

SYNEX CORP
Form 10-Q
April 09, 2007
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended February 28, 2007

OR

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

For the transition period from _____ to _____

Commission File Number: 001-31892

SYNEX CORPORATION

(Exact name of registrant as specified in its charter)

Delaware
(State or other jurisdiction of
incorporation or organization)

94-2703333
(I.R.S. Employer
Identification No.)

44201 Nobel Drive

94538

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Fremont, California
(Address of principal executive offices)

(Zip Code)

(510) 656-3333

(Registrant's telephone number, including area code)

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

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

Large accelerated filer Accelerated filer Non-accelerated filer

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

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

Class	Outstanding at April 2, 2007
Common Stock, \$0.001 par value	31,088,735

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Table of Contents**PART I FINANCIAL INFORMATION****ITEM 1. Financial Statements****SYNEX CORPORATION****CONDENSED CONSOLIDATED BALANCE SHEETS**

(in thousands, except for par values)

(unaudited)

	February 28,	November 30,
	2007	2006
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 22,473	\$ 27,881
Short-term investments	14,986	13,271
Accounts receivable, net	589,512	363,437
Receivable from vendors, net	88,880	95,080
Receivable from affiliates	5,210	1,855
Inventories	524,300	594,642
Deferred income taxes	16,897	17,994
Current deferred assets	13,713	13,990
Other current assets	11,755	9,887
Total current assets	1,287,726	1,138,037
Property and equipment, net	40,182	36,698
Goodwill and intangible assets, net	73,410	48,588
Deferred income taxes	6,722	6,716
Long-term deferred assets	126,244	139,111
Other assets	15,993	13,584
Total assets	\$ 1,550,277	\$ 1,382,734
LIABILITIES AND STOCKHOLDERS EQUITY		
Current liabilities:		
Borrowings under securitization, term loans and lines of credit	\$ 243,973	\$ 50,834
Accounts payable	461,657	462,480
Payable to affiliates	70,025	89,831
Accrued liabilities	74,196	81,818
Current deferred liabilities	28,389	29,516
Income taxes payable	10,048	6,693
Total current liabilities	888,288	721,172
Long-term borrowings	41,715	47,967
Long-term liabilities	11,048	10,131
Long-term deferred liabilities	81,432	90,686
Deferred income taxes	1,205	1,232
Total liabilities	1,023,688	871,188

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Commitments and contingencies (Note 12)

Stockholders' equity:

Preferred stock, \$0.001 par value, 5,000 shares authorized, no shares issued or outstanding		
Common stock, \$0.001 par value, 100,000 shares authorized, 30,642 and 30,477 shares issued and outstanding	31	30
Additional paid-in capital	184,172	181,188
Accumulated other comprehensive income	12,182	13,999
Retained earnings	330,204	316,329
Total stockholders' equity	526,589	511,546
Total liabilities and stockholders' equity	\$ 1,550,277	\$ 1,382,734

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

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SYNEX CORPORATION
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

(in thousands, except for per share amounts)

(unaudited)

	Three Months Ended	
	February 28, 2007	February 28, 2006
Revenue	\$ 1,588,276	\$ 1,501,735
Cost of revenue	(1,513,852)	(1,436,725)
Gross profit	74,424	65,010
Selling, general and administrative expenses	(49,481)	(42,763)
Income from operations before non-operating items and income taxes	24,943	22,247
Interest expense and finance charges, net	(3,058)	(5,853)
Other income (expense), net	158	273
Income before income taxes	22,043	16,667
Provision for income taxes	(8,168)	(5,984)
Net income	\$ 13,875	\$ 10,683
Earnings per share:		
Basic	\$ 0.45	\$ 0.37
Diluted	\$ 0.43	\$ 0.34
Weighted-average common shares outstanding basic	30,548	29,055
Weighted-average common shares outstanding diluted	32,372	31,204

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

Table of Contents**SYNEX CORPORATION****CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS****(in thousands)****(unaudited)**

	Three Months Ended	
	February 28,	February 28,
	2007	2006
Cash flows from operating activities:		
Net income	\$ 13,875	\$ 10,683
Adjustments to reconcile net income to net cash provided by (used in) operating activities:		
Depreciation expense	1,634	1,239
Amortization of intangible assets	1,198	1,000
Share-based compensation	1,004	735
Provision for doubtful accounts	2,043	1,641
Unrealized gain on trading securities	(220)	(141)
Realized gain on investment	(58)	(36)
Unrealized loss on short-term investments		8,933
Others	(8)	9
Changes in assets and liabilities, net of acquisition of businesses:		
Accounts receivable	(224,568)	41,228
Receivable from vendors	6,216	6,373
Receivable from affiliates	(3,355)	2,178
Inventories	67,906	(27,993)
Other assets	8,535	(73,854)
Payable to affiliates	(19,806)	(19,111)
Accounts payable	7,725	6,566
Accrued liabilities	(3,263)	45,748
Deferred liabilities	(8,620)	
Net cash provided by (used in) operating activities	(149,762)	5,198
Cash flows from investing activities:		
Purchases of short-term investments	(2,206)	(2,851)
Proceeds from sale of short-term investments	802	278
Acquisition of businesses, net of cash acquired	(33,213)	
Purchase of property and equipment	(1,884)	(1,814)
Increase in restricted cash	(947)	
Net cash used in investing activities	(37,448)	(4,387)
Cash flows from financing activities:		
Cash overdraft	(7,515)	(7,867)
Proceeds from revolving line of credit and securitization	324,380	129,163
Payment of revolving line of credit and securitization	(130,182)	(128,392)
Payment of bank loan	(7,343)	
Net proceeds under other lines of credit	73	1,129
Net proceeds from issuance of common stock	1,980	2,791
Others		8

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Net cash provided by (used in) financing activities	181,393	(3,168)
Effect of exchange rate changes on cash and cash equivalents	409	(133)
Net decrease in cash and cash equivalents	(5,408)	(2,490)
Cash and cash equivalents at beginning of period	27,881	13,636
Cash and cash equivalents at end of period	\$ 22,473	\$ 11,146
Supplemental disclosures of cash flow information:		
Interest paid	\$ 2,384	\$ 471
Income taxes paid	\$ 3,632	\$ 3,085

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

Table of Contents**SYNNEX CORPORATION****CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME****(in thousands)****(unaudited)**

	Three Months Ended	
	February 28,	February 28,
	2007	2006
Net income	\$ 13,875	\$ 10,683
Other comprehensive income:		
Changes in unrealized gains on available-for-sale securities	4	93
Foreign currency translation adjustment	(1,821)	2,052
Total comprehensive income	\$ 12,058	\$ 12,828

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

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SYNEX CORPORATION

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the three months ended February 28, 2007 and 2006

(amounts in thousands, except for per share amounts)

(unaudited)

NOTE 1 ORGANIZATION AND BASIS OF PRESENTATION:

SYNEX Corporation (together with its subsidiaries, herein referred to as "SYNEX" or the "Company") is an information technology products supply chain services company. The Company's supply chain services include distribution, contract assembly, logistics and business process outsourcing. SYNEX is headquartered in Fremont, California and has operations in the United States, Canada, China, Mexico, Philippines and the United Kingdom.

The accompanying interim unaudited condensed consolidated financial statements as of February 28, 2007 and 2006 and for the three months then ended have been prepared by the Company in accordance with the rules and regulations of the Securities and Exchange Commission ("SEC"). The amounts as of November 30, 2006 have been derived from the Company's annual audited financial statements. Certain information and footnote disclosures normally included in financial statements prepared in accordance with generally accepted accounting principles in the United States have been condensed or omitted in accordance with such rules and regulations. In the opinion of management, the accompanying unaudited condensed consolidated financial statements reflect all adjustments, consisting only of normal recurring adjustments, necessary to state fairly the financial position of the Company and its results of operations and cash flows as of and for the periods presented. These financial statements should be read in conjunction with the annual audited financial statements and notes thereto as of and for the year ended November 30, 2006, included in the Company's Annual Report on Form 10-K for the fiscal year then ended.

The results of operations for the three months ended February 28, 2007 are not necessarily indicative of the results that may be expected for the year ending November 30, 2007, or any future period and the Company makes no representations related thereto.

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

Use of estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expense during the reporting period. The Company evaluates these estimates on a regular basis and bases them on historical experience and on various assumptions that the Company believes are reasonable. Actual results could differ from those estimates.

Principles of consolidation

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

The consolidated financial statements include 100% of the assets and liabilities of these majority-owned subsidiaries and the ownership interest of minority investors are recorded as minority interest. Investments in 20% through 50% owned affiliated companies are included under the equity method of accounting where the Company exercises significant influence over operating and financial affairs of the investee. Investments in less than 20% owned companies or investments in 20% through 50% owned companies where the Company does not exercise significant influence over operating and financial affairs of the investee are recorded under the cost method.

Cash and cash equivalents

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

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For the three months ended February 28, 2007 and 2006

(amounts in thousands, except for per share amounts)

(unaudited)

Restricted cash

As of February 28, 2007 and November 30, 2006, the Company had restricted cash in the amount of \$9,110 and \$8,141, respectively, for future payments to one of its vendors relating to a long-term project at the Company's Mexico operation.

Investments

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

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

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

Allowance for doubtful accounts

The allowance for doubtful accounts is estimated to cover the losses resulting from the inability of customers to make payments for outstanding balances. In estimating the required allowance, the Company takes into consideration the overall quality and aging of the receivables, credit evaluations of customers' financial condition and existence of credit insurance. The Company also evaluates the collectability of accounts receivable based on specific customer circumstances, current economic trends, historical experience with collections and any value and adequacy of collateral received from customers.

Inventories

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

Property and equipment

Property and equipment are stated at cost, less accumulated depreciation and amortization. Depreciation and amortization are computed using the straight-line method based upon the shorter of the estimated useful lives of the assets, or the lease term of the respective assets, if applicable.

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Maintenance and repairs are charged to expense as incurred, and improvements are capitalized. When assets are retired or otherwise disposed of, the cost and accumulated depreciation and amortization are removed from the accounts and any resulting gain or loss is reflected in operations in the period realized. The ranges of estimated useful lives for property and equipment categories are as follows:

Equipment and furniture	3 - 7 years
Software	3 - 7 years
Leasehold improvements	3 - 10 years
Buildings	39 years

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Goodwill