

SCANSOURCE INC  
Form DEF 14A  
October 18, 2011

**UNITED STATES**  
**SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C. 20549

**INFORMATION REQUIRED IN PROXY STATEMENT**

**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)

Payment of Filing Fee (Check the appropriate box):

- No fee required.
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(1) Amount Previously Paid:

(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 1, 2011

The Annual Meeting of Shareholders of ScanSource, Inc. will be held at the Marriott Hotel, One Parkway East, Greenville, South Carolina 29615, on Thursday, December 1, 2011, at 10:30 a.m., local time, for the following purposes:

- (1) To elect six members to the Board of Directors;
- (2) To hold an advisory vote on the compensation of our named executive officers (as defined in the proxy statement);
- (3) To hold an advisory vote on the frequency of future advisory votes on the compensation of our named executive officers;
- (4) To ratify the appointment of Ernst & Young LLP as our independent registered public accounting firm for the fiscal year ending June 30, 2012; and
- (5) 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 13, 2011 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 18, 2011

## 2011 Proxy Statement Summary

*This summary highlights information contained elsewhere in this proxy statement. This summary does not contain all of the information that you should consider, and you should read the entire proxy statement carefully before voting.*

### Annual Meeting of Shareholders

Time and Date	10:30 a.m., December 1, 2011
Place	Marriott Hotel, One Parkway East Greenville, South Carolina 29615
Record Date	October 13, 2011
Voting	Shareholders as of the record date are entitled to vote. Each share of common stock is entitled to one vote for each director nominee and one vote for each of the proposals to be voted on.

### Meeting Agenda

Election of 6 directors

Advisory vote on the compensation of our named executive officers

Advisory vote on the frequency of future advisory votes on the compensation of our named executive officers

Ratification of Ernst & Young LLP as our independent registered public accounting firm for fiscal 2012

### Voting Matters

Proposal	Board Vote Recommendation	Page Reference (for more detail)
1. Election of 6 directors	FOR	7
2. Advisory vote on the compensation of our named executive officers	FOR	7
3. Advisory vote on the frequency of future advisory votes on the compensation of our named executive officers	THREE YEARS	9
4. Ratification of Ernst & Young LLP as our independent registered public accounting firm for fiscal 2012	FOR	10

### Board Nominees

The following table provides summary information about each director nominee. The nominees receiving a plurality of the votes cast at the meeting will be elected as directors.

Name	Age	Director Since	Occupation	Experience/Qualification	Independent	AC	CC	GC	NC
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Steven R. Fischer	66	1995	Financial consultant; former President of North Fork Business Capital Corporation	Leadership Finance	X	X	X	X	X
Michael L. Baur	54	1995	CEO of ScanSource and Founder	Leadership Industry				X	

Name	Age	Director Since	Occupation	Experience/ Qualification	Independent	AC	CC	GC	NC
Michael J. Grainger	59	2004	Former President and COO of Ingram Micro, Inc.	Leadership Finance Industry	X	X	C	X	X
Steven H. Owings	58	2011	Founder and former Chairman/CEO of ScanSource	Leadership Industry				X	
John P. Reilly	63	2001	President and CEO of Keltic Financial Services, LLC	Leadership Finance	X	X	X	C	C
Charles R. Whitchurch	65	2009	Former CFO of Zebra Technologies Corporation	Leadership Finance	X	C	X	X	X

AC Audit Committee  
 CC Compensation Committee  
 GC Governance Committee  
 NC Nominating Committee  
 C Committee Chairman  
 X Member of Committee or Independent

#### Independent Auditor

We are asking shareholders to ratify the selection of Ernst & Young LLP as our independent registered public accounting firm for fiscal 2012. Set forth below is summary information with respect to Ernst & Young LLP's fees for services provided in fiscal 2011 and fiscal 2010.

	Year Ended June 30, 2011	Year Ended June 30, 2010
Audit Fees	\$ 1,483,905	\$ 1,231,626
Audit-Related Fees	255,947	32,625
Tax Fees	487,423	476,514
All Other Fees		
Total	\$ 2,227,275	\$ 1,740,765

#### Advisory Votes on the Compensation of our Named Executive Officers and Frequency of Future Advisory Votes on the Compensation of our Named Executive Officers

We are asking our shareholders to approve, on a non-binding, advisory basis, the compensation of our named executive officers. The Board believes that our executive compensation philosophy and practices have resulted in executive compensation decisions that are appropriate and that have benefitted the Company over time. The Board believes that a vote on the compensation of our named executive officers should be conducted every three years because a three-year cycle will match our compensation review cycle, given the three-year terms of the employment agreements of our named executive officers, and will provide management and the Compensation Committee sufficient time to thoughtfully respond to shareholders' views, to implement any necessary and appropriate changes to our executive compensation program and to evaluate the results of such changes before the next shareholder advisory vote.

**Executive Compensation Elements**

Type	Form	Terms
Cash	Salary	Based on employment agreements; increases, if any, determined through subjective assessment of performance
	Cash Incentives	Earned based on attainment of pre-determined performance metrics
Equity	Service-Based Restricted Stock Awards	Generally vest ratably over three years
	Performance-Based Restricted Stock Awards	Generally have one year performance periods with 50% vesting after one year, and the remaining 50% vesting over two years
	Stock Options	Generally vest ratably over three years
Other Employee Benefits	401(k)	On the same terms as all employees
	Profit-Sharing Contributions	On the same terms as all employees
	Deferred Compensation Plan	Matching contributions vest over five-year period

**Fiscal 2011 Compensation Decisions**

During the fiscal year ending June 30, 2011, the Company achieved strong financial performance, including increases in return on invested capital ( ROIC ) and operating income. In evaluating and monitoring the Company 's financial condition and operating performance, the Company 's management places a significant emphasis on operating income and ROIC, which drives changes in shareholder value. Management uses ROIC, a non-GAAP measure, to assess its efficiency at allocating the capital under its control to generate returns. ROIC and operating income for the fiscal year ending June 30, 2011, evidence the successful performance of our Company and our named executive officers:

ROIC increased to 20.6% during fiscal 2011, as compared to 16.7% for the previous fiscal year.

The Company posted operating income of \$113.1 million during fiscal 2011, which represents a 49.3% increase over the previous fiscal year 's operating income of \$75.8 million.

Other key metrics demonstrating the strong financial performance of the Company during fiscal 2011 are:

Gross profit, which increased by 25.3%, from \$218.9 million during fiscal 2010 to \$274.3 million during fiscal 2011.

Net income attributable to the shareholders of the Company, which increased by 50.6%, from \$48.8 million during fiscal 2010 to \$73.5 million during fiscal 2011.

Earnings before interest, taxes, depreciation, and amortization ( EBITDA ), a non-GAAP measure, which increased by 44.4%, from \$83.3 million during fiscal 2010 to \$120.3 million during fiscal 2011.

Diluted earnings per share, which increased by 48.4%, from \$1.82 during fiscal 2010 to \$2.70 during fiscal 2011.

Because of the emphasis in our executive compensation program on performance-based pay, the Company 's strong financial performance during fiscal 2011 is reflected in the compensation of each of our named executive officers, particularly with respect to payouts pursuant to our cash incentive program. For the fiscal year ended



<sup>1</sup> We provide a reconciliation of the differences between this non-GAAP financial measure and its most directly comparable GAAP financial measure in Appendix A to this proxy statement.

June 30, 2011, the cash incentives paid to our named executive officers under each of the cash incentive plans set forth in their respective employment agreements aggregated to \$2,549,954, or 2.3% of operating income, compared to the cash incentives paid for the prior fiscal year ended June 30, 2010 of \$1,622,561, or 2.1% of operating income.

### Fiscal 2011 Compensation Summary

The following table summarizes the compensation of our Chief Executive Officer, Chief Financial Officer and our next three most highly compensated executive officers, to whom we refer collectively as the named executive officers, for the fiscal year ended June 30, 2011, as determined by the rules of the Securities and Exchange Commission, or SEC.

Name	Salary (\$)	Bonus (\$)	Stock Awards (\$)	Option Awards (\$)	Non-Equity Incentive Plan Compensation (\$)	All Other Compensation (\$)	Total (\$)
Michael L. Baur, Chief Executive Officer	803,077			2,315,836	1,696,634	288,917	5,104,464
Richard P. Cleys, Vice President and Chief Financial Officer	286,096	15,000	256,193		129,167	53,715	740,171
R. Scott Benbenek, President of Worldwide Operations	351,346		200,030	470,133	393,256	90,600	1,505,365
Andrea D. Meade, Executive Vice President of Operations and Corporate Development	235,904	40,000	405,005		280,897	47,820	1,009,626
John J. Ellsworth, Vice President, General Counsel and Corporate Secretary	225,865	45,000	155,531		50,000	44,372	520,768

**2012 Annual Meeting**

Shareholder proposals submitted pursuant to SEC Rule 14a-8 must be received by us by June 20, 2012.

Notice of shareholder proposals outside of SEC Rule 14a-8 must be delivered to us no earlier than September 2, 2012 and no later than October 2, 2012.

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**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 Marriott Hotel, One Parkway East, Greenville, South Carolina, 29615, on Thursday, December 1, 2011, 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 1, 2011:**

**The Notice of Annual Meeting of Shareholders, proxy statement, form of proxy, and 2011 Annual Report are available at [www.proxyvote.com](http://www.proxyvote.com).**

Pursuant to rules promulgated by the SEC, we are providing access to our proxy materials over the Internet. On or about October 18, 2011, 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 18, 2011.

**Voting Securities Outstanding; Vote Required for Each Proposal**

The Board has fixed the close of business on October 13, 2011 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, 27,406,106 shares of our 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. All shares of our common stock represented by valid proxies received pursuant to this solicitation, and not revoked before they are exercised, will be voted in the manner specified. If no specification is made, properly executed and returned

proxies will be voted FOR all director nominees, FOR approval, on an advisory basis, of the compensation of our named executive officers (as defined in Executive Compensation Compensation Discussion and Analysis Executive Summary ), FOR Three Years on the advisory vote on the frequency of future advisory votes on the compensation of our named executive officers, and FOR the ratification of the appointment of Ernst & Young LLP as our independent registered public accounting firm. Management is not aware of any matters, other than those specified herein, that will be presented for action at the Annual Meeting. If other matters are properly presented at the Annual Meeting for consideration, the agents named on the proxy card will have the discretion to vote on those matters for you.

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. Signed proxies that withhold authority to vote for directors or reflect abstentions or broker non-votes (as described below) 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.

Brokers that are members of certain securities exchanges 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 applicable securities exchange rules, only 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, all of the other proposals in this proxy statement are considered non-discretionary items, and a broker non-vote occurs when brokers do not receive voting instructions from beneficial owners with respect to these proposals.

Assuming the existence of a quorum at the Annual Meeting:

The nominees receiving the greatest number of the votes cast at the Annual Meeting will be elected as directors. Withheld votes and broker non-votes, if any, are not treated as votes cast, and therefore will have no effect on the outcome of the vote on this proposal.

The compensation of our named executive officers will be approved, on an advisory basis, if the votes cast in favor of the proposal exceed the votes cast against the proposal. Abstentions and broker non-votes, if any, are not treated as votes cast, and therefore will have no effect on the outcome of the vote on this proposal. Because your vote is advisory, it will not be binding on the Company, our Board of Directors or our Compensation Committee. However, the Board of Directors and the Compensation Committee will consider the outcome of the vote when making future compensation decisions for our executive officers.

The frequency of the advisory vote on future advisory votes on the compensation of our named executive officers receiving the greatest number of votes cast one year, two years, or three years will be deemed by us as the frequency that has been recommended by shareholders. Abstentions and broker non-votes, if any, are not treated as votes cast, and therefore will have no effect on the outcome of the vote on this proposal. Because your vote is advisory, it will not be binding on the Company, our Board of Directors or our Compensation Committee. However, the Board of Directors and the Compensation Committee will consider the outcome of the vote when making future decisions regarding the frequency of the advisory vote on the compensation of our named executive officers.

The ratification of the appointment of Ernst & Young LLP will be approved if the votes cast in favor of the proposal exceed the votes cast against the proposal. Abstentions will not be treated as votes cast, and therefore will have no effect on the outcome of the vote on this proposal. If your shares are held in street name and you do not provide voting instructions to your broker, your broker has discretionary authority to vote your shares with respect to the proposal.

**PROPOSAL ONE**

**ELECTION OF DIRECTORS**

Six directors are to be elected at the Annual Meeting. The size of the Board is set at six members and may be increased or decreased by resolution of the Board.

The Board has recommended the six existing members of the Board as the six 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, Steven H. Owings, John P. Reilly and Charles R. Whitchurch.

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. Withheld votes and broker non-votes, if any, 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 six, 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 six 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.**

**PROPOSAL TWO**

**ADVISORY VOTE ON THE COMPENSATION OF OUR NAMED EXECUTIVE OFFICERS**

**Background of the Proposal**

Section 14A of the Securities Exchange Act of 1934, as amended (the Exchange Act), which was added by the Dodd-Frank Wall Street Reform and Consumer Protection Act, requires all public companies to hold a separate non-binding advisory shareholder vote to approve the compensation of named executive officers as described in the Compensation Discussion and Analysis and the executive compensation tables and related information in public filings. We are providing our shareholders with the opportunity at the Annual Meeting to vote on a non-binding advisory resolution, commonly known as a Say on Pay proposal, considering approval of the compensation of our named executive officers. This vote is not intended to address any specific item of compensation or any specific named executive officer, but rather the overall compensation of our named executive officers and the philosophy, policies and practices described in this proxy statement. Such discussion is found on pages 20 through 37 of this proxy statement.

**Executive Compensation**

The Compensation Committee has overseen the development of a compensation program designed to attract, retain and motivate executives who enable us to achieve our strategic and financial goals. The

Compensation Discussion and Analysis and the tabular disclosures regarding named executive officer compensation, together with the accompanying narrative disclosure, illustrate the trends in compensation and application of our compensation philosophies and practices for the years presented. Highlights of our compensation program include the following:

Variable cash incentives are payable to named executive officers to encourage the achievement of various pre-determined performance metrics, business growth opportunities, management goals and profitability of business units, all of which focus our named executive officers on performance goals intended to enhance shareholder value.

Awards of long-term equity incentives, in the form of stock options and restricted stock awards, directly aligns the interests of our named executive officers and shareholders.

Linking the personal financial interests of our named executive officers to the Company's long-term performance discourages excessive risk-taking and encourages behavior that supports sustainable shareholder value creation.

The Compensation Committee believes that our executive compensation program achieves an appropriate balance between fixed compensation and variable incentive compensation, pays for performance and promotes an alignment between the interests of our named executive officers and our shareholders. Accordingly, we are asking our shareholders at the Annual Meeting to vote **FOR** the non-binding advisory resolution approving the compensation of our named executive officers, as disclosed pursuant to Item 402 of Regulation S-K, including Compensation Discussion and Analysis, compensation tables, and narrative discussion.

#### **Effect of Resolution**

Because your vote is advisory, it will not be binding upon the Company, the Compensation Committee or the Board of Directors. However, the Compensation Committee and the Board value the opinion of our shareholders and will take the outcome of the vote into account when considering future executive compensation arrangements.

You may vote **FOR**, **AGAINST** or **ABSTAIN** on this proposal. If a broker or other nominee holds your shares in its name on your behalf, the broker or nominee is not permitted to vote your shares on this proposal in the absence of voting instructions from you. Abstentions and broker non-votes will not affect the outcome of voting on this proposal. To be approved, the number of votes cast **FOR** the advisory resolution must exceed the votes cast **AGAINST** the advisory resolution.

#### **Recommendation of Board of Directors**

The Board of Directors also believes that our executive compensation program aligns our named executive officers' compensation with the long-term interests of our shareholders. Our program is guided by the philosophy that total executive compensation should vary based on achievement of goals and objectives, both individual and corporate, and should be focused on long-term strategies to build shareholder value. The Board believes that our philosophy and practices have resulted in executive compensation decisions that are appropriate and that have benefitted and will benefit the Company over time.

**THE BOARD OF DIRECTORS RECOMMENDS A VOTE FOR THE APPROVAL, ON AN ADVISORY BASIS, OF THE COMPENSATION OF OUR NAMED EXECUTIVE OFFICERS AS DISCLOSED IN THIS PROXY STATEMENT.**

**PROPOSAL THREE**

**ADVISORY VOTE ON THE FREQUENCY OF FUTURE ADVISORY VOTES ON THE COMPENSATION OF OUR NAMED EXECUTIVE OFFICERS**

**Background of the Proposal**

Section 14A of the Exchange Act also requires all public companies to hold a separate non-binding advisory shareholder vote with respect to the frequency of the Say on Pay vote. Companies must give shareholders the choice of whether to cast an advisory vote on the Say on Pay proposal every year, every two years, or every three years (commonly known as the Frequency Vote on Say on Pay ). Shareholders may also abstain from making a choice. After such initial vote is held, Section 14A requires all public companies to submit the Frequency Vote on Say on Pay to their shareholders no less often than every six years.

**Frequency Vote on Say on Pay**

As discussed above, the Board of Directors believes that our executive compensation programs are designed to secure and retain the services of high quality executives and to provide compensation to our executives that is aligned with our performance. The Board believes that our compensation philosophies and practices advance both the short-term and long-term interests of the Company and our shareholders. The Board believes that the Frequency Say on Pay Vote should be conducted every three years for the following reasons: