

SCANSOURCE INC
Form 10-Q
February 04, 2011
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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 December 31, 2010

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 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 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 February 4, 2011
Common Stock, no par value per share	26,892,009 shares

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SCANSOURCE, INC.

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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, 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, 2010. 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.

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

	December 31, 2010	June 30, 2010 *
Assets		
Current assets:		
Cash and cash equivalents	\$ 13,037	\$ 34,605
Accounts receivable, less allowance of \$21,964 at December 31, 2010 and \$21,907 at June 30, 2010	415,789	357,749
Inventories	389,442	346,610
Prepaid expenses and other assets	21,691	16,762
Deferred income taxes	11,991	12,066
Total current assets	851,950	767,792
Property and equipment, net	27,563	23,528
Goodwill	34,084	33,785
Other assets, including identifiable intangible assets	39,882	34,645
Total assets	\$ 953,479	\$ 859,750
Liabilities and Shareholders Equity		
Current liabilities:		
Current portion of long-term debt	\$	\$
Short-term borrowings	1,973	
Accounts payable	304,462	287,864
Accrued expenses and other liabilities	45,923	35,027
Income taxes payable	4,282	7,948
Total current liabilities	356,640	330,839
Long-term debt	30,429	30,429
Borrowings under revolving credit facility	12,781	
Other long-term liabilities	17,980	11,631
Total liabilities	417,830	372,899
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, 26,892,009 and 26,703,038 shares issued and outstanding at December 31, 2010 and June 30, 2010, respectively	116,338	111,951
Retained earnings	423,962	386,634
Accumulated other comprehensive loss	(4,651)	(11,734)

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Total shareholders' equity	535,649	486,851
Total liabilities and shareholders' equity	\$ 953,479	\$ 859,750

* Derived from audited consolidated financial statements
See accompanying notes to the condensed consolidated financial statements

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

	Quarter ended December 31,		Six months ended December 31,	
	2010	2009	2010	2009
Net sales	\$ 683,644	\$ 548,112	\$ 1,318,175	\$ 1,036,535
Cost of goods sold	613,018	491,816	1,184,068	928,821
Gross profit	70,626	56,296	134,107	107,714
Selling, general and administrative expenses	37,088	38,167	75,721	71,898
Operating income	33,538	18,129	58,386	35,816
Interest expense	388	364	754	730
Interest income	(306)	(422)	(605)	(685)
Other (income) expense, net	(182)	(174)	191	(58)
Income before income taxes	33,638	18,361	58,046	35,829
Provision for income taxes	12,017	6,546	20,718	13,079
Net income	\$ 21,621	\$ 11,815	\$ 37,328	\$ 22,750
Per share data:				
Net income per common share, basic	\$ 0.81	\$ 0.44	\$ 1.40	\$ 0.86
Weighted-average shares outstanding, basic	26,786	26,575	26,749	26,571
Net income per common share, diluted	\$ 0.80	\$ 0.44	\$ 1.38	\$ 0.85
Weighted-average shares outstanding, diluted	27,160	26,798	27,068	26,811

See accompanying notes to the condensed consolidated financial statements

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

	Six months ended December 31,	
	2010	2009
Cash flows from operating activities:		
Net income	\$ 37,328	\$ 22,750
Adjustments to reconcile net income to net cash used in operating activities:		
Depreciation and amortization	2,956	2,858
Allowance for accounts and notes receivable	4,147	8,708
Share-based compensation and restricted stock	2,371	2,690
Deferred income taxes	555	(122)
Excess tax benefits from share-based payment arrangements	438	(66)
Changes in operating assets and liabilities, net of acquisitions:		
Accounts receivable	(55,645)	(62,713)
Inventories	(38,753)	(86,055)
Prepaid expenses and other assets	(6,211)	(3,293)
Other noncurrent assets	(6,336)	(1,973)
Accounts payable	13,314	35,637
Accrued expenses and other liabilities	16,923	3,418
Income taxes payable	(4,164)	491
Net cash used in operating activities	(33,077)	(77,670)
Cash flows from investing activities:		
Capital expenditures	(5,715)	(517)
Cash paid for business acquisitions, net of cash acquired		(11,647)
Net cash used in investing activities	(5,715)	(12,164)
Cash flows from financing activities:		
Increases in short-term borrowings, net	2,066	
Borrowings on revolving credit, net	12,752	
Exercise of stock options	2,359	111
Excess tax benefits from share-based payment arrangements	(438)	66
Net cash provided by financing activities	16,739	177
Effect of exchange rate changes on cash and cash equivalents	485	(7)
Decrease in cash and cash equivalents	(21,568)	(89,664)
Cash and cash equivalents at beginning of period	34,605	127,664
Cash and cash equivalents at end of period	\$ 13,037	\$ 38,000

See accompanying notes to the condensed consolidated financial statements

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SCANSOURCE, INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(UNAUDITED)

(1) Organization and Basis of Presentation

Basis of Presentation

The accompanying unaudited condensed consolidated financial statements of ScanSource, Inc. (the Company) have been prepared by the Company's management in accordance with U.S. generally accepted accounting principles 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 U.S. generally accepted accounting principles for annual financial statements. The unaudited condensed consolidated financial statements included herein contain all adjustments (consisting of normal recurring adjustments) which are, in the opinion of management, necessary to present fairly the financial position as of December 31, 2010 and June 30, 2010, the results of operations for the quarters and six months ended December 31, 2010 and 2009, and the statement of cash flows for the six months ended December 31, 2010 and 2009. The results of operations for the quarters and six months ended December 31, 2010 and 2009 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, 2010.

Business Description

ScanSource, Inc. (the Company) is a leading wholesale distributor of specialty technology products, providing value-added distribution sales to resellers in the specialty technology markets. The Company has two geographic distribution segments: one serving North America from the Southaven, Mississippi distribution center, and an international segment currently serving Latin America (including Mexico) and Europe from distribution centers located in Florida and Mexico, and in Belgium and Germany, respectively. The North American distribution segment markets automatic identification and data capture (AIDC) and point-of-sale (POS) products through its ScanSource POS and Barcoding sales unit; voice, data and converged communications equipment through its Catalyst Telecom sales unit; video conferencing, telephony, and communications products through its ScanSource Communications unit; and physical security products and wireless infrastructure products through its ScanSource Security Distribution unit. The international distribution segment markets AIDC, POS, communications and security products as follows: ScanSource Latin America markets AIDC, POS, communications and security products. ScanSource Europe markets AIDC and POS products, while communication products are marketed through its ScanSource Communications sales unit in Europe.

In the quarter ended December 31, 2009, the Company established a new entity, ScanSource Communications GmbH, that acquired substantially all of the assets and certain liabilities of Algol Europe, GmbH, a value-add distributor specializing in convergence communications solutions. The purchase transaction closed on November 30, 2009. Algol, headquartered in Cologne, Germany, has joined ScanSource Communications UK as part of ScanSource Communications Europe.

(2) 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 ended December 31, 2010 from the information included in Note 2 of the Notes to the Company's Consolidated Financial Statements included in the Annual Rep