

SCANSOURCE INC
Form DEF 14A
October 19, 2010

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

SCHEDULE 14A INFORMATION

Proxy Statement Pursuant to Section 14(a) of the
Securities Exchange Act of 1934

Filed by the Registrant

Filed by a Party other than the Registrant

Check the appropriate box:

Preliminary Proxy Statement

Confidential, for Use of the Commission Only (as permitted by Rule 14a-6(e)(2))

Definitive Proxy Statement

Definitive Additional Materials

Soliciting Material Pursuant to §240.14a-12

SCANSOURCE, INC.

(Name of Registrant as Specified In Its Charter)

(Name of Person(s) Filing Proxy Statement, if other than the Registrant)

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(2) Form, Schedule or Registration Statement No.:

(3) Filing Party:

(4) Date Filed:

SCANSOURCE, INC.

6 Logue Court

Greenville, South Carolina 29615

NOTICE OF ANNUAL MEETING OF SHAREHOLDERS

To Be Held December 2, 2010

The Annual Meeting of Shareholders of ScanSource, Inc. will be held at the Westin Poinsett, 120 South Main Street, Greenville, SC 29601, on Thursday, December 2, 2010, at 10:30 a.m., local time, for the following purposes:

- (1) To elect five members to the Board of Directors;
- (2) To ratify the appointment of Ernst & Young LLP as our independent registered public accounting firm for the fiscal year ending June 30, 2011; and
- (3) To transact such other business as may properly come before the Annual Meeting or any adjournments thereof.

Only shareholders whose names appear of record on our books at the close of business on October 15, 2010 will be entitled to notice of and to vote at the Annual Meeting or at any adjournments thereof.

You are cordially invited to attend the Annual Meeting in person, but if you are unable to do so, please vote by proxy over the Internet or by telephone, or, if you received paper copies of the proxy materials by mail, you can also vote by mail by following the instructions on the voting instruction card. Voting over the Internet, by telephone or by written proxy or voting instruction card will ensure your representation at the Annual Meeting regardless of whether you attend in person. If you attend the Annual Meeting and desire to revoke your proxy and vote in person, you may do so. In any event, you are entitled to revoke your proxy at any time before it is exercised.

Steven R. Fischer

Chairman of the Board

October 19, 2010

SCANSOURCE, INC.

6 Logue Court

Greenville, South Carolina 29615

PROXY STATEMENT

General

This proxy statement is furnished in connection with the solicitation of proxies by the Board of Directors (the Board) of ScanSource, Inc. (the Company) to be used in voting at the Annual Meeting of Shareholders of the Company to be held at the Westin Poinsett, 120 South Main Street, Greenville, South Carolina, 29601, on Thursday, December 2, 2010, at 10:30 a.m., local time, and at any adjournments thereof (the Annual Meeting).

Important Notice Regarding the Availability of Proxy Materials for the Shareholder Meeting to Be

Held on December 2, 2010:

The Company's proxy statement and Annual Report are available at www.proxyvote.com.

Pursuant to rules promulgated by the Securities and Exchange Commission (SEC), we are providing access to our proxy materials over the Internet. On or about October 19, 2010, we first began mailing to our shareholders a Notice of Internet Availability of Proxy Materials (the Notice). The Notice contains instructions on how to access this proxy statement and the Annual Report and vote online. The Notice also contains instructions on how shareholders can receive a paper copy of our proxy materials, including this proxy statement, the Annual Report and a form of proxy card or voting instruction card. The Notice is not a ballot or other form for voting. Shareholders who receive a paper copy of our proxy materials, including a proxy statement, the Annual Report and a form of proxy card or voting instruction card, may vote by telephone. By furnishing our proxy materials over the Internet, we are lowering the costs and reducing the environmental impact of the Annual Meeting.

Any shareholder who executes the form of proxy referred to in this proxy statement may revoke it at any time before it is exercised. The proxy may be revoked by giving written notice to our Secretary of such revocation, by executing and delivering to our Secretary a proxy bearing a later date, or by attending the Annual Meeting and voting in person. Whether or not you plan to attend, please vote electronically via the Internet or by telephone, or, if you request paper copies of the proxy materials, please complete, sign, date and return the accompanying proxy card in the enclosed postage-paid envelope.

The cost of preparing, assembling and mailing this proxy statement and the form of proxy will be borne by us. Our directors, officers and employees may also solicit proxies personally or by mail, telephone or facsimile. No compensation will be paid for such solicitations. In addition, we will bear the reasonable expenses of brokerage houses and other custodians, nominees and fiduciaries who, at our request, may send proxies and proxy solicitation material to their clients and principals. This proxy statement is first being made available to our shareholders on October 19, 2010.

Voting Securities Outstanding

The Board has fixed the close of business on October 15, 2010 as the record date and time for the determination of shareholders entitled to notice of, and to vote at, the Annual Meeting and at any adjournments thereof. As of such date, 26,893,394 shares of the Company's common stock, no par value, were outstanding. All of such shares are eligible to be voted on each matter currently scheduled to come before the Annual Meeting, and no other outstanding shares of our capital stock are eligible to be voted at the Annual Meeting.

Cumulative voting for the election of directors is not available under our Articles of Incorporation. Consequently, each eligible share of common stock is entitled to one vote on each matter to be voted upon at the Annual Meeting. The election of directors will be by plurality vote.

For each other matter specified in this proxy statement to be submitted for shareholder approval at the Annual Meeting, the affirmative vote of a majority of the votes cast at the Annual Meeting is required for approval. Abstentions and broker non-votes are not considered as votes cast, and therefore will have no effect on the outcome of the vote on such matters. Brokers that are members of the New York Stock Exchange, Inc. (the NYSE) and who hold shares of our common stock in street name on behalf of beneficial owners have authority to vote on certain items when they have not received instructions from beneficial owners. Under the rules of the NYSE, the proposal to ratify the appointment of the independent registered public accounting firm is considered a discretionary item. This means that brokers may vote in their discretion on this proposal on behalf of beneficial owners who have not furnished voting instructions. In contrast, the proposal to elect directors is considered a non-discretionary item, and a broker non-vote occurs when brokers do not receive voting instructions from beneficial owners with respect to this proposal.

Our Bylaws provide that the presence in person or by proxy of the holders of a majority of the outstanding shares of common stock entitled to vote at the Annual Meeting is necessary to constitute a quorum at the Annual Meeting and at any adjournments thereof. Directions to withhold authority to vote for directors, abstentions and broker non-votes will be counted for purposes of determining if a quorum is present at the Annual Meeting. If a quorum is not present or represented at the Annual Meeting, the chairman of the meeting or the shareholders holding a majority of the shares of common stock entitled to vote, present in person or represented by proxy, have the power to adjourn the meeting from time to time without notice, other than an announcement at the meeting, until a quorum is present or represented. Our directors, officers and employees may solicit proxies for the reconvened meeting in person or by mail or telephone. At any such reconvened meeting at which a quorum is present or represented, any business may be transacted that might have been transacted at the meeting as originally scheduled.

PROPOSAL ONE

ELECTION OF DIRECTORS

Five directors are to be elected at the Annual Meeting. The size of the Board is currently set at six members and may be increased or decreased by resolution of the Board. Pursuant to the authority granted to it by our Bylaws, the Board has determined to fix the number of directors at five effective immediately following the Annual Meeting.

The Board has recommended five existing members of the Board as the five nominees for election as directors at the Annual Meeting to serve until the next annual meeting of shareholders or until their respective successors shall have been elected and qualified. The following are our nominees for election as directors at the Annual Meeting: Michael L. Baur, Steven R. Fischer, Michael J. Grainger, John P. Reilly and Charles R. Whitchurch. James G. Foody, the sixth existing member of the Board, will resign as a director upon expiration of his current term, immediately following the Annual Meeting. Mr. Foody has informed the Company of his intention to retire following the Annual Meeting, from his service on the Company's Board after 15 years of consecutive service. While Mr. Foody will not continue as member of the Board, he will remain Chairman Emeritus following the Annual Meeting.

In accordance with our Bylaws, those nominees receiving the greatest number of votes cast (although not necessarily a majority of the votes cast) will be elected to the Board. Abstentions and shares held in street name that are not voted in the election of directors (i.e., broker non-votes) will not be included in determining the number of votes cast in the election of directors. The proxies solicited for the Annual Meeting cannot be voted for a greater number of persons than five, the number of nominees named. If any nominee shall become unavailable for any reason, the persons named in the form of proxy shall vote for a substitute nominee or vote to reduce the number of directors to be elected as directed by the Board. The Board has no reason to believe that any of the five nominees listed above will not be available for election as a director.

THE BOARD OF DIRECTORS RECOMMENDS A VOTE FOR THE ELECTION OF THE NOMINEES SET FORTH ABOVE. THE PERSONS NAMED IN THE FORM OF PROXY WILL VOTE THE PROXY AS SPECIFIED. IF NO SPECIFICATION IS MADE, THE PROXY WILL BE VOTED FOR THE ELECTION OF THE NOMINEES SET FORTH ABOVE.

PROPOSAL TWO

RATIFICATION OF APPOINTMENT OF INDEPENDENT AUDITORS

The Audit Committee has appointed the firm of Ernst & Young LLP, an independent registered public accounting firm, as independent auditor to make an examination of our accounts for the fiscal year ending June 30, 2011, which appointment has been ratified by the Board. See the Audit Committee Report below for more information. If the shareholders do not ratify this appointment, other independent registered public accounting firms will be considered by the Audit Committee.

THE BOARD RECOMMENDS A VOTE FOR THE PROPOSAL TO RATIFY THE APPOINTMENT OF ERNST & YOUNG LLP AS OUR INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM FOR THE FISCAL YEAR ENDING JUNE 30, 2011. THE PERSONS NAMED IN THE FORM OF PROXY WILL VOTE THE PROXY AS SPECIFIED. IF NO SPECIFICATION IS MADE, THE PROXY WILL BE VOTED FOR THE RATIFICATION OF THE APPOINTMENT OF ERNST & YOUNG LLP.

A representative of Ernst & Young LLP is expected to be in attendance at the Annual Meeting and will have the opportunity to make a statement and be available to respond to appropriate questions.

Principal Accountant Fees and Services

As reflected in the table below, we incurred fees in fiscal 2010 and 2009 for services performed by Ernst & Young LLP related to such periods.

	Year Ended June 30, 2010	Year Ended June 30, 2009
Audit Fees	\$ 1,231,626	\$ 1,274,795
Audit-Related Fees	32,625	5,000
Tax Fees	476,514	123,060
All Other Fees		
Total Fees	\$ 1,740,765	\$ 1,402,855

In the above table, in accordance with applicable SEC rules:

Audit Fees are fees billed by the independent auditors for professional services for the audit of the consolidated financial statements included in our Form 10-K, the audit of internal control over financial reporting and review of financial statements included in our Form 10-Qs and for services that are normally provided by the auditors in connection with statutory and regulatory filings and engagements;

Audit-Related Fees are fees for services performed during 2010 and 2009 by the independent auditors for their due diligence services and review of our SEC filings and communications; and

Tax Fees are fees for services performed during the respective years by the independent auditors for professional services related to certain foreign tax compliance, tax advice and tax planning.

Audit Committee's Pre-approval Policies and Procedures

It is the policy of the Audit Committee to pre-approve all audit and permitted non-audit services proposed to be performed by our independent auditor. The process for such pre-approval is typically as follows: Audit Committee pre-approval is sought at one of the Committee's regularly scheduled meetings following the presentation of information at such meeting detailing the particular services proposed to be performed. The authority to pre-approve non-audit services may be delegated by the Audit Committee, pursuant to guidelines approved by the Committee, to one or more members of the Committee. None of the services described above were approved by the Audit Committee pursuant to the exception provided by Rule 2-01(c)(7)(i)(C) under Regulation S-X.

The Audit Committee has reviewed the non-audit services provided by Ernst & Young LLP and has determined that the provision of such services is compatible with maintaining Ernst & Young LLP's independence.

OTHER BUSINESS

The Board knows of no other matter to come before the Annual Meeting. However, if any matter requiring a vote of the shareholders should be duly presented for a vote, then the persons named in the form of proxy intend to vote such proxy in accordance with their best judgment.

PROPOSALS FOR 2011 ANNUAL MEETING

We must receive shareholder proposals intended to be presented at the 2011 Annual Meeting of Shareholders by June 21, 2011 for possible inclusion in the proxy materials relating to such meeting, in accordance with the SEC's Rule 14a-8. However, if the date of the 2011 Annual Meeting is changed by more than 30 days from the first anniversary of the date of the 2010 Annual Meeting, the deadline will instead be a reasonable time before we begin to print and mail the proxy statement for the 2011 Annual Meeting.

Shareholders intending to present a proposal or to nominate a candidate for director for election at the 2011 Annual Meeting of Shareholders, but not to have the proposal or nomination considered for inclusion in the proxy materials for that meeting, must be eligible and give us advance written notice in accordance with our Bylaws.

The deadline for shareholders to provide written notice of intent to make nominations for the election of directors at the 2011 Annual Meeting of Shareholders (but not for inclusion in the proxy materials relating to such meeting) will be no more than 75 days and no less than 45 days prior to the date of the meeting. Our Bylaws provide that such notice shall set forth in writing (a) as to each person whom the shareholder proposes to nominate for election or re-election as a director, all information relating to such person that is required to be disclosed in solicitations of proxies for the election of directors, or is otherwise required, in each case pursuant to Regulation 14A under the Securities Exchange Act of 1934, as amended (the Exchange Act), including such person's written consent to being named in the proxy statement as a nominee and to serving as director if elected; and (b) as to the shareholder giving notice and the beneficial owner, if any, on whose behalf the nomination is made (i) the name and address, as they appear on our books, of such shareholder and such beneficial owner, (ii) the class and number of shares of our common stock which are owned beneficially and of record by such shareholder and such beneficial owner and (iii) a description of all arrangements or understandings between such shareholder or beneficial owner and each nominee and any other person or persons pursuant to which the nomination or nominations are to be made by such shareholder.

For business proposals to be brought before an annual meeting by a shareholder, the shareholder must give timely notice and such other business must otherwise be a proper matter for shareholder action. The deadline for shareholders to provide written notice of their intent to bring a proposal (other than a nomination for the election

of directors) at the 2011 Annual Meeting of Shareholders (but not for inclusion in the proxy materials relating to such meeting) is no more than 90 days and no less than 60 days prior to the first anniversary of the 2010 Annual Meeting. However, if the 2011 Annual Meeting is more than 30 days before or more than 60 days after such anniversary date, notice must be delivered no more than 90 days and no less than 60 days prior to such Annual Meeting or the 10th day following the day on which we make a public announcement of the 2011 Annual Meeting. Assuming that the date of the 2011 Annual Meeting is not advanced or delayed in the manner described above, the required notice for the 2011 Annual Meeting would need to be provided to us not earlier than September 3, 2011 and not later than October 3, 2011.

To be in proper written form, a shareholder's notice to the Secretary must set forth in writing as to each matter the shareholder proposes to bring before the annual meeting (i) a brief description of the business desired to be brought before the annual meeting and the reasons for conducting such business at the annual meeting, (ii) the name and address, as they appear on our books, of the shareholder proposing such business and the beneficial owner, if any, on whose behalf the proposal is made, (iii) the class and number of shares of our common stock which are owned beneficially and of record by the shareholder and such beneficial owner and (iv) any material interest of the shareholder or such beneficial owner in such business.

BOARD OF DIRECTORS AND EXECUTIVE OFFICERS

The following sets forth certain information regarding our executive officers and current directors, including each director's specific experience, qualifications, attributes and skills that led our Board to conclude that he is well qualified to serve as a member of the Board.

Directors

Steven R. Fischer, 65, has served as Chairman of the Board since December 2009 and as a director of the Company since December 1995. Mr. Fischer served as President of North Fork Business Capital Corporation and its successor, Capital One Leverage Finance, from July 2004 to July 2008, and served as President of Transamerica Business Capital Corporation from September 2000 to February 2004, as Executive Vice President and Division Manager of Transamerica Business Capital Corporation from October 1997 to September 2000 and as Senior Vice President and Regional Manager of Transamerica Business Capital Corporation from March 1992 to October 1997. Mr. Fischer is currently a financial consultant and serves as a director of Falconstor Software Inc., a publicly held provider of storage networking infrastructure software.

Mr. Fischer is a seasoned executive and has valuable experience in overseeing management. His experience is important to the Board's oversight of strategy, compensation practices, risk management and implementation of sound corporate governance practices. He serves on each committee of our Board of Directors.

Michael L. Baur, 53, has served as our Chief Executive Officer since January 2000 and as a director since December 1995. Mr. Baur has been employed with the Company since its inception, and held the position of President from that point until June 2007. Prior to joining the Company, from April 1991 to November 1992, Mr. Baur served in various positions at personal computer manufacturer Argent Technologies, Inc., including President and General Manager. In September 1989, Mr. Baur joined Gates/FA, a value-added computer and technology distributor, as a Product Manager and served as Merchandising Manager from February 1990 to March 1991.

Mr. Baur has served the Company as President or CEO since its inception and has developed a deep institutional knowledge and perspective regarding the Company's strengths, challenges and opportunities. As one of the founders of the Company, Mr. Baur brings strong leadership, entrepreneurial and business building and development skills and experience to the Board. Mr. Baur is a member of the Governance Committee. He does not serve on the board of any other public company and he has not served on the board of any public company other than the Company in the past five years.

James G. Foody, 80, has served as a director of the Company since December 1995. Mr. Foody served as Chairman of the Board from December 2005 until December 2009. Mr. Foody has served as a business consultant in Greenville, South Carolina since October 1990. Prior to that time, he was a partner in the accounting firm of Ernst & Young LLP.

As the previous non-executive Chairman of the Board and as a director of the Company since December 1995, Mr. Foody brings deep institutional knowledge and perspective regarding the Company and its challenges and prospects. His public accounting experience also provides insight and perspective with respect to the Company's accounting policies, practices and risk management issues. Mr. Foody serves as Chairman of the Governance Committee and as a member of the Audit Committee, Compensation Committee and Nominating Committee.

Michael J. Grainger, 58, has served as a director of the Company since October 2004. Mr. Grainger served as President and Chief Operating Officer of Ingram Micro, Inc., a technology distributor, from January 2001 to April 2004. From May 1996 to July 2001 he served as Executive Vice President and Chief Financial Officer of Ingram Micro, and from July 1990 to October 1996 as Vice President and Controller of Ingram Industries, Inc.

He previously served on the Board of Directors of Bell Microproducts from September 2006 to March 2008. Mr. Grainger currently serves on the board of directors of two multinational diversified private companies, Ingram Industries, Inc. and Belkin International Inc.

As a former executive of Ingram Micro (including serving as its Chief Financial Officer), Mr. Grainger brings extensive knowledge of our industry and our competition to the Board. He also brings extensive accounting and financial skills important in the understanding and oversight of our financial reporting, enterprise and operational risk management and corporate finance, tax and treasury matters. Mr. Grainger serves as the Chairman of our Compensation Committee and serves on our Audit Committee, Nominating Committee and Governance Committee.

John P. Reilly, 62, has served as a director of the Company since June 2001. Mr. Reilly is President and CEO of Keltic Financial Services, LLC in Tarrytown, New York. Prior to that, from 1977 to 1999, he held senior management positions in the Leveraged Buy-Out, Leasing, Corporate Finance and Private Banking divisions at Citibank, N.A. Mr. Reilly also serves on the Board of Directors of Chimera Investment Corporation, a public real estate investment trust.

Mr. Reilly brings to the Board extensive financial skills important in the understanding and oversight of our financial reporting/enterprise and operational risk management and corporate finance matters. His long career in the financial services industry also brings financial management expertise to our Board. Mr. Reilly serves as chairman of the Nominating Committee and serves on our Audit Committee, Compensation Committee, and Governance Committee.

Charles R. Whitchurch, 64, has served as a director of the Company since February 2009. Mr. Whitchurch served as the Chief Financial Officer of Zebra Technologies Corporation from September 1991 to June 2008. He is currently a member of the Board of Directors and Chairman of the Audit Committee of Landmark Aviation, a privately held operator of fixed base aviation operations at multiple locations throughout the United States and Europe. Mr. Whitchurch also serves on the boards of Ashworth College, a privately held provider of nationally accredited online education, and Kranson Holdings, a privately held distributor of rigid packaging materials. In both companies, Mr. Whitchurch serves as Chairman of the Audit Committee.

Mr. Whitchurch previously served on the Board of Directors of SPSS, Inc. (SPSS), a privately held provider of predictive analytic software. Mr. Whitchurch served on the SPSS board as Chairman of the Audit Committee from October 2003 until the sale of SPSS to IBM in October 2009.

Mr. Whitchurch's executive career brings in-depth knowledge of business operations and strategy and broad experience related to financial and corporate governance matters through his tenure serving on the boards of directors of public companies, including serving as the chairman of audit committees. Mr. Whitchurch serves as the Chairman of our Audit Committee and serves on our Compensation Committee, Nominating Committee and Governance Committee.

Executive Officers

R. Scott Benbenek, 54, has served as our President of Worldwide Operations since June 2007, and served as our Executive Vice President, Corporate Operations from 2002 to 2007. Mr. Benbenek joined the Company in 1998, and has also held the positions of Vice President of Merchandising and Director of Merchandising. Prior to joining the Company, Mr. Benbenek served as Product Manager for Gates/Arrow (now Synnex), from 1990 to 1992, and served as Director of Merchandising and Vice President of Merchandising for Gates/Arrow from 1992 to 1995 and 1995 to 1998, respectively.

Richard P. Cleys, 59, has served as Vice President and Chief Financial Officer since joining the Company in November 2002. Prior to joining the Company, Mr. Cleys served as Vice President and Controller of Lanier

Worldwide, Inc., a multinational office product and service distributor, from 1996 to 1998 and as Vice President-Finance and Treasurer from 1999 to 2001. From 1993 to 1996, Mr. Cleys served as Vice President and Chief Financial Officer of AB Dick, Inc., a manufacturer of printing products.

John J. Ellsworth, 42, has served as our Vice President, General Counsel and Corporate Secretary since August 2008 and as our General Counsel and Corporate Secretary since joining the Company in January 2003 to August 2008. Prior to joining the Company, Mr. Ellsworth served as Assistant General Counsel of One Price Clothing Stores, Inc. from 2000 to 2003 and as a judicial law clerk in 1999.

Andrea D. Meade, 39, has served as our Executive Vice President of Operations and Corporate Development since June 2007, and served as our Executive Vice President, Corporate Operations from 2002 to 2007. Ms. Meade joined the Company in 2000, and has also held the position of Director of Strategic Development. Prior to joining the Company, Ms. Meade served as a Senior Associate with Green, Manning & Bunch, Ltd., a middle market investment banking firm. Prior to that, Ms. Meade served as an Associate in J.P. Morgan & Co.'s Financial Institutions Group, focusing on mergers and acquisitions and advisory services.

CORPORATE GOVERNANCE MATTERS

Leadership Structure of Board

For the past six years the positions of Chairman of the Board and Chief Executive Officer have been held by separate persons as an aid in the Board's oversight of management. Our Chairman of the Board is Mr. Fischer. The duties of the non-executive Chairman of the Board include:

presiding over all meetings of the Board;

reviewing the agenda for Board meetings in consultation with our Chief Executive Officer and other members of the Board;

calling and presiding over meetings of the independent directors;

managing the Board's process for annual director self-assessment and evaluation of the Board and of our Chief Executive Officer; and

presiding over all meetings of shareholders.

The Board believes that there may be advantages to having an independent chairman for matters such as communications and relations between the Board, our Chief Executive Officer and other senior management; in assisting the Board in reaching consensus on particular strategies and policies; and in facilitating robust director, Board and Chief Executive Officer evaluation processes. Our Board currently consists of five independent directors and our Chief Executive Officer, Mr. Baur. One of Mr. Fischer's roles is to oversee and manage the Board and its functions, including setting meeting agendas and presiding over Board meetings. In this regard, Mr. Fischer and the Board in their advisory and oversight roles are particularly focused on overseeing our Chief Executive Officer and senior management in seeking and adopting successful business strategies and risk management policies, and in making successful choices in management succession.

Board's Role in Risk Oversight

The Board as a whole actively oversees the risk management of the Company. Enterprise risks—the specific financial, operational, business and strategic risks that we face, whether internal or external—are identified by the Board and management together, and then each risk is assigned to the full Board or a Board committee for oversight. Certain strategic and business risks, such as those relating to our products, markets and capital investments, are overseen by the entire Board. The Audit Committee oversees management of market and operational risks that could have a financial impact, such as those relating to internal controls or liquidity. The

Nominating Committee and the Governance Committee manage the risks associated with governance issues, such as the independence of the Board, and the Compensation Committee is responsible for managing the risks relating to our executive compensation plans and policies and, in conjunction with the Board, key executive succession. Management regularly reports to the Board or relevant Committee on actions that we are taking to manage these risks. The Board and management periodically review, evaluate and assess the risks relevant to the Company.

Independent Directors

In accordance with the listing standards of The NASDAQ Stock Market LLC (NASDAQ) and our Corporate Governance Guidelines (the Guidelines), our Board of Directors consist of a majority of independent directors. The Board has determined that each of the five non-management members of the Board meets the requirements for being independent as defined in SEC rules and regulations and NASDAQ listing standards. The independent directors constitute a supermajority of the Board. Mr. Baur is the only management member of the Board. Pursuant to our Bylaws, the Board has established an Audit Committee in accordance with Section 3(a)(58)(A) of the Exchange Act, a Compensation Committee, a Governance Committee and a Nominating Committee.

Board Meetings and Committees

The Board of Directors and the Committees of the Board met a total of 26 times during the fiscal year ended June 30, 2010. Mr. Foody served as the non-executive Chairman of the Board from December 2005 to December 2009, and Mr. Fischer has served in such role since December 2009. The Board met a total of 14 times during our fiscal year ended June 30, 2010 and each director attended all of the Board meetings. The members of the Audit Committee, Compensation Committee, Governance Committee and Nominating Committee also attended all of their respective committee meetings during the fiscal year ending June 30, 2010. We expect all Board members to attend the Annual Meeting. All of our directors attended the 2009 Annual Meeting of Shareholders.

Audit Committee

The Audit Committee is composed of Chairman Whitchurch and Messrs. Grainger, Fischer, Foody, and Reilly. The functions of the Audit Committee include selecting the independent auditors, reviewing the scope of the annual audit undertaken by our independent auditors and the progress and results of their work, reviewing our financial statements and our internal accounting and auditing procedures and oversight of our internal audit function. None of our directors who are also executive officers may serve on the Audit Committee. This committee met five times during the fiscal year ended June 30, 2010. All members of the Audit Committee were in attendance at the Audit Committee meetings during the fiscal year ended June 30, 2010. Each member of the Audit Committee meets the definition of independence for audit committee members as set forth in the NASDAQ listing standards. The Board has determined all members of the Audit Committee meet the requirements of an audit committee financial expert as defined in SEC rules and regulations. The Audit Committee operates pursuant to a charter adopted by the Board that sets forth the responsibilities and powers delegated by the Board to the Audit Committee and as prescribed by the SEC. A copy of the charter is available on the Investor Relations page of our website, www.scansourceinc.com, under the Corporate Governance tab.

Compensation Committee

The Compensation Committee is composed of Chairman Grainger and Messrs. Fischer, Foody, Reilly and Whitchurch. The functions of the Compensation Committee include reviewing and approving executive compensation policies and practices, reviewing salaries and bonuses for our named executive officers, overseeing our equity-based plans, overseeing compensation risk assessment and considering such other matters as may from time to time be referred to the Compensation Committee by the Board. The Compensation Committee operates pursuant to a charter adopted by the Board that sets forth the responsibilities and powers delegated by

the Board to the Compensation Committee. A copy of the charter is available on the [Investor Relations](#) page of our website, www.scansourceinc.com, under the [Corporate Governance](#) tab. None of our directors who are also executive officers may serve on the Compensation Committee. The Compensation Committee met four times during the fiscal year ended June 30, 2010. All members of the Compensation Committee were in attendance at the meetings of the Compensation Committee during the fiscal year ended June 30, 2010. See [Executive Compensation Compensation Discussion and Analysis](#) for a further discussion of the Compensation Committee's processes and procedures for the consideration and determination of executive and director compensation.

Governance Committee

The Governance Committee is composed of the entire Board of Directors. Mr. Foody serves as the Chairman. The functions of the Governance Committee include oversight and responsibility for implementation of the Company's program for complying with the rules and regulations of the SEC and NASDAQ (in conjunction with the Audit Committee, where necessary or appropriate) as well as other NASDAQ rulemaking initiatives pertaining to corporate governance considerations. The Governance Committee operates pursuant to a charter adopted by the Board of Directors that sets forth the responsibilities and powers delegated by the Board to the Governance Committee. A copy of the charter is available on the [Investor Relations](#) page of our website, www.scansourceinc.com, under the [Corporate Governance](#) tab. The Governance Committee held two committee meetings in the fiscal year ended June 30, 2010. All members of the Governance Committee were in attendance.

Nominating Committee

The Nominating Committee is composed solely of independent directors. The Nominating Committee is composed of Chairman Reilly and Messrs. Fischer, Foody, Grainger, and Whitchurch. The functions of the Nominating Committee include oversight and responsibility for the recruitment and nomination of our directors from time to time including, but not limited to, the nomination of directors for election at each annual meeting of our shareholders by a majority of the independent directors on the Board. The Nominating Committee held one committee meeting in the fiscal year ended June 30, 2010. All members of the Nominating Committee were in attendance.

The Nominating Committee will identify and screen potential nominees for directors and recommend nominees to the Board. The Nominating Committee has not adopted specific objective requirements for service on the Board. Instead, the Nominating Committee will consider various factors in determining whether to recommend to the Board potential new Board members, or the continued service of existing members, including the nominee's experience and skills and whether such skills or experience are particularly relevant to us; whether the nominee would be an independent director under NASDAQ listing standards and applicable law; and in the case of existing members, the nominee's contributions as a member of the Board during his or her prior service. Although we do not have a formal policy with regard to the consideration of diversity in identifying director nominees, the Nominating Committee strives to nominate directors with a variety of complementary skills so that the Board, as a whole, will possess the appropriate talent, skills and expertise to oversee our business.

The Nominating Committee operates pursuant to a charter adopted by the Board of Directors that sets forth the responsibilities and powers delegated by the Board to the Nominating Committee. A copy of the charter is available on the [Investor Relations](#) page of our website, www.scansourceinc.com, under the [Corporate Governance](#) tab.

Director Education

Each member of the Board has completed Institutional Shareholder Services (ISS) accredited director education programs. We provide our directors with the opportunity and pay for our directors to attend ISS accredited director education programs.

Corporate Governance Guidelines

The Board has established Guidelines that address various governance matters including the role, function, responsibilities, size and composition of the Board of Directors, Board tenure, service on other public company boards, conflict of interest issues, executive sessions of non-management directors, review of committee charters and the Board self-evaluation process. A copy of the Guidelines is available on the Investor Relations page of our website, www.scansourceinc.com, under the Corporate Governance tab.

General Board Functions

The Guidelines set forth general functions of the Board, including holding regular and, where appropriate, special meetings, periodically reviewing management's performance and our organizational structure, reviewing and approving corporate strategy, determining compensation for our named executive officers and awarding equity-based compensation, overseeing our accounting and financial reporting process and audits of our financial statements and identifying potential candidates for Board membership.

Retention of Independent Advisors

The Guidelines provide that the Board of Directors may retain independent advisors on behalf of the Board when appropriate.

Succession Planning

Our Board of Directors engages in an active succession planning process. On a periodic basis, with the assistance of our Chief Executive Officer, it reviews the potential in-house candidates for each of the critical senior management positions and identifies areas of growth for those candidates that will best enable them to fill any need that we might have. Where there is not a satisfactory in-house candidate for a position, the Board considers whether outside candidates are likely to be available in a timely manner and whether other alternatives need to be considered.

Board Tenure

The Board of Directors is elected annually and is not classified.

Composition of Board

The Board of Directors currently consists of six members. The size of the Board of Directors may be increased or decreased by resolution of the Board of Directors. The Board has fixed the number of directors at five effective immediately following the Annual Meeting. The Guidelines provide that a majority of the Board will at all times be independent. Through the Nominating Committee, the Board will identify potential candidates for Board membership with the objective being that all new, non-management candidates will be independent. The Nominating Committee will confirm the independence of the non-management directors on an annual basis. The Board of Directors has determined that each of the five non-management members of the Board meets the requirements for being independent as defined in SEC rules and regulations and NASDAQ listing standards. The independent directors constitute a supermajority of the Board. Mr. Baur is the only management member of the Board.

Service on Other Public Company Boards

All members of the Board are compliant with the Guidelines regarding service on other public company boards and audit committees of other public companies.

Executive Sessions of Independent Directors

Pursuant to the Guidelines, independent directors must meet regularly without management present. Our independent directors met six times in executive session during fiscal 2010.

Director Evaluations and Reviews

In accordance with the Guidelines, the Board and the Governance Committee conduct periodic performance reviews of the Board of Directors and its committees. As a part of the evaluation process, the Board and committees meet and discuss self-assessments and corporate governance matters.

Communications Between Security Holders and Board of Directors

Our security holders may send written communications to the Board or any one or more of the individual members of the Board by directing such communication to our Secretary by mail in the care of the Secretary, at our principal executive offices, or by e-mail to john.ellsworth@scansource.com. All written communications will be compiled by the Secretary and promptly submitted to the individual directors being addressed or to the chair of the committee whose areas of responsibility include the specific topic addressed by such communication, or in all other cases, to the Chairman of the Board.

Code of Ethics

Our Code of Conduct applies to all of our executive officers, including our Chief Executive Officer and our Chief Financial Officer, directors and employees. We will provide a copy of the Code of Conduct upon request to any person without charge. Such requests may be transmitted by regular mail in the care of the Secretary. We have posted the Code of Conduct on the Investor Relations page of our website, www.scansourceinc.com, under the Corporate Governance tab.

We will post on our website, www.scansourceinc.com under the Corporate Governance tab, or will disclose on a Form 8-K filed with the SEC, any amendments to, or waivers from, a provision of the Code of Conduct that apply to our Chief Executive Officer and our Chief Financial Officer, or persons performing similar functions, and that relate to (i) honest and ethical conduct, including the ethical handling of actual or apparent conflicts of interest between personal and professional relationships, (ii) full, fair, accurate, timely and understandable disclosure in reports and documents that we file with, or submit to, the SEC and in other public communications made by us, (iii) compliance with applicable governmental laws, rules and regulations, (iv) the prompt internal reporting of violations of the Code of Conduct to an appropriate person or persons identified in the Code of Conduct, or (v) accountability for adherence to the Code of Conduct. Any waiver granted to an executive officer or a director may only be granted by the Board and will be disclosed, along with the reasons therefor, on a Form 8-K filed with the SEC. No waivers were granted in fiscal 2010.

Section 16(a) Beneficial Ownership Reporting Compliance

Section 16(a) of the Exchange Act requires our directors and executive officers and persons who own more than ten percent of our common stock to file with the SEC initial reports of ownership and reports of changes in ownership of common stock and our other equity securities. Our directors, executive officers and greater than ten percent shareholders are required by SEC regulations to furnish us with copies of all Section 16(a) reports they file. To our knowledge, based solely on a review of the copies of such reports furnished to us and written representations that no other reports were required, during the fiscal year ended June 30, 2010, all Section 16(a) filing requirements applicable to directors, executive officers and greater than ten percent beneficial owners were complied with by such persons, except for one late Form 4 filing for Mr. Cley in connection with a non-market stock option exercise and hold transaction.

Compensation Committee Interlocks and Insider Participation

During the fiscal year ended June 30, 2010, Messrs. Fischer, Foody, Grainger, Reilly and Whitchurch served on the Compensation Committee. None of them was an officer or employee of the Company or any of its subsidiaries during the fiscal year ended June 30, 2010, nor at any time prior thereto. During the fiscal year ended June 30, 2010, none of the members of the Compensation Committee had any relationship with the Company requiring disclosure under Item 404 of Regulation S-K, and none of our executive officers served on the compensation committee (or equivalent), or the board of directors, of another entity whose executive officer(s) served on our Board of Directors or Compensation Committee.

EXECUTIVE COMPENSATION

COMPENSATION DISCUSSION AND ANALYSIS

Executive Summary

In this section, we provide a discussion and analysis of the material elements of our compensation programs and policies, the material compensation decisions we made under those programs and policies with respect to our named executive officers, and the material factors considered in making those decisions. In addition, you will find a series of tables containing specific information about the compensation earned or paid in fiscal years ending June 30, 2010, 2009 and 2008 to the following individuals, to whom we refer as our named executive officers:

Michael L. Baur, Chief Executive Officer,

Richard P. Cleys, Vice President & Chief Financial Officer,

R. Scott Benbenek, President of Worldwide Operations,

Andrea D. Meade, Executive Vice President of Operations & Corporate Development, and

John J. Ellsworth, Vice President, General Counsel & Corporate Secretary.

The discussion below is intended to help you understand the detailed information provided in the executive compensation tables and to put that information into context within our overall compensation program.

Objectives of Our Compensation Program

In general, we operate in a marketplace where competition for talented executives is significant. Continuity of personnel is a critical success factor to our business. Our approach to the compensation of our executive officers is relatively simple and straight-forward. The objective of our executive compensation program is to enable us to attract, motivate, reward and retain the management talent necessary to achieve both long-term and short-term corporate objectives, and enhance shareholder value. We also aim to establish executive compensation levels that correlate directly to the executive officer's level of responsibility, with the compensation of executive officers carrying responsibility for multiple business units being tied to our performance as a whole. Additionally, we aim to provide our executive officers with incentive-based compensation tied to our performance in achieving growth and improved profitability, which aligns the executive's opportunity with the interests of our shareholders. To do this effectively, our philosophy is that our compensation program must provide our executive officers with a total compensation package that is reasonable in relation to our performance, sufficiently competitive relative to the packages offered by competitors of similar size in our industry, and internally equitable.

How Executive Compensation is Determined and Assessed

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The Compensation Committee of the Board establishes and reviews our executive compensation policies and practices, reviews the pay plans and equity awards offered to our named executive officers, oversees our equity-based plans, and considers such other compensation matters as may from time to time be referred to the

Compensation Committee by the Board. The Compensation Committee consists of five non-employee directors who meet the standard for independence under NASDAQ rules. We believe that the Compensation Committee's independence from management allows the Compensation Committee members to provide unbiased consideration of various elements that could be included in our executive compensation program and apply independent judgment about which elements will best achieve our compensation objectives.

The Compensation Committee meets at least annually to review and approve all new executive compensation programs and, if necessary, recommend approval to the Board of Directors. The Compensation Committee has not established a formal policy for the manner in which it allocates executive compensation between cash and non-cash components, short-term and long-term components, or among benefits, perquisites or other forms of non-cash compensation. Instead, the Compensation Committee focuses on the past performance and contribution of each named executive officer in determining the overall structure of executive compensation packages. The Compensation Committee also relies upon the recommendations of the Company's management team, particularly Mr. Baur, our Chief Executive Officer, regarding the compensation of the named executive officers other than the Chief Executive Officer. The Chief Executive Officer, with input from other executive officers, annually reviews the performance of each of the named executive officers (the Chief Executive Officer's performance (for compensation purposes) is reviewed solely by the Compensation Committee) and presents recommendations for compensation adjustments, including any adjustments to base salary, variable compensation and/or equity awards, to the Compensation Committee.

During the fiscal year ended June 30, 2010, the Compensation Committee met four times for the express purpose of discussing executive compensation matters. The Compensation Committee has the authority to hire outside advisors and experts, including compensation consultants, to assist it. The Compensation Committee retained Pearl Meyer Partners (Pearl Meyer) and Watson Wyatt Worldwide (Watson Wyatt) in fiscal 2010 to assist the Compensation Committee with certain compensation matters as described below.

Factors in Assigning and Determining Levels of Executive Compensation

The primary factors the Compensation Committee considers in setting compensation levels is the named executive officers' experience and the levels of compensation potentially available in the marketplace. In addition, the Compensation Committee focuses on the results of the executive officers' annual performance reviews, which evaluate the executive officers' decision-making skill and their demonstrated skill in developing the individuals that report to them. Since all of our named executive officers have been employed by us for more than five years, we have not recently had to establish compensation without historical points of reference. The Compensation Committee also considered the overall state of the economy particularly with respect to increases in base salary for our named executive officers.

Elements of Compensation

Our compensation program for our named executive officers consists of three core elements: base salary, cash incentives and long-term equity incentives. We also provide our named executive officers with limited retirement benefits, severance benefits and change in control benefits. The employment agreements with each of the named executive officers set forth their respective compensation components, as described below.

Base Salary

Base salaries for each of our named executive officers are based on the employment agreements between each named executive officer and the Company. Increases, if any, in base salary are determined through a subjective assessment of each named executive officer's performance, in light of his or her responsibilities, goals and objectives, his or her position with the Company and our overall performance during prior periods. Any relevant market trends and internal compensation equity issues also may be considered, including each named executive officer's distribution industry experience relative to others. In evaluating our performance, the primary

focus is upon financial performance for the relevant annual period, measured generally by return on invested capital (ROIC) and operating income. We believe that operating income is the appropriate measurement because it is most closely aligned with the interests of shareholders. In addition, operating income is easily computed, communicated and understood by employees and shareholders alike. We believe that the correlation between incremental growth in operating income and enhanced shareholder value is strong.

Base salaries are reviewed annually by the Compensation Committee and adjusted appropriately. In May 2010, the Compensation Committee considered the performance of Messrs. Cleys and Benbenek and Ms. Meade and approved increases in base salary for each of these executive officers effective July 1, 2010. The increase in base salaries for each of these executive officers related primarily to their job performance over the prior year. The Compensation Committee addressed Mr. Ellsworth's base salary in connection with the amendment and restatement of his employment agreement in May 2010 and based on his job performance over the prior year, increased his base salary effective July 1, 2010. The Compensation Committee approved an increase in the base salary for Mr. Baur in August 2010 effective July 1, 2010. The increase in Mr. Baur's base salary was due to his job performance over the prior year. The current annual base salaries of the named executive officers pursuant to their employment agreements are as follows: Mr. Baur \$800,000; Mr. Cleys \$285,000; Mr. Benbenek \$350,000; Ms. Meade \$235,000; and Mr. Ellsworth \$225,000.

Cash Incentives

Variable cash incentives payable quarterly or annually reward our named executive officers for the attainment of pre-determined performance metrics and provide an incentive for continued performance in the future. This component of compensation has also been used to reward our named executive officers for business growth opportunities and the profitability of the individual business units they manage. The fiscal year 2010 cash incentives for Messrs. Baur and Benbenek and Ms. Meade were based on performance metrics of our operating income and ROIC as specified in their employment agreements.

The fiscal year 2010 cash incentive for Mr. Cleys was based in part on the Company's operating income and on other management and financial performance goals determined quarterly by the Chief Executive Officer. For fiscal 2010, the quarterly goals consisted of one or more of the following with respect to each quarter: (i) achieving a specific ROIC or other financial target, and (ii) successfully completing or implementing specific management projects, such as implementation of income tax strategy, account receivable programs and personnel development programs for fiscal year 2011.

ROIC is used as a performance measurement for several reasons: (i) it is the primary metric relied upon by Company management to monitor and evaluate our business performance, (ii) we believe that it is the preferred measurement that best balances our operating results with our asset and liability management, and (iii) it excludes the results of capitalization decisions (debt vs. equity), is easily computed, communicated and understood, and drives changes in shareholder value. For these reasons, we establish variable cash incentives for certain of our named executive officers contingent on the Company achieving ROIC levels that we believe will influence our executive officers' decisions in a manner that will benefit our shareholders.

For Messrs. Baur and Benbenek and Ms. Meade, the actual dollar value of the cash incentive award is calculated as a percentage of operating income and ROIC because we believe this effectively aligns the financial interests of the executive officer with our performance and profitability. While the ROIC performance metric was the same for each named executive officer in fiscal 2010, with the exception of Mr. Cleys and Mr. Ellsworth, the formula for calculating the dollar value of the cash incentive award is different for each executive officer. The formula for each named executive officer for fiscal year 2010, excluding Mr. Cleys and Mr. Ellsworth, was subjectively determined based on an evaluation of our historical performance and the growth expectations and metrics developed from that evaluation. Factors such as the named executive officer's scope of responsibility, our past performance, with the results of the most recent fiscal years being emphasized, the general consensus of the Compensation Committee, Board of Directors and executive management team regarding the forecast for the

next fiscal year, and any other internal or external factors affecting our business model are also generally considered. The Compensation Committee also considers the need to set the formula for each executive officer at a level where achieving the target incentive compensation levels is not guaranteed and the achievement of the target incentive compensation levels is rewarding to both the executive and to the shareholders.

For the fiscal year ended June 30, 2010, the cash incentives to the named executive officers aggregated to \$1,627,561, or 2.1% of operating income. The mechanics of determining the amount, if any, of the cash incentive award for each named executive officer are set forth in each of their respective employment agreements with the Company. For Messrs. Baur and Benbenek and Ms. Meade, the Compensation Committee structured the cash incentive portion of their total compensation to be tied solely to ROIC and operating income so that this portion of their total compensation is directly aligned with our performance. The specific cash awards for each named executive officer for fiscal year 2010 are detailed below.

Mr. Baur. For the fiscal year ended June 30, 2010, Mr. Baur's annual cash incentive award, reflected as a percentage of operating income, was calculated as follows:

Return on Invested Capital	% of Operating Income
Greater than 30%	1.65%
30% or less and greater than 25%	1.55%
25% or less and greater than 20%	1.50%
20% or less and greater than 10%	1.40%
10% or less	0

In fiscal year 2010, we achieved ROIC of 16.7%, and Mr. Baur's fiscal year ended June 30, 2010 annual cash incentive award was determined to be \$1,060,860.

Mr. Benbenek. Mr. Benbenek's target cash incentive opportunity, reflected as a percentage of operating income, is 0.35% of our operating income. The amount of Mr. Benbenek's annual cash incentive award was calculated on a quarterly basis by multiplying operating income by a factor of .0035 and by a percentage, as follows:

Return on Invested Capital	% for Calculation
Greater than or equal to 30%	115%
Less than 30% but greater than or equal to 25%	110%
Less than 25% but greater than or equal to 20%	100%
Less than 20% but greater than or equal to 10%	90%
Less than 10%	70%

In the fiscal year ended June 30, 2010, we achieved ROIC of 16.7%, and Mr. Benbenek's fiscal year 2010 bonus award was determined to be \$238,693.

Ms. Meade. Ms. Meade's target cash incentive opportunity, reflected as a percentage of operating income, is 0.25% of our operating income. The amount of Ms. Meade's annual cash incentive award was calculated on a quarterly basis by multiplying operating income by a factor of .0025 and by a percentage, as follows:

Return on Invested Capital	% of Target Bonus Opportunity
Greater than or equal to 30%	115%
Less than 30% but greater than or equal to 25%	110%
Less than 25% but greater than or equal to 20%	100%
Less than 20% but greater than or equal to 10%	90%
Less than 10%	70%

In fiscal year 2010, we achieved ROIC of 16.7%, and Ms. Meade's fiscal year 2010 bonus award was determined to be \$170,495.

Mr. Cleys. For the fiscal year ended June 30, 2010, Mr. Cleys' target annual cash incentive award was \$25,000 per quarter and was based on our financial performance and Mr. Cleys' attainment of certain individual performance and management goals. Such goals were determined quarterly by the Chief Executive Officer and consisted of one or more of the following with respect to each quarter: (i) achieving a specific ROIC target, and (ii) successfully completing or implementing specific management projects, such as implementation of income tax strategy, account receivable programs and personal development programs. Mr. Cleys' maximum annual cash incentive opportunity was \$37,500 for each quarter, or \$150,000 per year.

Mr. Ellsworth. Mr. Ellsworth received a discretionary bonus for the fiscal year ended June 30, 2010 which was based on a subjective assessment of his performance and the overall operational performance of the Company's legal, regulatory, risk management, real estate and Corporate Secretary functions. Mr. Ellsworth's target bonus was \$25,000. This bonus was determined by the Chief Executive Officer. In connection with the amendment of Mr. Ellsworth's employment agreement in May 2010, the Compensation Committee established Mr. Ellsworth's maximum bonus opportunity as \$50,000 per year beginning July 1, 2010.

Long-Term Equity Incentives

Long-term equity incentives were awarded to executive officers in the fiscal year ended June 30, 2010 in the form of stock options and/or restricted stock awards. Equity awards are granted under the 2002 Plan. We amended and restated the 2002 Plan in 2009 to increase the number of shares of common stock that may be issued under the 2002 Plan from 2,800,000 shares to 4,800,000 shares and to limit the maximum number of shares that may be issued under the 2002 Plan pursuant to the grant of incentive stock options to 4,800,000. The amendment of the 2002 Plan facilitated the attraction and retention of employees, including the named executive officers, capable of achieving consistently superior business results. The 2002 Plan is also designed to align the interests of our named executive officers with those of the shareholders by linking a portion of their compensation directly to increases in shareholder value. The amendment of the 2002 Plan allowed us to follow equity compensation best practices including the efficient use of equity awards. We believe that stock options and restricted stock awards provide long-term incentives to executive officers because they link the executive officers' financial interests to those of our shareholders. Moreover, we believe that stock options and restricted stock awards are an effective tool for the retention and motivation of our named executive officers. Stock options were awarded under the 2002 Plan to Mr. Baur and Mr. Benbenek on December 4, 2009. Service-based restricted stock was awarded under the 2002 Plan to Mr. Cleys, Ms. Meade and Mr. Ellsworth on December 4, 2009.

In May 2009, to further strengthen the performance objectives of our long-term equity incentives, the Compensation Committee added an additional element to the compensation structure of Mr. Benbenek and Ms. Meade with a grant to each officer of performance and tenure based restricted stock awards. The grant of such restricted stock awards to Mr. Benbenek and Ms. Meade was designed to serve as a long-term incentive to these officers in connection with their service to the Company with respect to distinct corporate projects. In May 2010, the Compensation Committee added an additional element to the compensation structure of Mr. Ellsworth with a grant of a performance and time based restricted stock award in connection with the amendment of his employment agreement. The Compensation Committee added this element to Mr. Ellsworth's compensation structure to more closely align his compensation structure and incentives to those of the other named executive officers (other than Mr. Cleys) and to further align his compensation with the Company's overall performance, as measured by equaling or exceeding certain operating income targets. Please see Employment, Severance and Change in Control Agreements Restricted Stock Awards in this proxy statement for a detailed description of such grants. In connection with the restricted stock awards granted to Messrs. Benbenek, Ellsworth and Ms. Meade, the Compensation Committee retained the right, in its sole discretion, to reduce the number of shares of common stock deemed earned and vested (but not below 50% of the number of shares subject to a particular tranche) if the Compensation Committee determines that such reduction is appropriate based on the

Compensation Committee's evaluation of the named executive officer's performance in certain designated areas. The Compensation Committee determined that it was important to include this provision so that it had the ability to reduce the award if an individual executive officer's job performance did not meet the expectations of the Compensation Committee.

In August 2010, the Compensation Committee reviewed our audited consolidated financial statements for the fiscal year ended June 30, 2010, and determined that the performance criteria set forth in the Award agreements for Mr. Benbenek and Ms. Meade were met, entitling Mr. Benbenek and Ms. Meade to vest with respect to 50% of the shares of common stock set forth in each agreement. The Compensation Committee also determined that a reduction of the number of shares of common stock deemed earned and vested with respect to such tranche was not necessary or appropriate and, therefore, deemed vested and earned with respect to 50% of the shares of common stock subject to such Award and otherwise in accordance with the terms of the applicable award agreement and the 2002 Plan.

The Compensation Committee will continue to consider the use of restricted stock and/or restricted stock units (as well as options) for future grants to all of its named executive officers. We grant equity awards such as restricted stock awards to promote the success, and enhance the value, of the Company by linking the personal interests of our employees and advisors to those of our shareholders, and by providing participants with an incentive for outstanding performance. Equity-based awards also provide the Company with the flexibility to motivate, attract and retain the services of employees upon whose judgment, interest and special effort the successful conduct of our operation is largely dependent.

With respect to option grants, the exercise price of stock options equals the fair market value on the date of the grant, as measured by the closing price of our common stock on the NASDAQ Global Select Market on the award date. Our Equity Award Policy requires annual equity awards to be made at the Compensation Committee's regularly scheduled meeting on the day of the annual meeting of our shareholders. Stock options are subject to a three-year vesting schedule. Restricted stock awards that are not performance based are subject to a three-year vesting schedule. In addition, vesting accelerates on a change of control in certain instances. Stock options generally have a ten-year term. In certain circumstances, the term may be reduced due to the termination of an employee, or to the death or disability of a participant.

The number of shares subject to stock options or restricted stock awards granted by the Compensation Committee to our executives in a given year is based on, among other things, overall Company performance, the number of shares available for award, the value of the proposed award, and the amount of options and/or shares of restricted stock awarded in prior years, with the ultimate purpose of motivating, rewarding and retaining executive officers while maintaining efficient use of equity and preserving shareholder value.

The number of shares subject to stock-based awards granted by the Compensation Committee on December 4, 2009 was based primarily on the market value of the annual stock option grant in fiscal 2008 and the related analysis of peer company equity grant practices provided to the Compensation Committee by Watson Wyatt, one of the compensation consultants we retained in fiscal 2010. The Compensation Committee decided to maintain the relative dollar value of the annual stock-based awards to the named executive officers on December 4, 2009 as compared to the annual stock option grant on December 5, 2008.

Other Executive Benefits, Including Perquisites, Retirement Benefits and Deferred Compensation

We provide certain of our named executive officers with certain perquisites, retirement, deferred compensation and other benefits that the Compensation Committee believes are consistent with our goal of attracting, motivating and retaining key executive officers.

Our named executive officers are eligible to participate in our tax qualified 401(k) plan to the same extent that other employees are eligible to participate. The plan provides for an annual match of up to \$800 that vests over a five-year period. Participants in our 401(k) plan are also eligible for any annual discretionary profit

sharing contributions (authorized by the Compensation Committee). These contributions vest over a five-year period. For fiscal 2010, the Compensation Committee authorized discretionary profit sharing contributions to the 401(k) plan for all of our employees, including our named executive officers. The amount allocated to each named executive officer in fiscal 2010 was the same percentage as for all of our employees, but the amount allocated was capped at \$16,607. See Summary Compensation Table All Other Compensation footnote (10) for the amounts received by the our named executive officers.

For fiscal 2010, the Compensation Committee also authorized discretionary profit sharing contributions in the form of cash payments to all of our employees, including our named executive officers. Named executive officers are eligible to participate in our profit sharing plan to the same extent that other employees are eligible to participate. The amount allocated to each named executive officer in fiscal 2010 was the same percentage as for all of our employees, but the amount allocated was capped at \$4,901. See Summary Compensation Table All Other Compensation footnote (10) for the amounts received by our named executive officers.

In addition, in lieu of reimbursing Mr. Baur for certain expenditures on perquisites in fiscal year 2010 pursuant to Mr. Baur's employment agreement with the Company, the Company provided Mr. Baur with an annual perquisite allotment of \$50,000. This allotment was provided to Mr. Baur in lieu of customary perquisites for the chief executive officer of a publicly traded company. Given the particular job requirements of our Chief Executive Officer, the Compensation Committee believes that it is appropriate to provide Mr. Baur with a lump sum payment for business related and other customary perquisites. The Compensation Committee did not believe that it was necessary to provide such an allotment for our other named executive officers or other employees based on their respective job requirements.

We maintain a deferred compensation plan pursuant to which named executive officers may defer a portion of their annual compensation. Participants' funds are invested among various funds designated by the plan administrator (and currently may not be invested in our common stock). We may make matching contributions that vest over a five-year period. Participants become fully vested in any matching contributions upon a change in control of the Company and upon their death, disability or attainment of age 55 and at least ten years of service. We maintain a deferred compensation plan to provide a competitive benefit and to facilitate adequate savings for retirement on a tax efficient basis for our named executive officers.

Our named executive officers are entitled to participate in our health, vision, dental, paid time off, life, disability and employee stock purchase plans to the same degree that our other employees are entitled to participate. In addition, our named executive officers participate in a supplemental long-term disability plan.

Employment, Severance and Change in Control Agreements

We have entered into employment agreements with each of our named executive officers because we believe that such agreements are necessary to attract, motivate and retain executive talent and foster continuity among our leadership. These agreements, depending on the reason for the termination and when it occurs, provide certain severance benefits for named executive officers. These severance pay arrangements are put in place not only because they are often necessary to attract executive talent, but because in the case of a change in control, severance benefits provide protection for the executive officers involved in negotiating and directing the change in control in a manner intended to allow them to act in the best interests of the Company without regard to the effects such a change in control may have on their personal situations. In 2010 the Compensation Committee evaluated the provisions of our standard executive officer employment agreement and made certain changes to the standard form agreement to clarify that the agreement contained a "double-trigger" as interpreted by certain shareholder services organizations so that severance benefits are not payable upon a change in control unless a termination of employment also occurs. The Compensation Committee made these changes to clarify that we had sole control over whether change in control severance benefits are triggered. With the new provision included in Mr. Ellsworth's amended employment agreement, the Company will have sole control over whether change in control severance benefits are triggered with respect to his employment agreement. Please see the

Potential Payments upon Termination or Change in Control section of this proxy statement for a detailed description of the severance benefits, and Employment, Severance and Change in Control Agreements in this proxy statement below for a detailed description of such agreements.

Other Elements of Our Executive Compensation Program

Equity Grant Practices

Equity awards are a significant component of our executive officer compensation. We maintain a formal Equity Award Policy whereby all annual equity awards and all equity awards granted to officers under Section 16(a) of the Exchange Act are made by the Compensation Committee. The Compensation Committee has delegated authority to our Chief Executive Officer to make awards to newly-hired or newly-promoted employees who are not officers under Section 16(a) of the Exchange Act. The Compensation Committee's delegation of authority to our Chief Executive Officer does not apply to grants to newly-hired employees occurring in connection with a merger or acquisition, and no individual grant may exceed 40,000 shares without Compensation Committee approval. Our General Counsel and Chief Financial Officer oversee the documentation of and accounting for all stock options and other equity award grants.

The exercise price of all stock options granted by the Compensation Committee, including grants by our Chief Executive Officer pursuant to delegated authority, cannot be less than 100% of the fair market value of the common stock on the date of the grant.

The Compensation Committee is authorized to grant annual merit-based equity awards to employees and consultants pursuant to a meeting held each year on the same date as the annual shareholder meeting, and grants are made only during a window for stock transactions (under our insider trading compliance program). Regarding annual merit-based equity grants, the date of grant is the day following each annual meeting of our shareholders or, in the absence of reported sales on such date, the closing sales price on the immediately preceding date on which sales were reported. In the event that the annual shareholder meeting does not occur during a window, the annual grant will occur at the next Compensation Committee meeting that occurs during a window. The annual grant date for named executive officers is the same as the annual grant date for other employees (except in the case of extenuating circumstances approved in advanced by the Compensation Committee).

If necessary, the Compensation Committee may meet quarterly, or more often as required, during a window for stock transactions, to make special grants of equity awards in the case of newly-hired Section 16 officers, promotions, or special recognition situations for employees and consultants, or in situations not involving annual grants. Equity awards to newly hired employees or officers, or to our employees who have been promoted, are granted on the effective date of their employment with the Company or the effective date of their promotion, as applicable, if such employment or promotion occurs during a window for stock transaction under our Equity Grant Policy. Equity awards related to special recognition situations for employees and consultants and other situations not involving annual grants, new hires or promotions will only be granted on a date occurring during windows for stock transactions. If the hiring or promotion does not occur during a window for stock transactions, any related grant shall be made on the first day of the next window for stock transactions. The Board considers and approves options issued in connection with a merger or acquisition.

Tax and Accounting Considerations

The Compensation Committee and management have considered the accounting and tax impact of various program designs to balance the potential cost to the Company with the benefit/value to the executive officer. The accounting and tax treatment of compensation generally has not been a factor in determining the amounts of compensation for our executive officers.

Code Section 162(m) places a limit of \$1,000,000 on the amount of compensation that we may deduct in any year with respect to any one of our covered employees (generally, our chief executive officer and chief

financial officer and the three most highly compensated officers). Compensation that qualifies as performance-based compensation under Code Section 162(m) is not subject to this \$1,000,000 limitation. The variable compensation provisions in the employment agreements with Mr. Baur, Mr. Benbenek, Ms. Meade and Mr. Ellsworth are designed to constitute compensation that qualifies as performance-based compensation under Code Section 162(m). In addition, our 2002 Plan is structured so that compensation intended to qualify as performance-based compensation under Code Section 162(m) will also, to the extent practicable, be exempt from the \$1,000,000 limitation. The 2002 Plan was amended in fiscal 2010 to add restricted stock units to the types of awards that may be intended to qualify for the exemption from the limitation on deductibility imposed under Code Section 162(m). The approval by the shareholders of the amended and restated 2002 Plan in fiscal 2010 also included reapproval of the 2002 Plan's performance factors, eligibility terms and participant award limitations for purposes of Code Section 162(m). It is the Compensation Committee's intent to maximize deductibility of executive compensation while retaining some discretion needed to compensate executives in a manner commensurate with performance and the competitive landscape for executive talent.

With the adoption of Financial Accounting Standards Board Accounting Standards Codification 718, *Accounting for Stock Compensation* (FASB ASC Topic 718), we do not expect accounting treatment of differing forms of equity awards to vary significantly and, therefore, accounting treatment is not expected to have a material effect on the selection of forms of compensation.

Compensation Risk Analysis

Consistent with new SEC disclosure requirements, we have assessed the Company's compensation programs and have concluded that our compensation policies and practices do not create risks that are reasonably likely to have a material adverse effect on the Company. We believe that our compensation program reflects an appropriate mix of compensation elements and balances current and long-term performance objectives, cash and equity compensation, and risks and rewards.

During 2010, the Compensation Committee reviewed our compensation policies and practices for employees, including our named executive officers, particularly as they relate to risk management practices and risk-taking incentives. As part of its review, the Compensation Committee discussed with management the ways in which risk is effectively managed or mitigated as it relates to our compensation programs and policies. In addition, the Compensation Committee engaged Pearl Meyer to review our compensation program to determine if any practices might encourage excessive risk taking on the part of employees, including senior executives.

Based on this review, the Compensation Committee believes that our compensation programs do not encourage excessive risk and instead encourage behaviors that support sustainable value creation. The following features of our executive incentive compensation program illustrate this point.

Our compensation program design provides a balanced mix of cash and equity and annual and long-term incentives that are designed to encourage strategies and actions that are in our long-term best interests. Equity awards such as restricted stock awards reinforce our long-term performance perspective.

Our performance goals and objectives generally reflect a mix of corporate and other performance measures designed to promote progress towards our longer-term goals.

A significant component of our executive's total direct compensation consists of long-term, equity-based incentive awards that are designed to encourage executive officers to focus on sustained stock price appreciation.

Equity awards typically have vesting schedules of three years and, in some cases, have performance-based vesting components as well; executive officers thus typically will always have unvested awards that could decrease significantly in value if our business is not managed for the long term.

Equity incentive awards are granted periodically, typically annually, during open window periods and under an established equity grant program.

Our overall compensation of our named executive officers is at reasonable and sustainable levels, as determined by a review of historical analysis and a review of our economic positions and prospects, as well as the compensation offered by comparable companies.

The Compensation Committee reviews tally sheets and/or market references before making pay decisions relative to named executive officers.

The Compensation Committee retains, in certain cases, discretion to reduce compensation based on corporate and individual performance and other factors.

Equity awards are subject to annual limitations on the number of shares that may be awarded during any year. The typical Company compensation structure has a threshold and maximum for cash bonuses.

The target levels under our annual cash bonus program are designed to be set at a level where achieving the target incentive compensation levels is not guaranteed and the achievement of such levels is rewarding to both the executive officer and the shareholders.

Executive officer base salaries are consistent with executive officers' responsibilities so that they are not motivated to take excessive risks to achieve a reasonable level of financial security.

Non-executive sales representatives are compensated based on profitable businesses not just sales volume.

Our implementation of the SCORE internal reporting system ensures more consistent assessment of financial results used to determine payouts.

Board and management processes are in place to oversee risk associated with our compensation programs, including but not limited to quarterly business performance reviews by management and the full Board where key financial metrics such as operating income and ROIC are reviewed and assessed.

Officers must obtain permission from our General Counsel before the sale of any shares, even during an open trading period. Based on a combination of the above, we believe that (i) our named executive officers and other employees are encouraged to manage the Company in a prudent manner because our compensation programs are aligned with our business strategy and risk profile, and (ii) our incentive programs are not designed to encourage our named executive officers or other employees to take excessive risks or risks that are inconsistent with our best interests. In addition, we have in place various controls and management processes that help mitigate the potential for incentive compensation plans to have a material adverse affect on the Company.

2010 SUMMARY COMPENSATION TABLE

The following table sets forth the cash and other compensation that we paid to our named executive officers or that was otherwise earned by our named executive officers for their services in all capacities during the fiscal years ended June 30, 2010, June 30, 2009 and June 30, 2008.

Name and Principal Position	Year	Salary (\$)	Bonus (\$)	Stock Awards (\$) ⁽²⁾	Option Awards (\$) ⁽²⁾	Non-Equity Incentive Plan	All Other Compensation (\$) ⁽¹⁰⁾	Total (\$)
						Compensation (\$) ⁽³⁾		
Michael L. Baur Chief Executive Officer	2010	750,000			1,578,925	1,060,860	140,115	3,529,900
	2009	750,000			1,792,126	1,037,657	235,779	3,815,562
	2008	700,000 ⁽¹⁾			1,730,550	1,486,208	248,685	4,165,443
Richard P. Cleys Vice President and Chief Financial Officer	2010	265,000	132,513 ⁽⁴⁾	130,221			44,255	571,989
	2009	265,000	126,400 ⁽⁴⁾		143,370		44,155	578,925
	2008	265,000 ⁽¹⁾	139,806 ⁽⁵⁾		138,480		51,401	594,687
R. Scott Benbenek President of Worldwide Operations	2010	324,000			315,785	238,693	109,964	988,442
	2009	323,908		200,007	358,425	233,475	82,214	1,198,029
	2008	303,077	62,860 ⁽⁶⁾		346,200	334,648	80,416	1,127,201
Andrea D. Meade Executive Vice President of Operations and Corporate Development	2010	216,000		162,162		170,495	44,059	592,716
	2009	215,939		150,012	179,213	166,766	40,326	752,256
	2008	201,923	37,500 ⁽⁶⁾		173,100	239,954	48,776	701,253
John Ellsworth Vice President, General Counsel and Corporate Secretary ⁽⁹⁾	2010	195,000	25,000 ⁽⁷⁾	148,276			27,650	395,926
	2009	195,000	25,000 ⁽⁷⁾		107,528		30,161	357,689
	2008	172,327	45,494 ⁽⁸⁾		42,000		33,710	293,531

- (1) Does not include \$773,968 to Mr. Baur and \$254,252 to Mr. Cleys that was included on their respective Form W-2s for tax reporting purposes related to the grant of options treated as discount options for purposes of Section 409A of the Code, but for which they received no compensation.
- (2) Amounts shown are the aggregate grant date fair value of awards computed in accordance with FASB ASC Topic 718, excluding the effect of estimated forfeitures. For a discussion of the assumptions made in such valuation, see note 10 to our audited financial statements for the fiscal year ended June 30, 2010 included in our Annual Report on Form 10-K for the fiscal year ended June 30, 2010, accompanying this proxy statement.
- (3) Reflects the value of cash incentives earned pursuant to our annual incentive bonus program. For information regarding our annual incentive bonus program, see the discussion in "Compensation Discussion and Analysis" in this proxy statement.
- (4) Consists of a discretionary bonus based on subjective assessments and a financial target.
- (5) Consists of a discretionary bonus of \$77,876 based on a subjective assessment of his performance and the overall operational performance of our financial function, and a payment of \$61,930 to remedy certain unfavorable personal tax consequences of Section 409A of the Code as a result of the amendment of certain of his outstanding options to increase the exercise price to the fair market value on the appropriate measurement date.

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- (6) Consists of a payment in connection with our offer to amend certain stock options to increase the option exercise price and to give them a cash payment for the difference in option exercise price between the amended option and the original option exercise price to remedy certain unfavorable personal tax consequences of Section 409A of the Code.
- (7) Consists of a discretionary bonus based on a subjective assessment of his performance based on the overall performance of our legal and regulatory functions and his demonstrated management capabilities with respect to issues such as staffing and planning to meet our legal, regulatory and related compliance functions.

- (8) Consists of a payment of \$29,126 based on a subjective assessment of his performance based on the overall performance of our legal and regulatory functions and his demonstrated management capabilities with respect to issues such as staffing and planning to meet our legal, regulatory and related compliance needs, and a payment of \$16,368 in connection with our tender offer to amend certain stock options to increase the option exercise price and to give certain option holders a cash payment for the difference in option exercise price between the amended option and the original exercise price.
- (9) Mr. Ellsworth was determined by the Board of Directors to be a named executive officer of the Company in August 2008 and therefore was appointed as Vice President in August 2008. Because we only had four named executive officers in 2008, we are voluntarily providing compensation information for Mr. Ellsworth for the fiscal year ending June 30, 2008.
- (10) See the All Other Compensation table below for additional information:

COMPONENTS OF ALL OTHER COMPENSATION

Name	Year	Per- quisites (\$)	Company Contributions to Nonqualified Deferred Compensation Plan	Company Contributions to Defined Contribution Plans 401(k)	Company Profit Sharing (\$)	Company Contributions to Employee Stock Purchase Plan(\$)	Company Contributions Paid Travel for Spouses (\$)	Tax Reim- burse- ments (\$)	Company Paid Service Recognition Award (\$)	Company Paid Physical Exam (\$)	Total (\$)
			Benefit (\$)	Benefit (\$)		Benefit (\$)	Benefit (\$)				
Michael L. Baur	2010	50,000	50,000	3,444	17,407	4,901	5,662	8,701			140,115
	2009	50,000	145,455	3,444	23,299		5,354	8,227			235,779
	2008		200,000	3,444	30,969		5,244	6,828		2,200	248,685
Richard P. Cleys	2010		17,860	4,087	17,407	4,901					44,255
	2009		16,769	4,087	23,299						44,155
	2008		14,145	4,087	30,969					2,200	51,401
R. Scott Benbenek	2010		71,843	4,459	17,407	4,901	5,662	5,692			109,964
	2009		39,755	4,459	23,299	665	5,354	5,382	3,300		82,214
	2008		25,863	4,459	30,969	910	6,828	9,187		2,200	80,416
Andrea D. Meade	2010		16,520	1,931	17,407	4,901			3,300		44,059
	2009		15,662	1,365	23,299						40,326
	2008		14,807	800	30,969					2,200	48,776
John J. Ellsworth	2010		9,900	534	13,475	3,741					27,650
	2009		9,900	503	19,093		665				30,161
	2008		4,942	127	26,441					2,200	33,710

2010 GRANTS OF PLAN-BASED AWARDS TABLE

The following table below sets forth the individual grants of plan-based awards made to each of our named executive officers during the fiscal year ended June 30, 2010.

Name	Estimated Future Payouts Under Equity Incentive Plan Awards ⁽¹⁾				All Other Stock Awards: Number of Shares of Stock or	All Other Option Awards: Number of Securities Underlying	Exercise or Base Price of Option	Grant Date Fair Value of Stock and Option Awards (\$)
	Grant Date	Threshold (#)	Target (#)	Maximum (#)	Units (#) ⁽¹⁾	Options (#) ⁽¹⁾	Awards (\$ / Sh)	
Michael L. Baur	12/4/09					125,000	24.57	1,578,925
Richard P. Cleys	12/4/09				5,300			130,221
R. Scott Benbenek	12/4/09					25,000	24.57	315,785
Andrea D. Meade	12/4/09				6,600			162,162
John J. Ellsworth	12/4/09				4,000			98,280
	5/17/10		1,826 ⁽²⁾					49,996

⁽¹⁾ The restricted stock and option awards vest ratably over three years. The grant date fair values were determined pursuant to the Black-Scholes options valuation model, using the following assumptions: stock price volatility of 46.27%, expected term of seven years, dividend yield of 0%, and risk-free interest rate of 2.89%.

⁽²⁾ The target number of shares is based on 100% achievement of service and performance requirements. The 2002 Plan does not provide for thresholds. Up to 50% of the award will vest and be earned on June 30, 2011, and up to 50% will vest on June 30, 2012 if certain performance and service conditions are met. Fair value is based on the closing price of our common stock on NASDAQ on May 17, 2010.

Employment, Severance and Change in Control Agreements

We have entered into employment agreements with each of our named executive officers. Each of Mr. Baur's and Mr. Cleys' employment agreements, which were amended and restated as of June 30, 2008, is effective for a term ending on June 30, 2011, and, if a change in control occurs, their respective employment agreements will be effective until the later of June 30, 2011, or the first anniversary of the change in control. On May 21, 2009, we entered into amended and restated employment agreements with Mr. Benbenek and Ms. Meade. Mr. Benbenek's and Ms. Meade's employment agreements are effective for a term ending June 30, 2011 and, if a change in control occurs, their respective employment agreements will be effective until the later of June 30, 2011 or the first anniversary of the change in control. Mr. Ellsworth's employment agreement, which was amended and restated as of May 17, 2010, is effective for a term ending June 30, 2012, and, if a change in control occurs, his employment agreement will be effective until the later of June 30, 2012, or the first anniversary of the change in control.

The current annual base salaries of the named executive officers pursuant to their employment agreements are as follows: Mr. Baur \$800,000; Mr. Cleys \$285,000; Mr. Benbenek \$350,000; Ms. Meade \$235,000; and Mr. Ellsworth \$225,000. Each of the employment agreements requires the executive officer to comply with certain non-competition, non-solicitation, non-disparagement and confidentiality covenants.

The named executive officers' employment may be terminated by us at any time for cause (as defined in their respective employment agreements) or for no reason, or by the executive officer with or without good reason (as defined in their respective employment agreements, which includes, among other criteria, termination by the executive during the 60-day period beginning on the six-month anniversary of a change in control if, with respect to Messrs. Baur, Cleys and Benbenek and Ms. Meade, no new employment agreement has been entered into, or with respect to Mr. Ellsworth, we have not offered him a new employment agreement with the same or better compensation and terms and conditions of employment). With respect to Mr. Ellsworth's ability to resign for good reason and receive severance benefits following a change in control, his amended employment agreement requires a double trigger termination event. Mr. Ellsworth may terminate his employment agreement

for good reason during the 60-day period beginning on the sixth month anniversary of a change in control and receive severance benefits only if we have not offered him a new employment agreement after or in contemplation of a change in control with the same or better compensation and terms and conditions of employment. With this provision, we have sole control over whether change in control severance benefits are triggered.

The agreements will also terminate upon the death, disability or retirement of the executive officer. Depending on the reason for the termination and when it occurs, the executive officer may be entitled to certain severance benefits, as described below.

If Mr. Baur's, Mr. Benbenek's, Mr. Cleys', Ms. Meade's or Mr. Ellsworth's employment is terminated (a) by us other than for cause, death, disability or retirement, (b) by us due to the normal expiration of the employment period or within 60 days after the normal expiration of the employment period for reasons other than cause, death, disability or retirement, or (c) if such officer resigns for good reason, we will be required to pay such officer's accrued salary, and other accrued benefits through the date of termination. In addition, we will be required to pay such officer severance benefits consisting of a pro rata annual bonus and amount equal to such officer's highest combined base salary and annual bonus during the three full fiscal years prior to termination, multiplied by an applicable severance multiple. The severance multiple for Mr. Baur is the greater of (a) two, (b) the number of full months then remaining until June 30, 2011, divided by 12, or (c) three, if the employment termination occurs within 12 months after or otherwise in contemplation of a change in control. The severance multiple for Mr. Cleys is the greater of (a) one, (b) the number of full months then remaining until June 30, 2011, divided by 12, or (c) two, if the employment termination occurs within 12 months after or otherwise in contemplation of a change in control. The severance multiple for Mr. Benbenek, Ms. Meade and Mr. Ellsworth is the greater of (a) one, or (b) two, if the employment termination occurs within 12 months after or otherwise in contemplation of a change in control. In addition, for up to 12 months following Mr. Cleys', Mr. Benbenek's, Ms. Meade's or Mr. Ellsworth's termination from employment, or earlier if such officer becomes entitled to receive medical and dental insurance benefits under another group plan, we will be required to reimburse them on a monthly basis for payments made under COBRA toward medical and dental insurance benefits that are in excess of the monthly rates paid by our active employees for such benefits. If Mr. Baur's employment is terminated (a) by us other than for cause, death, disability or retirement, (b) by us due to the normal expiration of the employment period or within 60 days after the normal expiration of the employment period for reasons other than cause, death, disability or retirement, or (c) if he resigns for good reason, he and his dependents will receive continued medical, dental and prescription drug benefits until Mr. Baur reaches age 65, and then will receive MediGap coverage, to the extent available, until Mr. Baur reaches the age of 80.

If Mr. Baur's, Mr. Benbenek's, Mr. Cleys', Ms. Meade's or Mr. Ellsworth's employment is terminated by reason of their death, disability or retirement, such officer will be entitled to his or her accrued salary, a pro rata annual bonus and benefits through the date of termination and any death, disability or retirement benefits that may apply, but no additional severance amount. If we terminate Mr. Baur, Mr. Benbenek, Mr. Cleys, Ms. Meade or Mr. Ellsworth for cause, or if they resign from the Company without good reason, such officer will be entitled to his or her accrued salary and benefits through the date of termination, but no additional severance amount. If Mr. Baur's employment is terminated by reason of his disability or retirement, he and his dependents will receive continued medical, dental and prescription drug benefits until Mr. Baur reaches age 65, and then will receive MediGap coverage, to the extent available, until Mr. Baur reaches the age of 80. In addition, if Mr. Baur's employment is terminated by reason of his disability, we have agreed that Mr. Baur will, during the period that Mr. Baur receives benefits under our short-term disability policy, if any, receive his annual salary per our regular payroll cycle less any amounts he receives under our short-term disability policy, and will also receive an annual payment of \$60,000 until Mr. Baur is no longer considered disabled or until he attains age 65, whichever occurs earlier. If Mr. Baur's employment is terminated by reason of his death, his spouse will receive continued medical, dental and prescription drug benefits until Mr. Baur would have reached age 65, and Mr. Baur's children who remain a tax dependent of Mr. Baur's spouse will receive the same until the earlier of their attainment of age 21, the ceasing of their tax dependent status, or their eligibility to receive medical benefits under another employer provided plan.

Performance-Based Restricted Stock Awards

In connection with the amended and restated employment agreements for Messers. Benbenek and Ellsworth and Ms. Meade, we granted restricted stock awards to each of Messers. Benbenek and Ellsworth and Ms. Meade. These restricted stock awards (the Awards) are subject to, among other terms and conditions described in the restricted stock award agreement (the Award Agreement) between the Company and the named executive officer, both continued service and performance requirements. Specifically, the Award Agreements for Mr. Benbenek and Ms. Meade provide that the Award may vest in two tranches as follows: (a) up to 50% of the shares of common stock subject to the Award will vest and be earned on June 30, 2010 if (i) the executive has been continuously employed by us through June 30, 2010 and (ii) our operating income for the fiscal year ended June 30, 2010 equals or exceeds \$51,000,000, and (b) up to 50% of the shares of common stock subject to the Award will vest and be earned on June 30, 2011 if (i) the executive has been continuously employed by us through June 30, 2011 and (ii) the Company's operating income for the fiscal year ended June 30, 2011 equals or exceeds \$67,000,000. The Award Agreement for Mr. Ellsworth provides that the Award may vest in two tranches as follows: (a) up to 50% of the shares of common stock subject to the Award will vest and be earned on June 30, 2011 if (i) Mr. Ellsworth has been continuously employed by us through June 30, 2011 and (ii) our operating income for the fiscal year ended June 30, 2011 equals or exceeds \$67,000,000, and (b) up to 50% of the shares of common stock subject to the Award will vest and be earned on June 30, 2012 if (i) Mr. Ellsworth has been continuously employed by us through June 30, 2012 and (ii) the Company's operating income for the fiscal year ended June 30, 2011 equals or exceeds \$77,000,000. In each case, even if the continued service and performance requirements are met, the Compensation Committee may, in its sole discretion, reduce the number of shares of common stock deemed earned and vested (but not below 50% of the number of shares subject to a particular tranche) if the Compensation Committee determines that such reduction is appropriate based on the Compensation Committee's evaluation of the named executive officer's performance in certain designated areas. Each Award Agreement also provides that if the named executive officer's employment with us terminates for any reason other than death, disability or a change in control, then the executive officer will forfeit his or her Award (and the underlying shares of common stock to the extent not vested and earned) as of the date of the named executive officer's termination of employment. The shares shall be issued under, and are subject to the terms of the 2002 Plan.

Option Adjustments

As a result of the review by a Special Committee of independent directors of our stock option granting practices, management determined that under applicable accounting principles, the appropriate measurement dates for certain stock option grants, the dates when necessary corporate action had been taken with respect to such grants, differed from the dates previously recorded by us for financial accounting and tax purposes. In such instances the option exercise price was lower than it should have been based on the trading price on the date the grant process was completed. As a result these options were or may have been discount options potentially subject to Section 409A of the Code.

Section 409A of the Code governs federal income tax treatment of deferred compensation arrangements. Among other things, Section 409A establishes rules that may subject to tax certain options that were granted at a discount. Under Section 409A, any stock option that was granted at a discount and vested after December 31, 2004 is deemed to produce taxable income to the recipient at the time of vesting and is subject to additional tax at a 20% rate.

In September 2005, the Internal Revenue Service released guidance under Section 409A that provided transitional relief for individuals holding options. In the quarter ended December 31, 2007, the Company took advantage of this transitional relief and commenced a tender offer to cure the discounted options of unfavorable tax treatment. In connection with the tender offer, we offered to adjust the affected options to increase the option exercise price to the quoted market price on the revised grant date and to give option holders a cash payment for the difference in option exercise price between the amended option and the original option.

Mr. Baur, Mr. Benbenek, Mr. Cleys and Ms. Meade, our named executive officers and executive officers of the Company at the time of our tender offer, agreed to increase the exercise price of their options to the fair market value of the related shares on the date determined by us to be the appropriate measurement date to be used in accounting for the option awards in our restatement of our financial statements (where the market price on such date was higher than the exercise price at which the option was awarded). All other terms of such options held by Mr. Baur, Mr. Benbenek, Mr. Cleys, and Ms. Meade remained the same. The following table reflects the amended options held by Mr. Baur, Mr. Benbenek, Mr. Cleys, Ms. Meade and Mr. Ellsworth at June 30, 2010. Mr. Ellsworth was not an executive officer at the time of the Company's tender offer. Mr. Ellsworth participated in our tender offer in the quarter ended December 31, 2007.

2010 OUTSTANDING EQUITY AWARDS AT FISCAL YEAR-END TABLE

The following table provides information concerning equity awards that were outstanding as of June 30, 2010 for each of our named executive officers.

Name	Option Awards				Stock Awards		Equity Incentive Plan Awards: Market or Payout Value of Unearned Shares, Units or Other Rights that Have
	Number of Securities Underlying Unexercised Options (#)	Number of Securities Underlying Unexercised Options (#) ⁽¹⁾	Option Exercise Price (\$)	Option Expiration Date	Number of Shares or Units of Stock that Have Not Vested (#) ⁽¹⁾	Market Value of Shares or Units of Stock that Have Not Vested (\$)	
Michael L. Baur	20,000		9.42	12/20/2010			
	40,000		11.97	12/3/2011			
	34,224		12.68	1/2/2013			
	80,000		27.48	1/5/2016			
	100,000		32.13	6/20/2017			
	67,000	33,000	36.69	12/7/2017			
	68,000	132,000	18.14	12/5/2018			
		125,000	24.57	12/4/2019			
Richard P. Cleys	24,666		15.88	11/12/2012			
	5,000		23.33	1/2/2014			
	6,668		33.92	1/5/2015			
	8,000		29.44	1/5/2016			
	8,000		32.13	6/20/2017			
	5,360	2,640	36.69	12/7/2017			
	5,440	10,560	18.14	12/5/2018			
				5,300	132,129		
R. Scott Benbenek	4,000		9.31	12/20/2010			
	10,000		10.62	12/3/2011			
	4,000		12.68	1/2/2013			
	8,000		14.16	1/2/2013			
	6,000		24.73	1/2/2014			
	6,000		33.92	1/5/2015			