

SYNEX CORP
Form POS AM
November 25, 2003
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As filed with the Securities and Exchange Commission on November 25, 2003

Registration No. 333-108543

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

POST-EFFECTIVE AMENDMENT NO. 1

FORM S-1

REGISTRATION STATEMENT

Under

The Securities Act of 1933

SYNEX Corporation

(Exact Name of Registrant as Specified in its Charter)

Delaware
(State or Other Jurisdiction of
Incorporation or Organization)

33411
(Primary Standard Industrial Classification
Code Number)

94-2703333
(I.R.S. Employer
Identification No.)

3797 Spinnaker Court, Fremont, CA 94538

(510) 656-3333

(Address, Including Zip Code, and Telephone Number, Including Area Code, of Registrant's Principal Executive Offices)

ROBERT T. HUANG

President and Chief Executive Officer

SYNNEX CORPORATION

3797 Spinnaker Court, Fremont, CA 94538

(510) 656-3333

(Name, Address, Including Zip Code, and Telephone Number, Including Area Code, of Agent for Service)

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This post-effective amendment shall become effective in accordance with Section 8(c) of the Securities Act of 1933, on such date as the Securities and Exchange Commission, acting pursuant to said Section 8(c) may determine.

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Prospectus

5,400,000 shares

SYNEX Corporation

Common Stock

This is the initial public offering of 5,400,000 shares of common stock of SYNEX Corporation. No public market currently exists for our shares.

Our common stock has been approved for listing on the New York Stock Exchange under the symbol **SNX**.

We are selling 3,577,500 of the shares of common stock under this prospectus, and certain of our stockholders, referred to in this prospectus as selling stockholders, are offering an additional 1,822,500 shares. We will not receive any of the proceeds from the sale of the shares being sold by the selling stockholders.

See **Risk Factors** beginning on page 5 to read about certain risks that you should consider before buying shares of our common stock.

	Per Share		Total
Public Offering Price	\$	14.500	\$ 78,300,000
Underwriting Discount	\$	1.015	\$ 5,481,000
Proceeds, Before expenses, to SYNEX	\$	13.485	\$ 48,242,588
Proceeds, Before expenses, to the Selling Stockholders	\$	13.485	\$ 24,576,412

We and certain of the selling stockholders identified in this prospectus have granted the underwriters a 30-day option to purchase up to 810,000 additional shares to cover any over-allotments.

Delivery of shares will be made on or about December 1, 2003.

Neither the Securities and Exchange Commission nor any state securities commission has approved or disapproved of these securities or passed upon the adequacy or accuracy of this prospectus. Any representation to the contrary is a criminal offense.

Bear, Stearns & Co. Inc.

Banc of America Securities LLC

Raymond James

The date of this prospectus is November 25, 2003.

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PROSPECTUS SUMMARY

This summary highlights information contained elsewhere in this prospectus. This summary does not contain all of the information that you should consider before investing in our common stock. You should read the entire prospectus carefully, including the section entitled "Risk Factors" and our consolidated financial statements and the related notes and pro forma financial data before making an investment decision.

SYNEX Corporation

Our Business

We are a global information technology, or IT, supply chain services company. We offer a comprehensive range of services to IT original equipment manufacturers and software publishers, collectively OEMs, and reseller customers worldwide. The supply chain services that we offer include product distribution, related logistics and contract assembly.

We have been in the IT distribution business since 1980 and are one of the largest IT product distributors based on 2002 reported revenue. We focus our core wholesale distribution business on a limited number of leading IT OEMs, which allows us to enhance and increase the value we provide to our OEM suppliers and reseller customers.

In our distribution operations, we purchase IT systems, peripherals, system components, packaged software and networking equipment from OEM suppliers such as HP, IBM, Intel, Microsoft Corporation and Seagate and sell them to our reseller customers. We perform the same function for our purchases of licensed software products. Our reseller customers include value added resellers, or VARs, corporate resellers, government resellers, system integrators, direct marketers and retailers. We currently distribute and market approximately 15,000 products (as measured by active SKUs) from over 100 OEM suppliers to more than 15,000 resellers.

Our contract assembly operations are generally related to building IT systems such as personal computers, workstations and servers. By leveraging the inventory management capabilities and system component supplier relationships of our distribution business, we provide cost-effective IT system contract assembly.

Because we offer distribution, contract assembly and complementary logistics support, OEM suppliers and resellers can outsource to us multiple areas of their business outside of their core competencies. This model allows us to provide services at several points along the IT product supply chain. We believe that the combination of our broad range of supply chain capabilities, our focus on serving the leading IT OEMs and our efficient operations enables us to realize strong and expanding relationships with these OEMs and our reseller customers.

Our Strategy

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We intend to continue to expand our business by pursuing the following strategies:

Deepen relationships with our existing OEM suppliers and reseller customers by expanding the supply chain services we offer to them.

Establish new strategic relationships with leading OEMs to increase the breadth of product lines that we distribute.

Increase our reseller customer base by offering competitive pricing, in-depth product expertise and a comprehensive selection of IT products.

Expand our contract assembly operations to benefit from the continuing trend of OEMs outsourcing their production activities.

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Control costs by maintaining our low cost operations and seeking ways to further reduce costs in all areas of our business.

Pursue strategic acquisitions and investments to increase our OEM and reseller relationships, enhance our supply chain capabilities and expand our geographic reach.

Our Relationship with MiTAC International

In 1992, MiTAC International Corporation, or MiTAC International, acquired a controlling interest in us. Since 1992, MiTAC International, through its affiliates, has increased its beneficial ownership interest in us to approximately 98%.

MiTAC International, established in 1982, is a publicly held, original design manufacturing company based in Taiwan. MiTAC International specializes in the development and manufacture of motherboards, servers, LCD PCs, mobile wireless handheld devices, such as wireless PDAs and smart phones. In the last 20 years, MiTAC International has expanded its presence in more than 20 countries around the world. In 1994, we began offering contract assembly that we jointly market with MiTAC International's manufacturing and design capabilities.

All of the selling stockholders are related to MiTAC International. After completion of this offering, MiTAC International and its affiliates will beneficially own approximately 77.3% of our outstanding common stock, assuming the underwriters do not exercise their over-allotment option, and approximately 74.6% if the underwriters exercise their over-allotment option in full. As a result of this ownership interest, MiTAC International and its affiliates control us and they will continue to control us upon completion of the offering.

There are potential conflicts of interest between us and MiTAC International and its affiliates. Synnex Technology International, a publicly traded company based in Taiwan affiliated with MiTAC International, currently provides distribution and fulfillment services to various markets in Asia and Australia. Synnex Technology International is a separate entity from us and is also a potential competitor of ours. Although Synnex Technology International is a separate entity from us, it is possible that there will be confusion as a result of the similarity of our names. Mitac Incorporated, a privately held company based in Taiwan and a separate entity from MiTAC International, owns approximately 16.0% of Synnex Technology International and approximately 9.6% of MiTAC International. MiTAC International indirectly owns 0.41% of Synnex Technology International and Synnex Technology International owns approximately 1.3% of MiTAC International. In addition, MiTAC International indirectly owns approximately 9.0% of Mitac Incorporated and Synnex Technology International owns approximately 14.4% of Mitac Incorporated. Each of MiTAC International and Synnex Technology International indirectly owns 50% of Abundant Investment Group Limited, a selling stockholder. Synnex Technology International also indirectly owns 100% of Peer Developments Ltd., which in turn owns approximately 24% of our common stock. Also, our Chairman, Mr. Matthew Miao, is the chairman of MiTAC International and is the chairman or officer of several of the companies affiliated with MiTAC International, including Synnex Technology International. Mr. Miao's positions with us and MiTAC International and some of its affiliated entities could create actual or perceived conflicts of interest with respect to a variety of matters, such as matters requiring stockholder approval, corporate opportunities and business relationships.

We were incorporated in the State of California as COMPAC Microelectronics, Inc. on November 18, 1980, and we changed our name to SYNnex Information Technologies, Inc. on February 4, 1994. We reincorporated in the State of Delaware under the name SYNnex Corporation in October 2003. Our principal offices are located at 3797 Spinnaker Court, Fremont, CA 94538, and our telephone number is (510) 656-3333. We have distribution, sales and assembly facilities located in Asia, Europe and North America. Our website is located at www.synnex.com. The information contained on our website is not a part of this prospectus.

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THE OFFERING

Shares of common stock being offered by us	3,577,500 shares
Shares of common stock being offered by the selling stockholders	1,822,500 shares
Shares of common stock to be outstanding after this offering	25,667,791 shares
Use of proceeds	We intend to use all of the estimated net proceeds from this offering of \$46.5 million first to reduce the amounts outstanding under our U.S. credit facility when this offering is completed, if any, and then to reduce the use of our accounts receivable securitization program under which the amount of our accounts receivable sold was \$196.5 million at August 31, 2003.
Dividend policy	We have not declared or paid any cash dividends since our inception. We currently intend to retain future earnings, if any, for use in our operations and the expansion of our business.
New York Stock Exchange symbol	SNX

The number of shares of common stock to be outstanding after this offering is based on our outstanding shares as of August 31, 2003. These shares exclude:

8,502,497 shares issuable upon the exercise of options outstanding at August 31, 2003 under our stock option plans with a weighted average exercise price of \$7.37 per share;

5,422,144 shares reserved for future grant under our stock option plans at August 31, 2003; and

500,000 shares reserved for issuance under our employee stock purchase plan.

Except when otherwise indicated, all information in this prospectus:

has been adjusted to give effect to a 1 for 2 reverse stock split of our common stock which was effected on November 12, 2003; and

assumes no exercise by the underwriters of their option to purchase additional shares of common stock from us and some of the selling stockholders to cover over-allotments, if any.

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The following table presents our summary consolidated historical financial information. The statement of operations data generally includes the operating results of our acquisitions from the closing date of each acquisition. You should read this information together with the consolidated financial statements and related notes, unaudited as adjusted financial information and the information under Management's Discussion and Analysis of Financial Condition and Results of Operations included elsewhere in this prospectus.

	Years Ended November 30,			Nine Months Ended August 31,	
	2000	2001	2002	2002	2003
	(in thousands, except per share data)				
Statement of Operations Data:					
Revenue	\$ 3,802,629	\$ 3,224,390	\$ 3,767,882	\$ 2,694,376	\$ 2,873,293
Cost of revenue	3,626,317	3,060,304	3,593,982	2,568,419	2,741,446
Gross profit	176,312	164,086	173,900	125,957	131,847
Selling, general and administrative expenses	106,489	106,197	123,418	88,638	91,968
Income from operations	69,823	57,889	50,482	37,319	39,879
Income from continuing operations	42,011	25,797	28,032	20,344	21,371
Loss from discontinued operations	(5,577)				
Net income	\$ 36,434	\$ 25,797	\$ 28,032	\$ 20,344	\$ 21,371
Net income per common share - diluted:					
Income from continuing operations	\$ 1.72	\$ 1.06	\$ 1.16	\$ 0.83	\$ 0.87

	August 31, 2003	
	Actual	As Adjusted
	(in thousands)	
Balance Sheet Data:		
Cash and cash equivalents	\$ 23,174	\$ 23,174
Working capital	206,602	253,145
Total assets	707,553	754,096
Current borrowings under term loans and lines of credit	51,447	51,447
Long-term borrowings	7,852	7,852
Total stockholders' equity	239,538	286,081

As adjusted information gives effect to the application of the net proceeds from the sale of 3,577,500 shares of our common stock offered by us at an initial public offering price of \$14.50 per share and after deducting estimated offering expenses and underwriting discounts and commissions. In addition to the repayment of any outstanding borrowings under our U.S. credit facility, we intend to use the remaining portion of the net proceeds received by us from this offering to reduce the use of our accounts receivable securitization program. The impact to our

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financial statements of this reduction will be to increase our accounts receivable.

	Years Ended November 30,			Nine Months Ended August 31,	
	2000	2001	2002	2002	2003
	(in thousands)				
Other Data:					
Depreciation and Amortization	\$ 6,753	\$ 9,350	\$ 8,337	\$ 6,008	\$ 5,685

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RISK FACTORS

An investment in our common stock involves a high degree of risk. Before you invest in our common stock, you should carefully consider all of the risks of our business, including those described below, together with all of the other information included in this prospectus. Our business and operating results could be materially and adversely affected by any of these risks. The trading price of our common stock could decline, and you may lose all or part of your investment.

Risks Related to Our Business

We anticipate that our revenue and operating results will fluctuate, which could adversely affect the price of our common stock.

Our operating results have fluctuated and will fluctuate in the future as a result of many factors, including:

general economic conditions and weakness in IT spending;

the loss or consolidation of one or more of our significant original equipment manufacturer, or OEM, suppliers or customers;

market acceptance and product life of the products we assemble and distribute;

competitive conditions in our industry, which may impact our margins;

pricing, margin and other terms with our OEM suppliers;

variations in our levels of excess inventory and doubtful accounts, and changes in the terms of OEM supplier-sponsored programs, such as price protection and return rights;

changes in our costs and operating expenses; and

the contribution to our total revenue of our international operations.

Although we attempt to control our expense levels, these levels are based, in part, on anticipated revenue. Therefore, we may not be able to control spending in a timely manner to compensate for any unexpected revenue shortfall.

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Our operating results also are affected by the seasonality of the IT products industry. We have historically experienced higher sales in our fourth fiscal quarter due to patterns in the capital budgeting and purchasing cycles of end-users. These patterns may not be repeated in subsequent periods.

You should not rely on period-to-period comparisons of our operating results as an indication of future performance. The results of any quarterly period are not indicative of results to be expected for a full fiscal year. In future quarters, our operating results may be below the expectations of public market analysts or investors, which would likely cause our share price to decline.

We depend on a small number of OEMs to supply the IT products that we sell and the loss of, or a material change in, our business relationship with a major OEM supplier could adversely affect our business, financial position and operating results.

Our future success is highly dependent on our relationships with a small number of OEM suppliers. Sales of HP products represented approximately 35.0% of our total revenue in fiscal 2002 and 31.5% in the nine months ended August 31, 2003. Our OEM supplier agreements typically are short-term and may be terminated without cause upon short notice. The loss or deterioration of our relationships with a major OEM supplier, the authorization by OEM suppliers of additional distributors, the sale of products by OEM suppliers directly to our reseller customers and end users, or our failure to establish relationships with new OEM suppliers or to expand the distribution and supply chain services that we provide OEM suppliers could adversely affect our business,

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financial position and operating results. In addition, OEM suppliers may face liquidity or solvency issues which in turn could negatively affect our business and operating results.

Our business is also highly dependent on the terms provided by our OEM suppliers. Generally, each OEM supplier has the ability to change the terms and conditions of their sales agreements, such as reducing the amount of price protection and return rights or reducing the level of purchase discounts, rebates and marketing programs available to us. If we are unable to pass the impact of these changes through to our reseller customers, our business, financial position and operating results could be adversely affected.

Our gross margins are low, which magnifies the impact of variations in revenue, operating costs, bad debts and interest expense on our operating results.

As a result of intense price competition in the IT products industry, our gross margins are low, and we expect them to continue to be low in the future. Increased competition arising from industry consolidation and low demand for certain IT products may hinder our ability to maintain or improve our gross margins. These low gross margins magnify the impact of variations in revenue, operating costs, bad debts and interest expense on our operating results. A portion of our operating expenses is relatively fixed, and planned expenditures are based in part on anticipated orders that are forecasted with limited visibility of future demand. As a result, we may not be able to reduce our operating expenses as a percentage of revenue to mitigate any further reductions in gross margins in the future. If we cannot proportionately decrease our cost structure in response to competitive price pressures, our business and operating results could suffer.

We also receive purchase discounts and rebates from OEM suppliers based on various factors, including sales or purchase volume and breadth of customers. A decrease in net sales could negatively affect the level of volume rebates received from our OEM suppliers and thus, our gross margins. Because some purchase discounts and rebates from OEM suppliers are based on percentage increases in sales of products, it may become more difficult for us to achieve the percentage growth in sales required for larger discounts due to the current size of our revenue base. A decrease or elimination of purchase discounts and rebates from our OEM suppliers could adversely affect our business and operating results.

Because we sell on a purchase order basis, we are subject to uncertainties and variability in demand by our reseller and contract assembly customers, which could decrease revenue and adversely affect our operating results.

We sell to our reseller and contract assembly customers on a purchase order basis rather than pursuant to long-term contracts or contracts with minimum purchase requirements. Consequently, our sales are subject to demand variability by our reseller and contract assembly customers. The level and timing of orders placed by our reseller and contract assembly customers vary for a variety of reasons, including seasonal buying by end-users, the introduction of new hardware and software technologies and general economic conditions. Customers submitting a purchase order may cancel, reduce or delay their orders. If we are unable to anticipate and respond to the demands of our reseller and contract assembly customers, we may lose customers because we have an inadequate supply of products, or we may have excess inventory, either of which may harm our business, financial position and operating results.

We are subject to the risk that our inventory value may decline, and protective terms under our OEM supplier agreements may not adequately cover the decline in value, which in turn may harm our business, financial position and operating results.

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The IT products industry is subject to rapid technological change, new and enhanced product specification requirements, and evolving industry standards. These changes may cause inventory on hand to decline substantially in value or to rapidly become obsolete. Most of our OEM suppliers offer limited protection from the loss in value of inventory. For example, we can receive a credit from many OEM suppliers for products held in inventory in the event of a supplier price reduction. In addition, we have a limited right to return a certain percentage of purchases to most OEM suppliers. These policies are subject to time restrictions and do not protect

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us in all cases from declines in inventory value. In addition, our OEM suppliers may become unable or unwilling to fulfill their protection obligations to us. The decrease or elimination of price protection or the inability of our OEM suppliers to fulfill their protection obligations could lower our gross margins and cause us to record inventory write-downs. If we are unable to manage our inventory with our OEM suppliers with a high degree of precision, we may have insufficient product supplies or we may have excess inventory, resulting in inventory write downs, either of which may harm our business, financial position and operating results.

We depend on OEM suppliers to maintain an adequate supply of products to fulfill customer orders on a timely basis, and any supply shortages or delays could cause us to be unable to fulfill orders on a timely basis, which in turn could harm our business, financial position and operating results.

Our ability to obtain particular products in the required quantities and to fulfill reseller customer orders on a timely basis is critical to our success. In most cases, we have no guaranteed price or delivery agreements with our OEM suppliers. We occasionally experience a supply shortage of certain products as a result of strong demand or problems experienced by our OEM suppliers. If shortages or delays persist, the price of those products may increase, or the products may not be available at all. In addition, our OEM suppliers may decide to distribute, or to substantially increase their existing distribution business, through other distributors, their own dealer networks, or directly to resellers. Accordingly, if we are not able to secure and maintain an adequate supply of products to fulfill our reseller customer orders on a timely basis, our business, financial position and operating results may be adversely affected.

A portion of our revenue is financed by floor plan financing companies and any termination or reduction in these financing arrangements could harm our business and operating results.

A portion of our distribution revenue is financed by floor plan financing companies. Floor plan financing companies are engaged by our customers to finance, or floor, the purchase of products from us. In exchange for a fee, we transfer the risk of loss on the sale of our products to the floor plan companies. We currently receive payment from these financing companies within approximately 15 business days from the date of the sale, which allows our business to operate at much lower relative working capital levels than if such programs were not available. If these floor plan arrangements are terminated or substantially reduced, the need for more working capital and the increased financing cost could harm our business and operating results. We have not experienced any termination or significant reduction in floor plan arrangements in the past.

We have significant credit exposure to our reseller customers, and negative trends in their businesses could cause us significant credit loss and negatively impact our cash flow and liquidity position.

We extend credit to our reseller customers for a significant portion of our sales to them. Resellers have a period of time, generally 30 days after the date of invoice, to make payment. As a result, we are subject to the risk that our reseller customers will not pay for the products they purchase. Our credit exposure risk may increase due to liquidity or solvency issues experienced by our resellers as a result of an economic downturn, including the current downturn, or a decrease in IT spending by end-users. If we are unable collect payment for products we ship to our reseller customers or if our reseller customers are unable to timely pay for the products we ship to them, it will be more difficult or costly to utilize receivable-based financing, which could negatively impact our cash flow and liquidity position.

We experienced theft of product from our warehouses. Future thefts could harm our operating results.

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We recently experienced theft as a result of break-ins at three of our warehouses in which approximately \$9.4 million of inventory was stolen. Based on our investigation, discussions with local law enforcement and meetings with federal authorities, we believe the thefts at our warehouses, which occurred between February and May 2003, were part of an organized crime effort that targeted a number of technology equipment warehouses throughout the United States. As a result of the loss, we reduced our inventory value by \$9.4 million, expensed

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the deductible of \$75,000 and recorded the net amount as a receivable from our insurance company, within other current assets on our balance sheet. Based on the notification we have received from our insurance broker, we believe that collection of the receivable is assured. These types of incidents may make it more difficult or expensive for us to obtain theft coverage in the future. We have from time to time also experienced incidents of theft at various facilities. There is no assurance that future incidents of theft will not re-occur.

A significant portion of our contract assembly revenue comes from a single customer, and any decrease in sales from this customer could adversely affect our revenue.

Our primary contract assembly customer, Sun Microsystems, accounted for approximately \$203.5 million or 54.5% of our contract assembly revenue in fiscal 2002 and approximately \$131.7 million or 96.1% of our contract assembly revenue in the nine months ended August 31, 2003. Sun Microsystems accounted for less than 10% of our total revenue in fiscal 2002 and the nine months ended August 31, 2003. Revenue from Sun Microsystems has decreased over the past three years and could decrease in the future. Our business with Sun Microsystems is dependent upon obtaining new orders from this customer. In addition, the future success of our relationship with Sun Microsystems depends on MiTAC International continuing to work with us to service Sun Microsystems' needs. Our relationship with Sun Microsystems evolved from a customer relationship initiated by MiTAC International and is a joint relationship with MiTAC International. We rely on MiTAC International to manufacture and supply subassemblies and components for the computer systems we assemble for Sun Microsystems. If we are unable to maintain our relationship with MiTAC International, our relationship with Sun Microsystems could suffer, which in turn could harm our business, financial position and operating results. In addition, if we are unable to obtain assembly contracts for new and successful products as a result of the current economic downturn or other reasons, our business and operating results would suffer. For example, our loss of contract assembly business from Compaq Computer Corporation, or Compaq, in fiscal 2001 had a material adverse effect on our revenue and operating results in subsequent periods.

We have pursued and intend to continue to pursue strategic acquisitions or investments in new markets and may encounter risks associated with these activities which could harm our business and operating results.

The distribution and contract assembly industries have experienced significant consolidation due to price erosion and market competition, augmented by the economic downturn. We expect this consolidation to continue. We have in the past pursued and in the future expect to pursue acquisitions of, or investments in, businesses and assets in new markets, either within or outside the IT products industry, that complement or expand our existing business. Our acquisition strategy involves a number of risks, including:

difficulty in successfully integrating acquired operations, IT systems, customers, OEM supplier and partner relationships, products and businesses with our operations;

loss of key employees of acquired operations or inability to hire key employees necessary for our expansion;

diversion of our capital and management attention away from other business issues;

an increase in our expenses and working capital requirements;

in the case of acquisitions that we may make outside of the United States, difficulty in operating in foreign countries and over significant geographical distances; and

other financial risks, such as potential liabilities of the businesses we acquire.

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Our growth may be limited and our competitive position may be harmed if we are unable to identify, finance and complete future acquisitions. We believe that further expansion may be a prerequisite to our long-term success as some of our competitors in the IT product distribution industry have larger international operations, higher revenues and greater financial resources than us. We have incurred costs and encountered difficulties in the past in connection with our acquisitions and investments. For example, our operating margins were adversely affected as a result of our acquisition of Merisel Canada Inc. and we have written off substantial investments in the past, one of which was eManage.com. Future acquisitions may result in dilutive issuances of equity securities, the incurrence of additional debt, large write-offs, a decrease in future profitability, or future losses. The incurrence of debt in connection with any future acquisitions could restrict our ability to obtain working capital or other financing necessary to operate our business. Our recent and future acquisitions or investments may not be successful, and if we fail to realize the anticipated benefits of these acquisitions or investments, our business and operating results could be harmed.

We are dependent on a variety of IT and telecommunications systems, and any failure of these systems could adversely impact our business and operating results.

We depend on IT and telecommunications systems for our operations. These systems support a variety of functions, including inventory management, order processing, shipping, shipment tracking and billing.

Failures or significant downtime of our IT or telecommunications systems could prevent us from taking customer orders, printing product pick-lists, operating our automated product pick machinery, shipping products or billing customers. Sales also may be affected if our reseller customers are unable to access our price and product availability information. We also rely on the Internet, and in particular electronic data interchange or EDI, for a large portion of our orders and information exchanges with our OEM suppliers and reseller customers. The Internet and individual websites have experienced a number of disruptions and slowdowns, some of which were caused by organized attacks. In addition, some websites have experienced security breakdowns. If we were to experience a security breakdown, disruption or breach that compromised sensitive information, it could harm our relationship with our OEM suppliers or reseller customers. Disruption of our website or the Internet in general could impair our order processing or more generally prevent our OEM suppliers or reseller customers from accessing information. The occurrence of any of these events could have an adverse effect on our business and operating results.

We rely on independent shipping companies for delivery of products, and price increases or service interruptions from these carriers could adversely affect our business and operating results.

We rely almost entirely on arrangements with independent shipping companies, such as FedEx and UPS, for the delivery of our products from OEM suppliers and delivery of products to reseller customers. Freight and shipping charges are a substantial portion of our cost of goods sold. As a result, an increase in freight surcharges due to rising fuel cost or general price increases will have an immediate adverse effect on our margins, unless we are able to pass the increased charges to our reseller customers or renegotiate terms with our OEM suppliers. In addition, in the past, UPS has experienced work stoppages due to labor negotiations with management. The termination of our arrangements with one or more of these independent shipping companies, the failure or inability of one or more of these independent shipping companies to deliver products, or the unavailability of their shipping services, even temporarily, could have an adverse effect on our business and operating results.

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Part of our business is conducted outside of the United States, exposing us to additional risks that may not exist in the United States which in turn could cause our business and operating results to suffer.

We have international operations in Canada, China, Japan, Mexico and the United Kingdom. In fiscal 2002 and the nine months ended August 31, 2003, approximately 21% and 22%, respectively, of our total revenue was generated outside the United States. In fiscal 2002 and the nine months ended August 31, 2003, approximately 13% of our total revenue was generated in Canada. No other country or region accounted for more than 10% of our total revenue. Our international operations are subject to risks, including:

political or economic instability;

changes in governmental regulation;

changes in import/export duties;

trade restrictions;

difficulties and costs of staffing and managing operations in certain foreign countries;

work stoppages or other changes in labor conditions;

difficulties in collecting of accounts receivables on a timely basis or at all;

taxes; and

seasonal reductions in business activity in some parts of the world, such as Europe.

We may continue to expand internationally to respond to competitive pressure and customer and market requirements. For example, we commenced our Mexico operations in April 2002. Establishing operations in any other foreign country or region presents risks such as those described above as well as risks specific to the particular country or region. In addition, until a payment history is established over time with customers in a new geography or region, the likelihood of collecting receivables generated by such operations could be less than our expectations. As a result, there is a greater risk that reserves set with respect to the collection of such receivables may be inadequate. We have established and subsequently ceased operations in foreign countries in the past, which caused us to incur additional expense and loss. If our international expansion efforts in any foreign country are unsuccessful, we may decide to cease operations, which would likely cause us to incur similar additional expenses and loss.

In addition, changes in policies and/or laws of the United States or foreign governments resulting in, among other things, higher taxation, currency conversion limitations, restrictions on fund transfers or the expropriation of private enterprises, could reduce the anticipated benefits of our international expansion. Furthermore, any actions by countries in which we conduct business to reverse policies that encourage foreign trade or investment could adversely affect our business. If we fail to realize the anticipated revenue growth of our future international operations, our

business and operating results could suffer.

Because we conduct substantial operations in China, risks associated with economic, political and social events in China could negatively affect our business and operating results.

A substantial portion of our IT systems operations, including our IT systems support and software development operations, are located in China. As of August 31, 2003, we had 130 personnel in IT systems support and software development, of which 70 are located in China. In addition, we also conduct general and administrative activities from our facility in China. We expect to increase our operations in China in the future. Our operations in China are subject to a number of risks relating to China's economic and political systems, including:

a government fixed foreign exchange rate and limitations on the convertibility of the Chinese renminbi;

extensive government regulation;

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changing governmental policies relating to tax benefits available to foreign-owned businesses;

the telecommunications infrastructure;

a relatively uncertain legal system; and

uncertainties related to continued economic and social reform, including the effect of China's recent entry into the World Trade Organization.

In addition, external events in Asia, such as the recent outbreak of severe acute respiratory syndrome, or SARS, or heightened political tensions in this region may adversely affect our business by disrupting the IT supply chain, restricting travel or interfering with the electronic and communications infrastructure.

Our IT systems are an important part of our global operations. Any significant interruption in service, whether resulting from any of the above uncertainties, natural disasters or otherwise, could result in delays in our inventory purchasing, errors in order fulfillment, reduced levels of customer service and other disruptions in operations, any of which could cause our business and operating results to suffer.

Changes in foreign exchange rates and limitations on the convertibility of foreign currencies could adversely affect our business and operating results.

In fiscal 2002 and the nine months ended August 31, 2003, approximately 21% and 22%, respectively, of our total revenue was generated outside the United States. Our international revenue, cost of revenue and operating expenses are denominated in foreign currencies. We presently have currency exposure arising from both sales and purchases denominated in foreign currencies. Changes in exchange rates between foreign currencies and the U.S. dollar may adversely affect our operating margins. For example, if these foreign currencies appreciate against the U.S. dollar, it will make it more expensive in terms of U.S. dollars to purchase inventory or pay expenses with foreign currencies. In addition, currency devaluation can result in a loss to us if we hold deposits of that currency as well as make our products, which are usually purchased by us with U.S. dollars, relatively more expensive than products manufactured locally. We currently conduct only limited hedging activities, which involve the use of currency forward contracts. Hedging foreign currencies can be risky, especially if the currency is not freely or actively traded. In addition, some currencies, such as the Chinese renminbi, are subject to limitations on conversion into other currencies, which can limit our ability to hedge or to otherwise react to rapid foreign currency devaluations. We cannot predict the impact of future exchange rate fluctuations on our business and operating results.

Because of the experience of our key personnel in the IT products industry and their technological expertise, if we were to lose any of our key personnel, it could inhibit our ability to operate and grow our business successfully.

We operate in the highly competitive IT products industry. We are dependent in large part on our ability to retain the services of our key senior executives and other technical experts and personnel. Our employees and executives do not have employment agreements. Furthermore, we do not carry key person insurance coverage for any of our key executives. We compete for qualified senior management and technical personnel. The loss of, or inability to hire, key executives or qualified employees could inhibit our ability to operate and grow our business successfully.

We may become involved in intellectual property or other disputes that could cause us to incur substantial costs, divert the efforts of our management, require us to pay substantial damages or require us to obtain a license, which may not be available on commercially reasonable terms, if at all.

We may from time to time receive notifications alleging infringements of intellectual property rights allegedly held by others relating to our business or the products we sell or assemble for our OEM suppliers and

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others. Litigation with respect to patents or other intellectual property matters could result in substantial costs and diversion of management and other resources and could have an adverse effect on our busine