Data:						
Cash and cash equivalents	$ 14,020	$ 33,487	$ 20,564	$ 15,730	$ 15,503	$ 23,174
Working capital	53,436	73,164	116,292	187,235	200,021	206,602
Total assets	437,083	505,272	636,434	565,034	629,075	707,553
Current borrowings under term loans and lines of credit	49,382	34,833	32,121	18,104	19,685	51,447
Long-term borrowings	1,631	2,175	2,090	43,036	38,714	7,852
Total stockholders equity	89,663	112,718	157,823	183,372	213,218	239,538

	Years Ended November 30,					Nine Months Ended August 31,	
	1998	1999	2000	2001	2002	2002	2003
	(in thousands)						
Other Data:							
Depreciation and Amortization	$ 5,656	$ 5,460	$ 6,753	$ 9,350	$ 8,337	$ 6,008	$ 5,685

25

[Table of Contents](#)

[Index to Financial Statements](#)

MANAGEMENT S DISCUSSION AND ANALYSIS OF

FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following discussion of the financial condition and results of operations of SYNNEX should be read together with the consolidated financial statements and the related notes thereto included elsewhere in this prospectus. This discussion contains forward-looking statements that involve risks and uncertainties. Our actual results could differ materially from those anticipated in these forward-looking statements as a result of various factors, including but not limited to, those discussed in Risk Factors, Business and elsewhere in this prospectus.

Overview

We are a global information technology, or IT, supply chain services company. We offer a comprehensive range of services to IT original equipment manufacturers and software publishers, collectively OEMs, and reseller customers worldwide. The supply chain services that we offer include product distribution, related logistics and contract assembly.

We have been in the IT distribution business since 1980 and are one of the largest IT product distributors based on 2002 reported revenue. We focus our core wholesale distribution business on a limited number of leading IT OEMs, which allows us to enhance and increase the value we provide to our OEM suppliers and reseller customers.

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

Revenue and Cost of Revenue

We derive our revenue primarily through the distribution of IT systems, peripherals, system components, software and networking equipment, and, to a lesser extent, from contract assembly. We recognize revenue in both our distribution and contract assembly operations as products are shipped, provided that a purchase order exists, the sales price is fixed or determinable, collection of the resulting receivable is reasonably assured, risk of loss and title have transferred and product returns are reasonably estimable. Our distribution sales are made to reseller customers on a purchase order basis and generally relate to a specific order from a reseller s end-user customer. Our contract assembly sales are generated from specific purchase orders received from our OEM customers for a specified unit quantity. We do not have long-term sales agreements with our reseller or contract assembly customers.

Revenue from our distribution business represented 57.2%, 76.4% and 90.1% of our total revenue in fiscal 2000, 2001 and 2002, respectively, and 95.2% for the nine months ended August 31, 2003. In our distribution business, our primary customers are resellers. None of our reseller customers accounted for more than 10% of our total revenue in fiscal 2000, 2001 or 2002, or for the nine months ended August 31, 2003, and we do not expect any reseller customer to account for more than 10% of our total revenue for the remainder of fiscal 2003. Approximately 23.5%, 30.4% and 35.0% of our total revenue in fiscal 2000, 2001 and 2002, respectively, and 31.5% for the nine months ended August 31, 2003, was derived from the sale of HP products. Most of our remaining revenue is derived from the distribution and assembly of the IT products of a relatively small number of other suppliers.

Table of Contents

Index to Financial Statements

Approximately 42.8%, 23.6% and 9.9% of our total revenue in fiscal 2000, 2001 and 2002, respectively, and 4.8% of our total revenue for the nine months ended August 31, 2003, was derived from our contract assembly business. We provide contract assembly primarily to IT product OEMs. Our contract assembly revenue is dependent on a small number of customers. Revenue from contract assembly provided to Sun Microsystems accounted for approximately 15.0% and 11.9% of our total revenue in fiscal 2000 and 2001, respectively, and accounted for less than 10% of our total revenue in fiscal 2002 and the nine months ended August 31, 2003. In fiscal 2000 and 2001, revenue from contract assembly provided to Compaq accounted for approximately 22.7% and 5.8% of our total revenue, respectively, and we derived no revenue from contract assembly to Compaq in fiscal 2002. Compaq notified us in November 2000 that it would no longer utilize our contract assembly operations and subsequently our contract assembly revenue has been materially adversely affected.

The market for IT products is generally characterized by declining unit prices and short product life cycles. Our distribution business is also highly competitive on the basis of price. We set our sales price based on the market supply and demand characteristics for each particular product or bundle of products we distribute. From time to time, we also participate in the incentive and rebate programs of our OEM suppliers. These programs are important determinants of the final sales price we charge to our reseller customers. To mitigate the risk of declining prices and obsolescence of our distribution inventory, our OEM suppliers generally offer us limited price protection and return rights for products that are marked down or discontinued by them. We carefully manage our inventory to maximize the benefit to us of these supplier provided protections.

A significant portion of our cost of distribution revenue is the purchase price we pay our OEM suppliers for the products we sell, net of any rebates and purchase discounts received from our OEM suppliers. Cost of distribution revenue also consists of provisions for inventory losses and write-downs, and freight expenses associated with the receipt in and shipment out of our inventory. Our contract assembly cost of revenue consists primarily of cost of materials, labor and overhead.

Margins

The IT product distribution and contract assembly industries in which we operate are characterized by low gross profit as a percentage of revenue, or gross margin, and low income from operations as a percentage of revenue, or operating margin. Our gross margin has fluctuated between 4.2% and 5.1% annually over the past five years due to the mix of products, customers, seasonality and the general economic environment. Increased competition arising from industry consolidation and low demand for IT products may hinder our ability to maintain or improve our gross margin. Generally, when our revenue becomes more concentrated on limited products or customers, our gross margin tends to decrease due to increased pricing pressure from OEM suppliers or reseller customers. Our operating margin has also fluctuated between 1.2% and 1.8% annually over the past five years, based primarily on our ability to achieve economies of scale, the management of our operating expenses, the relative mix of our distribution and contract assembly revenue and the timing of our acquisitions and investments.

Recent Acquisitions

We seek to augment our organic growth with strategic acquisitions of businesses and assets that complement and expand our supply chain service capabilities. Our historical acquisitions have brought us new reseller customers and OEM suppliers, extended the geographic reach of our operations, particularly in international markets, and expanded the services we provide to our OEM suppliers and customers. All of our acquisitions were accounted for using the purchase method of accounting and are included within our consolidated financial statements from the closing date of the acquisition, except for our acquisition of Mitac Europe Ltd. The acquisition of Mitac Europe Ltd. was accounted for as a transfer of assets under common control and is included within our consolidated financial statements for all periods presented.

Gates/Arrow Distributing. On May 31, 2002, we acquired substantially all of the net working capital assets, approximately $44.5 million, of Gates/Arrow Distributing, a business unit of Arrow Electronics, Inc., for

Table of Contents

Index to Financial Statements

approximately $44.5 million. Gates/Arrow was a full-line IT product distributor serving value-added resellers across North America and was located in Greenville, South Carolina. The Gates/Arrow acquisition further expanded our distribution market share in North America, increased the number of OEM software publishers we distribute for and also increased the number of value-added enterprise level resellers we serve. Our balance sheet as of May 31, 2002 gives effect to the acquisition of Gates/Arrow. Because of the timing of the acquisition, our operating results through May 31, 2002 were not affected.

License Online, Inc. On May 10, 2002, we acquired the assets of License Online, Inc., a provider of Web-based software licensing technology to IT consultants focused on small- to medium-sized businesses, for approximately $3.3 million in cash. We acquired License Online to broaden our software offerings in our distribution business and to extend our service offerings to our reseller customers.

Merisel Canada Inc. On July 28, 2001, we acquired Merisel Canada Inc., an indirect subsidiary of Merisel, Inc., which now operates as SYNNEX Canada, for approximately $19.9 million. We acquired Merisel Canada in order to enter the Canadian IT product distribution market as part of our expansion effort in North America.

Mitac Europe Ltd. On September 15, 2000, we completed the acquisition of Mitac Europe Ltd, which now operates as SYNNEX UK, from Silver Star Developments Ltd., a company controlled by our largest indirect stockholder, MiTAC International, for 1.6 million shares of our common stock. The acquisition was accounted for as a transfer of assets under common control and the net tangible assets acquired were recorded at their historical cost of $7.6 million and the assets and liabilities and financial results of Mitac Europe Ltd are included within the consolidated financial statements for all periods presented. We acquired Mitac Europe Ltd as part of our international expansion effort to enable us to more effectively provide contract assembly to the European market.

MiTAC Industrial Corp. On August 31, 2000, we acquired all of the outstanding shares of MiTAC Industrial Corp. from MIX System Holdings Ltd., an affiliate of MiTAC International, in exchange for 322,500 shares of our common stock. We acquired this company to expand our U.S. systems integration business.

Economic and Industry Trends

The IT products industry has experienced a significant downturn since 2000. Our revenue is highly dependent on the end-market demand for the IT products that we distribute and assemble. This end-market demand is influenced by many factors including the introduction of new IT products and software by OEMs, replacement cycles for existing IT products and overall economic growth and general business activity. Though the economy and information technology sector appear to have stabilized recently, if demand decreases, we may not be able to achieve in fiscal 2003 the revenue levels we experienced in fiscal 2002. This challenging economic environment may also lead to additional consolidation in the IT distribution industry and increased price-based competition.

Investments

In the past we have invested in the following entities in an attempt to expand our offerings and to capitalize on industry trends. We currently do not hold any significant equity investments.

VA Software Corporation, formerly VA Linux. During fiscal 1999, we invested $800,000 in VA Software Corporation, or VA Linux. At the time of our investment, VA Linux had outsourced their systems manufacturing exclusively to us. Subsequent to its initial public offering in December 1999, we sold our investment in VA Linux for a pre-tax gain of approximately $7.6 million.

Table of Contents

Index to Financial Statements

eManage.com. During fiscal 1999 and 2000, we invested a total of $6.5 million in the equity capital of eManage.com, or eManage. During fiscal 2000, eManage also received equity investments, totaling $5.7 million, from management of eManage, executive officers of SYNNEX, affiliates of SYNNEX and unrelated investors. As a result of our majority ownership of eManage, we consolidated its financial results in our financial statements. eManage was unable to compete profitably in the very difficult web hosting and services marketplace and eventually filed for bankruptcy in November 2000. In addition to a $6.5 million loss on our investment, we incurred a loss of $3.4 million on accounts receivable due from eManage at the time of the bankruptcy filing. As a result of the bankruptcy filing, we treated eManage as a discontinued operation in fiscal 2000. eManage ceased all operations in February 2001.

Converge, Inc. During fiscal 2000, we invested $3.3 million in the equity capital of Converge, Inc., an electronic global trading exchange for electronics components and computer products. Affiliates of SYNNEX invested an additional $3.3 million. Converge, Inc. substantially reduced its operations in September 2001, and as a result we reduced the value of our investment to zero.

Deferred Compensation Plan

We have a deferred compensation plan for a limited number of our directors and employees. We maintain a liability on our balance sheet for salary and bonus amounts deferred by participants and we accrue interest expense on unpaid amounts. Interest expense on the deferred amounts is classified in interest expenses, net on our consolidated statement of income. The plan allows for the participants to direct investment of deferred amounts in equity securities. These equity investments are classified as trading securities. Generally accepted accounting principles require that gains (losses) on the deferred compensation equity securities be recorded in other income (expense), net and that an equal amount be charged (or credited if losses) to selling, general and administrative expenses relating to compensation amounts which are payable to the plan participants. In fiscal 2002 and the nine months ended August 31, 2003, our deferred compensation expense was a credit of $528,000 and $204,000, respectively. In fiscal 2000 and 2001, our deferred compensation expense was $5.2 million and $68,000, respectively.

Unearned Stock-Based Compensation

In fiscal 2000 and 2002, in connection with the granting of employee stock options that had exercise prices determined to be below fair market value on the date of grant, we have recorded unearned stock-based compensation. Unearned stock-based compensation represents the difference between the fair market value of our common stock for financial reporting purposes on the date of grant and the exercise price of these options. Unearned stock-based compensation is included as a reduction of stockholders equity and is amortized over the vesting period of the applicable options, generally five years, using the straight-line method. Our stock-based compensation expense relates to stock options granted to individuals and is reflected in cost of revenue and selling, general and administrative expenses. At August 31, 2003, we had unamortized stock-based compensation of $340,000. This amount will be fully amortized by the end of fiscal 2004.

Seasonality

Our operating results are affected by the seasonality of the IT products industry. We have historically experienced higher sales in our fourth fiscal quarter due to patterns in the capital budgeting and purchasing cycles of our customers and end-users. These patterns may not be repeated in subsequent periods.

Insurance Coverage

Although from time to time we have experienced incidents of theft at various facilities, we have recently experienced theft as a result of break-ins at three of our warehouses in which approximately $9.4 million of inventory was stolen. Based on our investigation, discussions with local law enforcement and meetings with

Table of Contents

Index to Financial Statements

federal authorities, we believe the thefts at our warehouses, which occurred between February and May 2003, were part of an organized crime effort that targeted a number of technology equipment warehouses throughout the United States. As a result of the loss, we reduced our inventory value by $9.4 million, expensed the deductible of $75,000 and recorded the net amount as a receivable from our insurance company, included within other current assets on our balance sheet. Based on the notification we have received from our insurance broker, we expect to collect the receivable from the insurance company. If we do not receive insurance proceeds to cover the loss, we would incur a charge equal to the difference of our loss and the actual insurance proceeds received, which could materially and adversely affect our operating results. In addition, these incidents may make it more difficult or expensive for us to obtain theft coverage in the future. There is no assurance that future incidents of theft will not re-occur.

Critical Accounting Policies and Estimates

The discussions and analyses of our consolidated financial condition and results of operations are based on our consolidated financial statements, which have been prepared in conformity with generally accepted accounting principles in the United States. The preparation of these financial statements requires us to make estimates and assumptions that affect the reported amounts of assets and liabilities, disclosure of any contingent assets and liabilities at the financial statement date, and reported amounts of revenue and expenses during the reporting period. On an ongoing basis, we review and evaluate our estimates and assumptions, including those that relate to accounts receivable, vendor programs, inventories, intangible assets and other long-lived assets, income taxes, and contingencies and litigation. Our estimates are based on our historical experience and a variety of other assumptions that we believe to be reasonable under the circumstances, the results of which form the basis for making our judgment about the carrying values of assets and liabilities that are not readily available from other sources. Actual results could differ from these estimates under different assumptions or conditions.

We believe the following critical accounting policies are affected by our judgment, estimates and/or assumptions used in the preparation of our consolidated financial statements.

Accounts Receivable. We provide allowances for doubtful accounts on our accounts receivable for estimated losses resulting from the inability of our customers to make required payments. If the financial condition of our customers were to deteriorate, which may result in the impairment of their ability to make payments, additional allowances may be required. In estimating our allowance, we take into consideration the overall quality and aging of our receivable portfolio, our continuing credit evaluation of our customers financial conditions and collateral requirements from our customers in certain circumstances.

OEM Supplier Programs. We receive funds from OEM suppliers for inventory price protection, product rebates, marketing and infrastructure reimbursement, and promotion programs. Inventory price protection and product rebates are recorded as a reduction of cost of revenue. Marketing, infrastructure and promotion programs are recorded, net of direct costs, in selling, general and administrative expense. Any excess funds associated with these programs are recorded in cost of sales. All funds received from suppliers are deferred until the related inventory is sold. We accrue rebates based on the terms of the program and sales of qualifying products. Some of these programs may extend over one or more quarterly reporting periods. Amounts received or receivable from OEM suppliers that are not yet earned are deferred in the consolidated balance sheet. Actual rebates may vary based on volume or other sales achievement levels, which could result in an increase or reduction in the estimated amounts previously accrued. In addition, if market conditions were to deteriorate due to an economic downturn, OEM suppliers may change the terms of some or all of these programs or cease them altogether. Any such change could lower our gross margins on products we sell or revenue earned. We also provide reserves for receivables on OEM supplier programs for estimated losses resulting from OEM suppliers inability to pay, or rejections of such claims by OEM suppliers.

30

Table of Contents

Index to Financial Statements

Inventories. Our inventory levels are based on our projections of future demand and market conditions. Any sudden decline in demand and/or rapid product improvements and technological changes can cause us to have excess and/or obsolete inventories. On an ongoing basis, we review for estimated obsolete or unmarketable inventories and write down our inventories to their estimated net realizable value based upon our forecasts of future demand and market conditions. These write downs are reflected in our cost of revenue. If actual market conditions are less favorable than our forecasts, additional inventory reserves may be required. Our estimates are influenced by the following considerations: sudden decline in demand due to economic downturns, rapid product improvements and technological changes, our ability to return to OEM suppliers a certain percentage of our purchases, and protection from loss in value of inventory under our OEM supplier agreements.

Intangible Assets and Other Long-Lived Assets. We assess potential impairment of our intangible assets and other long-lived assets when there is evidence that recent events or changes in circumstances have made recovery of an asset s carrying value unlikely. If indicators of impairment were present in intangible assets used in operations and future cash flows were not expected to be sufficient to recover the assets carrying amount, an impairment loss would be charged to expense in the period identified. The amount of an impairment loss would be recognized as the excess of the asset s carrying value over its fair value. Factors we consider important, which may cause an impairment include: significant changes in the manner of use of the acquired asset, negative industry or economic trends, and significant underperformance relative to historical or projected operating results.

Income Taxes. As part of the process of preparing our consolidated financial statements, we have to estimate our income taxes in each of the taxing jurisdictions in which we operate. This process involves estimating our actual current tax expense together with assessing any temporary differences resulting from the different treatment of certain items, such as the timing for recognizing revenue and expenses, for tax and accounting purposes. These differences may result in deferred tax assets and liabilities, which are included in our consolidated balance sheet. We are required to assess the likelihood that our deferred tax assets, which include net operating loss carry forwards and temporary differences that are expected to be deductible in future years, will be recoverable from future taxable income or other tax planning strategies. If recovery is not likely, we have to provide a valuation allowance based on our estimates of future taxable income in the various taxing jurisdictions, and the amount of deferred taxes that are ultimately realizable. The provision for current and deferred taxes involves evaluations and judgments of uncertainties in the interpretation of complex tax regulations by various taxing authorities. Actual results could differ from our estimates.

Contingencies and Litigation. There are various claims, lawsuits and pending actions against us incident to our operations. If a loss arising from these actions is probable and can be reasonably estimated, we record the amount of the loss, or the minimum estimated liability when the loss is estimated using a range within which no point is more probable than another. Based on current available information, we believe that the ultimate resolution of these actions will not have a material adverse effect on our financial position or results of operations. As additional information becomes available, we assess any potential liability related to these actions and may need to revise our estimates. Future revisions of our estimates could materially impact the results of our operations, financial position or cash flows.

Table of Contents

Index to Financial Statements

Results of Operations

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

	Years Ended November 30,			Nine Months Ended August 31,	
	2000	2001	2002	2002	2003
Revenue	100.00%	100.00%	100.00%	100.00%	100.00%
Cost of revenue	95.36	94.91	95.38	95.33	95.41
Gross margin	4.64	5.09	4.62	4.67	4.59
Selling, general and administrative expenses	2.80	3.29	3.28	3.29	3.20
Income from operations	1.84	1.80	1.34	1.38	1.39
Interest expense, net	(0.00)	(0.04)	(0.04)	(0.04)	(0.05)
Other income (expense), net	0.18	(0.40)	(0.11)	(0.12)	(0.17)
Income from continuing operations before income taxes and minority interest	2.00	1.36	1.19	1.22	1.17
Provision for income taxes	0.88	0.55	0.45	0.47	0.43
Minority interest in subsidiaries	0.02	0.01	0.00	(0.01)	(0.00)
Income from continuing operations	1.10	0.80	0.74	0.76	0.74
Loss from discontinued operations	0.14	0.00	0.00	0.00	0.00
Net income	0.96%	0.80%	0.74%	0.76%	0.74%

Nine Months Ended August 31, 2003 Compared to Nine Months Ended August 31, 2002

Revenue. Our revenue increased 6.6% to $2.87 billion in the nine months ended August 31, 2003 from $2.69 billion in the nine months ended August 31, 2002. On a segmented basis, our distribution revenue increased 14.8% from $2.38 billion in the nine months ended August 31, 2002 to $2.74 billion in the nine months ended August 31, 2003, and our contract assembly revenue decreased 55.8% to $137.0 million in the nine months ended August 31, 2003 from $310.0 million in the nine months ended August 31, 2002. The increase in distribution revenue was attributable primarily to the acquisition of Gates/Arrow Distributing in May 2002 and market share increases through increased selling efforts, primarily in North America. The increase was also attributable to the commencement of our Mexico distribution operations in April 2002. Our Mexico operations accounted for $70.0 million of the distribution revenue increase in the period ending August 31, 2003 versus the same period in 2002. The increase in distribution revenue was somewhat mitigated by a continued general decline in demand for IT products. The decline in contract assembly revenue was the result of a decline in demand for IT products that we assemble for our primary OEM customer, Sun Microsystems. While we currently expect continued fluctuations in the level of our contract assembly revenue, we do not anticipate significant declines in the foreseeable future.

Gross Margin. Our gross margin has been and will continue to be affected by a variety of factors, including competition, the mix and average selling prices of products we sell and the mix of customers to whom we sell, rebate and discount programs from our suppliers, freight costs and reserves for inventory losses. Gross margins decreased to 4.6% of revenue for the nine months ended August 31, 2003 from 4.7% for the nine months ended August 31, 2002. The decrease in gross margin was a result of the increase in our lower gross margin distribution business and a decrease in our higher gross margin contract assembly business. Distribution gross margin was essentially unchanged for the nine months ended August 31, 2003 as compared with the nine months ended August 31, 2002 as a result of our efforts to maintain our pricing policies in selling our products. We expect that our total gross margins may decrease further in future periods as a result of the relative mix of our distribution and contract assembly revenue as well as due to potential increased competition or softness in the overall economy.

Selling, General and Administrative Expenses. Our selling, general and administrative expenses consist primarily of salaries, commissions, bonuses, and related expenses for personnel engaged in sales, product marketing, distribution and contract assembly operations and administration. Selling, general and administrative expenses also include stock-based compensation expense, deferred compensation expense, temporary personnel

Table of Contents

Index to Financial Statements

fees, the costs of our facilities, utility expense, professional fees, depreciation expense on our capital equipment and amortization expense on our intangible assets. As a percentage of revenue, selling, general and administrative expenses declined slightly in the nine months ended August 31, 2003 to 3.2% from 3.3% for the nine months ended August 31, 2002. Selling, general and administrative expense increased by $3.3 million or 3.8% to $92.0 million in the nine months ended August 31, 2003 as compared with the nine months ended August 31, 2002. The increase was primarily a result of the April 2002 commencement of our Mexico distribution operations, which accounted for $3.3 million of the selling, general and administrative expense increase, and, a loss on disposition of property and equipment of $933,000. These amounts were partly offset by decrease in selling, general and administrative expenses in geographies outside of North America and Mexico of $1.0 million. Netted against selling, general and administrative expenses are reimbursements from OEM suppliers of $9.9 million for the nine months ended August 31, 2003, compared to $7.1 million for the nine months ended August 31, 2002. The reimbursements relate to marketing, infrastructure and promotion programs such as advertisements in trade publications, direct marketing campaigns through mail and e-mail and product demonstrations at trade shows. We make the arrangements and pay for the advertising, facility fees and other costs of the programs, which feature the OEM suppliers products. If our OEM suppliers had not offered reimbursements for these programs, then we might have chosen not to have these programs and incur the related costs.

Income from Operations. Income from operations as a percentage of revenue was unchanged at 1.4% for the nine months ended August 31, 2003 and 2002. On a segmented basis, our distribution operating income as a percentage of distribution revenue was relatively unchanged at 1.4% for the nine months ended August 31, 2003 as compared to 1.3% for the nine months ended August 31, 2002, and our contract assembly operating income as a percentage of contract assembly revenue was 0.9% for the nine months ended August 31, 2003, down from 2.2% for the nine months ended August 31, 2002. The decrease in contract assembly operating margin was primarily due to the decrease in contract assembly revenue, as discussed above.

Interest Expense, net. Amounts recorded in interest expense, net are primarily interest expense paid on our lines of credit, long-term debt and deferred compensation liability offset by income earned on our excess cash investments. Interest expense, net increased to $1.4 million in the nine months ended August 31, 2003 from $1.1 million in the nine months ended August 31, 2002. The increase in interest expense, net was primarily the result of increased borrowing activity in the nine months ended August 31, 2003 versus the nine months ended August 31, 2002 in order to support our increase in revenue and operations.

Other Income (Expense), net. Amounts recorded in other income (expense), net include fees associated with third party accounts receivable flooring arrangements, fees associated with the sale of accounts receivable through our securitization facility, foreign currency transaction gains and losses, investment gains and losses, including those in our deferred compensation plan and other non-operating gains and losses. Other income (expense), net increased by 46.4% to an expense of $4.9 million in the nine months ended August 31, 2003 from an expense of $3.3 million in the nine months ended August 31, 2002. This increase was primarily related to an increase in foreign currency transaction losses from gains of $88,000 for the nine months ended August 31, 2002 to losses of $629,000 for the nine months ended August 31, 2003. The increase was also due to a decrease in miscellaneous gains of $605,000 and an increase in flooring and securitization fees of $374,000.

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 provision for income taxes decreased 3.6% to $12.3 million in the nine months ended August 31, 2003 from $12.7 million in the nine months ended August 31, 2002. Our effective tax rate was 37.7% for the nine months ended August 31, 2003 as compared with an effective tax rate of 38.5% for the nine months ended August 31, 2002. The decrease in our income tax provision and effective tax rate was primarily a result of the lower effective tax rate of our subsidiaries in Canada and China.

Minority Interest. Minority interest is the portion of earnings from operations from subsidiaries of our company attributable to others. Our subsidiaries in Japan and Mexico have minority stockholders. Minority interest decreased by $70,000 to a benefit of $106,000 in the nine months ended August 31, 2003 as compared to a benefit of $176,000 for the nine months ended August 31, 2002 due to increased profits at our Japan subsidiary.

Table of Contents

Index to Financial Statements

Fiscal Year Ended November 30, 2002 Compared to Fiscal Year Ended November 30, 2001

Revenue. Our revenue increased 16.9% to $3.77 billion in fiscal 2002 from $3.22 billion in fiscal 2001. On a segmented basis, our distribution revenue increased 37.8% from $2.46 billion in fiscal 2001 to $3.39 billion in fiscal 2002 and our contract assembly revenue decreased 50.9% from $760.0 million in fiscal 2001 to $373.0 million in fiscal 2002. The increase in our distribution revenue was primarily attributable to market share increases through increased selling efforts, including an increase in the size of our sales force and our number of distribution centers, the acquisition of Merisel Canada in July 2001, the acquisition of Gates/Arrow Distributing in May 2002 and the commencement of our Mexico distribution operations in April 2002. The acquisition of Merisel Canada and the commencement of our Mexico distribution operations accounted for $349.4 million and $44.0 million, respectively, of the distribution revenue increase in fiscal 2002 as compared to fiscal 2001. The decline in contract assembly revenue was primarily attributable to the termination of our contract assembly contract with Compaq in 2001 as well as the general decline in demand for technology products that affected our other OEM customers.

Gross Margin. Gross margin decreased to 4.6% of total revenue in fiscal 2002 from 5.1% in fiscal 2001. The decrease in gross margin was primarily due to the increase in our lower gross margin distribution business and a decrease in our higher margin contract assembly business. Distribution gross margin was relatively unchanged in fiscal 2002 versus fiscal 2001 as a result of our efforts to maintain our pricing policies in selling our products. Gross margins in our North American distribution business were slightly higher in fiscal 2002 versus fiscal 2001; however this increase was offset by a decline in gross margins in our Japan distribution business in fiscal 2002 as a result of a change in the mix of products distributed.

Selling, General and Administrative Expenses. Total selling, general and administrative expenses increased by $17.2 million, or 16.2%, to $123.4 million in fiscal 2002 as compared to $106.2 million in fiscal 2001. The increase in selling, general and administrative expense was primarily a result of a full year of expenses, contributing an incremental $11.3 million in expense in fiscal 2002, from our subsidiary in Canada, which was acquired in July 2001, and increased expenses associated with the acquisition of Gates/Arrow Distributing and the commencement of our subsidiary in Mexico, which contributed an increase of $2.5 million in expense in fiscal 2002. Incremental expense associated with our increased revenue contributed to the rise in selling, general and administrative as well. Included in fiscal 2001 selling, general and administrative expense was $2.1 million of accelerated depreciation expense related to the impairment of assembly assets associated with the loss of our Compaq assembly business and $2.8 million in stock-based compensation expense, compared to $495,000 in fiscal 2002. Netted against selling, general and administrative expenses are reimbursements from our OEM suppliers of $9.5 million for fiscal 2002, compared to $6.3 million for fiscal 2001 related to marketing, infrastructure and promotion programs.

Income from Operations. Income from operations as a percentage of revenue decreased to 1.3% in fiscal 2002 from 1.8% in fiscal 2001. The decrease in our income from operations, on a percentage basis, was primarily due to the increase in our lower operating margin distribution business and a decrease in our higher margin contract assembly business. On a segmented basis, our distribution operating income as a percentage of distribution revenue was unchanged at 1.3% in fiscal 2002, and our contract assembly operating income as a percentage of contract assembly revenue decreased to 2.0% in fiscal 2002 from 3.4% in fiscal 2001.

Interest Expense, net. Interest expense, net was relatively unchanged at $1.4 million in fiscal 2002 compared to fiscal 2001. Higher interest expense at our subsidiary in Canada, due to its acquisition in July 2001, was offset by an increase in interest income.

Other Income (Expense), net. Other income (expense), net decreased by $8.6 million to an expense of $4.2 million in fiscal 2002 from an expense of $12.8 million in fiscal 2001. Expense in fiscal 2002 consisted primarily of fees of $4.8 million associated with our accounts receivable flooring arrangements and the sale of accounts receivable through our securitization facility and foreign currency transaction losses of

$177,000 offset by other income of $1.0 million. Expense in fiscal 2001 consisted primarily of fees of $5.8 million associated with third party accounts receivable flooring arrangements and the sale of accounts receivable through our securitization facility, foreign currency transaction losses of $3.4 million and the write-off of our investment in Converge in the amount of $3.3 million.

Table of Contents

Index to Financial Statements

Provision for Income Taxes. Our provision for income taxes decreased 4.4% to $16.8 million in fiscal 2002 from $17.6 million in fiscal 2001. Our effective tax rate was 37.5% in fiscal 2002 compared to 40.3% in fiscal 2001. The decrease in our income tax provision and our effective tax rate was primarily a result of the lower effective tax rate of our subsidiary in Canada.

Minority Interest. Minority interest decreased by $290,000 to a benefit of $16,000 in fiscal 2002 from an expense of $274,000 in fiscal 2001 due to a decrease in the profits of our subsidiary in Japan as a result of continued weak economic conditions in Japan.

Fiscal Year Ended November 30, 2001 Compared to Fiscal Year Ended November 30, 2000

Revenue. Our revenue decreased 15.2% to $3.22 billion in fiscal 2001 from $3.80 billion in fiscal 2000. On a segmented basis our distribution revenue increased 13.3% from $2.17 billion to $2.46 billion and our contract assembly revenue decreased 53.3% from $1.63 billion to $760.0 million. The increase in our distribution revenue was attributable to the acquisition of Merisel Canada in July 2001, which contributed approximately $144.3 million of revenue in fiscal 2001, and market share increases through increased selling efforts, primarily in North America. The increase in distribution revenue was somewhat mitigated by a general decline in demand for IT products. The decline in contract assembly revenue was primarily the result of the decrease in revenue from the termination of our contract assembly agreement with Compaq in 2001 of $675.0 million, as well as the general decline in demand for technology products that affected our other OEM customers.

Gross Margin. Gross margin increased to 5.1% of total revenue in fiscal 2001 from 4.6% in fiscal 2000. The increase in gross margin was primarily due to improved purchasing and management of the product costs associated with our contract assembly business and the loss of the lower margin Compaq contract assembly business. Distribution gross margins declined in fiscal 2001 versus fiscal 2000, due to a decline in the gross margins of our Japan distribution business resulting from a change in the mix of products distributed in Japan and due to pricing pressures in North America.

Selling, General and Administrative Expenses. Total selling, general and administrative expenses decreased by $292,000, or 0.3%, to $106.2 million in fiscal 2001 as compared to $106.5 million in fiscal 2000. Selling, general and administrative expenses associated with acquired subsidiaries were $7.3 million higher in fiscal 2001 than in fiscal 2000 primarily due to the acquisition of Merisel Canada on July 28, 2001. Selling, general and administrative expenses in fiscal 2001 also included $2.1 million for accelerated deprecation of impaired assets associated with the terminated Compaq business. Deferred compensation charges were $7.5 million higher in fiscal 2000 than in fiscal 2001 because of appreciation of investments held on behalf of officers in fiscal 2000. Stock-based compensation charges were $2.9 million higher in fiscal 2000 than in fiscal 2001 primarily due to the issuance of vested options. Netted against selling, general and administrative expenses are reimbursements from our OEM suppliers of $6.3 million for fiscal 2001, compared to $4.3 million for fiscal 2000 related to marketing, infrastructure and promotion programs.

Income from Operations. Income from operations as a percentage of revenue increased to 1.8% in fiscal 2001 from 1.7% in fiscal 2000. The increase in our income from operations, on a percentage basis, was primarily due to the increase in our gross margin in fiscal 2001 as compared to fiscal 2000, partially offset by the increase in our selling, general and administrative expense as a percent of revenue in fiscal 2001 as compared to fiscal 2000, in each case as discussed above. On a segmented basis, our distribution operating income as a percentage of distribution revenue decreased to 1.3% in fiscal 2001 from 1.7% in fiscal 2000, and our contract assembly operating income as a percentage of contract assembly revenue increased to 3.4% in fiscal 2001 from 1.8% in fiscal 2000. The decrease in distribution margin was due to overall lower gross margins and the selling, general and administrative expenses associated with the acquisition of Merisel Canada, as discussed above. The increase in contract assembly margin was primarily due to higher gross margins, as discussed above.

Interest Expense, net. Interest expense, net increased to $1.4 million in fiscal 2001 from $452,000 in fiscal 2000. The increase in interest expense, net was primarily a result of the acquisition of Merisel Canada and the resultant interest expense from its secured credit facility.

Table of Contents

Index to Financial Statements

Other Income (Expense), net. Other income (expense), net changed by $19.7 million to an expense of $12.8 million in fiscal 2001 from income of $6.8 million in fiscal 2000. Expense in fiscal 2001 consisted primarily of fees of $5.8 million associated with third party accounts receivable flooring arrangements and the sale of accounts receivable through our securitization facility and foreign currency transaction losses of $3.4 million. The income in fiscal 2000 was primarily a result of a gain of approximately $7.6 million from the sale of our investment in VA Linux as well as gains of $5.2 million on equity investments associated with deferred compensation accounts. These amounts were partially offset by fees of $9.6 million in fiscal 2000 associated with our accounts receivable flooring arrangements and the sale of accounts receivable through our securitization facility.

Provision for Income Taxes. Our provision for income taxes decreased 47.3% to $17.6 million in fiscal 2001 from $33.4 million in fiscal 2000 primarily due to the 42.7% decrease in our income before taxes. Our effective tax rate was 40.3% in fiscal 2001 compared to 43.8% in fiscal 2000. The decrease in the fiscal 2001 effective tax rate was primarily a result of a decrease in stock-based compensation expenses, which are not deductible for tax purposes.

Minority Interest. Minority interest decreased by $558,000, to an expense of $274,000 in fiscal 2001 from an expense of $832,000 in fiscal 2000 due to a reduced amount of income generated by our subsidiary in Japan as a result of weak economic conditions in Japan.

Table of Contents

Index to Financial Statements

Quarterly Financial Data

The following tables set forth certain unaudited statements of operations, balance sheet and other data, in thousands, for the eleven quarters ended August 31, 2003. The unaudited interim consolidated financial statements contained herein have been prepared on the same basis as the audited consolidated financial statements and, in the opinion of management, include all adjustments, consisting only of normal recurring adjustments, that we consider necessary for a fair presentation of such information when read together with the consolidated financial statements and related notes thereto appearing elsewhere in this prospectus. The operating results for any quarter should not be considered indicative of results of any future period.

	Fiscal 2001				Fiscal 2002				Fiscal 2003		
	Three Months Ended				Three Months Ended				Three Months Ended		
	Feb. 28, 2001	May 31, 2001	Aug. 31, 2001	Nov. 30, 2001	Feb. 28, 2002	May 31, 2002	Aug. 31, 2002	Nov. 30, 2002	Feb. 28, 2003	May 31, 2003	Aug. 31, 2003
	(in thousands)										
Statement of Operations Data:											
Revenue	$ 876,697	$ 754,052	$ 736,901	$ 856,740	$ 817,756	$ 867,475	$ 1,009,145	$ 1,073,506	$ 892,924	$ 945,104	$ 1,035,265
Cost of revenue	831,466	711,598	698,643	818,597	778,719	825,350	964,350	1,025,563	850,936	902,261	988,249
Gross profit	45,231	42,454	38,258	38,143	39,037	42,125	44,795	47,943	41,988	42,843	47,016
Selling, general and administrative expenses	28,239	25,483	24,885	27,590	26,690	29,690	32,258	34,780	29,894	29,689	32,385
Income from operations	16,992	16,971	13,373	10,553	12,347	12,435	12,537	13,163	12,094	13,154	14,631
Interest expense, net	(61)	(289)	(497)	(550)	(470)	(290)	(309)	(353)	(589)	(496)	(352)
Other income (expense), net	(3,821)	(2,281)	(2,103)	(4,608)	(1,751)	(785)	(811)	(860)	(1,268)	(1,703)	(1,930)
Income before income taxes and minority interest	13,110	14,401	10,773	5,395	10,126	11,360	11,417	11,950	10,237	10,955	12,349
Provision for income taxes	5,285	5,805	4,342	2,176	3,902	4,431	4,402	4,102	3,493	3,950	4,833
Minority interest in subsidiaries	105	160	74	(65)	(7)	22	(191)	160	43	(15)	(134)
Net income	$ 7,720	$ 8,436	$ 6,357	$ 3,284	$ 6,231	$ 6,907	$ 7,206	$ 7,688	$ 6,701	$ 7,020	$ 7,650
Other Data:											
Distribution revenue	$ 559,531	$ 548,739	$ 610,584	$ 745,532	$ 722,417	$ 745,030	$ 916,969	$ 1,010,311	$ 850,440	$ 902,472	$ 983,381

Contract assembly revenue	317,166	205,313	126,317	111,208	95,339	122,445	92,176	63,195	42,484	42,632	51,884
Depreciation expense	3,257	1,321	1,328	1,269	1,180	1,136	1,298	1,421	1,189	1,118	1,012
Amortization of intangible assets	377	348	401	484	599	631	756	755	762	761	430

Table of Contents

Index to Financial Statements

	Fiscal 2001				Fiscal 2002				Fiscal 2003		
	Feb. 28, 2001	May 31, 2001	Aug. 31, 2001	Nov. 30, 2001	Feb. 28, 2002	May 31, 2002	Aug. 31 2002	Nov. 30, 2002	Feb. 28, 2003	May 31, 2003	Aug. 31, 2003
	(in thousands)										
Balance Sheet Data:											
Assets											
Current assets:											
Cash and cash equivalents	$ 16,163	$ 22,635	$ 22,041	$ 15,730	$ 16,342	$ 23,258	$ 22,730	$ 15,503	$ 27,204	$ 17,293	$ 23,174
Restricted cash				1,002	2,010	2,020	5,531	5,561	6,587	6,603	4,333
Short-term investments	2,314	1,178	1,039	1,499	5,232	5,238	4,205	3,830	4,012	4,236	4,670
Accounts receivable, net	227,728	163,247	230,358	204,624	227,012	203,380	250,452	221,432	235,616	176,482	191,056
Receivable from vendors, net	40,950	37,298	39,534	34,886	33,645	42,292	45,769	35,162	39,117	50,415	52,522
Receivable from affiliates	6,510	6,038	6,400	7,637	7,031	7,906	1,412	2,138	996	804	866
Inventories	235,385	206,707	241,861	236,127	245,838	256,587	277,743	261,498	262,103	280,520	353,229
Deferred income taxes	13,801	13,359	15,026	13,535	13,464	14,536	15,392	13,805	13,049	13,571	14,573
Other current assets	5,781	4,458	9,008	7,366	14,710	11,018	11,242	13,511	21,914	21,330	17,761
Total current assets	548,632	454,920	565,267	522,406	565,284	566,235	634,476	572,440	610,598	571,254	662,184
Long-term investments	208	49	49	49							
Property and equipment, net	17,652	16,627	16,946	16,616	15,653	19,856	22,630	25,295	24,675	24,392	22,921
Intangible assets	18,810	18,420	21,901	21,321	20,525	25,119	24,500	23,769	23,116	22,327	19,865
Deferred income taxes	475	447	881	874	859	525	532	529	556	593	590
Other assets	6,695	6,211	5,778	3,768	3,366	3,728	5,081	7,042	5,395	5,348	1,993
Total assets	$ 592,472	$ 496,674	$ 610,822	$ 565,034	$ 605,687	$ 615,463	$ 687,219	$ 629,075	$ 664,340	$ 623,914	$ 707,553
Liabilities and Stockholders Equity											
Current liabilities:											
Borrowings under term loans and lines of credit	$ 39,832	$ 34,148	$ 28,329	$ 18,104	$ 21,339	$ 19,047	$ 30,536	$ 19,685	$ 50,021	$ 42,838	$ 51,447
Payable to affiliates	71,898	47,117	30,835	24,968	20,336	25,595	16,120	16,817	18,578	16,297	26,348
Accounts payable	247,620	165,717	256,911	248,307	281,637	271,181	341,008	269,608	291,846	256,535	327,158
Accrued liabilities	58,341	60,272	60,546	42,901	39,457	56,785	55,678	66,202	60,909	55,418	49,568
Income taxes payable	4,028	1,107	2,252	891	2,274	2,107	1,420	107	2,713	2,097	1,061
Total current liabilities	421,719	308,361	378,873	335,171	365,043	374,715	444,762	372,419			