MANAGEMENT DISCUSSION SECTION

Operator: Good afternoon. My name is Rachael and I will be your conference operator today. At this time, I'd like to welcome everyone to the SYNNEX's Fiscal 2010 First Quarter Earnings Call. All lines have been placed on mute to prevent any background noise. After the speakers' remarks, there will be a question-and-answer session. [Operator Instructions].

Thank you. I would now like to turn the call over to Laura Crowley. Laura, you may begin.

Laura Crowley, Director of Investor Relations and Public Relations

Thank you, Rachael. Good afternoon, and welcome to the SYNNEX Corporation fiscal 2010 first quarter earnings conference call. Joining us on today's call are Kevin Murai, President and Chief Executive Officer; Dennis Polk, Chief Operating Officer; Thomas Alsborg, Chief Financial Officer; and Chris Caldwell, Senior Vice President and General Manager Global Business Services.

Before we begin, I would like to note that the statements on today's call, which are not historical facts maybe forward-looking statements within the meaning of the Private Securities Litigation Reform Act. These forward-looking statements include, but are not limited to, the integration of Jack of All Games, Inc., statements regarding our strategy, including growth, profitability and returns, expectations of our revenues, net income and diluted earnings per share for the second quarter of fiscal 2010, our performance, benefits of our business alliances, Canada's economic recovery, changes in the tax laws, benefits of our business model, market conditions, our expectation for our operating margins, profitability, cash to cash cycle and our ROIC, these 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 documents filed with the Securities and Exchange Commission, specifically our most recent Form 10-K for information on risk factors that could cause actual results to differ materially from those discussed in these forward-looking statements.

Also please note unless otherwise stated, all prior period references are net of discontinued operations in accordance with 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.

And finally, I would like to remind our listeners that SYNNEX will be hosting our second annual Analyst Day on Thursday, May 6, 2010, in New York City at The Westin New York at Times Square. We issued a press release about our event earlier this month. Please contact me for more information and registering for this event. My contact information is available on today's earnings release.

Now I'd like to turn the call over to Thomas Alsborg for an update 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'll begin by summarizing our results of operations for the quarter with our key financial metrics and then I'll provide guidance for our fiscal second quarter.

In our first quarter 2010, which ended February 28, total consolidated revenues were $1.94 billion on par with Wall Street estimates of $1.95 billion. Compared to the year ago quarter, this represents a 12.5% increase in revenue and above market rate of growth reflecting incremental market share gains. Sequentially, this is an 11.9% decrease from our seasonally high fourth quarter period.

It should be noted that our reported revenue of 1.94 billion would have been approximately 4% higher had we not made a change in accounting for certain types of service and extended warranty contracts.

However, based on continuing changes in industry standards and practices within our distribution segment we now account for transactions for most of these service and extended warrantee contracts on a net fee basis rather than on a gross revenue basis. As a result, under the new accounting treatment, our reported revenue and cost of goods sold are now both lower while our gross profit dollars are unaffected. This change is also reflected in our Q2 guidance.

Moving to our key financial metrics. We continue to perform well on our goals of growing EPS and return on invested capital, and we have done so while gaining market share. Driven by increasing gross margins and operating margins, our first quarter net income from continuing operations was $23.2 million or $0.66 per share, surpassing Wall Street estimates of $0.62 per diluted share, and ROIC was 8.6% for the fiscal first quarter of 2010 extending our virtual string of year-over-year ROIC growth over the last ten quarters. Worth noting is that our year-over-year ROIC improvement in Q1 was accomplished even as we closed our acquisition of Jack of All Games in the last few days of the quarter, which resulted in an increase in our invested capital without the benefit of any corresponding income.

In the first quarter of fiscal 2010, our consolidated gross margin expanded to 5.64%. This represents an increase of 40 basis points sequentially and compares to 5.86% in Q1 2009. These improvements are results of continued operational and sales execution, strong cost control, and disciplined pricing decision.

The sequential upward shift in gross margin is also associated with the shift in our mix of business during the quarter as certain higher margin lines of our business such as enterprise, networking and AV products showed relative strengthening compared to Q4 2009. In addition, the net accounting treatment accounted for approximately 22 basis points of gross margin.

First quarter 2010, total selling, general and administrative expense was $70.2 million or 3.63% of revenues compared to 67.1 million or 3.90% in the first quarter of fiscal 2009 and 67.6 million or 3.08% sequentially. The year-over-year increase in SG&A dollars was primarily due to the increased personnel cost in the U.S. associated with growth and investment and strategic initiatives and increased deferred compensation liability expense.

When compared to Q4, our Q1 SG&A is higher primarily due to a return to more normalized bad debt reserves of about $2 million per quarter. Q1 also includes some discrete expenses associated with the investment in new business opportunities, most notably Jack of All Games in addition to expenses associated with personnel changes in Canada and restructuring of some of our warehouse operations in the U.S., all in totaling approximately $1.5 million.

Operating income from continuing operations was $39.0 million or 2.01% of revenues for the fiscal first quarter compared to 33.8 million or 1.96% of revenues in the prior year quarter and 47.7 million or 2.17% of revenues in the fiscal fourth quarter of 2009.

With respect to interest expense, finance charges and other expenses, the net total interest expense and finance charges for the first quarter of fiscal 2010 was $3.8 million, an overall decrease from the prior year quarter of 5.1 million. Our other non-operating income for the first quarter of 2010 was approximately $1.2 million compared to an expense of about $400,000 on the same quarter last year.

The other income of 1.2 million includes approximately $785,000 from a gain on the disposal of some non-core assets. The remaining 2010 net gain of $400,000 is a result of gains on deferred compensation investments and FX hedging contracts, whereas the prior year expense was from a loss on deferred compensation investments net of FX gains.

The effective tax rate for the first quarter of fiscal 2010 was 36.0% compared to 36.5% in the first quarter of 2009. The decrease in effective tax rate was primarily due to the mix of profit contributions from our various tax jurisdictions.

Turning to the balance sheet, our accounts receivable totaled $782 million at February 28, 2010, down from 821 million in the fourth quarter of 2009. DSO was 42 days. Inventory totaled 771 million at the end of the first quarter, up from 714 in the fourth quarter period 2010 translating to 38 days of inventory supply. And days payable outstanding was 35 days.

Hence, our overall cash conversion cycle for the first quarter period was 45 days. The cash-to-cash cycle increased relative to Q4 primarily because of timing of inventory acquisitions near quarter end including the assets acquired in conjunction with Jack of All Games at the end of February. We believe this is a temporary increase and we should continue to successfully drive more progress in the reduction of our cash-to-cash cycle going forward.

The impact of our gross to net treatment of the service and external warranty contracts also impacted the cash-to-cash cycle by about two days due to resulting lower net revenue and cost of goods sold.

Our debt to capitalization ratio remained at the historically low level of 27% consistent with Q4, 2009 and down from 33% in Q1, 2009 – excuse me – that was Q4, 2010. Correction: our debt to capitalization ratio remained at historically low level of 27% consistent with Q4, 2009 and down from 33% in Q1, 2009. Our liquidity and access to cash remains excellent. At the end of Q1, the company had over $275 million available under its working capital line.

Other financial data and metrics of note for our first quarter are as follows. Depreciation expense was $2.7 million. Amortization expense was $1.2 million. Hewlett-Packard had approximately 37% sales, was the only vendor accounting for more than 10% of sales. Capital expenditures were $2.4 million. And preliminary cash flow used in operations was approximately $22 million for Q1 2010.

Moving towards second quarter 2010 expectations, for Q2 2010 we expect revenues will be in the range of 1.95 billion to $2.03 billion. This forecast reflects continued market stability and normal sequential seasonal demand trends and it does incorporate the change in revenue accounting for certain service and extended warranty contracts, which would have otherwise represented approximately 4% of revenue.

Turning now to income and EPS; forecast for income is expected to be in the range of 22.1 million to $23.1 million and diluted earnings per share is anticipated to be in the range of 62 to $0.65 per share. The calculation of diluted earnings per share for the second quarter is based on share count of approximately 35.4 million.

I would like to point out that our guidance does incorporate our acquisition of Jack of All Games. Kevin will discuss the acquisition in more detail. With regard to the near-term financial impact of this video game hardware and software distributor, given the related acquisition and integration cost, as well as cost associated with certain planned investments we'll make in the business to help it reach its potential, our expectations remain for a net neutral impact to profitability over the next one to two quarters. Therefore, Jack of All Games is not expected to contribute meaningful earnings growth until the November quarter. This has been our expectation from the beginning and we remain confident in our outlook for the positive EPS and ROIC contributions this acquisition will bring to

SYNNEX beginning later this year. As a reminder, all these statements are forward-looking and actual results could differ materially.

I will now turn the call over to Kevin Murai for his perspective on this business and our quarterly results. Kevin?

Kevin Murai, President and Chief Executive Officer

Thank you, Thomas. Good afternoon everyone, and thank you for joining our call today. Once again, the SYNNEX team performed exceptionally well. We are off to a great start to the fiscal year with the completion of our first quarter and I feel very optimistic about our business as we head into the rest of 2010.

The U.S. market continues to show increased stability and growth. At the end of last year, we experienced a return of the high velocity distribution business and in our first quarter we saw strength return in more of the high value enterprise end market, which has begun to rebalance the overall mix of our business.

Canada's economic recovery continues to lag behind the U.S. by several months, but in the first quarter we experienced more strength than we expected, and we believe the recovery in Canada is nearer than we have been anticipating. In any case I'm pleased with the Canadian team's performance as they continue to produce impressive results on earnings and ROIC in light of the continued market softness in Canada.

Our Global Business Services segment also continued to make solid progress this quarter with multiple new pilot programs launched with existing and new customers. While small in revenue, pilot programs generally take two quarters to mature before they start to contribute to revenue growth. I would like to point out that a few of these programs are examples of the cross sell opportunity that exist between SYNNEX's vendor partners and GBS services.

Excluding HiChina, GBS operating income from continuing operations was up 11% year-over-year. ROIC continues to meet our double-digit criteria even as we continue to invest in and build out our own proprietary platform solutions which will increase our value proposition to customers and allow for more leverage on our earnings over time. We're also making the investment in a new human resource center in the Philippines that will open during the second quarter. The new center will allow us to hire and train staff more effectively as we continue to expand our head count.

We continue to see good growth areas for 2010 in GBS and we'll continue to leverage our relationships with our vendor partners on the distribution side to expand this business.

Stepping back now to the overall SYNNEX model, I'm pleased to report that the combination of our industry leading low cost operating structure together with our flexible, diversified business model continues to be the winning combination for leading the industry in growth, earnings, ROIC, and sales. This is one of the enablers that's helped SYNNEX to continue to pursue opportunities for further expansion and growth.

So we remain optimistic about the year and the overall improving demand environment. We're very pleased with our progress to date and our growing prospects for the fiscal 2010 year especially with product refreshes underway driven by Windows 7 and the upcoming rollout of Office 2010 in the June timeframe.

During fiscal 2009, we positioned ourselves well with continued investments in key value add initiatives that are now gaining traction as these markets are showing initial signs of strengthening momentum. Also our consumer electronics business continues to do well and quarter-after-quarter we continue to gain momentum in this estimated $178 billion industry segment where SYNNEX is now the leader in North American CE distribution. And now that we have closed the Jack of All Games acquisition we've added to our CE strength with a significant footprint in the video game market and a specialized team of people with deep domain experience within the game marketplace and long standing relationships within this specialized vendor community that we now serve.

Through Jack of All Games SYNNEX now carries all the major hardware manufacturers for gaming equipment and console such as Sony, Nintendo and Microsoft. From the software perspective, we are now authorized to distribute game products from Activision, Nintendo, Microsoft, Sony, Take-Two and Electronic Arts to name a few. Many new software releases will occur in the second half of this year.

We are in the midst of completing the integration of this business and I am very pleased with our progress today. We anticipate the integration and the full business transition along with targeted synergies to be complete within the next six months and in time for the seasonally high holiday period.

Now looking at Q2, we're optimistic about the current strengthening demand environment and believe we are well positioned for another quarter of growth and improved profitability. It remains our policy for the benefit of our investors that SYNNEX continues to operate under a disciplined approach to pricing and we will remain selective in the types of business we will take.

And before I open the call up for questions, I'd like to recognize and thank the SYNNEX team for their continued hard work, dedication and relentless focus on improving all aspects of our business. This team is very capable of rising to the occasion quarter-after-quarter to position SYNNEX in our leadership role. I'd also like to thank our customers and suppliers for their continued business and support, and on a final note, with the completion of our first quarter of 2010, SYNNEX achieved our 91st consecutive quarter of profitability continuing our strong track record of achieving our core operating and financial objectives, a constant focus for the organization.

SYNNEX continues to demonstrate its leadership by increasing our value within the supply chain through creativity and innovations that help our customers and vendors be more successful. This leadership performance has translated to increased market share, margin and profit expansion and a virtual strength of 10 straight quarters of year-over-year ROIC growth.

Thank you again for your time today and 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. Rachael, let's go ahead and open up the line for questions please.

QUESTION AND ANSWER SECTION

Operator: [Operator Instructions] Your first question comes from Matt Sheerin with Thomas Weisel Partners.

<Q – Matt Sheerin>: Yes, thanks, and hello everyone. Just a couple of questions regarding the guidance and as it relates to the acquisition, could you give us an idea of what that Jack of All Games will contribute in terms of revenue? I think you said that the trailing 12 months ending last September was about 280 million. So can you give us sort of an approximate run rate, and also the seasonality of that business?

<A – Kevin Murai>: Sure, Matt. As you can imagine, the game business tends to be very seasonal. In fact getting into the holiday season, a good half of total annual business is done around that time of the year. So in terms of our own expectations, we're expecting some 50 million per quarter in the current and perhaps the third quarter and a much more meaningful revenue contribution as we start entering the holiday season.

And at the same time Thomas also mentioned that as we continue to go through our integration, we do expect that from an income contribution standpoint, that Jack of All Games will have very little contribution in the current quarter as well as third quarter.

<Q – Matt Sheerin>: And is that in terms of looking at the profitability in that business, Kevin, is that also very backend loaded or sort of tied to that seasonality so that the operating margin will be relatively depressed, except for those two big quarters or one big quarter?

<A – Kevin Murai>: We can expect with high volume in the holiday season that that's also going to have a good bump to our overall profitability. That said, my comments are really twofold in current quarter as well as Q3, which is slightly lower margin expectation because we don't have the benefit of the volume, but in addition to that, with the cost of integration, in particular in current quarter, that's also going to have a bit of a drag.

<Q – Matt Sheerin>: Okay. And that integration cost, is that on the expense line or does that come out of COGS as well?

<A – Kevin Murai>: That would be primarily on the expense line.

<Q – Matt Sheerin>: Okay. And then so if you take out that sub 50 million of revenue, looks like for the distribution business then you're guiding flat to up a little bit at the midpoint. It looks seasonal, but maybe not much better than seasonal, is that pretty much what you're seeing right now in terms of demand? Do you think things have stabilized? Because we're hearing from other players out there that they're slowly starting to see pick up, IT spending traction, particularly SMB, which still looks like it's going to be more backend loaded this year, but sort of any commentary on the demand front that you can give us?

<A – Kevin Murai>: Yeah, we are anticipating seasonal demand trends and our second quarter and third quarter tend to be the seasonally slowest quarters that we have through our year. And so I don't think that – I do believe that our guidance really does reflect what normal seasonal trends would look like. That being said, we also started to see a pretty significant strengthening of the overall demand environment, in particular in the United States, starting late last year, coming late into the month of October. And then certainly continuing through November, December, and at least in the first – in the remaining part of our first quarter, I think our revenue also reflects that we did continue to see demand stabilizing and strengthening.

<Q – Matt Sheerin>: Okay. And that's your expectations. No better or worse basically?

<**A – Kevin Murai**>**:** That's our best view at this point, Matt.

<**Q – Matt Sheerin**>**:** Okay. Okay, thanks, Kevin. I appreciate it.

<**A – Kevin Murai**>**:** Thanks, Matt.

Operator: Your next question comes from Brian Alexander with Raymond James.

<**Q – Brian Alexander**>**:** Just back to the, I guess, to start with the service accounting change, A, what prompted the change and just to make sure we're clear, it doesn't look like you restated the first quarter a year ago, so growth would have been 17% year-over-year had you not made the change and I think gross margins would have been about 5.42 and operating margins 1.93, is that right?

<**A – Thomas Alsborg**>**:** The numbers you just mentioned are right. We would have been 17% but for this change and had about a 22 basis point impact to gross margin and about a six or seven basis point impact to the operating margin, Brian. The reason you don't go back and change numbers retroactively is because this is – the GAAP does not call for that. The fact – and this goes to your first question, what prompts the change. The accounting for warranty, extended warranty and service contract is really driven by certain GAAP – primarily EITF 9919 which we have monitored now since it was introduced, and particularly in the last three or four years since a number of our competitors had converted their accounting, primarily starting back in 2007, to the same net treatment for the same types of contracts.

Fact and circumstances can differ a little bit by particular contracts and circumstance of any given company, but we've been monitoring this for a while and this quarter came to the conclusion that the facts are now weighed and the scale so to speak has tilted on the side of net treatment for the accounting.

<**Q – Brian Alexander**>**:** Okay. In terms of operating leverage I think this is the third straight quarter where your distribution segment didn't really show any operating leverage, which is understandable when revenue's declining, but over the last couple of quarters we've seen some pretty meaningful year-over-year acceleration in the top line, and yet operating margins don't seem to be improving. So I know you're making a lot of investment in the business, so could you just talk about at what point, assuming that we see normal seasonal trends going forward, when do you expect to see more operating leverage in the distribution business?

<**A – Thomas Alsborg**>**:** I'll start with this and then certainly I'll invite the other team to add in if they'd like to. The first thing I'd point out though is that one of the comments I made on the call was that we had about $1.5 million in what I kind of would describe as discrete or semi-one-time in nature I guess you could say in terms of some restructuring that we've been doing, some staff cuts related to that, reorganization of business and then also some cost that we incurred even in Q1 with regards to the acquisition of Jack of All Games.

So, again, all totaling about 1.5 million. I think if you were to back that out, I think you'd see a little bit more of the margin effect that you are looking for. But second point – the second comment I would make, you did indeed identify that we are making investments in the business as well on the GBS side in terms of platform and pilot programs and then also on the enterprise side of our business as well.

<**Q – Brian Alexander**>**:** Okay. So would you expect in the second quarter that on a year-over-year basis, we'd see a more meaningful expansion in operating margins? It seems like you would almost have to, to get to your earnings guidance.

<A – Thomas Alsborg>: Yes. Without giving specific guidance on this, for the very reasons I just described, some of those costs I just identified won't be there in Q2. I would also say that with regards to the investments we are making, those in particularly will kick in in Q3, Q4 timeframe for the GBS side simply because as we mentioned there's about a six-month window in which to get all the pilot programs up to speed.

<Q – Brian Alexander>: And then I think – I guess finally on GBS, you've talked about growing that business 20% plus and I know you've got some new programs coming on here. We just saw first quarter of about 7% growth, if you exclude the HiChina divestiture from last year. So are you still confident that that's a good growth rate to use for the year and that will make up for that in the back half of the year or should we be thinking that that growth may not be achievable this year?

<A – Christopher Caldwell>: So, Brian, it's Chris. I think if we look at year-over-year, there's one thing that is diluting the growth a little bit. We had a customer who launched a product last year that had very, very high call volume which drove a large number for Q1 2009. This year the growth wasn't there from that particular customer even though we took additional share from that customer. I think when we look at the growth with the pilot projects we started in this quarter and we'll be starting in next quarter, that our growth rates will get back to that trend for the year by the end of Q4.

<Q – Brian Alexander>: Okay. Thank you.

<A – Thomas Alsborg>: Thanks, Brian.

Operator: Your next question comes from the line of Ananda Baruah with Brean Murray.

<Q – Ananda Baruah>: Hey, thanks guys for taking the question. Kevin, could you – you mentioned market share gains. Can you talk about maybe some of the areas where you felt like you took some share and then just maybe overall market areas of strength?

<A – Kevin Murai>: Sure. I'll actually start with the second part of the question first, Ananda. In terms of strength, I think it's also been pretty well publicized at least over the past number of weeks that there was a return to growth in the enterprise space. That also helped our overall mix of business, but enterprise server in particular was strong. We also continued to see strength in the systems side, so both on the desktop but more importantly on the notebook side of the business, and there was significant growth. Also good to report that the printer hardware part of the business also showed some very, very good growth numbers and networking was also very strong. So from a category standpoint, that's where we continued to see strength.

From an overall market share standpoint, it's really hard to get that specific categorically on where we actually gained share and where we didn't, but in particular I would tell you with certain customers and in certain areas of focus that we've had, namely, in enterprise server and storage, we have been growing that business much faster than the overall market.

That trend continued in our first quarter. So there were definitely market share gains out of our enterprise business and I believe we also had share gain out of our communications part of our business through primarily out of unified communication.

<Q – Ananda Baruah>: And can you give us any update on I guess traction that you began to see with the EMC relationship this quarter, maybe sort of, where you're seeing the traction with what product lines and maybe what the trajectory of that is and your expectations as we move forward?

<A – Kevin Murai>: Yes. It's a little bit too early to really give a lot of good color on EMC. We really only launched that in January, so it was already halfway through our first quarter when that started. We have fully staffed up in terms of the resources to not only sell, but also provide technical support and design as we do sell the product, but we'll probably be able to give you more color on that in the coming months, Ananda.

<Q – Ananda Baruah>: Okay. Sound good. And I guess, just last one for me for now. Just any update on what you guys are seeing in terms of Win 7 adoption and any thoughts around business refresh of PCs.

<A – Kevin Murai>: Yes. Overall, I think that we still believe that Win 7 adoption is going to follow a more rapid path than we've seen with operating system refresh at least the past two or three times in the past 10 years, and I do believe when you take a look at the overall strength in our systems numbers and that strength has been going on for a number of quarters now, I think that's actually a good proxy to say that there is actual refresh happening and to a large extent, a lot of that I do believe is driven by Windows 7.

<Q – Ananda Baruah>: Okay, great. Thanks a lot.

<A – Kevin Murai>: Thanks, Ananda.

Operator: Your next question comes from the line of Richard Gardner with Citigroup Investments.

<Q – Joe Yoo>: Thank you. This is Joe Yoo on behalf of Rich. Kevin, you mentioned that you saw a pickup on the enterprise server side as well as on the system side and printers. Could you tell us when you saw this meaningful pickup and what has been the trend since?

<A – Kevin Murai>: Yes. On enterprise server, that really started happening in the new calendar year. So around January we started to see more activity and pickup. For the systems overall, as I had mentioned just a few minutes ago – and really talking about desktops and notebooks – that had been a strong category even prior to our first quarter.

So continued stability and strengthening in that category. But not anything that new in terms of a reversal of growth pattern there. And then on printers again, it was the same story. It was some time after the beginning of the calendar year that we started to see a good pickup in printer hardware.

<Q – Joe Yoo>: And have you seen product shortages in the past quarter?

<A – Kevin Murai>: The only thing to really call out is we continue to see shortages in the hard disk drive space. And Joe, I do want to actually go back to your prior question. I think one thing that I just want to make sure that I do clarify is that the growth that we've seen in printer hardware is not just from an overall market trend standpoint. Part of it is net incremental business to us. And so I just want to point that out, because the numbers that we share or the trends that we share in some ways can be a little more specific to SYNNEX.

<Q – Joe Yoo>: Understood. And the shortages is just on hard disks?

<A – Kevin Murai>: Primarily in that area. We have noticed some shortages perhaps in some other areas, perhaps in some – at the component level in panels, although we don't deal with those components that driving into other finished product. But from a finished goods standpoint, haven't yet seen the impact of that.

<Q – Joe Yoo>: Great. And my last question is on what you mentioned last quarter. You said there was a boost in revenues due to some high volume customers going to two tier distribution. Have you seen this continue into the February quarter?

<A – Kevin Murai>: We have, and in fact to characterize that business a little bit, a large part of that was a net shift from business that had traditionally been direct from manufacturer to reseller that is now going through the channel because of enhanced efficiency. So that is more of a permanent change that we're seeing. Offsetting that, of course – and in particular as we take a look at our mix of business in Q1 – as we've seen a pickup in some of the higher margin businesses, namely enterprise and networking, that's helped us to also rebalance our overall mix and is also one of the drivers for our improved gross margin on a sequential basis.

<Q – Joe Yoo>: Great. Thank you, Kevin.

<A – Kevin Murai>: Thanks, Joe.

Operator: [Operator Instructions] Your next question comes from Shaw Wu with Kaufman Brothers.

<Q – Shaw Wu>: Okay, thanks. Just two questions. First, with the accounting change, it looks like your gross margin is at a higher level here. I guess the question is, with the Jack of All Games becoming a part of the mix, does that change that dynamic? And then the second question is a quick housekeeping question. In terms of the tax rate, it looks like it came in at 36%. I believe that's a bit higher than – I mean that's a bit higher than what you had before. Is that the rate we should use for this year? Thanks.

<A – Thomas Alsborg>: Hi, Shaw. This is Thomas. On the first question, the Jack of All Games gross margin tends to be in the higher end of our gross margin spectrum. So it will – as that business ramps up on the timeline we talked about before, it will certainly not diminish. It will be a healthy contributor to our margin profile.

You had a part about net, our net gross accounting?

<A – Kevin Murai>: Tax rate.

<A – Laura Crowley>: Tax rate.

<A – Thomas Alsborg>: There was another part on the net gross I thought. On the tax rate, you should be thinking in terms of a 36 to 36.5 range for the fiscal year.

Did I cover your first question though thoroughly enough?

<Q – Shaw Wu>: Yeah, yeah, no, that's fine. Thanks.

<A – Thomas Alsborg>: Okay.

Operator: And your next question is a follow-up from Matt Sheerin with Thomas Weisel Partners.

<Q – Matt Sheerin>: Yeah, thanks. I just wanted to go back to the issue on the expense line. I know Thomas, you talked about 1.5 million sort of one-time expenses in the last quarter. Do they all go away or is there still some costs, integration costs related to that Jack of All Games acquisition that we'll see this quarter? Or will it carry over into other quarters?

<A – Thomas Alsborg>: So most – well not most, but a good part of the costs that we incurred in our SG&A for Jack really were around the acquisition of Jack and the very initial on boarding. We will incur additional costs that are still – if you will, start up or integration costs during Q2 most certainly, that will not repeat in Q3 and quarters beyond.

<Q – Matt Sheerin>: Okay. And is that in a similar range in the $1.5 million range? Or could you tell us?

<A – Thomas Alsborg>: The $1.5 million first of all was not just the Jack of All Games cost. That $1.5 million also included some warehouse consolidation we were doing independent of Jack of All Games in the U.S. and also some personnel changes that we were making independent of either of those also, okay? So there's three different – it's kind of a separate component. The personnel was more of a reorganization thing.

All of those were again kind of discrete and one time in nature, meaning that they're not part of ongoing operating costs. But as far as Jack of all Games, again, in Q2 we'll have additional costs. As far as the amount of those costs, they will be more than they were in Q1, of course, because we're going to be doing – they're integration in nature. I hesitate to quantify them, but I would tell you that it's safely between a 0.5 million and $1 million.

<Q – Matt Sheerin>: Okay. And then you've got a full quarter obviously of revenue from that acquisition but also expenses related to that, and I know because it's very seasonal that there's big revenue swings, but are there variable costs as well? Are there certain fixed costs that will be a drag somewhat on SG&A during the seasonally weaker quarters?

<A – Thomas Alsborg>: I'll introduce this topic. I'll also invite Dennis our COO who I think will have an operations perspective on this. Of course the answer is going to be there are both; there are some fixed costs associated with the business and there are variable costs. One of the things that we see is and we commented on is that as we bring Jack of All Games on board, we see opportunities for enhanced synergies and enhanced cost savings versus the way it was being run under the prior owner.

So we're in the process of materializing all of that and there is some expense associated with doing it. I think in the end what you're going to see is that it's a streamlined cost structure as far as fixed costs go, but they will still be there. There is also a variable component as there is frankly with our distribution business that we typically would see in the fourth quarter as well.

<Q – Matt Sheerin>: Okay. So and I know that Kevin mentioned that the higher margin business, it sounds like the overall SYNNEX business, so I would imagine higher gross margin but would we – as a percentage of sales then, should we assume that expenses are higher than the 3.5% range of SYNNEX?

<A – Thomas Alsborg>: Yes. I think what you're getting to is that you can anticipate that this is going to be a positive impact on our operating margin. You know that whenever we do business decisions, and that includes acquisitions, our goal is to drive our return on invested capital and earnings growth, and the key driver there is a good growth in our operating margin. So that's all very consistent with our normal way of taking on new business.

<Q – Matt Sheerin>: That's helpful. I guess I'm also just trying to figure out what the incremental expense in the May quarter will be because of this acquisition.

<A – Thomas Alsborg>: Yes. I gave you the best – the best picture I could give you is really about 0.5 million to $1 million.

<Q – Matt Sheerin>: That's incremental, but just the SG&A, just to run that business; that's in addition to that – those one-time costs, right?

<A – Thomas Alsborg>: You're asking for what the normal SG&A cost is of running this business?

<Q – Matt Sheerin>: Yes.

<A – Thomas Alsborg>: Okay. You know what? I'm going to defer this question, if you will, only because we're in the integration process. We certainly have our models and our plans and we're executing well against those. But this is a new business for us and I don't want to give you a more specific number other than to say that it is going to be a positive impact on our operating margin, with higher gross margins as well.

<Q – Matt Sheerin>: Sure. That's fair. Okay. Thanks a lot, Thomas.

<A – Thomas Alsborg>: Okay, Matt.

Operator: Your next question comes from the line of Brian Alexander with Raymond James.

<Q – Brian Alexander>: Yes. If we just go back to the revenue guidance and adjust your Q2 revenue outlook for the Jack acquisition and the change in the net revenue accounting, it looks like on a year-over-year you're guiding revenue to meaningfully decelerate maybe by 500 basis points, despite what sounds like normal seasonal demand and your comments about Canada picking up more than you expected, and I know that's a meaningful part of your distribution revenue. So I guess what I'm wondering is what does that imply if anything about the U.S. market and/or your expected market share in the second quarter?

<A – Kevin Murai>: Well Brian, I think it actually does imply we're still anticipating continued stability in the United States and more of a normal seasonality. There's always a lot of different factors that go into where we believe our revenue is going to come out and our ability to actually continue to gain market share. But overall, our guidance should not be interpreted as more of a negative outlook on what we see happening in current quarter, just more continued return of stability in the demand environment. And quite honestly in that stability of demand, pretty healthy demand.

<Q – Brian Alexander>: Okay. Good. And then on the inventories which were up sequentially, I know some of that was – it sounds like some of that was due to the Jack acquisition. Thomas, did you quantify that earlier?

<A – Thomas Alsborg>: No. I did not. The Jack acquisition is a significant part of that; a few days. We also have a couple of days just because of the change of accounting, as I think I commented in my prepared remarks. That's another piece of it. And as I mentioned too, we had some quarter-end inventory purchases. Those were the – from an inventory side those are probably the three discrete pieces.

<Q – Brian Alexander>: Do you know what the dollar amount for the Jack inventory was?

<A – Thomas Alsborg>: I think I have an approximation. I don't have that particular number in front of me. But as I said, it's about three days of inventory.

<Q – Brian Alexander>: Okay. And then finally on interest expense, I thought given the change in the accounting that we would have seen more of a sequential up-tick in interest expense, so I just thought I'd ask for a clarification on that.

<A – Thomas Alsborg>: Sure. The change in accounting impacted both Q4 and Q1. So that same number, you're talking about the non-cash piece, right?

<Q – Brian Alexander>: Yes.

<A – Thomas Alsborg>: Okay, yes, that number was in both Q4 and Q1. So probably it was apples-and-apples on a sequential basis and...

<Q – Brian Alexander>: That's helpful. I thought it was incremental in the February quarter.

<A – Thomas Alsborg>: No.

<Q – Brian Alexander>: Okay.

<A – Thomas Alsborg>: Any other questions, Brian?

<Q – Brian Alexander>: That's it.

<A – Thomas Alsborg>: Okay. Thank you.

<Q – Brian Alexander>: Thank you.

Operator: And your last question comes from the line of Ananda Baruah with Brean Murray.

<Q – Ananda Baruah>: Thanks. Hey, Kevin, just a follow-up on the comments around, I guess, enterprise strength. Was the strength that you saw, was that incremental to what your thinking was coming into the quarter and if so, what does that do, if anything, to your thinking about the – your enterprise business as you move through the year?

<A – Kevin Murai>: I'll give you two separate comments on that. First of all, just the overall demand in the market did show an up-tick in the enterprise space, primarily in the server space by the way, in the server part of enterprise. But as you know, we've been making investments in continuing to address that space both on the server and the storage side, and we've been making very good progress on continuing to grow that business and gain market share as well. So the success that we've seen in growing our enterprise business is really a combination of more of a return to normal demand in just enterprise product, but also the fact that we're getting good traction in the business that we had to.

<Q – Ananda Baruah>: Okay, thanks. And do you have any visibility into what types of deployment the servers were going?

<A – Kevin Murai>: I'm sure we do. I don't have – I don't know what that is, Ananda.

<Q – Ananda Baruah>: Okay. Thanks. And hey, Thomas, just real quick, the – I guess the inventory, the non-Jack, I guess the core distribution of inventory that you guys maybe purchased a little bit more of that pushed the days up a little bit right at quarter-end, was there anything particularly strategic about having done that?

<A – Dennis Polk>: Hi, Ananda, this is Dennis. As far as the non-Jack inventory purchases, it's really two things that drove it up. It is timing. A lot of the acquisition of inventory that we brought in just happened to come in right at the close of our quarter and were nothing more than regular run rate inventory purchases that we had set up for our expected March business. And then there were a subset of purchases that were strategic, but not really a material amount to the overall inventory that we did make as well. But the key thing to always point out with regards to all of our core assets, accounts receivable and inventory is that the quality of those assets are still very, very good and we still expect a high velocity churn of all those going forward.

<Q – Ananda Baruah>: Thanks, Dennis. I appreciate it. Thank you.

Laura Crowley, Director of Investor Relations and Public Relations

Thanks, Ananda. Okay. This concludes our first quarter earnings conference call. Thank you all for joining us today. We will have a replay of this conference call available for two weeks beginning today at approximately 5 p.m. Pacific Time through April 8, 2010. As always, should you have any follow-up questions, both Thomas and I are available to take your calls. Thank you for your participation today.

Operator: And that concludes today's conference call. You may now disconnect.