

SCANSOURCE INC  
Form 10-Q  
May 09, 2008  
Table of Contents

**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, 2008**

Commission File Number: 000-26926

***ScanSource, Inc.***

(Exact name of registrant as specified in its charter)

**SOUTH CAROLINA**  
(State or other jurisdiction of  
incorporation or organization)

**57-0965380**  
(I.R.S. Employer  
Identification No.)

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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 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. (Check one):

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 7, 2008
Common Stock, no par value per share	26,274,932 shares

**Table of Contents**

**SCANSOURCE, INC.**

**INDEX TO FORM 10-Q**

**March 31, 2008**

	<b>Page #</b>
<b><u>PART I. FINANCIAL INFORMATION</u></b>	
Item 1. <u>Financial Statements</u>	3
<u>Condensed Consolidated Balance Sheets as of March 31, 2008 and June 30, 2007</u>	3
<u>Condensed Consolidated Income Statements for the Quarters and Nine Months Ended March 31, 2008 and 2007</u>	4
<u>Condensed Consolidated Statements of Shareholders' Equity for the Nine Months ended March 31, 2008</u>	5
<u>Condensed Consolidated Statements of Cash Flows for the Nine Months Ended March 31, 2008 and 2007</u>	6
<u>Notes to Condensed Consolidated Financial Statements</u>	7
Item 2. <u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	18
Item 3. <u>Quantitative and Qualitative Disclosures About Market Risk</u>	25
Item 4. <u>Controls and Procedures</u>	26
<b><u>PART II. OTHER INFORMATION</u></b>	
Item 1. <u>Legal Proceedings</u>	27
Item 1A. <u>Risk Factors</u>	27
Item 6. <u>Exhibits</u>	28
<b><u>SIGNATURES</u></b>	<b>29</b>

*Cautionary Statement*

Certain of the statements contained in this Form 10-Q, as well as in the Company's other filings with the Securities and Exchange Commission (SEC), that are not historical facts are forward-looking statements subject to the safe harbor created by the Private Securities Litigation Reform Act of 1995. The Company cautions readers of this report that a number of important factors could cause the Company's activities and/or actual results in fiscal 2008 and beyond to differ materially from those expressed in any such forward-looking statements. These factors include:

- fluctuations in interest rates
- the impact of changes in income tax legislation
- exposure to natural disasters

and other factors described herein and in other reports and documents filed by the Company with the SEC, including Item 1A, Risk Factors, of the Company's Annual Report on Form 10-K for the fiscal year ended June 30, 2007.

Additional discussion of these and other factors affecting our business and prospects is contained in our periodic filings with the SEC, copies of which can be obtained at the Investor Relations section of our website at [www.scansourceinc.com](http://www.scansourceinc.com). We provide our annual and quarterly reports free of charge on [www.scansourceinc.com](http://www.scansourceinc.com), as soon as reasonably practicable after they are electronically filed with, or furnished to, the SEC. We provide a link to all SEC filings where our periodic reports and current reports on Form 8-K and any amendments to previously filed reports may be accessed, free of charge.

**Table of Contents****PART 1. FINANCIAL INFORMATION****Item 1. Financial Statements****SCANSOURCE, INC. AND SUBSIDIARIES****CONDENSED CONSOLIDATED BALANCE SHEETS (UNAUDITED)****(In thousands, except for share information)**

	<b>March 31, 2008</b>	<b>June 30, 2007 *</b>
<b>Assets</b>		
Current assets:		
Cash and cash equivalents	\$ 5,973	\$ 1,864
Trade and notes receivable:		
Trade, less allowance of \$15,461 at March 31, 2008 and \$13,342 at June 30, 2007	337,662	349,961
Other receivables	10,371	6,755
Inventories	296,883	272,012
Prepaid expenses and other assets	4,886	10,444
Deferred income taxes	12,519	12,102
Total current assets	668,294	653,138
Property and equipment, net	22,633	26,781
Goodwill	29,909	29,361
Other assets, including identifiable intangible assets	30,820	29,168
Total assets	\$ 751,656	\$ 738,448
<b>Liabilities and Shareholders Equity</b>		
Current liabilities:		
Current portion of long-term debt	\$	\$ 200
Short-term borrowings	1,266	3,490
Trade accounts payable	222,151	256,883
Accrued expenses and other liabilities	37,226	35,254
Income taxes payable	5,549	4,356
Total current liabilities	266,192	300,183
Long-term debt	28,888	17,216
Borrowings under revolving credit facility	69,499	90,314
Other long-term liabilities	8,102	5,475
Total liabilities	372,681	413,188
Minority interest		516
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, 26,271,532 and 25,855,724 shares issued and outstanding at March 31, 2008 and June 30, 2007, respectively	94,273	83,653

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Retained earnings	275,667	234,502
Accumulated other comprehensive income	9,035	6,589
Total shareholders' equity	378,975	324,744
Total liabilities and shareholders' equity	\$ 751,656	\$ 738,448

\* Derived from audited consolidated financial statements  
*See Notes to Consolidated Financial Statements*

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

	Quarter ended March 31,		Nine months ended March 31,	
	2008	2007	2008	2007
Net sales	\$ 514,420	\$ 492,678	\$ 1,621,455	\$ 1,462,642
Cost of goods sold	462,701	441,641	1,452,435	1,306,990
Gross profit	51,719	51,037	169,020	155,652
Operating expenses:				
Selling, general and administrative expenses	32,723	33,795	99,238	101,014
Operating income	18,996	17,242	69,782	54,638
Other expense (income):				
Interest expense	1,097	1,939	4,496	5,464
Interest income	(401)	(246)	(1,108)	(529)
Other, net	286	141	(118)	(420)
Other expense, net	982	1,834	3,270	4,515
Income before income taxes and minority interest	18,014	15,408	66,512	50,123
Provision for income taxes	6,986	5,326	25,347	18,743
Income before minority interest	11,028	10,082	41,165	31,380
Minority interest in income of consolidated subsidiaries, net of income taxes		11		57
Net income	\$ 11,028	\$ 10,071	\$ 41,165	\$ 31,323
Per share data:				
Net income per common share, basic	\$ 0.42	\$ 0.39	\$ 1.59	\$ 1.22
Weighted-average shares outstanding, basic	26,038	25,770	25,934	25,749
Net income per common share, diluted	\$ 0.42	\$ 0.38	\$ 1.56	\$ 1.19
Weighted-average shares outstanding, diluted	26,423	26,194	26,325	26,213

*See Notes to Consolidated Financial Statements*

**Table of Contents****SCANSOURCE, INC. AND SUBSIDIARIES****CONDENSED CONSOLIDATED STATEMENT OF SHAREHOLDERS EQUITY (UNAUDITED)**

(In thousands, except share data)

	Common Stock (Shares)	Common Stock (Amount)	Retained Earnings	Accumulated Other Comprehensive Income	Total
Balance at June 30, 2007	25,855,724	\$ 83,653	\$ 234,502	\$ 6,589	\$ 324,744
Comprehensive Income:					
Net income			14,687		14,687
Foreign currency translation adjustment				1,108	1,108
Total comprehensive income					15,795
Exercise of stock options	10,468	129			129
Share based compensation		929			929
Tax benefit of deductible compensation arising from exercise of stock options		155			155
Balance at September 30, 2007	25,866,192	\$ 84,866	\$ 249,189	\$ 7,697	\$ 341,752
Comprehensive Income:					
Net income			15,450		15,450
Foreign currency translation adjustment				4	4
Total comprehensive income					15,454
Exercise of stock options	71,210	1,342			1,342
Share based compensation		1,175			1,175
Tax benefit of deductible compensation arising from exercise of stock options		55			55
Consideration received from certain officers related to remediation activities		751			751
Reclassification of additional-paid-in-capital related to remediation activities		(393)			(393)
Balance at December 31, 2007	25,937,402	\$ 87,796	\$ 264,639	\$ 7,701	\$ 360,136
Comprehensive Income:					
Net income			11,028		11,028
Unrealized loss on hedged transaction, net of tax				(424)	(424)
Foreign currency translation adjustment					