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Thomas C. Alsborg – Chief Financial Officer
Kevin M. Murai – President, Chief Executive Officer & Director
Christopher Caldwell – Senior VP & GM-Global Business Services

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Brian G. Alexander – Analyst, Raymond James & Associates
Craig M. Hettenbach – Research Analyst, Goldman Sachs & Co.
Matt Sheerin – Managing Director, Stifel, Nicolaus & Co., Inc.
Shaw Wu – Analyst, Sterne, Agee & Leach, Inc.
Joe Yoo – Research Associate, Citigroup Global Markets (United States)

MANAGEMENT DISCUSSION SECTION

Operator: Good afternoon. My name is Misty and I will be your conference operator today. At this time, I would like to welcome everyone to the SYNNEX 2011 Second Quarter 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. Thank you.

Ms. Lori Barker, you may begin your conference.

Lori Barker, Senior Director-Investor Relations

Thank you, Misty. Good afternoon and welcome to SYNNEX Corporation's fiscal 2011 second quarter conference call for the period ended May 31, 2011. Joining us on today's call are Kevin Murai, President and Chief Executive Officer; Dennis Polk, Chief Operating Officer; Thomas Alsborg, Chief Financial Officer; and Chris Caldwell, Senior Vice President and General Manager of Global Business Services.

Before we would begin, I'd like to note that the statements on today's call, which are not historical facts, may be 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, market share, profitability and returns, our leadership position, expectations of our revenues, net income, acquisition and integration charges and diluted earnings per share for the third quarter of fiscal 2011. Our share repurchase program, our performance, general economic recovery, the impact and integration of our recent acquisitions, the impact of the events in Japan, benefits of our business model, our product mix anticipated benefits of our new BPO renewal business, IT demand expectations and market conditions, operating expenses and operating margins.

These are subject to risks and uncertainties that could cause actual results to differ materially from those discussed in the 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. Additionally this conference call is the property of

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Now, I would like to turn the call over to Thomas Alsborg for an update on our financial performance. Thomas?

Thomas C. Alsborg, Chief Financial Officer

Thank you, Lori. Good afternoon everyone and thank you for joining our call today. I'll begin with a few highlights and by summarizing our results of operations and key financial metrics for the quarter. I'll conclude with guidance for the third quarter of fiscal 2011.

First, some highlights on key financial metrics. I'm pleased to report our second quarter earnings grew 21% year-over-year to $0.85 per diluted share from continuing operations. We also increased our operating margin and improved our year-over-year ROIC performance for the 15th consecutive quarter. SYNNEX continues to remain focused on our key goals of growing profitability and growing returns for investors, even as we make major investments in our business.

Let me share some of our details behind our solid performance starting with revenues. In our second quarter, total consolidated revenues from continuing operations were $2.50 billion, up 23% over Q2 2010 and flat sequentially. This is consistent with the expected seasonal trends given our current mix of business and geographies. Approximately 11% of the year-over-year growth came from strong core organic business performance. The remaining 12% of the year-over-year revenue growth came from our acquisition of Infotec and the three smaller Global Business Services or BPO acquisitions, net of the divestitures of the Sun manufacturing business and NDS business, which occurred late last summer.

At the segment level, in the second quarter, revenues from the Distribution segment were $2.46 billion, up 23% year-over-year and flat sequentially. The year ago quarter included $67 million in revenue from the Sun/MiTAC platform manufacturing business, which was sold on July 31, 2010. The acquisition of Infotec contributed $316 million in revenue to Q2 2011. Growth in 2011 was moderated from the very strong recession trailing year-over-year 2010 rates to more normal pre-recession growth rates. Demand remained solid and SYNNEX grew ever faster than the overall market.

In our GBS segment, revenues were $38.8 million, up 40% year-over-year and flat compared to the fiscal first quarter of 2011. Organically, GBS grew 13% year-over-year. The year ago quarter includes $3.7 million in revenue from NDS, which was sold in August of 2010.

In the second quarter, our consolidated gross margin was 5.81%, compared to 5.74% in the second quarter of 2010 and 5.75% in Q1 2011. Once again the gross margin in our core distribution business remains strong. We continue to have good traction in our Technology Solutions division and other high margin growth initiatives, which are driving a favorable mix change towards our value-add products and services.

Second quarter total selling, general and administrative expense inclusive of the acquisition and integration related expenses was $90.9 million or 3.64% of revenues, compared to $73.2 million or 3.60% in the second quarter of fiscal 2010 and $92.9 million or 3.72% in the first quarter of 2011. The sequential step down in SG&A dollars expense is due in part to the benefit of $1.3 million, resulting from the adjustment to contingent M&A consideration. In Q2, we have specifically identified approximately $400,000 of direct acquisition and integration expenses related to our recent M&A. There were also some indirect transaction costs and other expenses within SG&A during the quarter that have not been called out, but which impacted our SG&A in the quarter including notable amounts of warehouse relocation expenses and facilities charges.

Consolidated operating income from continuing operations before non-operating items, income taxes and non-controlling interests was $54.2 million or 2.17% of revenues, compared to $43.4 million or 2.14% in the prior year second quarter and $50.9 million or 2.03% of revenues in the fiscal first quarter of 2011. Although we believe these are very good margins considering the four integrations and associated costs, we expect to see much more significant operating margin expansion towards the end of the year, primarily in Q4 after the integrations are completed and our recent new programs are fully ramped.

On a segment basis, distribution income from continuing operations before non-operating items, income taxes and non-controlling interest was $50.5 million or 2.05% of distribution revenues, compared to $40.5 million or 2.01% in the prior year quarter.

GBS income from continuing operations before non-operating items, income taxes and non-controlling interest was $3.7 million or 9.56% of GBS revenues, compared to $3.0 million or 10.8% in the prior year quarter.

We're expanding our BPO renewals platform business. And in Q3 we're excited that several of our new BPO renewal platform wins are ramping up over the quarter. We will require some additional SG&A investment for the start-up cost during Q3 and we expect the benefit of increased operating profitability in the coming quarters.

Net total interest expense and finance charges for the second quarter of 2011 were $6.3 million and essentially flat with the first quarter. The effective tax rate for the second quarter of fiscal 2011 was 34.4%, compared to 35.0% in the first quarter of 2011. The decrease is primarily due to the mix of profit contributions from our various tax jurisdictions.

Our second quarter net income from SYNNEX, net of tax was $31.4 million or $0.85 per diluted share. This compared to $24.8 million or $0.70 per diluted share in Q2 2010 and $29.7 million or $0.80 per diluted share in Q1.

Turning to the balance sheet. Our accounts receivable totaled $911 million at May 31, 2011 for a DSO of 38 days, which is consistent with the prior year quarter. Inventory totaled $941 million or 37 days at the end of the second quarter, compared to 38 days in the second quarter of 2010. Days payable outstanding was 33 days compared to 34 days in the end of the prior year quarter. Hence, our overall cash conversion cycle for the second quarter was 42 days, which is consistent with the same quarter of last year and down two days from Q1 2011.

Our debt-to-capitalization ratio was 28% still at a historically low end of our range. Our liquidity and access to cash remains excellent. At the end of Q2, the company had over a $0.5 billion available between cash and working capital lines. Other financial data and metrics of note for the second quarter are as follows.

Depreciation expense was $4.3 million. Amortization expense was $1.8 million. Hewlett-Packard at approximately 34% of sales was the only vendor accounting for more than 10% of revenues. Q2 cash capital expenditures were $7.4 million. Preliminary cumulative year-to-date cash flows provided by operations was approximately $162 million. And trailing four quarter ROIC was 10.3%, up from 9.5% as of Q2 2010.

Now moving to third quarter 2011 expectations; for fiscal Q3 2011, we expect revenue in the range of $2.54 billion to $2.64 billion. Our forecast for net income is expected to be in the range of $32.8 million to $34.2 million and corresponding diluted earnings per share are anticipated to be in the range of $0.88 to $0.92 per share. This guidance assumes continued stability of the overall demand environment and a return to more pre-recession market growth rates in North America.

Third quarter is seasonally the slowest quarter for Japan operations and in addition we factored in the current post-earthquake demand environment for Japan. Also our guidance incorporates start-up cost and ramp periods associated with the recent GBS platform wins that I mentioned earlier. As a remainder, all of these statements are forward-looking statements and actual results may differ materially.

Finally, before I hand the call over to Kevin, I would like to inform you that SYNNEX's board of directors has authorized an anti-dilution stock buyback program. This program allows SYNNEX to utilize up to $65 million over a period of up to three years to reduce ongoing dilution from the company's existing employee stock programs. It is to be funded by operating cash flows and proceeds from issuance of employee stock.

I'll now turn the call over to Kevin Murai, President and Chief Executive Officer for his perspective on the business and our quarterly results. Kevin?

Kevin M. Murai, President, Chief Executive Officer & Director

Thank you, Thomas. Good afternoon, everyone, and thank you for joining our call today. In the second quarter, once again the SYNNEX team delivered excellent results. We're very pleased to deliver 23% top line growth, including 11% organic growth, 21% EPS growth and continued solid returns on capital.

All of our businesses performed well this quarter. So let me comment on the major divisions. Our North American Distribution business again grew faster than the market. Our Commercial business was especially positive, including strong demand in technical solutions, such as converged infrastructure, networking and security, Pro-AV and data center. From a customer perspective, we also had good growth overall, including solid performance in the government and healthcare market. Also our core SMB business remained solid.

Our high performing commercial business was recognized during the quarter as Hewlett-Packard awarded us Partner in Excellence for distributor growth for the second consecutive year. The strength in our commercial business was somewhat offset by lower than expected growth in our retail business at the end of the quarter. Overall economic pressures on consumers likely contributed to the result. As new mobile devices such as the Tablet are launched, we expect to see good growth opportunities in our retail business and a return to our historical growth rates.

In our Japan Distribution business, I'm pleased with our overall progress at SYNNEX Infotec. Our integration work is nearly complete and the Infotec team delivered a profitable quarter despite the market challenges following the earthquake and tsunami.

The market is still in recovery mode and it's softer than initially expected, but appears to be stabilizing at this point. As we discussed in our last call, the impact of the disaster in Japan has pushed out our time-line to get our operating margin goals. However, we remain confident that we will drive the profitability of this business to North American levels.

Lastly in our BPO business, we achieved double-digit growth for Q2 in our existing business on an apples-to-apples basis and we completed the integration of our recent acquisitions. We're also pleased that we won several new engagements during the quarter, including several large contracts in our renewals business. These recent wins will ramp in Q3 and drive incremental profits in our fourth quarter. With a solid Q2 and first half of the year in the books, let men turn to our views on the current market and highlight some of our focus areas for Q3 and the second half of the year.

In North America, IT and consumer spending growth appears to be moderating to pre-recession historical norms. However, we expect this growth rate will still be better than overall GDP growth and allows for SYNNEX to execute on many of our growth initiatives. Within the market, we see higher growth opportunities in data center, networking, tablet products and in our GBS business.

Our recent investments in these areas are paying off with high profile wins and a solid run rate business. Regarding tablets, we're excited about the launch of HP's TouchPad in July and the overall continuing expansion of our tablet offering.

We're also excited that our solutions focused go-to-market strategy is gaining solid awareness in the market. We've branded many of our solutions under our Solv brand such as PRINTSolv, SERVICESolv, and CLOUDSolv. Just yesterday, we launched our RenewSolv Renewals HP platform to an initial set of reseller customers. This platform uses the technology and IP from our Aspire and Encover acquisition.

We believe these solutions and platforms provide yet another key differentiator for SYNNEX. This initiative, in addition to our cloud and mobility strategies which we have outlined in previous quarters, are excellent examples of we're focused on capturing growth and margin expansion.

In Japan, even as we approach the seasonally slow time of the year for IT spending and address overall slower demand due to the earthquake, we are excited about our opportunities in the region.

At this point, we have completed the majority of the restructuring of our Japan operation, and we now have a cost structure that can be leveraged for profitable growth. We are also seeing acquisition synergy take hold with existing SYNNEX vendors signing on in Japan. As the Japan economy recovers overall, and as we execute our growth initiatives including new vendors and customer opportunities, we believe this division of our company will contribute solidly to the overall results of SYNNEX.

Overall, in all the businesses we operate in, we see continued opportunities to grow faster than the market as we have historically accomplished and to continue to improve margin. So with the completion of our second quarter of 2011, SYNNEX achieved our 96th consecutive quarter of profitability. Our third quarter guidance reflects continuing investment in our key initiatives, including certain start up costs associated with our recent GBS win. The performance of our recent acquisitions are on track and we expect incremental profit contribution in our fourth quarter. Most importantly, we continue to operate on all eight cylinders and I want to thank our SYNNEX associates around the world for delivering another solid quarter. And with that Lori, let's turn the call back to the operator for questions.

Lori Barker, Senior Director-Investor Relations

Thank you, Kevin. Misty, we would now like to open up the lines for any questions.

QUESTION AND ANSWER SECTION

Operator: [Operator Instructions] Your first question comes from the line of Brian Alexander with Raymond James.

<Q – Brian Alexander – Raymond James & Associates>: Yeah. Could you maybe just talk a little bit more about the demand environment and the revenue guidance for the next quarter on a sequential basis in the context of what normal seasonality would be? It looks like maybe it's a little bit below seasonal and how much of that is really coming from the consumer side versus maybe some additional weakness you might see on the government side, just a little bit more context on the guidance relative to normal seasonality and then I have a couple of follow-ups?

<A – Thomas Alsborg – Chief Financial Officer>: Sure, Brian. This is Thomas. I'll start off a little bit about the seasonality and then Kevin can comment on the overall market. First, again, as the seasonality of our business has evolved a little bit overtime with the various acquisitions we've had, we believe that our normal seasonality going sequentially from Q2 to Q3 would be in the 4% to 6% range. And so the guidance that we gave for Q3 is at the low end of that range indeed. It does factor in some of the comments that I referred to particularly the moderating growth in the markets in North America and the softness in Japan driven by a couple of reasons, which I think Kevin will comment on. Kevin?

<A – Kevin Murai – President, Chief Executive Officer & Director>: Sure. And Brian, you asked specifically about our government business as well, so through our second quarter, actually our government business overall was relatively strong. As you might expect, the federal government business was relatively flat year-on-year, but really state, local, and education really did drive most of the growth in that sector. And what we attribute that to is, I think most – I think 46 out of 50 states have their yearend around June 30th. And so there seems to be somewhat of a budget flush, kind of a use it or lose it philosophy going on with state and local and with education as well.

But as we look out at least as far as we can see into our third quarter, we do anticipate that federal government spending is likely going to be fairly strong through the end of the government buying season.

<Q – Brian Alexander – Raymond James & Associates>: Okay. And so as we think about the 4% to 6% sequential growth rate and being kind of at the low end to that, is the primary delta Japan or is consumer playing a big role on that?

<A – Kevin Murai – President, Chief Executive Officer & Director>: Both are definitely factors, Brian. Japan with the softness in the economy following the earthquake and tsunami is certainly a factor. Also softness in the consumer markets itself is another factor.

<Q – Brian Alexander – Raymond James & Associates>: Okay. And then Kevin, it sounds like you guys have made a lot of progress on the integration of MIT and I'm just wondering given that you're – I think you said you are mostly complete with that integration. What kind of timeline are we now looking at for that business to reach the level of profitability that you're seeing in North America? Is that two to three quarters or is it longer than that?

<A – Kevin Murai – President, Chief Executive Officer & Director>: Yeah, I think, really, I think the main variable here is what happens with overall demand in the Japan IT market, because as I mentioned in my prepared remarks, the cost work that we had to do initially in integrating the business has been mostly completed. Now we have a cost structure that we believe we can leverage and grow the business and it's really going to be continual fine-tuning of margins in that business, but equally as important, growing our top-line. So, part of it is gaining leverage from existing relationships that we have here in North America with some key vendors. But in addition to that, the market has to help with that too.

So based on what we see right now, I think our timeline in getting to our margin goals have been pushed out from what we had initially expected. I don't know if that's one, two or three quarters. As I said, the biggest variable here really is when does demand return to the level that we had initially expected.

<Q – Brian Alexander – Raymond James & Associates>: Okay. And then just final one from me and then I will get back into queue. Just on the GBS side, it sounds like you guys want some new pieces of business there and I am just wondering if you could elaborate a little bit more on that and maybe, kind of order magnitude, how significant those wins are and how much leverage could that drive to the GBS margin profile, which I think was around 10% this quarter?

<A – Christopher Caldwell – Senior VP & GM-Global Business Services>: So Brian, it's Chris. In terms of sort of giving you some color around the win, we won in actually all sort of GEO's we operate in, both in EMEA and Asia Pac and in North America with a number of different customers, mainly vendors that are in the software and hardware space, specifically more on security. We won these from incumbents in some places and we won them from in-house delivery where we were taking or going to be taking over the delivery of them.

They do require some startup costs in terms of bringing on the staff and training them before it turns into revenue. So we don't really see that revenue coming in until Q4 and really being in sort of full swing in Q1. So you will see that as it trails in. I think that's in terms of the clarity we can provide on those deals right now.

<Q – Brian Alexander – Raymond James & Associates>: Are these – I mean are these big deals. I am just trying to get a sense for the materiality of the deals that we're talking about, if there is any way to put that into context?

<A – Thomas Alsborg – Chief Financial Officer>: At this time, we prefer not to size them for you. As Kevin – recall, Chris mentioned they are multiyear contracts, three to five year contracts and the profitability expectation that we had around this renewal platform continues to be in place, Brian, so these are what we think are margin enhancing platforms for the BPO side of the business, both at the gross margin level and from a operating margin. But as far as the size of them, we're going to have to wait a little bit and see how that plays out in terms of disclosure.

<Q – Brian Alexander – Raymond James & Associates>: Okay. All right, fair enough. Thanks, guys.

<A – Thomas Alsborg – Chief Financial Officer>: Thank you.

Operator: Your next question comes from the line of Craig Hettenbach with Goldman Sachs and Company.

<Q – Craig Hettenbach – Goldman Sachs & Co.>: Yes. If I could just follow up on Q3 outlook, the comment that Japan is typically seasonally weak. Can you put any band around that in terms of a range of what Japan typically would be in the August quarter on a sequential basis?

<A – Thomas Alsborg – Chief Financial Officer>: Craig, this is Thomas. I'll start and maybe Dennis might want to jump in there. We're going to talk about Japan initially in our business, but Japan is going to become a part of our overall segment. So we're not going to carve out revenue numbers over the long term, so I just want to set the stage for that in the coming quarters. That said, we shared what the revenue was this quarter and our revenue for Q3 is actually – for Japan is actually going down. Seasonally speaking, the first quarter tends to be the strongest quarter because it is heading right up into the fiscal yearend for the government and many of the companies and Japan follow that same yearend, so that tends to be their stronger quarter.

From a seasonal perspective, we expect some softening, but again as we've commented earlier today in this call, the softening is a little more pronounced than we expected because of the overall macro environment post earthquake.

<Q – Craig Hettenbach – Goldman Sachs & Co.>: Okay. And if I could follow up, Kevin, just any positive or negative surprises versus beginning of year as things are playing out and then as you look out into the back half of the year, maybe if you can point to a couple of categories in that light?

<A – Kevin Murai – President, Chief Executive Officer & Director>: Yeah. I don't think there is any – I don't think there is any real surprises. I think anticipation of where we see certain opportunities that we've invested and taking advantage of are starting to come. We invested early on in the mobile market as an example, specifically on tablet devices and going back a couple of quarters, we did see some good incremental growth, in particular in the retail part of our business with some of the tablets that we've had. Now that many of our tier 1 OEM partners are starting to launch their own products and in particular Hewlett-Packard with their TouchPad coming out actually later this week, we do anticipate good growth opportunity there as well and from a commercial perspective in mobility, I think our position is going to be enhanced by some of the capabilities that we've invested in over the past year, specifically mobile apps capabilities where we can help to drive deeper integration of some of these mobile devices into business workflow and ERP. So, I do anticipate that that's going to be a good growth opportunity.

I think the cloud continues to move very quickly as well both in terms of traditional enterprise, but also with the launch of some new platforms, some that we've actually created and designed as solutions, such as our UC offering, but others around other vendor offerings like Microsoft. We do see some growth opportunity there as well starting to gain traction this year, in particular in SMB and probably continuing to take off as well.

The only other thing I can offer is that – where I think part of the key to success is in some of these trends going forward, these opportunities going forward is, our ability and our partners' abilities to wrap services around the products that we sell. And I think the more we are able to do that in a meaningful way, the more value we are able to create in the marketplace, the better growth we are going to have and certainly the more enhanced margin we are going to be able to drive as well.

<Q – Craig Hettenbach – Goldman Sachs & Co.>: Okay. And last one, just the comment of demand getting back to pre-recession levels, can you just talk about what that means, whether it's linearity in the quarter just completed or as we go forward has that been a gradual kind of phase-in that you are returning to normal or any kind of sudden shifts in buying patterns?

<A – Kevin Murai – President, Chief Executive Officer & Director>: Well, we – when we look at market data, we have a number of different sources. One that we do look at for the channel is NPD. And if you do track the NPD data, what you will see is that the growth was very, very positive through 2010, started to slow down somewhat through the last part of calendar 2010 and certainly we saw a return to what I would call more normal growth patterns starting in about the first three to four months of the year.

<Q – Craig Hettenbach – Goldman Sachs & Co.>: Okay. Thank you.

<A – Kevin Murai – President, Chief Executive Officer & Director>: Thanks, Craig.

Operator: Your next question comes from the line of Matt Sheerin with Stifel, Nicolaus.

<Q – Matt Sheerin – Stifel, Nicolaus & Co., Inc.>: Yes, thanks and good afternoon. I was – just had questions around the – some of the expense line numbers that you talked about Thomas. You talked about some incremental expenses related to the GBS integration in some other sort of post acquisition related expenses. And it sounds like some of those are going to up after of course you've got some more startup costs related to some new projects. So, can we get an idea of sort of what run rate we are talking about in the May quarter for those incremental expenses that may go away and what kind of investments you are looking at in the August quarter?

<A – Thomas Alsborg – Chief Financial Officer>: Sure. So, we've been – since the beginning of the year, we've been tracking discrete expenses. We reported that on a separate line item on our P&L within SG&A for Q1, Q2. That's a little over $1 million in total. I expect that that may go up to $1.5 million by the time we're done, but those numbers are trailing off. And so we expect Q3 numbers to be a little bit less than Q2 with regards to the integration, the residual integration cost and so forth.

Really beyond that now as we have won a number of nice programs in the BPO side of the business that Chris referred to earlier, now – and there is – because these are platform programs, and again, these are three to five year programs, there is a greater amount of upfront startup cost investment that we do have to take to the P&L as these things all ramp kind of over the last couple of months and coming into the next couple of months. And so, you're going to see some more of that carry into Q3 especially as these programs are ramping. Again, we characterize these as startup costs, or costs associated with training folks and costs associated with some IT work associated with the programs and so forth. The magnitude of this is probably in the range of $750 to $1 million in Q3. So that's the additional burden associated with ramping those up. Again, they'll contribute good profitability as we ramp them up towards the end of the quarter and especially going into Q4.

<Q – Matt Sheerin – Stifel, Nicolaus & Co., Inc.>: Okay. And once you put those people in place and do the training, is that relatively fixed or is there another variable component as the business ramps up whether it'd be commissions or other things that we could see, for instance, in the November or February quarters?

<A – Thomas Alsborg – Chief Financial Officer>: Relating to these programs, I'd like Chris to jump in and add. Relating to these programs, once they ramp, they are more fixed in nature. That was one of the attractive aspects of the platform approach to us is there is a lot more leverage in the financial model for each program than there would be for example on a core classic tech support BPO side of the business.

<Q – Matt Sheerin – Stifel, Nicolaus & Co., Inc.>: Okay. That was helpful. And then in terms of Japan, I know you pushed out some profitability targets and that certainly makes sense. But, could you give us sort of what the profitability is that now and given the fact that things are soft or may be a little bit softer than seasonal, is that going to be a drag – sort of an incremental drag in your earnings next quarter?

<A – Thomas Alsborg – Chief Financial Officer>: So, just as a refresher here, when we acquired the company, it was underperforming. We commented on in Q1 that it was struggling to breakeven. We are profitable now, so we're on a good track in growing that profitability. We expect that track to continue into Q3, but it will be – again because of primarily top line demand generation and the effects of the market that we conversed on earlier, it will be muted profit growth relative to our original expectations.

That said, it's important to note that we remain very confident about the acquisition and goal of achieving the higher level of profitability that you would expect from a counterpart here in the U.S. and those expectations are 100% intact.

<Q – Matt Sheerin – Stifel, Nicolaus & Co., Inc.>: Okay, great. And my last question. Kevin, you commented about tablets being an important product category for you going forward. You talked about the new HP product. But what have you had in terms of your product exposure? I don't think you have Apple, so has that been significant at all or is there really sort of forward looking in terms of what you're seeing from vendors and what your VAR customers are telling you about what their customers and clients want?

<A – Kevin Murai – President, Chief Executive Officer & Director>: Right. So, if you kind of single out the iPad, that's really one of the only categories that we haven't – or products that we haven't had in that category. I think I shared some numbers one or two quarters ago, but through the holiday season up too early in 2011, we had already sold more than 100,000 tablets primarily into the retail market.

So, we did have a number of different specific products from some Tier 2 manufacturers and from the usual Tier 1 OEMs I do call out HP, but of course Acer and Asus in addition to Motorola, we have all of those products as well.

<Q – Matt Sheerin – Stifel, Nicolaus & Co., Inc.>: Okay. Thanks very much.

<A – Kevin Murai – President, Chief Executive Officer & Director>: Thank you.

Operator: [Operator Instructions] Your next question comes from the line of Shaw Wu with Sterne, Agee.

<Q – Shaw Wu – Sterne, Agee & Leach, Inc.>: Yes, thanks. Just to clarify Kevin your consumer comments, over the last couple of quarters you've actually outperformed the market quite a bit in terms of consumer and it seems like – sounds like – this quarter it sounds like it had an impact and I just wanted some clarification around that and just kind of, I don't know if you've – is it – why were you able to, I guess, execute in the previous quarters – out execute? And it sounds like this quarter maybe not as much, is the market too weak? And then just your comments on these new tablets, particularly from HP, the TouchPad. I guess, do you expect that to improve your overall consumer business? Just wanted some clarification around that. Thanks.

<A – Kevin Murai – President, Chief Executive Officer & Director>: Sure. So, we did mention softness in the retail market – in the consumer market as having some level of impact in our Q2 and in our Q3 guidance. That said, we actually did perform much better than the market in Q2 as well. Our growth in retail and consumer markets was only slightly down year-on-year and the underlying markets are down significantly more than that. It really has to do with our ability to be in the right categories and serve the right kind of customers that are experiencing growth rates that are better than the overall market.

That being said in Q2 as well, there was at least some level of some product constraints. I guess a better way of saying that is, in some categories if we had more products, we would have sold more stuff. So, that was one small factor that I'm not specifically calling out or didn't specifically call out, but that certainly was a factor. Going forward, as we continue to see the launch of more and more of these mobile devices, in particular, we're quite excited about the HP TouchPad coming out. In addition to that in our third quarter, we also have back-to-school included in that timeframe. So, we are anticipating a better performance in our retail business in Q3.

<Q – Shaw Wu – Sterne, Agee & Leach, Inc.>: Okay. Thanks. And then just another question on the gross margin, This probably may be more for Thomas. Looks like you had both sequential and year-over-year improvement. Now with, I guess, GBS becoming, sounds like you have some new opportunities coming up there. Do you expect this trend to continue where you can make both year-over-year and sequential improvements? Thanks.

<A – Thomas Alsborg – Chief Financial Officer>: Thanks, Shaw. First of all, with regards to gross margin as we always say two things. One is, there is always going to be puts and takes from quarter-to-quarter, and there is always going to be some levels of noise. So, to see a fluctuation of as much as five or ten basis points when you're at gross margins as high as we are, is part of the business. That said, it remains strong and our expectation is we'll continue to expand going forward. And certainly as one of the big drivers of our margin in recent quarters has been the change in our business mix, both within the distribution and also between our two segments, GBS and the Distribution segment and going forward, we're also going to see some nice mix change within the GBS segment because of these platforms. So, when I look out into 2012, we are very positive about margin expansion.

The other thing that we're always careful to call out is that the most important margin to us is our operating margin. So that – for us the name of the game, that's the driver of our earnings, that's the driver of our returns on invested capital. So, I wanted to make sure that you know that our focus was there not just making sure that we get good gross profit.

<Q – Shaw Wu – Sterne, Agee & Leach, Inc.>: Okay. Thanks.

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

<Q – Joe Yoo – Citigroup Global Markets (United States)>: Thank you. This is Joe Yoo on behalf of Rich. Kevin, you mentioned about the – some constraints on products and you did mention in the last quarter as well that there were some constraints on products such as glass, drives and panels maybe. But, I was wondering if those constraints are easing, and what's the status right now?

<A – Kevin Murai – President, Chief Executive Officer & Director>: Sure. And so, I just want to be clear that what I had mentioned last quarter directly related to the disaster in Japan was around some products that do use the glass that's produced in Northern Japan, some category of product in our Pro-AV business as an example. We are also seeing some constraints in toner.

But, in addition and that we continue to see. I'm not sure when that situation is quite going to ease up yet. But, putting things into perspective, it's a relatively small piece of our overall business, but that constraint certainly is there. The constraint that I referred to for second quarter on our retail business actually didn't have anything to do with the earthquake and tsunami in Japan. I think it was just more of a forecasting issue on products that we are selling through more quickly than some had anticipated.

<Q – Joe Yoo – Citigroup Global Markets (United States)>: Thanks for that clarification Kevin. The second question is on the consumer side. The recent data points, especially the NPD number on for May actually indicates that U.S. retail PCs are actually growing again. First time they grew in seven months on a year-over-year basis. So, I was wondering what – how we can reconcile that? You're actually implying that there is a slowdown in consumer spending or at least IT on the retail side, where it seems like there is a little more optimism, at least the data points are indicating that way?

<A – Kevin Murai – President, Chief Executive Officer & Director>: Yeah. And keeping in mind that when we talk about the relative softness in consumer, it's more of a broad comment, number one, and the data point, it's actually multiple data points over a longer period of time than just one month. But we are also optimistic about the growth opportunity in retail PCs, in particular as we start moving into the summer or late summer and then back-to-school season because that certainly is one of the categories that we do well in.

So all that being said, historically or at least over the past nine months or so, we have seen certainly a softening of overall demand in retail PCs driven by mobile devices, but we are starting to see I think more of an equilibrium now and a return to what perhaps more normal demand between mobile devices and traditional computing devices would be.

<Q – Joe Yoo – Citigroup Global Markets (United States)>: And to that point, I mean is there are any indications from your customers about back-to-school – expectations about back-to-school?

<A – Kevin Murai – President, Chief Executive Officer & Director>: I think it's – the best way to describe it is cautiously optimistic. I think there is a lot of neat products and new features that are coming out for the back-to-school season. So, again, I think we have all the right categories. I think we are in the right places in retail to sell them as well. So we are anticipating a fairly good back-to-school season.

<Q – Joe Yoo – Citigroup Global Markets (United States)>: Great. Thank you.

<A – Kevin Murai – President, Chief Executive Officer & Director>: Thank you.

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

<Q – Brian Alexander – Raymond James & Associates>: Thanks. I guess just a couple of follow-ups. Kevin, since the Japanese profitability, I might see profitability is very revenue dependent at this point. Can you kind of give us a range for what kind of annual revenue you might need to see to feel confident that the operating margins in that business can get to the North American margin levels? Is it $1.5 billion annual, is it $2 billion? I am just trying to get a sense for where that needs to ramp to?

<A – Kevin Murai – President, Chief Executive Officer & Director>: Yeah, I think it's – I don't want to lead you to believe that the only factor in terms of driving profitability is going to be on top-line growth. That certainly is an important factor. The other piece to it as I think I had mentioned before is, now that we have better processes in place to manage the business, we now have more levers that we can adjust to better manage pricing and other components of margin as well. It's hard to actually give you a scientific answer on exactly how much revenue growth is going to drive certain levels of margin improvement, but revenue growth does certainly need to be positive in order to get there and the more top-line growth we get, the more quickly we will be able to get there. All that being said, Brian, I don't want you to think that if the market doesn't strengthen in the foreseeable future that we won't reach our goals, we're confident we're going to get there.

<Q – Brian Alexander – Raymond James & Associates>: Helpful. And then just on HP, it looks like the mix of HP dropped to 34% from 38% last year and the year-over-year growth for HP was about 10%, which was a pretty notable deceleration. Is that mostly driven by the broad-based consumer weakness that you saw where HP might have a bigger share at SYNNEX as well as may be the lower HP content in your Japanese subsidiary, or is there something else going on with either their momentum in the market or your relationship with them?

<A – Kevin Murai – President, Chief Executive Officer & Director>: Yeah, that mix change is pretty much all driven by the mix change because of our Japan Infotec business. They had a lower percentage of HP than our U.S. and Canadian businesses did.

<A – Thomas Alsborg – Chief Financial Officer>: Brian that was consistent with the first quarter as well, where we were about 33% of revenue.

<Q – Brian Alexander – Raymond James & Associates>: Right, okay. And then finally on that M&A credit you called out for $1.3 million, what was that for and was that all in the Distribution segment?

<A – Thomas Alsborg – Chief Financial Officer>: So, Brian some of our recent M&A has – that we have purchased has continued payouts for above base plan performance over a designated period of time. And at the time that we made these acquisitions, we booked those continued payouts for the acquisitions. Again, they were in the purchase price that we reported to you. Each quarter in accordance with GAAP, we need to evaluate the value of those continued payouts, and make any adjustments up or down in accordance with what we anticipate will actually end up being paid out according to those agreements and this was our adjustment to accomplish that.

<Q – Brian Alexander – Raymond James & Associates>: Can you tie that to a specific acquisition or a specific segment, just so we have a better sense?

<A – Thomas Alsborg – Chief Financial Officer>: Sure, it's – I can tie it to the GBS segment, but I don't want to get any more specific for business reasons.

<Q – Brian Alexander – Raymond James & Associates>: Okay, thanks a lot.

<A – Thomas Alsborg – Chief Financial Officer>: Okay.

Operator: At this time, there are no further questions. Lori Barker, are there any closing remarks?

Lori Barker, Senior Director-Investor Relations

Thank you. This concludes our second quarter fiscal 2011 earnings conference call. Thank you for joining us today. We will have a replay of this call available for two weeks beginning today at approximately 5:00 PM. As always, should you have any follow-up questions, both Thomas and I are available to take your call. Thank you for your participation today.

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