

SCANSOURCE INC
Form 10-Q
February 06, 2006
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-Q

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

For the quarterly period ended December 31, 2005

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: 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.)

6 Logue Court, Greenville, South Carolina
(Address of principal executive offices)

29615
(Zip Code)

(864) 288-2432

(Registrant's telephone number, including area code)

Not Applicable

(Former name, former address and former fiscal year, if changed since last report)

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, or a non-accelerated filer. See definition of accelerated filer and large accelerated filer in Rule 12b-2 of the Exchange Act.

Large accelerated filer Accelerated filer Non-accelerated filer

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 January 31, 2006

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[Common Stock, no par value per share]

12,753,889 shares

APPLICABLE ONLY TO ISSUERS INVOLVED IN

BANKRUPTCY PROCEEDINGS DURING THE PRECEDING FIVE YEARS

(insert after shell company disclosure): Not Applicable

Indicate by check mark whether the registrant has filed all documents and reports required to be filed by Sections 12, 13 or 15(d) of the Securities Exchange Act of 1934 subsequent to the distribution of securities under a plan confirmed by a court.

Yes " No "

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Cautionary Statements

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 2006 and beyond to differ materially from those expressed in any such forward-looking statements. These factors include, without limitation: the Company's dependence on vendors, product supply and availability, senior management, centralized functions and third-party shippers; the Company's ability to compete successfully in a highly competitive market and to manage significant additions in personnel and increases in working capital; the Company's ability to collect outstanding accounts receivable; the Company's entry into new product markets in which it has no prior experience; the Company's susceptibility to quarterly fluctuations in net sales and results of operations; the Company's ability to manage successfully pricing or stock rotation opportunities associated with inventory value decreases; narrow profit margins; inventory risks due to shifts in market demand; dependence on information systems; credit exposure due to the deterioration in the financial condition of our customers; a downturn in the general economy; the inability to obtain required capital; potential adverse effects of acquisitions; fluctuations in interest rates, foreign currency exchange rates and exposure to foreign markets; the imposition of governmental controls, currency devaluations, export license requirements and restrictions on the export of certain technology; dependence on third party freight forwarders and the third party warehouse in Europe; political instability, trade restrictions and tariff changes; difficulties in staffing and managing international operations; changes in the interpretation and enforcement of laws (in particular related to items such as duty and taxation); difficulties in collecting accounts receivable, longer collection periods and the impact of local economic conditions and practices; the impact of changes in income tax legislation; acts of war or terrorism; exposure to natural disasters; potential impact of labor strikes; volatility of the stock market; and the accuracy of forecast data; and other factors described herein and in other reports and documents filed by the Company.

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with the SEC, including Exhibit 99.1 to the Company's Form 10-K for the year ended June 30, 2005.

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.scansource.com. We provide our annual and quarterly reports free of charge on www.scansource.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 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)**

	December 31, 2005	June 30, 2005*
	<u> </u>	<u> </u>
<u>Assets</u>		
Current assets:		
Cash and cash equivalents	\$ 10,927	\$ 8,609
Trade and notes receivable:		
Trade, less allowance of \$13,653 at December 31, 2005 and \$12,738 at June 30, 2005	249,828	215,190
Other	5,068	5,479
Inventories	191,603	178,917
Prepaid expenses and other assets	5,293	3,546
Deferred income taxes	9,673	10,227
	<u> </u>	<u> </u>
Total current assets	472,392	421,968
	<u> </u>	<u> </u>
Property and equipment, net	22,994	23,299
Goodwill	13,882	12,915
Other assets, including identifiable intangible assets	4,164	8,888
	<u> </u>	<u> </u>
Total assets	\$ 513,432	\$ 467,070
	<u> </u>	<u> </u>

* Derived from audited financial statements at June 30, 2005.

See notes to condensed consolidated financial statements.

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SCANSOURCE, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED BALANCE SHEETS (UNAUDITED)

(In thousands, except for share information)

(Continued)

	December 31, 2005	June 30, 2005*
Liabilities and Shareholders' Equity		
Current liabilities:		
Current portion of long-term debt	\$ 415	\$ 564
Short-term borrowings		4,478
Trade accounts payable	207,939	173,255
Accrued expenses and other liabilities	18,734	18,369
Income taxes payable	1,047	3,764
Total current liabilities	228,135	200,430
Deferred income taxes	999	1,008
Long-term debt	4,485	6,045
Borrowings under revolving credit facility	28,753	31,269
Other long-term liabilities	2,196	1,341
Total liabilities	264,568	240,093
Minority interest	795	1,092
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, 12,753,222 and 12,665,076 shares issued and outstanding at December 31, 2005 and June 30, 2005, respectively	69,488	65,381
Retained earnings	175,604	157,020
Accumulated other comprehensive income	2,977	3,484
Total shareholders' equity	248,069	225,885
Total liabilities and shareholders' equity	\$ 513,432	\$ 467,070

* Derived from audited financial statements at June 30, 2005.

See notes to condensed consolidated financial statements.

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

	Quarter ended		Six months ended	
	December 31,		December 31,	
	2005	2004	2005	2004
Net sales	\$ 408,468	\$ 370,130	\$ 798,864	\$ 732,839
Cost of goods sold	366,633	332,269	716,700	657,996
Gross profit	41,835	37,861	82,164	74,843
Operating expenses:				
Selling, general and administrative expenses	26,272	23,110	51,281	45,422
Operating income	15,563	14,751	30,883	29,421
Other expense (income):				
Interest expense	455	482	966	895
Interest income	(155)	(334)	(304)	(550)
Other, net	(62)	(300)	(110)	(253)
Total other expense (income)	238	(152)	552	92
Income before income taxes and minority interest	15,325	14,903	30,331	29,329
Provision for income taxes	6,024	5,719	11,637	11,201
Income before minority interest	9,301	9,184	18,694	18,128
Minority interest in income of consolidated subsidiaries, net of income tax expense/(benefits) of \$24 and \$20, respectively, and \$36 and \$16, respectively	51	100	110	130
Net income	\$ 9,250	\$ 9,084	\$ 18,584	\$ 17,998

See notes to condensed consolidated financial statements.

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

	Quarter ended December 31,		Six months ended December 31,	
	2005	2004	2005	2004
Per share data:				
Net income per common share, basic	\$ 0.73	\$ 0.72	\$ 1.47	\$ 1.43
Weighted-average shares outstanding, basic	12,701	12,620	12,684	12,600
Net income per common share, assuming dilution	\$ 0.71	\$ 0.69	\$ 1.42	\$ 1.37
Weighted-average shares outstanding, assuming dilution	13,067	13,131	13,042	13,108

See notes to 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,	
	2005	2004
Cash flows from operating activities:		
Net income	\$ 18,584	\$ 17,998
Adjustments to reconcile net income to net cash provided by (used in) operating activities:		
Depreciation	2,743	2,434
Amortization of intangible assets	101	235
Allowance for accounts and notes receivable	1,602	1,997
Share-based compensation	1,827	
Impairment of capitalized software		30
Deferred income tax expense/(benefit)	544	(437)
Excess tax benefits from share-based payment arrangements	(1,125)	
Minority interest in income of subsidiaries	110	130
Changes in operating assets and liabilities, net of acquisitions:		
Trade and notes receivable	(37,582)	(13,635)
Other receivables	400	309
Inventories	(13,112)	(32,602)
Prepaid expenses and other assets	(1,778)	186
Other noncurrent assets	4,642	(215)
Trade accounts payable	35,056	(2,541)
Accrued expenses and other liabilities	1,292	(786)
Income taxes payable	(1,554)	1,735
Net cash provided by (used in) operating activities	11,750	(25,162)
Cash flows used in investing activities:		
Capital expenditures	(2,475)	(1,577)
Cash paid for business acquisitions	(1,348)	(521)
Net cash used in investing activities	(3,823)	(2,098)
Cash flows from financing activities:		
Decreases in short-term borrowings, net	(4,478)	