MANAGEMENT DISCUSSION SECTION

Operator: Good afternoon. My name is Lisa . And I'll be your conference operator today. And at this time, I'd like to welcome everyone to the SYNNEX Fiscal 2009 Fourth 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'd now like to turn the call over to Laura Crowley. Ma'am, you may begin your conference.

Laura Crowley, Director of Investor Relations and Public Relations

Thank you. Good afternoon, and welcome to the SYNNEX Corporation fiscal 2009 fourth quarter earnings conference call. On today's call are Kevin Murai, President and Chief Executive Officer; Dennis Polk, Chief Operating Officer; Thomas Alsborg, Chief Financial Officer; and joining us remotely today is 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 growth, profitability, investments, and business expansion, expectations for our operating expense, sales, revenues, net income and earnings per share for the first quarter of fiscal 2010, impacts of changes in tax laws, flexibility, efficiency and benefits of our business model, market conditions, our expectation for our operating margins 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-Q for information on risk factors that could cause actual results to differ materially from those discussed in these forward-looking statements.

The non-GAAP data included in our press release today and discussed on this call are included with the intention of providing investors a more complete understanding of our operational results and trends, but should only be used in conjunction with the results reported in accordance with Generally Accepted Accounting Principles or GAAP. The non-GAAP financial measures enable investors to analyze the base financial and operating performance of the company and facilitate period-to-period comparisons and analysis of operating trends.

Non-GAAP measures presented in this release or other releases, presentations and similar documents issued by the company include the results associated with the company's discontinued HiChina Web Solutions operations. A detailed schedule of historical results of operations with and without discontinued operations is posted on SYNNEX's Web site under the Investor Relations section.

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 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 we'll provide some further details on our results.

First, the big picture. Highlights on our two most important financial performance metrics, EPS and ROIC. Our fourth quarter EPS was $0.87 per diluted share, handily surpassing Wall Street estimates of $0.76 by $0.11 and $0.07 better than the Q4 results of 2008 of $0.80 per share.

Fiscal fourth-quarter net income was $30.3 million compared to 26.4 million in the fourth quarter of fiscal 2008. The strong net income and EPS performance in Q4 2009 was driven by revenue upside, operating leverage and continued cost savings.

On an annual EPS basis, our EPS was $2.70 per diluted share or $92.1 million compared with $2.52 per diluted share or $83.8 million for the fiscal year ended November 30, 2008. In a year of deep economic recession, SYNNEX net income grew by nearly 10% year-over-year while many companies actually saw the net income and EPS diminish in 2009.

As for ROIC, once again SYNNEX rose and ROIC in our fourth quarter marking the ninth quarter in a virtual string of the year-over-year quarterly ROIC improvement. Fourth quarter ROIC was 11%, well in excess of SYNNEX weighted average cost of capital of 9%.

On an annual run rate basis, SYNNEX has turned the corner on ROIC and is producing ROIC that meets or exceeds its cost of capital. Our long-term goal is to maintain a 2 to 3% spread between our weighted average cost of capital and ROIC.

Next, I will cover the details of SYNNEX's strong performance – financial performance, but before I begin reviewing the numbers, I would like to remind you that in Q1, fiscal 2010, we completed the previously announced sale of our majority stake in HiChina Web Solutions. As a result of this decision to sell HiChina, we're presenting the results of HiChina's operations as discontinued operations in our press release and all SEC filings.

HiChina only contributed $37 million of revenue and an approximately $0.11 in EPS in all of 2009, but because it had operating margins in the range of 14%, the discontinuation of HiChina's operations from SYNNEX overall results will make a more notable impact on SYNNEX's operating margin.

So, as I present our details of results of operations and my following remarks, I will provide for each line item results from continuing operations in accordance with U.S. GAAP; however, in the case of operating margins 0t revenues, I will also provide for comparative purposes our operating margins and revenue on a pro forma basis inclusive of HiChina's results so that analysts who still have HiChina included in their Q4 and fiscal year 2009 models as continuing operations can have comparable figures from which to evaluate SYNNEX's overall performance for 2009.

Also, please note we have posted on the SYNNEX IR Web site a brief historical schedule of operating income from continuing operations, which excludes HiChina results. Now I will cover our detailed financial results.

Fueled by better than expected demand and seasonality, total revenues for the fiscal fourth quarter of 2009 were $2.2 billion, surpassing our expectations and those of Wall Street, representing growth of 5.3% over the fourth quarter of 2008, and an increase of 10% sequentially.

On an annual basis, at $7.72 billion, revenues were essentially level compared to the fiscal year ended November 30, 2008, demonstrating very solid market share gains in an otherwise negative growth year for the industry.

At the segment level Q4 2009 revenues from the distribution segment were $2.18 billion, compared to 2.07 in Q4 2008, up 5.2% and on an annual basis, the distribution segment revenues were 7.64 billion for fiscal 2009, essentially flat compared to fiscal 2008. The Global Business Services segment's fourth quarter revenues from continuing operations were 26.3 million compared to 22.9 million in the fourth quarter of 2008, and fiscal 2009 GBS revenue from continuing operations was 101 million compared to 82.5 million for fiscal 2008.

On the subject of revenue, I should note that the company is considering opportunities, which include more fee-based revenue as we go forward and SYNNEX may consider transitioning some of its existing revenue streams to a net fee basis as this more appropriately may represent the changing characteristics of our customer or vendor agreements moving forward.

In the fourth quarter of fiscal 2009, SYNNEX gross margin from continuing operations was 5.24% essentially flat with the third quarter of 2009 at 5.30% on the same basis of results from continuing operations for the prior year fourth quarter gross margin was 5.63%. On a comparative basis with the last several quarters, the fourth quarter of 2009 gross margin is on the lower side of our gross margin range due to our mix of business and the current economic and marketplace dynamics. Nevertheless, our gross profit dollars continue to reflect the healthy demand we have experienced for our products and services.

The Q4 2009 mix of business continues to reflect the stronger demand for the incrementally higher velocity business that began in Q3 stemming from share gains with certain longstanding customers. It also reflects not only a stable demand, but in the U.S. a return of growth of demand by certain large volume customer groups and a corresponding disproportionate growth in demand of certain lower margin, higher volume products such as mobile computers, peripherals, and software. This is a business that has been direct, but for efficiency purposes was decided that the business would be better served through SYNNEX.

By contrast to Q4 2008, Q4 2008 was a particularly strong quarter for gross margin due to mix and favorable price arrangements. There will always be movement within a given range for our gross margins due to mix and a myriad of other day-to-day variables, but going forward, we expect the gross margin range to continue to move higher as we continue to invest in new higher margin services businesses and attract ourselves into adjacent markets.

More importantly, however this, regardless of the mix of business and associated gross margins, we are in the business to make good operating profit, so whether it is the core traditional higher velocity business that we run very efficiently or the high value add service business that necessitates higher gross margins; in either case, we have demonstrated a propensity to deliver good industry-leading operating profits and operating margins and consistently expand our operating margins over time. So this along with our continued investments in services, businesses and adjacent markets continues to be one of the key sets of drivers behind our continued expectations of continued long-term operating margin expansion.

Our operating margins and operating profit remain a key focus driver of our EPS and ROIC growth at SYNNEX. Throughout the last two years, SYNNEX has continued to grow its operating margins, differentiating itself operationally and financially in terms of results compared to its closest competitors. 2009 represents a milestone in this respect as for comparative purposes on a pro forma basis inclusive of HiChina for the full year. SYNNEX achieved a 2.0% operating margin for fiscal 2009.

I will now cover our operating income and operating margin for the quarter and the fiscal year. Both on the basis of continuing operations and on a pro forma basis to include the results of HiChina's operations. I will first do this for the consolidated company and then for each of our two business segments. I will begin with results from continuing operations.

SYNNEX fourth quarter 2009 operating income and margin from continuing operations was 47.7 million or 2.17% compared to 46.5 million or 2.23% for Q4 2008. SYNNEX fiscal 2009 annual operating income and margin from continuing operations was 149.6 million or 1.94% compared to 146.4 million or 1.89% for fiscal 2008.

For the distribution segment, fourth quarter 2009 operating income and margin was 44.4 million or 2.04% compared to 44.0 million or 2.12% for Q4 2008. And for the fiscal year 2009, the distribution segment's annual operating income and margin from continuing operations was 137.8 million or 1.80% compared to 138.8 million or 1.81% for fiscal 2008.

For the Global Business Services segment, fourth quarter 2009 operating income and margin from continuing operations was 3.3 million or 12.67% compared to 2.5 million or 11.05% for Q4 2008. And for the fiscal year, the GBS segment's annual operating income and margins from continuing operations was 11.9 million or 11.79% compared to 7.5 million or 9.14% for fiscal 2008.

So those were the results from continuing operations. Now, I will provide the pro forma operating income and operating margins that include the results of the HiChina's operation for the fourth quarter and fiscal year for the company and the segments as applicable.

SYNNEX fourth quarter 2009 operating income and margin, pro forma with HiChina was 49.3 million or 2.23% compared to 47.9 million or 2.28% for Q4 2008. SYNNEX fiscal 2009 annual operating income and margin, pro forma with HiChina was 154.9 million or 2.00% compared to 151.8 million or 1.95% for fiscal 2008. The Global Business Services segment fourth quarter pro forma operating income and margin, including HiChina, was 4.9 million or 13.46% compared to 3.9 million or 12.53% for Q4 2008; and for the fiscal year 2009, the GBS segment's pro forma annual operating income and margin, including HiChina, was 17.2 million or 12.44% compared to 13.0 million or 11.42% for the fiscal 2008 year. The distribution segment numbers of course will be the same as those from the continuing operations segment as HiChina was not part of the distribution segment.

Our operations remain very efficient for Q4 2009. SG&A expense from continuing operations was 67.6 million or 3.07% of revenues compared to 3.4% in the fourth quarter of fiscal 2008 and 3.40% sequentially. Q4 2009 SG&A benefited by a reduction in bad debt expense as the economy recovered relative to Q4 2008.

This combined with lower levels of personnel costs offset by an approximate 4.3 million swing in the net deferred comp expense in Q4 2009 relative to the prior year are the major drivers of the net lower SG&A expense in 2009 relative to fiscal Q4 2008.

As a reminder, unrealized gains and losses on deferred comp instruments are offset against the deferred comp liability and hence have no bottom line impact to P&L. The company achieved a company-wide gross profit to expense ratio of 1.71 in the fourth quarter up 15 basis points from the third quarter.

With respect to net interest expense, finance charges and other expenses, the total for the fourth quarter of 2009 was 2.2 million, a $6.3 million decrease from the prior year quarter of 8.6 million. Within this amount in Q4 2009 is net interest expense and finance charges of 3.5 million compared to 4.0 million in Q4 2008 and 3.2 million in the fiscal third quarter of 2009.

Q4 2009 interest expense is lower than Q4 2008 primarily as a result of lower borrowing on our credit facilities. This is a result of year-over-year improvements in our cash-to-cash cycle, which I will comment on shortly.

Q4 2009 also includes 4.3 million relative year-over-year change in other income due to net gains in our executive deferred compensation plan assets compared to the prior year losses. Again, this was offset in the corresponding deferred compensation expense line within our SG&A with no bottom line impact to our P&L.

A net change in foreign exchange gains and losses accounted for the majority of the balance of the remaining year-over-year fluctuation. The effective tax rate for the fourth quarter of fiscal 2009 was 35.2% compared to 35.7% in the fourth quarter of 2008. The decrease in effective tax rate is primarily due to changes in profitability, mixed by geography.

In addition to the P&L, we also had excellent performance on our balance sheet with significant reduction in our cash-to-cash cycle and debt levels. Our overall cash conversion cycle improved by 36 days, a four-day improvement over the third quarter of 2009 and an eight-day improvement relative to Q4 2008.

Because our cash-to-cash cycle is driven by quarter-end balance sheet numbers, timing of AR and AP cash movements in particular can impact the calculation from one quarter to the next. This in Q4, excuse me, thus in the Q4 the timing worked out in our favor. Some quarters it does not, but regardless of short-term puts and takes, it has been a main focus at SYNNEX to systematically reduce our cash-to-cash cycle as part of our ongoing initiative to drive cash efficiency and improve ROIC.

This progress will not always be so dramatic and linear as we saw in Q4 2009, but the improvements over last year are reflective of our continued effort to drive efficiency in our working capital management.

Here are the working capital specifics: accounts receivable totaled 821 million at November 30, 2009, DSO was 38 days; inventory totaled 714 million translating to 31 days of inventory supply and days payable outstanding was 33 days. As a result of these improvements in working capital metrics, our debt to capitalization ratio for Q4 was 27%, down from 46% in Q4 2008 and down from 33% in Q4, excuse me, Q3 2009. Thus as we have said, we would – we have indeed generated very significant cash flow in 2009.

Other financial data and metrics of note for continuing operations were as follows: Fourth quarter depreciation expense was $2.7 million excluding discontinued operations. Amortization expense was $1.8 million excluding discontinued operations. Return on equity for the fourth quarter was 15.1%. Hewlett-Packard had approximately 36.7% of sales was the only vendor accounting for more than 10% of sales during the fourth quarter of 2009.

Capital expenditures were $4.6 million for the fourth quarter and $21.7 million for the fiscal year. This includes 12.2 million for the purchase of our corporate headquarters facility in the Freemont, California during Q3 2009. Preliminary year-to-date cash flow provided from operations was approximately $260 million for fiscal 2009. Our total company full-time associates were 6,896 at November 30, 2009, before the sale of HiChina.

Now, before discussing our Q1 guidance, I would like to discuss some items we have considered in setting our Q1 2010 guidance. First, beginning in fiscal 2010, SYNNEX is implementing ASC 470-20, Debt with Conversions and Other Options and in compliance with this pronouncement, we will recognize as non-cash interest expense the accretion of our convertible bonds at an 8% interest rate rather than the 4% cash coupon rate that they bear.

This will impact first quarter 2010 by approximately $700,000 or $0.02 per diluted share and fiscal 2010 by approximately $2.7 million or $0.08 per diluted share. Our first quarter guidance reflects this additional non-cash expense. Those numbers, I mentioned, are on an after-tax basis by the way.

Second, as previously noted, on December 23, 2009, during SYNNEX first fiscal quarter 2010, we completed the sale of our controlling interest in HiChina Web Solutions. Consequently, our first fiscal quarter EPS guidance includes approximately three weeks income from operations for HiChina Web Solutions and also an after-tax gain on the sale of HiChina Web Solutions in total of the amounts of nine to $10 million or 26 to $28 – excuse me, $0.26 to $0.28 per diluted share. HiChina Web Solutions contributed $0.02 per diluted share to EPS in Q1 2009 and $0.11 per diluted share for all of fiscal 2009.

The third point I wanted to raise is that during the first quarter of 2010, we announced a definitive agreement to acquire all of the North American assets of Jack of All Games, Inc., a leading video games distributor. We expect the sale of the assets to close late in the first fiscal quarter or early in the second fiscal quarter of 2010. Therefore any revenue, income or expense associated with this acquisition is not reflected in our Q1 2010 guidance.

With this many moving parts to our forecast, in order to ensure clarity and to prevent any misunderstandings, I would like to demonstrate the implications of the information I have just shared with an illustration using the existing consensus estimates from Wall Street for Q1 Fiscal 2010. Just before this call, consensus for diluted EPS was $0.62 per share. This consensus does not factor in the effects of ASC 470-20 for incremental non-cash interest or the impact of HiChina discontinued operations, including the gains from the sale of HiChina, which has occurred in Q1 2010.

So for comparative purposes to our Q1 2010 guidance, I'm about to share, in our view, given as a starting point the existing pre-release consensus EPS of $0.62 and adjusted comparable Wall Street estimate figure for Q1 2010 might be $0.85, calculated by adding to the $0.62 consensus, the midpoint of the range of our expected gain from the sale of HiChina, which is about 9.5 million or $0.27 and subtracting out an estimate of $0.02 for the ongoing contributions that HiChina may have delivered had we not sold it and also subtracting out the impact of the non-cash expense of $0.02 per share for the adoption of ASC 470-20. Of course, we know estimates will change after the call but we wanted to make sure that everyone was on the same page with regards to these various moving parts.

Now, moving to our actual first quarter 2010 expectations, the following statements are based on the company's current expectations for the first quarter of 2010. These statements are forward-looking and actual results may differ materially.

Revenues are expected to be in the range of 1.88 billion to $1.98 billion. Total net income is expected to be in the range of 29.2 million to $31.2 million, including approximately nine to 10 million contributed from the net gain on the sale of HiChina Web Solutions and a non-cash interest charge, net of tax of approximately $0.7 million on the adoption of ASC 470-20.

Total diluted earnings per share are expected to be in the range of $0.83 to $0.89, including the contribution of approximately $0.26 to $0.28 per diluted share from the net gain on the sale of HiChina Web Solutions and a non-cash interest charge, net of tax of approximately $0.02 per diluted share upon the adoption of ASC 470-20.

The calculation of diluted earnings per share for the first quarter of fiscal 2010 is based on an approximate diluted weighted average common share count of $35.2 million – excuse me, shares, 35.2 million shares. I should also note that this share count does not include any dilutive impact from our convertible bonds once they earn the money.

As a reminder, all of 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 the quarterly results. Kevin?

Kevin Murai, President and Chief Executive Officer

Thank you, Thomas. Good afternoon, everyone, and thank you for joining our call today. I'll start my commentary with a review of 2009 and then I'll provide some color on our fourth quarter results.

As we look back on 2009, we entered the year under one of the most challenging economic periods in modern history. Each quarter we faced more uncertainty in the market than we had experienced before, but we believe that our actions and results during these tough times would define our future and how SYNNEX will be perceived going forward.

We continued our strong focus on customer service and operational execution and also continued to make investments in areas we believe would provide growth and differentiation. So as we are leaving the recession and have completed our 2009 fiscal year, I think it's important to note some key distinguishing accomplishments achieved by SYNNEX.

We grew our annual EPS by 7% over fiscal 2008 and in fact we grew our EPS each quarter throughout 2009. Each quarter throughout 2009, we improved our ROIC on a year-over-year basis with Q4 marking the ninth in our virtual string of year-over-year growth in quarterly ROIC improvement.

For our fiscal fourth quarter, we delivered a record ROIC of 11%. For the full year, including contributions from our HiChina operations, we achieved a 2% operating margin, another differentiating milestone for SYNNEX. We delivered sales on par with 2008, performing significantly better than the market and our peers, evidence of accelerated market share gains in North America. And Wall Street has recognized our accomplishments. In July of this year, SYNNEX reached the threshold of a $1 billion market cap.

I'd like to take this opportunity to thank each of our over 6300 SYNNEX employees around the world for making this all happen. Our people are the number one reason for our success and I appreciate the hard work, dedication and sacrifice of the entire SYNNEX team.

Now, with regard to our fourth quarter, we have very tough comparison from the year ago quarter as Q4 2008 was a quarter in which we hit on all cylinders; however, once again the SYNNEX team was up to the challenge in 2009. We produced strong 7% growth in our EPS and delivered record level ROIC at over 11% and we did so while growing market share and achieving a year-over-year revenue growth of 5.3%.

Our Q4 was aided by better than expected seasonality, good retail demand, healthy demand within our consumer electronics business, healthy Federal Government business, and as Thomas commented, continued and growing strength in our higher velocity, lower margin formats due to increasing demand at year-end.

This said, SYNNEX continues to get traction and is gaining share in its targeted higher margin verticals and markets and notwithstanding the decision to sell our HiChina interest for reasons of synergy and strategic fit, we will continue to reinvest in our higher margin GBS BPO business, which continues to be an important aspect of our business process services strategy and company-wide value proposition.

So as previously indicated we expect our range of gross margin and operating margins to continue to move higher over time. I would like to highlight just a few examples of areas of traction we have made in our strategy to grow our business in higher value, higher margin, adjacent markets.

The number of customers we deal with in the enterprise, server, and storage group has more than doubled over this same time in 2008 and our sales have grown even faster, which shows that even though this market has not yet come back as fast as others, we are winning business in this target market.

We're also winning notable share in the networking space. Our share is up 40% year-over-year for the vendors we serve. Our Integrated Communications group business has increased by more than 50% over the same period a year ago and our PRINTSolv business has more than doubled over the same quarter in 2008 with over 550 million images printed in our fourth quarter 2009.

So SYNNEX is doing well on both fronts, traditional business and target markets, and we're winning more than our share of business in each; hence our resulting outstanding EPS and ROIC performance. And with the completion of our fourth quarter of 2009, SYNNEX achieved our 90th consecutive quarter of profitability continuing our strong track record of achieving our core operating and financial objective.

So, how was SYNNEX able to achieve these results in 2009? I believe there are two keys to our success. First is the way we manage our business, something we call the SYNNEX Difference; and second is our business strategy.

At a high level, the SYNNEX Difference consists of three elements; our differentiated business model that includes assembly and BPO services, our highly efficient low-cost model with our proprietary ERP system and a streamlined low-cost infrastructure, and our focus on superior execution, service, and relationships aided by our superior IT system.

And at a high level our business strategy is focused in three areas: Differentiation through services offerings including BPO, logistics, and professional services; our focus on growth and investments in adjacent high growth markets like consumer electronics, data capture and point-of-sale, enterprise technology solutions, and managed services and healthcare; and finally our focus on optimizing our core business through continued focus on cost efficiencies, working capital management, line card expansion, and enhanced go-to-market capabilities.

These differentiators and strategic focus areas are in large part the reason that SYNNEX has been able to consistently deliver on its financial goals and why we believe we can continue to outperform and lead our industry with superior operational and financial metrics in the coming year.

Now, turning to the outlook for 2010, the addressable market for North American IT spend still remains very large and is estimated at $300 billion. Roughly $60 billion of that spend is forecasted to go through the distribution channel. IDC is predicting growth in North American IT spend of approximately 2% for 2010 as we ease out of this recession. And some believe it could be even stronger. We remain optimistic, but in any case we're poised for above market success just as we accomplished in 2009. This market continues to present significant opportunities for growth and expansion for SYNNEX not only organically but through adjacent market business opportunities as well.

As always, we intend to grow our business profitably and faster than the overall market. And as we enter fiscal 2010, our strategy again remains focused on growing our market share by adding more value-add services up and down the supply chain while driving increased profit and ROIC growth. We'll continue to optimize our core business by leveraging our infrastructure and controlling our costs.

We will continue to diversify through services we offer, both within our core distribution business and within our Global Business Services business to gain additional strength of partnership with our current vendors and customers as well as attracting new ones. And finally, we'll continue to invest in adjacent markets that will provide additional growth opportunities and synergies within our core businesses.

We have had much initial success with our entry into the consumer electronics market through our 2008 acquisition of New Age Electronics. And in our opinion, we've really just begun to tap into this estimated $178 billion market. This represents a significant growth opportunity for SYNNEX in the coming years, and we will look to replicate our success here by adding to our arsenal in this and other adjacent markets.

Our recent announcement regarding the acquisition of Jack of All Games, a leading video game distributor, will provide a strong foothold in the console and computer games market and is very complimentary to our consumer electronics business. Through this acquisition, we expect to realize good cross-selling opportunities, synergies between the two businesses as well as gain a net new set of customers and vendors SYNNEX currently does not have a relationship with. We look forward to sharing more detail about this business once we close this transaction in the coming months.

As a final thought, we performed very well in 2009, and as we enter the New Year, we will continue our disciplined, focused approach to achieving superior EPS and ROIC growth goal. Our track record speaks for itself, and I have every confidence that the SYNNEX team is up for the challenges that lie ahead.

Thanks 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. Lisa, let's go ahead and open up the line for questions please.

QUESTION AND ANSWER SECTION

Operator: Thank you. [Operator Instructions] Our first question will come from the line of Ananda Baruah with Brean Murray.

<Q – Ananda Baruah>: Hey, thanks, guys, for taking the question. I guess just a -- I don't know if a quick one, but I guess a question on margins, both gross margin and then on OpEx. And how we should think about the mix of business [inaudible] business and maybe the seasonality and kind of in the key mix of business as that shifts here going forward the impact on gross margin?

And then I guess secondarily, just on the OpEx, I think maybe the OpEx dollars, really, SG&A dollars were down sequentially for the first time and pretty significantly for the first time in a while if even this has happened before. So if you could talk about maybe the why and what we should expect in terms of SG&A dynamics as well.

<A – Thomas Alsborg>: Ananda, this is Thomas. I'll start off with that. First on the gross margin, as far as seasonality goes, I would point out that this is the first Q4 that we've had where we've seen a full seasonality of our consumer electronics business including the New Age Electronics. And so we think, frankly, that the seasonality that we saw in Q4 and also relative to Q3 and the Q1 guidance is pretty close to what we think will be the new norm. As we first prepared guidance for Q4 and shared that a quarter ago, we were not yet at that time sure if we were going to be back to a normal economy – excuse me; normal demand. But as it turns out we have, and so we think that what you saw in Q4 is a good example of what we'd be thinking about as we approach Q4 in 2010. Did that answer your first question?

<Q – Ananda Baruah>: Yes, I believe so, at least anecdotally. So – thanks, I appreciate the commentary. So when you say, Thomas, kind of to use this Q4 as a proxy for what to expect the next Q4, are you talking about kind of order of magnitude or is it really kind of like a 5.25 sort of level?

<A – Thomas Alsborg>: I would think – I didn't catch 5.25, what that refers to?

<Q – Ananda Baruah>: The gross margins for the quarter.

<A – Thomas Alsborg>: Oh. Excuse me. All right. Sorry.

<Q – Ananda Baruah>: They were like 5.24, so...

<A – Thomas Alsborg>: Okay. As we move forward – first of all, we typically don't give guidance specifically on gross margin, so I wouldn't want to give you a particular number. But one of the things I'd call out is that on our Web site, as I mentioned in my prepared remarks, we shared some historical information where we backed out HiChina from the operations, and we didn't specifically break out gross margin because we don't typically report that at a segment level. But I think that gives you a good indication as to what operationally has been happening.

If you were to look at a comparative basis, Q4, I mean the numbers we shared with you just now on a disc-ops basis, we did highlight the change in the gross margin and you saw the implications of the removal of HiChina then. So the only other comment I would make is that as we go forward with regards to gross margin, both Kevin and I touched on the fact that our gross margin is going to change from quarter to quarter due to a myriad of very different things that are affecting our business, but the range overall we expect to continue to move up and to the right as we continue to invest in some of the higher margin areas where we're growing in addition to a traditional business that we have.

<Q – Ananda Baruah>: Okay, I appreciate that. Should we expect kind of Q1, I guess Q1 to be sort of the low quarter as we go forward here or is it going to be...

<A – Kevin Murai>: Yes, again, on a...

<Q – Ananda Baruah>: ...choppier than that?

<A – Kevin Murai>: Gross margin basis, I wouldn't want to give you specific guidance, Ananda.

<Q – Ananda Baruah>: Okay. And then just on the OpEx, Thomas?

<A – Thomas Alsborg>: Yes, so on the OpEx, probably the main thing I would highlight for you is that in Q4 relative to the same quarter last year, we had a lot less bad debt expense. And again the reason for that is throughout 2009 including Q4 of 2008, we were booking some above normal levels of bad debt expense, as I know you're aware. And so our bad debt, in that respect, is probably a little higher than usual and this quarter it might have been a little bit on the lower side.

<Q – Ananda Baruah>: Okay, I think last quarter you gave – didn't you give the delta in the bad debt expense?

<A – Thomas Alsborg>: Yes, if you were to look on a year-over-year basis for bad debt, we're about $5 million less in bad debt expense in Q4 2009 than we were in Q4 2008, the swing, that's the total swing. The other thing I'd highlight for you, though, as I mentioned in my remarks also is from a personnel expense when you consider all of our compensation expense because we do have fewer employees now than we did a year ago, that also is impacting our total SG&A.

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

<A – Thomas Alsborg>: All right.

Operator: Our next question comes from the line of Nabil Hanano with Raymond James.

<Q – Nabil Hanano>: Thanks. I just wanted to ask one more question on the gross margin. On a pro forma basis, it sounded like, if I heard your comments right, it still declined. Is this just due to the mix of retail or is – some of the large orders that you took for the second consecutive quarter, what was the driving factor there?

<A – Kevin Murai>: Nabil, it's Kevin. In fourth quarter, there were really two major factors in why our gross margin was slightly depressed and those were the reasons. It was sales of higher volume, lower gross margin product categorized in some incremental retail business that we did, calling out mobile computing as one example but also other business that had historically gone direct to our customers that we found efficiency in being able to deliver through us. And even though both of those businesses are characterized by lower gross margin, because of our cost efficiency that we have in our business, we're actually able to drive very good profitability and returns for that business. So net-net, the answer is actually a very good answer for the company, but it did have an impact in fourth quarter because of the relative mix of that business to the total on our gross margin.

<Q – Nabil Hanano>: Okay. That helps. And then just do you think you could discuss whether you believe you gained market share in your core VAR customer base or if retail was what drove most of the quarter-over-quarter revenue growth?

<A – Kevin Murai>: It's hard to pinpoint exactly category – subsegment by subsegment. But overall, I would say – as an overall comment and in particular for all of 2009, we do believe we gained share pretty much across the board. Our growth beyond just our consumer electronics segment was consistently higher than overall market growth, and we do believe that that did continue as well into the fourth quarter.

<Q – Nabil Hanano>: Okay, that helps. And then – and just the last question on Jack of All Games, how should we think about the revenue retention? I believe you stated in your press release they did 282 million in trailing 12-month revenue. And just the cost synergies expected, will it be easy to integrate into your systems and do you have any idea how much you think you could save?

<A – Dennis Polk>: Hi, this is Dennis. This is Dennis. I'll take that question. First of all from a revenue perspective, because it is a new market for us, we do expect to retain a significantly high percentage of the total revenue that Jack does today, so we look forward to again achieving a high percentage of that revenue.

From a cost synergy perspective, that's an area that we think we'll have some wins when we integrate this company. We will not be taking out any additional facilities from a distribution center perspective with the Jack acquisition. So we'll able to bring that business into our existing facilities and gain cost synergies there as well. So that's the main driver of the cost synergy that we'll see on the Jack integration going forward.

<Q – Nabil Hanano>: All right; thank you very much.

<A – Dennis Polk>: Thank you.

Operator: Our next question will come from the line of Shaw Wu with Kaufman Brothers.

<Q – Shaw Wu>: Okay, thanks. Yes, just – it's probably a question for Thomas. Just back on the SG&A question, when looking at your guidance and this is exing out all the items, it looks like your SG&A, you're basically guiding it to be, I guess, essentially kind of flattish. I guess two questions on that. I mean, first, your SG&A level hit 3.1% of revenue. That's a – that's pretty low compared to where it's been historically, where it's over – like over four or around 3.6%. How sustainable is that?

And then second, just on expense seasonality, I mean, normally you see a decline in [audio skip] in the February quarter. Should we expect that or as your – I guess your guidance implies kind of flattish. Just any color there. Thanks.

<A – Kevin Murai>: Sure. So again, given that the two things that were the major driver of our SG&A being lower than normal for Q4 and this – at this revenue level, one of them was the bad debt piece. I wouldn't – I don't want to be specific to Q1 or any particular quarter but as we move forward, of course you should expect to see our bad debt expense to normalize over time. What we saw in Q4 was, if you will, the benefit of performing better on our accounts receivable collection than we had planned for and reserved for throughout 2009 given the severity of the economic environment. I think that that benefit that we saw in Q4 will taper off rather quickly in the rest of fiscal 2010.

The other variable I should touch on again is the head count. Our head count – personnel expense, two things. One is that number has been down relative to prior quarters as a result of the, again, the economic environment overall. As the economic environment picks up, we'll probably have more personnel related expenses on a go-forward basis. That said, if you look over time, you'll see there is definitely a trend in the increase or the variability of our SG&A based on the level of volume of business that we have. So as we grow our revenues, you'll also see SG&A spend not just because of head count but also primarily because of head count.

<Q – Shaw Wu>: Okay, Thomas, just to elaborate, why would the bad debt, I guess, expenses change? I guess you'd be more conservative again in terms of setting aside more reserves or I'm just thinking seasonally your revenues are going to be down. If you take the mid-points down 12%

sequentially, I understand your explanation for the current quarter, but shouldn't your core expenses also go down as well or --?

<A – Thomas Alsborg>: Yes, the bad debt that we book, the reserve that we book, they are not – while they are largely correlated to the volume of business that we have, they're also in part due to basically the probability that we think that we're actually going to have to write-off reserves in general because of the economic environment and then also because of specific customers or specific receivables that we might have concerns about. And again, during from effectively Q4 of 2008 throughout especially the third three quarters of 2009, we were booking larger bad debt reserves in general than we had been historically. And as I look going forward because of the strength of our customer base and because of the economic recovery, I think that the amount of reserves that we're going to be booking in general will be lower. Again, there's a correlation to sales, but it's not 100% correlated to sales alone. Does that make sense?

<Q – Shaw Wu>: Yes. Okay, thanks. Thanks for that. I'll ask a follow-up later. Thanks.

<A – Thomas Alsborg>: Sure.

Operator: [Operator Instructions]. And our next question will come from the line of Richard Gardner with Citigroup.

<Q – Richard Gardner>: Thank you. Thomas, I just wanted to ask you. You mentioned demand and market dynamics in your discussion of gross margin in the prepared remarks, but your subsequent discussions have revolved around mix primarily. I just wanted to get a sense of whether pricing was more aggressive than you thought during the quarter. Obviously Ingram has been going for share a little bit more aggressively. Was that significant factor in your gross margin during the quarter and just generally what are you seeing out there in the market? And then I've got a follow-up.

<A – Kevin Murai>: Hi Richard, this is actually Kevin.

<Q – Richard Gardner>: Hey, Kevin.

<A – Kevin Murai>: The short answer to your question is, no, it was not a significant factor. But the overall market, I would say, in terms of price competitiveness was within the range of what we would consider to be normal. There's always going to be spot business here and there and usually in particular it's the large bid business where you see a little bit more price competitiveness. But overall, it was within the range of normal.

<Q – Richard Gardner>: Okay, great. And then the other question related to the comment about transitioning more to net fee revenue recognition. I just wanted to get a sense of how quickly you plan to make that transition and how much it affects existing business versus, of course, at the margin and whether it has a material impact on revenue growth in 2010?

<A – Kevin Murai>: Sure. So this – as far as how quickly and so forth, this is an evaluation that we're currently undergoing so I couldn't say specifics. I mention it because I think at some level you will start to see it creeping into our numbers even as early as Q1 but at a very nominal level.

And as far as projecting on the rest of the year, I'm really not at a point where I'm prepared to do that. I think that as we give guidance in each quarter that we will give – gladly give a little better color on that. As I think about it right now, as I mentioned in the prepared remarks, some of the existing business that we have would be under consideration though.

<Q – Richard Gardner>: Okay, and is this something that you would like to do or is it something that your vendors are asking you to do or what exactly is the impetus for the change here?

<A – Kevin Murai>: It's really – I don't know that there's a strong preference on our side or the vendor side. It's really a matter of how you characterize revenue streams in accordance with accounting principles. There are – in some situations we might have a contract with a customer that we choose to do on a fee basis; maybe it makes sense for us economically. Those are some things that we're considering. In those situations, obviously, we view it as a more favorable, if not from a profitability perspective, perhaps from a risk perspective or from a return on invested capital perspective.

So these are all variables that we look at as we entertain these decisions, but ultimately it's the terms of the contracts that you conduct your business under that ultimately you have to apply GAAP to and GAAP pretty much dictates what you would do with that business.

<Q – Richard Gardner>: Okay, understood. And then the final question is, is this primarily on the retail part of the business or is it broader than that? Thank you.

<A – Kevin Murai>: The answer is, broader than that. It would – I'd say, it's generally within our distribution segment, of course, but there are several lines of business that are under consideration.

<Q – Richard Gardner>: Great, thank you.

<A – Kevin Murai>: Thank you, Rich.

Operator: Our next question will come from the line of Rich Kugele with Needham & Company.

<Q – Richard Kugele>: Thank you. Good afternoon. The call is running long, so I'll just be brief with two quick questions. I guess first, in your conversation with – conversations with your VAR community, can you just talk about what you're hearing about the spending priorities that their customers and then by default the business trends that you'll see in 2010 might be, and how you're positioning yourself for that?

<A – Kevin Murai>: Yes, I guess, you know, a lot of the comments, Rich, are pretty much broad spread. I think for the most part, there's certainly much more positive sense and optimism in the marketplace today. Obviously, a lot of excitement around things like managed services, managed print, perhaps pent-up demand in certain areas, and perhaps some refresh that might be happening through 2010, but just an overall optimism. In terms of specific categories, specific applications, you hear a number of different things and it's actually hard to pinpoint one over the other right now.

<Q – Richard Kugele>: Okay, and then just lastly, Thomas, net of HiChina and some of the other puts and takes in your businesses, can you give us a sense on what you think maybe for 2010 the tax rate might be?

<A – Thomas Alsborg>: Sure. Overall for the whole year, I'd be modeling in the range of 35 to 36%.

<Q – Richard Kugele>: Okay, so down just a little bit from maybe the August level but consistent with previous years?

<A – Thomas Alsborg>: Yes.

<Q – Richard Kugele>: Okay, and that is subject to change post Jacks?

<A – Thomas Alsborg>: Yes, it is, of course, but...

<Q – Richard Kugele>: Can be up?

<A – Thomas Alsborg>: The answer is yes. Jack is primarily a U.S. business, so U.S. has a higher tax rate.

<Q – Richard Kugele>: Yes, okay. Thank you very much.

Operator: Our next question will come from the line of Matthew Sheerin with Thomas Weisel Partners.

<Q – Matt Sheerin>: Yes, thank you. Just – if I can just go back to sort of reask questions regarding the big volume business that you saw in the quarter. So, Kevin, it seems like you're starting to see more opportunities for bigger deals with the very big corporate reseller customers including the direct marketers. Are you getting a sense that they are starting to source more from distribution or the vendors are pointing them in that direction? Am I on the right track there in terms of that customer base?

<A – Kevin Murai>: Yes. That's correct, Matt. In the cases that – in the specific cases that we refer to, it was business that had traditionally been direct from manufacturer to a number of our different customers where really the more efficient way of getting that into the market and to these customers was through distribution and in particular in these cases through us. So we have seen more of those opportunities more recently than not.

<Q – Matt Sheerin>: Okay, and then as a follow-up then, is that business sustainable for you in that that the vendors and resellers, those big marketers will consistently buy from you or is it business that's essentially up for bid between you and Ingram and Tech Data and others, which might lead to sort of some variability or volatility in terms of revenue and gross margin on a quarter-to-quarter basis?

<A – Kevin Murai>: Yes, from time to time I would expect that this business would be looked at and put out to bid, but what we've seen so far is that the – as we've looked at these different opportunities, the commitment that we have with the business that we've signed up is longer-term business. Now, as I said, I do expect that at some point it will be bid out again, but I don't expect to see that happen on a quarter-to-quarter basis.

<Q – Matt Sheerin>: Okay, so could you give us an idea of how long these contracts are?

<A – Kevin Murai>: You know, without getting specific, I would assume that it's multiquarter, hopefully in some cases maybe even multiyear. That being said, and I think one other comment I really should make on this is, is that it was one of the reasons that our gross margin was affected. Yet at the same time understand that because of the cost effective, cost efficient engine that we have, we're actually able to make very good profit and return on doing this business and it truly is the right answer for us to entertain this type of business as well.

<Q – Matt Sheerin>: So there's not much, if any, incremental expenses then to support that – that sale?

<A – Kevin Murai>: Yes, I mean, apart from your typical variable costs and inventorying and doing the pick, pack, and ship, that's correct. It's very efficient from a cost standpoint.

<Q – Matt Sheerin>: Okay, that's very helpful. And then, Thomas, on the SG&A question, which I know you got a lot of those, could you tell us exactly what that – the benefit of the bad debt reversal – allowance reversal was in the quarter? I mean, was that a million or two million in terms of the difference between the August quarter and the November quarter?

<A – Thomas Alsborg>: I don't have that difference between the two quarters at my fingertips and I am not – I wouldn't necessarily characterize it as a reversal as much as a comparative expense from one year to the next [inaudible] that was the $5 million I referred to earlier. Matt, I would --

<Q – Matt Sheerin>: That was year-over-year – the five million was year-over-year, right?

<A – Thomas Alsborg>: That's right.

<Q – Matt Sheerin>: Okay, but you don't know what it was on a quarterly basis, okay. And then I know that folks asked about the SG&A in February and I guess I was confused as to – whether the answer -- whether or not on an apples-to-apples basis expenses would be – actual expenses would be flat, up, or down in February.

<A – Thomas Alsborg>: Right and so all I was sharing is some variables. I don't – again, when we give guidance, we're giving guidance only on certain lines of the P&L and the actual results of what we see in a particular line is going to be impacted by the nature of the business during that quarter. So all I was doing was sharing some of the major pieces and from Q4 to Q1 and what you should expect to see.

<Q – Matt Sheerin>: Okay, and then on gross margin again then, given that it sounds like you still have some of those large volume opportunities which again is good for on a gross profit dollar basis but brings down gross margin. But I also, if I recall correctly, you do get some year-end rebate benefits, etc., from certain vendors depending on what their fiscal close and then book the quarter and the year. So would we expect then that gross margin should be up at all in the February quarter?

<A – Kevin Murai>: Again, Matt, I appreciate the question, but I don't want to be guiding on a gross margin level.

<Q – Matt Sheerin>: All right, okay. Maybe the follow-up question then is do you have enough visibility in the quarter to really know and maybe that's why you're reluctant to talk or you just don't want to give the number?

<A – Kevin Murai>: Frankly, it's more of the latter.

<Q – Matt Sheerin>: Okay.

<A – Thomas Alsborg>: We have pretty decent visibility, especially given that we're in the first week of January. What I would want to emphasize to you and the other folks who've asked the question is, and I tried to call this out in my script, is that the major focus for us, we think, and for our investors ought to be around the operating margin and the operating profit dollar growth that this company is able to achieve. So as we commented whether it's – regardless of the mix which is the biggest driver of what's happening at the gross margin level, the operating margin continues to be very strong. We continue to expand and deliver good operating profit dollars and that's what's driving our EPS growth and ROIC growth. So we don't want to distract the issue by focusing folks too much on gross margin.

<Q – Matt Sheerin>: Okay; fair enough. And then just lastly if I can, Kevin, just on the general demand environment, looks like you obviously had better than expected revenue. You talked about some of the reasons, but are you starting to see a more normal return to seasonality in most of your businesses now? And is that encouraging and do you have a general optimistic view of 2010?

<A – Kevin Murai>: Yes, Matt, we are. And in fact I will tell you that our first quarter guidance really does reflect more normal seasonality in our business as well. As I commented before, we do hear a lot more optimism, both from our customers as well as from our vendors as well, and we do believe that – we do believe that 2010, of course, is going to be a much better year than what we saw in 2009 from a demand standpoint. As I made in – a comment I made in my prepared remarks was an IDC projection of around 2% growth in North America, there are some that believe that could be a little bit higher as well.

<Q – Matt Sheerin>: Okay, that's it for me. Thanks very much.

<A – Dennis Polk>: Thanks, Matt.

<A – Laura Crowley>: Hey, Lisa, since we're running a little bit over on the call, we have time for one more question, please.

Operator: Thank you. Our last question will come from the line of Ananda Baruah with Brean Murray.

<Q – Ananda Baruah>: Yes. I'm actually all set. We can take care of it offline.

Laura Crowley, Director of Investor Relations and Public Relations

Okay. All right, great. Well this concludes our fourth 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 p.m. Pacific Time through January 19, 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: This does conclude today's conference call. You may now disconnect.