

SCANSOURCE INC
Form 10-Q
May 07, 2014

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

Quarterly Report Pursuant to Section 13 or 15 (d) of the Securities Exchange Act of 1934 for the
Quarterly period ended March 31, 2014

Commission File Number: 000-26926

ScanSource, Inc.

(Exact name of registrant as specified in its charter)

SOUTH CAROLINA

57-0965380

(State or other jurisdiction of
incorporation or organization)

(I.R.S. Employer
Identification No.)

6 Logue Court

Greenville, South Carolina, 29615

(Address of principal executive offices)

(864) 288-2432

(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 No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate website, 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 to such files. Yes No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, 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.

Large accelerated filer Accelerated filer
Non-accelerated filer (Do not check if a smaller reporting company) 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

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

Class

Outstanding at May 5, 2014

Common Stock, no par value per share

28,518,432 shares

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FORWARD-LOOKING STATEMENTS

The forward-looking statements included in the "Management's Discussion and Analysis of Financial Condition and Results of Operations" and "Quantitative and Qualitative Disclosures About Market Risk" and "Risk Factors" sections and elsewhere herein, which reflect our best judgment based on factors currently known, involve risks and uncertainties. Words such as "expects," "anticipates," "believes," "intends," "plans," "hopes," "forecasts" and variations of such words and similar expressions are intended to identify such forward-looking statements. Except as may be required by law, we expressly disclaim any obligation to update these forward-looking statements to reflect events or circumstances after the date of this Quarterly Report on Form 10-Q or to reflect the occurrence of unanticipated events. Actual results could differ materially from those anticipated in these forward-looking statements as a result of a number of factors including, but not limited to, the factors discussed in such sections and, in particular, those set forth in the cautionary statements included in "Risk Factors" contained in our Annual Report on Form 10-K for the year ended June 30, 2013. The forward-looking information we have provided in this Quarterly Report on Form 10-Q pursuant to the safe harbor established under the Private Securities Litigation Reform Act of 1995, should be evaluated in the context of these factors.

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PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

SCANSOURCE, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED BALANCE SHEETS (UNAUDITED)

(In thousands, except share information)

	March 31, 2014	June 30, 2013
Assets		
Current assets:		
Cash and cash equivalents	\$ 183,562	\$ 148,164
Accounts receivable, less allowance of \$26,825 at March 31, 2014 and \$25,479 at June 30, 2013	419,889	435,028
Inventories	479,871	402,307
Prepaid expenses and other current assets	41,947	40,105
Deferred income taxes	15,876	16,456
Total current assets	1,141,145	1,042,060
Property and equipment, net	25,674	20,203
Goodwill	32,143	31,795
Other non-current assets, including net identifiable intangible assets	53,412	70,125
Total assets	\$ 1,252,374	\$ 1,164,183
Liabilities and Shareholders' Equity		
Current liabilities:		
Accounts payable	\$ 375,892	\$ 362,271
Accrued expenses and other current liabilities	62,756	59,983
Current portion of contingent consideration	5,718	3,732
Income taxes payable	2,289	1,696
Total current liabilities	446,655	427,682
Deferred income taxes	192	205
Long-term debt	5,429	5,429
Long-term portion of contingent consideration	5,018	8,813
Other long-term liabilities	22,294	26,098
Total liabilities	479,588	468,227
Commitments and contingencies		
Shareholders' equity:		
Preferred stock, no par value; 3,000,000 shares authorized, none issued	—	—
Common stock, no par value; 45,000,000 shares authorized, 28,513,120 and 27,971,809 shares issued and outstanding at March 31, 2014 and June 30, 2013, respectively	166,509	149,821
Retained earnings	623,791	569,107
Accumulated other comprehensive income (loss)	(17,514) (22,972)
Total shareholders' equity	772,786	695,956
Total liabilities and shareholders' equity	\$ 1,252,374	\$ 1,164,183
June 30, 2013 amounts are derived from audited consolidated financial statements.		

See accompanying notes to these condensed consolidated financial statements.

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SCANSOURCE, INC. AND SUBSIDIARIES
 CONDENSED CONSOLIDATED INCOME STATEMENTS (UNAUDITED)
 (In thousands, except per share data)

	Quarter ended		Nine months ended	
	March 31,		March 31,	
	2014	2013	2014	2013
Net sales	\$682,998	\$682,965	\$2,155,520	\$2,164,286
Cost of goods sold	609,647	614,133	1,928,414	1,947,063
Gross profit	73,351	68,832	227,106	217,223
Selling, general and administrative expenses	46,705	47,937	143,541	144,392
Change in fair value of contingent consideration	981	100	2,218	1,396
Operating income	25,665	20,795	81,347	71,435
Interest expense	217	102	698	356
Interest income	(545) (483) (1,644) (1,648
Other (income) expense, net	13	(4) 65	34
Income before income taxes	25,980	21,180	82,228	72,693
Provision for income taxes	9,031	7,202	27,544	24,716
Net income	\$16,949	\$13,978	\$54,684	\$47,977
Per share data:				
Weighted-average shares outstanding, basic	28,502	27,847	28,275	27,725
Net income per common share, basic	\$0.59	\$0.50	\$1.93	\$1.73
Weighted-average shares outstanding, diluted	28,730	28,024	28,548	27,960
Net income per common share, diluted	\$0.59	\$0.50	\$1.92	\$1.72

See accompanying notes to these condensed consolidated financial statements.

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SCANSOURCE, INC. AND SUBSIDIARIES
 CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (UNAUDITED)
 (In thousands)

	Quarter ended		Nine months ended	
	March 31,		March 31,	
	2014	2013	2014	2013
Net income	\$ 16,949	\$ 13,978	\$ 54,684	\$ 47,977
Foreign currency translation adjustment	1,562	(3,107) 5,458	2,206
Comprehensive income	\$ 18,511	\$ 10,871	\$ 60,142	\$ 50,183

See accompanying notes to these condensed consolidated financial statements.

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SCANSOURCE, INC. AND SUBSIDIARIES
 CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED)
 (In thousands)

	Nine months ended March 31,	
	2014	2013
Cash flows from operating activities:		
Net income	\$54,684	\$47,977
Adjustments to reconcile net income to net cash provided by (used in) operating activities:		
Depreciation and amortization	5,391	6,604
Amortization of debt issuance costs	238	259
Provision for doubtful accounts	5,469	8,312
Share-based compensation and restricted stock	3,807	4,565
Deferred income taxes	10,981	(4,028)
Excess tax benefits from share-based payment arrangements	(982)	(849)
Change in fair value of contingent consideration	2,218	1,396
Changes in operating assets and liabilities, net of acquisitions:		
Accounts receivable	13,340	32,061
Inventories	(74,461)	72,170
Prepaid expenses and other assets	(2,924)	(303)
Other non-current assets	3,790	3,658
Accounts payable	12,404	(94,951)
Accrued expenses and other liabilities	(2,817)	(2,696)
Income taxes payable	1,532	1,831
Net cash provided by (used in) operating activities	32,670	76,006
Cash flows from investing activities:		
Capital expenditures	(6,785)	(4,463)
Net cash provided by (used in) investing activities	(6,785)	(4,463)
Cash flows from financing activities:		
Borrowings (repayments) on short-term borrowings, net	—	(4,459)
Borrowings on revolving credit	—	515,262
Repayments on revolving credit	—	(515,877)
Debt issuance costs	(468)	—
Contingent consideration payments	(3,793)	(4,777)
Exercise of stock options	12,152	2,231
Excess tax benefits from share-based payment arrangements	982	849
Net cash provided by (used in) financing activities	8,873	(6,771)
Effect of exchange rate changes on cash and cash equivalents	640	(40)
Increase (decrease) in cash and cash equivalents	35,398	64,732
Cash and cash equivalents at beginning of period	148,164	29,173
Cash and cash equivalents at end of period	\$183,562	\$93,905
See accompanying notes to these condensed consolidated financial statements.		

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SCANSOURCE, INC. AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(UNAUDITED)

(1) Business and Summary of Significant Accounting Policies

Business Description

ScanSource, Inc. is a leading international wholesale distributor of specialty technology products. ScanSource, Inc. and its subsidiaries ("the Company") provide value-added distribution services for technology manufacturers and sell to resellers in the following specialty technology markets: POS Barcode and Security through its Worldwide Barcode & Security segment and Communications through its Worldwide Communications & Services segment.

The Company operates in the United States, Canada, Latin America and Europe and uses centralized distribution centers for major geographic regions. The Company distributes to the United States and Canada from its Southaven, Mississippi distribution center; to Latin America principally from distribution centers located in Florida, Mexico and Brazil; and to Europe from its distribution center in Belgium.

Basis of Presentation

The accompanying unaudited condensed consolidated financial statements of ScanSource, Inc. have been prepared by the Company's management in accordance with United States generally accepted accounting principles ("US GAAP") for interim financial information and applicable rules and regulations of the Securities Exchange Act of 1934, as amended. Accordingly, they do not include all of the information and footnotes required by US GAAP for annual financial statements. The unaudited condensed consolidated financial statements included herein contain all adjustments (consisting of normal recurring and non-recurring adjustments) which are, in the opinion of management, necessary to present fairly the financial position as of March 31, 2014 and June 30, 2013, the results of operations for the quarters and nine months ended March 31, 2014 and 2013, the statements of comprehensive income for the quarters and nine months ended March 31, 2014 and 2013 and the statements of cash flows for the nine months ended March 31, 2014 and 2013. The results of operations for the quarters and nine months ended March 31, 2014 and 2013 are not necessarily indicative of the results to be expected for a full year. These financial statements should be read in conjunction with the audited consolidated financial statements and notes thereto included in the Company's Annual Report on Form 10-K for the fiscal year ended June 30, 2013.

Reclassifications

Certain prior year amounts have been reclassified to conform to the current year presentation in the accompanying Condensed Consolidated Statements of Cash Flows. Such reclassifications have no effect on the cash flow from operating, investing and financing activities as previously reported.

Summary of Significant Accounting Policies

Except as described below, there have been no material changes to the Company's significant accounting policies for the quarter and nine months ended March 31, 2014 from the information included in the notes to the Company's consolidated financial statements included in the Annual Report on Form 10-K for the fiscal year ended June 30, 2013. For a discussion of the Company's significant accounting policies, please see the Company's Annual Report on Form 10-K for the fiscal year ended June 30, 2013.

During the third quarter of fiscal 2014, the Company changed its annual goodwill impairment testing date from June 30 to April 30. This voluntary change is considered preferable as it better aligns the timing of the impairment test with management's financial planning and budgeting process, and ensures the completion of the test prior to the end of the

annual reporting period. This change does not accelerate, delay or avoid a potential impairment charge. The Company will complete its annual goodwill impairment test during the fourth quarter of fiscal 2014.

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Cash and Cash Equivalents

The Company considers all highly liquid investments with original maturities of three months or less to be cash equivalents. The Company maintains some zero-balance, disbursement accounts at various financial institutions in which the Company does not maintain significant depository relationships. Due to the nature of the Company's banking relationships with these institutions, the Company does not have the right to offset most if not all outstanding checks written from these accounts against cash on hand, and the respective institutions are not legally obligated to honor the checks until sufficient funds are transferred to fund the checks. Checks released but not yet cleared from these accounts in the amounts of \$53.2 million and \$65.9 million are included in accounts payable as of March 31, 2014 and June 30, 2013, respectively.

Recent Accounting Pronouncements

There are currently no new accounting pronouncements that are expected to have a significant impact on the Company's financial position, results of operations and cash flows.

(2) Earnings Per Share

Basic earnings per share are computed by dividing net income by the weighted-average number of common shares outstanding. Diluted earnings per share are computed by dividing net income by the weighted-average number of common and potential common shares outstanding.

	Quarter ended March 31,		Nine months ended March 31,	
	2014	2013	2014	2013
	(in thousands, except per share data)			
Numerator:				
Net Income	\$ 16,949	\$ 13,978	\$ 54,684	\$ 47,977
Denominator:				
Weighted-average shares, basic	28,502	27,847	28,275	27,725
Dilutive effect of share-based payments	228	177	273	235
Weighted-average shares, diluted	28,730	28,024	28,548	27,960
Net income per common share, basic	\$0.59	\$0.50	\$1.93	\$1.73
Net income per common share, diluted	\$			