MANAGEMENT DISCUSSION SECTION

Operator: Good afternoon. My name is Philip, and I will be your conference operator today. At this time, I would like to welcome everyone to the SYNNEX Fiscal Second Quarter 2009 Earnings Conference 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 Ms. Laura Crowley, Director of Investing and Public Relations. Ma'am, you may begin your conference.

Laura Crowley, Director of Investor Relations and Public Relations

Thank you, Philip. Good afternoon and welcome to the SYNNEX Corporation fiscal 2009 second quarter earnings conference call.

Joining us on today's call are Mr. Kevin Murai, President and Chief Executive Officer; Mr. Dennis Polk, Chief Operating Officer; Mr. Thomas Alsborg, Chief Financial Officer, and Mr. 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 statements regarding our strategy, including investments in strategic areas, growth, market share, profitability and returns, expectations of our operating expense, sales, revenues, net income, and earnings per share for the third quarter of fiscal 2009, our performance, benefits of our new Canadian revolving arrangement, benefits of our business alliances, benefits of our Integrated Communications Group, benefits of our Healthcare Solutions Group, benefits of our business model, market conditions, our expectations for operating margins, profitability and our ROIC. These are subjects 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 10-Q for information on risk factors that could cause actual results to differ materially from those discussed in these forward-looking statements.

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

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'm sure most you have received a copy of our press release, outlining our results for the quarter. As evidenced by our results, once again, the SYNNEX team did a great job and beat Wall Street expectations on revenue, net income and EPS.

I believe SYNNEX continues to demonstrate an exceptional ability to constantly produce improvements in growth, earnings and ROIC, an ability which has set us apart from our largest competitors over the last two years.

I will provide additional information on our results of operations for the quarter, highlighting our key financial metrics. And then, I will provide guidance for our fiscal third quarter.

In our second quarter 2009, which ended May 31, total consolidated revenues were $181 billion compared to an average Wall Street estimate of 1.71 billion. This is a 4.8% increase sequentially, and better than our own projections.

Compared to the year-ago quarter, our revenue decreased by 3.5%, much less than the industry projections of double-digit declines year-over-year. Even on a normalized basis, adjusting for our acquisition of New Age Electronics, which occurred on April 1, 2008, year-over-year revenues were down only in the mid to high single-digit range.

Our second quarter net income was $19.2 million or $0.57 per diluted share, handily surpassing average Wall Street estimates of $0.48, due to a solid gross margin and better revenue generation.

ROIC was 7.7% for the fiscal second quarter 2009, versus 7.2% in 2008, continuing our virtual string of year-over-year ROIC growth improvements over the past seven quarters. Across the board, we continue to navigate in the current economic environment extremely well, out executing our competition to deliver growth and market share.

In the second quarter of fiscal 2009, our consolidated gross margin was 5.87% representing an increase of 50 basis points, compared to the year-ago same quarter. This was a 25 basis point lower gross margin sequentially from our first fiscal quarter of 2009, which reflects the puts and takes from quarter-to-quarter, but still industry leading with Broadline Distribution.

Again, our core distribution business and our Global Businesses Services, both contributed to our increased gross margin year-over-year, as a result of superior execution, improving mix of business, operational cost control and disciplined pricing.

Our second quarter 2009 selling, general and administrative expense was 74.7 million or 4.12% of revenues, compared to 69.1 million or 3.68% in the fiscal second quarter of 2008, and 71.1 million or 4.11 sequentially.

On a year-over-year basis, SG&A dollars were higher primarily, due to increased AR reserves, increased deferred compensation expense, increases in employee related costs and SG&A associated with M&A and investment activities, most notably, Q2 2009 includes three months of New Age Electronics SG&A expense, compared to two months for our fiscal Q2 2008.

On a sequential basis, fiscal Q2 2009, SG&A dollars were higher relative to fiscal Q1 2009, primarily, due to net higher deferred compensation expense and higher reserves for bad debt.

As a reminder, changes in our deferred compensation liability are related to changes in the underlying investments that the plan carries. And consequently, the impact to SG&A is offset by a corresponding change in gains or losses on the other income and expense line of our P&L, with no net bottom-line impact to net income and EPS.

Income from operations was 31.7 million or 1.75% of revenues for the fiscal second quarter, compared to 31.7 million or 1.69% of revenues in the prior year, and 34.7 million or 2.01% of revenues in the fiscal first quarter of 2009. Again, this reflects good pricing discipline and operations execution, as well as continued cost control efforts.

As we mentioned last quarter, although there will continue to be puts and takes in our margins from one quarter to the next, we remain committed to our business strategy, and have demonstrated our ability to execute well by driving over the long run, increasing operating margins, income and return on invested capital. And the good news is that we believe that we still have more opportunity to improve in these areas.

With respect to net interest expense, finance charges and other expenses, the net interest expense and finance charges for the fiscal second quarter of 2009 were 3.1 million, an overall decrease of about 200,000 from the year-ago quarter of 3.3 million.

Our other non-operating income line for the fiscal second quarter of 2009 was approximately 1.4 million, compared to 0.6 million on the same quarter last year.

In 2008, these amounts primarily represent gains on investments mainly associated with our deferred compensation plan, combined with gains or losses in foreign exchange. This is similar in 2009. Again, the gains on investments associated with deferred comp are offset against the deferred comp liability within SG&A and hence, have no bottom-line impact.

The effective tax rate for the fiscal second quarter of 2009 was 35.2%, compared to 35.5% in the fiscal second quarter of 2008. The decrease in the effective tax rate was primarily due to the higher profit contributions from lower tax jurisdictions.

Turning to the balance sheet and related metrics. The SYNNEX team did a good job of managing the working capital to the current environment on a real-time basis. As a result of our flexible financing structure, the debt was reduced to 332 million as of May 31, 2009, down 20 million from the fiscal first quarter of 2009, and dropping our debt-to-cap ratio again to this quarter at 30.8%.

At the end of fiscal Q2, our accounts receivable totaled $700 million compared to 706 million in the first quarter of fiscal 2009. DSO improved by three days to 40 days. As a note, our DSO calculation has always included our prior off-balance sheet AR securitization. Hence, there is no impact to the DSO calculation with the change in accounting method for the New Canadian Arrangement.

Inventory totaled $651 million at the end of the fiscal second quarter, down from 653 million in fiscal Q1 2009, translating to 35 days of inventory supply. And days payable outstanding was 34 days. Hence, our overall cash conversion cycle for the fiscal second quarter improved to 41 days, compared to 44 days in the fiscal first quarter of 2009.

As I noted, our debt-to-capitalization ratio for fiscal Q2 09 was 30.8%, down from 46.5% in fiscal Q2 2008, and down from 33.4% from fiscal Q1 2009, reflecting good cash generation during the slower period of demand. This is a good example of our flexible capital structure, in which our debt goes down and right sizes with the demand environment. Our liquidity and access to cash remain excellent.

As noted, during the fiscal second quarter, we replaced our Canadian accounts receivable securitization program with a three-year credit facility of C$125 million. The terms and conditions of this Canadian revolving arrangement are recorded as an on-balance sheet transaction versus the prior Canadian accounts receivable arrangement, which was recorded as an off-balance sheet transaction for accounts receivable.

We believe this change will bring enhanced real-time visibility to our Canadian accounts receivable and related borrowing levels, which are always disclosed in our financial statement footnotes.

As of May 31, 2009, approximately 56 million was outstanding on this new revolving arrangement, compared to the combined total of 74 million on the previous Canadian accounts receivable securitization program and the previous Canadian revolver as of November 30, 2008. Of the 74 million, 59 million was off-balance sheet AR and 15 million was the revolver balance.

Other financial data and metrics of note for the second quarter of fiscal 2009 are as follows. Depreciation expense was $2.9 million. Amortization expense was $2 million. Hewlett-Packard, at approximately 35.4% of sales was the only vendor accounting for more than 10% of sales during the fiscal second quarter 2009.

Capital expenditures were $2.6 million. Preliminary year-to-date cash flow provided by operations was approximately $199 million, compared to $30 million provided by operations for the same period in 2008. And please note, the 2009 year-to-date cash flow figure is net of the change in accounting for the Canadian accounts receivable financing, which means our cash flows from operations would have been $56 million greater, or 255 million in cash flow from operations before the change in the financing and accounting treatment.

Moving to our third quarter 2009 expectations. For fiscal Q3 2009, we expect revenues will be in the range of 1.8 billion to $1.9 billion. This forecast reflects the stability in the economic environment that we have experienced over the past two years.

Still, we will remain selective in the types of business we take and continue our focus on increasing our market share. Net income is expected to be in the range of 19.9 million to $20.9 million, and diluted earnings per share are anticipated to be in the range of 58 to $0.61 per share. The calculation of diluted earnings per share for the third quarter is based on diluted weighted average common shares of approximately 34.5 million shares.

As a reminder, all these statements are forward-looking and actual results may differ materially. I will now turn the call over to Kevin Murai for his perspective on the 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, posting excellent results for the quarter on sales, profitability and ROIC, and beating Wall Street expectations. We continue to outperform our peers by profitably increasing our market share in both the U.S. and Canada.

The completion of our second quarter of 2009 marks our 22nd year of achieving consistent profitability quarter after quarter. That's 88 consecutive profitable quarters, which is quite an accomplishment, and a constant reminder of our strong track record of achieving our operating and financial objectives.

During our second quarter, all business units performed well, with our Distribution businesses in Canada and the U.S. delivering strong profit results, and sales performance that reflects good market share gains, and our GBS business continuing its pattern of strong year-over-year growth in both sales and profit.

Highlighting our GBS division, once again, we've done a very good job of growing this business's profitability, with new customer wins, as well as expanding and realizing business opportunities within our existing customer base.

During our second quarter, the Concentrix team, which handles the call center business for GBS, did a superb job of specifically targeting and growing our market share, resulting in better leverage of our support staff and better utilization of our facilities in Asia-Pacific. The market dynamics continue to be competitive, but the Concentrix team's solid focus on quality execution continues to be rewarded with new opportunity.

During our second quarter, Concentrix was recognized as one of the top 100 in the world's leading outsourcing companies by the International Association of Outsourcing Professionals in the Global Outsourcing 100 program. This represents a true honor to the Concentrix brand, and strong recognition by our industry of peers that Concentrix is a strong competitor and has what it takes to succeed.

As I've mentioned on previous conference calls, what sets SYNNEX apart from our competition are several key differentiators that truly are the driving force behind our strong performance quarter after quarter, and what allows SYNNEX to continually outperform our competition.

These three key differentiators are, first, our low-cost leadership position in the distribution space, a position enabled by years of work in developing a superior proprietary ERP system, a business model with a high degree of variable expenses, our North American market focus, and our use of overseas back office.

Second, is the diversification of our business model, which is a key component of our long-term margin expansion strategy. We're diversifying through investing in new verticals within IT distribution, and by adding complementary business process outsourcing services within the supply chain through our GBS segment.

And third, our team of very disciplined and talented associates. We believe these differentiators are what set SYNNEX apart from our competition today, and enable the company to not only outperform our competition over the long run, but to do so with industry leading results within Broadline Distribution.

Overall, SYNNEX performance for our second quarter has been nothing short of outstanding, particularly within this economic environment. I'd like to comment on several key factors that we believe really drove our results this quarter.

First is our stronger than anticipated performance on the revenue line. Overall, the market was better than we anticipated, and the SYNNEX team executed extremely well by capturing profitable business and increasing our market share. Also New Age Electronics, our consumer electronics business, had an exceptional quarter posting year-over-year gains in market share as we added new product lines.

Second is our year-over-year improvement in gross margin. We managed the business very well during the quarter, with a disciplined and focused approach to our pricing improvements in our mix of business and good execution.

And third are our noticeable improvements to our working capital. Improving our cash-to-cash cycle remains a key area of focus for the company, and we realized good improvements this quarter as well as steady improvements over the last several quarters.

Along with our improvements in operating margins, our positive trend in reducing our cash-to-cash cycle is a key driver of our virtual strength of seven quarters of year-over-year ROIC improvements, a trend we're focused on continuing over the long-term.

And finally, we've made smart investments over the past few years that are really paying off, including our move into the BPO space with our GBS business, and our entry into the consumer electronics and retail market through New Age Electronics.

Also our PCW business, which specializes in the refurbishment and end-of-life market, has been doing well and is a good defensive line of business for times of economic slowness. And we also continued to invest in other strategic areas within our core distribution business, such as our technical solutions division, our Integrated Communications division and our focus on vertical industry solutions, such as in the healthcare sector.

As we continue to win market share in these key segments, we've experienced an increase in interest from the vendor community to partner with SYNNEX. And thus, we continue to add new vendors to our line card to complete the build out of these very important solution sets.

During the quarter, we announced two significant relationships in support of our key initiatives in Integrated Communications and healthcare. In April, SYNNEX entered into a strategic business relationship with Siemens Enterprise Communications Group. Siemens represents a significant addition and is the foundation to our unified communications offering.

We carefully evaluated the Siemens portfolio and believe that their open architecture, single vendor platform for unified communications, including data and security products, plus their unmatched support levels, offer our large reseller base, the extra edge they need to succeed in this growth market.

Through this relationship, SYNNEX resellers can minimize integration pain points and costs, while giving their customers the security of knowing that their UC solutions will grow with their business.

In May, we signed a distribution agreement with Allscripts, a leader in software, services and connectivity solutions for physicians and hospitals. Our strategic relationship with Allscripts greatly enhances our focus on the healthcare industry that we established about a year ago.

Through this relationship, we now offer complete practice management solutions that are designed to immediately benefit physicians, by getting them compliant with electronic health records and gaining access to tax credits as part of the Obama administration's American Recovery and Reinvestment Act. The market for this solution is enormous, as we estimate there are hundreds of thousands of physicians not yet compliant with the new standards. Our work in the healthcare industry is indicative of the focus and depth we place on vertical industries we believe are ripe for technology solutions.

Now as we look at fiscal Q3, we are prepared for the recession to continue through the quarter, but are encouraged by the recent stability we have experienced over the past two quarters. Regardless, we will continue to execute well, gain market share. We remain confident in our ability to succeed, and our visibility and improving guidance reflects our expectations for an even better quarter in fiscal Q3. We remain laser-focused on growing shareholder value through market share gains, increased profitability and year-over-year improvements to ROIC.

Before I end my prepared remarks and open up the call for your questions, I want to thank the entire SYNNEX team for once again achieving our stated goals of increasing market share, profitability and returns on invested capital for our investors.

Our results for this quarter, as well as over the past two years, continue to demonstrate our differentiated strategic direction is the right one. 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. Philip, let's go ahead and open up the line for questions please.

QUESTION AND ANSWER SECTION

Operator: [Operator Instructions]. And your first question comes from the line of Brian Alexander.

<Q – Brian Alexander>: The revenue upside versus your forecast of about 80 million, it was about 80 million above the high-end of your guidance. It's been a while since you guys have exceeded your revenue forecast to that degree. So I know there are several factors that drove that. But do you think the market pick up that you alluded to, Kevin, was a greater factor in driving the revenue overachievement, or was it market share gains? And could you be a little bit more specific, in terms of where you were surprised by product and/or customer segment?

<A – Kevin Murai>: And Brian, really the answer is a combination of both of them. The market itself, I think, showed more strength than we had originally anticipated a few months ago.

In addition to that, we continued our success in continuing to earn more market share as well. In particular, it's hard to pick out a specific segment where we saw perhaps strength in the market that was significantly stronger than what we had anticipated to kind of break out. But what I can do is perhaps, share with you relative strengths across some certain product categories, as well as sub-categories within that.

Again, systems continued to lead the way in terms of growth being – higher growth than our overall average. And as you would expect, notebooks – no, netbooks included in that category, were part of the strongest sub-segment of our systems category, but desktops as well, did show go strength.

Our consumer electronics business also showed very good strength year-on-year. And we also continued to show good growth in our overall supplies business. So those were some of the key areas that I think kind of shone a little bit above and beyond what our overall sales were.

<Q – Brian Alexander>: Okay, great. And then, just shifting to a couple of things you mentioned, Thomas, in the call, AR reserves as well as the deferred comp issue. What were the AR reserves at quarter-end?

And then, on the bad debt provision I noticed that it's crept up over the last couple of quarters. It used to run about 10 to 15 basis points of sales and now it's closer to 25, and I'm wondering what that looked like this quarter?

<A – Thomas Alsborg>: Okay. So first of all, on the deferred compensation, if you look at the numbers relative to the prior quarter, our deferred compensation expense was about $2.1 million higher, meaning we booked an additional liability related to the gains associated with those assets. And as you know, those numbers go up and down each quarter, I think, by how the market's doing.

On the reserves, relative to the prior quarter, again, we booked about $1.2 million higher. We had $1.2 million higher in reserve expense during the quarter. As we look out, frankly, the answer to the second part of your question on reserves in the coming time, we think because of this ability that we're seeing right now, Brian, we expect to see those levels reside back to pre-recession levels. This quarter we had booked a few discrete reserves for specific accounts. Not sure what else I could tell you.

<Q – Brian Alexander>: Well, did the bad debt provision increase by 1.2 million, or was that the provision, or was that the increase in the AR reserve. I am not sure what that was....

<A – Thomas Alsborg>: That was the increase on a relative basis. The total amount that we booked for this quarter was about $4.4 million.

<**Q – Brian Alexander**>**:** And then just final one. You guys continue to improve working capital, can you kind of drill down into some of the key drivers of that? What are you doing differently? And what inning are we in, in seeing that improve?

<**A – Dennis Polk**>**:** Yeah Brian, this is Dennis. Yeah, we were able to improve all aspects of our working capital this quarter. And it's really just through solid blocking and tackling in all areas of our working capital metrics, specifically on accounts receivable, we've really managed our portfolio well we think over the past several quarters now to bring down the overall DSO while being mindful of doing good business with our customers.

The same thing is true with inventory. We've targeted that as a specific area we wanted to work on over the past, now, about a year. And we've had success in bringing that down from a days inventory outstanding standpoint. While doing that though being very respective of the fact that this is an important aspect in generating new business, this inventory asset. So we've counterbalanced that with trying to bringing it down. But we do believe that there are still more room to improve this metric. I can't give you an exact inning that we're in. This game that we're in is never ending. But we will work to always improve this metric and to hopefully continue to drive more cash as Thomas alluded to in his script.

<**Q – Brian Alexander**>**:** Great, thanks very much.

<**A – Dennis Polk**>**:** You bet.

Operator: And your next question comes from the line of Matt Sheerin.

<**Q – Matt Sheerin**>**:** Hello, everyone. So just my first question, following up on Brian's question regarding demand. I know that during the quarter you had talked about at some public conferences about demand being pretty good. Is that something that you saw throughout the quarter, and did that momentum carry over into the August quarter?

<**A – Kevin Murai**>**:** Yeah Matt. I mean I would tell you overall, from really the end of our first fiscal quarter, all the way through second quarter, we saw just good stability, and in some cases, a continued strengthening. Now obviously that's not a year-over-year comment. It's really more if you put a stake in the ground where we believe we saw more of a low point around January, February timeframe. We've seen a more of a consistent strengthening. And I can also tell you that sitting here on June 30, we've continued to see that stability in the market through the month of June as well.

<**Q – Matt Sheerin**>**:** Okay. And then, if you look at the August quarter, the mid point of the guidance is up 2% or so 3%. And I know your business mix is different, because of New Age. And last year you had them for a full quarter but sequentially it was a little bit off. So would you say that your guidance is reflecting full seasonality, or are you being conservative, and is that a little bit muted now because of the recession that we're still in?

<**A – Kevin Murai**>**:** Well I think it's kind of all the above except...

<**Q – Matt Sheerin**>**:** Okay.

<**A – Kevin Murai**>**:** ...in terms of our visibility through Q3, yes, there is a seasonality that is factored into our guidance. But at the same time I think it also reflects our view on the continued stability in the market as well. And quite frankly also takes into account the track record that we've had of continuing to effectively earn market share as well.

<**Q – Matt Sheerin**>**:** Okay. And just remind me on the seasonality of that consumer electronics business. Is there a push in the August quarter because of back-to-school?

<A – Thomas Alsborg>: That's correct. Typically, you'd see within the U.S. you would see a pick up in the August quarter that would carry into November.

<Q – Matt Sheerin>: Okay. And if you sort of back into the below the revenue numbers and above the your net income guidance, it looks like the gross margin, unless SG&A goes down, or is just flat on an actual dollar basis, it looks like you are expecting gross margin to go up a little bit here and is that because of mix?

<A – Thomas Alsborg>: Well, in our guidance we don't break out gross margin versus SG&A. But I would tell you that certainly from an operating income, you would expect to see improvement over this quarter. And I would also tell you that relative to current quarter SG&A levels, you would expect to see a decrease in SG&A going forward.

<Q – Matt Sheerin>: SG&A percent or SG&A dollars, percent you mean?

<A – Thomas Alsborg>: Actually, I am referring to the percentage. Again, keeping in mind that you have a noise level associated with the deferred comp. For example, this quarter if you backed out the deferred comp expense, you would be at SG&A of 4.0% of revenue. That tends to be the cap that we like to see in our SG&A as a percentage of revenue. We're usually up in the upper 3% range.

<Q – Matt Sheerin>: Okay, got it. And then, let's see, so the tax rate. I know it was lower in the last couple of quarters. Do you expect it to be in that 35 to 36 range, again?

<A – Thomas Alsborg>: Yeah, the range that we have shared is what we think we'll be at for the year. And again that was a 35.2% range that we shared this quarter.

<Q – Matt Sheerin>: Okay. And just my last question. Just given that you are seeing stability in the market. Your balance sheet is in good shape. You've had certainly successful acquisitions in the past. Are you out looking for acquisitions again, or are you going to sort of keep the cash, keep the balance sheet where it is, as we get through the next couple of quarters?

<A – Kevin Murai>: No, I think we've been very clear on our strategic direction for the company, which is to continue to expand our view on the market, our access to markets beyond just where we are. And certainly, one of the ways that we intend to do it, the ways that we have done it in the past is through acquisitions.

<A – Thomas Alsborg>: To the second part of your question there I just want to emphasize again that we feel very confident about our access to capital and current liquidity. And we have operated our company at higher debt-to-cap ratios very comfortably. And I think that we've shown in the last three to four years since we've been public that we have the ability to manage that debt-to-cap ratio anywhere from the ranges that we're at now, 30% up to the low 40% range and to do that with a very flexible capital structure. So we're comfortable operating within that range.

<Q – Matt Sheerin>: Got you. Okay, thanks very much.

Operator: [Operator Instructions]. And your next question comes from the line of Ananda Baruah with Brean & Murray.

<Q – Ananda Baruah>: Hey guys. Thanks for taking the question. I guess, just a follow-up on demand. Again, can you just – maybe Thomas or Kevin, just get maybe a little bit more specific around what your internal strength was from into the quarter? Primarily in systems, consumer versus small medium business, maybe, what you saw in both of those areas?

<A – Kevin Murai>: Sure. And I'm going to have to break this down a little bit for you, because there were some notable differences between our Canadian and U.S. businesses. But overall, systems was one of our strongest performing categories on both sides of the border. The notebook category though was certainly one of the key strengths within systems. That was the case as I said in both the U.S. and Canada.

I can also provide perhaps, Ananda a little bit of color on not just the product categories but also on some of the customer segments that we do deal in as well. And specific to the U.S., as you would expect, government business remained pretty strong. But we also saw strength in our retail business, both brick and mortar as well as ETEL.

Our refurbish business, as I mentioned in my prepared remarks, were also a strength. SMB, although it started off the year being a bit of a laggard, did pick up and it came in as, I would say, about average in terms of overall growth rate. But it was good to see that improvement from the January, February timeframe. And then, just on the relative softer side, I would say that our direct market accounts as well as our larger major accounts would have been just a little bit slower than average.

Now in Canada, as I said, some differences there. Office products group was also strong. Our data capture group, point-of-sale group in Canada was strong. And retail on the independent retail side for IT products were strong. Major retail where we do also good business up in Canada was about average. And on the softer than average side for Canada was more in the commercial space, as well as consumer electronics but non-IT consumer electronics.

<Q – Ananda Baruah>: Thanks, Kevin. I appreciate that. And then, I guess for New Age, I guess you talked about gained share, you added some new products, it sound like there was incremental strength there as well. Was it – do you think it was due to – can you talk a little bit about the new products I guess, you guys introduced? And how much of the incremental strength is from the new products versus just kind of the general pick up in demand that maybe you were a bit surprised by?

<A – Kevin Murai>: Oh, I would tell you overall, for New Age Electronics, it's a unique business model that really does have significant value add to the market that it serves. And we had talked about before, when you look at the Tier 2 retail market, as well as some other specific spaces that they do plan, they've done an excellent job over the years, providing what – well, this term is, a secret stock in some of the services that they're able to take to those markets.

And as we've been able to add more and more products to there line card, they've been able to leverage that business model they have, the services they have, and do very, very well in growing their business and growing business on behalf of the manufacturers that we sign up to them as well. A lot of the categories, or a lot of a new vendors, new products that we've signed up to New Age Electronics recently have been in the more traditional consumer electronics space, in particular in television, as well as in some audio as well.

<Q – Ananda Baruah>: Okay, got it. So these are actually new vendors, not necessarily new products from your primary vendor?

<A – Kevin Murai>: Well, we also did very well in terms of the existing vendors that we had and the existing product lines that we had at New Age too.

<Q – Ananda Baruah>: Okay, thanks. And I guess, just last one from me. On the operating margins, if I did the math right, if I look at the mid point of your guidance, it seems as though – it seems to suggest that margins will be up sort of somewhat sequentially. But it also looks like they could be down on year-over-year basis for the first time in quite a while. So I guess am I calculating that right? And if I am, sort of what are the dynamics behind that, and what can we expect maybe going forward?

<A – Thomas Alsborg>: Our guidance always allows for, as we have come to call them puts and takes amongst our margins, whether it's a gross margin or operating margin. Again, deferred comp was one example. When you are in a recession additional reserves is another example. How we're doing on the gross margin relative to targets from our vendors, all these things and more, impact our margins. So I would only tell you that as we set forth guidance, we're just trying to allow for the variables. Some times they swing to one end of the spectrum, some times the other.

<A – Kevin Murai>: And Thomas, I just want to add a couple of higher level points to that is. Number one, I think we – well, we're proud of the margins that we have. I think in particular, in operating through the economic environment that we have been over the past couple of quarters, we've done an outstanding job in managing our costs, in managing our pricing and gross margins, to deliver the profitability and returns that we have.

And second to that is, it continues to be our focus. It's certainly a key part of our strategy to invest in net new business areas that over time are going to expand our overall margins and returns. So quarter-to-quarter, you're going to see fluctuations based on seasonality, as well as other things that do go on. But over the long-term Ananda, we're very focused on continuing to improve our margins and our returns.

<Q – Ananda Baruah>: Thanks. And I guess, my second last question here, Kevin and maybe Thomas, this one's for you. I think you previously commented, I think to expect SG&A to go down sequentially going forward as a percentage of revenue. Is that sort of like a longer term general statement, as you move sort of into the next fiscal year as well?

<A – Thomas Alsborg>: Well, that comment that I made earlier on this call was in reference to going into Q3 from Q2. Again, I would remind you that our goal here is really to drive growth in our operating margin, and there is somewhat of a trade-off, I think, on the mix of business you have between the gross margin and your SG&A. But the main thing I would focus on, and our company focuses on, is growing that operating margin. And we've shared in the past that we expect that to continue to go up and to the right, and on a sustained basis upward of 200 basis points.

<Q – Ananda Baruah>: All right. Thanks a lot, guys.

<A – Kevin Murai>: Thanks, Ananda.

<A – Thomas Alsborg>: Thank you.

Operator: And your next question comes from Rich Kugele with Needham & Company.

<Q – Richard Kugele>: Well done. Just quickly two things, one, on your return on invested capital, do you think that the model can support materially higher levels, or do you think that this is more or less, plus or minus, a few basis points where it can structurally support short of a major acquisition?

<A – Thomas Alsborg>: It's a great question. ROIC growth is one of our very top priorities here. And as we have been commenting now, we've had a virtual string of year-over-year quarterly ROIC growth now, seven or eight quarters. Our intention ultimately is to drive that ROIC above 10% above our weighted average cost of capital to create positive economic value add. We are building this company strategically to do that. You don't do that overnight. Certainly, M&A may impact that, if you're wise about it, and we have a terrific success record with our M&A. But even in the core business, with both Distribution and the GBS segment, both of those pieces are being modeled and structured to drive increases in ROIC to that double-digit level.

<Q – Richard Kugele>: Okay, that's helpful. Then just lastly, a topical question, Windows 7, you've seen some pretty decent notebook growth even ahead of Windows 7. Do you have any point of view on what this might do to your business later this year, or even next? And maybe, just a general sense on what the PC plus notebook side, non-consumer business represents of your systems side?

<A – Kevin Murai>: Yeah. Well, I mean, I can tell you we are expecting and planning for good things to come as a result of the Windows 7 release. And that by the way is going to happen on October 22.

But there is a lot of features and benefits, in particular, benefits over both XP and Vista that are part of Windows 7 that – I mean, if you drink the Kool-Aid, and we certainly believe what we've experienced and what we see is that, there could be a quicker adoption of Windows 7. Certainly, it remains to be seen. But there are a number of data points that would kind of draw you to that conclusion.

There still is a lot of XP out there. And of course that operating system is aging. So there's a need to upgrade. Windows 7, I think, provides that platform and the upgrade path in particular from Vista, tends to be a little less painless than other Windows operating system upgrades in the past. Enhanced security features as well. So I think that there could well be some underlying benefits beyond just the Window 7 release itself, when does that happen in October.

<Q – Richard Kugele>: And just a general sense on what that is. You used to give it, a long time ago. But just, in terms of your systems side, how much is PC and notebooks?

<A – Kevin Murai>: In terms of a range, PCs and notebooks – I'm going to have to get that information for you, just in terms of our range. I think it's about 25 to 30% of our total.

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

<A – Kevin Murai>: Okay. Thank you.

<A – Thomas Alsborg>: Thank you.

Operator: And you next question comes from line of Richard Gardner with Citigroup.

<Q>: Hi, this is Chow Yoon on behalf of Rich Gardner. Kevin, you made the comment on the growth of supplies business. I was wondering if you could elaborate on that trend more specifically, if that was more an ink or a toner comment. And do you have any read on if that's actually a pick up in user demand or more of a restocking at the borrower or pantry levels?

<A – Kevin Murai>: Okay. So I can't answer the question on whether it was ink or toner. Certainly, we can look up that information and get back to you. But I think there was restocking that actually happened in prior two quarters, given the increases in price that were well announced and talked about late last year, as well as early this year. So the nature of the business was really just more consuming of ink and toner.

<Q>: Great. Thank you.

<A – Kevin Murai>: Thanks, Rich sic [Chow].

Operator: And there are no further questions at this time.

Laura Crowley, Director of Investor Relations and Public Relations

Great. Thank you, Philip. We'll go ahead and conclude our second quarter earnings conference call. Thank you for joining us today.

As a note, we will have a replay of this call available for two weeks beginning today at approximately 5 PM Pacific Daylight Time, through July 14, 2009. As always, should you have any follow-up questions, both Thomas and I are available to take your call. Thank you.

Operator: This concludes today's teleconference. You may now disconnect.