SCANSOURCE INC
Form 10-K
August 29, 2007

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-K

(Mark One)

x **Annual Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934**
For the fiscal year ended June 30, 2007.

¨ **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

SCAN*SOURCE*, INC.

(Exact name of registrant as specified in its charter)

South Carolina	**57-0965380**
(State or other jurisdiction of incorporation or organization)	**(IRS Employer Identification No.)**
6 Logue Court Greenville, South Carolina	**29615**
(Address of principal executive offices)	**(Zip Code)**

Registrant s telephone number, including area code: (864) 288-2432

Securities registered pursuant to Section 12(b) of the Act:

Title of Each Class	Name of Each Exchange on Which Registered
Common Stock, no par value	**NASDAQ Global Select Market**

Securities registered pursuant to Section 12(g) of the Act:

None.

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes x No ¨

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Exchange Act. Yes ¨ No x

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 if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of Registrant s knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. ¨

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 x 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 x

The aggregate market value of the voting common stock of the Registrant held by non-affiliates of the Registrant at December 29, 2006 was $767,218,000, as computed by reference to the closing price of such stock on such date.

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 August 21, 2007
Common Stock, No par value per share	**25,863,024 shares**

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the Registrant s Annual Report to Shareholders for the fiscal year ended June 30, 2007 are incorporated by reference into Part II of this Form 10-K, and portions of the Registrant s Proxy Statement to be furnished in connection with its 2007 Annual Meeting of Shareholders are incorporated by reference into Part III of this Form 10-K.

PART I

ITEM 1. Business.

Scan*Source,* Inc. (the Company), incorporated in 1992, 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 Memphis, Tennessee 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, respectively. The North American distribution segment markets automatic identification and data capture (AIDC) and point-of-sale (POS) products through its Scan*Source* sales unit; voice, data and converged communications equipment through its Catalyst *Telecom* sales unit; voice, data and converged communications products through its Para*con* sales unit; video conferencing and telephony products through its T2 Supply unit; electronic security products, and wireless infrastructure through its Scan*Source* Security Distribution unit. The international distribution segment markets AIDC and POS products through its Scan*Source* sales unit. See Note 12 to the Notes to Consolidated Financial Statements of the Company included in the Annual Report to Shareholders for the fiscal year ended June 30, 2007 for financial information concerning the Company s reporting segments and the geographic areas in which the Company operates.

North American Distribution Segment

ScanSource Sales Unit

The Scan*Source* sales unit markets AIDC and POS products which interface with computer systems used to automate the collection, processing and communication of information for commercial and industrial applications, including retail sales, distribution, shipping, inventory control, materials handling and warehouse management. The bar code family of products is referred to as automatic identification and data capture (AIDC) because it includes all types of portable data collection terminals, wireless products and bar code label printers, in addition to scanners. POS products are those PC-based products that have replaced electronic cash registers in retail and hospitality environments and the peripheral products that attach to them. These peripheral devices include such items as cash drawers, pole displays, signature capture units, display monitors and magnetic strip readers. In addition to these peripheral devices, Scan*Source* also sells products that attach to the POS network in the store, including kiosks, network access points, routers and digital signage displays.

Scan*Source* sales unit vendors include most of the leading AIDC and POS manufacturers, including APG, Cherry Electrical, Cognitive Solutions, Cisco, Datalogic, Datamax, Elo, Epson America, Hand Held Products, IBM, Intermec, Ithaca Peripherals, Magtek, Metrologic, Microsoft, MMF Cash Drawer, Motorola, NCR, Pioneer, Posiflex, Sato, and Zebra Technologies.

Catalyst Telecom Sales Unit

The Catalyst *Telecom* sales unit markets voice, data and converged communication systems and is a distributor of Avaya communications solutions, including Avaya Enterprise Communications Group (ECG), Small Market Business Solutions (SMBS) and internet protocol (IP) products. Catalyst *Telecom* also markets products complementary to the Avaya product line from vendors including Extreme Networks, Juniper Networks, Plantronics, Polycom, and SpectraLink.

Paracon Sales Unit

The Para*con* sales unit markets business communications products specifically converged communications solutions. Converged communications solutions combine traditional voice technologies with VoIP and data technologies to deliver business communications solutions that combine computers, telecommunications and the Internet. Para*con* distributes products such as IP phones, media processing boards and software, gateways and other building block components, from manufacturers including Dialogic, AudioCodes, Envox, Quintum, and Vertical Communications.

T2 Supply Sales Unit

The T2 Supply sales unit, acquired in July 2006, markets video conferencing and telephony products from Polycom, Plantronics, Adtran and AudioCodes. See Note 13 to the Notes to Consolidated Financial Statements of the Company for additional information regarding the acquisition of T2 Supply LLC.

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ScanSource Security Distribution Sales Unit

The Scan*Source* Security Distribution sales unit focuses on hardware distribution of electronic security equipment using the two-tier distribution model, as described below in Industry Overview . The product offering includes identification, access control, video surveillance, intrusion-related, and wireless infrastructure products. Manufacturers include Alvarion, Axis, Datacard, DSC, Fargo, HID, Keyscan, Panasonic, Sony, Tropos and Zebra Card.

International Distribution Segment

The Company s international distribution segment markets AIDC and POS products exclusively to technology resellers and integrators in the Latin American (including Mexico) and European markets. Key vendors include many of the same vendors that supply the Scan*Source* sales unit of the North American distribution segment.

See Item 1A. Risks Factors below for a discussion of certain risks relating to the Company s international operations.

Products and Markets

The Company currently markets over 40,000 products from approximately 150 hardware and software vendors to over 19,000 reseller customers primarily from its central warehouses in Tennessee, Florida, Mexico and Belgium.

AIDC technology incorporates the capabilities for electronic identification and data processing without the need for manual input and consists of a wide range of products, including bar code printers, hand-held and fixed-mount laser scanners, mobile and wireless data collection devices, and magnetic stripe readers. As AIDC technology has become more pervasive, applications have evolved from traditional uses such as inventory control, materials handling, distribution, shipping and warehouse management to more advanced applications such as healthcare. POS products include those computer-based systems that have replaced electronic cash registers in grocery, retail, and hospitality environments. POS product lines include computer-based terminals, monitors, receipt printers, pole displays, cash drawers, keyboards, peripheral equipment and fully integrated processing units. Voice and data products include private branch exchanges (PBXs), key systems, and telephone handsets and components used in voice, fax, data, voice recognition, call center management and IP communication applications. Converged communication products combine voice, data, fax, and speech technologies to deliver communications solutions that combine computers, telecommunications and the Internet. Converged communications products include telephone and IP network interfaces, VoIP systems, PBX integration products and carrier-class board systems-level products. Video products include video and voice conferencing and network systems. Electronic security products include identification, access control, video surveillance, intrusion-related, and wireless infrastructure products.

See Management s Discussion and Analysis in the Company s Annual Report to Shareholders for the fiscal year ended June 30, 2007 for a discussion of the amount of the Company s net sales contributed by product categories.

Industry Overview

The distribution channels for specialty technology products generally consist of manufacturers, wholesale distributors such as Scan*Source*, resellers and end-users. The typical sales channel for specialty technology products typically evolves through a three-stage process: (i) direct sales by manufacturers to end-users; (ii) single-tier distribution in which manufacturers sell to resellers who, in turn, sell directly to end-users; and (iii) two-tier, or wholesale distribution, in which manufacturers sell to wholesale distributors, including Scan*Source*, who sell only to resellers who, in turn, sell directly to end-users.

Currently, the technology products wholesale distribution channel is served by both broadline and specialty distributors. The broadline distributors are engaged primarily in conventional order fulfillment and typically offer their reseller customers less support and fewer value-added services than do specialty distributors. The specialty distributors that compete with Scan*Source* are generally smaller, both in terms of size and geographic area covered.

Competition among an expanding number of manufacturers typically causes product prices to decrease and product applications to expand, which has resulted in an increasing number of resellers entering the market in order to support a broader base of potential end-users. As the number of resellers and end-users has grown, competition among manufacturers and within the reseller channel has intensified. Because many specialty technology manufacturers develop products that represent only one part of a total solution, most products eventually are developed to provide interoperability among products from multiple manufacturers. As a result of interoperability, a variety of manufacturers products are typically configured together to create a system solution. Therefore, both manufacturers and resellers have become more dependent upon value added wholesale distributors such as Scan*Source* for the aggregation of products and reseller support services, as well as the organization and maintenance of an efficient market structure.

In addition, manufacturers that face declining product prices and rising costs of direct sales increasingly rely upon value-added wholesale distributors by outsourcing certain support functions, such as product assortment, delivery, inventory management, technical assistance, and marketing. At the same time, shortened product life cycles and the introduction of new products and applications have caused resellers increasingly to rely on wholesale distributors for various inventory management, financing, technical support and related functions. The Company believes that as the reseller market grows and becomes more fragmented, and as specialty technology products continue to transition to open systems, the wholesale distribution channel in which the Company operates will become increasingly more important.

Vendors

The Company s merchandising department recruits vendors and manages important aspects of its vendor relationships, such as purchasing arrangements, cooperative marketing initiatives, vendor sales force relationships, product training and the monitoring of rebate programs and various contract terms and conditions. The Company generally enters into non-exclusive distribution agreements with vendors. These agreements typically provide the Company with stock rotation and price protection provisions that may mitigate the risk of loss from slow moving inventory, vendor price reductions, product updates or obsolescence. Some of these distribution agreements contain minimum purchase requirements that the Company must meet in order to receive preferential prices. The distribution agreements are generally terminable on 30 to 120 days notice by either party.

Customers

The Company s reseller customers currently include over 19,000 active value-added reseller accounts (VARs) located in the United States, Canada, Mexico, Latin America and Europe. No single customer accounted for more than 6% of the Company s total net sales for fiscal 2007. The Company generally targets two types of reseller customers:

Specialty Technology VARs.

These resellers focus on selling specialty technology products as tailored software or integrated hardware solutions for their end-users existing applications or incorporating specialty technology products into customized technology solutions for their end-users. Primary industries served by these resellers include manufacturing, distribution, health care, pharmaceutical, hospitality, government, convenience, grocery, financial, and other retail markets.

Networking or PC VARs.

These resellers develop computer solutions and networking for their end-users microcomputer needs. They typically have well-established relationships with end-user management information system directors and are seeking additional revenue and profit opportunities in related technology markets, such as AIDC, POS, security, or communications.

Sales and Electronic Commerce

The Company s 259-member sales department consists primarily of inside sales representatives located in the United States, Canada, Mexico, Belgium, France, Germany, the United Kingdom, and the Netherlands. In order to build strong customer relationships, most active resellers are assigned to a sales representative. Each sales representative negotiates pricing directly with his assigned customers. The Company also employs business development representatives who are responsible for developing technical expertise within broad product markets, recruiting customers, creating demand, and reviewing overall product and service requirements of resellers. Each sales representative and business development representative receives comprehensive training with respect to the technical characteristics of each vendor s products. This training is supplemented by frequent product seminars conducted by vendors representatives and bi-weekly meetings among product, marketing and sales managers.

Increasingly, customers rely upon the Company s electronic ordering and information systems, in addition to its product catalogs and frequent mailings, as sources for product information, including availability and price. Through the Company s website, most customers can gain remote access to the Company s information systems to check real-time product availability, see their customized pricing and place orders. Customers can also follow the status of their orders and obtain UPS and FedEx package tracking numbers from this site.

Marketing

The Company provides a range of marketing services, including cooperative advertising with vendors through trade publications and direct mail, product catalogs for each of the North American, European and Latin American markets, periodic newsletters, management of sales leads, trade shows with hardware and software companies and vendors, direct mail and sales promotions. In addition, the Company organizes and operates its own seminars teaming with top vendors to recruit prospective resellers and introduce new applications for the specialty technology products it distributes. The Company frequently customizes its marketing services for vendors and resellers.

Value-Added Services

In addition to the basic order fulfillment and credit services that conventional wholesale distributors typically provide to resellers, the Company differentiates itself by providing an array of value-added services and business tools that assist resellers to provide more complete solutions and improve customer service. Such services include system integration, professional services, and technical support.

Operations

Information System

The Company s information system is a scalable, centralized processing system capable of supporting numerous operational functions including purchasing, receiving, order processing, shipping, inventory management and accounting. Sales representatives rely on the information system for on-line, real-time information on product pricing, inventory availability and reservation, and order status. The Company s warehouse operations use bar code technology for receiving and shipping, and automated UPS and FedEx systems for freight processing and shipment tracking, each of which is integrated with the Company s information system. The customer service and technical support departments employ the system for documentation and faster processing of customer product returns. To ensure that adequate inventory levels are maintained, the Company s buyers depend on the system s purchasing and receiving functions to track inventory on a continual basis.

Central Warehouse and Shipping

The Company s 367,000 square foot warehouse facility, located near the FedEx hub facility in Memphis, Tennessee, serves all of North America. During fiscal year 2008, this facility will be replaced when the Company relocates to a 600,000 square foot facility in Southaven, Mississippi. See Item 2 Properties below for additional information. The Company utilizes a third party warehouse located in Liege, Belgium that serves all of Europe, including the United Kingdom. The Company has additional warehouse facilities in Florida and Mexico, which serve Latin America (including Mexico). The Company believes that its centralized distribution creates several advantages, including: (i) a reduced amount of safety stock inventory which, in turn, reduces the Company s working capital borrowings; (ii) an increased turnover rate through tighter controls over inventory; (iii) maintenance of a consistent order-fill rate; (iv) improved personnel productivity; (v) improved delivery time; (vi) simplified purchasing and tracking; (vii) decreased demand for management personnel; and (viii) flexibility to meet customer needs for systems integration. The Company s objective is to ship all orders on the same day, using bar code technology to expedite shipments and minimize shipping errors. The Company offers reduced freight rates and flexible delivery options to minimize a reseller s need for inventory.

Financial Services

The Company routinely offers competitive credit terms relative to the specific geographic area for qualified resellers and facilitates various third party financing options, including leasing, flooring, and other secured financing. The Company believes this policy reduces the customer s need to establish multiple credit relationships with a large number of manufacturers.

Competition

The markets in which the Company operates, as identified above, are highly competitive. Competition is based primarily on factors such as price, product availability, speed and accuracy of delivery, effectiveness of sales and marketing programs, credit availability, ability to tailor specific solutions to customer needs, quality and breadth of product lines and services, and availability of technical and product information. The Company s competitors include regional and national wholesale distributors, as well as hardware manufacturers (including most of the Company s vendors) that sell directly to resellers and to end-users. In addition, the Company competes with master resellers that sell to franchisees, third-party dealers and end-users. Certain of the Company s current and potential competitors have greater financial, technical, marketing and other resources than the Company and may be able to respond more quickly to new or emerging technologies and changes in customer requirements. Certain smaller regional competitors, who are specialty two-tier or mixed model master resellers, may also be able to respond more quickly to new or emerging technologies and changes in customer requirements. Such competition could also result in price reductions, reduced margins and loss of market share by the Company.

Competition has increased for our sales units in the last four years as broadline and other value added distributors have entered into the specialty technology markets.

Employees

As of June 30, 2007, the Company had 992 employees located in North America, Latin America (including Mexico) and Europe, none of whom was a member of an industry trade union or collective bargaining unit. The Company considers its employee relations to be good.

Service Marks

The Company conducts its business under the trademarks and service marks Scan*Source* , Catalyst *Telecom* , Para*con* , Partner *Services* , Supply and Scan*Source* Security Distribution . The Company has been issued registrations for the service marks Scan*Source* and Catalyst *Telecom* in countries in its principal markets. These trademarks and service marks do not have value assigned to them and have a designated indefinite life. The Company does not believe that its operations are dependent upon any of its trademarks or service marks. The Company also sells products and provides services under various trademarks, service marks and trade names to which reference is made in this report that are the property of owners other than the Company. Such owners have reserved all rights with respect to their respective trademarks, service marks and trade names.

Risks Attendant to Forward Looking Statements

Certain of the statements contained in this PART I, Item 1 Business and, incorporated by reference, in PART II, Item 7 Management s Discussion and Analysis of Financial Condition and Results of Operations and Item 7A Quantitative and Qualitative Disclosures About Market Risks of this Annual Report on Form 10-K and the other documents and information incorporated herein that are not historical facts are forward-looking statements as described in the safe harbor provision of the Private Securities Litigation Reform Act of 1995. These statements involve a number of risks of uncertainties and actual results could differ materially from those projected. Factors that could cause actual results to differ materially include the factors discussed in Item 1A Risk Factors below.

Additional Information

The Company s principal internet address is www.scansource.com. The Company provides its annual and quarterly reports free of charge on www.scansource.com, as soon as reasonably practicable after they are electronically filed, or furnished to, the SEC. We provide a link to all Securities and Exchange Commission (SEC) filings where current reports on Form 8-K and any amendments to previously filed reports may be accessed, free of charge on our website.

ITEM 1A. Risk Factors.

It is not reasonably possible to itemize all of the many factors and specific events that could affect the Company and/or the specialty technology logistics industry as a whole. The following risk factors (in addition to other possible factors not listed) could affect our actual results and cause such results to differ materially from those projected, forecasted, estimated, budgeted or otherwise expressed in forward-looking statements made by us.

Matters relating to the investigation by the Special Committee of the Board of Directors and the restatement of the Company s consolidated financial statements may result in additional litigation and governmental enforcement actions and may have an adverse effect on our results of operations.

Matters related to the investigation by the Special Committee, and related activities, as described in more detail in Note 1A to the Notes to Consolidated Financial Statements included in Part II, Item 8 of amended Annual Report on Form 10-K/A for the fiscal

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year ended June 30, 2006, have required the Company to incur substantial expenses for legal, accounting, tax and other professional services, have to some extent taken management s time and attention, and could in the future harm the Company s business, financial condition, results of operations and cash flows.

These matters and the restatement of prior financial statements have also exposed the Company to greater risks associated with litigation, regulatory proceedings and government enforcement actions. As described in Part I, Item 3, Legal Proceedings , two derivative complaints have been filed against certain current and former officers and directors of the Company and nominally against the Company pertaining to allegations relating to stock option grants. The Company has also voluntarily provided the information concerning the Special Committee review to the SEC and the Department of Justice, and in that regard the Company has responded to informal requests for documents and additional information. The Company intends to continue full cooperation with these inquiries. No assurance can be given regarding the outcomes from litigation, or regulatory or governmental proceedings relating to the Company s past stock option grant practices. The resolution of these matters will be time consuming and expensive, and may distract management from the conduct of the Company s business. If the Company is subject to adverse findings in litigation or regulatory proceedings or governmental proceedings, it could be required to pay damages or penalties or have other remedies imposed, which could harm its business, financial condition, results of operations and cash flows.

We believe the Form 10-K/A for the fiscal year ended June 30, 2006, and the quarterly reports on Form 10-Q for the quarters ended September 30, 2006, December 31, 2006 and March 31, 2007, corrected the accounting errors arising from our past stock option practices. However, if the SEC disagrees with the accounting methods we used, objects to the manner in which we disclosed the restated financial information or related qualitative information, or otherwise imposes additional requirements with respect to our restated financial statements or stock option restatements in general, we could be required to further amend these filings. Further restatement could also be required if new facts become available as a result of the SEC inquiry, the derivative litigation or through other means. A further revision of our financial statements could result in delays in filing subsequent SEC reports, which could in turn subject the Company to a delisting of its common stock from The NASDAQ Stock Market.

Our success is highly dependent on our relationships with vendors and on product supply and availability.

Our future success is highly dependent on our relationships with vendors. Sales of products from our ten largest vendors accounted for approximately 88% of net sales for fiscal 2007. From time to time, we experience shortages in availability of some products from vendors. Our business is largely dependent upon the terms provided by our vendors. Our vendor agreements generally contain provisions for periodic renewals and for termination by the vendor without cause and typically upon short notice. Some of our vendor agreements require minimum purchase amounts or the maintenance of a representative assortment of the vendor s full line of products. Such contract provisions could increase our working capital requirements.

As is typical in our industry, we receive volume discounts and certain credits for market development from most of our vendors. Any change in the availability of these discounts or credits or our failure to obtain vendor financing on satisfactory terms and conditions could have a material adverse effect on our business, financial condition, and results of operations.

Although we believe our vendor relationships are good, there can be no assurance that our vendor relationships will continue as currently in effect. The loss or deterioration of our relationship with a major vendor, the authorization by vendors of additional wholesale distributors, a change in their strategy (such as increasing direct sales), the merging of significant manufacturers or change of control of a major vendor, the deterioration of a major vendor s financial condition, the insolvency or bankruptcy of a vendor, the inability of a vendor to continue support of its products, or the failure by us to establish good relationships with major new vendors could have a material adverse effect on our business, financial condition, and results of operations.

Our ability to compete successfully in a highly competitive market could affect our results of operation.

Please see the discussion regarding competition in Item 1 Business in this Annual Report on Form 10-K.

Our net sales and operating results may fluctuate quarterly.

Our net sales and operating results may fluctuate quarterly as a result of fluctuations in demand for our products and services, the introduction of new hardware and software technologies, the introduction of new services by us and our competitors, changes in manufacturers prices or price protection policies, changes in freight rates, disruption of warehousing or shipping channels, changes in the level of operating expenses, the timing of major marketing or other service projects, product supply shortages, inventory adjustments, changes in product mix, entry into new product markets, difficulty in maintaining margins, the economic position of our customers, and general competitive and economic conditions. In addition, a substantial portion of our net sales in each quarter results from orders booked in that quarter. Accordingly, we believe that period-to-period comparisons of our operating results should not be relied upon as an indication of future performance.

The value of our inventory may be adversely affected by market demands and our ability to manage our inventories.

Our business, like that of other wholesale distributors, is subject to the risk that the value of our inventory will be adversely affected by price reductions by manufacturers or by technological changes affecting the usefulness or desirability of our products inventory. Under the terms of most of our agreements and the policy of most manufacturers of specialty technology products, we have some price protection and stock rotation opportunities with respect to slow moving or obsolete inventory items. There can be no assurance, however, that, in every instance, we will be able to comply with all necessary conditions or successfully manage such price protection or stock rotation opportunities, if available. Also, these industry practices are sometimes not included in written agreements and do not protect us in all cases from declines in inventory value, excess inventory, or product obsolescence. There can be no assurance that manufacturers will continue such practices or that we will be able to successfully manage our existing and future inventories. Significant declines in inventory value in excess of established inventory reserves or dramatic changes in prevailing technology could have a material adverse effect on our business, financial condition, and results of operations.

Our business is affected by our ability to manage growth to enter new markets.

The growth of our business has required us to hire additional personnel and has increased our working capital requirements. Such growth has resulted in new and increased responsibilities for our management, operating, financial, and technical resources. We may also in the future require additional equity or debt financing to support our increased working capital needs in connection with any expansion of our business. Such financing may not be available on terms that are favorable to us, if at all. Also crucial to our success is our ability to achieve additional economies of scale in order to sustain our operating margins. There can be no assurance that we will be able to attract or retain competent personnel and improve our operational status, obtain adequate working capital or achieve the needed economies of scale. The failure to do so could have a material adverse effect on our business, financial condition, and results of operations.

Our growth strategy continues to anticipate the entry into new product markets. Expansion of our existing product markets or entry into new product markets could divert the use of our resources and systems, require additional resources that might not be available, result in new or more intense competition, require longer implementation times or greater start-up expenditures than anticipated, or otherwise fail to achieve the desired results in a timely fashion, if at all. Our ability to successfully manage our growth will require continued enhancement of our operational, management and financial resources and controls. Our failure to effectively manage our growth could have a material adverse effect on our business, financial condition, and results of operations.

We have made and expect to continue to make strategic acquisitions which could disrupt our business and have an adverse effect on our operating results.

We have in the past pursued, and may pursue in the future, from time to time, strategic or opportunistic acquisitions of companies that either complement or expand our existing business. As a result, we may evaluate potential acquisition opportunities, which may be material in size and scope. Acquisitions involve a number of risks and uncertainties, including expansion into new geographic markets and business areas, the requirement to understand local business practices, the diversion of management s attention to the assimilation of the operations and personnel of the acquired companies, the possible requirement to upgrade the acquired companies management information systems to our standards, the logistical difficulties inherent in expanding into new geographic markets and business areas, potential adverse short-term effects on our operating results and the amortization or impairment of any acquired intangible assets.

We are subject to risks relating to our centralized functions.

We currently distribute products in North America from a single warehouse (with corresponding arrangements for our Latin American and European markets) and manage most of our operations through a single information system based in Greenville, South Carolina. Repair, replacement, or relocation of such centralized functions could be costly or untimely. Although we have business interruption insurance, an uninsurable loss from electrical or telephone failure, fire or other casualty, or other disruption could have a material adverse effect on our business, financial condition, and results of operations. Our use of single warehouses to serve North America, Latin America, and Europe also makes us more vulnerable to dramatic changes in freight rates than a competitor with multiple, geographically dispersed warehouse sites. Losses in excess of insurance coverage, an uninsurable loss, or changes in freight rates could have a material adverse effect on our business, financial condition, and results of operations.

We are highly dependent on our internal information systems and a failure of these systems could disrupt our business.

We are highly dependent upon a variety of internal computer and telecommunication systems to operate our business. There can be no assurance that our information systems will not fail or experience disruptions, that we will be able to attract and retain qualified personnel necessary for the operation of such systems, that we will be able to expand and improve our information systems, that we will be able to convert to new systems efficiently, that we will be able to integrate new programs effectively with our existing programs, or that the information systems of acquired companies will be sufficient to meet our standards or can be successfully converted into an acceptable information system on a timely and cost-effective basis. Any of such problems could have an adverse effect on our business.

The success of our business is largely dependent on our senior management.

Our success is largely dependent on the skills, experience and efforts of our senior management, particularly including, but not limited to, Michael L. Baur, our Chief Executive Officer. We have obtained a key person insurance policy on the life of Mr. Baur in the amount of $10 million. The loss of services of Mr. Baur or one or more members of our senior management team could have a material adverse effect on our business, financial condition, and results of operations.

We are dependent on third-party shippers for the delivery of a majority of our products.

We presently ship the majority of our products from our centralized warehouses by FedEx, United Parcel Service and certain other shipping companies. We also receive the majority of our products by commercial carriers, FedEx, DHL, United Parcel Service and certain other shipping companies. Changes in shipping terms, or the inability of these third-party shippers to perform effectively (whether as a result of mechanical failure, casualty loss, labor stoppage, other disruption, or any other reason), could have a material adverse effect on our business, financial condition, and results of operations. There can be no assurance that we can maintain favorable shipping terms or replace such shipping services on a timely or cost-effective basis.

We have credit exposure to our reseller customers and negative trends in their businesses could increase our credit risk.

As a marketing enhancement, we offer unsecured and secured credit terms for qualified resellers. Historically, we have not experienced losses from write-offs materially in excess of established reserves. As we grow our international and communications businesses, typical customer credit terms tend to be longer, and therefore may create more credit risk. While we evaluate resellers qualifications for credit and monitor our extensions of credit, defaults by resellers in timely repayment of these extensions of credit could have a material adverse effect on our business, financial condition, and results of operations.

Our global operations expose us to risks associated with international activities.

Our international operations are subject to a variety of risks such as the imposition of governmental controls, currency devaluations, export license requirements, restrictions on the export of certain technology, dependence on third party freight forwarders and the third party warehouse in Europe, political instability, trade restrictions, 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. As we continue to expand our international business, our success will be dependent, in part, on our ability to anticipate and effectively manage these and other risks. These factors could have a material adverse effect on our business, financial condition, and results of operations.

Because we conduct business in countries outside of the United States, we are exposed to fluctuations in foreign currency exchange rates. Exchange rate fluctuations may cause our international revenues to fluctuate significantly when reflected in U.S. dollar terms.

Our stock price could be volatile.

The market price of our common stock may be subject to wide fluctuations in response to quarterly variations in operating results, general market movements, and other events or factors. In addition, in recent years the stock markets in general, and technology-related stocks in particular, have experienced price and volume fluctuations that often have been unrelated or disproportionate to the operating performance of companies. These fluctuations, as well as general economic and market conditions, may adversely affect the market price of our common stock.

The inability to make accurate forecasts could adversely affect our results of operations.

The forecasts of volume and timing of orders are based on many factors and subjective judgments, and we cannot assure that the forecasts are accurate. We make many management decisions on the basis of our forecasts, including the hiring and training of personnel, which represents a significant portion of our overall expenses. Thus, the failure to generate revenue according to expectations could have a material adverse effect on our results of operations.

Changes in accounting rules could have an adverse effect on our results of operations.

We prepare our consolidated financial statements in conformity with accounting principles generally accepted in the United States. These principles are subject to interpretation by various governing bodies, including the Financial Accounting Standards Board, and the SEC, who create and interpret appropriate accounting standards. When new accounting rules are issued, we may need to implement changes to our accounting policies. A change from current accounting standards could have a significant adverse effect on our results of operations.

Exposure to terrorist attacks, military actions, and war could negatively affect our operations.

Future terrorist or military actions, in the U.S. or abroad, could result in destruction or seizure of our assets or suspension or disruption of our operations. Additionally, such actions could affect the operations of our suppliers or customers, resulting in loss of access to products, potential losses on supplier programs, loss of business, higher losses on receivables or inventory, and/or other disruptions in our business, which could directly, or indirectly through reduced demand, adversely affect our operations.

ITEM 1B. Unresolved Staff Comments.
Not applicable.

ITEM 2. Properties.
The Company owns a 70,000 square foot building in Greenville, South Carolina, which is the site of its principal executive and sales offices, and a 103,000 square foot building on adjacent property which it sublets. The Company owns a 231,000 square foot portion of the distribution center in Memphis, Tennessee, and leases another 136,000 square foot portion. The Company has entered into a new lease agreement for approximately 600,000 square feet for relocation of the distribution center to Southaven, Mississippi, which is anticipated to occur by October 1, 2007. In connection with the new lease, the Company obtained a put option for the purchase of the owned Memphis, Tennessee facility should the Company not sell the facility prior to April 30, 2008.

The Company leases 22,000 square feet of office and distribution center space in Miami, Florida, 11,000 square feet of office and distribution center space in Mexico City, Mexico, 17,000 square feet of office space in Brussels, Belgium, and 1,000 square feet of office space in Eagan, Minnesota. The Company leases approximately 38,000 square feet of third party warehouse space in Liege, Belgium.

The Company has additional sales offices, each of 10,000 square feet or less, in leased facilities in Norcross, Georgia; Williamsville, New York; Bellingham, Washington; Tempe, Arizona; Lenexa, Kansas; Toronto, Canada; Vancouver, Canada; Bad Homburg, Germany; Hull, England; Olivet, France; and Eindhoven, Netherlands, and in it s owned facility in Crawley, England.

Management believes the Company s office and warehouse facilities are adequate to support its operations at their current levels and for the foreseeable future.

ITEM 3. Legal Proceedings.

On November 21, 2006, a purported stockholder filed a derivative lawsuit in the United States District Court for the District of South Carolina in Greenville, South Carolina against certain current and former officers and directors of the Company and against the Company, as a nominal defendant, asserting causes of action based on alleged violations of securities laws (including alleged violations of Section 10(b), 14(a) and 20(a) of the Securities Exchange Act of 1934 and Rule 10b-5 of the SEC) and other common law claims including, breach of fiduciary duty, aiding and abetting and unjust enrichment relating to allegations concerning certain of the Company s prior stock option grants. The lawsuit seeks relief in the form of an accounting, rescission, unspecified money damages, disgorgement, attorneys fees, fees and expenses and other relief. On April 2, 2007, the Court appointed the plaintiff as lead plaintiff and ordered that any later actions filed in the same court and that relate to the same facts shall be consolidated. Our response, including a motion to dismiss the lawsuit, is currently due on September 10, 2007.

On April 11, 2007, another purported stockholder filed a substantially similar derivative lawsuit also related to the Company s prior grants of stock options. This action was also filed in the United States District Court for the District of South Carolina in Greenville, South Carolina against certain current and former officers and directors of the Company and against the Company, as a nominal defendant, and asserts substantially similar causes of action and claims for relief. The plaintiff in this second action has filed a motion to consolidate the two actions and appoint the plaintiff as a co-lead plaintiff. Our response, including a motion to dismiss the lawsuit, is currently due on September 10, 2007. The derivative lawsuits are in a preliminary stage and the Company believes that it is taking appropriate actions regarding both derivative lawsuits.

The Company is also continuing voluntarily to provide information to the SEC and the Department of Justice in connection with the Special Committee s review.

On March 12, 2007 the Company s insurance carrier, subject to a reservation of rights, provided a preliminary position on coverage for the first derivative claim in which the carrier indicated that the lawsuit allegations appear to constitute a claim within coverage of the Company s insurance policy. The carrier continues to assess coverage of this matter.

On April 13, 2007, the Company provided notice to the insurance carrier of the second action. The insurance carrier is reviewing the second action and assessing coverage for the matter. The carrier has indicated, however, that its coverage position with regard to the second action will be consistent with the first; i.e., that the allegations of the second derivative lawsuit appear to constitute a claim within the coverage of the Company s insurance policy. The carrier has not recognized as within coverage the costs, fees and expenses incurred for the work related to the Special Committee at this stage. The Company is evaluating its alternatives to address its coverage claim position.

The Company or its subsidiaries are, from time to time, parties to other lawsuits arising out of operations. Although there can be no assurance in this regard, based upon information known to the Company, the Company does not believe that any liability resulting from an adverse determination of such other lawsuits would have a material adverse effect on the Company s financial condition or results of operations.

ITEM 4. Submission of Matters to a Vote of Security Holders.

There have been no matters submitted to a vote of security holders during the last quarter of the fiscal year ended June 30, 2007.

PART II

ITEM 5. Market For Registrant s Common Equity and Related Stockholder Matters.

The information called for by this Item is incorporated herein by reference to the sections entitled *Market for the Registrant s Common Stock and Related Shareholder Matters* in the Company s Annual Report to Shareholders for the fiscal year ended June 30, 2007.

ITEM 6. Selected Financial Data.
The information called for by this Item is incorporated herein by reference to the section entitled *Selected Financial Data* in the Company s Annual Report to Shareholders for the fiscal year ended June 30, 2007.

ITEM 7. Management s Discussion and Analysis of Financial Condition and Results of Operations.
The information called for by this Item is incorporated herein by reference to the section entitled *Management s Discussion and Analysis* in the Company s Annual Report to Shareholders for the fiscal year ended June 30, 2007.

ITEM 7A. Quantitative and Qualitative Disclosures about Market Risk.
The information called for by this Item is incorporated herein by reference to the section entitled *Quantitative and Qualitative Disclosures About Market Risks* in the Company s Annual Report to Shareholders for the fiscal year ended June 30, 2007.

ITEM 8. Financial Statements and Supplementary Data.
The financial statements listed in Item 15(a)(1) of this Form 10-K are incorporated herein by reference to the corresponding sections of the Company s Annual Report to Shareholders for the fiscal year ended June 30, 2007. The financial statement schedule listed in Item 15(a)(2) of this Form 10-K and related Report of Independent Registered Public Accounting Firm are included in this report on pages F-1 and F-2.

ITEM 9. Changes In and Disagreements with Accountants on Accounting and Financial Disclosure.
Not applicable.

ITEM 9A. Controls and Procedures.
Evaluation of Controls and Procedures

The Company maintains disclosure controls and procedures designed to ensure that information required to be disclosed in reports filed or submitted under the Securities Exchange Act of 1934, as amended (the Exchange Act), is recorded, processed, summarized and reported within the time periods specified in the SEC s rules and forms. The Company s Chief Executive Officer (CEO) and Chief Financial Officer (CFO) evaluated, with the participation of management, the effectiveness of the Company s disclosure controls and procedures as of the end of the period covered by this report as required by Rule 13a-15 or 15d-15 of the Exchange Act.

Based on this evaluation, which included the findings and recommendations of the Special Committee s investigation and the restatement described herein, our CEO and CFO concluded that disclosure controls and procedures were effective at a reasonable assurance level on June 30, 2007, the end of the period covered by this Annual Report on form 10-K.

Limitations on the Effectiveness of Controls

The Company maintains a system of internal accounting controls to provide reasonable assurance that assets are safeguarded and that transactions are executed in accordance with management s authorization and recorded properly to permit the preparation of financial statements in accordance with accounting principles generally accepted in the United States. However, the Company s management, including the Chief Executive Officer and Chief Financial Officer, does not expect that the Company s disclosure controls or internal controls will prevent all errors and all fraud. A control system, no matter how well conceived and operated, can provide only reasonable, not absolute, assurance that the objectives of the control system are met. Further, the design of a control system must reflect the fact that there are resource constraints, and the benefits of controls must be considered relative to their costs. Because of the inherent limitations in all control systems, no evaluation of controls can provide absolute assurance that all control issues and instances of fraud, if any, within the Company have been detected. These inherent limitations include the realities that judgments in decision-making can be faulty. Breakdowns in the control systems can occur because of a simple error or mistake. Additionally, controls can be circumvented by the individual acts of some persons, by collusion of two or more people, or by

management override of the controls. The design of any system of controls also is based in part upon certain assumptions about the likelihood of future events, and there can be no assurance that any design will succeed in achieving its stated goals under all potential future conditions. Over time, controls may become inadequate because of changes in conditions, or the degree of compliance with the policies or procedures may deteriorate. Because of the inherent limitations in a cost-effective control system, misstatements due to error or fraud may occur and not be detected.

Management s Report

Our management is responsible for establishing and maintaining adequate internal control over financial reporting, as such term is defined in Exchange Act Rule 13a-15(f). Under the supervision and with the participation of our management, including Chief Executive Officer and Chief Financial Officer, we conducted an evaluation of the effectiveness of our internal control over financial reporting based on the framework set forth in *Internal Control Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission. Management s report and the report of the Company s independent registered public accounting firm on internal control over financial reporting are incorporated by reference to the Company s Annual Report to Shareholders for the fiscal year ended June 30, 2007, which is attached as Exhibit 13.1 hereto.

Changes in Internal Control over Financial Reporting

As previously reported in the Company s amended Annual Report on Form 10-K/A for the fiscal year ended June 30, 2006, filed with the SEC on June 18, 2007, our management concluded that there was a material weakness in our internal control over financial reporting on June 30, 2006, with regard to our accounting for, and disclosure of, share-based compensation and related payroll taxes. Specifically, we lacked adequate controls to ensure that all actions necessary for the grant of stock options had been completed as of the stated grant date.

In addition to the corrective actions disclosed in our Form 10-K/A for the year ended June 30, 2006, and in our Quarterly Reports on Form 10-Q for the quarters ended September 30, 2006, December 31, 2006, and March 31, 2007, each of which was filed on June 18, 2007, management has initiated or completed the following additional corrective actions during the fourth quarter of fiscal 2007:

- Obtained Board approval of the Equity Award Grant Policy, which establishes formal policies and procedures related to the issuance and accounting for share-based awards. The objective of this policy is to ensure that all share-based awards are documented and accounted for in accordance with U.S. generally accepted accounting principles. Many of these changes were implemented during the fourth quarter of fiscal year 2007.

- Engaged an independent third-party specializing in stock option administration to provide administrative services for the Company s stock option plans. Prior to engaging this third party, management determined that the internal controls in place at the service provider were effectively designed and operating effectively to ensure the objectives of the Equity Award Grant Policy could be achieved.

Other than the corrective actions noted above, there has been no change in our internal control over financial reporting during the fourth quarter of 2007 that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

ITEM 9B. Other Information.
Not applicable.

PART III

Information called for by Part III (Items 10, 11, 12, 13 and 14) of this report on Form 10-K has been omitted as the Company intends to file with the SEC not later than 120 days after the close of its fiscal year ended June 30, 2007, a definitive Proxy Statement relating to the 2007 Annual Meeting of Shareholders pursuant to Regulation 14A promulgated under the Exchange Act. Such information will be set forth in such Proxy Statement and is incorporated herein by reference.

ITEM 10. Directors, Executive Officers and Corporate Governance.

Incorporated by reference to the information presented under the heading *Directors and Executive Officers of the Registrant* in the Company s 2007 Proxy Statement, which will be filed with the SEC not later than 120 days after June 30, 2007.

ITEM 11. Executive Compensation.

Incorporated by reference to the information presented under the heading *Executive Compensation* and *Compensation Committee Report* in the Company s 2007 Proxy Statement, which will be filed with the SEC not later than 120 days after June 30, 2007.

ITEM 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters.

Incorporated by reference to the information presented under the heading *Security Ownership of Certain Beneficial Owners and Management* and *Equity Compensation Plan Information* in the Company s 2007 Proxy Statement, which will be filed with the SEC not later than 120 days after June 30, 2007.

ITEM 13. Certain Relationships, Related Transactions, and Director Independence.

Incorporated by reference to the information presented under the heading *Certain Relationships and Related Transactions* and *Directors and Executive Officers of the Registrant* in the Company s 2007 Proxy Statement, which will be filed with the SEC not later than 120 days after June 30, 2007.

ITEM 14. Principal Accounting Fees and Services.

Incorporated by reference to the information presented under the heading *Principal Accounting Fees and Services* in the Company s 2007 Proxy Statement, which will be filed with the SEC not later than 120 days after June 30, 2007.

PART IV

ITEM 15. Exhibits and Financial Statement Schedules.

(a)(1) ***Consolidated Financial Statements*****:** The following financial statements of Scan*Source*, Inc. and Independent Registered Public Accounting Firm s Reports are incorporated herein by reference from the Company s Annual Report to Shareholders for the fiscal year ended June 30, 2007:

Reports of Independent Registered Public Accounting Firm

Consolidated Balance Sheets as of June 30, 2007 and 2006

Consolidated Income Statements for the years ended June 30, 2007, 2006 and 2005

Consolidated Statements of Shareholders Equity for the years ended June 30, 2007, 2006 and 2005

Consolidated Statements of Cash Flows for the years ended June 30, 2007, 2006 and 2005

Notes to Consolidated Financial Statements

(a)(2) ***Financial Statement Schedule*****:** The following financial statement schedule of Scan*Source*, Inc. and related Report of Independent Registered Public Accounting Firm for the years ended June 30, 2007, 2006 and 2005 are presented on pages F-1 and F-2.

Schedule II - Valuation and Qualifying Accounts

All other financial statement schedules are not required under the related instructions or are inapplicable and therefore have been omitted.

(a)(3) ***Exhibits*****:** The Exhibits listed on the accompanying Index to Exhibits on pages E-1 to E-3 are filed, or incorporated by reference, as part of this report.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

August 29, 2007

SCAN*SOURCE*, INC.

By: /s/ MICHAEL L. BAUR
Michael L. Baur
Chief Executive Officer

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

Signature	Title	Date
/s/ JAMES G. FOODY James G. Foody	Chairman of the Board	August 29, 2007
/s/ MICHAEL L. BAUR Michael L. Baur	Chief Executive Officer and Director (principal executive officer)	August 29, 2007
/s/ RICHARD P. CLEYS Richard P. Cleys	Vice President and Chief Financial Officer, (principal financial and accounting officer)	August 29, 2007
/s/ STEVEN R. FISCHER Steven R. Fischer	Director	August 29, 2007
/s/ MICHAEL J. GRAINGER Michael J. Grainger	Director	August 29, 2007
/s/ JOHN P. REILLY John P. Reilly	Director	August 29, 2007

Report of Independent Registered Public Accounting Firm

The Board of Directors and Shareholders

Scan*Source*, Inc.

We have audited the consolidated financial statements of Scan*Source*, Inc. as of June 30, 2007 and 2006, and for each of the three years in the period ended June 30, 2007, and have issued our report thereon dated August 27, 2007; such financial statements and report are included in the 2007 Annual Report to Shareholders and are incorporated herein by reference. Our audits also included the financial statement schedule listed in Item 15(a) of this Form 10-K. This schedule is the responsibility of the Company s management. Our responsibility is to express an opinion based on our audits.

In our opinion, the financial statement schedule referred to above, when considered in relation to the basic financial statements taken as a whole, presents fairly in all material respects the information set forth therein.

/s/ Ernst & Young LLP

Greenville, South Carolina

August 27, 2007

SCHEDULE II

SCAN*SOURCE*, INC. AND SUBSIDIARIES

Valuation and Qualifying Accounts

(In thousands)

Description	**Balance at Beginning of Period**	**Amounts Charged to Expense**	**Reductions (A)**	**Recoveries And Other Additions**	**Balance at End of Period**
Valuation account for trade and notes receivable:					
Year ended June 30, 2005	$ 11,693	1,556	(2,974)	699	$ 10,974
Trade and current note receivable allowance					$ 10,923
Long-term note allowance					$ 51
Year ended June 30, 2006	$ 10,974	2,702	(3,395)	1,244	$ 11,525
Trade and current note receivable allowance					$ 11,508
Long-term note allowance					$ 17
Year ended June 30, 2007	$ 11,525	8,858	(7,392)	1,629	$ 14,620
Trade and current note receivable allowance					$ 13,342
Long-term note allowance					$ 1,278

(A) Reductions amounts represent write-offs for the years indicated. For the years ended June 30, 2005, reductions also includes approximately $.9 million reclassified to other liabilities. For the year ended June 30, 2006, reductions includes approximately $2.8 million payables to customers which was reclassified to other liabilities, net of returns allowance of $2.0 million reclassified from inventory.

INDEX TO EXHIBITS

Exhibit Number	Description
3.1	Amended and Restated Articles of Incorporation of the Registrant and Articles of Amendment Amending the Amended and Restated Articles of Incorporation of the Registrant. (Incorporated by Reference to Exhibit 3.1 to Registrant s Form 10-Q for the quarter ended December 31, 2004).
3.2	Bylaws of the Registrant (Incorporated by Reference to Exhibit 3.2 to Registrant s Form SB-2 filed with the Commission on February 7, 1994, Registration No. 33-75026-A).
4.1	Form of Common Stock Certificate (Incorporated by Reference to Exhibit 4.1 to Registrant s Form SB-2 filed with the Commission on February 7, 1994, Registration No. 33-75026-A).
10.1	1993 Incentive Stock Option Plan, as amended, of the Registrant and Form of Stock Option Agreement. (Incorporated by reference to Exhibit 10.10 to Registrant s Form S-1 filed with the Commission on January 23, 1997, Registration No. 333-20231).
10.2	1997 Stock Incentive Plan, as amended, of the Registrant and Form of Stock Option Agreement. (Incorporated by reference to Exhibit 10.13 to the Registrant s Form 10-K for the fiscal year ended June 30, 1999).
10.3	Stock Option Agreement dated March 19, 1997 covering options granted to Paige Rosamond. (Incorporated by reference to Exhibit 10.4 to the Registrant s Form 10-Q for the quarter ended September 30, 2002).
10.4	2002 Long Term Stock Incentive Plan, as amended, of the Registrant and Form of Stock Option Agreement. (Incorporated by reference to Exhibit 10.4 to the Registrant s Form 10-K for the fiscal year ended June 30, 2006).
10.5	Amended and Restated Director s Equity Compensation Plan. (Incorporated by reference to Annex A to Registrant s Definitive Proxy Statement filed October 26, 2006).
10.6	Form of Incentive Stock Option Agreement. (Incorporated by reference to Exhibit 99.1 to Registrant s Form 8-K filed with the SEC on January 11, 2005).
10.7	Employment Agreement dated as of January 1, 2004 between the Registrant and Robert S. McLain, Jr. (Incorporated by reference to Exhibit 10.1 to the Registrant s Form 10-K for the fiscal year ended June 30, 2004).
10.8	Employment Agreement Addendum dated as of January 1, 2005 between the Registrant and Jeffery A. Bryson. (Incorporated by reference to Exhibit 10.1 to the Registrant s Form 10-Q for the quarter ended March 31, 2005).
10.9	Employment Agreement Addendum dated as of January 1, 2005 between the Registrant and Robert S. McLain, Jr. (Incorporated by reference to Exhibit 10.2 to the Registrant s Form 10-Q for the quarter ended March 31, 2005).
10.10	Employment Agreement dated as of October 13, 2005 between the Registrant and Richard P. Cleys. (Incorporated by reference to Exhibit 10.1 to the Registrant s Form 10-Q for the quarter ended September 30, 2005).

10.11 Employment Agreement dated as of October 13, 2005 between the Registrant and Michael L. Baur. (Incorporated by reference to Exhibit 10.2 to the Registrant s Form 10-Q for the quarter ended September 30, 2005).

10.12 Employment Agreement dated as of October 12, 2006 between the Registrant and Jeffery A. Bryson. (Incorporated by reference to Exhibit 10.1 to the Registrant s Form 8-K filed on October 17, 2006).

10.13 Employment Agreement Addendum dated as of January 1, 2006 between the Registrant and Robert S. McLain, Jr. (Incorporated by reference to Exhibit 10.2 to the Registrant s Form 10-Q for the quarter ended March 31, 2006).

10.14 Employment Agreement Addendum dated as of March 31, 2006 between the Registrant and Steven H. Owings. (Incorporated by reference to Exhibit 10.3 to the Registrant s Form 10-Q for the quarter ended March 31, 2006).

10.15* Employment Agreement dated as of June 20, 2007 between the Registrant and R. Scott Benbenek.

10.16* Employment Agreement dated as of June 20, 2007 between the Registrant and Andrea D. Meade.

10.17 Nonqualified Deferred Compensation Plan effective July 1, 2004. (Incorporated by reference to Exhibit 10.2 to the Registrant s Form 10-Q for the quarter ended September 30, 2004).

10.18 Amended and Restated Credit Agreement dated as of July 16, 2004 among Scan*Source*, Inc., Netpoint International, Inc., 4100 Quest, LLC, and Partner Services, Inc., ScanSource Europe SPRL, ScanSource Europe Limited and ScanSource UK Limited, Branch Banking and Trust Company of South Carolina, as Administrative Agent and a Bank, Wachovia Bank, National Association, as Syndication Agent and an Other Currency Lender, and Fifth Third Bank, First Tennessee Bank National Association and Hibernia National Bank as Banks. (Incorporated by reference to Exhibit 10.19 to the Registrant s Form 10-K for the fiscal year ended June 30, 2004).

10.19 First Amendment dated as of May 13, 2005 to Amended and Restated Credit Agreement dated as of July 16, 2004 among Scan*Source*, Inc., Netpoint International, Inc., 4100 Quest, LLC and Partner Services, Inc., ScanSource Europe SPRL, ScanSource Europe Limited and ScanSource UK Limited, Branch Banking and Trust Company of South Carolina, as Administrative Agent and a Bank, Wachovia Bank, National Association, as Syndication Agent and an Other Currency Lender, and Fifth Third Bank, First Tennessee Bank National Association and Hibernia National Bank as Banks. (Incorporated by reference to Exhibit 10.25 to the Registrant s Form 10-K for the fiscal year ended June 30, 2005).

10.20 Agreement for Purchase and Sale dated as of September 22, 2005 between the Registrant s wholly owned subsidiary, Logue Court Properties, LLC, and Robert W. Bruce, and Camperdown Company, Inc. (Incorporated by reference to Exhibit 10.3 to the Registrant s Form 10-Q for the quarter ended September 30, 2005).

10.21 Letter Agreement and Consent dated July 3, 2006 amending the Amended and Restated Credit Agreement dated as of July 16, 2004 among Scan*Source*, Inc., Netpoint International, Inc., 4100 Quest, LLC, and Partner Services, Inc., ScanSource Europe SPRL, ScanSource Europe Limited and ScanSource UK Limited, Branch Banking and Trust Company of South Carolina, as Administrative Agent and a Bank, Wachovia Bank, National Association, as Syndication Agent and an Other Currency Lender, and Fifth Third Bank, First Tennessee Bank National Association and Capital One, N.A. (formerly Hibernia National Bank) as Banks. (Incorporated by reference to Exhibit 10.3 to the Registrant s Form 10-K for the fiscal year ended June 30, 2006).

10.22 Waivers dated as of November 9, 2006 to Amended and Restated Credit Agreement dated as of July 16, 2004, as amended, among Scan*Source*, Inc., Netpoint International, Inc., Scansource Europe Limited, Scansource UK Limited, 4100 Quest, LLC, Partner Services, Inc. and T2 Supply, Inc., Branch Banking and Trust Company of South Carolina, Wachovia Bank, National Association, Fifth Third Bank, First Tennessee Bank National Association and Capital One, N.A. (Incorporated by reference to Exhibit 10.1 to the Registrant s Form 10-Q for the quarter ended December 31, 2006).

10.23 Amendment dated as of February 14, 2007 to Amended and Restated Credit Agreement dated as of July 16, 2004, as amended, among Scan*Source*, Inc., Netpoint International, Inc., Scansource Europe Limited, Scansource UK Limited, 4100 Quest, LLC, Partner Services, Inc. and T2 Supply, Inc., Branch Banking and Trust Company of South Carolina, Wachovia Bank, National Association, Fifth Third Bank, First Tennessee Bank National Association and Capital One, N.A. (Incorporated by reference to Exhibit 10.1 to the Registrant s Form 10-Q for the quarter ended March 31, 2007).

10.24 Waivers dated as of February 14, 2007 to Amended and Restated Credit Agreement dated as of July 16, 2004, as amended, among Scan*Source*, Inc., Netpoint International, Inc., Scansource Europe Limited, Scansource UK Limited, 4100 Quest, LLC, Partner Services, Inc. and T2 Supply, Inc., Branch Banking and Trust Company of South Carolina, Wachovia Bank, National Association, Fifth Third Bank, First Tennessee Bank National Association and Capital One, N.A. (Incorporated by reference to Exhibit 10.2 to the Registrant s Form 10-Q for the quarter ended March 31, 2007).

10.25* Third Amendment dated as of April 20, 2007 to its Amended and Restated Credit Agreement dated as of July 16, 2004, as amended, among Scan*Source*, Inc., Netpoint International, Inc., Scansource Europe Limited, Scansource UK Limited, 4100 Quest, LLC, Partner Services, Inc. and T2 Supply, Inc., Branch Banking and Trust Company of South Carolina, Wachovia Bank, National Association, Fifth Third Bank, First Tennessee Bank National Association and Capital One, N.A. (formerly Hibernia National Bank) as Banks.

10.26*+ Industrial Lease Agreement dated April 27, 2007 between the Registrant and Industrial Developments International, Inc.

10.27*+ Sale Agreement dated April 27, 2007 between the Registrant and Industrial Developments International, Inc.

10.28* Waivers dated as of May 14, 2007 to Amended and Restated Credit Agreement dated as of July 16, 2004, as amended, among Scan*Source*, Inc., Netpoint International, Inc., Scansource Europe Limited, Scansource UK Limited, 4100 Quest, LLC, Partner Services, Inc. and T2 Supply, Inc., Branch Banking and Trust Company of South Carolina, Wachovia Bank, National Association, Fifth Third Bank, First Tennessee Bank National Association and Capital One, N.A.

13.1* The Registrant s Annual Report to Shareholders for the Fiscal Year Ended June 30, 2007.

21.1* Subsidiaries of the Company.

23.1* Consent of Ernst & Young LLP.

31.1* Certification of the Chief Executive Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.

31.2* Certification of the Chief Financial Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.

32.1* Certification of the Chief Executive Officer of Scan*Source*, Inc. Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to §906 of the Sarbanes-Oxley Act of 2002.

32.2* Certification of the Chief Financial Officer of Scan*Source*, Inc. Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to §906 of the Sarbanes-Oxley Act of 2002.

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* Filed herewith.
Management contract or compensatory plan or arrangement.
\+ Confidential treatment has been requested with respect to certain information in these exhibits pursuant to a confidential treatment request.