SYNNEX CORP
Form 10-Q
April 07, 2015
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

(Mark One)

x QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended February 28, 2015

OR

¨ TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from to

Commission File Number: 001-31892

SYNNEX CORPORATION
(Exact name of registrant as specified in its charter)

Delaware (State or other jurisdiction of incorporation or organization)	94-2703333 (IRS Employer Identification No.)
44201 Nobel Drive Fremont, California (Address of principal executive offices)	94538 (Zip Code)

(510) 656-3333
(Registrant’s telephone number, including area code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes x No ¨

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes x No ¨

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer, or a smaller reporting company. See the definitions of “large accelerated filer,” “accelerated filer” and “smaller reporting company” in Rule 12b-2 of the Exchange Act. (Check one).
Large accelerated filer x Accelerated filer ¨ Non-accelerated filer ¨ Smaller reporting company ¨

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes ¨ No x

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date.

Class	Outstanding as of March 31, 2015
Common Stock, $0.001 par value	39,510,009

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PART I - FINANCIAL INFORMATION

ITEM 1. Financial Statements

SYNNEX CORPORATION
CONSOLIDATED BALANCE SHEETS
(currency and share amounts in thousands, except for par value)
(unaudited)

	February 28, 2015	November 30, 2014
ASSETS		
Current assets:		
Cash and cash equivalents	$169,771	$180,143
Restricted cash	37,654	34,269
Short-term investments	7,784	7,128
Accounts receivable, net	1,590,737	2,091,511
Receivable from related parties	112	332
Inventories	1,306,039	1,398,463
Current deferred tax assets	33,637	34,310
Other current assets	151,731	153,833
Total current assets	3,297,465	3,899,989
Property and equipment, net	212,936	200,803
Goodwill	315,817	314,213
Intangible assets, net	212,533	229,684
Deferred tax assets	11,678	10,790
Other assets	57,905	57,563
Total assets	$4,108,334	$4,713,042
LIABILITIES AND EQUITY		
Current liabilities:		
Borrowings under securitization, term loans and lines of credit	$579,579	$716,257
Accounts payable	1,125,223	1,585,606
Payable to related parties	2,620	5,129
Accrued liabilities	373,944	391,608
Income taxes payable	12,447	23,129
Total current liabilities	2,093,813	2,721,729
Long-term borrowings	260,318	264,246
Long-term liabilities	57,275	60,215
Deferred tax liabilities	12,114	12,867
Total liabilities	2,423,520	3,059,057
Commitments and contingencies (Note 16)		
SYNNEX Corporation stockholders’ equity:		
Preferred stock, $0.001 par value, 5,000 shares authorized, no shares issued or outstanding	—	—
Common stock, $0.001 par value, 100,000 shares authorized, 39,952 and 39,847 shares issued as of February 28, 2015 and November 30, 2014, respectively	40	40
Additional paid-in capital	391,394	384,625
Treasury stock, 942 and 923 shares as of February 28, 2015 and November 30, 2014, respectively	(34,180)	(32,723)
Accumulated other comprehensive loss	(22,545)	(6,628)

Retained earnings	1,349,698	1,308,244
Total SYNNEX Corporation stockholders’ equity	1,684,407	1,653,558
Noncontrolling interest	407	427
Total equity	1,684,814	1,653,985
Total liabilities and equity	$4,108,334	$4,713,042

The accompanying Notes are an integral part of these Consolidated Financial Statements (unaudited).

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SYNNEX CORPORATION
CONSOLIDATED STATEMENTS OF OPERATIONS
(currency and share amounts in thousands, except for per share amounts)
(unaudited)

	Three Months Ended	
	February 28, 2015	February 28, 2014
Revenue	$3,202,458	$3,026,984
Cost of revenue	(2,914,240)	(2,820,338)
Gross profit	288,218	206,646
Selling, general and administrative expenses	(209,271)	(144,696)
Income before non-operating items, income taxes and noncontrolling interest	78,947	61,950
Interest expense and finance charges, net	(6,441)	(4,498)
Other income, net	67	2,968
Income before income taxes and noncontrolling interest	72,573	60,420
Provision for income taxes	(26,271)	(21,962)
Net income	46,302	38,458
Net loss (income) attributable to noncontrolling interest	21	(41)
Net income attributable to SYNNEX Corporation	$46,323	$38,417
Earnings per share attributable to SYNNEX Corporation:		
Basic	$1.17	$1.01
Diluted	$1.16	$1.00
Weighted-average common shares outstanding:		
Basic	38,968	37,656
Diluted	39,303	38,065
Cash dividends declared per share	$0.13	$—

The accompanying Notes are an integral part of these Consolidated Financial Statements (unaudited).

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SYNNEX CORPORATION
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
(currency in thousands)
(unaudited)

	Three Months Ended	
	February 28, 2015	February 28, 2014
Net income	$46,302	$38,458
Other comprehensive income (loss):		
Unrealized gains on available-for-sale securities, net of tax of $(123) and $0 for the three months ended February 28, 2015 and 2014, respectively	223	32
Foreign currency translation adjustments, net of tax of $1,094 and $527 for the three months ended February 28, 2015 and 2014, respectively	(16,139)	(2,109)
Other comprehensive loss	(15,916)	(2,077)
Comprehensive income:	30,386	36,381
Comprehensive loss (income) attributable to noncontrolling interest	20	(40)
Comprehensive income attributable to SYNNEX Corporation	$30,406	$36,341

The accompanying Notes are an integral part of these Consolidated Financial Statements (unaudited).

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SYNNEX CORPORATION
CONSOLIDATED STATEMENTS OF CASH FLOWS
(currency in thousands)
(unaudited)

	Three Months Ended February 28, 2015	February 28, 2014
Cash flows from operating activities:		
Net income	$46,302	$38,458
Adjustments to reconcile net income to net cash provided by (used in) operating activities:		
Depreciation expense	11,171	5,657
Amortization of intangible assets	14,593	5,697
Share-based compensation	3,656	2,584
Provision for doubtful accounts	2,462	1,838
Tax benefits from employee stock plans	1,670	1,397
Excess tax benefit from share-based compensation	(1,670)	(1,333)
Deferred income taxes	(955)	(400)
(Gains) losses on investments	(59)	229
Changes in assets and liabilities, net of acquisition of business:		
Accounts receivable	478,848	52,032
Receivable from related parties	219	(635)
Inventories	76,550	(136,894)
Other assets	(28,552)	(16,127)
Accounts payable	(365,878)	(30,713)
Payable to related parties	(2,507)	6,040
Accrued liabilities	(36,212)	39,782
Deferred liabilities	8,537	(2,630)
Net cash provided by (used in) operating activities	208,175	(35,018)
Cash flows from investing activities:		
Purchases of trading investments	(55)	(272)
Proceeds from sale of trading investments	57	1,334
Purchases of held-to-maturity investments	(731)	—
Acquisition of businesses, net of cash acquired	33,044	(390,433)
Purchases of property and equipment	(22,400)	(4,293)
Repayments of loans and deposits to third parties	291	831
Changes in restricted cash	(3,289)	4,097
Net cash provided by (used in) investing activities	6,917	(388,736)
Cash flows from financing activities:		
Proceeds from securitization and revolving line of credit	1,061,799	1,126,008
Payments of securitization and revolving line of credit	(1,195,517)	(907,044)
Proceeds from term loans	—	225,000
Payments of term loans and capital leases	(3,007)	(260)
Dividends paid	(4,869)	—
Excess tax benefit from share-based compensation	1,670	1,333
Decrease in book overdraft	(79,540)	(28,776)
Payments of acquisition-related contingent consideration	(170)	(400)
Proceeds from issuance of common stock, net of taxes paid for settlement of equity awards	(13)	2,705
Net cash provided by (used in) financing activities	(219,647)	418,566

Effect of exchange rate changes on cash and cash equivalents	(5,817)	1,969
Net decrease in cash and cash equivalents	(10,372)	(3,219)
Cash and cash equivalents at beginning of period	180,143	151,622
Cash and cash equivalents at end of period	$169,771	$148,403
Supplemental disclosure of non-cash investing activities		
Fair value of common stock issued for acquisition of business	$—	$71,106
Accrued costs for property and equipment purchases	$999	$631

The accompanying Notes are an integral part of these Consolidated Financial Statements (unaudited).

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SYNNEX CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
For the three ended February 28, 2015 and 2014
(currency and share amounts in thousands, except per share amounts)
(unaudited)

NOTE 1—ORGANIZATION AND BASIS OF PRESENTATION:
SYNNEX Corporation (together with its subsidiaries, herein referred to as “SYNNEX” or the “Company”) is a business process services company, optimizing supply chains and providing outsourcing services focused on customer relationship management (“BPO CRM”). SYNNEX is headquartered in Fremont, California and has operations in North America, South America, Asia, Australia and Europe.
The Company operates in two segments: Technology Solutions and Concentrix. The Technology Solutions segment distributes a broad range of information technology (“IT”) systems and products, and also provides systems design and integration solutions. The Concentrix segment offers a portfolio of strategic solutions and end-to-end business services focused on customer engagement strategy, process optimization, technology innovation, front and back-office automation and business transformation to clients in ten identified industry verticals.
The accompanying interim unaudited Consolidated Financial Statements as of February 28, 2015 and for the three months ended February 28, 2015 and 2014 have been prepared by the Company in accordance with the rules and regulations of the Securities and Exchange Commission (“SEC”). The amounts as of November 30, 2014 have been derived from the Company’s annual audited financial statements. Certain information and footnote disclosures normally included in financial statements prepared in accordance with generally accepted accounting principles (“GAAP”) in the United States have been condensed or omitted in accordance with such rules and regulations. In the opinion of management, the accompanying unaudited Consolidated Financial Statements reflect all adjustments, consisting only of normal recurring adjustments, necessary to state fairly the financial position of the Company and its results of operations and cash flows as of and for the periods presented. These financial statements should be read in conjunction with the annual audited financial statements and notes thereto included in the Company’s Annual Report on Form 10-K for the fiscal year ended November 30, 2014.
The results of operations for the three months ended February 28, 2015 are not necessarily indicative of the results that may be expected for the fiscal year ending November 30, 2015, or any future period and the Company makes no representations related thereto.

NOTE 2—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:
The Company’s significant accounting policies are disclosed in the Company’s Annual Report on Form 10-K for the fiscal year ended November 30, 2014. There have been no material changes to these accounting policies. For a discussion of the significant accounting policies, please see the discussion in the Company's Annual Report on Form 10-K for the fiscal year ended November 30, 2014.
Concentration of credit risk
Financial instruments that potentially subject the Company to significant concentration of credit risk consist principally of cash and cash equivalents and accounts receivable.
The Company’s cash and cash equivalents are maintained with high quality institutions, the compositions and maturities of which are regularly monitored by management. Through February 28, 2015, the Company had not experienced any losses on such deposits.
Accounts receivable include amounts due from customers and original equipment manufacturer (“OEM”) vendors primarily in the technology industry. The Company performs ongoing credit evaluations of its customers’ financial condition and limits the amount of credit extended when deemed necessary, but generally requires no collateral. The Company also maintains allowances for potential credit losses. In estimating the required allowances, the Company takes into consideration the overall quality and aging of the receivable portfolio, the existence of a limited amount of credit insurance and specifically identified customer and vendor risks. Through February 28, 2015, such losses have

been within management’s expectations.

In both the three months ended February 28, 2015 and 2014, no customer accounted for 10% or more of the Company's total revenue. Products purchased from the Company’s largest OEM supplier, Hewlett-Packard Company (“HP”), accounted for approximately 24% and 28% of total revenue for the three months ended February 28, 2015 and 2014, respectively.

As of February 28, 2015 and November 30, 2014, one customer consisted of 15% and 16% of the total consolidated accounts receivable balance, respectively.

Inventories

Inventories are comprised of finished goods and work-in-process. Finished goods include products purchased for resale, system components purchased for both resale and for use in the Company's systems design and integration business, and completed systems. Work-in-process inventories are not material to the Consolidated Financial Statements.

Reclassifications

Certain reclassifications have been made to prior period amounts in the Consolidated Balance Sheets and the Consolidated Statements of Cash Flows to conform to current period presentation. Such reclassifications have no effect on the cash flows from operating, investing and financing activities as previously reported.

Recently issued accounting pronouncements

In January 2015, the Financial Accounting Standard Board ("FASB") issued a new accounting standard, which eliminates from U.S. GAAP the concept of extraordinary items. The guidance eliminates the separate presentation of extraordinary items on the income statement, net of tax and the related earnings per share, but does not affect the requirement to disclose material items that are unusual in nature or occurring infrequently. The new standard may be applied prospectively or retrospectively and is effective for annual reporting periods beginning after December 15, 2015 and interim periods within those annual periods, with early adoption permitted. The Company does not expect the adoption of this standard to have an impact on the Company's Consolidated Financial Statements.

In May 2014, the FASB issued a comprehensive new revenue recognition standard for contracts with customers that will supersede most current revenue recognition guidance, including industry-specific guidance. The core principle of this standard is that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. To achieve this core principle, the standard provides a five-step analysis of transactions to determine when and how revenue is recognized. Other major provisions include the capitalization and amortization of certain contract costs, ensuring the time value of money is considered in the transaction price, and allowing estimates of variable consideration to be recognized before contingencies are resolved in certain circumstances. This guidance also requires enhanced disclosures regarding the nature, amount, timing and uncertainty of revenue and cash flows arising from an entity's contracts with customers. The new standard is effective for fiscal years, and interim periods within those years, beginning after December 15, 2016. Early application is prohibited. The standard permits the use of either the retrospective or cumulative effect transition method. This guidance will be applicable to the Company at the beginning of its first quarter of fiscal year 2018. The Company is currently evaluating the impact on its consolidated financial statements upon the adoption of this new standard.

Recently adopted accounting pronouncements

In July 2013, the FASB issued a new accounting standard that requires the presentation of certain unrecognized tax benefits as reductions to deferred tax assets rather than as liabilities in the Consolidated Balance Sheets when a net operating loss carryforward, a similar tax loss, or a tax credit carryforward exists. The new accounting update was adopted by the Company in the first quarter of fiscal 2015. The adoption of this new standard did not have a material impact on the Company's Consolidated Financial Statements.

NOTE 3—ACQUISITIONS:

Fiscal year 2014 acquisition

In fiscal year 2014, the Company acquired the assets of the customer relationship management business of International Business Machines Corporation, a New York corporation ("IBM"). The transaction was completed in phases with the initial closing completed on January 31, 2014, the second phase closing completed on April 30, 2014 and the final closing completed on September 30, 2014. The preliminary aggregate purchase price was $418,315 as of November 30, 2014, subject to certain post-closing adjustments. As of November 30, 2014, the Company was obligated to pay an amount of $40,000 in cash and had a

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receivable of $85,126 from IBM related to working capital adjustments and other post-closing adjustments recognized in accordance with the agreement.

During the three months ended February 28, 2015, the Company recorded adjustments of $1,861 to the fair value of acquired net tangible assets and other post-closing adjustments increasing the purchase price by $7,375 with a net increase in goodwill of $5,514 and closed the measurement period in relation to the initial closing completed on January 31, 2014. The preliminary aggregated purchase price was $425,690 as of February 28, 2015. During the period, IBM paid $33,044 of the receivable due from them. As of February 28, 2015, the Company was obligated to pay $40,000 in cash and had a receivable of $44,707 from IBM.

NOTE 4—SHARE-BASED COMPENSATION:
The Company recognizes share-based compensation expense for all share-based awards made to employees and directors, including employee stock options, restricted stock awards, restricted stock units and employee stock purchases, based on estimated fair values.
The following table summarizes the number of share-based awards granted under the Company's 2013 Stock Incentive Plan, as amended, during the three months ended February 28, 2015 and 2014, respectively, and the grant-date fair value of the awards:

	Three Months Ended			
	February 28, 2015		February 28, 2014	
	Shares awarded	Fair value of grants	Shares awarded	Fair value of grants
Restricted stock awards	3	$215	80	$4,544
Restricted stock units	49	3,799	46	2,704
	52	$4,014	126	$7,248

The Company recorded share-based compensation expense in the consolidated statement of operations for the three months ended February 28, 2015 and 2014 as follows:

	Three Months Ended	
	February 28, 2015	February 28, 2014
Cost of revenue	$204	$—
Selling, general and administrative expenses	3,452	2,584
Total share-based compensation	3,656	2,584
Tax effect on share-based compensation	(1,323)	(939)
Net effect on net income	$2,333	$1,645

NOTE 5—BALANCE SHEET COMPONENTS:

	As of	
	February 28, 2015	November 30, 2014
Short-term investments:		
Trading securities	$2,037	$1,987
Held-to-maturity securities	5,747	5,141
	$7,784	$7,128

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For the three months ended February 28, 2015 and 2014
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	As of February 28, 2015	November 30, 2014
Accounts receivable, net:		
Accounts receivable	$1,649,777	$2,163,690
Less: Allowance for doubtful accounts	(16,473)	(16,870)
Less: Allowance for sales returns	(42,567)	(55,309)
	$1,590,737	$2,091,511

	As of February 28, 2015	November 30, 2014
Property and equipment, net:		
Land	$21,935	$38,882
Equipment and computers	235,789	126,736
Furniture and fixtures	44,382	39,512
Buildings, building improvements and leasehold improvements	180,162	147,607
Construction-in-progress	18,004	12,783
Total property and equipment, gross	500,272	365,520
Less: Accumulated depreciation	(287,336)	(164,717)
	$212,936	$200,803

Goodwill:

	Technology Solutions	Concentrix	Total
Balance as of November 30, 2014	$102,911	$211,302	$314,213
Additions from acquisitions, net of adjustments	—	5,514	5,514
Foreign exchange translation	(4,010)	100	(3,910)
Balance as of February 28, 2015	$98,901	$216,916	$315,817

Intangible assets, net	As of February 28, 2015			As of November 30, 2014		
	Gross Amounts	Accumulated Amortization	Net Amounts	Gross Amounts	Accumulated Amortization	Net Amounts
Customer relationships and lists	$296,403	$(96,194)	$200,209	$299,439	$(83,316)	$216,123
Vendor lists	36,815	(32,102)	4,713	36,815	(31,717)	5,098
Technology	3,915	(678)	3,237	2,518	(553)	1,965
Other intangible assets	9,777	(5,403)	4,374	11,847	(5,349)	6,498
	$346,910	$(134,377)	$212,533	$350,619	$(120,935)	$229,684

Amortization expense was $14,593 and $5,697 for the three months ended February 28, 2015 and 2014, respectively. Estimated future amortization expense of the Company's intangible assets is as follows:

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Fiscal Years Ending November 30,	
2015 (remaining nine months)	$38,523
2016	50,087
2017	38,372
2018	29,061
2019	18,128
thereafter	38,362
Total	$212,533

	As of February 28, 2015	November 30, 2014
Accrued liabilities:		
Accrued compensation and benefit	$88,566	$125,733
Deferred compensation liability	2,872	2,791
Sales tax/Value-added-tax accrual	34,005	31,763
Vendor and other claims payable	65,640	54,434
Accrued customer rebate	22,080	23,702
Deferred revenue	23,938	12,064
Business acquisition holdback payable	40,000	40,000
Warranty accrual	3,587	4,796
Other accrued liabilities	93,256	96,325
Total	$373,944	$391,608

Other accrued liabilities include accrued expenses, customer credit balances, various third-party liabilities and current deferred tax liabilities.

Accumulated other comprehensive income

The components of accumulated other comprehensive income (loss), net of tax, excluding noncontrolling interests were as follows:

	Unrealized gains on available-for-sale securities, net of taxes	Unrecognized defined benefit plan costs, net of taxes	Foreign currency translation adjustment, net of taxes	Total
Balance as of November 30, 2014	$821	$319	$(7,768)	$(6,628)
Other comprehensive income (loss)	221	—	(16,138)	(15,917)
Balance as of February 28, 2015	$1,042	$319	$(23,906)	$(22,545)

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SYNNEX CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS---(continued)
For the three months ended February 28, 2015 and 2014
(currency and share amounts in thousands, except per share amounts)
(unaudited)

NOTE 6—INVESTMENTS:

The carrying amount of the Company’s investments is shown in the table below:

	As of February 28, 2015			November 30, 2014		
	Cost Basis	Unrealized Gains	Carrying Value	Cost Basis	Unrealized Gains	Carrying Value
Short-term investments:						
Trading securities	$1,607	$430	$2,037	$1,614	$373	$1,987
Held-to-maturity investments	5,747	—	5,747	5,141	—	5,141
	$7,354	$430	$7,784	$6,755	$373	$7,128
Long-term investments in other assets:						
Available-for-sale securities	$842	$1,234	$2,076	$843	$897	$1,740
Cost-method investments	$4,560	$—	$4,560	$4,578	$—	$4,578

Short-term trading securities generally consist of equity securities relating to the Company’s deferred compensation plan. Held-to-maturity investments primarily consist of term deposits with maturities from the date of purchase greater than three months and less than one year. These term deposits are held until the maturity date and are not traded. Long-term available-for-sale securities primarily consist of investments in other companies’ equity securities. Long-term cost-method investments consist of investments in equity securities of private entities.

Trading securities and available-for-sale securities are recorded at fair value in each reporting period and therefore the carrying value of these securities equals their fair value. For cost-method securities, the Company records an impairment charge when the decline in fair value is determined to be other-than-temporary. The fair value of cost-method investments is based on an internal valuation of the investees.

The following table summarizes the total gains recorded in “Other income, net” in the Consolidated Statements of Operations for changes in the fair value of the Company's trading investments:

	Three Months Ended	
	February 28, 2015	February 28, 2014
Gains on trading investments	$59	$59

NOTE 7—DERIVATIVE INSTRUMENTS:

In the ordinary course of business, the Company is exposed to foreign currency risk, interest rate risk, equity risk and credit risk. The Company’s transactions in most of its foreign operations are primarily denominated in local currency. The Company enters into transactions, and owns monetary assets and liabilities, that are denominated in currencies other than the legal entity's functional currency.

As part of its risk management strategy, the Company uses short-term forward contracts to minimize its balance sheet exposure to foreign currency risk. These forward-exchange contracts are not designated as hedging instruments. The forward exchange contracts are recorded at fair value in each reporting period and any gains or losses, resulting from the changes in fair value, are recorded in earnings in the period of change.

Generally, the Company does not use derivative instruments to cover equity risk and credit risk. The Company’s policy is not to allow the use of derivatives for trading or speculative purposes. The fair value of the Company’s forward exchange contracts are also disclosed in Note 8.

SYNNEX CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS---(continued)
For the three months ended February 28, 2015 and 2014
(currency and share amounts in thousands, except per share amounts)
(unaudited)

The following table summarizes the fair value of the Company's foreign exchange forward contracts as of February 28, 2015 and November 30, 2014:

Balance Sheet Line Item	Fair Value as of February 28, 2015	November 30, 2014
Other current assets	$1,750	$4,532
Accrued liabilities	462	145

The notional amounts of the foreign exchange forward contracts that were outstanding as of February 28, 2015 and November 30, 2014 were $206,170 and $316,365, respectively. The notional amounts represent the gross amounts of foreign currency, including British Pound, Mexican Peso, Brazilian Real, Australian Dollar, Japanese Yen, Philippine Peso, Euro and Canadian Dollar, that will be bought or sold at maturity. The contracts mature in six months or less. In relation to its forward contracts not designated as hedging instruments, the Company recorded gains of $11,580 and $3,969 in "Other income, net" during the three months ended February 28, 2015 and 2014, respectively. The gains and losses on the Company's foreign currency forward contracts are largely offset by the change in the fair value of the underlying hedged assets or liabilities.

NOTE 8—FAIR VALUE MEASUREMENTS:

The Company's fair value measurements are classified and disclosed in one of the following three categories:

Level 1: Unadjusted quoted prices in active markets that are accessible at the measurement date for identical, unrestricted assets or liabilities;

Level 2: Quoted prices in markets that are not active, or inputs which are observable, either directly or indirectly, for substantially the full term of the asset or liability;

Level 3: Prices or valuation techniques that require inputs that are both significant to the fair value measurement and unobservable (i.e., supported by little or no market activity).

The following table summarizes the valuation of the Company's investments and financial instruments that are measured at fair value on a recurring basis:

	As of February 28, 2015				As of November 30, 2014			
	Total	Fair value measurement category			Total	Fair value measurement category		
		Level 1	Level 2	Level 3		Level 1	Level 2	Level 3
Assets:								
Cash equivalents	$24,144	$24,144	$—	$—	$29,823	$29,823	$—	$—
Restricted cash	37,654	37,654	—	—	34,269	34,269	—	—
Trading securities	2,037	2,037	—	—	1,987	1,987	—	—
Available-for-sale securities	2,076	2,076	—	—	1,740	1,740	—	—
Forward foreign currency exchange contracts	1,750	—	1,750	—	4,532	—	4,532	—
Liabilities:								
Forward foreign currency exchange contracts	$462	$—	$462	$—	$145	$—	$145	$—
Acquisition-related contingent consideration	433	—	—	433	867	—	—	867

The Company's cash equivalents consist primarily of highly liquid investments in money market funds and term deposits with maturity periods of three months or less. Restricted cash relates primarily to temporary restrictions caused by the timing of lockbox collections under the Company's borrowing arrangements and the timing of payments under vendor agreements. The carrying values of the cash equivalents approximate fair value since they are near their maturity. Investments in trading and available-for-sale securities consist of equity securities and are recorded at fair value based on quoted market prices. The fair values of forward exchange contracts are measured based on the foreign currency spot and forward rates quoted by the banks or foreign currency dealers.

The acquisition-related contingent consideration liability represents the future potential earn-out payments relating to an acquisition. The fair value of the contingent consideration liability is based on the Company's probability assessment of the established profitability measures during the earn-out period ranging from one year to three years from the date of the acquisition.

The carrying values of held-to-maturity securities, accounts receivable, accounts payable and short-term debt approximate fair value due to their short maturities and interest rates which are variable in nature. The carrying value of the Company's term loans approximate their fair value since they bear interest rates that are similar to existing market rates.

During the three months ended February 28, 2015, there were no transfers between the fair value measurement category levels.

NOTE 9—ACCOUNTS RECEIVABLE ARRANGEMENTS:

The Company primarily finances its United States operations with an accounts receivable securitization program (the "U.S. Arrangement"). The U.S. Arrangement has a maturity date of November 4, 2016. The Company's subsidiary, which is the borrower under the U.S. Arrangement, can borrow up to a maximum of $600,000 based upon eligible trade accounts receivable generated by our parent company and one of its United States subsidiaries. The U.S. Arrangement includes an accordion feature to allow requests for an increase in the lenders' commitment by an additional $100,000. The effective borrowing cost under the U.S. Arrangement is a blended rate that includes prevailing dealer commercial paper rates and the daily London Interbank Offered Rate ("LIBOR"), plus a program fee of 0.375% per annum based on the used portion of the commitment, and a facility fee of 0.40% per annum payable on the aggregate commitment of the lenders. As of February 28, 2015 and November 30, 2014, there were $455,200 and $578,000, respectively, of borrowings outstanding under the U.S. Arrangement.

Under the terms of the U.S. Arrangement, the Company and one of the Company's United States subsidiaries sell, on a revolving basis, their receivables to a wholly-owned, bankruptcy-remote subsidiary. The borrowings are funded by pledging all of the rights, title and interest in and to the receivables acquired by the Company's subsidiary as security. Any borrowings under the U.S. Arrangement are recorded as debt on the Company's Consolidated Balance Sheets. As is customary in trade accounts receivable securitization arrangements, a credit rating agency's downgrade of the third party issuer of commercial paper or of a back-up liquidity provider (which provides a source of funding if the commercial paper market cannot be accessed) could result in an increase in the Company's cost of borrowing or loss of the Company's financing capacity under these programs if the commercial paper issuer or liquidity back-up provider is not replaced, or if the lender whose commercial paper issuer or liquidity back-up provider is not replaced does not elect to offer the Company an alternative rate. Loss of such financing capacity could have a material adverse effect on the Company's financial condition and results of operations.

The Company also has other financing agreements in North America with various financial institutions ("Flooring Companies") to allow certain customers of the Company to finance their purchases directly with the Flooring Companies. Under these agreements, the Flooring Companies pay to the Company the selling price of products sold to various customers, less a discount, within approximately 15 to 30 days from the date of sale. The Company is contingently liable to repurchase inventory sold under flooring agreements in the event of any default by its customers under the agreement and such inventory being repossessed by the Flooring Companies. Please see Note 16—Commitments and Contingencies for further information.

The following table summarizes the net sales financed through the flooring agreements and the flooring fees incurred:

	Three Months Ended	
	February 28, 2015	February 28, 2014
Net sales financed	$315,785	$281,990
Flooring fees[(1)]	2,076	1,569

(1) Flooring fees are included within "Interest expense and finance charges, net."

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SYNNEX CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS---(continued)
For the three months ended February 28, 2015 and 2014
(currency and share amounts in thousands, except per share amounts)
(unaudited)

As of February 28, 2015 and November 30, 2014, accounts receivable subject to flooring agreements were $53,900 and $93,546, respectively.
SYNNEX Infotec, the Company's Japan technology solutions subsidiary, has arrangements with various banks and financial institutions for the sale and financing of approved accounts receivable and notes receivable. The amounts outstanding under these arrangements that were sold, but not collected, as of February 28, 2015 and November 30, 2014 were $5,411 and $6,199, respectively.

NOTE 10—BORROWINGS:
Borrowings consist of the following:

	As of February 28, 2015	November 30, 2014
SYNNEX U.S. securitization (See Note 9 - Accounts Receivable Arrangements)	$455,200	$578,000
SYNNEX U.S. credit agreement	256,563	279,375
SYNNEX Canada term loan and revolver	28,786	36,956
SYNNEX Infotec credit facility	67,703	53,954
Other borrowings and capital leases	31,645	32,218
Total borrowings	839,897	980,503
Less: Current portion	(579,579)	(716,257)
Non-current portion		