

SCANSOURCE INC  
Form DEF 14A  
October 28, 2002

**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

Definitive Proxy Statement

Definitive Additional Materials

Soliciting Material Under Rule 14a-12

Confidential, For Use of the

Commission Only (as permitted by Rule 14a-6(e)(2))

**SCANSOURCE, INC.**

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(Name of Registrant as Specified in Its Charter)

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(Name of Person(s) Filing Proxy Statement, if Other Than the Registrant)

Payment of Filing Fee (Check the appropriate box):

No fee required.

Fee computed on table below per Exchange Act Rules 14a-6(i)(1) and 0-11.

(1) Title of each class of securities to which transaction applies:

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(2) Aggregate number of securities to which transaction applies:

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(3) Per unit price or other underlying value of transaction computed pursuant to Exchange Act Rule 0-11 (set forth the amount on which the filing fee is calculated and state how it was determined):

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(1) Amount previously paid:

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

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(3) Filing Party:

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(4) Date Filed:

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**SCANSOURCE, INC.**  
**6 Logue Court**  
**Greenville, South Carolina 29615**

**NOTICE OF ANNUAL MEETING OF SHAREHOLDERS**

To Be Held December 5, 2002

The Annual Meeting of Shareholders of ScanSource, Inc. will be held at the GSP Airport Marriott, 1 Parkway East, Greenville, South Carolina, on Thursday, December 5, 2002, at 10:00 a.m., for the following purposes:

- (1) To elect five members to the Board of Directors;
- (2) To amend the Company's Amended and Restated Articles of Incorporation to increase the number of authorized shares of Common Stock of the Company from 10,000,000 to 25,000,000 shares;
- (3) To approve the Company's 2002 Long-Term Incentive Plan;
- (4) To ratify the appointment of the Company's independent auditors; 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 the books of the Company at the close of business on October 18, 2002 will be entitled to notice of and to vote at the Annual Meeting or at any adjournments thereof.

You are cordially invited and urged to attend the Annual Meeting in person, but if you are unable to do so, please date, sign and promptly return the enclosed form of proxy in the enclosed postage paid envelope. 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 H. Owings  
*Chairman of the Board*

October 28, 2002

**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 of ScanSource, Inc. (the Company) to be used in voting at the Annual Meeting of Shareholders of the Company to be held at the GSP Airport Marriott, 1 Parkway East, Greenville, South Carolina, on Thursday, December 5, 2002, at 10:00 a.m., and at any adjournments thereof (the Annual Meeting). This proxy statement and the accompanying form of proxy are being mailed to shareholders commencing on or about October 28, 2002.

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 the Secretary of the Company of such revocation, by executing and delivering to the Secretary of the Company a proxy bearing a later date, or by attending the Annual Meeting and voting in person. Whether or not you plan to attend, you are urged to sign and return the enclosed proxy.

The cost of preparing, assembling and mailing this Proxy Statement and the form of proxy will be borne by the Company. Directors, officers and employees of the Company may also solicit proxies personally or by mail, telephone or telegram. No compensation will be paid for such solicitations. The Company has also hired Georgeson Shareholder Communications, Inc. to assist in the distribution of proxy materials and the solicitation of votes and expects to pay a fee of approximately \$13,000 plus expenses for these services. In addition, the Company will bear the reasonable expenses of brokerage houses and other custodians, nominees and fiduciaries who, at the request of the Company, may send proxies and proxy solicitation material to their clients and principals.

**Voting Securities Outstanding**

The Board of Directors has fixed the close of business on October 18, 2002 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, 5,885,718 shares of the Company's no par value common stock (the Common Stock) 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 capital stock of the Company are eligible to be voted at the Annual Meeting. Cumulative voting for the election of directors is not available under the Company's 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 as indicated below. The proposed amendment to the Company's Articles of Incorporation requires the affirmative vote of two-thirds of the outstanding shares of Common Stock entitled to be cast thereon. Accordingly, abstentions and broker non-votes will have the effect of a vote against the proposed amendment. 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 shares of Common Stock present at the Annual Meeting in person or by proxy and entitled to vote on such matter is required for approval. Abstentions will be considered shares present in person or by proxy and entitled to vote and therefore will have the effect of a vote against any matter requiring the affirmative vote of a majority of the shares present and entitled to vote at the Annual Meeting. Broker non-votes will be considered shares present but not entitled to vote and therefore will have no effect on the outcome of the vote on such matters. A broker non-vote occurs when a broker or other nominee holding shares of Common Stock for a beneficial owner does not vote on a particular proposal because the broker or other nominee does not have discretionary voting power with respect to that item and has not received voting instructions from the beneficial owner.

The Bylaws of the Company 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. Directors, officers and employees of the Company may solicit proxies for the reconvened meeting in person or by mail, telephone or

telegram. 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. Pursuant to the authority granted to it by the Company's Bylaws, the Board of Directors has set the size of the Board of Directors at five members.

The Board of Directors has recommended each of the five existing members of the Board of Directors 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 the Company's nominees for election as directors at the Annual Meeting: Michael L. Baur, Steven R. Fischer, James G. Foody, Steven H. Owings and John P. Reilly.

In accordance with the Bylaws of the Company, those nominees receiving the greatest number of votes cast (although not necessarily a majority of the votes cast) will be elected to the Board of Directors. Abstentions and shares held in street name that are not voted in the election of directors 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. Cumulative voting in the election of directors is not permitted by the Company's Articles of Incorporation. 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 of Directors. The Board of Directors has no reason to believe that any of the five nominees listed above will not be available for election as a director.

**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**

**AMENDMENT OF AMENDED AND RESTATED ARTICLES OF INCORPORATION**

As of September 27, 2002, the Board of Directors of the Company unanimously approved and directed that there be submitted to shareholders for their approval an amendment to Article 3 of the Company's Amended and Restated Articles of Incorporation, which would increase the number of shares of Common Stock that the Company is authorized to issue from 10,000,000 shares to 25,000,000 shares (the Share Increase Amendment). Shareholders are not entitled to preemptive rights under the Company's Amended and Restated Articles of Incorporation.

The text of the proposed amendment is set forth below:

RESOLVED, that the first sentence of Article 3 of the Company's Amended and Restated Articles of Incorporation be amended to read as follows:

The corporation is authorized to issue two classes of stock as follows:

Class of Shares	Authorized Number of Each Class
Common Stock	25,000,000
Preferred Stock	3,000,000

The Board of Directors has made no determination regarding any particular transaction for the issuance of additional shares if the Share Increase Amendment is approved by the shareholders. As a result of the number of shares of Common Stock currently outstanding and otherwise reserved for future issuance, however, the Board of Directors believes that it currently lacks the flexibility to undertake possible future actions that could be beneficial to the Company. The Board believes that the proposed increase in the authorized shares of Common Stock is desirable to enhance our flexibility in connection with possible future actions, such as stock splits, stock dividends,

acquisitions, financing transactions, employee benefit plan issuances, and such other corporate purposes as may arise. Having such authorized Common Stock available for issuance in the future will give us greater flexibility and will allow additional shares of Common Stock to be issued, subject to applicable law and rules of The Nasdaq National Market, without the expense and delay of a shareholders' meeting. Such a delay might deny us the flexibility the Board views as important in facilitating the effective use of our securities.

As part of our ongoing corporate development activities, we consider acquisition opportunities on a regular basis. In this regard, it is possible that we may identify and consider opportunities that would call for us to issue authorized but unissued shares of Common Stock. As indicated, however, at the date of this Proxy Statement, the Board has made no determination regarding any specific transaction which would result in the issuance of any of the additional shares of Common Stock that would be authorized by the Share Increase Amendment.

If the proposal to increase the authorized shares of Common Stock is approved, the additional authorized shares will be part of the existing class of such Common Stock and will increase the number of shares of Common Stock available for issuance by the Company, but will have no effect upon the terms of the Common Stock or the rights of the holders of such shares. If and when issued, the proposed additional authorized shares of Common Stock will have identical rights and privileges as the shares of Common Stock currently outstanding. Holders of Common Stock will not have preemptive rights to purchase additional shares of Common Stock.

Our Board of Directors does not intend or view the proposed increase in authorized Common Stock (or any other action contemplated by the Board) as an anti-takeover measure, but rather, as a means of providing greater flexibility to the Board as indicated above. Having said that, such additional authorized shares could be used to block an unsolicited acquisition (including a third-party proposal at a price per share with an above-market premium) through the issuance of large blocks of stock to persons or entities considered by our officers and directors to be opposed to such acquisition, which might be deemed to have an anti-takeover effect (that is, it might impede the completion of a merger, tender offer or other takeover attempt).

The Company's Amended and Restated Articles of Incorporation also permit the Board to issue up to 3,000,000 shares of preferred stock on terms established by the Board from time to time. The availability of this "blank check" preferred stock could similarly be used by the Board in ways that might be deemed to have an anti-takeover effect. The "blank check" preferred stock provision included in the Company's Amended and Restated Articles of Incorporation has been included therein since 1994 and has never been used for such purpose. See "Executive Compensation Employment, Severance and Change in Control Agreements" for additional information concerning consequences of a future change in control of the Company.

Approval of the Share Increase Amendment requires the affirmative vote of two-thirds of the outstanding shares of the Company's Common Stock entitled to be cast thereon.

The Share Increase Amendment, if approved by shareholders, will become effective on the date the Share Increase Amendment is filed with the Secretary of State for the State of South Carolina. It is anticipated that the appropriate filing to effect the Share Increase Amendment will be made as soon as practicable following approval of the Share Increase Amendment.

**THE BOARD OF DIRECTORS RECOMMENDS A VOTE FOR APPROVAL OF THE AMENDMENT TO THE COMPANY'S AMENDED AND RESTATED ARTICLES OF INCORPORATION. 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 APPROVAL OF THE SHARE INCREASE AMENDMENT.**

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**PROPOSAL THREE**

**APPROVAL OF 2002 LONG-TERM INCENTIVE PLAN**

As of September 27, 2002, the Board of Directors adopted, subject to shareholder approval at the Annual Meeting, the ScanSource, Inc. 2002 Long-Term Incentive Plan (the 2002 Plan ). The 2002 Plan will become effective as of the date it is approved by the shareholders.

The Board has reserved 200,000 shares of the Company's Common Stock for issuance upon the grant or exercise of awards pursuant to the 2002 Plan. As of October 18, 2002, there were approximately 700 employees and officers eligible to participate in the 2002 Plan. The Company also maintains for employees and officers the ScanSource, Inc. 1997 Stock Incentive Plan, as amended, and the ScanSource, Inc. 1993 Incentive Stock Option Plan, as amended (the Prior Plans ), under which stock options with respect to an aggregate of approximately 580,970 shares of Common Stock were outstanding as of October 9, 2002. No awards of any type other than stock options have been made under the Prior Plans. Even if the shareholders approve the 2002 Plan, the Company may continue to grant additional awards under the Prior Plans to the extent of shares available thereunder. See Equity Compensation Plan Information below for additional information concerning the Prior Plans, along with information concerning other stock option plans for the Company's directors and certain individuals.

A summary of the 2002 Plan is set forth below. The summary is qualified in its entirety by reference to the full text of the 2002 Plan, which is attached to this Proxy Statement as [Annex A](#).

**THE BOARD OF DIRECTORS RECOMMENDS A VOTE FOR APPROVAL OF THE 2002 LONG-TERM INCENTIVE PLAN. 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 APPROVAL OF THE 2002 LONG-TERM INCENTIVE PLAN.**

**Summary of the 2002 Plan**

*Purpose.* The purpose of the 2002 Plan is to promote the Company's success by linking the personal interests of its employees, officers, consultants and advisors to those of its shareholders, and by providing participants with an incentive for outstanding performance.

*Permissible Awards.* The 2002 Plan authorizes the granting of awards in any of the following forms:

- options to purchase shares of Common Stock,
- stock appreciation rights,
- restricted stock,
- performance award payable in stock or cash,
- dividend equivalents, and
- other stock-based awards.

*Limitations on Awards.* No more than 20% of the shares authorized under the 2002 Plan may be granted as awards of restricted or unrestricted stock or performance shares. Any awards of restricted stock and performance shares that exceed 10% of the shares authorized under the 2002 Plan will either be subject to a minimum vesting period of three years, or one year if the vesting is based on performance criteria other than continued employment, or be granted only in exchange for foregone salary, bonus or other compensation. Any awards of unrestricted stock that, together with awards of restricted stock or performance shares, exceed 10% of the shares authorized under the 2002 Plan, may be granted only in exchange for foregone salary, bonus or other compensation. The maximum number of shares of Common Stock with respect to one or more options or stock appreciation rights that may be granted during any one calendar year under the 2002 Plan to any one person is 50,000. The maximum fair market value of any awards (other than options or stock appreciation rights) that may be received by a participant (less any consideration paid by the participant for such award) during any one calendar year under the 2002 Plan is \$3,000,000.

*Administration.* The 2002 Plan is administered by the Compensation Committee of the Board of Directors. The Compensation Committee has the authority to designate participants; determine the type or types of awards to be granted to each participant and the number, terms and conditions thereof; establish, adopt or revise any rules and regulations as it may



deem advisable to administer the 2002 Plan; and make all other decisions and determinations that may be required under the 2002 Plan. The Board of Directors may at any time administer the 2002 Plan. If it does so, it will have all the powers of the Compensation Committee.

*Stock Options.* The Compensation Committee is authorized to grant incentive stock options or non-qualified stock options under the 2002 Plan. The terms of an incentive stock option must meet the requirements of Section 422 of the Code. The exercise price of an option may not be less than the fair market value of the underlying stock on the date of grant and no option may have a term of more than 10 years.

*Stock Appreciation Rights.* The Compensation Committee may also grant stock appreciation rights (SARs). These provide the holder the right to receive the excess, if any, of the fair market value of one share of Common Stock on the date of exercise, over the base price of the stock appreciation right as determined by the Compensation Committee, which will not be less than the fair market value of one share of Common Stock on the grant date.

*Restricted Stock Awards.* The Compensation Committee may make awards of restricted stock to participants, which will be subject to such restrictions on transferability and other restrictions as the Compensation Committee may impose (including, without limitation, limitations on the right to vote restricted stock or the right to receive dividends, if any, on the restricted stock).

*Performance Awards.* The Compensation Committee may grant performance awards that are designated in cash (performance units) or in shares of Common Stock (performance shares). The Compensation Committee will have the complete discretion to determine the number of performance awards granted to any participant and to set performance goals and other terms or conditions to payment of the performance awards in its discretion which, depending on the extent to which they are met, will determine the number and value of performance awards that will be paid to the participant.

*Dividend Equivalents.* The Compensation Committee is authorized to grant dividend equivalents to participants subject to such terms and conditions as may be selected by the Compensation Committee. Dividend equivalents entitle the participant to receive payments equal to dividends with respect to all or a portion of the shares of Common Stock subject to an award, as determined by the Compensation Committee.

*Other Stock-Based Awards.* The Compensation Committee may, subject to limitations under applicable law, grant to participants such other awards that are payable in, valued in whole or in part by reference to, or otherwise based on or related to shares of Common Stock as deemed by the Compensation Committee to be consistent with the purposes of the 2002 Plan, including, without limitation, shares of Common Stock awarded purely as a bonus and not subject to any restrictions or conditions, convertible or exchangeable debt securities, other rights convertible or exchangeable into shares of Common Stock, and awards valued by reference to book value of shares of Common Stock or the value of securities of or the performance of specified parents or subsidiaries. The Compensation Committee will determine the terms and conditions of any such awards.

*Performance Goals.* Options and SARs granted under the 2002 Plan will automatically qualify as performance-based awards that are fully deductible by the Company without regard to the \$1 million deduction limit imposed by §162(m) of the Internal Revenue Code of 1986, as amended (the Code). The Compensation Committee may designate any other award under the 2002 Plan (such as, for example, a cash incentive bonus or restricted stock award) as a qualified performance-based award in order to make the award fully deductible under Code §162(m). If an award is so designated, the Compensation Committee must establish objectively determinable performance goals for the award based on one or more of the following performance criteria, which may be expressed in terms of Company-wide objectives or in terms of objectives that relate to the performance of a division, affiliate, department or function within the Company or an affiliate:

- earnings per share,
- EBITDA (earnings before interest, taxes, depreciation and amortization),
- EBIT (earnings before interest and taxes),
- economic profit,
- cash flow,
- sales growth,
- net profit before tax,
- gross profit,

- operating income or profit,
- return on equity,
- return on assets,
- return on capital,
- changes in working capital, or
- shareholder return.

For a qualified performance-based award, the Compensation Committee must establish such goals prior to the beginning of the period for which such performance goal relates (or such later date as may be permitted under applicable tax regulations) and the Compensation Committee may not increase any award or, except in the case of certain qualified terminations of employment, waive the achievement of any specified goal. Any payment of an award granted with performance goals will be conditioned on the written certification of the Compensation Committee in each case that the performance goals and any other material conditions were satisfied.

*Limitations on Transfer; Beneficiaries.* No award will be assignable or transferable by a participant other than by will or the laws of descent and distribution or, except in the case of an incentive stock option, pursuant to a qualified domestic relations order; provided, however, that the Compensation Committee may (but need not) permit other transfers where the Compensation Committee concludes that such transferability does not result in accelerated taxation, does not cause any option intended to be an incentive stock option to fail to qualify as such, and is otherwise appropriate and desirable, taking into account any factors deemed relevant, including without limitation, any state or federal tax or securities laws or regulations applicable to transferable awards. A participant may, in the manner determined by the Compensation Committee, designate a beneficiary to exercise the rights of the participant and to receive any distribution with respect to any award upon the participant's death.

*Acceleration Upon Certain Events.* Unless otherwise provided in an award certificate, if a participant dies, retires or becomes disabled at any time, or if a participant is terminated without cause or resigns for good reason (as such terms are defined in the 2002 Plan) within 12 months after a change in control of the Company (as defined in the 2002 Plan), all of such participant's outstanding options and SARs will become fully vested and exercisable and all restrictions on his or her outstanding restricted stock awards will lapse. In each of the above cases except retirement, the Compensation Committee also may (but need not) waive the achievement of performance goals under the participant's Code §162(m) performance-based awards. In addition, the Compensation Committee may in its discretion accelerate awards upon the occurrence of a change in control or upon any other termination of employment. The Compensation Committee may accelerate awards for any other reason, unless the aggregate number of shares with respect to which such acceleration occurs exceeds 5% of the total number of shares authorized for issuance under the 2002 Plan. The Compensation Committee may discriminate among participants or among awards in exercising such discretion.

*Adjustments.* In the event of a stock split, a dividend payable in shares of Common Stock, or a combination or consolidation of the Common Stock into a lesser number of shares, the share authorization limits under the 2002 Plan will automatically be adjusted proportionately, and the shares then subject to each award will automatically be adjusted proportionately without any change in the aggregate purchase price for such award. If the Company is involved in another corporate transaction or event that affects the Common Stock, such as an extraordinary cash dividend, recapitalization, reorganization, merger, consolidation, split-up, spin-off, combination or exchange of shares, the share authorization limits under the 2002 Plan will be adjusted proportionately, and the Compensation Committee may adjust outstanding awards to preserve the benefits or potential benefits of the awards.

#### **Termination and Amendment**

The Board of Directors or the Compensation Committee may, at any time and from time to time, terminate or amend the 2002 Plan without shareholder approval; but if an amendment to the 2002 Plan would, in the reasonable opinion of the Board or the Compensation Committee, materially increase the benefits accruing to participants, materially increase the number of shares of stock issuable under the 2002 Plan, materially modify the requirements for eligibility, or otherwise constitute a material amendment requiring shareholder approval under applicable laws, policies or regulations, then such amendment will be subject to shareholder approval. In addition, the Board or the Compensation Committee may condition any amendment on the approval of the shareholders for any other reason, including necessity or advisability under tax, securities or other applicable laws, policies or regulations. No termination or amendment of the 2002 Plan may adversely affect any award previously granted under the 2002 Plan without the written consent of the participant. The Compensation Committee may amend or terminate outstanding awards. However, such amendments may require the consent

of the participant and, unless approved by the shareholders or otherwise permitted by the antidilution provisions of the 2002 Plan, the exercise price of an outstanding option may not be reduced, directly or indirectly, and the original term of an option may not be extended.

#### **Certain Federal Tax Effects**

*Nonqualified Stock Options.* There will be no federal income tax consequences to the optionee or to the Company upon the grant of a nonqualified stock option under the 2002 Plan. When the optionee exercises a nonqualified option, however, he or she will recognize ordinary income in an amount equal to the excess of the fair market value of the Common Stock received upon exercise of the option at the time of exercise over the exercise price, and the Company will be allowed a corresponding deduction. Any gain that the optionee realizes when he or she later sells or disposes of the option shares will be short-term or long-term capital gain, depending on how long the shares were held.

*Incentive Stock Options.* There typically will be no federal income tax consequences to the optionee or to the Company upon the grant or exercise of an incentive stock option. If the optionee holds the option shares for the required holding period of at least two years after the date the option was granted or one year after exercise, the difference between the exercise price and the amount realized upon sale or disposition of the option shares will be long-term capital gain or loss, and the Company will not be entitled to a federal income tax deduction. If the optionee disposes of the option shares in a sale, exchange, or other disqualifying disposition before the required holding period ends, he or she will recognize taxable ordinary income in an amount equal to the excess of the fair market value of the option shares at the time of exercise over the exercise price, and the Company will be allowed a federal income tax deduction equal to such amount. While the exercise of an incentive stock option does not result in current taxable income, the excess of the fair market value of the option shares at the time of exercise over the exercise price will be an item of adjustment for purposes of determining the optionee's alternative minimum taxable income.

*Transfers of Options.* The Compensation Committee may, but is not required to, permit the transfer of nonqualified stock options granted under the 2002 Plan. Based on current tax and securities regulations, such transfers, if permitted, are likely to be limited to gifts to members of the optionee's immediate family or certain entities controlled by the optionee or such family members. The following paragraphs summarize the likely income, estate, and gift tax consequences to the optionee, the Company, and any transferees, under present federal tax regulations, upon the transfer and exercise of such options.

*Federal Income Tax.* There will be no federal income tax consequences to the optionee, the Company, or the transferee upon the transfer of a nonqualified stock option. However, the optionee will recognize ordinary income when the transferee exercises the option, in an amount equal to the excess of the fair market value of the option shares upon the exercise of such option over the exercise price, and the Company will be allowed a corresponding deduction. The gain, if any, realized upon the transferee's subsequent sale or disposition of the option shares will constitute short-term or long-term capital gain to the transferee, depending on the transferee's holding period. The transferee's basis in the stock will be the fair market value of such stock at the time of exercise of the option.

*Federal Estate and Gift Tax.* If an optionee transfers a nonqualified stock option to a transferee during the optionee's life but before the option has become exercisable, the optionee will not be treated as having made a completed gift for federal gift tax purposes until the option becomes exercisable. However, if the optionee transfers a fully exercisable option during the optionee's life, he or she will be treated as having made a completed gift for federal gift tax purposes at the time of the transfer. If the optionee transfers an option to a transferee by reason of death, the option will be included in the decedent's gross estate for federal estate tax purposes. The value of such option for federal estate or gift tax purposes may be determined using a Black-Scholes or other appropriate option pricing methodology, in accordance with IRS requirements.

*Stock Appreciation Rights.* A participant receiving a SAR will not recognize income, and the Company will not be allowed a tax deduction, at the time the award is granted. When the participant exercises the SAR, the amount of cash and the fair market value of any shares of Common Stock received will be ordinary income to the participant and the Company will be allowed as a corresponding federal income tax deduction at that time, subject to any applicable limitations under Code §162(m).

*Restricted Stock.* Unless a participant makes an election to accelerate recognition of the income to the date of grant as described below, the participant will not recognize income, and the Company will not be allowed a tax deduction, at the time a restricted stock award is granted. When the restrictions lapse, the participant will recognize ordinary income equal to the fair market value of the Common Stock as of that date (less any amount he or she paid for the stock), and the Company will be allowed a corresponding federal income tax deduction at that time, subject to any applicable limitations under Code §162(m). If the participant files an election under Code §83(b) within 30 days after the date of grant of the restricted stock, he or she will recognize ordinary income as of the date of grant equal to the fair market value of the stock as of that date (less any amount paid for the stock), and the Company will be allowed a corresponding federal income tax deduction at that time, subject to any applicable limitations under Code §162(m). Any future appreciation in the stock will be taxable to the participant at capital gains rates. However, if the stock is later forfeited, the participant will not be able to recover the tax previously paid pursuant to the Code §83(b) election.

*Performance Awards.* A participant generally will not recognize income, and the Company will not be allowed a tax deduction, at the time performance awards are granted, so long as the awards are subject to a substantial risk of forfeiture. When the participant receives or has the right to receive payment of cash or shares under the performance award, the cash amount of the fair market value of the shares of stock will be ordinary income to the participant, and the Company will be allowed a corresponding federal income tax deduction at that time, subject to any applicable limitations under Code §162(m).

**Benefits to Named Executive Officers and Others**

As of the date of this Proxy Statement, no awards have been granted under the 2002 Plan. Any future awards will be made at the discretion of the Compensation Committee. Therefore, it is not presently possible to determine the benefits or amounts that will be received by any individuals or groups pursuant to the 2002 Plan in the future.

**EQUITY COMPENSATION PLAN INFORMATION**

The following table gives information about the Common Stock that may be issued upon the exercise of options, warrants and rights under all of the Company's existing equity compensation plans as of June 30, 2002. The table does not include information about the proposed ScanSource, Inc. 2002 Long-Term Incentive Plan, which is not yet in effect.

Plan Category	(a) Number of Securities to be Issued Upon Exercise of Outstanding Options, Warrants and Rights	(b) Weighted Average Exercise Price of Outstanding Options, Warrants and Rights	(c) Number of Securities Remaining Available for Future Issuance Under Equity Compensation Plans (Excluding Securities Reflected in Column (a))
Equity	453,654(1)	\$ 27.31	24,720
Compensation	127,316(2)	\$ 20.07	367
Plans Approved	29,000(3)	\$ 44.50	71,000
by Shareholders	20,000(4)	\$ 19.06	0
Equity	136,315(5)	\$ 15.61	0
Compensation			
Plans Not Approved			
by Shareholders			
<b>TOTAL:</b>	<b>766,285</b>		<b>96,087</b>

- (1) ScanSource, Inc. 1997 Stock Incentive Plan, as amended.
- (2) ScanSource, Inc. 1993 Incentive Stock Option Plan, as amended.
- (3) ScanSource, Inc. Non-Employee Director Stock Option Plan, as amended.
- (4) ScanSource, Inc. 1994 Stock Option Plan for Outside Directors.
- (5) Plans not approved by shareholders consist of the following, each as further described below: 1997 Catalyst Stock Option Plan; ScanSource, Inc. 1996 and 1997 Stock Option Plans for Steven H. Owings; ScanSource, Inc. 1996 and 1997 Stock Option Plans for Michael L. Baur; ScanSource, Inc. 1997 Stock Option Plan for Paige Rosamond; ScanSource, Inc. 1995 and 1996 Stock Option Plans for Robert S. McLain, Jr.

#### Description of Equity Compensation Plans Not Approved by Shareholders

*1997 Catalyst Stock Option Plan.* The 1997 Catalyst Stock Option Plan was created pursuant to the terms of the Stock Option Agreement dated May 7, 1997 between the Company and, collectively, Jerry Cline Ross, James David Campbell, Johnny Dean Enloe, Douglas Ned Sanders, Jack F. Brumlow, James Franklin Brewer and Gary Bernard Bradford to compensate the named optionees for their efforts in recruiting new customers for the Company and promoting sales of the Company's products. In connection with the plan, a total of 49,688 non-qualified options to purchase Common Stock were granted at a weighted average exercise price of \$16.88 per share, of which 6,425 remained outstanding at June 30, 2002. All of the outstanding options will terminate no later than December 31, 2003, if not earlier exercised.

*ScanSource, Inc. 1996 and 1997 Stock Option Plans for Steven H. Owings.* The ScanSource, Inc. 1996 and 1997 Stock Option Plans for Mr. Owings were created pursuant to the terms of Stock Option Agreements dated December 3, 1996 and January 17, 1997 between the Company and Mr. Owings in recognition of what the Company's Board and Compensation Committee regarded as below-market cash compensation. The plans granted Mr. Owings the option to purchase up to 30,000 shares and 70,000 shares, respectively, of the Company's Common Stock at purchase prices of \$14.50 per share and \$16.50 per share, respectively, the fair market value on the respective dates of grant. The options are exercisable at any time from the date of grant and until the tenth anniversary of the date of grant.

*ScanSource, Inc. 1996 and 1997 Stock Option Plans for Michael L. Baur.* The ScanSource, Inc. 1996 and 1997 Stock Option Plans for Mr. Baur were created pursuant to the terms of Stock Option Agreements dated December 3, 1996 and January 17, 1997 between the Company and Mr. Baur in recognition of what the Company's Board and Compensation Committee regarded as below-market cash compensation. The plans granted Mr. Baur the option to purchase up to 16,000 shares and 10,000 shares, respectively, of the Company's Common Stock at purchase prices of \$14.50 per share and \$16.50 per share, respectively, the fair market value on the respective dates of grant. With respect to the 1996 grant, the option is exercisable with respect to one-third of the option shares at any time after the first anniversary of the date of grant; is exercisable with respect to two-thirds of the option shares at any time after the second anniversary of the date of grant; and is exercisable with respect to all of the option shares at any time after the third anniversary of the date of grant. Any options not exercised on or before the tenth anniversary of the date of grant will terminate. With respect to the 1997 grant, the option is exercisable at any time from the date of grant and until the tenth anniversary of the date of grant.

*ScanSource, Inc. 1997 Stock Option Plan for Paige Rosamond.* The ScanSource, Inc. 1997 Stock Option Plan for Paige Rosamond was created pursuant to the terms of the Stock Option Agreement dated March 19, 1997 between the Company and Paige Rosamond. The plan granted Paige Rosamond the option to purchase up to 1,000 shares of the Company's Common Stock at a purchase price of \$14.00 per share, the fair market value on the date of grant. The option is exercisable with respect to one-third of the option shares at any time after the first anniversary of the date of grant; is exercisable with respect to two-thirds of the option shares at any time after the second anniversary of the date of grant; and is exercisable with respect to all of the option shares at any time after the third anniversary of the date of grant. Any options not exercised on or before the tenth anniversary of the date of grant will terminate.

*ScanSource, Inc. 1995 and 1996 Stock Option Plans for Robert S. McLain, Jr.* The ScanSource, Inc. 1995 and 1996 Stock Option Plans for Mr. McLain were created pursuant to the terms of Stock Option Agreements dated June 5, 1995, July 26, 1996 and December 3, 1996 between the Company and Mr. McLain. The plans granted Mr. McLain the option to purchase up to 10,000 shares, 5,000 shares and 5,000 shares, respectively, of the Company's Common Stock at a purchase prices of \$8.625 per share, \$10.75 per share and \$14.50 per share, respectively, the fair market value on the respective dates of grant. The options are exercisable with respect to one-third of the option shares at any time after the first anniversary of the date of grant; are exercisable with respect to two-thirds of the option shares at any time after the second anniversary of the date of grant; and are exercisable with respect to all of the option shares at any time after the third anniversary of the date of grant. Any options not exercised on or before the tenth anniversary of the date of grant will terminate.

## PROPOSAL FOUR

### RATIFICATION OF APPOINTMENT OF AUDITORS

The Board of Directors, upon recommendation of the Audit Committee, has appointed the firm of Ernst & Young LLP, certified public accountants, as independent auditors to make an examination of the accounts of the Company for the fiscal year ending June 30, 2003. See the Audit Committee Report below for more information. If the shareholders do not ratify this appointment, other certified public accountants will be considered by the Board of Directors upon recommendation of the Audit Committee.

**THE BOARD OF DIRECTORS RECOMMENDS A VOTE FOR THE PROPOSAL TO APPROVE THE APPOINTMENT OF ERNST & YOUNG LLP. 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 APPROVAL 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.

### Changes in Certifying Accountant

*2002 Change.* On October 11, 2002, the Company notified Deloitte & Touche LLP that it would not be retained by the Company to perform the audit of the financial statements of the Company for the fiscal year ending June 30, 2003. Deloitte & Touche LLP had served as the Company's principal independent accountants for the fiscal years ended June 30, 2002 and 2001. The decision not to retain Deloitte & Touche LLP was approved by the Audit Committee of the Board of Directors of the Company and, upon recommendation by that committee, was approved by the full Board of Directors on October 11, 2002.

In connection with the audits of the financial statements of the Company for the fiscal years ended June 30, 2002 and 2001, the Company had no disagreement with Deloitte & Touche LLP on any matter of accounting principles or practices, financial statement disclosure, or auditing scope or procedure, which disagreement, if not resolved to the satisfaction of Deloitte & Touche LLP, would have caused them to make reference to such disagreement in their report for such periods.

The audit reports of Deloitte & Touche LLP on the financial statements of the Company for the fiscal years ended June 30, 2002 and 2001 contained no adverse opinion or disclaimer of opinion, nor were they qualified or modified as to uncertainty, audit scope, or accounting principles. Deloitte & Touche LLP was provided a copy of the above disclosures and was requested to furnish us with a letter addressed to the Commission stating whether it agrees with the above statements and, if not, stating the respects in which it does not agree. Deloitte & Touche LLP's letter was filed as an exhibit to our October 11, 2002 report on Form 8-K.

On October 11, 2002, the Audit Committee of the Board of Directors of the Company, approved, and, upon recommendation by that committee, the Board of Directors of the Company approved, the engagement of the accounting firm of Ernst & Young LLP as independent accountants to audit the Company's financial statements for the fiscal year ending June 30, 2003. As of October 11, 2002, the Company had not on any prior occasions consulted with Ernst & Young LLP regarding any of the matters set forth in Item 304(a)(2) of Regulation S-K.

*2000 Change.* On October 19, 2000, the Company notified KPMG LLP that it would not be retained by the Company to perform the audit of the financial statements of the Company for the fiscal year ending June 30, 2001. KPMG LLP had served as the Company's principal independent accountants for the fiscal years ended June 30, 2000 and 1999. The decision not to retain KPMG LLP was approved by the Audit Committee of the Board of Directors of the Company and, upon recommendation by that committee, was approved by the full Board of Directors on October 19, 2000.

In connection with the audits of the financial statements of the Company for the fiscal years ended June 30, 2000 and 1999, the Company had no disagreement with KPMG LLP on any matter of accounting principles or practices, financial statement disclosure, or auditing scope or procedure, which disagreement, if not resolved to the satisfaction of KPMG LLP, would have caused them to make reference to such disagreement in their report for such periods.

The audit reports of KPMG LLP on the financial statements of the Company for the fiscal years ended June 30, 2000 and 1999 contained no adverse opinion or disclaimer of opinion, nor were they qualified or modified as to uncertainty, audit scope, or accounting principles. KPMG LLP was provided a copy of the above disclosures, set forth in the Company's report on Form 8-K dated October 19, 2000 filed with the SEC, and was requested to furnish the Company with a letter addressed to the Commission stating whether it agreed with the above statements and, if not, stating the respects in which it did not agree. KPMG LLP's letter was filed as an exhibit to such report.

On October 19, 2000, the Audit Committee of the Board of Directors of the Company approved, and, upon recommendation by that committee, the Board of Directors of the Company approved, the engagement of the accounting firm of Deloitte & Touche LLP as independent accountants to audit the Company's financial statements for the fiscal year ending June 30, 2001. As of October 19, 2000, the Company had not on any prior occasions consulted with Deloitte & Touche LLP regarding any of the matters set forth in Item 304(a)(2) of Regulation S-K.



### **Services and Fees of Deloitte & Touche During the Fiscal Year Ended June 30, 2002**

*Audit fees.* Deloitte & Touche's fees and expenses were \$123,072 in connection with their audit of the Company's annual financial statements for the fiscal year ended June 30, 2002, and their reviews of the Company's quarterly financial information included in the Company's three quarterly reports on Form 10-Q that the Company filed with the SEC during the fiscal year.

*All other fees.* Deloitte & Touche billed the Company \$184,815 in fees and expenses in connection with all other services that they rendered in the fiscal year ended June 30, 2002. A substantial portion of the fees for these services related to services traditionally provided by auditors, including accounting consultation and foreign and domestic tax services and consultation (including preparation of tax returns).

### **OTHER BUSINESS**

The Board of Directors of the Company 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 enclosed form of proxy intend to vote such proxy in accordance with their best judgment.

### **PROPOSALS FOR 2003 ANNUAL MEETING**

Shareholder proposals intended to be presented at the 2003 Annual Meeting of Shareholders must be received by the Company by June 30, 2003 for possible inclusion in the proxy material relating to such meeting, in accordance with the SEC's Rule 14a-8. Any proposal received after this date will be considered untimely and may be excluded from the proxy material.

The deadline for shareholders to provide written notice of intent to make nominations for the election of directors at the 2003 Annual Meeting of Shareholders (but not for inclusion in the proxy material relating to such meeting) will be 90 days prior to the date of the meeting. Such notice must also otherwise conform to the requirements of the Company's Bylaws. For any other shareholder proposal intended to be presented at the 2003 Annual Meeting of Shareholders received by the Company after September 13, 2003, the persons named in the proxy for such meeting may exercise their discretionary voting power with respect to such proposal.

### **MANAGEMENT**

#### **Executive Officers and Directors**

The following sets forth certain information regarding the Company's executive officers and directors:

**Steven H. Owings**, 49, has served as Chairman of the Board of Directors of the Company since its inception in December 1992, and was Chief Executive Officer of the Company from December 1992 until January 2000. From 1991 to 1992, Mr. Owings served as Chairman of the Board, Chief Executive Officer and the sole shareholder of Argent Technologies, Inc. ( Argent ), a personal computer manufacturer. From 1983 to 1991, Mr. Owings held various positions with Gates/FA Distributing, Inc., a distributor of PC products, and its predecessors ( Gates ), including serving as President from December 1987 until December 1990, Chief Executive Officer from December 1987 to December 1991, and Chairman of the Board of Directors from December 1990 to December 1991. From December 1987 to September 1994, Mr. Owings served as a director of Gates. From July 1996 to April 1997, he served as a director of Globelle Corporation, an international distributor of personal computer products. Mr. Owings is currently a director of Falconstor Software Inc. ( Falconstor ), a provider of storage networking infrastructure software.

**Michael L. Baur**, 45, has served as Chief Executive Officer of the Company since January 2000, President of the Company since its inception in December 1992, and as a director since December 1995. Prior to joining the Company, from April 1991 to November 1992, Mr. Baur served in various positions at Argent, including President and General Manager. In September 1989, Mr. Baur joined Gates as Product Manager and served as Merchandising Director from February 1990 to March 1991.

**Jeffery A. Bryson**, 42, has served as Chief Financial Officer and Treasurer of the Company since December 1993. Prior to joining the Company, from 1990 to 1993, Mr. Bryson served as a senior manager with the accounting firm of KPMG LLP, where he was employed for more than seven years. Mr. Bryson is a certified public accountant.

**Robert S. McLain, Jr.**, 42, has served as the Company's Vice President of Marketing since September 1997. Prior to joining the Company, from July 1995 to September 1997, Mr. McLain served as President of Transition Marketing, Inc., a majority-owned subsidiary of the Company. From July 1993 to June 1995, Mr. McLain was Director of Marketing with Gates, and from July 1991 to June 1993, he was a senior account executive with a broadcasting firm in Greenville, South Carolina.

**Steven R. Fischer**, 57, has served as a director of the Company since December 1995. Mr. Fischer has served Transamerica Business Capital Corporation as President since September 2000, as Executive Vice President and Division Manager from October 1997 to September 2000 and as Senior Vice President and Regional Manager from March 1992 to October 1997. From February 1981 to March 1992, Mr. Fischer served as Vice President and Regional Manager of Citibank, N.A. Mr. Fischer is currently a director of Falconstor.

**James G. Foody**, 72, has served as a director of the Company since December 1995. 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.

**John P. Reilly**, 53, has served as a director of the Company since June 2001. Mr. Reilly is co-founder and managing partner of Keltic Financial Services, LLC in Rye, New York. Prior to that, from 1977 to 1999, he held various senior management positions in the Leverage Buy-Out, Leasing, Corporate Finance and Private Banking divisions at Citibank, N.A.

#### **Board Meetings and Committees**

The Board of Directors of the Company met or acted by written consent a total of 15 times during the Company's fiscal year ended June 30, 2002. No director attended fewer than 75% of the total of such meetings and the meetings of the committees upon which he served.

Pursuant to the Bylaws of the Company, the Board of Directors has established an Audit Committee and a Compensation Committee. The Board of Directors has not established a committee performing the functions traditionally performed by a nominating committee. Those functions are currently performed by the Board of Directors acting as a whole.

The Audit Committee is composed of Messrs. Fischer, Foody and Reilly. The functions of the Audit Committee include recommending to the Board of Directors the retention of independent auditors, reviewing the scope of the annual audit undertaken by the Company's independent auditors and the progress and results of their work, and reviewing the financial statements of the Company and its internal accounting and auditing procedures. No directors of the Company who are also executive officers may serve on the Audit Committee. This committee met or acted by written consent seven times during the fiscal year ended June 30, 2002.

The Compensation Committee is composed of Messrs. Fischer and Foody. The functions of the Compensation Committee include reviewing and approving executive compensation policies and practices, reviewing salaries and bonuses for certain officers of the Company, administering the Company's stock option plans, and considering such other matters as may from time to time be referred to the Compensation Committee by the Board of Directors. No directors of the Company who are also executive officers of the Company participate in deliberations of such committee concerning the compensation of such executive officers. This committee met or acted by written consent one time during the fiscal year ended June 30, 2002.

**Executive Compensation**

The following table sets forth the cash and other specified compensation earned by the Company's Chairman of the Board, Chief Executive Officer and President, Chief Financial Officer and Treasurer, and Vice President-Marketing (the Named Executive Officers) for the fiscal years ended June 30 in each of 2002, 2001 and 2000.

**Summary Compensation Table**

Name and Principal Position	Annual Compensation			Long-Term Compensation
	Fiscal Year	Salary	Bonus	Awards
				Securities Underlying Options
Steven H. Owings Chairman of the Board	2002	200,000	381,995	5,000
	2001	200,000	370,308	7,500(1)
	2000	200,000	250,198	17,500
Michael L. Baur Chief Executive Officer and President	2002	175,000	836,136	10,000
	2001	150,000	643,905	17,500(1)
	2000	125,000	455,586	25,000
Jeffery A. Bryson Chief Financial Officer and Treasurer	2002	90,000	335,997	1,000
	2001	90,000	253,337	5,000
	2000	90,000	182,827	15,000
Robert S. McLain, Jr. Vice President Marketing	2002	150,000	43,750	2,000
	2001	150,000	39,900	3,000
	2000	100,000	47,251	5,000

(1) On December 15, 2000, in addition to the Company options indicated, Messrs. Owings and Baur received options to purchase 50,000 shares and 25,000 shares, respectively, of the Company's 90% owned subsidiary ChannelMax, Inc. (the ChannelMax Options). There is no public market for shares underlying the ChannelMax Options.

**Option Grants**

The following table sets forth information with respect to the stock options granted to the Named Executive Officers during the fiscal year ended June 30, 2002.

**Option Grants In Last Fiscal Year**

Name	Individual Grants				Potential Realizable Value at Assumed Annual Rates of Stock Price Appreciation for Option Term	
	Number of Securities Underlying Options Granted	Percent of Total Options Granted to Employees in Fiscal Year	Exercise Price	Expiration Date	5%	10%
Steven H. Owings	5,000	8.1%	\$ 42.49	12/11	\$ 133,609	\$ 338,591
Michael L. Baur	10,000	16.3%	\$ 42.49	12/11	\$ 267,218	\$ 677,182
Jeffery A. Bryson	1,000	1.6%	\$ 42.49	12/11	\$ 26,722	\$ 67,718

Robert S. McLain, Jr.	2,000	3.3%	\$42.49	12/11	\$53,444	\$135,436
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**Option Exercises and Fiscal Year-End Option Values**

The following table sets forth certain information with respect to stock options exercised by the Named Executive Officers during the fiscal year ended June 30, 2002, and the number and value of unexercised stock options held by each of the Named Executive Officers at June 30, 2002.

**Aggregated Option Exercises in Fiscal 2002 and Fiscal Year-End Option Values**

Name	Shares Acquired On Exercise	Value Realized (2)	Number of Securities Underlying Unexercised Options at Fiscal Year-End		Value of Unexercised In-the-Money Options at Fiscal Year-End (1)	
			Exercisable	Unexercisable	Exercisable	Unexercisable
Steven H. Owings	0	0	171,666	15,834	\$ 7,478,490	\$ 377,498
			33,333(3)	16,667(3)	\$ 87,809(3)	\$ 43,906(3)
Michael L. Baur	25,000	\$ 1,001,975	120,880	30,001	\$ 5,259,461	\$ 702,635
			16,666(3)	8,334(3)	\$ 43,903(3)	\$ 21,954(3)
Jeffery A. Bryson	15,000	\$ 380,727	49,166	9,334	\$ 2,062,579	\$ 238,394
Robert S. McLain, Jr.	5,000	\$ 267,925	23,833	5,667	\$ 1,072,825	\$ 132,478

- (1) Based, with respect to options on the Company's Common Stock, on a per share price of \$61.41, the closing price of the Common Stock as reported on The Nasdaq National Market on June 28, 2002, the last trading day of the fiscal year.
- (2) The amount realized is based on the per share price of the Common Stock as reported on The Nasdaq National Market on the day of exercise.
- (3) ChannelMax options. Fiscal year end values are based on contractual arrangements relating to the ChannelMax Options and shares of the subsidiary. There is no public market for shares underlying such options.

**Employment, Severance and Change in Control Agreements**

*Michael L. Baur, Steven H. Owings and Jeffery A. Bryson.* Each of Messrs. Baur, Owings and Bryson entered into employment agreements with the Company in October 2002, the material terms of which are summarized below. Each of Mr. Baur's and Mr. Owings' employment agreement is effective for a term ending on June 30, 2005, unless a change in control occurs, in which case the employment agreement will be effective until the later of June 30, 2005 or the first anniversary of the change in control. Mr. Bryson's employment agreement is effective for a term ending on June 30, 2004, unless a change in control occurs, in which case the employment agreement will be effective until the later of June 30, 2004 or the first anniversary of the change in control.

Each executive is entitled to an annual base salary, subject to yearly review, plus an annual incentive bonus opportunity, which, in the case of Messrs. Baur and Owings, is determined annually based on a measurement of return on invested capital and operating income, and in the case of Mr. Bryson, is determined based on attainment of management objectives. Each executive is also entitled to participate in all incentive, savings, retirement and welfare benefit plans made generally available to executive officers of the Company. The current annual salaries of these executive officers are as follows: Mr. Baur \$600,000; Mr. Owings \$400,000; and Mr. Bryson \$125,000.

Each of Messrs. Baur, Owings and Bryson has agreed in his employment agreement not to disclose or use confidential information or to compete with the Company, and not to solicit the Company's customers or recruit its

employees, for a period of two years following the termination of his employment with respect to Mr. Baur and Mr. Owings, and for a period of one year with respect to Mr. Bryson.

Each of these employment agreements may be terminated by the Company at any time for cause (as defined therein) or for no reason, or by the executive with or without good reason (as defined therein, which includes termination by the executive during the 60-day period beginning on the six-month anniversary of a change in control). The agreement will also be terminated upon the death, disability or retirement of the executive. Depending on the reason for the termination and when it occurs, the executive will be entitled to certain severance benefits, as described below.

If the executive's employment is terminated by the Company without cause or if he resigns for good reason and the executive signs a release, the Company will be required to pay him his accrued salary, a pro rata annual bonus, and other accrued benefits through the date of termination. In addition, the Company will be required to pay the executive a severance amount equal to the executive's highest combined base salary and annual bonus in the last three full fiscal years, multiplied by an applicable severance multiple. The severance multiple with respect to Mr. Baur and Mr. Owings is the greater of (a) one, (b) the number of full months then remaining until June 30, 2005, 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 with respect to Mr. Bryson is the greater of (a) one, or (b) the number of full months then remaining until June 30, 2004, divided by 12. Thereafter, for a number of months equal to the severance multiple, the Company shall continue to provide the executive with medical and other welfare benefits to the same extent as if the executive continued to be employed by the Company during such period.

If the employment of the executive is terminated by reason of his death, disability or retirement, or if the employment period is allowed to expire without early termination, the executive will be entitled to his accrued salary, 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 the Company terminates the executive for cause, or if he resigns from the Company without good reason, he will be entitled to his accrued salary and benefits through the date of termination, but no additional severance amount.

#### **Compensation of Directors**

All directors are reimbursed for their expenses incurred in connection with the performance of their services as directors. In addition, for the fiscal year ended June 30, 2002, directors who were not otherwise compensated as officers of the Company received a fee of \$15,000 per calendar year for their service on the Board of Directors. Directors were also granted, as part of an annual formula award, ten-year options to purchase 3,000 shares of Common Stock under the terms of the Company's Non-Employee Director Stock Option Plan (the Director Plan). Grants of options under the Director Plan are automatic and are made each year to each non-employee director. The exercise price of all options so granted is the fair market value of the Common Stock on the date of grant. Options granted under the Director Plan are exercisable beginning six months after the option is granted. Options may be exercised only during the period in which the option holder remains a director of the Company and for one year thereafter, unless the director's membership on the Board of Directors is terminated for cause, in which case all options granted to such director expire upon such termination.

#### **Compensation Committee Interlocks and Insider Participation**

During the fiscal year ended June 30, 2002, matters of executive compensation were decided by the Compensation Committee of the Board of Directors. The Compensation Committee is currently composed of Messrs. Fischer and Foody.

#### **Compensation Committee Report on Executive Compensation**

The compensation of the Company's executive officers is generally determined by the Compensation Committee of the Board of Directors. The following report with respect to certain compensation paid or awarded to the Company's executive officers during the fiscal year ended June 30, 2002 is furnished by the directors who comprise the Compensation Committee.

*General Policies.* The Company's compensation program is intended to enable the Company to attract, motivate, reward and retain the management talent to achieve corporate objectives, and thereby increase shareholder value. It is the Company's policy to provide incentives to senior management to achieve both short-term and long-term objectives. To attain these objectives, the Company's executive compensation program is composed of a base salary and bonus, which is generally established for the Named Executive Officers in an employment agreement.

*Base Salary.* Base salaries for each of the Named Executive Officers as established in his employment agreement are determined by a subjective assessment of the executive officer's performance, in light of the officer's responsibilities and position with the Company and the Company's performance during prior periods. In evaluating overall Company performance, the primary focus is upon financial performance for the relevant annual period measured by operating income. Base salaries are reviewed periodically and from time to time by the Compensation Committee and adjusted appropriately.

*Incentive Compensation.* Incentive compensation for each of the Named Executive Officers is established in his employment agreement, generally as a percentage of the Company's operating income or other appropriate factors based on the role of the executive. Incentive compensation is reviewed periodically and from time to time by the Compensation Committee and adjusted accordingly.

*Stock Options.* Executive compensation includes the grant of stock options in order to more closely align the interests of the executive with the long-term interests of the shareholders.

*Chief Executive Officer Compensation.* Michael L. Baur is an original founder of the ScanSource concept and has devoted his career to this concept since the inception of the Company in December 1992. The Compensation Committee believes that Mr. Baur's entrepreneurial drive, dedication, commitment and knowledge have been vitally important to the successful and ongoing growth of the Company. Mr. Baur's overall compensation for the fiscal year ended June 30, 2002 consisted of base salary, bonus and stock options. In determining Mr. Baur's compensation, the Compensation Committee evaluated Mr. Baur's personal performance, the performance of the Company and Mr. Baur's long-term commitment to the success of and ownership position in the Company.

Compensation Committee:

Steven R. Fischer  
James G. Foody

**Certain Transactions**

At June 30, 2002, Steven H. Owings, Chairman of the Board, was a 50% owner of Custom Images, a specialty advertising company. Sales by Custom Images to the Company for the year ended December 31, 2001 amounted to \$169,428, representing 5.2% of their sales. All sales are at arms'-length and are made through a competitive bid process.

At June 30, 2002, Michael L. Baur, Chief Executive Officer and President of the Company, was indebted to the Company under the terms of a loan to him from the Company with a June 30, 2002 principal balance of \$352,124, bearing interest at an annual rate of 6.5%. The principal amount and accrued interest thereon totaling \$356,349 were repaid by Mr. Baur in August, 2002.

**Performance Graph**

The following graph compares cumulative total shareholder return of the Common Stock over a five-year period with The Nasdaq Stock Market (US) Index and with a Peer Group of companies for the same period. Total shareholder return represents stock price changes and assumes the reinvestment of dividends. The graph assumes the investment of \$100 on July 1, 1997.

	<u>6/30/97</u>	<u>6/30/98</u>	<u>6/30/99</u>	<u>6/30/00</u>	<u>6/30/01</u>	<u>6/30/02</u>
SCANSOURCE, INC.	100.00	133.91	150.43	270.43	329.88	427.20
PEER GROUP INDEX*	100.00	166.76	138.94	184.23	132.95	93.54
NASDAQ MARKET INDEX	100.00	132.56	185.76	279.51	154.79	104.99

\* The members of the Peer Group are Daisytek International Corporation, Ingram Micro, Inc., Symbol Technologies, Inc., Tech Data Corp. and Zebra Technologies Corporation. The returns of each company in the Peer Group have been weighted according to their respective stock market capitalization for purposes of arriving at a Peer Group average.

**Security Ownership of Certain Beneficial Owners and Management**

The following table sets forth certain information regarding the beneficial ownership of the Common Stock at October 18, 2002 of: (i) each person known by the Company to beneficially own five percent or more of the Common Stock; (ii) each director of the Company who beneficially owns Common Stock; (iii) each executive officer who beneficially owns Common Stock; and (iv) all directors and executive officers of the Company, as a group.



Name	Shares Beneficially Owned (1)	
	Number	Percentage
FMR Corp. (2)	641,563	11.22%
AXA Financial, Inc. (3)	542,700	9.5%
John Hancock Mutual Life Insurance Company (4)	378,050	6.6%
Pilgrim Baxter & Associates, Ltd. (5)	351,600	6.15%
JP Morgan Chase & Co. (6)	350,155	6.1%
Steven H. Owings (7)	270,124	4.45%
Michael L. Baur (8)	140,166	2.33%
Jeffery A. Bryson (9)	31,399	*
James G. Foody (10)	32,600	*
Steven R. Fischer (11)	28,550	*
Robert S. McLain, Jr. (12)	26,730	*
John P. Reilly (13)	7,500	*
All directors and executive officers as a group (7 persons)	537,069	8.53%

\* Amount represents less than 1.0%.

- (1) Applicable percentage of ownership is based upon 5,885,718 shares of Common Stock outstanding. Beneficial ownership is determined in accordance with the rules of the SEC and includes voting and investment power with respect to shares shown as beneficially owned. Shares of Common Stock subject to options currently exercisable or exercisable within 60 days are deemed outstanding for computing the shares and percentage ownership of the person holding such options, but are not deemed outstanding for computing the percentage ownership of any other person or entity. Except as otherwise indicated, the persons or entities listed in the table have sole voting and investment power with respect to all shares shown as beneficially owned by them.
- (2) A Schedule 13G/A filed with the SEC reflects that FMR Corp. is the ultimate parent company of a variety of companies engaged in the securities business and was, along with certain related persons, the beneficial owner of the indicated shares as of December 31, 2001, including 70,063 shares as to which sole voting power was held and as to all of which sole investment power was held. The business address of the named shareholder is 82 Devonshire Street, Boston, Massachusetts 02109.
- (3) A Schedule 13G filed with the SEC reflects that AXA Financial, Inc. is the ultimate parent company of Alliance Capital Management L.P. and The Equitable Life Assurance Society of the United States, which beneficially owned 514,600 shares and 28,100 shares, respectively, as of December 31, 2001, including 331,700 shares and 28,100 shares, respectively, as to which sole voting and

investment power was held. The business address of the named shareholders is 1290 Avenue of the Americas, New York, New York, 10104.

- (4) A Schedule 13G filed with the SEC reflects that John Hancock Mutual Life Insurance Company is the ultimate parent company of John Hancock Advisors, Inc., which held sole voting and investment power with respect to the indicated shares as of December 31, 2001. The business address of the named shareholder is John Hancock Place, Post Office Box 111, Boston, Massachusetts 02117.
- (5) A Schedule 13G filed with the SEC reflects that Pilgrim Baxter & Associates, Ltd. was the beneficial owner of the indicated shares as of December 31, 2001, including 187,100 shares as to which sole voting power was held and as to all of which sole investment power was held. The business address of the named shareholder is 1400 Liberty Ridge Drive, Wayne, PA 19087.
- (6) A Schedule 13G filed with the SEC reflects that J.P. Morgan Chase & Co. is the ultimate parent company of J. P. Morgan Investment Management, Inc., which had sole voting and investment power with respect to the indicated shares as of December 31, 2001. The business address of the named shareholder is 270 Park Avenue, New York, NY 10017.
- (7) Includes 179,166 shares issuable pursuant to currently exercisable stock options granted by the Company. Does not include 8,334 shares issuable pursuant to options granted by the Company which are not currently exercisable. Includes 5,197 shares owned in a trust of which Mr. Owings is the trustee.
- (8) Includes 132,547 shares issuable pursuant to currently exercisable options granted by the Company. Does not include 18,334 shares issuable pursuant to options granted by the Company which are not currently exercisable.
- (9) Includes 29,399 shares issuable pursuant to currently exercisable options granted by the Company. Does not include 4,001 shares issuable pursuant to options granted by the Company which are not currently exercisable.
- (10) Includes 18,000 shares issuable pursuant to currently exercisable options granted by the Company.
- (11) Includes 18,000 shares issuable pursuant to currently exercisable options granted by the Company, and includes 450 shares owned by a member of Mr. Fischer's household.
- (12) Includes 26,166 shares issuable pursuant to currently exercisable options granted by the Company. Does not include 3,334 shares issuable pursuant to options granted by the Company which are not currently exercisable.
- (13) Includes 7,500 shares issuable pursuant to currently exercisable options granted by the Company.

#### **Section 16(a) Beneficial Ownership Reporting Requirements**

The Company believes that each of its officers and directors complied with all requirements applicable to them during the fiscal year ended June 30, 2002 pursuant to Section 16(a) of the Securities Exchange Act of 1934.

#### **AUDIT COMMITTEE REPORT**

The Audit Committee oversees the Company's financial reporting process on behalf of the Board of Directors. The Audit Committee operates under a written charter adopted on June 1, 2000, a copy of which is attached as *Exhibit A* to the 2001 proxy statement filed by the Company with the SEC. This report reviews the actions taken by the Audit Committee with regard to the financial reporting process during the fiscal year ended June 30, 2002 and particularly with regard to the Company's audited consolidated financial statements as of June 30, 2002 and June 30, 2001 and for the three years ended June 30, 2002.

The Audit Committee is composed solely of independent directors. None of the committee members is or has been an officer or employee of the Company or any of its subsidiaries or has engaged in any business transaction or has any business or family relationship with the Company or any of its subsidiaries or affiliates.

The Company's management has the primary responsibility for the Company's financial statements and reporting process, including the systems of internal controls. The independent auditors are responsible for performing an independent audit of the Company's consolidated financial statements in accordance with auditing standards generally accepted in the United States and issuing a report thereon. The Audit Committee's responsibility is to monitor and oversee these processes and to recommend annually to the Board of Directors the accountants to serve as the Company's independent auditors for the coming year.

The Audit Committee has implemented procedures to ensure that during the course of each fiscal year it devotes the attention that it deems necessary or appropriate to fulfill its oversight responsibilities under the Audit Committee's charter. To carry out its responsibilities, the Audit Committee met six times during the fiscal year ended June 30, 2002.

In fulfilling its oversight responsibilities, the Audit Committee reviewed with management the audited consolidated financial statements in the Company's Annual Report on Form 10-K for the fiscal year ended June 30, 2002, including a discussion of the quality, rather than just the acceptability, of the accounting principles, the reasonableness of significant judgments and the clarity of disclosures in the financial statements.

The Audit Committee also reviewed with the independent auditors, who are responsible for expressing an opinion on the conformity of those audited consolidated financial statements with accounting principles generally accepted in the United States, their judgments as to the quality, rather than just the acceptability, of the Company's accounting principles and such other matters as are required to be discussed with the Audit Committee under Statement on Auditing Standards No. 61, *Communication with Audit Committees*, as currently in effect. In addition, the Audit Committee discussed with the auditors their independence from management and the Company, including the matters in the written disclosures required of auditors by Independence Standards Board Standard No. 1, *Independence Discussions with Audit Committees*. The Audit Committee also considered whether the provision of services during the fiscal year ended June 30, 2002 by the auditors that were unrelated to their audit of the consolidated financial statements referred to above and to their reviews of the Company's interim consolidated financial statements during the fiscal year is compatible with maintaining their independence.

Additionally, the Audit Committee discussed with the independent auditors the overall scope and plan for their audit. The Audit Committee met with the independent auditors, with and without management present, to discuss the results of their examination, their evaluation of the Company's internal controls and the overall quality of its financial reporting.

In reliance on the reviews and discussions referred to above, the Audit Committee recommended to the Board of Directors that the audited consolidated financial statements be included in the Company's Annual Report on Form 10-K for the fiscal year ended June 30, 2002 for filing with the SEC.

Audit Committee:

Steven R. Fischer  
James G. Foody  
John P. Reilly

**ANNUAL REPORT ON FORM 10-K**

**A copy of the Company's Annual Report on Form 10-K for the fiscal year ended June 30, 2002, which is required to be filed with the SEC, will be made available to shareholders to whom this proxy statement is mailed, without charge, upon written request to Mr. Jeffery A. Bryson, Chief Financial Officer, ScanSource, Inc., 6 Logue Court, Greenville, South Carolina 29615.**

By order of the Board of Directors,

Steven H. Owings  
*Chairman of the Board*

October 28, 2002

ANNEX A

**SCANSOURCE, INC.**  
**2002 LONG-TERM INCENTIVE PLAN**

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