MANAGEMENT DISCUSSION SECTION

Operator: Good day, ladies and gentlemen, and welcome to the SYNNEX Second Quarter 2008 Earnings Conference Call.

[Operator Instructions] I would now like to introduce your host for today's conference, Ms. Laura Crowley, Director of Investor Relations. You may begin your conference.

Laura Crowley, Director of Investor Relations and Public Relations

Thank you, Adrienne. Good afternoon and welcome to the SYNNEX Corporation's fiscal 2008 Second Quarter Earnings Conference Call. Joining us on today's call are Bob Huang, President and Co-Chief Executive Officer; Kevin Murai, Co-Chief Executive Officer; Dennis Polk, Chief Operating Officer; and Thomas Alsborg, Chief Financial Officer.

Before we begin, I would like to note that the statements on today's call which are not historical facts, are forward-looking statements within the meaning of the Private Securities Litigation Reform Act. These forward-looking statements include but are not limited to statements regarding our acquisition and integration of New Age Electronics, the seasonality of our business, growth of our Consumer Electronics division, expectations of our revenues, gross margin, SG&A, net income, earnings per share, working capital, return on invested capital and our cash cycle, the impact of the general economy on our business, softness of the market, our IT systems, our growth and profitability, planned liquidity, the benefits and impact of our recent convertible bond offering, future benefits derived from our recent acquisitions, and management changes. These statements are subject to risks and uncertainties that could cause actual results to differ materially from those discussed in these forward-looking statements.

Please refer to today's press release and our documents filed with the Securities and Exchange Commission, specifically our most recent 10-Q filed in April, for more information on some of the risk factors that could cause actual results to differ materially from those discussed in these forward-looking statements. Also any use of the word "pro forma" refers to figures that are non-GAAP.

Additionally, this conference call is the property of SYNNEX Corporation, and may not be recorded or rebroadcast without specific written permission from the company.

Now, I'd like to turn the call over to Thomas Alsborg for a recap and comments on our financial performance. Thomas?

Thomas Alsborg, Chief Financial Officer

Thank you, Laura. Good afternoon, everyone, and thank you for joining our call today. I'm going to begin by summarizing our results of operations for the quarter. But before I do, I would like to highlight that during the quarter, we acquired substantially all the assets of New Age Electronics, a U.S. consumer electronics distribution company. New Age had over 900 million revenue in 2007, and though not all of this is expected to be retained, New Age is one of the largest acquisitions SYNNEX has undertaken. The transaction closed on April 1, contributing approximately nine weeks of operating results to our quarter.

With regard to the new business, our primary focus for the quarter was to ensure that we quickly and successfully integrate New Age into SYNNEX with minimal impact to our customers and our vendors. I am pleased to tell you that we have now substantially completed this. Although we incurred incremental costs to expedite the integration, the acquisition was modestly accretive to the quarter, as expected.

Finally, I also ask our listeners to keep in mind that on May 31 our balance sheet included substantially all the assets and liabilities of New Age. While our P&L had only the nine weeks of New Age operations contribution, this of course will skew our calculated results for the balance sheet metrics such as our cash-to-cash cycle and return on invested capital. I'll explain this more during the presentation of our results.

Now I'd like to summarize our results of operations for the quarter. Revenues for the second quarter of 2008 were $1.88 billion, an 11% increase over the second quarter of 2007 and a 7% increase sequentially. These revenue results are in line with our Q2 guidance, which was increased in April, on the 1st, to reflect the expected contribution from the New Age acquisition.

Our second quarter net income was $18.5 million or $0.56 per diluted share; this is above analyst consensus and surpassed the high end of our New Age adjusted – increased guidance. These results equate to a net income margin of 99 basis points compared to 87 basis points in the same quarter last year and represents a 14% increase in net margin quarter over quarter.

Gross margin was 5.37%, representing an increase of approximately 37 basis points compared to the same quarter in the prior year. Our healthy gross margin is driven by good pricing discipline as well as the impact of our emerging business process services model. These factors have more than offset the market pressures associated with the soft economy.

Our gross margin was down slightly compared to our Q1 margin of 5.48%, primarily due to two forms of revenue mix. The first is the mix between our distribution and our non-distribution business. With the acquisition of New Age, our mix of distribution business to BPO business increased, thereby slightly bringing down the weighted average gross margin.

The second form of mix was primarily driven by seasonality of our Canadian business, in which our Consumer Electronics and Retail business – which has a higher gross margin in Canada – declined as a percentage of our overall revenue mix. And finally, to a lesser extent, customer competitive pricing also modestly impacted our second quarter gross margin compared to the previous quarter.

Second quarter 2008 selling, general, and administrative expense was $69.1 million or 3.68% of revenues, compared to 58.4 million or 3.47 in the second quarter of fiscal 2007, and 63.1 million or 3.61% in Q1 fiscal 2008.

A few items contributed to the sequential increase in our SG&A expense. The most notable are first, the acquisition of New Age Electronics and the related integration costs. And second, we had a net change in deferred compensation expense of approximately 1.2 million between Q1 and Q2, which caused Q2 to be higher.

In addition to the preceding, on a year-over-year basis, our other acquisitions, including RGC, which was acquired on May 1, 2007, also contributed to higher 2008 SG&A levels.

Income from operations was $31.7 million or 1.69% of revenue, a healthy increase over the prior year result of 25.8 million or 1.53% of revenues.

Turning to non-operating expense, net total other expense was 2.7 million for the second quarter of 2008. Within this, net interest expense and finance charges were $3.3 million, a 400,000 decrease from the prior-year quarter of 3.7 million, primarily as a result of the lower interest rates.

Net other expense also includes income of about $581,000, primarily made up of foreign exchange gains and unrealized gains associated with our deferred compensation program. As a reminder, unrealized gains on plan investments are offset by deferred compensation expense of the same amount in our SG&A line, thus having no bottom-line impact. The effective tax rate for the second quarter of fiscal 2008 was 35.5%.

As we look to the balance sheet, I wish to remind you that our second quarter balance sheet includes the acquired assets and liabilities of New Age, even though our P&L includes only nine weeks of operating results from New Age.

At quarter end, our inventory totaled $746 million, translating into 38 days of inventory supply. Accounts receivable totaled 712 million at May 31. DSO, including the accounts receivable from off-balance-sheet programs and vendor program AR, was 44 days.

Days payable outstanding was 33 days. Taking advantage of incremental early-pay discounts reduced our days payable by about a day and a half. In the end, our net cash conversion cycle for Q2 2008 was 49 days.

As we anticipated internally, our cash conversion cycle was extended by about four days during the quarter due to these various items noted.

Now, I'd like to summarize our capital activity during the quarter. Last month, SYNNEX's price to convertible notes offering of $143.75 million aggregate principal amount of 4.0 convertible senior notes. The intent of the offering was first, to term out a certain portion of our debt that is more permanent in nature; second, to lock in a fixed interest rate while the rates are at historically low levels, keeping in mind that our working capital lines are subject to short-term interest rate fluctuations over time; and third, in doing so, we would also increase the company's liquidity.

The end result in restructuring of our balance sheet was to reduce our short-term debt by 143.7 million, replacing it with the same amount of long-term debt while locking in a 4.0% coupon rate for five years and increasing the liquidity and financial flexibility for SYNNEX. It is important to note that we did not increase our net total debt through this transaction, but simply refinanced short-term debt with long-term debt.

The convertible notes are accounted for under the treasury method of accounting, as they are structured under net share settlement terms, which means, amongst other things, that the company intends to repay the principal amount of the bonds with cash upon redemption. The 2008 EPS impact from these bonds is expected to be neutral to minimal.

Moving on to our other second quarter data and metrics of note, depreciation expense was $2.7 million. Amortization expense was 2.0 million. Capital expenditures were $5.5 million. Cash flow from operations was approximately 31.8 million for the first six months of the year. Hewlett-Packard, at approximately 32.6% of sales, was the only vendor accounting for more than 10% of sales during the second quarter of 2008.

As of May 31, 2008, our total company associates are approximately 7,200, compared to approximately 6,300 at February 29, 2008. The increase in the head count is attributable to our recent acquisition of New Age and investments in our BPO businesses.

And now, I'd like to update you on our third quarter 2008 expectations. For Q3 2008 we expect revenues will be in the range of 1.92 billion to $1.99 billion, in line with our seasonality trends and reflective of our cautious approach with respect to the current state of the North American economy.

Net income is expected to be in the range of 18.7 to 19.4 million, and diluted earnings per share is anticipated to be in the range of 0.56 to $0.58 per share, also reflective of the conservative view of the economy. Our forecasted diluted earnings per share figures are based on an estimated weighted average diluted share count of approximately 33.5 million. Essentially we anticipated flat to moderate year-over-year organic revenue for the period.

Once again, our plans reflect our commitment to focus on value creation and growth within earnings and ROIC, even in a soft economic environment. And having substantially integrated New Age into our business, we remain committed to our New Age adjusted goal of in excess of 20% earnings per share growth and 10% ROIC for the fourth quarter of 2008. As a reminder, all of these statements are forward-looking, and actual results may differ materially.

Now I will turn the call over to Bob Huang for our Co-CEO presentation.

Robert Huang, President and Co-Chief Executive Officer

Thank you, Thomas. Good afternoon to everyone and thank you for joining our call today. First, I am very pleased to have Kevin Murai on board at SYNNEX in the position of Co-CEO. As we announced back on March 31, I plan to retire from the President and CEO position at the end of our fiscal year.

Pending Board approval, I will become Chairman of the Board of SYNNEX, and Kevin Murai will then retain the sole CEO role. In the meantime, as Co-CEOs Kevin and I are working on a smooth transition. In the short period of time that Kevin has been with SYNNEX, I am very impressed with how quickly he has taken over the day-to-day operations of managing our core business in North America. This has allowed me to focus more of my time in Asia on our BPO businesses.

I'm confident that the company is in very capable hands with Kevin at the helm. Kevin is seasoned, he's adaptive, with close to 20 years of direct distribution expertise, and he's well known throughout the IT industries. In partnership with Kevin, I look forward to building upon SYNNEX's successes and achieving our goals.

I would just like to take a moment to highlight a few major accomplishments for the quarter, and then I'll turn the call over to Kevin. We continue to make great strides in the diversification of our business model in our second quarter. GPE of 1.46 was slightly lower sequentially due to the additional expenses, as noted by Thomas earlier.

I am grateful to all of our employees worldwide, whose hard work and dedication continues to meet and exceed expectations. I'm proud to say that completion of the second quarter of 2008 marks our 84th consecutive quarter of profitability. As the founder of SYNNEX, I have experienced a number of achievements and milestones over the 27 years that SYNNEX has been in business. I'm always pleased by the tremendous efforts of our employees, even during soft economic times, to figure out ways to improve our company and accomplish our goals.

SYNNEX is a company that is excellent in execution, and this quarter is no exception. Once again, we exceeded our net income and EPS guidance. SYNNEX has evolved into a leading business process services company. Our 2007 BPO investments are performing as planned, and we will continue to look for ways to create value to our shareholders.

Also as Thomas had mentioned, we closed on our acquisition of New Age Electronics. I'm impressed with the efforts of the integration team. We look forward to leveraging the combined operation to grow our market share and create additional value for our customers. Again, I would like to welcome the New Age associates to the SYNNEX family.

Now I would like to turn the call over to Kevin for his perspectives on the business and comments on the quarterly results and forecast. Kevin?

Kevin Murai, Co-Chief Executive Officer

Thank you, Bob. I'm delighted to be joining the SYNNEX team at such a remarkable time in the history of the company. Having been in the distribution industry for many years now, I've always been impressed with how SYNNEX has consistently managed and accomplished its goals.

Having been on board for three months, I see the ability to execute and deliver comes from a very seasoned and impressive senior leadership team, as well as our dedicated employees worldwide. However, the vision and strategy came from Bob Huang. I am honored and would like to thank Bob and the Board of Directors for this tremendous opportunity.

In my first 90 days with the company, I've spoken with a number of customers, vendors, employees, and members of Wall Street about SYNNEX. The initial questions have been consistent. What are your first impressions of SYNNEX? What allows SYNNEX to compete so favorably against others? And my answers are always the same.

First, I've been most impressed with the associates of SYNNEX. The SYNNEX people know this business well. They know how to develop great, long-standing relationships and are extremely efficient and cost effective in managing the business. It's a culture of cooperation, hard work, dedication, and an undeniable can-do attitude.

Second, as a newcomer to SYNNEX, I experienced firsthand the power of SYNNEX's IT systems. In my opinion, these systems are best-in-class and a true competitive advantage. SYNNEX is a very well run company that is nimble and efficient. But with any well-run organization, we are continually looking for ways to improve our operating efficiencies and leverage our various entities to create additional value for our OEM partners, customers, and investors.

As for my immediate focus, initially I'm concentrating on two key areas. First, notwithstanding our very solid execution, I'm focusing on areas with opportunities for continuous improvement to both our P&L and our balance sheet. These will help drive increased economic value-add for our investors. Also, simultaneous with the first, I'm focused on our strategic direction for the company.

In my first 90 days, I spent a great deal of time evaluating our strategy. I've met with key members of management as well as with our Board of Directors, and I'm pleased to reaffirm that the path we have chosen as a leading business process services company is the right path for the company. We still have much work to do, but I can tell you that I'm confident in our direction and agree with our committed and stated goals. I believe that we are well on track to meet our objective of 10-10-100 – that is, by 2010 to achieve greater than 10% ROIC and 100 million in net income.

Now turning to the current market conditions, the state of the economy has rendered a near flat demand environment. We experienced softness across the board in our traditional broadline distribution business. As echoed by some of our competitors, we experienced a slower pace in some segments, such as desktop, servers, and peripherals.

On the other hand, for us, the SMB market continue to produce consistent demand in light of the more cautious economic environment and remains a good growth opportunity for SYNNEX. Based on our visibility in the marketplace, we anticipate that this softness will continue through our third quarter period, which is reflected in our Q3 guidance, but we do not see demand noticeably falling off.

At the midpoint of our Q3 guidance, we're projecting sales to be comparatively flat sequentially, with a small increase in our earnings per share. So through optimistic about the coming year. In the near term, we remain cautious in our forecasting approach, considering the current economic environment.

Finally, I'd like to share my perspective on a couple of our high points this quarter. As both Thomas and Bob noted, we closed the New Age acquisition during the quarter, and we have substantially completed the integration of that business.

Of utmost importance to SYNNEX are our customers and suppliers. A key to our success is the strong relationships that we have developed and nurtured over the years and the new partnerships we establish each and every day. With that in mind, we made a focused decision to expedite the integration of New Age with minimal disruption to our customers and suppliers during this period.

So as was also noted, during the initial integration period, we were willing to incur some extra cost to make the transition smoother. I'm confident we will be back to our normal operating metrics this quarter.

Over the years, SYNNEX has added considerable resources to nurture and support the growth of our SMB business. This past April, SYNNEX officially launched Varnex, our flagship SMB community. With over 100 Varnex members to date, we have set a goal of exceeding 250 members by December of this year. Even during these uncertain economic times, we expect business from Varnex members to grow steadily throughout the year, outpacing the near flat demand environment expected throughout the traditional broadline industry.

With SYNNEX providing specialized support and dedicated services, VARs have the resources and assistance to evolve their business with higher-margin opportunities, expansion into key vertical markets, and retooling their business practices to maximize business potential. We're very excited about this newly established community and look forward to our next Varnex conference in November in Huntington Beach.

In closing, once again, I'm thrilled to be here and am very positive about our performance in 2008. Thank you again for your time today and for your continued interest and investment in SYNNEX.

Laura, let's now turn the call back to the operator for questions.

Laura Crowley, Director of Investor Relations and Public Relations

Thank you, Kevin. Adrienne, let's go ahead and open up the call for questions, please.

QUESTION AND ANSWER SECTION

Operator: [Operator Instructions] The first question is from Rich Kugele from Needham & Company.

<Q – Richard Kugele>: Thank you. Good afternoon. A few questions. I guess first, just to make sure I understand the math right now, we had included New Age, but if you back that out can you give us a sense on how much New Age contributed to gross margin level in the quarter?

<A – Thomas Alsborg>: Hello, this is Thomas.

<Q – Richard Kugele>: Hi, Thomas.

<A – Thomas Alsborg>: Thanks for your question. We are not breaking out New Age. New Age has been integrated into our business and certainly won't be run as a separate division or segment. But having said that, some of the comments that we shared upon acquisition of the business, is that the overall margin profile of New Age is similar to that of our U.S. operations. And when I say that I particularly focus on the operating margin.

The other comment I would make for you, as I said in my prepared remarks, is that the revenue profile of New Age last year was about 900 million or a little bit over that, and we have two months of those operations in our results this quarter, but we should not be expecting all of that revenue from 2007 necessarily to carry to forward into the post-acquisition year.

<Q – Richard Kugele>: Okay, and then just – Kevin, to follow up on some of your comments there on the market. So, have you seen the aggressive pricing that you mentioned – or at the least, at certain customers – the pricing pressures there, has that also materially continued in August, or are you just assuming that it will and you're trying to guide for that?

<A – Kevin Murai>: Well, through the quarter, I would tell you that the overall pricing environment has remained competitive, which – we do operate in a competitive environment. I would tell you that we have very good pricing discipline, and as a result we're able to continue to maintain our gross margins and over time improve our gross margins. And we're also willing to walk away from unprofitable business.

In the market we did see some competitive pressures, but primarily on some of the larger deals. When you look at the make-up of our business, the SMB market is a larger component of SYNNEX's business than you might see with some others. So as a result we're a little bit less dependent on some of those larger deals than others would be. And so we view those as opportunities that we would selectively either move on or back away from.

<Q – Richard Kugele>: Okay, then just lastly, and I know that you guys don't like to get into specifics on this, but judging by my conversation with investors I think some color would be helpful. You've made so many acquisitions over the years recently, and have really moved away from competing against the other broadline distributors on a straight distribution model. But it gets difficult for investors to go and understand the various segments of the business between the BPO side and the enterprise part and the EMS side and now the consumer element.

Can you give us a sense, since the margins are different in those businesses, what you see – call it 12 months out, 18 months out, whatever timeframe you're comfortable with – on what the business mix should be so that people could actually try and at least directionally come up with what a model would like and what matters to you and what should not affect the model as much?

<A – Dennis Polk>: Hi, this is Dennis. So I'll start off and I think anyone can jump in afterwards. You're right, right now we don't break out the various business divisions that we have currently.

Right now all the business units are contributing to our increased profitability, which is a very key focus of ours. As you know, we really focus on operating income, and that is true for each business unit that we have. We will, as these businesses mature, take a look at breaking out ones that exceed the certain thresholds that are out there from an accounting disclosure standpoint, which is typically around 10% either top or bottom line.

So as we get closer to that we'll take a look at which units are best to break out. So at this point in time that's where we're at with regards to our business segments.

<Q – Richard Kugele>: Okay, yeah. Any other color along the way is always more helpful. Thank you very much.

<A – Laura Crowley>: Thank you, Rich. Next question?

Operator: The next question is from Brian Alexander from Raymond James.

<Q – Bob Gruendyke>: Thanks, this is Bob Gruendyke filling in for Brian. Thomas, real quick, you mentioned you incurred incremental costs in the quarter for the New Age acquisition. Could you quantify how much those costs were?

<A – Thomas Alsborg>: Sure. So, when I was describing our SG&A change, I mentioned that of course we had the incremental SG&A dollars associated with the business itself, but then we also talked about the fact that there would be integration costs that I guess you could say are kind of one-time in nature, and the fact that once the company's integrated, they're gone. And during the quarter I would say that the sum of all of those costs is a little less than $1 million.

<Q – Bob Gruendyke>: Okay. And, recently, on your discussion of working capital, and I understand how New Age impacts that, but even backing out New Age from the discussion, you're still up, approximately I want to say five days on a cash conversion cycle metrics versus a year ago. And they keep trending higher on a year-over-year basis. Just wondering if we might see that stabilize in the near term and perhaps work its way back down to more historical levels?

<A – Thomas Alsborg>: Indeed, I think that's a good expectation. I would say that you would expect to see it stabilize and trend downward. I would note that there are always moving pieces of the puzzle. For example, one of the comments I believe I made was that this quarter we took advantage of some new, early-pay discount opportunities to us. To the extent that we would choose to do that and find it economical to do that on a go-forward basis, you might see our days payable outstanding one or two days shorter than it would otherwise be. But for those kind of opportunities, which we make conscious business decisions about, you will see our working capital trend back down again.

<Q – Bob Gruendyke>: And do the other BPO – like, what sort of impact did the BPO acquisitions have on your working capital metrics?

<A – Thomas Alsborg>: Well, our BPO businesses are not really inventory intensive at all, so that you're not going to see anything there. Keep in mind, though, that – before I go through these – that these businesses, as Dennis alluded to, are well less than 10% of our revenue, for example, and therefore our cost of goods sold too. In fact the sum of our BPO business is just a few percentage points of our total revenue. But having said that, to finish the picture for you, our impact from areas like DSO and DPO would really pretty much be de minimis for the overall picture. So the cash-to-cash cycle metrics that we share with you are by and large driven nearly exclusively by our distribution business.

<Q – Bob Gruendyke>: Okay. I guess last question here, if we just look at the year-over-year operating margin improvement in the business – and I know you don't want to break it out in detail by the different businesses that you have now – but when we look at the improvement, would you say that the core business is also seeing operating margin improvement or is the bulk of the improvement year-over-year from your BPO and TSD initiatives?

<A – Thomas Alsborg>: I'm glad you asked that question, Bob, because I wouldn't want you think that the operating margin was driven exclusively by our BPO businesses. We are executing very well on the distribution side of the business. I would characterize – there's really three drivers. I would say the core distribution business, which includes the areas of just better execution, as well as growth in product segments and adjacent markets and so forth like the Consumer Electronics business, that is one main driver of our gross margin improvement.

A second one has to do with the acquisitions that we've made that are in the distribution space. An example, of which I referred to, was our Consumer Electronics business in Canada tends to have higher gross margins. That also has helped us as we've gone along, subject to seasonality. And then finally, as you alluded, the BPO business that we have has also played a role, because while that business represents just a few basis points – or a few percentage points, that is – of our total revenue, the gross margins on that business of course are substantially higher than distribution business.

So, we have really three main drivers of the gross margin expansion, which is what gives us confidence in being able to continue to grow both the gross margins and more importantly our operating margins in the coming quarters and years.

<Q – Bob Gruendyke>: Okay. Thank you.

<A – Laura Crowley>: Thank you, Bob. Next question, please.

Operator: The next question is from Ananda Baruah from Banc of America

<Q – Ananda Baruah>: Hey, thanks, guys, for the questions. I guess a few if I could. Could you just comment on the linearity of the quarter, I guess from a revenue perspective – I mean, even though we're kind of flat both year-over-year and sequentially. Did the things kind of come in more normal this quarter than they did last quarter? And then I guess, it sounds like – I mean, is it pricing pressure you're seeing? Is this incremental and more macro-driven? Or when you talk about pricing pressure are you talking about it sort of in the context of what you guys typically see? Because I don't believe I'd heard you guys speak of pricing pressure previously in the same context, as some of your larger competitors had.

<A – Kevin Murai>: Hi, Ananda. Well, first on the linearity, it was pretty much as expected through the quarter. And I think the only thing I would add to that is when we – obviously when we provide our third quarter guidance, it's certainly based on our view of current market conditions, too. On the second point, I would just say that pricing, the pricing environment, is probably more of what we would expect in managing our overall business in general. I think I noted that there was probably some incremental pressure on some of the larger deals.

But overall, as we look at the broad market that we serve, it's something that we're used to dealing with every day. And in fact, I would also tell you that, as we continue to compete in particular in the small and medium business market, price is not the only factor. And I would tell you price is probably not even the most important factor.

Our ability to execute, having inventory that our customers are looking for, and having inventory at the places the customer needs it are probably more important factors, and that's where we do very well.

<Q – Ananda Baruah>: And as we think about New Age and the impact, I guess kind of after this fiscal year, because I guess you're giving guidance sort of for the remainder of the year – you had your quarterly guidance and then you've given your 20% annual EPS guidance. But as we go into 2009, what's the best way to think of sort of what the potential impact can be? I mean we can kind of take the 900 and true it down some from '07, and then add some sort of, I guess, below seasonal, typical seasonal growth rate for '09, assuming Consumer Electronics revenue demand will be a little weak.

But as far as I guess sort of integration costs moving through the next couple of quarters and then what the overall margin impact will be – I know you made some comments – and maybe this is more of a question around, can you just give us some clarification around the comments that you made about getting back to normalized margins this quarter and then what that might look like kind of quarter after that? Maybe that's the best way to go.

<A – Dennis Polk>: Hi, Ananda, this is Dennis. I'll take the first part, the New Age portion, and kick it back to either Thomas or Kevin on the margin side overall. As far as New Age is concerned, it's really a two-phased process here.

Phase I is to get the company integrated onto our system and working within our operations very quickly. And that's what we did. When that happens, we also go through the analysis of the revenue, making sure we're only taking on profitable business. And we're doing that as well right now. And we should be through this process within the next two to three months.

So, at that point we really have a business that we can start to leverage, and really get the benefit of the acquisition. As we noted when we acquired the company, a substantial portion of its revenue came from HP. So we have a great set of customers and vendors from the New Age acquisition, but really only selling one product set to them. So we have now – have the opportunity to sell complementary products and really leverage that business. And that's what will drive the revenue growth from that part of the business when we look out to the latter half '08 and into '09.

<Q – Ananda Baruah>: And Dennis, when will that – I guess, when will the exploration process be complete? And I guess maybe what I'm asking is sort of, what you generate for the balance of '08, is it safe to assume that that's going to be more or less the platform for as you go into 2009?

<A – Dennis Polk>: Well, as far as the integration again, we're substantially complete. We're still doing some polishing right now. We do expect to get some synergy and leverage benefits on the revenue line before the end of the year and take those into '09.

<Q – Ananda Baruah>: Got you. Okay. So it sounds like what you're saying is you've already gone in and decided whatever business you're going walk away from of your own volition you've already decided upon that?

<A – Dennis Polk>: Yeah, we're basically at that point at this point in time, yes.

<Q – Ananda Baruah>: Got it. Got it. Okay. And then just the margins. I'll let you guys go with that.

<A – Kevin Murai>: Yeah, what we're referring to is, when we look at our operating margins, because of incremental costs that we incurred for integrating the business, that had some slight downward pressure on operating margins. But as we've pretty much completed that for the most part, moving forward we would expect our overall operating margins to return to more normal levels.

<Q – Ananda Baruah>: Got it. And the $1 million I guess costs that are baked in to this quarter from New Age, can you just step through the – there was two parts of those, I believe?

<A – Thomas Alsborg>: Yeah, I didn't really bifurcate those costs. I would tell you, though, that probably half of the costs had to do with just personnel changes as we've integrated. Of course there are synergistic opportunities related to back-office operations and so forth. And so, probably close to half of those costs were related to that. And then there's a fair amount of travel costs and just getting our teams together and working. So it's just truly integration in terms of expenses related to getting the teams together. Dennis, would you add anything to that?

<A – Dennis Polk>: No, I agree with that. I do want to emphasize that the team we have now at New Age is very experienced and has a deep amount of customer and vendor knowledge and relationships in the CE channel. And we really are pleased with the folks that have joined the combined SYNNEX now, and we really look forward to leveraging them moving forward.

<Q – Ananda Baruah>: Okay. Great. Thank you very much.

<A – Kevin Murai>: Thank you.

<A – Laura Crowley>: Thanks, Ananda. Next question, please?

Operator: The next question is from Richard Gardner from Citigroup [Citi Smith Barney].

<Q – Richard Gardner>: Hi, thank you. I had two questions, please. First of all, Thomas, just was hoping that you could give us a sense of what the currency tailwind was during the quarter. With almost 20% of the business from Canada and the strength that we saw in the Canadian dollar, we had calculated at least a couple percentage points of benefit there.

And then secondly, I was hoping to get just a little bit more color – Kevin, when you talked about price aggression in large deals, are we talking about larger customers or large deals that are bid out for the entire quarter, and how frequently is there an opportunity for that type of pricing to change? Is it negotiated for the entire quarter? Is it negotiated every month? Or when can we expect improvement there?

<A – Kevin Murai>: Okay. Actually, Richard, I think I'll answer your second question first and then get back to Thomas on that. So, you're right, I mean, there's many different kinds of large business, so to speak, out there. What I was specifically referring to, though, were more of the larger one-time deals. And the larger one-time deals, there are some VARs that do focus on certain segments of the enterprise, that have access to that, as well as some of the more traditional resellers that are enterprise only. So, that's kind of the segment that I was referring to.

<Q – Richard Gardner>: Okay. And so those are – I mean, we're not talking about things that are negotiated for an entire quarter, we're talking about deals that just get negotiated periodically, I guess?

<A – Kevin Murai>: Yes, that's correct.

<Q – Richard Gardner>: Okay.

<A – Thomas Alsborg>: To your question on the FX impact for Canada, the impact to our overall business, our revenue, as a result of FX was, I think, more nominal than you've calculated, Rich. I think it's closer to a 1-ish – 1 percentage range than a few.

<Q – Richard Gardner>: Okay, great. And then if I could follow up with one more, I think on the last call, you did cite some slowdown in U.S. small-to-midsize business toward the back half of the first fiscal quarter. And on this particular call you mentioned that U.S. small-to-midsize business is at least a relative bright spot. Have you actually seen improvement in U.S. SMB or would you characterize it is pretty stable versus what you saw last quarter?

<A – Kevin Murai>: I think the best way to characterize it is stable. I would tell you, in addition to that, though, Rich, the softness in demand is pretty much across the board right now. The comments that the company made earlier were on, I guess, growth in SMB that had not been as strong as we had seen historically, and that's really what that comment was referring to. And so, it still remains about in the same place where was before, but it's relatively stable and it's still for us an opportunity for growth.

<Q – Richard Gardner>: Okay, great. Thank you.

<A – Kevin Murai>: Thank you.

Operator: Your next question is from Rich Kugele from Needham & Company.

<Q – Richard Kugele>: Yes, just two last quick questions. In case I missed it, Thomas, can you just explain again – obviously the inventory had to go up with New Age, but do you expect that to come down a little bit, or is this kind of the new go-forward rate?

<A – Thomas Alsborg>: No. So one of the points I was making, Rich, was that we only have two months of – I guess you're talking on an absolute dollar basis, excuse me.

<Q – Richard Kugele>: Yeah, because the exiting number is that full amount. Right.

<A – Thomas Alsborg>: Yeah. So, yeah, you should see a downward trend in that.

<Q – Richard Kugele>: Okay, and then just so my math is right in my model, the convert is not dilutive until the stock gets north of $29, correct?

<A – Thomas Alsborg>: That is correct.

<Q – Richard Kugele>: And the dilution north of that point, then, would be what, something in the $0.06 range?

<A – Thomas Alsborg>: No, that would be, I think, much too high. Once it goes beyond that number, it depends of course on one major variable factor, which is how high above $29.42 it goes. But keep in mind, my – note that our intent is to pay back the principal amount with cash, and so therefore it's a dilutive impact. And maybe that's where I think you're going with this, is you probably haven't factored that in.

The dilutive impact is just shares issued for the amount that's in – of the bonds that's in value above the principal. It gets to be a little bit complicated math, but just from an accounting standpoint, if you want me to walk through it with you offline I'd be glad to do that.

<Q – Richard Kugele>: Okay, great. Thank you very much.

<A – Thomas Alsborg>: Thank you.

Operator: [Operator Instructions] The next question is from Ananda Baruah from Banc of America.

<Q – Ananda Baruah>: Yeah, just I guess one quick last follow-up on the pricing. I just want to make sure that we understand what the spirit of the comments around the aggressive pricing in I guess sort of high-end deals really is. Because for your U.S. competitors, I think it has more of an impact. Kevin, for you guys, it is something that is relatively – I don't want to say insignificant, but because that portion of your business is relatively insignificant, we shouldn't expect that to have a material impact, all things being equal, on your revenue and on your margins, but you're mentioning it because it is out there? I just want to make sure that I understand the spirit of the comments.

<A – Kevin Murai>: All right, so, kind of in my own words what I would tell you, then, Ananda, is number one – number one data point is the majority of our distribution business is in SMB, okay? And SMB tends to have more stable demand. Pricing is competitive, but not a whole lot different than what we've seen in the past; that's what we manage every single day in our business.

In terms of just incremental business and larger deals, that's where we've seen a little bit more competitive pricing, and there we've always been able to kind of pick and choose the business that we wanted to take and the business that we didn't. So, I mean, I would tell you overall that it's going to have an effect on us that's going to be less than what you might see with some others.

<Q – Ananda Baruah>: Okay. Thanks.

<A – Kevin Murai>: Thank you.

Operator: Your next question is from Aaron Berman from Thomas Weisel Partners.

<Q – Aaron Berman>: Hey, guys, good afternoon. I just had a quick question. We touched about demand and pricing pretty heavily in the call. I wanted to touch on the BPO business. You mentioned briefly that you're expanding – you guys expanded that business, one of the reasons for the head count going up. But when should we expect the head count to go up further, since you guys have expanded the BPO business pretty nicely in the past few months? And should we expect the head count to go up? And also as a result should we expect the SG&A to tick up significantly over the next few months because of that?

<A – Thomas Alsborg>: Aaron, so within our BPO businesses, as you've gathered, they are more labor-intensive, take – and this is where most business is done is on the call and on technical support area. As we continue to expand those operations – and I think we've mentioned in the past that the demand for our BPO business has been very good out of Philippines and we are expanding and opening two new facilities there.

So as we continue to expand that business both within the Philippines and outside of the Philippines, we're going to be adding on new people to provide that technical support. And that's where the head count is coming from. Keep in mind that this head count is not full-time head count, but it's – the nature of this kind of business is that you have people who are kind of part-time, hourly employees, if you will.

And then as far as the SG&A goes, kind of back to an earlier question that Dennis answered, we do expect that our BPO business will grow at a even faster pace than our very healthy distribution business, which of course has been and continues to outgrow the distribution channel.

Our BPO business – being that it is growing, outgrowing our distribution business – over time will become a more significant part of our business and, as Dennis commented, we'll break it out. Part of the reason that we would break it out is because as it becomes more, significant the profile of that business is different. We've talked in the past about the fact that the gross margin profile tends to be in the 30 to 50% range and that the operating margin profile tends to be in the low double-digit range.

So, of course, your SG&A profile is also higher than the typical 3% range that we see in the distribution business. And again, if that business is outgrowing our distribution business, you will see some upward pressure in terms of the SG&A margin that we show on a consolidated basis.

Did that answer your question?

<Q – Aaron Berman>: Yeah, that did. But I guess I was trying to zero in on the recent expansions you guys announced in the Philippines, which – I would expect that to contribute – not contribute, but to boost SG&A much more, especially since that was announced just, I guess, a few weeks ago.

<A – Thomas Alsborg>: Yes, I would think of – one thing I'd comment is I think of SG&A in terms – I've been talking in terms of percentages. Again, these are – the revenue amount associated with these businesses tends to be a few percent of our total overall business. But indeed you will see the SG&A dollars go up.

<A – Robert Huang>: Aaron, let me – this is Bob. Let me comment, a few things here. Since all the headcounts that we added are direct labor, so those expenses are going up to the cost of goods sold, so you should not see the SG&A grow substantially because of the head count growth. On the other hand, there's some investment – the capital investment – that you've already seen on dollar depreciation costs and capital expenditures. They do go into the BPO business more than the distribution business.

<Q – Aaron Berman>: Okay, all right. Thank you, that's helpful.

<A – Thomas Alsborg>: Thanks, Aaron.

Operator: There are no further questions.

Laura Crowley, Director of Investor Relations and Public Relations

Okay, great. Thank you, Adrienne. This concludes our second quarter earnings conference call. Thank you all for joining us today. We will have a replay of this call available for two weeks beginning today at approximately 5 p.m. Pacific Daylight Time through June 10, 2008. As always, should you have any follow-up questions, both Thomas and I are available to take your call. Again, thank you for your participation today.

Operator: Ladies and gentlemen, thank you for participating in today's conference. This concludes the program. You may now disconnect.