DEVON ENERGY CORP/DE
Form 424B5
July 07, 2011

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Filed Pursuant to Rule 424(b)(5)
Registration No. 333-156025

CALCULATION OF REGISTRATION FEE

Title of Each Class of Securities Offered	Amount Registered	Proposed Maximum Offering Price Per Unit	Proposed Maximum Aggregate Offering Price	Amount of Registration Fee[1]
2.400% Senior Notes due 2016	$ 500,000,000	99.770%	$ 498,850,000	$ 57,916.49
4.000% Senior Notes due 2021	$ 500,000,000	99.307%	$ 496,535,000	$ 57,647.71
5.600% Senior Notes due 2041	$ 1,250,000,000	99.682%	$ 1,246,025,000	$ 144,663.50
Total				$ 260,227.70

(1) Calculated in accordance with Rule 457(r) under the Securities Act of 1933, as amended. This Calculation of Registration Fee table shall be deemed to update the Calculation of Registration Fee table in the registrant s Registration Statement on Form S-3 (File No. 333-156025).

PROSPECTUS SUPPLEMENT dated July 5, 2011
(To Prospectus dated July 5, 2011)

$2,250,000,000

Devon Energy Corporation

$500,000,000 2.40% Senior Notes due 2016
$500,000,000 4.00% Senior Notes due 2021
$1,250,000,000 5.60% Senior Notes due 2041

We are offering $500,000,000 aggregate principal amount of our 2.40% senior notes due July 15, 2016, $500,000,000 aggregate principal amount of our 4.00% senior notes due July 15, 2021 and $1,250,000,000 aggregate principal amount of our 5.60% senior notes due July 15, 2041. We will pay interest on the notes semi-annually in arrears on January 15 and July 15 of each year, beginning January 15, 2012. We may redeem any series of notes in whole or in part at any time at the redemption prices set forth under Description of the Notes Optional Redemption. The notes will be our general unsecured obligations and will rank equally in right of payment with all our existing and future unsecured and unsubordinated debt.

We do not intend to list the notes on any securities exchange.

Investing in the notes involves risks. You should carefully read the entire accompanying prospectus and this prospectus supplement, including the section entitled Risk Factors beginning on page S-1 of this prospectus supplement and in our Annual Report on Form 10-K for the year ended December 31, 2010.

Neither the Securities and Exchange Commission nor any state securities commission has approved or disapproved of these notes or determined if this prospectus supplement and the accompanying prospectus are truthful or complete. Any representation to the contrary is a criminal offense.

	Per 2016 Note	Total	Per 2021 Note	Total	Per 2041 Note	Total
Price to public(1)	99.770%	$ 498,850,000	99.307%	$ 496,535,000	99.682%	$ 1,246,025,000
Underwriting discount	.60%	$ 3,000,000	.65%	$ 3,250,000	.875%	$ 10,937,500
Proceeds, before expenses, to us(1)	99.170%	$ 495,850,000	98.657%	$ 493,285,000	98.807%	$ 1,235,087,500

(1) Plus accrued interest, if any, from July 12, 2011.

We expect that the notes will be delivered to investors on or about July 12, 2011 in book-entry form only through the facilities of The Depository Trust Company and its participants, including Clearstream Banking, *société anonyme*, and Euroclear Bank S.A./N.V.

Joint Book-Running Managers

Goldman, Sachs & Co. **Morgan Stanley** **UBS Investment Bank**

Barclays Capital **Credit Suisse** **RBC Capital Markets** **RBS**

Senior Co-Managers

BofA Merrill Lynch **Citi** **J.P. Morgan**

Co-Managers

BMO Capital Markets **Mitsubishi UFJ Securities** **Scotia Capital**
SOCIETE GENERALE **US Bancorp** **Wells Fargo Securities**

No person is authorized to give any information or to make any representations other than those contained or incorporated by reference in this prospectus supplement or the accompanying prospectus or in any free writing prospectus filed with the Securities and Exchange Commission and, if given or made, such information or representations must not be relied upon as having been authorized. We take no responsibility for, and can provide no assurance as to the reliability of, any other information that others may give you.

This prospectus supplement and the accompanying prospectus do not constitute an offer to sell or the solicitation of an offer to buy any securities other than the securities described in this prospectus supplement or an offer to sell or the solicitation of an offer to buy those securities in any circumstances in which such offer or solicitation is unlawful. Neither the delivery of this prospectus supplement or the accompanying prospectus, nor any sale made hereunder and thereunder shall, under any circumstances, create any implication that there has been no change in the affairs of Devon since the date hereof or that the information contained or incorporated by reference herein or therein is correct as of any time subsequent to the date of such information.

For purposes of this prospectus supplement and the accompanying prospectus, unless the context otherwise indicates, references to us, we, our, ours, and Devon refer to Devon Energy Corporation and its subsidiaries.

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DEVON ENERGY CORPORATION

Devon is an independent energy company engaged primarily in exploration, development and production of natural gas and oil. Our operations are concentrated in various North American onshore areas in the United States and Canada. We also have offshore operations located in Angola that are currently in the process of being divested. To complement our upstream oil and gas operations in North America, we have a large marketing and midstream operation. With these operations, we market gas, crude oil and natural gas liquids (NGLs). We also construct and operate pipelines, storage and treating facilities and natural gas processing plants. These midstream facilities are used to transport oil, gas, and NGLs and to process natural gas.

We recently confirmed our estimated 2011 combined oil, gas and NGL production of 236 to 240 MMBoe and announced that we increased our estimate for our 2011 oil and gas development and exploration capital expenditures to be between $5.5 billion and $5.9 billion. Please see Risk Factors below and Forward-Looking Estimates under Item 7 of our Annual Report on Form 10-K for the year ended December 31, 2010 for a further discussion of these calculations and limitations of these estimates.

Our principal and administrative offices are located at 20 North Broadway, Oklahoma City, Oklahoma 73102-8260. Our telephone number at that location is (405) 235-3611.

RISK FACTORS

An investment in the notes is subject to risk. Before you decide to invest in the notes, you should carefully consider the specific factors discussed below, together with all the other information contained in this prospectus supplement, the accompanying prospectus as well as the documents incorporated by reference herein or therein. For further discussion of the risks, uncertainties and assumptions relating to our business, please see the discussion under the captions Risk Factors and Information Regarding Forward-Looking Statements included in our Annual Report on Form 10-K for the year ended December 31, 2010, as updated by annual, quarterly and other reports and documents that we file with the SEC, which are incorporated by reference in this prospectus supplement and the accompanying prospectus.

The notes do not restrict our ability to incur additional debt or prohibit us from taking other actions that could negatively impact holders of the notes.

We are not restricted under the terms of the notes or the indenture governing the notes from incurring additional debt and other obligations, including debt and other obligations that rank equal in right of payment with the notes. Although the indenture limits our ability to issue secured debt without also securing the notes and to consolidate with or merge into, or convey or otherwise transfer or lease our properties and assets substantially as an entirety to, any person, these limitations are subject to a number of exceptions. See Description of Debt Securities Covenants in the accompanying prospectus.

Our ability to service our debt, including the notes, will be dependent upon the earnings of our subsidiaries and the distribution of those earnings to us. The notes are effectively subordinated to any existing and future debt of our subsidiaries.

The notes are obligations exclusively of Devon Energy Corporation. Our operations are conducted almost entirely through our subsidiaries. Accordingly, our cash flow and our consequent ability to service our debt, including the notes, are dependent upon the earnings of our subsidiaries and the distribution of those earnings to us, whether by

dividends, loans or otherwise. The payment of dividends and the making of loans and advances to us and our right to receive assets of any of our subsidiaries upon their liquidation or reorganization, and the consequent right of the holders of the notes to participate in those assets, will be effectively subordinated to the claims of that subsidiary s creditors, including trade creditors, except to the extent that we are recognized as a creditor of such subsidiary, in which case our claims would still be subordinate to any liens on the assets of such subsidiary and any indebtedness of such subsidiary senior to ours. As of March 31, 2011, we had total consolidated indebtedness with a carrying value of approximately $6.8 billion, none of which was secured. This total includes indebtedness of our subsidiaries of approximately $3.4 billion, excluding intercompany debt and trade payables.

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At certain times we may redeem all or a portion of the notes at our option at a redemption price equal to 100% of the principal amount of such notes, plus accrued and unpaid interest to, but not including, the redemption date, which may adversely affect your return.

As described under Description of the Notes Optional Redemption, at certain times we have the right to redeem the notes of any series in whole or in part, at our option at a redemption price equal to 100% of the principal amount of such notes, plus accrued and unpaid interest to, but not including, the redemption date. We may choose to exercise this redemption right when prevailing interest rates are relatively low. As a result, you generally will not be able to reinvest the redemption proceeds in a comparable security at an effective interest rate as high as that of the notes.

An active trading market for the notes may not develop.

The notes of each series are a new issue of securities with no established trading market, and we do not intend to list them on any securities exchange or automated quotation system. As a result, an active trading market for the notes may not develop, or if one does develop, it may not be sustained. If an active trading market fails to develop or cannot be sustained, you may not be able to resell your notes at their fair market value or at all.

USE OF PROCEEDS

The net proceeds of this offering, after discounts and expenses, are estimated to be approximately $2,220,722,500. We intend to use the net proceeds to repay our $1.75 billion aggregate principal amount of 6.875% senior notes due 2011 upon maturity in September 2011 and to use the remainder for general corporate purposes. Prior to the repayment of the 6.875% senior notes due 2011, the net proceeds may be invested temporarily in short-term marketable securities or applied to repay commercial paper as it comes due. If we apply the proceeds to repay commercial paper, we intend to issue additional commercial paper prior to the maturity of the 6.875% senior notes due 2011. As of March 31, 2011, our average borrowing rate on our $1,197 million of commercial paper borrowings was 0.30 percent.

DESCRIPTION OF THE NOTES

The following description of the particular terms of the $500,000,000 aggregate principal amount of our 2.40% senior notes due July 15, 2016 (the 2016 notes), the $500,000,000 aggregate principal amount of our 4.00% senior notes due July 15, 2021 (the 2021 notes) and the $1,250,000,000 aggregate principal amount of our 5.60% senior notes due July 15, 2041 (the 2041 notes and, collectively with the 2016 notes and the 2021 notes, the notes) (which each represent a new series of, and are referred to in the accompanying prospectus as, the debt securities), supplements and, to the extent inconsistent therewith, replaces the description of the general terms and provisions of the debt securities set forth in the accompanying prospectus.

We will issue the notes under an indenture between us and UMB Bank, National Association, as trustee, to be dated on or about July 12, 2011, as supplemented by a supplemental indenture to be dated on or about July 12, 2011. In this prospectus supplement, we refer to that indenture as so supplemented as the indenture. The terms of the notes include those set forth in the indenture and those made a part of the indenture by reference to the Trust Indenture Act of 1939, as amended.

The following description is a summary of the material provisions of the notes and the indenture. It does not restate the indenture in its entirety. We urge you to read the indenture because it, and not this description, defines your rights as a holder of notes. Copies of the indenture are available upon request from us or the trustee. References to us, we, ours, or Devon in this section of the prospectus supplement are to Devon Energy Corporation and not its subsidiaries.

General

The 2016 notes will:

accrue interest at the rate of 2.40% per year;

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- be initially limited to $500,000,000 aggregate principal amount;
- be issued in denominations of $2,000 and integral multiples of $1,000; and
- mature on July 15, 2016.

The 2021 notes will:

- accrue interest at the rate of 4.00% per year;
- be initially limited to $500,000,000 aggregate principal amount;
- be issued in denominations of $2,000 and integral multiples of $1,000; and
- mature on July 15, 2021.

The 2041 notes will:

- accrue interest at the rate of 5.60% per year;
- be initially limited to $1,250,000,000 aggregate principal amount;
- be issued in denominations of $2,000 and integral multiples of $1,000; and
- mature on July 15, 2041.

Interest on the notes will:

- accrue from the date of issuance or the most recent interest payment date;
- be payable in cash semiannually in arrears on each January 15 and July 15 commencing on January 15, 2012;
- be payable to the holders of record on January 1 and July 1 immediately preceding the related interest payment dates; and
- be computed on the basis of a 360-day year consisting of twelve 30-day months.

There is no limit on the aggregate principal amount of notes that we may issue. Also, we reserve the right, from time to time, in compliance with the terms of the indenture and without the consent of any holders of any of the notes, to reopen any series of notes by issuing additional 2016 notes, 2021 notes or 2041 notes, as the case may be. Any such additional 2016 notes, 2021 notes or 2041 notes would have terms identical to the outstanding 2016 notes, 2021 notes or 2041 notes, as the case may be (except the date of issuance, the date interest begins to accrue and, in certain circumstances, the first interest payment date), so that such additional 2016 notes, 2021 notes or 2041 notes shall be consolidated with, form a single series with, and increase the aggregate principal amount of, the 2016 notes, 2021 notes or 2041 notes, as the case may be; provided that if the additional 2016 notes, 2021 notes or 2041 notes are not fungible with the outstanding 2016 notes, 2021 notes and 2041 notes, respectively, for United States federal income tax purposes, the additional notes will have a separate CUSIP number.

If any interest payment date, maturity date or redemption date falls on a day that is not a business day, the payment will be made on the next business day with the same force and effect as if made on the relevant interest payment date, maturity date or redemption date. Unless we default on a payment, no interest will accrue for the period from and after the applicable interest payment date, maturity date or redemption date.

Subject to the exceptions, and subject to compliance with the applicable requirements, set forth in the indenture, we may discharge our obligations under the indenture with respect to the notes as described under Description of Debt Securities Defeasance in the accompanying prospectus.

The notes will be our general unsecured obligations and will rank equally in right of payment with all our other existing and future unsecured and unsubordinated debt.

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Payment and Transfer

The notes will be issued in the form of one or more permanent global securities as described in the accompanying prospectus under Description of Debt Securities Global Securities and registered in the name of a nominee of The Depository Trust Company, as depositary for the notes, and its participants, including Clearstream Banking, *société anonyme*, and Euroclear Bank S.A./N.V. See Book-Entry Securities in the accompanying prospectus. Beneficial interests in notes in global form will be shown on, and transfers of interest in notes in global form will be made only through, records maintained by the depositary and its participants. Notes in definitive form, if any, may be registered, exchanged or transferred at the office or agency maintained by us for such purpose (which initially will be the corporate trust office of the trustee located at 1010 Grand Blvd., Kansas City, MO 64106). Payment of principal of, premium, if any, and interest on notes in global form registered in the name of or held by the depositary or its nominee will be made in immediately available funds to the depositary or its nominee, as the case may be, as the registered holder of such global security. If any of the notes are no longer represented by global securities, all payments on such notes will be made at the corporate trust office of the trustee; however, any payment of interest on such notes may be made, at our option, by check mailed directly to registered holders at their registered addresses.

No service charge will be made for any registration of transfer or exchange of notes, but we may require payment of a sum sufficient to cover any transfer tax or other similar governmental charge payable in connection therewith. We are not required to transfer or exchange any note selected for redemption or any other note for a period of 15 days before any mailing of notice of notes to be redeemed.

Optional Redemption

We may redeem:

- the 2016 notes prior to one month before their maturity date,
- the 2021 notes prior to three months before their maturity date, or
- the 2041 notes prior to six months before their maturity date

at any time, in whole or in part, at our option at a redemption price equal to the greater of:

- 100% of the principal amount of the notes then outstanding to be redeemed; or
- the sum of the present values of the remaining scheduled payments of principal and interest thereon (exclusive of interest accrued to the date of redemption) from the redemption date to the maturity date computed by discounting such payments to the redemption date on a semiannual basis, assuming a 360-day year consisting of twelve 30-day months, at a rate equal to the sum of 12 basis points in the case of the 2016 notes, 15 basis points in the case of the 2021 notes and 20 basis points in the case of the 2041 notes, plus the Adjusted Treasury Rate, as determined by the Independent Investment Banker, on the third business day prior to the redemption date;

plus, in each case, accrued and unpaid interest, if any, to the redemption date.

On or after the date that is one month prior to the maturity for the 2016 notes, three months prior to the maturity for the 2021 notes, or six months prior to the maturity for the 2041 notes, respectively, we may redeem the 2016 notes, the 2021 notes or the 2041 notes, at any time, in whole or in part, at our option at a redemption price equal to 100% of the principal amount of such notes, plus accrued and unpaid interest to, but not including, the redemption date.

Adjusted Treasury Rate means, with respect to any redemption date, the rate per annum equal to the semiannual equivalent yield to maturity of the Optional Redemption Comparable Treasury Issue, calculated using a price for the Optional Redemption Comparable Treasury Issue (expressed as a percentage of its principal amount) equal to the Optional Redemption Comparable Treasury Price for such redemption date.

Independent Investment Banker means an independent investment banking institution of national standing appointed by Devon.

Optional Redemption Reference Treasury Dealer means each of Goldman, Sachs & Co., Morgan Stanley & Co. LLC, UBS Securities LLC and their respective successors; provided that if any of the foregoing ceases to be, and has no affiliate that is, a primary U.S. governmental securities dealer, Devon will substitute for it another primary U.S. governmental securities dealer.

Optional Redemption Comparable Treasury Issue means the U.S. Treasury security selected by the Independent Investment Banker as having a maturity comparable to the remaining term of the notes to be redeemed that would be utilized, at the time of selection and in accordance with customary financial practice, in pricing new issues of corporate debt securities of comparable maturity to the remaining term of the notes or, if, in the reasonable judgment of the Independent Investment Banker, there is no such security, then the Optional Redemption Comparable Treasury Issue will mean the U.S. Treasury security or securities selected by the Independent Investment Banker as having an actual or interpolated maturity or maturities comparable to the remaining term of the notes.

Optional Redemption Comparable Treasury Price means the average of the Optional Redemption Reference Treasury Dealer Quotations for the applicable redemption date.

Optional Redemption Reference Treasury Dealer Quotations means, with respect to each Optional Redemption Reference Treasury Dealer and any redemption date for the notes, the average, as determined by the Independent Investment Banker, of the bid and asked prices for the Optional Redemption Comparable Treasury Issue (expressed in each case as a percentage of its principal amount) quoted in writing to the Independent Investment Banker and the trustee at 5:00 p.m., New York City time, on the third business day preceding such redemption date.

We will mail notice of redemption at least 30 days but not more than 60 days before the applicable redemption date to each holder of the notes to be redeemed.

Upon the payment of the redemption price, plus accrued and unpaid interest, if any, to the date of redemption, interest will cease to accrue on and after the applicable redemption date on the notes or portions thereof called for redemption.

In the case of any partial redemption, selection of the notes for redemption will be made by the trustee by such method of random selection as the trustee shall deem fair and appropriate. Notes will only be redeemed in multiples of $2,000 or any integral multiple of $1,000. If any note is to be redeemed in part only, the notice of redemption will state the portion of the principal amount to be redeemed. A new note in principal amount equal to the unredeemed portion of the original note will be issued upon the cancellation of the original note.

No Sinking Fund

We are not required to make mandatory redemption or sinking fund payments with respect to the notes.

Covenants

The covenant limiting our ability to incur liens described in the accompanying prospectus under the heading Description of Debt Securities Covenants and the restrictions on consolidation, merger or sale of assets described in the accompanying prospectus under the heading Description of Debt Securities Consolidation, Merger and Sale of Assets will apply to the notes. The indenture does not otherwise limit the amount of indebtedness or other obligations that we may incur and does not give you the right to require us to repurchase your notes upon a change of control.

In addition, the indenture provides that the covenant limiting our ability to incur liens, the restrictions on consolidation, merger or sale of assets and certain other non-monetary covenants included in the indenture may be waived or modified by holders representing at least a majority of all debt securities, including the notes, outstanding at

any one time under the indenture, and that, following an Event of Default arising from a breach of any of these provisions, the trustee or holders of not less than 25% in principal amount of all debt securities, including the notes, outstanding under the indenture to which these provisions are applicable may accelerate the maturity of the debt

securities under the indenture. As of the issue date of the notes and after giving effect to the use of proceeds therefrom, no other debt securities will be outstanding under the indenture.

Events of Default

In addition to the Events of Default described in the accompanying prospectus under the heading Description of Debt Securities Events of Default, it shall constitute an Event of Default under the indenture in respect of each series of the notes if we default in the payment of any principal of our Funded Debt (as defined in the accompanying prospectus) outstanding in an aggregate principal amount in excess of $50 million at the stated final maturity thereof or the occurrence of any other default the effect of which is to cause the stated final maturity of this Funded Debt to be accelerated, and if:

- the default in payment is not cured within 60 days after written notice of the default from the trustee or holders of at least 25% in principal amount of the outstanding notes of such series; or

- the acceleration is not rescinded or annulled or the default that caused the acceleration is not cured within 60 days after written notice of the default from the trustee or holders of at least 25% in principal amount of the outstanding notes of such series.

Concerning the Trustee

UMB Bank, National Association, is the trustee under the indenture and has been appointed by us as security registrar and paying agent with regard to the notes.

MATERIAL UNITED STATES FEDERAL INCOME TAX CONSIDERATIONS FOR NON-U.S. HOLDERS

The following is a general discussion of certain material U.S. federal income tax consequences of the purchase, ownership and disposition of the notes. This discussion applies only to a Non-U.S. Holder (as defined below) that acquires the notes pursuant to this offering at the initial offering price. If we decide to reopen any series of notes by issuing additional notes on a date later than thirteen days from the date of the initial offering, such reopening will be treated as a separate offering for U.S. federal income tax purposes and any Non-U.S. Holder acquiring notes pursuant to such reopening will not be treated as acquiring notes pursuant to this offering. Accordingly, any such new note may not be fungible with the notes being issued pursuant to this offering for US federal income tax purposes. This discussion is limited to investors that hold the notes as capital assets for U.S. federal income tax purposes. Furthermore, this discussion does not address all aspects of U.S. federal income taxation that may be applicable to investors in light of their particular circumstances, or to investors subject to special treatment under U.S. federal income tax law. Furthermore, this discussion does not address any U.S. federal estate or gift tax consequences or any state, local or foreign tax consequences. This discussion is based upon the Internal Revenue Code of 1986, as amended (the Code), the Treasury Department regulations (the Treasury Regulations) promulgated thereunder and judicial decisions and administrative interpretations thereof, all as of the date hereof and all of which are subject to change, possibly with retroactive effect. Prospective investors are urged to consult their tax advisors regarding the U.S. federal, state, local and foreign income and other tax consequences of the purchase, ownership and disposition of the notes.

For purposes of this summary, the term Non-U.S. Holder means a beneficial owner of a note that is not, for U.S. federal income tax purposes (i) an individual that is a citizen or resident of the United States, (ii) a corporation, or other entity treated as a corporation for U.S. federal income tax purposes, that is created or organized under the laws of the United States, any of the States or the District of Columbia, (iii) an estate the income of which is subject to

U.S. federal income taxation regardless of its source, or (iv) a trust (A) if a court within the United States is able to exercise primary supervision over its administration and one or more U.S. persons have the authority to control all substantial decisions of such trust, or (B) that has made a valid election under applicable Treasury Regulations to be treated as a U.S. person for U.S. federal income tax purposes.

If a partnership (including any entity or arrangement treated as a partnership for U.S. federal income tax purposes) owns notes, the tax treatment of a partner in the partnership will depend upon the status of the partner and

the activities of the partnership. Partners in a partnership that owns the notes should consult their tax advisors as to the particular U.S. federal income tax consequences applicable to them.

Non-U.S. Holders

Interest

Subject to the discussion below concerning backup withholding, a Non-U.S. Holder generally will not be subject to U.S. federal income or withholding tax on payments of interest on the notes provided that the Non-U.S. Holder:

- does not actually or constructively own 10% or more of the total combined voting power of all classes of our voting stock;
- is not a controlled foreign corporation related to us directly or constructively through stock ownership; and
- satisfies certain certification requirements.

Such certification requirements will be met if: (i) the Non-U.S. Holder certifies on the appropriate Internal Revenue Service (IRS) form, under penalties of perjury, that it is not a U.S. person or (ii) a securities clearing organization or certain other financial institutions holding the note on behalf of the Non-U.S. Holder certifies on the appropriate IRS form, under penalties of perjury, that such certification has been received by it and furnishes us or our paying agent with a copy thereof. In addition, we or our paying agent must not have actual knowledge or reason to know that the beneficial owner of the note is a U.S. person.

If a Non-U.S. Holder cannot satisfy the requirements described above, payments of interest made to such Non-U.S. Holder will generally be subject to a 30% withholding tax or a lower rate as may be specified by an applicable tax treaty, unless the interest is effectively connected with the conduct by such Non-U.S. Holder of a U.S. trade or business as described below. A Non-U.S. Holder who claims the benefit of an applicable tax treaty generally will be required to satisfy applicable certification and other requirements. Non-U.S. Holders should consult their tax advisors regarding their entitlement to benefits under the relevant tax treaty.

Generally, if interest on the notes is effectively connected with the conduct of a U.S. trade or business by the Non-U.S. Holder and, if required by an applicable tax treaty, attributable to a permanent establishment in the United States, the Non-U.S. Holder will not be subject to the 30% withholding if the Non-U.S. Holder files the appropriate IRS form with the payor. Instead, such interest will be subject to U.S. federal income tax on a net-income basis at the applicable graduated U.S. federal income tax rates. In addition, a Non-U.S. Holder that is a foreign corporation receiving effectively connected interest may be subject to an additional branch profits tax which is generally imposed on a foreign corporation on the repatriation from the U.S. of effectively connected earnings and profits, subject to certain adjustments. This tax is imposed at a 30% or lower rate as may be specified by an applicable tax treaty.

Dispositions of the Notes

Subject to the discussion below concerning backup withholding, a Non-U.S. Holder generally will not be subject to U.S. federal withholding tax with respect to gain recognized on the sale, exchange, redemption, retirement or other disposition of the notes. A Non-U.S. Holder also generally will not be subject to U.S. federal income tax with respect to such gain unless (i) the gain is effectively connected with the conduct of a trade or business within the United States by the Non-U.S. Holder and, if required by an applicable tax treaty, is attributable to a permanent establishment maintained by the Non-U.S. Holder within the United States, or (ii) in the case of a Non-U.S. Holder that is a nonresident alien individual, such holder is present in the United States for 183 or more days in the taxable year of

disposition and certain other conditions are satisfied. In the case described above in (i), gain or loss recognized on the disposition of such notes will generally be subject to U.S. federal income taxation in the same manner as if such gain or loss were recognized by a U.S. person, and, in the case of a Non-U.S. Holder that is a foreign corporation, may also be subject to an additional branch profits tax at a rate of 30% (or a lower applicable treaty rate). In the case described above in (ii), the Non-U.S. Holder generally will be subject to 30% tax (or lower applicable treaty rate) on any capital gain recognized on the disposition of the notes, which may be offset by certain U.S. source capital losses. Proceeds from the disposition of a note that are attributable to accrued but

unpaid interest generally will be subject to, or exempt from, tax to the same extent as described above with respect to interest paid on a note.

Backup Withholding and Information Reporting

A Non-U.S. Holder generally will be required to comply with certain certification procedures in order to establish that such holder is not a U.S. person in order to avoid backup withholding with respect to payments of principal and interest on or the proceeds of a disposition of the notes. In addition, we must report annually to the IRS and to each Non-U.S. Holder the amount of any interest paid to such Non-U.S. Holder and the amount of tax, if any, withheld with respect to such interest. Copies of the information returns reporting such interest payments and the amount of any tax withheld may also be made available to the tax authorities in the country in which a Non-U.S. Holder resides under the provisions of an applicable income tax treaty. Any amounts withheld under the backup withholding rules will be allowed as a refund or credit against a Non-U.S. Holder s U.S. federal income tax liability provided the required information is timely provided to the IRS. Non-U.S. Holders should consult their tax advisors as to their qualification for any exemption for backup withholding and the procedure for obtaining such an exemption.

UNDERWRITING

We are selling the notes to the underwriters named in the table below pursuant to an underwriting agreement dated as of the date of this prospectus supplement. We have agreed to sell to each of the underwriters, and each of the underwriters has severally agreed to purchase, the principal amount of notes set forth opposite that underwriter s name in the table below:

Underwriter	Principal Amount of 2016 Notes	Principal Amount of 2021 Notes	Principal Amount of 2041 Notes
Goldman, Sachs & Co.	$ 100,000,000	$ 100,000,000	$ 250,000,000
Morgan Stanley & Co. LLC	$ 100,000,000	$ 100,000,000	$ 250,000,000
UBS Securities LLC	$ 100,000,000	$ 100,000,000	$ 250,000,000
Barclays Capital Inc.	$ 30,500,000	$ 30,500,000	$ 76,250,000
Credit Suisse Securities (USA) LLC	$ 30,500,000	$ 30,500,000	$ 76,250,000
RBC Capital Markets, LLC	$ 30,500,000	$ 30,500,000	$ 76,250,000
RBS Securities Inc.	$ 30,500,000	$ 30,500,000	$ 76,250,000
Citigroup Global Markets Inc.	$ 16,000,000	$ 16,000,000	$ 40,000,000
J.P. Morgan Securities LLC	$ 16,000,000	$ 16,000,000	$ 40,000,000
Merrill Lynch, Pierce, Fenner & Smith Incorporated	$ 16,000,000	$ 16,000,000	$ 40,000,000
BMO Capital Markets Corp.	$ 5,000,000	$ 5,000,000	$ 12,500,000
Mitsubishi UFJ Securities (USA), Inc.	$ 5,000,000	$ 5,000,000	$ 12,500,000
Scotia Capital (USA) Inc.	$ 5,000,000	$ 5,000,000	$ 12,500,000
SG Americas Securities, LLC	$ 5,000,000	$ 5,000,000	$ 12,500,000
U.S. Bancorp Investments, Inc.	$ 5,000,000	$ 5,000,000	$ 12,500,000
Wells Fargo Securities, LLC	$ 5,000,000	$ 5,000,000	$ 12,500,000
Total	$ 500,000,000	$ 500,000,000	$ 1,250,000,000

Under the terms and conditions of the underwriting agreement, the underwriters must buy all of the notes if they buy any of them. The underwriting agreement provides that the obligations of the underwriters pursuant thereto are subject to certain conditions. In the event of a default by an underwriter, the underwriting agreement provides that, in certain circumstances, the purchase commitments of the non-defaulting underwriters may be increased or the underwriting agreement may be terminated. The underwriters will sell the notes to the public when and if the underwriters buy the notes from us. The offering of the notes by the underwriters is subject to receipt and acceptance and subject to the underwriters right to reject any order in whole or in part.

The notes of each series are a new issue of securities with no established trading market. We do not intend to apply for listing of the notes on any national securities exchange. We have been advised by the underwriters that the

underwriters intend to make a market in the notes but are not obligated to do so and may stop their market-making at any time without providing any notice. Liquidity of the trading market for the notes cannot be assured.

The notes sold by the underwriters to the public will initially be offered at the public offering price set forth on the cover of this prospectus supplement. Any notes sold by the underwriters to securities dealers may be sold at a discount from the initial public offering price of up to 0.35% of the principal amount of the 2016 notes, up to 0.40% of the principal amount of the 2021 notes and up to 0.50% of the principal amount of the 2041 notes. Any such securities dealers may resell any notes purchased from the underwriters to certain other brokers or dealers at a discount from the initial public offering price of up to 0.175% of the principal amount of the 2016 notes, 0.20% of the principal amount of the 2021 notes and up to 0.25% of the principal amount of the 2041 notes. If all of the notes are not sold at the initial offering price, the underwriters may change the offering price and other selling terms.

In order to facilitate the offering of the notes, the underwriters may engage in transactions that stabilize, maintain or otherwise affect the price of the notes. Specifically, the underwriters may over-allot in connection with the offering, creating a short position in the notes for their own accounts. In addition, to cover short positions or to stabilize the price of the notes, the underwriters may bid for, and purchase, the notes in the open market. Finally, the underwriters may reclaim selling concessions allowed to a particular underwriter or dealer for distributing the notes in the offering if the underwriter or dealer repurchases previously distributed notes in transactions to cover short positions, in stabilization transactions or otherwise. Any of these activities may stabilize or maintain the market price of the notes above independent market levels. The underwriters are not required to engage in these activities and may end any of these activities at any time. These transactions may be effected in the over-the-counter market or otherwise.

The underwriters may also impose a penalty bid. This occurs when a particular underwriter repays to the underwriters a portion of the underwriting discount received by it because the representatives have repurchased shares sold by or for the account of such underwriter in stabilizing or short covering transactions.

We estimate that our expenses in connection with the sale of the notes, other than the underwriting discounts, will be approximately $3,500,000.

We have agreed to indemnify the several underwriters against certain liabilities, including liabilities under the Securities Act of 1933, as amended.

Other Relationships

The underwriters and their respective affiliates are full service financial institutions engaged in various activities, which may include securities trading, commercial and investment banking, financial advisory, investment management, investment research, principal investment, hedging, financing and brokerage activities. Certain of the underwriters and their respective affiliates have, from time to time, performed, and may in the future perform, various financial advisory and investment banking services for the issuer, for which they may receive customary fees and expenses. In particular, affiliates of certain of the underwriters are parties to and lenders under our credit facility. Our credit facility was negotiated on an arm s length basis and contains customary terms pursuant to which the lenders receive customary fees. Additionally, affiliates of certain of the underwriters are or may become holders of the 6.875% senior notes due 2011 or participate in our commercial paper program and, as a result, may receive a portion of the proceeds from this offering when such commercial paper is repaid or such senior notes are redeemed.

In the ordinary course of their various business activities, the underwriters and their respective affiliates have made or held, and may in the future make or hold, a broad array of investments including serving as counterparties to certain derivative and hedging arrangements, and may have actively traded, and, in the future may actively trade, debt and equity securities (or related derivative securities), and financial instruments (including bank loans) for their own

account and for the accounts of their customers and may have in the past and at any time in the future hold long and short positions in such securities and instruments. Such investment and securities activities may have involved, and in the future may involve, securities and instruments of our company.

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Selling Restrictions

European Economic Area

In relation to each Member State of the European Economic Area which has implemented the Prospectus Directive (each, a Relevant Member State), each Underwriter has represented and agreed that with effect from and including the date on which the Prospectus Directive is implemented in that Relevant Member State (the Relevant Implementation Date) it has not made and will not make an offer of notes which are the subject of the offering contemplated by this prospectus supplement to the public in that Relevant Member State other than:

a) to any legal entity which is a qualified investor as defined in the Prospectus Directive;

b) to fewer than 100 or, if the Relevant Member State has implemented the relevant provision of the 2010 PD Amending Directive, 150, natural or legal persons (other than qualified investors as defined in the Prospectus Directive), as permitted under the Prospectus Directive, subject to obtaining the prior consent of the relevant Dealer or Dealers nominated by the issuer for any such offer; or

c) in any other circumstances falling within Article 3(2) of the Prospectus Directive,

provided that no such offer of notes shall require the issuer or any Underwriter to publish a prospectus pursuant to Article 3 of the Prospectus Directive or supplement a prospectus pursuant to Article 16 of the Prospectus Directive.

For the purposes of this provision, the expression an offer of notes to the public in relation to any notes in any Relevant Member State means the communication in any form and by any means of sufficient information on the terms of the offer and the notes to be offered so as to enable an investor to decide to purchase or subscribe the notes, as the same may be varied in that Member State by any measure implementing the Prospectus Directive in that Member State, the expression Prospectus Directive means Directive 2003/71/EC (and amendments thereto, including the 2010 PD Amending Directive, to the extent implemented in the Relevant Member State), and includes any relevant implementing measure in the Relevant Member State and the expression 2010 PD Amending Directive means Directive 2010/73/EU.

United Kingdom

Each Underwriter has represented and agreed that:

a) it has only communicated or caused to be communicated and will only communicate or cause to be communicated an invitation or inducement to engage in investment activity (within the meaning of Section 21 of the Financial Services and Markets Act 2000 (FSMA)) received by it in connection with the issue or sale of the notes in circumstances in which Section 21(1) of the FSMA does not apply to the issuer; and

b) it has complied and will comply with all applicable provisions of the FSMA with respect to anything done by it in relation to the notes in, from or otherwise involving the United Kingdom.

Hong Kong

The notes may not be offered or sold by means of any document other than (i) in circumstances which do not constitute an offer to the public within the meaning of the Companies Ordinance (Cap.32, Laws of Hong Kong), or (ii) to professional investors within the meaning of the Securities and Futures Ordinance (Cap.571, Laws of Hong Kong) and any rules made thereunder, or (iii) in other circumstances which do not result in the document being a

prospectus within the meaning of the Companies Ordinance (Cap.32, Laws of Hong Kong), and no advertisement, invitation or document relating to the notes may be issued or may be in the possession of any person for the purpose of issue (in each case whether in Hong Kong or elsewhere), which is directed at, or the contents of which are likely to be accessed or read by, the public in Hong Kong (except if permitted to do so under the laws of Hong Kong) other than with respect to notes which are or are intended to be disposed of only to persons outside Hong Kong or only to professional investors within the meaning of the Securities and Futures Ordinance (Cap. 571, Laws of Hong Kong) and any rules made thereunder.

Singapore

This prospectus supplement has not been registered as a prospectus with the Monetary Authority of Singapore. Accordingly, this prospectus supplement and any other document or material in connection with the offer or sale, or invitation for subscription or purchase, of the notes may not be circulated or distributed, nor may the notes be offered or sold, or be made the subject of an invitation for subscription or purchase, whether directly or indirectly, to persons in Singapore other than (i) to an institutional investor under Section 274 of the Securities and Futures Act, Chapter 289 of Singapore (the SFA), (ii) to a relevant person, or any person pursuant to Section 275(1A), and in accordance with the conditions, specified in Section 275 of the SFA or (iii) otherwise pursuant to, and in accordance with the conditions of, any other applicable provision of the SFA.

Where the notes are subscribed or purchased under Section 275 by a relevant person which is: (a) a corporation (which is not an accredited investor) the sole business of which is to hold investments and the entire share capital of which is owned by one or more individuals, each of whom is an accredited investor; or (b) a trust (where the trustee is not an accredited investor) whose sole purpose is to hold investments and each beneficiary is an accredited investor, shares, debentures and units of shares and debentures of that corporation or the beneficiaries rights and interest in that trust shall not be transferable for 6 months after that corporation or that trust has acquired the notes under Section 275 except: (1) to an institutional investor under Section 274 of the SFA or to a relevant person, or any person pursuant to Section 275(1A), and in accordance with the conditions, specified in Section 275 of the SFA; (2) where no consideration is given for the transfer; or (3) by operation of law.

Japan

The securities have not been and will not be registered under the Financial Instruments and Exchange Law of Japan (the Financial Instruments and Exchange Law) and each Underwriter has agreed that it will not offer or sell any securities, directly or indirectly, in Japan or to, or for the benefit of, any resident of Japan (which term as used herein means any person resident in Japan, including any corporation or other entity organized under the laws of Japan), or to others for re-offering or resale, directly or indirectly, in Japan or to a resident of Japan, except pursuant to an exemption from the registration requirements of, and otherwise in compliance with, the Financial Instruments and Exchange Law and any other applicable laws, regulations and ministerial guidelines of Japan.

Delivery of the Notes

We expect that delivery of the notes will be made to investors on or about the closing date set forth on the cover page of this prospectus supplement, which will be the fifth business day following the date of this prospectus supplement (such settlement being referred to as T+5). Under Rule 15c6-1 under the Exchange Act, trades in the secondary market are required to settle in three business days, unless the parties to any such trade expressly agree otherwise. Accordingly, purchasers who wish to trade notes on the date of this prospectus supplement or the next succeeding business day will be required, by virtue of the fact that the notes initially will settle in T+5, to specify an alternate settlement arrangement at the time of any such trade to prevent a failed settlement. Purchasers of the notes who wish to trade the notes on the date of this prospectus supplement or the next succeeding business day should consult their advisors.

LEGAL MATTERS

The validity of the notes will be passed upon for us by Skadden, Arps, Slate, Meagher & Flom LLP of New York, New York. Davis Polk & Wardwell LLP of New York, New York will pass on certain legal matters on behalf of the underwriters.

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PROSPECTUS

Devon Energy Corporation

COMMON STOCK, PREFERRED STOCK AND DEBT SECURITIES

By this prospectus, Devon Energy Corporation may offer, from time to time, its common stock, preferred stock and debt securities. We will provide more specific information regarding these securities in supplements to this prospectus. You should read this prospectus and any supplement carefully before investing.

Our common stock, par value $0.10 per share, is listed on the New York Stock Exchange and its trading symbol is DVN.

Investing in securities involves risks. You should carefully read the risk factors included in the applicable prospectus supplement and in our periodic reports and other information filed with the Securities and Exchange Commission before investing in our securities.

We may sell these securities to or through underwriters, to other purchasers and/or through agents. The supplements to this prospectus will specify the names of and arrangements with any underwriters or agents.

Neither the Securities and Exchange Commission nor any state securities commission has approved or disapproved of these securities, or determined if this prospectus is truthful or complete. Any representation to the contrary is a criminal offense.

The date of this Prospectus is July 5, 2011.

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No person is authorized to give any information or to make any representations other than those contain or incorporated by reference in this prospectus and, if given or made, such information or representations must not be relied upon as having been authorized. We take no responsibility for, and can provide no assurance as to the reliability of, any other information that others may give you. You should not assume that the information provided by this prospectus is accurate as of any date other than the date on the front of this prospectus.

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ABOUT THIS PROSPECTUS

This prospectus may not be used to sell securities unless it is accompanied by a prospectus supplement.

This prospectus is part of a registration statement we filed with the SEC utilizing a shelf registration process. Under this shelf registration process, we may sell the securities described in this prospectus in one or more offerings.

This prospectus provides you with a general description of the securities we may offer. Each time we sell offered securities, we will provide a prospectus supplement that will contain specific information about the terms of that offering. The prospectus supplement may include additional risk factors or other special considerations applicable to those securities. The prospectus supplement may also add, update or change information contained in this prospectus. If there is any inconsistency between the information in this prospectus and any prospectus supplement, you should rely on the information in the prospectus supplement. You should read both this prospectus and any prospectus supplement together with additional information described under Where You Can Find More Information.

Unless the context otherwise indicates, the terms Devon, we, us and our in this prospectus mean Devon Energy Corporation, a Delaware corporation, and its consolidated subsidiaries.

DEVON ENERGY CORPORATION

Devon is an independent energy company engaged primarily in exploration, development and production of natural gas and oil. Our operations are concentrated in various North American onshore areas in the United States and Canada. We also have offshore operations located in Angola that are currently in the process of being divested. To complement our upstream oil and gas operations in North America, we have a large marketing and midstream operation. With these operations, we market gas, crude oil and natural gas liquids (NGLs). We also construct and operate pipelines, storage and treating facilities and natural gas processing plants. These midstream facilities are used to transport oil, gas, and NGLs and to process natural gas.

Our principal and administrative offices are located at 20 North Broadway, Oklahoma City, Oklahoma 73102-8260. Our telephone number at that location is (405) 235-3611.

USE OF PROCEEDS

Unless otherwise indicated in an accompanying prospectus supplement, we expect to use the net proceeds from the sale of the securities offered by this prospectus for general corporate purposes, which may include, among other things:

- the repayment of outstanding indebtedness;
- working capital;
- capital expenditures; and
- acquisitions.

The precise amount and timing of the application of such proceeds will depend upon our funding requirements and the availability and cost of other funds.

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RATIOS OF EARNINGS TO FIXED CHARGES AND EARNINGS TO COMBINED FIXED CHARGES AND PREFERRED STOCK DIVIDENDS

The ratios of earnings to fixed charges and earnings to combined fixed charges and preferred stock dividends for each of the periods set forth below have been completed on a consolidated basis and should be read in conjunction with Devon s consolidated financial statements, including the accompanying notes thereto, incorporated by reference in this prospectus.

	Year Ended December 31,					Three Months Ended March 31,
	2006	**2007**	**2008**	**2009**	**2010**	**2011**
	(Dollars in millions)					
Ratio of earnings to fixed charges	7.11	6.97	N/A	N/A	8.71	6.43
Ratio of earnings to combined fixed charges and preferred stock dividends	6.91	6.78	N/A	N/A	8.71	6.43
Insufficiency of earnings to cover fixed charges	N/A	N/A	$ 4,208	$ 4,574	N/A	N/A
Insufficiency of earnings to cover combined fixed charges and preferred stock dividends	N/A	N/A	$ 4,217	$ 4,574	N/A	N/A

N/A Not applicable.

Our ratios of earnings to fixed charges and earnings to combined fixed charges and preferred stock dividends were computed based on:

- *earnings,* which consist of earnings from continuing operations before income taxes, plus fixed charges;
- *fixed charges,* which consist of interest expense and one-third of rental expense estimated to be attributable to interest; and
- *preferred stock dividends,* which consist of the amount of pre-tax earnings required to pay dividends on the outstanding preferred stock.

DESCRIPTION OF CAPITAL STOCK

General

Devon s authorized capital stock consists of:

- 1.0 billion shares of common stock, par value $0.10 per share, and
- 4.5 million shares of preferred stock, par value $1.00 per share.

As of April 25, 2011, there were 423.0 million shares of common stock outstanding and no shares of preferred stock outstanding.

Common Stock

Holders of common stock will be entitled to receive dividends out of legally available funds when and if declared by our board of directors. Subject to the rights of the holders of any outstanding shares of preferred stock, holders of shares of common stock will be entitled to cast one vote for each share held of record on all matters submitted to a vote of stockholders. They will not be entitled to cumulative voting rights for the election of directors. Except pursuant to our rights agreement, the shares of common stock have no preemptive, conversion or other rights to subscribe for or purchase any of our securities. Upon our liquidation or dissolution, the holders of shares of common stock are entitled to share ratably in any of our assets that remain after payment or provision for payment to creditors and holders of preferred stock.

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Preferred Stock

The preferred stock may be issued in one or more series. Our board may establish attributes of any series, including the designation and number of shares in the series, dividend rates (cumulative or noncumulative), voting rights, redemptions, conversion or preference rights, and any other rights and qualifications, preferences and limitations or restrictions on shares of a series. The issuance of preferred stock may have the effect of delaying, deferring or preventing a change in control of Devon without any vote or action by the stockholders and may adversely affect the voting and other rights of the holders of shares of common stock. The specific terms of a particular series of preferred stock will be described in a certificate of designation relating to that series.

Series A Junior Participating Preferred Stock. We have designated 2.9 million shares of preferred stock as series A junior participating preferred stock.

DESCRIPTION OF UNDESIGNATED PREFERRED STOCK

This summary of the undesignated preferred stock discusses terms and conditions that we expect may apply to any series of the preferred stock that may be offered under this prospectus. The applicable prospectus supplement will describe the particular terms of each series of preferred stock actually offered. If indicated in the prospectus supplement, the terms of any series may differ from the terms described below.

We expect the prospectus supplement for any preferred stock that we actually offer pursuant to this prospectus to include some or all of the following terms:

- the designation of the series of preferred stock;
- the number of shares of preferred stock offered, the liquidation preference per share and the offering price of the preferred stock;
- the dividend rate or rates of the shares, the method or methods of calculating the dividend rate or rates, the dates on which dividends, if declared, will be payable, and whether or not the dividends are to be cumulative and, if cumulative, the date or dates from which dividends shall be cumulative;
- The amounts payable on shares of the preferred stock in the event of our voluntary or involuntary liquidation, dissolution or winding up;
- the redemption rights and price or prices, if any, for the shares of preferred stock;
- the terms, and the amount, of any sinking fund or analogous fund providing for the purchase or redemption of the shares of preferred stock;
- any restrictions on our ability to make payments on any of our capital stock if dividend or other payments are not made on the preferred stock;
- any voting rights granted to the holders of the shares of preferred stock in addition to those required by Delaware law or our certificate of incorporation;
- whether the shares of preferred stock will be convertible into shares of our common stock or any other class of our capital stock, and, if convertible, the conversion price or prices, and any adjustment or other terms and conditions upon which the conversion shall be made;

any other rights, preferences, restrictions, limitations or conditions relative to the shares of preferred stock permitted by Delaware law or our certificate of incorporation;

any listing of the preferred stock on any securities exchange; and

the federal income tax considerations applicable to the preferred stock.

Subject to our certificate of incorporation and to any limitations imposed by any then outstanding preferred stock, we may issue additional series of preferred stock, at any time or from time to time, with such powers, preferences, rights and qualifications, limitations or restrictions as our board of directors determines, and without further action of the stockholders, including holders of our then outstanding preferred stock, if any.

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DESCRIPTION OF DEBT SECURITIES

The following description of the debt securities sets forth certain general terms and provisions of the debt securities to which this prospectus and any prospectus supplement may relate. The particular terms of any series of debt securities and the extent to which the general provisions may apply to a particular series of debt securities will be described in a prospectus supplement relating to that series. References in this section to Devon mean Devon Energy Corporation and not its subsidiaries.

Any debt securities offered by this prospectus will be issued under one or more indentures between Devon and a trustee. We have summarized selected provisions of the indentures below. Devon senior debt securities are to be issued under an indenture between Devon and UMB Bank, National Association, as trustee (the Devon senior indenture), the form of which is incorporated by reference as an exhibit to the registration statement of which this prospectus forms a part. Devon subordinated debt securities are to be issued under an indenture (the Devon subordinated indenture), the form of which is filed as an exhibit to the registration statement of which this prospectus forms a part. The Devon senior indenture and the Devon subordinated indenture are sometimes referred to herein, collectively, as the indentures and each, individually, as an indenture. You should read the indentures for provisions that may be important to you.

Because we have included only a summary of the indenture terms, you must read the indentures in full to understand every detail of the terms of the debt securities.

The indentures will not limit the amount of debt securities we may issue under them, and will provide that additional debt securities of any series may be issued up to the aggregate principal amount that we authorize from time to time.

Unless otherwise indicated in the applicable prospectus supplement, we will issue the debt securities in denominations of $2,000 and in integral multiples of $1,000 in excess thereof.

Principal and any premium and interest in respect of the debt securities will be payable, and the debt securities will be transferable, at the corporate trust office of the trustee, unless we specify otherwise in the applicable prospectus supplement. At our option, however, we may pay interest by mailing checks to the registered holders of the debt securities at their registered addresses.

We will describe any special U.S. federal income tax and other considerations relating to debt securities in the applicable prospectus supplement.

General

The prospectus supplement relating to the particular series of debt securities being offered will specify the amounts, prices and terms of those debt securities. These terms may include:

- the designation, aggregate principal amount and authorized denominations of the debt securities;
- the date or dates on which the debt securities will mature;
- the percentage of the principal amount at which the debt securities will be issued;
- the date on which the principal of the debt securities will be payable;

whether the debt securities will be issued as registered securities, bearer securities or a combination of the two;

whether the debt securities will be issued in the form of one or more global securities and whether such global securities will be issued in a temporary global form or permanent global form;

the currency or currencies or currency unit or units of two or more currencies in which debt securities are denominated, for which they may be purchased, and in which principal and any premium and interest is payable;

whether the currency or currencies or currency unit or units for which debt securities may be purchased or in which principal and any premium interest may be paid is at our election or at the election of a purchaser, the manner in which an election may be made and its terms;

the annual rate or rates, which may be fixed or variable, or the method of determining the rate or rates at which the debt securities will bear any interest, whether by remarketing, auction, formula or otherwise;

the date or dates from which any interest will accrue and the date or dates on which such interest will be payable;

a description of any provisions providing for redemption, exchange or conversion of the debt securities at our option, at holder s option or otherwise, and the terms and provisions of such a redemption, exchange or conversion;

information with respect to book-entry procedures relating to global debt securities;

any sinking fund terms;

whether and under what circumstances we will pay additional amounts, as defined in the indenture, on the debt securities to any holder; the term interest, as used in this prospectus, includes any additional amounts;

any events of default or covenants of Devon with respect to the debt securities of a certain series that are different from those described in this prospectus;

whether and under what circumstances any covenants in the indenture shall be subject to covenant defeasance;

any deletions from, or modifications or additions to, the provisions of the indenture relating to satisfaction and discharge in respect of the debt securities;

any index or other method used to determine the amount of payments of principal of and any premium and interest on the debt securities; and

any other specific terms of the debt securities.

We are not obligated to issue all debt securities of any one series at the same time. The debt securities of any one series may not bear interest at the same rate or mature on the same date.

If we sell any of the debt securities for foreign currencies or foreign currency units or if the principal of, or any premium or interest on, any series of debt securities is payable in foreign currencies or foreign currency units, we will describe the restrictions, elections, tax consequences, specific terms and other information with respect to those debt securities in the applicable prospectus supplement.

Except as may be described in the applicable prospectus supplement, the indenture will not limit our ability to incur indebtedness or afford holders of debt securities protection in the event of a decline in our credit quality or if we are involved in a takeover, recapitalization or highly leveraged or similar transaction. The prospectus supplement relating to the particular series of debt securities, to the extent not otherwise described in this prospectus, will include any information with respect to any deletions from, modifications of or additions to the covenants or events of default described below and contained in the indenture, including any addition of a covenant or other provision providing

event risk or similar protection.

Unless otherwise indicated in the applicable prospectus supplement, Devon s obligation to pay the principal of, and any premium and interest on, its senior debt securities will be unsecured and will rank equally with all of Devon s other unsecured unsubordinated indebtedness.

Interest Rates and Discounts

The debt securities will earn interest at a fixed or floating rate or rates for the period or periods of time specified in the applicable prospectus supplement. Unless otherwise specified in the applicable prospectus supplement, the debt securities will bear interest on the basis of a 360-day year consisting of twelve 30-day months.

We may sell debt securities at a substantial discount below their stated principal amount, bearing no interest or interest at a rate that at the time of issuance is below market rates. We will describe the federal income tax consequences and special considerations that apply to those debt securities in the applicable prospectus supplement.

Exchange, Registration and Transfer

Unless otherwise specified, debt securities of any series will be exchangeable for other debt securities of the same series and of like aggregate principal amount and tenor in different authorized denominations.

You may present debt securities for registration of transfer, together with a duly executed form of transfer, at the office of the security registrar or at the office of any transfer agent designated by us for that purpose with respect to any series of debt securities and referred to in the applicable prospectus supplement. This may be done without service charge but upon payment of any taxes and other governmental charges as described in the indenture. The security registrar or the transfer agent will effect the transfer or exchange upon being satisfied with the documents of title and identity of the person making the request. We may at any time designate additional transfer agents with respect to any series of debt securities.

In the event of any redemption, we will not be required to:

- execute, register the transfer of or exchange debt securities of any series during a period beginning at the opening of business 15 days before any selection of debt securities of that series to be redeemed and ending at the close of business on the day of mailing of the relevant notice of redemption; or

- execute, register the transfer of or exchange any debt security, or portion thereof, called for redemption, except the unredeemed portion of any debt security being redeemed in part.

Payment and Paying Agents

Unless we specify otherwise in the applicable prospectus supplement, we will pay the principal of, and any premium and interest on, debt securities at the office of the paying agent or paying agents that we designate at various times. However, at our option, we may make interest payments by check mailed to the address, as it appears in the security register, of the person entitled to the payments. Unless we specify otherwise in the applicable prospectus supplement, the Corporate Trust Office of the trustee in New York, New York, will be designated as our sole paying agent for payments with respect to debt securities that are issuable solely as registered securities.

All monies we pay to a paying agent for the payment of principal of, and any premium and interest on, any debt security or coupon that remains unclaimed at the end of two years after becoming due and payable will be repaid to us. After that time, the holder of the debt security or coupon will look only to us for payments out of those repaid amounts.

Global Securities

The debt securities of a series may be issued in whole or in part in the form of one or more global certificates that we will deposit with a depository identified in the applicable prospectus supplement, or a custodian for such depository. Global securities may be issued in either registered or bearer form and in either temporary or permanent form. Unless and until it is exchanged in whole or in part for the individual debt securities it represents, a global security may not be transferred except as a whole:

- by the applicable depositary to a nominee of the depositary;

by any nominee to the depositary itself or another nominee; or

by the depositary or any nominee to a successor depositary or any nominee of the successor.

We will describe the specific terms of the depositary arrangement with respect to a series of debt securities in the applicable prospectus supplement. We anticipate that the following provisions will generally apply to depositary arrangements.

When we issue a global security in registered form, the depositary for the global security or its nominee will credit, on its book-entry registration and transfer system, the respective principal amounts of the individual debt securities represented by that global security to the accounts of participants that have accounts with the depositary. Those accounts will be designated by the dealers, underwriters or agents with respect to the underlying debt securities or by us if those debt securities are offered and sold directly by us. Ownership of beneficial interests in a global security will be limited to participants or persons that may hold interests through participants. For interests of participants, ownership of beneficial interests in the global security will be shown on records maintained by the applicable depositary or its nominee. For interests of persons other than participants, that ownership information will be shown on the records of participants. Transfer of that ownership will be effected only through those records.

The laws of some states require that certain purchasers of securities take physical delivery of securities in definitive form. These limits and laws may impair your ability to transfer beneficial interests in a global security.

As long as the depositary for a global security, or its nominee, is the registered owner of that global security, the depositary or nominee will be considered the sole owner or holder of the debt securities represented by the global security for all purposes under the applicable indenture. Except as provided below, owners of beneficial interests in a global security:

- will not be entitled to have any of the underlying debt securities registered in their names;
- will not receive or be entitled to receive physical delivery of any of the underlying debt securities in definitive form; and
- will not be considered the owners or holders under the indenture relating to those debt securities.

We will make payments of principal of, and any premium and interest on, individual debt securities represented by a global security registered in the name of a depositary or its nominee to the depositary or its nominee as the registered owner of the global security representing such debt securities. Neither we, the trustee, any paying agent nor the registrar for the debt securities will be responsible for any aspect of the records relating to or payments made by the depositary or any participants on account of beneficial interests of the global security.

We expect that the depositary or its nominee, upon receipt of any payment of principal, premium or interest relating to a permanent global security representing any series of debt securities, immediately will credit participants accounts with the payments. Those payments will be credited in amounts proportional to the respective beneficial interests of the participants in the principal amount of the global security as shown on the records of the depositary or its nominee. We also expect that payments by participants to owners of beneficial interests in the global security held through those participants will be governed by standing instructions and customary practices. This is now the case with securities held for the accounts of customers in bearer form or registered in street name. Those payments will be the sole responsibility of those participants.

If the depositary for a series of debt securities is at any time unwilling, unable or ineligible to continue as depositary and we do not appoint a successor depositary within 90 days, we will issue individual debt securities of that series in exchange for the global security or securities representing that series. In addition, we may at any time in our sole discretion determine not to have any debt securities of a series represented by one or more global securities. In that event, we will issue individual debt securities of that series in exchange for the global security or securities. Further, if we specify, an owner of a beneficial interest in a global security may, on terms acceptable to us, the trustee and the applicable depositary, receive individual debt securities of that series in exchange for those beneficial interests. The foregoing is subject to any limitations described in the applicable prospectus supplement. In that instance, the owner of the beneficial interest will be entitled to physical delivery of individual debt securities equal in principal amount to

the beneficial interest and to have the debt securities registered in its name. Those individual debt securities will be issued in denominations, unless we specify otherwise, of $2,000 and in integral multiples of $1,000 in excess thereof.

For a description of the depositary arrangements for global securities held by The Depository Trust Company, also known as DTC, see Book-Entry Securities.

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Events of Default

Unless otherwise specified in the applicable prospectus supplement, any one of the following events will constitute an event of default under the indentures with respect to the debt securities of any series issued under the indentures:

- if we fail to pay any interest on any debt security of that series when due, and the failure continues for 30 days;
- if we fail to pay principal of or any premium on the debt securities of that series when due and payable, either at maturity or otherwise;
- if we fail to perform or we breach any of our other covenants or warranties in the applicable indentures or in the debt securities of that series, other than a covenant or warranty included in the applicable indenture solely for the benefit of a series of securities other than the debt securities of that series, and that breach or failure continues for 60 days (subject to extension under certain circumstances for another 120 days) after written notice as provided in the applicable indenture;
- certain events of bankruptcy, insolvency or reorganization involving us or certain of our subsidiaries; and
- any other event of default provided with respect to the debt securities of that series.

If we fail to pay the principal of, or premium or interest on, the debt securities of any series or we fail to perform or breach any of the other covenants or warranties applicable to the debt securities of that series but not applicable to all outstanding debt securities, and such event of default is continuing, either the trustee or the holders of not less than 25% in aggregate principal amount of the outstanding debt securities of that series may declare the principal amount of, and any premium and interest on, the debt securities of that series to be due and payable immediately. If an event of default occurs due to default in the performance of any other of the covenants and warranties applicable to all outstanding debt securities or pertaining to certain events of bankruptcy, insolvency or reorganization, and the event of default is continuing, either the trustee or the holders of not less than 25% in principal amount of all debt securities then outstanding (considered as one class), may declare the principal amount of, and any premium and interest on, all debt securities to be due and payable immediately. There is no automatic acceleration, even in the event of our bankruptcy, insolvency or reorganization. At any time after a declaration of acceleration has been made, but before a judgment or decree for payment of money has been obtained by the trustee, we may cause such declaration of acceleration to be rescinded and annulled with respect to the debt securities of any series if we deposit with the trustee an amount sufficient to pay all overdue interest on the debt securities of that series, the principal of and premium, if any, on the debt securities of that series that have become due and payable otherwise than by such declaration of acceleration and all amounts due to the trustee and if all other events of default with respect to the debt securities of that series have been cured or waived.

Within 90 days after the occurrence of any event of default under the indentures with respect to the debt securities of any series issued under that indenture, the trustee must transmit notice of the event of default to the holders of the debt securities of that series unless the event of default has been cured or waived. The trustee may withhold the notice, however, except in the case of a payment default, if and so long as the board of directors, the executive committee or a trust committee of directors or responsible officers of the trustee has in good faith determined that the withholding of the notice is in the interest of the holders of debt securities of that series.

If an event of default occurs and is continuing with respect to the debt securities of any series, the trustee may in its discretion proceed to protect and enforce its rights and the rights of the holders of debt securities of that series by all appropriate judicial proceedings.

Subject to the duty of the trustee during any default to act with the required standard of care, the trustee is under no obligation to exercise any of its rights or powers under the indenture at the request or direction of any of the holders of debt securities issued under that indenture, unless the holders offer the trustee reasonable indemnity. Subject to indemnifying the trustee, and subject to applicable law and certain other provisions of the indenture, the holders of a majority in aggregate principal amount of the outstanding debt securities of a series issued under that indenture may direct the time, method and place of conducting any proceeding for any remedy available to the trustee, or exercising any trust or power conferred on the trustee, with respect to the debt securities of that series.

Defeasance

Unless the applicable prospectus supplement provides otherwise, any debt securities, or portion of the principal amount of the debt securities, will be deemed to have been paid for purposes of the applicable indentures, and, at our election, our entire indebtedness with respect to the debt securities, or portion thereof, will be deemed to have been satisfied and discharged, if we have irrevocably deposited with the trustee or any paying agent other than us, in trust, money, certain eligible obligations, as defined in the applicable indentures, or a combination of the two, sufficient to pay principal of and any premium and interest due and to become due on the debt securities or portions thereof.

The applicable prospectus supplement will describe, if applicable, our ability to be released from any of our covenant obligations under the indentures.

Modification and Waiver

The trustee and Devon may, without the consent of holders, modify or waive provisions of each indenture for certain purposes, including, among other things, curing ambiguities and maintaining the qualification of the applicable indenture under the Trust Indenture Act. The trustee and Devon may modify or waive certain provisions of each indenture with the consent of the holders of not less than a majority in aggregate principal amount of the debt securities of each series issued under that indenture affected by the modification or waiver. However, the provisions of any indenture may not be waived or modified without the consent of the holders of each debt security affected thereby if the modification or waiver would:

- change the stated maturity of the principal of, or any installment of principal of or interest on, any debt security issued under that indenture;
- reduce the principal amount of, or interest on, any debt security issued under the indenture, or change the method of calculating the interest on, or reduce any premium payable upon the redemption of, any such debt security;
- change the coin or currency (or other property) in which any debt security issued under that indenture or any premium or any interest on that debt security or any additional amounts with respect to that debt security is payable;
- impair the right to institute suit for the enforcement of any payment on or after the stated maturity of any debt securities issued under that indenture or, in the case of redemption, on or after the redemption date;
- reduce the percentage and principal amount of the outstanding debt securities, the consent of the holders of which is required under that indenture in order to take certain actions; or
- modify any of the provisions of Sections 12.02, 6.07 (6.06 in the case of the Devon subordinated indenture) and 8.13 of each indenture relating to modifying the indenture, waiving certain covenants and waiving past defaults, respectively.

The holders of at least a majority in aggregate principal amount of outstanding debt securities of any series issued under an indenture may, on behalf of the holders of all debt securities of that series, waive our compliance with certain restrictive provisions of that indenture. The holders of not less than a majority in aggregate principal amount of debt securities of any series issued under either of the indentures may, on behalf of all holders of debt securities of that series, waive any past default and its consequences under that indenture with respect to the debt securities of that series, except:

a payment default with respect to debt securities of that series; or

a default of a covenant or provision of that indenture that cannot be modified or amended without the consent of the holder of the debt securities of that series.

Consolidation, Merger and Sale of Assets

We may not consolidate with or merge into, or convey, transfer or lease our properties and assets substantially as an entirety to, any person (as defined in the applicable indenture) unless:

the entity formed by the consolidation or into which we are merged, or the person which acquires by conveyance or transfer, or which leases, substantially all of our properties and assets:

is organized and validly existing under the laws of the United States, any domestic jurisdiction or the District of Columbia; and

expressly assumes our obligations on the debt securities and under the applicable indenture;

immediately after the transaction becomes effective, no event of default, and no event that would become an event of default, will have occurred and be continuing; and

we have delivered to the trustee an officer s certificate and opinion of counsel as provided in the applicable indenture.

Covenants

Unless otherwise specified in the prospectus supplement, the following covenants will apply to the senior debt securities issued by Devon. Various capitalized terms used within this Covenants subsection are defined at the end of this subsection.

Liens

Neither Devon nor any of its Restricted Subsidiaries may incur, issue, assume or guarantee any Debt that is secured by a Mortgage on any Principal Property or on any shares of stock or Indebtedness of any Restricted Subsidiary of Devon, without first effectively providing that the securities (together with, if Devon so determines, any other indebtedness of Devon or its Restricted Subsidiaries that is not subordinate in right of payment to the prior right of payment in full of the securities) will be secured equally and ratably with, or prior to, the incurred, issued, assumed or guaranteed secured Debt, for so long as this secured Debt remains so secured.

This limitation on the incurrence, issuance, assumption or guarantee of any Debt secured by a Mortgage will not apply to, and there will be excluded from any secured Debt in any computation under this covenant, Debt secured by:

Mortgages existing at the date of the indenture;

Mortgages on property of, or on any shares of stock or Indebtedness of, any entity existing at the time the entity is merged into or consolidated with Devon or becomes a Restricted Subsidiary of Devon;

Mortgages in favor of Devon or any of its Restricted Subsidiaries;

Mortgages securing only Debt owed by one of our Restricted Subsidiaries to us and/or to one or more of our other Restricted Subsidiaries;

Mortgages on property, shares of stock or Indebtedness:

existing at the time of acquisition thereof, including acquisitions through merger, consolidation or other reorganization;

to secure the payment of all or any part of the purchase price thereof or construction thereon; or

to secure any Debt incurred prior to, at the time of, or within one year after the later of the acquisition, the completion of construction or the commencement of full operation of the property or within one year after the acquisition of the shares or Indebtedness for the purpose of financing all or any part of the purchase price thereof or construction thereon;

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provided that, if a commitment for the financing is obtained prior to or within this one-year period, the applicable Mortgage will be deemed to be included in this clause whether or not the Mortgage is created within this one-year period;

Mortgages in favor of the United States, any state thereof, Canada, or any province thereof, or any department, agency or instrumentality or political subdivision of any of the foregoing, or in favor of any other country or any political subdivision thereof;

>		31,800	57,605
Invested capital (denominator)	$ **583,309**	$ 497,948	$ 478,205
Return on invested capital	**20.6%**	16.7%	17.7%

(1) Average funded debt is based upon average outstanding daily debt.

Results of Operations

The following table sets forth for the periods indicated certain income and expense items as a percentage of net sales:

	Fiscal Year Ended June 30,		
	2011	**2010**	**2009**
Statement of income data:			
Net sales	**100.0%**	100.0%	100.0%
Cost of goods sold	**89.7**	89.6	88.7
Gross profit	**10.3**	10.4	11.3
Selling, general and administrative expenses	**6.0**	6.8	7.3
Operating income	**4.2**	3.6	4.0
Interest expense (income), net	**-**	-	-
Other expense (income), net	**-**	-	(0.1)
Income before income taxes and minority interest	**4.2**	3.6	4.1
Provision for income taxes	**1.4**	1.3	1.5
Net income	**2.8%**	2.3%	2.6%

Comparison of Fiscal Years Ended June 30, 2011 and 2010

Net Sales

The Company has two reporting segments, which are based on geographic location. The following table summarizes the Company s net sales results (net of inter-segment sales) for each of these product categories and reporting segments for the comparable fiscal years ending June 30th:

Product Category

	2011	2010	$ Change	% Change
		(in thousands)		
POS, barcoding and security products	**$ 1,615,461**	$ 1,300,525	$ 314,936	24.2%
Communications products	**1,051,070**	814,454	236,616	29.1%
Total net sales	**$ 2,666,531**	$ 2,114,979	$ 551,552	26.1%

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Geographic Segments

	2011	2010	$ Change	% Change
		(in thousands)		
North American distribution segment	**$ 2,022,668**	$ 1,666,012	$ 356,656	21.4%
International distribution segment	**643,863**	448,967	194,896	43.4%
Total net sales	**$ 2,666,531**	$ 2,114,979	$ 551,552	26.1%

Consolidated net sales for the fiscal year ended June 30, 2011 increased 26.1% to $2.7 billion in comparison to prior fiscal year net sales of $2.1 billion.

North American Distribution

The North American distribution segment includes sales to technology resellers in the United States and Canada that originate from our centralized distribution facility located in Southaven, Mississippi. Sales to technology resellers in Canada accounted for less than 4% of total net sales for both fiscal years presented. As North American macro-economic conditions improved considerably in fiscal 2011, net sales for this segment increased by approximately $356.7 million, or 21.4%, as compared to the prior fiscal year.

The Company s North American POS, barcoding, and security product categories saw revenues increase by 17.6% in comparison to the prior fiscal year. During the fiscal year ended June 30, 2011, these product lines have experienced stronger demand as economic conditions have improved from the 2010 fiscal year. The Company has seen its strongest percentage growth in its security product lines from the prior year, driven by increased demand and market penetration in its video surveillance and wireless networking lines.

The Company has two North American sales units that sell communications products to our customers the Catalyst *Telecom* and Scan*Source* Communications sales units. The combined sales of these units were 25.8% higher for the fiscal year ended June 30, 2011 versus the prior fiscal year. Both of these sales units also experienced strong sales growth due to continued improvement of economic conditions and increased market share and big deals over the prior year.

International Distribution

The international distribution segment includes sales in Latin America and Europe from the Scan*Source* POS and Barcoding sales unit and in Europe through the Scan*Source* Communications sales unit. Sales for the overall international segment increased $194.9 million or 43.4% over the prior fiscal year. The year-to-date sales growth was partially offset by a weaker average Euro to U.S. Dollar exchange rate from the prior year. On a constant exchange rate basis, the sales increase was 44.7%. Changes in foreign exchange had an unfavorable impact of $5.7 million on our international distribution net sales for the year ended June 30, 2011. The constant currency increase in sales for both geographies was driven primarily by strong volumes in Europe and Latin America in conjunction with the acquisition of CDC Brasil, S.A and a full twelve months of results from Algol Europe in the current year.

The addition of CDC generated $29.6 million in net sales. Excluding CDC s net sales, international distribution segment net sales increased $165.2 million or 36.8% from the prior year.

Gross Profit

The following table summarizes the Company s gross profit for the fiscal years ended June 30th:

	% of Sales June 30,

	2011	2010	$ Change	% Change	2011	2010
		(in thousands)				
North American distribution segment	**$ 201,831**	$ 167,638	$ 34,193	20.4%	10.0%	10.1%
International distribution segment	**72,476**	51,289	21,187	41.3%	11.3%	11.4%
Total gross profit	**$ 274,307**	$ 218,927	$ 55,380	25.3%	10.3%	10.4%

North American Distribution

Gross profit for the North American distribution segment increased $34.2 million, or 20.4%, for the fiscal year ended June 30, 2011, as compared to the prior fiscal year. The increase in gross profit was primarily the result of higher sales volume in all of our sales units, as previously discussed. Gross profit as a percentage of sales remained consistent with the prior year, only decreasing 8 basis points.

International Distribution

Gross profit in our international distribution segment increased $21.2 million or 41.3% for the fiscal year ended June 30, 2011, from the prior fiscal year. The increase in gross profit was primarily the result of higher sales volume in all of our sales units, as previously discussed. Gross profit as a percentage of sales remained consistent with the prior year, only decreasing 16 basis points. Compared to the prior year, we saw slightly lower margins from competitive pricing pressure in the current year, coupled with favorable upfront discounts in Europe from the prior year. The decrease was partially offset by strong margins recognized by the CDC.

Operating Expenses

The following table summarizes the Company s operating expenses for the periods ended June 30th:

					% of Sales June 30,	
	2011	**2010**	**$ Change**	**% Change**	**2011**	**2010**
		(in thousands)				
Operating expenses	**$ 161,198**	$ 143,151	$ 18,047	12.6%	6.0%	6.8%

For the fiscal year ended June 30, 2011, operating expenses were $161.2 million, a 12.6% increase from the prior year. This increase was mainly attributable to increased recurring expenses from headcount and other variable expenses driven from higher sales, a charge of $2.4 million to fund a supplemental executive retirement plan (Founder s SERP or SERP) for our founder and former CEO and $4.0 million of incremental operating expenses from the acquisition of CDC. The increase was partially offset by a $3.1 million legal settlement recovery with a former service provider, which was recorded as a reduction to operating expenses in the second quarter of fiscal 2011.

Operating expenses as a percentage of sales decreased to 6.0% for the fiscal year ended June 30, 2011, compared to 6.8% in the prior year. This decrease was largely the result of scale on higher revenues over a smaller increase of operating expenses.

Operating Income

The following table summarizes the Company s operating income for the fiscal years ended June 30th:

					% of Sales June 30,	
	2011	**2010**	**$ Change**	**% Change**	**2011**	**2010**
		(in thousands)				
North American distribution	**$ 94,932**	$ 64,342	$ 30,590	47.5%	4.7%	3.9%
International distribution	**18,177**	11,434	6,743	59.0%	2.8%	2.5%
Total operating income	**$ 113,109**	$ 75,776	$ 37,333	49.3%	4.2%	3.6%

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Operating income increased 49.3% or $37.3 million for the fiscal year ended June 30, 2011 as compared to the prior fiscal year. This increase was the result of increased gross profit on higher sales volumes experienced in both the North American and International distribution segments, partially offset by increased operating expenses described above.

Total Other (Income) Expense

The following table summarizes the Company s total other (income) expense for the fiscal years ended June 30th:

						% of Sales June 30,	
	2011	2010	$ Change	% Change		2011	2010
		(in thousands)					
Interest expense	**$ 1,723**	$ 1,472	$ 251	17.1%		0.1%	0.1%
Interest income	**(1,212)**	(1,387)	175	(12.6%)		(0.1%)	(0.1%)
Net foreign exchange losses	**965**	239	726	303.8%		0.0%	0.0%
Other, net	**(253)**	(289)	36	(12.5%)		(0.0%)	0.0%
Total other (income) expense	**$ 1,223**	$ 35	$ 1,188	3,394.3%		0.0%	0.0%

Interest expense reflects interest paid on borrowings on the Company s revolving credit facility and long-term debt. Interest expense for the fiscal year ended June 30, 2011 was $1.7 million compared to $1.5 million for the comparative prior year period. The increase in interest expense was the result of increased average debt balances between the respective periods.

Interest income for the period ended June 30, 2011 decreased slightly from the comparative prior year period by $0.2 million. The Company generates interest income on longer-term interest bearing receivables, and, to a much lesser extent, interest earned on cash and cash-equivalent balances on hand.

Net foreign exchange gains and losses consist of foreign currency transactional and functional currency re-measurements, offset by net foreign currency exchange contract gains and losses. Foreign exchange losses and gains are generated as the result of fluctuations in the value of the Euro versus the British Pound, the U.S. Dollar versus other currencies and most recently between the Brazilian Real and the U.S. Dollar due to the acquisition of CDC. During the fiscal year ended June 30, 2011 and June 30, 2010, the Company generated a net foreign exchange loss due to fluctuations of the U.S. Dollar against the Euro, British Pound, Mexican Peso, Canadian Dollar and Brazilian Real. While the Company utilizes foreign exchange contracts and debt in non-functional currencies to hedge foreign currency exposure, our foreign exchange policy prohibits us from entering into speculative transactions.

Provision for Income Taxes

Income tax expense was $38.4 million and $26.9 million for the fiscal years ended June 30, 2011 and 2010, respectively, reflecting an effective tax rate of 34.3% and 35.6%, respectively. The decrease in the effective tax rate from the prior fiscal year is largely attributable to a favorable mix of income derived from lower tax rate jurisdictions, and reflects the benefit of a full year of changes to the international capital structure executed during fiscal 2010.

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Net Income

The following table summarizes the Company s net income for the fiscal year ended June 30th:

	2011	2010	$ Change	% Change	% of Sales June 30, 2011	2010
		(in thousands)				
Net income	**$ 73,523**	$ 48,812	$ 24,711	50.6%	2.8%	2.3%

Net income for the fiscal year ended June 30, 2011 was $73.5 million, a $24.7 million or 50.6% increase over the prior fiscal year. The increase in net income is attributable to the changes in operating profit previously discussed.

Comparison of Fiscal Years Ended June 30, 2010 and 2009

Net Sales

The Company has two reporting segments, which are based on geographic location. The following table summarizes the Company s net sales results (net of inter-segment sales) for each of these reporting segments for the comparable fiscal years ended June 30th:

Product Category

	2010	2009	$ Change	% Change
		(in thousands)		
POS, barcoding and security products	**$ 1,300,525**	$ 1,161,956	$ 138,569	11.9%
Communications products	**814,454**	686,013	128,441	18.7%
Total net sales	**$ 2,114,979**	$ 1,847,969	$ 267,010	14.4%

Geographic Segments

	2010	2009	$ Change	% Change
		(in thousands)		
North American distribution segment	**$ 1,666,012**	$ 1,500,144	$ 165,868	11.1%
International distribution segment	**448,967**	347,825	101,142	29.1%
Total net sales	**$ 2,114,979**	$ 1,847,969	$ 267,010	14.4%

Consolidated net sales for the fiscal year ended June 30, 2010 increased 14.4% to $2.1 billion in comparison to prior fiscal year net sales of $1.85 billion.

North American Distribution

The North American distribution segment includes sales to technology resellers in the United States and Canada that originate from our centralized distribution facility located in Southaven, Mississippi. Sales to technology resellers in Canada accounted for less than 4% of total net sales for both fiscal years presented. For the fiscal year ended June 30, 2010, net sales for this segment increased by approximately $165.9 million, or 11.1%, as compared to the prior fiscal year.

The Company s North American POS, barcoding, and security product categories saw revenues increase by 9.9% in comparison to the prior fiscal year. During the fiscal year ended June 30, 2010, these units experienced stronger demand as economic conditions improved from the prior fiscal year. Sales of substantially all of our major vendors and product lines increased in comparison to the prior fiscal year, as larger deals and projects returned during the fiscal year. In addition, the Company saw strong growth in its security product lines on a comparative basis, driven by its video surveillance and wireless networking lines.

The Company has two North American sales units that sell communications products to our customers the Catalyst *Telecom* and Scan*Source* Communications sales units. The combined sales of these units were 12.5% higher for the fiscal year ended June 30, 2010 versus the prior fiscal year. Both of these sales units also experienced sales growth due to improved economic conditions as discussed above, and a majority of the vendors in these units saw sales growth compared to the prior year.

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International Distribution

The international distribution segment includes sales to Latin America and Europe from the Scan*Source* POS and Barcoding sales unit and in Europe through the Scan*Source* Communications sales unit. Sales for the overall international segment increased by $101 million or 29.1% compared to the prior fiscal year. However, on a constant exchange rate basis, the sales increase was approximately 29%. Changes in foreign exchange had an immaterial impact for the year ended June 30, 2010. The constant currency increase in sales for both geographies was driven by stronger end-user demand which was largely attributable to stronger economic conditions in Europe and Latin America, and the acquisition of Algol Europe in November 2009, now part of Scan*Source* Communications Europe.

The fiscal year ended June 30, 2010 included incremental revenues associated with the Company s acquisition of substantially all of the assets and certain liabilities of Algol Europe, now Scan*Source* Communications, GmbH, on November 30, 2009. Algol Europe was a value added distributor of specialty technologies, including voice, data, and video communications products located in Cologne, Germany. This acquisition significantly expanded the footprint of the Scan*Source* Communications sales unit outside of the United Kingdom and is part of the Company s strategy to become a pan-European distributor of communications.

Gross Profit

The following table summarizes the Company s gross profit for the fiscal years ended June 30th:

					% of Sales June 30,	
	2010	**2009**	**$ Change**	**% Change**	**2010**	**2009**
		(in thousands)				
North American distribution segment	**$ 167,638**	$ 155,916	$ 11,722	7.5%	10.1%	10.4%
International distribution segment	**51,289**	52,932	(1,643)	(3.1%)	11.4%	15.2%
Total gross profit	**$ 218,927**	$ 208,848	$ 10,079	4.8%	10.4%	11.3%

North American Distribution

Gross profit for the North American distribution segment increased $11.7 million, or 7.5%, for the fiscal year ended June 30, 2010, as compared to the prior fiscal year. The increase in gross profit was primarily the result of higher sales volume in all of our sales units, as previously discussed. While total gross profit for the North American distribution segment increased, gross profit, expressed as a percentage of net sales, actually decreased to 10.1% for the fiscal year ended June 30, 2010 as compared to 10.4% for the prior fiscal year. This was largely the result of a less favorable product mix and higher margin dilution due to an increase of larger deals and projects that traditionally carry lower margins.

International Distribution

Despite the increase in sales for the international distribution segment, gross profit actually decreased by $1.6 million, or 3.1% for the fiscal year ended June 30, 2010, as compared to the prior fiscal year. The decline in gross profit for the fiscal year ended June 30, 2010 was primarily due to the absence of strategic inventory purchases in anticipation of subsequent vendor price increases in our European operating segment that occurred in the prior year. These opportunistic purchases resulted in the achievement of significantly higher gross margins during the second half of the 2009 fiscal year. As a result, gross profit, expressed as a percentage of net sales for this segment decreased to 11.4% in the fiscal year ended June 30, 2010 versus 15.2% in the prior fiscal year.

Operating Expenses

The following table summarizes the Company s operating expenses for the periods ended June 30th:

	2010	2009	$ Change	% Change	% of Sales June 30, 2010	2009
		(in thousands)				
Operating expenses	**$ 143,151**	$ 134,730	$ 8,421	6.3%	6.8%	7.3%

For the fiscal year ended June 30, 2010, operating expenses were $143.2 million, a 6.3% increase from the prior year. This increase was mainly attributable to an increase in bad debt expense in the current fiscal year and approximately $4.1 million of incremental expenses related to the acquisition of Algol Europe, GmbH.

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Operating expenses as a percentage of sales decreased to 6.8% for the fiscal year ended June 30, 2010, compared to 7.3% in the prior year. This decrease was largely due to the increase in net sales between the two comparable periods.

Operating Income

The following table summarizes the Company s operating income for the fiscal years ended June 30th:

					% of Sales June 30,	
	2010	2009	$ Change	% Change	2010	2009
		(in thousands)				
North American distribution	**$ 64,342**	$ 56,261	$ 8,081	14.4%	3.9%	3.8%
International distribution	**11,434**	17,857	(6,423)	(36.0%)	2.5%	5.1%
Total operating income	**$ 75,776**	$ 74,118	$ 1,658	2.2%	3.6%	4.0%

Operating income increased 2.2% or $1.7 million for the fiscal year ended June 30, 2010 as compared to the prior fiscal year. This increase was the result of higher sales volumes experienced in both the North American and International distribution segments, offset by a higher mix of lower margin products and bad debt in the North American segment and lower margins primarily due to the lack of opportunistic purchases in the International distribution segment that occurred in the prior year.

Total Other (Income) Expense

The following table summarizes the Company s total other (income) expense for the fiscal years ended June 30th:

					% of Sales June 30,	
	2010	2009	$ Change	% Change	2010	2009
		(in thousands)				
Interest expense	**$ 1,472**	$ 2,176	$ (704)	(32.4%)	0.1%	0.1%
Interest income	**(1,387)**	(1,405)	18	(1.3%)	(0.1%)	(0.1%)
Net foreign exchange losses (gains)	**239**	1,587	(1,348)	(84.9%)	0.0%	0.1%
Other, net	**(289)**	(3,894)	3,605	(92.6%)	0.0%	(0.2%)
Total other (income) expense	**$ 35**	$ (1,536)	$ 1,571	(102.3%)	0.0%	(0.1%)

Interest expense reflects interest paid on borrowings on the Company s revolving credit facility and long-term debt. Interest expense for the fiscal year ended June 30, 2010 was $1.5 million compared to $2.2 million for the comparative prior year period. The decrease in interest expense was primarily the result of lower average debt balances between the respective periods.

Interest income for the period ended June 30, 2010 was consistent with the comparative prior year periods. The Company generates interest income on longer-term interest bearing receivables, and, to a much lesser extent, interest earned on cash and cash-equivalent balances on hand.

Net foreign exchange gains and losses consist of foreign currency transactional and functional currency re-measurements, offset by net foreign currency exchange contract gains and losses. Foreign exchange losses and gains are generated as the result of fluctuations in the value of the Euro versus the British Pound and the U.S. Dollar versus other currencies. During the fiscal years ended June 30, 2010 and June 30, 2009, the

Company generated a net foreign exchange loss due to the fluctuations of the U.S. Dollar against the Euro, the British Pound, the Mexican Peso, and the Canadian Dollar. While the Company utilizes foreign exchange contracts and debt in non-functional currencies to hedge foreign currency exposure, our foreign exchange policy prohibits us from entering into speculative transactions.

During the quarter ended December 31, 2008, the Company settled a claim against a former legal service provider resulting in a $3.5 million recovery. The settlement was received by the Company on December 5, 2008 and was recorded as other income.

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Provision for Income Taxes

Income tax expense was $26.9 million and $28.0 million for the fiscal years ended June 30, 2010 and 2009, respectively, reflecting an effective tax rate of 35.6% and 37.0%, respectively. The decrease in the effective tax rate from the prior fiscal year is largely attributable to a favorable mix of income derived from lower tax rate jurisdictions, and reflects the benefit of changes to the international capital structure executed during the fiscal year 2010.

Net Income

The following table summarizes the Company s net income for the fiscal year ended June 30th:

	2010	2009	$ Change	% Change	% of Sales June 30, 2010	% of Sales June 30, 2009
	(in thousands)					
Net income	**$ 48,812**	$ 47,688	$ 1,124	2.4%	2.3%	2.6%

Net income for the fiscal year ended June 30, 2010 was $48.8 million, a $1.1 million increase over the prior fiscal year. The increase in net income is attributable to the changes in operating profit previously discussed.

Quarterly Results

The following tables set forth certain unaudited quarterly financial data. The information has been derived from unaudited financial statements that, in the opinion of management, reflect all adjustments.

	Three Months Ended							
	Fiscal 2011				Fiscal 2010			
	Jun. 30 2011	Mar. 31 2011	Dec. 31 2010	Sept. 30 2010	Jun. 30 2010	Mar. 31 2010	Dec. 31 2009	Sept. 30 2009
	(in thousands, except per share data)							
Net sales	$ 734,891	$ 613,466	$ 683,644	$ 634,530	$ 582,342	$ 496,102	$ 548,112	$ 488,423
Cost of goods sold	660,520	547,637	613,018	571,049	525,520	441,711	491,816	437,005
Gross profit	$ 74,371	$ 65,829	$ 70,626	$ 63,481	$ 56,822	$ 54,391	$ 56,296	$ 51,418
Net income	$ 19,660	$ 16,534	$ 21,621	$ 15,708	$ 14,048	$ 12,014	$ 11,815	$ 10,935
Weighted-average shares outstanding, basic	27,056	26,938	26,786	26,713	26,669	26,608	26,575	26,567
Weighted-average shares outstanding, assuming dilution	27,515	27,413	27,160	26,992	26,937	26,884	26,798	26,821
Net income per common share, basic	$ 0.73	$ 0.61	$ 0.81	$ 0.59	$ 0.53	$ 0.45	$ 0.44	$ 0.41

Net income per common share, assuming dilution	$ 0.71	$ 0.60	$ 0.80	$ 0.58	$ 0.52	$ 0.45	$ 0.44	$ 0.41

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Critical Accounting Policies and Estimates

Management s discussion and analysis of financial condition and results of operations are based upon the Company s Consolidated Financial Statements, which have been prepared in conformity with accounting principles generally accepted in the United States of America. The preparation of financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. On an ongoing basis management evaluates its estimates, including those related to the allowance for uncollectible accounts receivable, inventory reserves to reduce inventories to the lower of cost or market, and vendor incentives. Management bases its estimates on historical experience and on various other assumptions that management believes to be reasonable under the circumstances, the results of which form a basis for making judgments about the carrying value of assets and liabilities that are not readily available from other sources. Actual results may differ materially from these estimates under different assumptions or conditions, however, management believes that its estimates, including those for the above-described items are reasonable and that the actual results will not vary significantly from the estimated amounts. For further discussion of our significant accounting policies, refer to Note 2 of Notes to Consolidated Financial Statements.

Revenue Recognition

Revenue is recognized once four criteria are met: (1) the Company must have persuasive evidence that an arrangement exists; (2) delivery must occur, which happens at the point of shipment (this includes the transfer of both title and risk of loss, provided that no significant obligations remain); (3) the price must be fixed and determinable; and (4) collectability must be reasonably assured. The Company allows its customers to return product for exchange or credit subject to certain limitations. A provision for estimated losses on returns is recorded based on historical experience.

Service revenue associated with configuration and marketing services is recognized when the work is complete and the four criteria discussed above have been substantially met. The Company also distributes third-party service contracts, typically for product maintenance and support. Since the Company acts as an agent on behalf of most of these service contracts sold, revenue is recognized net of cost at the time of sale. However, the Company distributes some self-branded warranty programs and engages a third party (generally the original equipment manufacturer) to cover the fulfillment of any obligations arising from these contracts. These revenues and associated third party costs are amortized over the life of contract and presented in net sales and cost of goods sold, respectively. Service revenue associated with configuration, marketing, service contracts and other services has represented less than 2% of consolidated net sales for fiscal years 2011, 2010 and 2009.

During the fiscal years ended June 30, 2011, 2010, and 2009, the Company has not engaged in any sales transactions involving multiple element arrangements. Had any arrangements with multiple deliverables occurred, the Company would follow the guidance set forth in ASC 605.

Allowances for Trade and Notes Receivable

The Company maintains an allowance for uncollectible accounts receivable for estimated losses resulting from customers failure to make payments on accounts receivable due to the Company. Management determines the estimate of the allowance for uncollectible accounts receivable by considering a number of factors, including: (1) historical experience, (2) aging of the accounts receivable and (3) specific information obtained by the Company on the financial condition and the current creditworthiness of its customers. If the financial condition of the Company s customers were to deteriorate and reduce the ability of the Company s customers to make payments on their accounts, the Company may be required to increase its allowance by recording additional bad debt expense. Likewise, should the financial condition of the Company s customers improve and result in payments or settlements of previously reserved amounts, the Company may be required to record a reduction in bad debt expense to reverse the recorded allowance. A provision for estimated losses on returns and allowances is recorded on historical experience.

Inventory Reserves

Management determines the inventory reserves required to reduce inventories to the lower of cost or market based principally on the effects of technological changes, quantities of goods on hand, and other factors. An estimate is made of the market value, less cost to dispose, of products whose value is determined to be impaired. If these products are ultimately sold at less than estimated amounts, additional reserves may be required. The estimates used to calculate these reserves are applied consistently. The adjustments are recorded in the period in which the loss of utility of the inventory occurs, which establishes a new cost basis for the inventory. This new cost basis is maintained until such time that the reserved inventory is disposed of, returned to the vendor or sold. To the extent that specifically reserved inventory is sold, cost of goods sold is

expensed for the new cost basis of the inventory sold.

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Vendor Programs

The Company receives incentives from vendors related to cooperative advertising allowances, volume rebates and other incentive agreements. These incentives are generally under quarterly, semi-annual or annual agreements with the vendors. Some of these incentives are negotiated on an ad hoc basis to support specific programs mutually developed between the Company and the vendor. Vendors generally require that we use their cooperative advertising allowances exclusively for advertising or other marketing programs. Incentives received from vendors for specifically identified incremental cooperative advertising programs are recorded as adjustments to selling, general and administrative expenses. The Financial Accounting Standards Board s (FASB) Accounting Standards Codification (ASC) 605 Revenue Recognition, addresses accounting by a customer (including a reseller) for certain consideration received from a vendor. This guidance requires that the portion of these vendor funds in excess of our costs be reflected as a reduction of inventory. Such funds are recognized as a reduction of the cost of products sold when the related inventory is sold.

The Company records unrestricted volume rebates received as a reduction of inventory and as a reduction of the cost of goods sold when the related inventory is sold. Amounts received or receivables from vendors that are not yet earned are deferred in the Consolidated Balance Sheets. In addition, the Company may receive early payment discounts from certain vendors. The Company records early payment discounts received as a reduction of inventory and recognizes the discount as a reduction of cost of goods sold when the related inventory is sold. ASC 605 requires management to make certain estimates of the amounts of vendor incentives that will be received. Actual recognition of the vendor consideration may vary from management estimates based on actual results.

Business Combinations

The Company accounts for business combinations in accordance with ASC Topic 805, *Business Combinations*. ASC 805 establishes principles and requirements for recognizing the total consideration transferred to and the assets acquired, liabilities assumed and any non-controlling interest in the acquired target in a business combination. ASC 805 also provides guidance for recognizing and measuring goodwill acquired in a business combination and requires the acquirer to disclose information that users may need to evaluate and understand the financial impact of the business combination. See Note 5 for further discussion.

Liability for Contingent Consideration

In addition to the initial cash consideration paid to former CDC shareholders, the Company is obligated to make additional earnout payments throughout 2015 based on a multiple of the subsidiary s pro forma net income as defined in Exhibit 2.1.(b)(2) of the Share Purchase and Sale Agreement. Future payments are to be paid in Brazilian currency, the Real. The estimated first earnout payment of $2.4 million is to be made on August 31, 2011 based on the pro forma results of the twelve month period ended June 30, 2011. The remaining earnout payments will become payable in four additional installments on August 31, 2012 2014 with the final payment on October 31, 2015. In accordance with ASC Topic 805, the Company determined the fair value of this liability for contingent consideration on the acquisition date using a probability weighted income approach. Each period the Company will reflect the contingent consideration liability at fair value with changes recorded in selling, general and administrative expense line item in the Consolidated Income Statements.

Accounting Standards Recently Issued

See Note 2 of Notes to Consolidated Financial Statements for the discussion on recent accounting pronouncements.

Liquidity and Capital Resources

Our primary sources of liquidity are cash flow from operations, borrowings under the revolving credit facility, secured and unsecured borrowings, and borrowings under the subsidiary s line of credit. Cash and cash equivalent balance totaled $28.7 million at June 30, 2011, compared to $34.6 million at June 30, 2010, of which $10.9 million and $7.4 million were held outside of the United States as of June 30, 2011 and 2010, respectively. Cash balances are generated and used in many locations throughout the world. Management s intent is to permanently reinvest these funds in our businesses outside the United States to continue to fund growth in our international operations. Furthermore, our current plans do not require repatriation of funds from our international operations to fund its operations in the United States. If these funds were needed in the operations of the United States, we would be required to record and pay significant income taxes to the United States to repatriate these funds. See *Footnote 12 Income Taxes* in the Notes to the Consolidated Financial Statements for further discussion.

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During fiscal 2010, the Company made strategic decisions to increase purchasing activity beyond our immediate needs, in light of known product constraints in multiple vendors supply chains and to strategically position our inventory levels to accommodate anticipated customer orders as the global macroeconomic environment was improving. As a result, the Company shifted its working capital position from an atypically large cash position in fiscal 2009 to inventory, accounts receivable and trade payables in fiscal 2010. During 2011, the Company continued to experience increased demand and accounts receivable continued to increase. As such, inventory levels were expanded to meet higher demand levels and utilize favorable vendor pricing programs.

The Company s working capital increased to $532.2 million at June 30, 2011 from $437.0 million at June 30, 2010. The $95.2 million increase in working capital was primarily due to increased accounts receivables and inventory balances, partially offset by increased accounts payable, between the two periods in order to accommodate the record sales volumes achieved in fiscal 2011. As of June 30, 2011, there was $26.5 million outstanding on the Company s revolving line of credit. There was no balance on the Company s revolving line of credit facility at June 30, 2010.

The number of days sales in receivables (DSO) was 57 at June 30, 2011, compared to 55 days at June 30, 2010 and 56 days at March 31, 2011. The CDC acquisition attributed approximately half a day increase in the DSO for the period along with a slightly less favorable mix of customers with longer terms of sales.

Inventory turnover decreased to 6.1 times in the current fiscal year versus 6.4 times in the comparative prior year period. This decrease in turns was largely the function of higher average inventory balances carried during the fiscal year ended June 30, 2011, due to increased demand and capitalization on favorable inventory pricing programs offered by our vendors.

In the current year, significant net income growth, partially offset by increased working capital, drove $10.7 million of cash provided by operating activities. In the prior year, cash used in operating activities was $78.2 million, primarily the result of significant working capital outlays on inventories to accommodate anticipated demand as the economy was emerging out of recession.

Cash used in investing activities for the twelve months ended June 30, 2011 was $51.1 million, compared to $15.6 million used in the prior year. This increase was largely attributed to the Company s acquisition of CDC, for which we made an initial, cash payment of $36.2 million, net of cash acquired, on April 15, 2011. According to the Share Purchase and Sale Agreement, cash payments to the previous shareholders of CDC will be made annually starting on August 31, 2011 and will continue until 2015. Additionally, the Company spent an incremental $9.3 million on capital expenditures over the prior year, the majority of which is related to the implementation of a new ERP system. The implementation is expected to be phased-in over the next few years. We have spent approximately $18.5 million on implementation of the new ERP system as of June 30, 2011. The expected cash flow impact of this project will be in the range of $8 to $15 million in fiscal 2012 and $4 to $5 million in fiscal 2013. We expect total expense for the project to be within $30.5 to $38.5 million, which includes cost of internal personnel and outside consultants. These costs will be financed using cash flow from operations and the revolving credit facility.

In the current fiscal year, cash provided by financing activities amounted to $33.7 million, in comparison to $1.3 million in the prior year. The increase is attributable to the exercise of stock options, coupled with increased borrowings on the $250 million revolving credit facility to finance the acquisition of CDC and the ERP project.

In the trailing twelve months, we have increased net borrowings on the $250 million revolving credit facility. We had $26.5 million outstanding at June 30, 2011 versus no borrowings outstanding at June 30, 2010. The average daily balance on the revolving credit facility was $14.2 million throughout the current year versus $1.4 million in the prior year. Timing of vendor payments may cause temporary spikes in borrowings. Additionally, these borrowings are generally repaid as soon as cash flow permits. Interest expense associated with these borrowings and the average outstanding daily debt are disclosed in more detail in the discussion of Total Other Expense (Income) and the Return on Invested Capital (ROIC) calculation presented earlier in this MD&A.

On a gross basis, we borrowed $769.5 million and repaid $743.9 million on the $250 million revolving credit facility in fiscal 2011. The $0.9 million difference between the $25.6 million net cash flows on the facility and the ending balance of $26.5 million is due to translating the euro denominated borrowings and repayments at the average exchange rate each month and the ending euro denominated balance at the period ending spot rate. In the prior year, we borrowed $141.9 million and repaid the same amount, with no outstanding balance at June 30, 2010.

In addition to our domestic revolving credit facility, we have 6.0 million secured revolving credit facility utilized by our European operations which bears interest at the 30 day Euro Interbank Offered Rate (EURIBOR) plus a spread of 1.25% per annum. At June 30, 2011, there was $3.2 million outstanding and no balance at June 30, 2010. This facility is secured by the assets of our European operations and is guaranteed by Scan*Source*, Inc.

On April 8, 2011, the Company entered into an amendment and waiver to its $250 million revolving credit facility to allow for the acquisition of CDC Brasil Distribuidora LTDA mentioned below. In addition this amendment allows for greater flexibility in the credit facility s covenants for future acquisitions by modifying the proposed consideration threshold for permitted acquisitions, subject to certain conditions as well as increased intercompany lending capabilities.

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On April 15, 2011, the Company, through its wholly-owned subsidiary, ScanSource do Brasil Participações LTDA completed its acquisition of all of the shares of CDC, pursuant to a Share Purchase and Sale Agreement dated April 7, 2011. The purchase price was paid with an initial payment of $36.2 million, net of cash acquired, assumption of working capital payables and debt, and variable annual payments through 2015 based on CDCs annual financial results. Future earnout payments will be funded by cash on hand and our existing revolving credit facility.

On January 2, 2008, we entered into a $25 million promissory note with a financial institution. This note payable accrues interest on the unpaid balance at a rate per annum equal to the 30 day LIBOR plus 0.65% and matures on September 28, 2012. The terms of the note payable allow for payments to be due and payable in consecutive monthly payment terms of accrued interest only, commencing on January 31, 2008, and continuing on the last day of each month thereafter until fully re-paid. This note may be prepaid in whole or in part at any time without penalty. Under the terms of the note, the Company has agreed not to encumber its headquarters property, except as permitted by the lender. As of June 30, 2011, we were in compliance with all covenants under this note payable.

On January 4, 2008, the Company entered into an interest rate swap with a notional amount of $25 million and designated this instrument as a cash flow hedge of our exposure to variability in future cash flows associated with this note payable. Under the terms of the swap, the Company pays a fixed rate of 3.65% plus a fixed spread of 0.65% on the $25 million notional amount and receives payments from a counterparty based on 30 day LIBOR plus a fixed spread of 0.65% for a term ending on September 28, 2011.

On September 28, 2007, the Company entered into a $250 million multi-currency revolving credit facility with a syndicate of banks that matures on September 28, 2012. This revolving credit facility has a $50 million accordion feature that allows the Company to increase the availability to $300 million, subject to obtaining commitments for the incremental capacity from existing or new lenders. The facility is guaranteed by the Company and certain of its subsidiaries and is secured by substantially all of the domestic assets of the Company and its domestic subsidiaries. The facility bears interest at a rate equal to a spread over the applicable LIBOR or prime rate, as chosen by the Company. This spread is dependent on the Company s ratio of funded debt to EBITDA (as defined in the credit facility) and ranges from 0.50% to 1.25% for LIBOR-based loans, and from 0.00% to 0.25% for prime rate-based loans. The spread in effect as of June 30, 2011 was 0.50% for LIBOR-based loans and 0.00% for prime rate-based loans. This agreement subjects the Company to certain financial covenants, including minimum fixed charge and leverage ratio covenants. The agreement also has certain restrictive covenants that, among other things, place limitations on the payment of cash dividends. In October 2009, it was determined that the Company was not in compliance with a specific intercompany loan covenant within the agreement since June 30, 2008. This default was due to a technical misunderstanding of the underlying legal agreement which was immediately waived and the agreement was amended to allow for such transactions in the future. The Company determined that revisions to prior period financial statements were not necessary. The Company was in compliance with all covenants under the credit facility as of June 30, 2011. To the extent that we have outstanding standby letters of credits, the outstanding amounts reduce the credit facility s available borrowings. There were no outstanding standby letters of credit as of June 30, 2011 or 2010. As of June 30, 2011, there were $26.5 million outstanding on this facility, leaving $223.5 million available for additional borrowings. As of June 30, 2010, there were no borrowings outstanding, leaving $250 million available for additional borrowings.

On August 1, 2007, the Company entered into an agreement with the State of Mississippi in order to provide financing for the acquisition and installation of certain equipment to be utilized at the Company s Southaven, Mississippi distribution facility, through the issuance of an industrial development revenue bond. The bond matures on September 1, 2032 and accrues interest at the 30-day LIBOR rate plus a spread of 0.85%. The terms of the bond allow for payment of interest only for the first 10 years of the agreement, and then, starting on September 1, 2018 through 2032, principal and interest payments are due until the maturity date or the redemption of the bond. The outstanding balance on this facility was $5.4 million as of June 30, 2011, and the effective interest rate was 1.0%. The Company was in compliance with all covenants associated with this agreement as of June 30, 2011.

The Company believes that its existing sources of liquidity, including cash resources and cash provided by operating activities, supplemented as necessary with funds under the Company s credit agreements, will provide sufficient resources to meet the Company s present and future working capital and cash requirements for at least the next twelve months.

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Commitments

At June 30, 2011, the Company had contractual obligations in the form of non-cancelable operating leases and debt, including interest payments (See Notes 7 and 13 of Notes to the Consolidated Financial Statements) as follows:

	Payments Due by Period				
	Total	Year 1	Years 2-3	Years 4-5	Greater than 5 Years
			(in thousands)		
Contractual Obligations					
Principal debt payments	$ 60,106	$ 3,164	$ 51,513	$ -	$ 5,429
Non-cancelable operating leases[(1)]	19,389	4,816	7,311	4,737	2,525
Other[(2)]	-	-	-	-	-
Total obligations	**$ 79,495**	**$ 7,980**	**$ 58,824**	**$ 4,737**	**$ 7,954**

(1) Amounts to be paid in future periods for real estate taxes, insurance, and other operating expenses applicable to the properties pursuant to the respective operating leases have been excluded from the table above as the amounts payable in future periods are generally not specified in the lease agreements and are dependent upon amounts which are not known at this time. Such amounts were not material in the current fiscal year.

(2) Amounts totaling $12.9 million of deferred compensation which are included in current and other non-current liabilities in our Consolidated Balance Sheet as of June 30, 2011 have been excluded from the table above due to the uncertainty of the timing of the payment of these obligations, which are generally at the discretion of the individual employees or upon death of the former employee, respectively.

In fiscal 2010, we began devoting resources to the implementation of a global ERP system. We have spent approximately $18.5 million on implementation of the new ERP system as of June 30, 2011. The expected cash flow impact of this project will be in the range of $8 to $15 million in fiscal 2012 and $4 to $5 million in fiscal 2013. We expect total expense for the project to be within $30.5 to $38.5 million, which includes cost of internal personnel and outside consultants. These costs will be financed using cash flow from operations and the revolving credit facility.

ITEM 7A. Quantitative and Qualitative Disclosures about Market Risk.

The Company s principal exposure to changes in financial market conditions in the normal course of its business is a result of its selective use of bank debt and transacting business in foreign currencies in connection with its foreign operations.

Interest Rate Risk

The Company is exposed to changes in interest rates primarily as a result of its borrowing activities, which include revolving credit facilities with a group of banks used to maintain liquidity and fund the Company s business operations. The nature and amount of the Company s debt may vary as a result of future business requirements, market conditions and other factors. A hypothetical 100 basis point increase or decrease in interest rates on borrowings on the Company s revolving credit facility, variable rate long term debt and subsidiary line of credit for the fiscal year ended June 30, 2011 would have resulted in a less than $0.1 million increase or decrease, respectively, in pre-tax income for the period.

To mitigate the risk of interest rate fluctuations associated with the Company s variable rate long-term debt, the Company has implemented an interest rate risk management strategy that incorporates the use of an interest rate swap designated as a cash flow hedge to minimize the significant unplanned fluctuations in earnings caused by interest rate volatility. The Company s use of derivative instruments has the potential to expose the Company to certain market risks including the possibility of (1) the Company s hedging activities not being as effective as anticipated in reducing the volatility of the Company s cash flows, (2) the counterparty not performing its obligations under the applicable hedging arrangement, (3) the hedging arrangement being imperfect or ineffective, or (4) the terms of the swap or associated debt may change. The Company seeks to lessen such risks by having established a policy to identify, control, and manage market risks which may arise from changes

in interest rates, as well as limiting its counterparties to major financial institutions.

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Foreign Currency Exchange Rate Risk

The Company is exposed to foreign currency risks that arise from its foreign operations in Canada, Mexico, Brazil and Europe. These risks include the translation of local currency balances of foreign subsidiaries, inter-company loans with foreign subsidiaries and transactions denominated in non-functional currencies. These risks may change over time as business practices evolve and could have a material impact on the Company s financial results in the future. In the normal course of business, foreign exchange risk is managed by using foreign currency forward contracts to hedge these exposures, as well as balance sheet netting of exposures. The Company s Board of Directors has approved a foreign exchange hedging policy to minimize foreign currency exposure. The Company s policy is to utilize financial instruments to reduce risks where internal netting cannot be effectively employed and not to enter into foreign currency derivative instruments for speculative or trading purposes. The Company monitors its risk associated with the volatility of certain foreign currencies against its functional currencies and enters into foreign exchange derivative contracts to minimize short-term currency risks on cash flows. These positions are based upon our forecasted purchases and sales denominated in certain foreign currencies. The Company continually evaluates foreign exchange risk and may enter into foreign exchange transactions in accordance with its policy. Actual variances from these forecasted transactions can adversely impact foreign exchange results. Foreign currency gains and losses are included in other expense (income).

The Company has elected not to designate its foreign currency contracts as hedging instruments, and therefore, the instruments are marked to market with changes in their values recorded in the Consolidated Income Statement each period. The underlying exposures are denominated primarily in British Pounds, Euros, Mexican Pesos, Brazilian Real and Canadian Dollars. At June 30, 2011, the fair value of the Company s currency forward contracts outstanding was a net payable of less than $0.1 million. The Company does not utilize financial instruments for trading or other speculative purposes.

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All schedules and exhibits not included are not applicable, not required or would contain information which is shown in the financial statements or notes thereto.

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Report of Independent Registered Public Accounting Firm

The Board of Directors and Shareholders of ScanSource, Inc.

We have audited the accompanying consolidated balance sheets of ScanSource, Inc. and subsidiaries as of June 30, 2011 and 2010, and the related Consolidated Statements of Income, Shareholders Equity, and Cash Flows for each of the three years in the period ended June 30, 2011. Our audits also included the financial statement schedule listed in Item 15(a). These financial statements and schedule are the responsibility of the Company s management. Our responsibility is to express an opinion on these financial statements and schedule based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of ScanSource, Inc. and subsidiaries at June 30, 2011 and 2010, and the consolidated results of their operations and their cash flows for each of the three years in the period ended June 30, 2011, in conformity with U.S. generally accepted accounting principles. Also, in our opinion, the related financial statement schedule, when considered in relation to the basic financial statements taken as a whole, presents fairly in all material respects the information set forth therein.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), ScanSource, Inc. s internal control over financial reporting as of June 30, 2011, based on criteria established in Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated August 29, 2011 expressed an unqualified opinion thereon.

/s/ Ernst & Young LLP

Greenville, South Carolina

August 29, 2011

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Report of Independent Registered Public Accounting Firm

The Board of Directors and Shareholders of ScanSource, Inc.

We have audited ScanSource, Inc. and subsidiaries internal control over financial reporting as of June 30, 2011, based on criteria established in Internal Control Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (the COSO criteria). ScanSource, Inc. and subsidiaries management is responsible for maintaining effective internal control over financial reporting, and for its assessment of the effectiveness of internal control over financial reporting included in the accompanying Management s Report on Internal Control Over Financial Reporting. Our responsibility is to express an opinion on the Company s internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, testing and evaluating the design and operating effectiveness of internal control based on the assessed risk, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company s internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company s internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company s assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

As indicated in the accompanying Management s Report on Internal Control Over Financial Reporting, management s assessment of and conclusion on the effectiveness of internal control over financial reporting did not include the internal controls of CDC Brazil, which is included in the 2011 consolidated financial statements of ScanSource, Inc. and subsidiaries and constituted 10.1% and 3.1% of total and net assets, respectively, as of June 30, 2011 and 1.1% and 0.9% of revenues and net income, respectively, for the year then ended. Our audit of internal control over financial reporting of ScanSource, Inc. also did not include an evaluation of the internal control over financial reporting of CDC Brazil.

In our opinion, ScanSource, Inc. and subsidiaries maintained, in all material respects, effective internal control over financial reporting as of June 30, 2011, based on the COSO criteria.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheets of ScanSource, Inc. and subsidiaries as of June 30, 2011 and 2010, and the related consolidated statements of income, shareholders equity, and cash flows for each of the three years in the period ended June 30, 2011 of ScanSource, Inc. and subsidiaries and our report dated August 29, 2011 expressed an unqualified opinion thereon.

/s/ Ernst & Young LLP

Greenville, South Carolina

August 29, 2011

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Scan*Source*, Inc. and Subsidiaries

Consolidated Balance Sheets

(in thousands, except for share information)

	June 30, 2011	June 30, 2010
Assets		
Current assets:		
Cash and cash equivalents	**$ 28,747**	$ 34,605
Accounts receivable, less allowance of $26,562 at June 30, 2011 and $21,907 at June 30, 2010	**462,102**	357,749
Inventories	**467,350**	346,610
Prepaid expenses and other assets	**35,421**	16,762
Deferred income taxes	**15,894**	12,066
Total current assets	**1,009,514**	767,792
Property and equipment, net	**36,819**	23,528
Goodwill	**59,090**	33,785
Other assets, including identifiable intangible assets	**76,765**	34,645
Total assets	**$ 1,182,188**	$ 859,750
Liabilities and Shareholders Equity		
Current liabilities:		
Current portion of long-term debt	**$ -**	$ -
Short-term borrowings	**3,164**	-
Current portion of contingent consideration	**2,398**	-
Accounts payable	**406,453**	287,864
Accrued expenses and other liabilities	**60,157**	35,027
Income taxes payable	**5,175**	7,948
Total current liabilities	**477,347**	330,839
Long-term debt	**30,429**	30,429
Borrowings under revolving credit facility	**26,513**	-
Long-term portion of contingent consideration	**21,396**	-
Other long-term liabilities	**39,109**	11,631
Total liabilities	**594,794**	372,899
Commitments and contingencies		
Shareholders equity:		
Preferred stock, no par value; 3,000,000 shares authorized, none issued	**-**	-
Common stock, no par value; 45,000,000 shares authorized, 27,109,932 and 26,703,038 shares issued and outstanding at June 30, 2011 and June 30, 2010, respectively	**123,608**	111,951
Retained earnings	**460,157**	386,634
Accumulated other comprehensive (loss) income	**3,629**	(11,734)

Total shareholders equity		**587,394**		486,851
Total liabilities and shareholders equity	**$**	**1,182,188**	$	859,750

See accompanying notes to consolidated financial statements

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Scan*Source*, Inc. and Subsidiaries

Consolidated Income Statements

Years Ended June 30, 2011, 2010, and 2009

(in thousands, except per share data)

	0000000000 2011	0000000000 2010	0000000000 2009
Net sales	**$ 2,666,531**	$ 2,114,979	$ 1,847,969
Cost of goods sold	**2,392,224**	1,896,052	1,639,121
Gross profit	**274,307**	218,927	208,848
Selling, general and administrative expenses	**161,198**	143,151	134,730
Operating income	**113,109**	75,776	74,118
Interest expense	**1,723**	1,472	2,176
Interest income	**(1,212)**	(1,387)	(1,405)
Other expense (income), net	**712**	(50)	(2,307)
Income before income taxes	**111,886**	75,741	75,654
Provision for income taxes	**38,363**	26,929	27,966
Net income	**$ 73,523**	$ 48,812	$ 47,688
Per share data:			
Net income per common share, basic	**$ 2.74**	$ 1.83	$ 1.80
Weighted-average shares outstanding, basic	**26,872**	26,605	26,445
Net income per common share, diluted	**$ 2.70**	$ 1.82	$ 1.79
Weighted-average shares outstanding, diluted	**27,246**	26,869	26,588

See accompanying notes to consolidated financial statements

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ScanSource, Inc. and Subsidiaries

Consolidated Statements of Shareholders Equity

Years Ended June 30, 2011, 2010, and 2009

(in thousands, except per share data)

	Common Stock (Shares)	Common Stock (Amount)	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Total
Balance at June 30, 2008	26,349,520	$ 96,097	$ 290,134	$ 9,522	$ 395,753
Comprehensive Income:					
Net income	-	-	47,688	-	47,688
Unrealized loss on hedged transaction, net of tax of $476	-	-	-	(821)	(821)
Foreign currency translation adjustment	-	-	-	(5,538)	(5,538)
Total comprehensive income					41,329
Exercise of stock options and shares issued under share-based compensation plans	216,350	2,077	-	-	2,077
Share based compensation	-	4,738	-	-	4,738
Tax benefit of deductible compensation arising from exercise of stock options	-	1,549	-	-	1,549
Balance at June 30, 2009	26,565,870	$ 104,461	$ 337,822	$ 3,163	$ 445,446
Comprehensive Income:					
Net income	-	-	48,812	-	48,812
Unrealized gain on hedged transaction, net of tax of $85	-	-	-	148	148
Foreign currency translation adjustment	-	-	-	(15,045)	(15,045)
Total comprehensive income					33,915
Exercise of stock options and shares issued under share-based compensation plans, net of shares withheld for employer taxes	137,168	1,095	-	-	1,095
Share based compensation	-	6,168	-	-	6,168
Tax benefit of deductible compensation arising from exercise or vesting of share based payment arrangements	-	227	-	-	227
Balance at June 30, 2010	26,703,038	$ 111,951	$ 386,634	($11,734)	$ 486,851
Comprehensive Income:					

Net income	-	-	73,523	-	73,523
Unrealized gain on hedged transaction, net of tax of $272	-	-	-	468	468
Foreign currency translation adjustment	-	-	-	14,895	14,895
Total comprehensive income					88,886
Exercise of stock options and shares issued under share-based compensation plans, net of shares withheld for employer taxes	406,894	6,373	-	-	6,373
Share based compensation	-	5,081	-	-	5,081
Tax benefit of deductible compensation arising from exercise or vesting of share based payment arrangements	-	203	-	-	203
Balance at June 30, 2011	27,109,932	$ 123,608	460,157	3,629	587,394

See accompanying notes to consolidated financial statements

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Scan*Source*, Inc. and Subsidiaries

Consolidated Statements of Cash Flows

Years Ended June 30, 2011, 2010, and 2009

(in thousands)

	0000000000 **2011**	0000000000 **2010**	0000000000 **2009**
Cash flows from operating activities:			
Net income	**$ 73,523**	$ 48,812	$ 47,688
Adjustments to reconcile net income to net cash provided by (used in) operating activities:			
Depreciation and amortization	**6,662**	6,064	6,781
Allowance for accounts and notes receivable	**7,488**	10,854	6,404
Share-based compensation and restricted stock	**4,877**	6,065	4,738
Asset impairment	**-**	-	191
Deferred income taxes	**(1,431)**	(4,658)	1,763
Excess tax benefits from share-based payment arrangements	**(203)**	(227)	(1,549)
Changes in operating assets and liabilities, net of acquisitions:			
Accounts receivable	**(77,305)**	(79,145)	54,186
Inventories	**(79,654)**	(133,492)	58,929
Prepaid expenses and other assets	**(17,392)**	884	(2,145)
Other noncurrent assets	**(10,279)**	(2,660)	(212)
Accounts payable	**78,298**	57,977	(32,267)
Accrued expenses and other liabilities	**30,932**	6,876	(2,173)
Income taxes payable	**(4,828)**	4,486	916
Net cash provided by (used in) operating activities	**10,688**	(78,164)	143,250
Cash flows from investing activities:			
Capital expenditures	**(14,869)**	(5,606)	(3,655)
Net proceeds from sale of property and equipment	**-**	-	1,158
Cash paid for business acquisitions, net of cash acquired	**(36,228)**	(9,994)	-
Net cash provided by (used in) investing activities	**(51,097)**	(15,600)	(2,497)
Cash flows from financing activities:			
Increases (decreases) in short-term borrowings, net	**1,706**	-	(6,564)
Borrowings (repayments) on revolving credit, net of expenses	**25,376**	-	(26,141)
Exercise of stock options	**6,372**	1,095	2,077
Excess tax benefits from share-based payment arrangements	**203**	227	1,549
Borrowings (repayments) on long-term debt	**-**	-	853
Net cash provided by (used in) financing activities	**33,657**	1,322	(28,226)
Effect of exchange rate changes on cash and cash equivalents	**894**	(617)	(87)
Increase (decrease) in cash and cash equivalents	**(5,858)**	(93,059)	112,440
Cash and cash equivalents at beginning of period	**34,605**	127,664	15,224

Cash and cash equivalents at end of period	**$**	**28,747**	$	34,605	$	127,664
Supplemental disclosure of cash flow information:						
Interest paid during the year	**$**	**1,705**	$	1,391	$	2,308
Income taxes paid during the year	**$**	**43,233**	$	23,210	$	30,379

See accompanying notes to consolidated financial statements

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SCAN*SOURCE*, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

June 30, 2011

(1) Organization and Basis of Presentation

Business Description

Scan*Source*, Inc. (the Company) is a leading wholesale distributor of specialty technology products, providing value-added distribution sales to resellers in the specialty technology markets. The Company has two geographic distribution segments: one serving North America from the Southaven, Mississippi distribution center, and an international segment currently serving Latin America and Europe from distribution centers located in Florida, Mexico and Brazil, and in Belgium and Germany, respectively. The North American distribution segment markets automatic identification and data capture (AIDC) and point-of-sale (POS) products through its Scan*Source* POS and Barcoding sales unit; voice, data and converged communications equipment through its Catalyst *Telecom* sales unit; video conferencing, telephony, and communications products through its Scan*Source* Communications unit; and electronic security products and wireless infrastructure products through its Scan*Source* Security Distribution unit. The international distribution segment markets AIDC, POS, communications and security products as follows: Scan*Source* Latin America markets AIDC, POS, communications and security products. Scan*Source* Europe markets AIDC and POS products, while communication products are marketed through its Scan*Source* Communications sales unit in Europe.

In the quarter ended December 31, 2009, the Company established a new entity, Scan*Source* Communications GmbH, that acquired substantially all of the assets and certain liabilities of Algol Europe, GmbH (Algol), as a value-add distributor specializing in convergence communications solutions. The purchase transaction closed on November 30, 2009. Algol, headquartered in Cologne, Germany, has joined Scan*Source* Communications UK as part of Scan*Source* Communications Europe.

On April 15, 2011, the Company purchased all of the shares of CDC Brasil S.A. (CDC), formerly known as CDC Brasil Distribuidora LTDA. CDC is the leading POS and Barcoding distributor in Brazil. The share purchase transaction was completed on April 15, 2011. CDC, headquartered in Curitiba, Brazil, is now included under the Scan*Source* Latin America operating unit.

(2) Summary of Significant Accounting Policies

Consolidation Policy

The Consolidated Financial Statements include the accounts of the Company and its subsidiaries. All significant inter-company accounts and transactions have been eliminated.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. On an ongoing basis, management evaluates its estimates, including those related to the allowance for uncollectible accounts receivable and inventory reserves. Management bases its estimates on assumptions that management believes to be reasonable under the circumstances, the results of which form a basis for making judgments about the carrying value of assets and liabilities that are not readily available from other sources. Actual results may differ from these estimates under different assumptions or conditions; however, management believes that its estimates, including those for the above described items, are reasonable and that the actual results will not vary significantly from the estimated amounts.

The following significant accounting policies relate to the more significant judgments and estimates used in the preparation of the Consolidated Financial Statements:

(a) Allowances for Trade and Notes Receivable

The Company maintains an allowance for uncollectible accounts receivable for estimated losses resulting from customers failure to make payments on accounts receivable due to the Company.

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SCAN*SOURCE*, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements (Continued)

June 30, 2011

Management determines the estimate of the allowance for uncollectible accounts receivable by considering a number of factors, including: (1) historical experience, (2) aging of the accounts receivable and (3) specific information obtained by the Company on the financial condition and the current creditworthiness of its customers. If the financial condition of the Company s customers were to deteriorate and reduce the ability of the Company s customers to make payments on their accounts, the Company may be required to increase its allowance by recording additional bad debt expense. Likewise, should the financial condition of the Company s customers improve and result in payments or settlements of previously reserved amounts, the Company may be required to record a reduction in bad debt expense to reverse the recorded allowance. A provision for estimated losses on returns and allowances is recorded on historical experience.

(b) Inventory Reserves

Management determines the inventory reserves required to reduce inventories to the lower of cost or market based principally on the effects of technological changes, quantities of goods on hand, and other factors. An estimate is made of the market value, less cost to dispose, of products whose value is determined to be impaired. If these products are ultimately sold at less than estimated amounts, additional reserves may be required. The estimates used to calculate these reserves are applied consistently. The adjustments are recorded in the period in which the loss of utility of the inventory occurs, which establishes a new cost basis for the inventory. This new cost basis is maintained until such time that the reserved inventory is disposed of, returned to the vendor or sold. To the extent that specifically reserved inventory is sold, cost of goods sold is expensed for the new cost basis of the inventory sold.

Reclassifications

Certain prior year amounts have been reclassified to conform to the current year presentation in the accompanying Consolidated Financial Statements.

Cash and Cash Equivalents

The Company considers all highly liquid investments with original maturities of three months or less to be cash equivalents. The Company maintains three zero-balance, disbursement accounts at separate financial institutions in which the Company does not maintain significant depository relationships. Due to the nature of the Company s banking relationships with these institutions, the Company does not have the right to offset most if not all outstanding checks written from these accounts against cash on hand. Checks released but not yet cleared from these accounts in the amounts of $73.6 million and $62.7 million are classified to accounts payable as of June 30, 2011 and June 30, 2010, respectively.

Concentration of Credit Risk

The Company sells its products to a large base of value-added resellers throughout North America, Latin America and Europe. The Company performs ongoing credit evaluations of its customers financial condition. In certain cases, the Company will accept tangible assets as collateral to increase the trade credit of its customers. No single customer accounted for more than 5% of the Company s net sales for fiscal 2011, 2010, or 2009.

The Company has established arrangements with certain customers for longer term financing. The Company accounts for these arrangements by recording them at their historical cost less specific allowances at balance sheet dates. Interest income is recognized in the period earned and is recorded as interest income in the Consolidated Income Statement.

Financial instruments that potentially subject the Company to a concentration of credit risk consist of cash. The Company maintains its cash with high credit quality financial institutions. At times, such investments may be in excess of FDIC insurance limits.

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SCAN*SOURCE*, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements (Continued)

June 30, 2011

Derivative Financial Instruments

The Company uses derivative instruments to manage certain exposures related to foreign currency as well as changes in interest rates as a result of our borrowing activities. We record all derivative instruments as either assets or liabilities in the balance sheet at fair value. The Company currently does not use derivative financial instruments for trading or speculative purposes.

The Company s foreign currency exposure results from purchasing and selling internationally in several foreign currencies. In addition, the Company has foreign currency risk related to debt that is denominated in currencies other than the U.S. Dollar. The Company may reduce its exposure to fluctuations in foreign exchange rates by creating offsetting positions through the use of derivative financial instruments or multi-currency borrowings. The market risk related to the foreign exchange agreements is offset by changes in the valuation of the underlying items. Derivative financial instruments related to foreign currency exposure are accounted for on an accrual basis with gains or losses on these contracts recorded in income in the period in which their value changes, with the offsetting entry for unsettled positions reflected in either other assets or other liabilities. These contracts are generally for a duration of 90 days or less. The Company has elected not to designate its foreign currency contracts as hedging instruments. They are, therefore, marked-to-market with changes in their fair value recorded in the Consolidated Income Statement each period. The underlying exposures are denominated primarily by British Pounds, Euros, Mexican Pesos, Brazilian Real and Canadian Dollars.

During the fiscal year ended June 30, 2008, the Company entered into an interest rate swap and designated this instrument as a hedge of the cash flows on certain variable rate debt. To the extent the derivative instrument is effective in offsetting the variability of the hedged cash flows, changes in the fair value of the derivative instrument will not be included in current earnings, but will be reported as other comprehensive income (loss). The ineffective portion, if any, will be recorded as an adjustment to earnings.

Investments

The Company has investments that are held in a grantor trust formed by the Company related to the Scan*Source*, Inc. Nonqualified Deferred Compensation Plan and Founder s Supplemental Executive Retirement Plan (SERP). The Company has classified these investments as trading securities and they are recorded at fair market value with unrealized gains and losses included in the accompanying Consolidated Income Statements. The Company s obligations under this deferred compensation plan change in concert with the performance of the investments. The fair value of these investments and the corresponding deferred compensation obligation was $12.9 million and $8.1 million as of June 30, 2011 and June 30, 2010, respectively. These investments are classified as either current assets or other non-current assets in the Consolidated Balance Sheets depending on the timing of planned disbursements. The deferred compensation obligation is classified either within current liabilities or other long-term liabilities as well. The amounts of these investments classified as current assets with corresponding current liabilities were $3.1 million and $1.1 million at June 30, 2011 and June 30, 2010, respectively.

Inventories

Inventories (consisting entirely of finished goods) are stated at the lower of cost (first-in, first-out method) or market.

Vendor Programs

The Company receives incentives from vendors related to cooperative advertising allowances, volume rebates and other incentive agreements. These incentives are generally under quarterly, semi-annual or annual agreements with the vendors. Some of these incentives are negotiated on an ad hoc basis to support specific programs mutually developed between the Company and the vendor. Vendors generally require that we use their cooperative advertising allowances exclusively for advertising or other marketing programs. Incentives received from vendors for specifically identified incremental cooperative advertising programs are recorded as adjustments to selling, general and administrative expenses.

The Financial Accounting Standards Board s (FASB) Accounting Standards Codification (ASC) 605 *Revenue Recognition*, addresses accounting by a customer (including a reseller) for certain consideration received from a vendor. This guidance requires that the portion of these vendor funds in excess of our costs be reflected as a reduction of inventory. Such funds are recognized as a reduction of the cost of products sold when the related inventory is sold.

The Company records unrestricted volume rebates received as a reduction of inventory and as a reduction of the cost of goods sold when the related inventory is sold. Amounts received or receivables from vendors that are not yet earned are deferred in the Consolidated Balance Sheets. In addition, the Company may receive early payment discounts from certain vendors. The Company records early payment discounts received as a reduction of inventory and recognizes the discount as a reduction of cost of goods sold when the related inventory is sold. ASC 605 requires management to make certain estimates of the amounts of vendor incentives that will be received. Actual recognition of the vendor consideration may vary from management estimates based on actual results.

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SCAN*SOURCE*, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements (Continued)

June 30, 2011

Vendor Concentration

The Company sells products from many suppliers, however, sales from products supplied by Motorola and Avaya each constituted more than 10% of the Company s net sales for years ended June 30, 2011, 2010 and 2009, respectively.

Product Warranty

The Company s vendors generally provide a warranty on the products distributed by the Company and allow the Company to return defective products, including those that have been returned to the Company by its customers. In one product line, the Company offers a self-branded warranty program, in which Management has determined that the Company is the primary obligor of these programs. The Company purchases contracts from unrelated third parties, generally the original equipment manufacturers, to fulfill any obligation to service or replace defective product claimed on these warranty programs. As such, the Company has not recorded a provision for estimated service warranty costs. For all other product lines, the Company does not independently provide a warranty on the products it distributes; however, to maintain customer relations, the Company facilitates returns of defective products from the Company s customers by accepting for exchange, with the Company s prior approval, most defective products within 30 days of invoicing.

Property and Equipment

Property and equipment are recorded at cost. Depreciation is computed using the straight-line method over estimated useful lives of 3 to 10 years for furniture, equipment and computer software, 40 years for buildings and 15 years for building improvements. Leasehold improvements are amortized over the shorter of the lease term or the estimated useful life. Maintenance, repairs and minor renewals are charged to expense as incurred. Additions, major renewals and betterments to property and equipment are capitalized. In fiscal 2010, the Company began the implementation of a new Enterprise Resource Planning System (ERP). The compensation costs of employees associated with this implementation process are capitalized to the construction in process asset related to this project.

Goodwill

The Company accounts for recorded goodwill in accordance with ASC 350, *Goodwill and Other Intangible Assets*, which requires that they are reviewed annually for impairment or more frequently if impairment indicators exist. See Note 6 for a discussion of the annual goodwill impairment test.

Intangible Assets

Intangible assets consist of customer relationships, debt issuance costs, trade names, distributor agreements and non-compete agreements. Customer relationships and distributor agreements are amortized using the straight-line method over their estimated useful lives, which range from 5 to 15 years. Debt issuance costs are amortized over the term of the credit facility.

Trade names are amortized over a period ranging from 1 to 2 years. Non-compete agreements are amortized over their contract life. These assets are included in other assets and are shown in detail in Note 6, Goodwill and Other Identifiable Intangible Assets .

Impairment of Long-Lived Assets

The Company reviews its long-lived assets for impairment whenever events or changes in circumstances indicate that the carrying amount of the asset or asset group may not be recoverable. Tests for recoverability of a long-lived asset to be held and used are measured by comparing the carrying amount of the long-lived asset to the sum of the estimated future discounted cash flows expected to be generated by the asset. In

estimating the future discounted cash flows we use projections of cash flows directly associated with, and which are expected to arise as a direct result of, the use and eventual disposition of the assets. If it is determined that a long-lived asset is not recoverable, an impairment loss would be calculated equal to the excess of the carrying amount of the long-lived asset over its fair value. The Company did not record any material impairment charges for the fiscal years ended June 30, 2011, 2010 and 2009.

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Fair Value of Financial Instruments

The fair value of financial instruments is the amount at which the instrument could be exchanged in a current transaction between willing parties. The carrying values of financial instruments such as accounts receivable, accounts payable, accrued liabilities, borrowings under the revolving credit facility and subsidiary lines of credit approximate fair value based upon either short maturities or variable interest rates of these instruments. For additional information related to the fair value of derivatives, please see Note 9, Fair Value of Financial Instruments .

Liability for Contingent Consideration

In addition to the initial cash consideration paid to former CDC shareholders, the Company is obligated to make additional earnout payments throughout 2015 based on a multiple of the subsidiary s pro forma net income as defined in Exhibit 2.1.(b)(2) of the Share Purchase and Sale Agreement by and among the Company s Brazilian subsidiary, the former shareholders and CDC, dated April 7, 2011. Future payments are to be paid in Brazilian currency, the Real. The estimated first earnout payment of $2.4 million is to be made on August 31, 2011 based on the pro forma results of the twelve month period ended June 30, 2011. The remaining earnout payments will become payable in four additional installments on August 31, 2012 2014 with the final payment on October 31, 2015. In accordance with ASC Topic 805, the Company determined the fair value of this liability for contingent consideration on the acquisition date using a probability weighted income approach. Each period the Company will reflect the contingent consideration liability at fair value with changes recorded in selling, general and administrative expenses line item in the Consolidated Income Statements.

Contingencies

The Company accrues for contingent obligations, including estimated legal costs, when it is probable that a liability is incurred and the amount is reasonably estimable. As facts concerning contingencies become known, management reassesses its position and makes appropriate adjustments to the financial statements. Estimates that are particularly sensitive to future changes include tax, legal, and other regulatory matters, which are subject to change as events evolve, and as additional information becomes available during the administrative and litigation process.

Revenue Recognition

Revenue is recognized once four criteria are met: (1) the Company must have persuasive evidence that an arrangement exists; (2) delivery must occur, which happens at the point of shipment (this includes the transfer of both title and risk of loss, provided that no significant obligations remain); (3) the price must be fixed and determinable; and (4) collectability must be reasonably assured. The Company allows its customers to return product for exchange or credit subject to certain limitations. A provision for estimated losses on returns is recorded based on historical experience.

Service revenue associated with configuration and marketing services is recognized when the work is complete and the four criteria discussed above have been substantially met. The Company also distributes third-party service contracts, typically for product maintenance and support. Since the Company acts as an agent on behalf of most of these service contracts sold, revenue is recognized net of cost at the time of sale. However, the Company distributes some self-branded warranty programs and engages a third party (generally the original equipment manufacturer) to cover the fulfillment of any obligations arising from these contracts. These revenues and associated third party costs are amortized over the life of contract and presented in net sales and cost of goods sold, respectively. Service revenue associated with configuration, marketing, service contracts and other services has represented less than 2% of consolidated net sales for fiscal years 2011, 2010 and 2009.

During the fiscal years ended June 30, 2011, 2010 and 2009, the Company has not engaged in any sales transactions involving multiple element arrangements. Had any arrangements with multiple deliverables occurred, The Company would follow the guidance set forth in ASC 605.

Shipping Revenue and Costs

Shipping revenue is included in net sales and related costs are included in cost of goods sold. Shipping revenue for the years ended June 30, 2011, 2010 and 2009 was $11.5 million, $10.2 million and $9.9 million, respectively.

Advertising Costs

The Company defers advertising related costs until the advertising is first run in trade or other publications, or in the case of brochures, until the brochures are printed and available for distribution. Advertising costs, included in marketing costs, after vendor reimbursement, were not significant in any of the three years ended June 30, 2011. Deferred advertising costs at June 30, 2011 and 2010 were not significant.

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SCAN*SOURCE*, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements (Continued)

June 30, 2011

Foreign Currency

The currency effects of translating the financial statements of the Company s foreign entities that operate in their local currency are included in the cumulative currency translation adjustment component of accumulated other comprehensive loss income. The assets and liabilities of these foreign entities are translated into U.S. Dollars using the exchange rate at the end of the respective period. Sales, costs and expenses are translated at average exchange rates effective during the respective period. Foreign currency transactional and re-measurement gains and losses are included in other expense (income) in the Consolidated Income Statements. Such amounts are not significant to any of the periods presented.

Income Taxes

Income taxes are accounted for under the asset and liability method. Deferred income taxes reflect tax consequences on future years of differences between the tax bases of assets and liabilities and their financial reporting amounts. Valuation allowances are provided against deferred tax assets in accordance with ASC 740, *Accounting for Income Taxes.* Federal income taxes are not assessed on the undistributed earnings of foreign subsidiaries because it has been the practice of the Company to reinvest those earnings in the business outside the United States. See Note 12 for further discussion.

Additionally, The Company maintains reserves for uncertain tax provisions in accordance with ASC 740. See Note 12 for more information.

Share-Based Payments

The Company accounts for share-based compensation using the provisions of ASC 718, *Accounting for Stock Compensation*, which requires the recognition of the fair value of share-based compensation. Share-based compensation is estimated at the grant date based on the fair value of the awards, in accordance with the provisions of ASC 718. Since this compensation cost is based on awards ultimately expected to vest, it has been reduced for estimated forfeitures. ASC 718 requires forfeitures to be estimated at the time of grant and revised, if necessary, in subsequent periods if actual forfeitures differ from those estimates. The Company has elected to expense grants of awards with graded vesting on a straight-line basis over the requisite service period for each separately vesting portion of the award.

Comprehensive Income

ASC 220, *Reporting Comprehensive Income*, defines comprehensive income as the change in equity (net assets) of a business enterprise during a period from transactions and other events and circumstances from non-owner sources. The primary components of comprehensive income for the Company include net income, foreign currency translation adjustments arising from the consolidation of the Company s foreign subsidiaries, and unrealized gains and losses on the Company s hedged transactions, net of tax.

Business Combinations

The Company accounts for business combinations in accordance with ASC Topic 805, *Business Combinations*. ASC 805 establishes principles and requirements for recognizing the total consideration transferred to and the assets acquired, liabilities assumed and any non-controlling interest in the acquired target in a business combination. ASC 805 also provides guidance for recognizing and measuring goodwill acquired in a business combination and requires the acquirer to disclose information that users may need to evaluate and understand the financial impact of the business combination. See Note 5 for further discussion.

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June 30, 2011

Recent Accounting Pronouncements

Credit Quality of Financing Receivables and the Allowance for Credit Losses

In July 2010, the FASB issued Accounting Standard Update (ASU) 2010-20 which updated the existing guidance regarding disclosures of financing receivables and the related allowance recorded against financing receivables, ASC 310. This revised guidance requires companies to disclose additional information in order to help financial statement users evaluate the following: 1) the nature of credit risk inherent in the entity s portfolio of financing receivables, 2) how that risk is analyzed and assessed in arriving at the allowance for credit losses and 3) the changes and reasons for those changes in the allowance for credit losses.

This accounting update requires two types of disclosures: 1) disclosures as of the end of a reporting period and 2) disclosures about activity that occurs during a reporting period.

Disclosures required as of the end of a reporting period are effective for interim and annual reporting periods ending on or after December 15, 2010. The Company adopted this guidance as it relates to period ending disclosures on October 1, 2010. The adoption of this guidance did not have an impact on the Company s Consolidated Financial Statements.

Disclosures required about activity that occurs during a reporting period are effective for interim and annual reporting periods beginning on or after December 15, 2010. The Company adopted the guidance as it relates to periodic activity on January 1, 2011. The adoption of this guidance did not have an impact on the Company s Consolidated Financial Statements.

Fair Value Measurement

In May 2011, the FASB issued ASU 2011-04, *Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in U.S. GAAP and IFRS*. The amendments in this update are the result of the work of the FASB and the IASB to develop common requirements for measuring fair value and for disclosing information about fair value measurements. The amendment becomes effective for interim and annual periods beginning after December 15, 2011, which will be the third quarter of fiscal 2012 for the Company. The Company is currently assessing the future impact of this ASU to its Consolidated Financial Statements.

Comprehensive Income

In June 2011, the FASB issued ASU 2011-05, *Presentation of Comprehensive Income*. The objective of this update is to improve the comparability, consistency, and transparency of financial reporting and to increase the prominence of items reported in other comprehensive income. The update will become effective for interim and annual periods beginning after December 15, 2011, which will be the third quarter of fiscal 2012 for the Company. The update will eliminate the option to present components of other comprehensive income as part of the statement of changes in stockholders equity, which is the Company s current practice. Additionally, the update will require companies to present all nonowner changes in stockholders equity be presented either in a single continuous statement of comprehensive income or in two separate but consecutive statements. The Company is currently determining which method of presentation will be used in future filings.

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(3) Earnings per Share

Basic earnings per share are computed by dividing net income by the weighted-average number of common shares outstanding. Diluted earnings per share are computed by dividing net income by the weighted-average number of common and potential common shares outstanding.

	000000000	000000000	000000000
	Net Income	**Shares**	**Per Share Amount**
	(in thousands, except per share data)		
Fiscal Year Ended June 30, 2011:			
Net income per common share, basic	**$ 73,523**	**26,872**	**2.74**
Effect of dilutive stock options	**-**	**374**	
Net income per common share, assuming dilution	**$ 73,523**	**27,246**	**2.70**
Fiscal Year Ended June 30, 2010:			
Net income per common share, basic	$ 48,812	26,605	$ 1.83
Effect of dilutive stock options	-	264	
Net income per common share, assuming dilution	$ 48,812	26,869	$ 1.82
Fiscal Year Ended June 30, 2009:			
Net income per common share, basic	$ 47,688	26,445	$ 1.80
Effect of dilutive stock options	-	143	
Net income per common share, assuming dilution	$ 47,688	26,588	$ 1.79

For the years ended June 30, 2011, 2010 and 2009, there were 947,000, 1,208,000 and 1,474,000 weighted average shares, respectively, excluded from the computation of diluted earnings per share because their effect would have been antidilutive.

(4) Property and Equipment

Property and equipment is comprised of the following:

000000000	000000000
June 30,	

		2011		2010
		(in thousands)		
Land	**$**	**3,009**	$	3,009
Buildings and leasehold improvements		**16,029**		15,845
Computer software and equipment		**14,270**		13,139
Furniture, fixtures and equipment		**15,847**		17,240
Construction in Progress		**18,738**		4,526
		67,893		53,759
Less accumulated depreciation		**(31,074)**		(30,231)
	$	**36,819**	$	23,528

During the fiscal year ended June 30, 2011, the increase in gross fixed assets from prior year is largely related to capital expenditures for a new global Enterprise Resource Planning (ERP) system that is currently under development, in addition to additional fixed assets acquired with CDC.

Depreciation expense was $3.7 million, $4.1 million, and $4.2 million, respectively, for the fiscal years ended 2011, 2010, and 2009.

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Notes to Consolidated Financial Statements (Continued)

June 30, 2011

(5) Acquisitions

Algol Europe,GmbH

On November 30, 2009, the Company acquired substantially all of the assets and certain liabilities of Algol Europe, GmbH (Algol). Algol, now a part of Scan*Source* Communications in the international distribution segment, is a value-added distributor of specialty technologies, including voice, data, and video communication products located in Cologne, Germany. This acquisition significantly expanded the footprint of the Scan*Source* Communications sales unit outside of the United Kingdom and is part of the Company s strategy to become a pan-European distributor of communication products. The purchase price of this acquisition was allocated to the assets acquired and the liabilities assumed based on their estimated fair values on the transaction date, resulting in goodwill and identifiable intangible assets related to non-compete agreements, distributor agreements and customer relationships as of November 30, 2009. These amounts were recorded in the international segment. All professional fees and other costs associated with the acquisition of Algol s assets were expensed as incurred. The purchase price, identified intangibles and goodwill as of the acquisition date were as follows:

	0000000000 Purchase price	0000000000 Goodwill	0000000000 Identifiable intangible assets
		(in thousands)	
Algol Europe, GmbH	$ 9,965	$ 712	$ 2,287

CDC Brasil, S.A.

On April 15, 2011, the Company, through its wholly-owned subsidiary, ScanSource do Brasil Participações LTDA, completed its acquisition of 100% of the shares of CDC Brasil S.A., formerly known as CDC Brasil Distribuidora LTDA, Brazil s leading distributor of AIDC and point-of-sale solutions. CDC was a privately-held, value-added distributor that sells only to resellers. This acquisition gives the Company an established presence in South America s largest specialty technology market and will allow the Company to more easily scale its South American operations.

The business valuation for the Company is incomplete as of the date of this filing. As such, the value assigned to identifiable intangible assets, the liability for the contingent consideration transferred to the sellers and goodwill are subject to change within the measurement period set forth in ASC 805.

In 2011, the Company incurred approximately $1.1 million of acquisition-related costs, primarily for professional fees incurred for due diligence, legal advice and tax planning. These costs are included in selling, general and administrative expenses in the Company s 2011 Consolidated Income Statement.

Under the Share Purchase and Sale Agreement, the Company structured the purchase transaction as an all cash share purchase with an initial payment of $36.2 million, net of cash acquired, and assumed working capital payables and debt at closing. The remaining purchase price will be paid in annual cash installments based upon the financial performance of CDC for the twelve month periods ended on June 30 from 2011 through 2015. At the acquisition date, the Company recorded the preliminary fair value of the contingent consideration at $24 million. As the valuation of the business is still in process, this amount is subject to change with a corresponding adjustment to goodwill.

The estimated fair value of the liability for the contingent consideration recognized at June 30, 2011 was $23.8 million, of which an estimated $2.4 million is expected to be paid on August 31, 2011. The amount to be paid currently is recorded as current portion of contingent consideration in the Company s Consolidated Balance Sheet as of June 30, 2011. The U.S. dollar amounts of actual disbursements made in conjunction with future earnout payments are subject to change as the liability is denominated in Brazilian Real and subject to foreign exchange fluctuation risk. The remaining balance of $21.4 million is recorded in the long-term portion of contingent consideration line item on the Company s Consolidated Balance Sheet as of June 30, 2011. As the Company has not finalized its valuation of the contingent consideration, goodwill and the estimated fair value of the liability are subject to change in future filings within the purchase accounting measurement period as set forth in ASC 805. Although there is no contractual limit, total future, undiscounted contingent consideration payments can range between $2.4 million, which is the portion to be paid in August 2011, up to $52.1 million, based on the Company s best estimate as the earnout is based on a multiple of adjusted earnings as defined in the Share Purchase and Sale Agreement.

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June 30, 2011

Also in accordance with ASC 805, the Company will revalue the contingent consideration liability driven by the earnout at each reporting date through the last payment with changes in the fair value of the contingent consideration reflected in the Selling, general and administrative expenses line item on the Company s Consolidated Income Statement. The fair value of the contingent consideration liability associated with future earnout payments is based on several factors, including:

estimated future results, net of pro forma adjustments;

the probability of achieving these results; and

a discount rate reflective of the Company s creditworthiness and market risk premium associated with the Brazilian market.

The change in fair value of the contingent consideration recognized in the Consolidated Financial Statements for the year ended June 30, 2011 was income of $0.2 million.

The following table summarizes the preliminary fair values of the assets acquired and liabilities assumed at the date of acquisition for CDC and were recorded to the Company s international reporting segment:

	000000000	000000000
Consideration	**April 15, 2011** *(in thousands)*	
Initial cash payment, net of cash acquired	$ 36,228	
Fair value of earnout obligation	23,952	
Total consideration		$ 60,180
Recognized amounts of identifiable assets acquired and liabilities assumed		
Accounts receivable, net of allowance	21,378	
Inventories	30,560	
Prepaid expenses and other assets	3,575	
Deferred income taxes	1,409	
Property and equipment, net	1,741	
Intangible assets	18,327	
Other assets	16,013	
Short-term borrowings	(1,277)	
Accounts payable	(34,006)	
Accrued expenses and other liabilities	(3,896)	
Income taxes payable	(2,097)	
Other long-term liabilities	(16,190)	
Total identifiable net assets		35,537

Goodwill	$	24,643

The Company used a combination of the market, cost and income approaches to estimate the fair values of the CDC s assets acquired and liabilities assumed.

The Company included an estimated $14.1 million in other long-term liabilities for contingent, indemnification liabilities for provincial and local tax liabilities that were identified in the Company s due diligence process. The Company is able to record equal and offsetting indemnification assets in other assets as the contingencies were escrowed in the Share Purchase and Sale Agreement. As part of the initial payment, the sellers placed $27.4 million into a special and exclusive bank account to be released according to the specifications of the Share Purchase and Sale Agreement to provide for potential indemnification liabilities. However, indemnity claims can be made up to the purchase price. The estimated undiscounted range of indemnification assets and corresponding contingent liabilities is between $5.1 million and $22.9 million.

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June 30, 2011

CDC contributed revenues of approximately $29.6 million and net income of $0.7 million for the period of April 15, 2011 to June 30, 2011. CDC net income for the period includes approximately $0.1 million of acquisition-related costs as well as $0.7 million of incremental amortization expense related to the portion of the purchase price allocated to the identified intangible assets in the table below:

Indentified intangible assets	**Amount *(in thousands)***
Trade names (2 year useful life)	$ 2,746
Customer relationships (7 year useful life)	14,687
Non-compete agreements (5 year useful life)	894
Total identified intangible assets	$ 18,327

The amounts recognized for the abovementioned intangible assets are preliminary and subject to change as the Company is still in process of finalizing its valuation of assets acquired and liabilities assumed. The weighted average amortization period is six years.

The following unaudited pro forma summary presents consolidated information of the Company as if the business combination had occurred on July 1, 2009 based on the preliminary purchase price allocation:

Unaudited, Supplemental Pro Forma Information	**June 30, 2011**	**June 30, 2010**
	(in thousand, except per share information)	
Net sales	**$ 2,786,905**	$ 2,247,721
Net income	**$ 75,982**	$ 53,232
Diluted earnings per share	**$ 2.79**	$ 1.98

These pro forma amounts have been calculated after applying the Company s accounting policies and adjusting CDC s results to reflect the additional amortization that would have been recorded assuming the preliminary fair value of the identified intangibles had been recorded as of July 1, 2009. Also, the pro forma amounts reflect the acquisition-related costs incurred by the Company of approximately $1.1 million in 2011 as incurred in fiscal 2010.

(6) Goodwill and Other Identifiable Intangible Assets

In accordance with ASC 350, *Intangibles Goodwill and Others*, the Company performs its annual goodwill impairment test at the end of each fiscal year, or whenever indicators of impairment are present. This testing includes the determination of each reporting unit s fair value using market multiples and discounted cash flows modeling. These reporting units are also the Company s operating segments. During fiscal years 2011, 2010 and 2009, no impairment charges related to goodwill were recorded.

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Notes to Consolidated Financial Statements (Continued)

June 30, 2011

Changes in the carrying amount of goodwill for the years ended June 30, 2011 and 2010, by reporting segment, are as follows:

	00000000 **North American Distribution Segment**	00000000 **International Distribution Segment** ***(in thousands)***	00000000 **Total**
Balance as of June 30, 2009	$ 20,081	$ 14,006	$ 34,087
Goodwill acquired during 2010	-	712	712
Fluctuations in foreign currencies	-	(1,014)	(1,014)
Balance as of June 30, 2010	$ 20,081	$ 13,704	$ 33,785
Goodwill acquired during 2011	-	24,643	24,643
Fluctuations in foreign currencies	-	662	662
Balance as of June 30, 2011	**$ 20,081**	**$ 39,009**	**$ 59,090**

During the fiscal year ended June 30, 2011, the Company s goodwill balances increased due to the acquisition of CDC in April, 2011. The goodwill recognized in conjunction with the CDC acquisition is attributable to the depth and breadth of services that it can provide to South America s largest economy, its vast geographical reach beyond that of other distributors in Brazil and its large, specialty product mix that is atypical for the region. The Company expects all of the goodwill acquired with CDC to be deductible for Brazilian tax purposes. During the fiscal year ended June 30, 2010, the Company s goodwill balances increased due to the acquisition of Algol Europe in November 2009. All other changes in goodwill are due to fluctuations in foreign exchange rates on foreign currency denominated amounts.

The following table shows the Company s identifiable intangible assets as of June 30, 2011 and 2010, respectively. These balances are included on the Consolidated Balance Sheet within other assets:

	00000000	00000000 **June 30, 2011**	00000000	00000000	00000000 **June 30, 2010**	00000000
	Gross Carrying Amount	**Accumulated Amortization**	**Net Book Value**	**Gross Carrying Amount**	**Accumulated Amortization**	**Net Book Value**
			(in thousands)			
Amortized intangible assets:						
Customer relationships	**$ 34,515**	**$ 6,989**	**$ 27,526**	$ 20,083	$ 5,497	$ 14,586
Debt issue costs	**1,139**	**625**	**514**	885	427	458
Trade names	**2,743**	**286**	**2,457**	947	947	-
Non-compete agreements	**2,310**	**1,085**	**1,225**	2,987	2,112	875
Distributor agreement	**705**	**74**	**631**	598	23	575

Total	**$**	**41,412**	**$**	**9,059**	**$**	**32,353**	$	25,500	$	9,006	$	16,494

In fiscal 2011, the Company wrote off the gross carrying amount and corresponding accumulated amortization for fully amortized customer lists, non-compete agreements and trade names in the amounts of $0.3 million, $1.8 million and $1.0 million, respectively.

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Notes to Consolidated Financial Statements (Continued)

June 30, 2011

The weighted average amortization period for all intangible assets for the years ended June 30, 2011, 2010 and 2009 was approximately 10 years, 12 years, and 13 years, respectively. Amortization expense for the years ended June 30, 2011, 2010 and 2009 was $3.0 million, $2.0 million and $2.6 million, respectively. Estimated future amortization expense is as follows:

	Amortization expense *(in thousands)*
Year Ended June 30,	
2012	$ 5,743
2013	4,909
2014	3,509
2015	3,698
2016	3,676
Thereafter	10,818
	$ 32,353

(7) Short Term Borrowings and Long Term Debt

Short-Term Borrowings

The Company has a 6.0 million secured revolving credit facility which bears interest at the 30 day Euro Interbank Offered Rate (EURIBOR) plus a spread of 1.25 per annum. This facility is secured by the assets of our European operations and is guaranteed by Scan*Source*, Inc. The outstanding balances at June 30, 2011 and 2010 are as follows:

	000000 **June 30, 2011**	000000 **June 30, 2010**
	(in thousands)	
Short-term borrowings	$ 3,164	$ -

Revolving Credit Facility

On September 28, 2007, the Company entered into a $250 million multi-currency revolving credit facility with a syndicate of banks that matures on September 28, 2012. This revolving credit facility has a $50 million accordion feature that allows the Company to increase the availability to $300 million subject to obtaining commitments for the incremental capacity from existing or new lenders. The facility is guaranteed by the Company and its domestic subsidiaries and is secured by substantially all of the domestic assets of the Company and its domestic subsidiaries. The facility bears interest at a rate equal to a spread over the applicable London Interbank Offered Rate (LIBOR) or prime rate, as chosen by the Company. This spread is dependent on the Company s ratio of funded debt to EBITDA (as defined in the credit facility) and ranges from 0.50%

to 1.25% for LIBOR-based loans, and from 0.00% to 0.25% for prime rate-based loans. The spread in effect as of June 30, 2011 was 0.50% for LIBOR-based loans and 0.00% for prime rate-based loans. The agreement subjects the Company to certain financial covenants, including minimum fixed charge and leverage ratio covenants. The agreement also has certain restrictive covenants that, among other things, place limitations on the payment of cash dividends. In October 2009, it was determined that the Company was not in compliance with a specific intercompany loan covenant within the agreement since June 30, 2008. This default was due to a technical misunderstanding of the underlying legal agreement which was immediately waived and the agreement amended to allow for such transactions in the future. The Company determined that revisions to prior period financial statements were not necessary. The Company was in compliance with all covenants under the credit facility as of June 30, 2011. The outstanding balances at June 30, 2011 and 2010 are as follows:

	June 30, 2011	**June 30, 2010**
	(in thousands)	
Revolving credit facility	$ 26,513	$ -

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Notes to Consolidated Financial Statements (Continued)

June 30, 2011

Throughout the year ended June 30, 2011, the Company borrowed $769.5 million on the revolving credit facility. The Company repaid $743.9 million. Net cash flows on the revolving credit facility for the year-to-date period were $25.6 million. The $0.9 million difference between the net cash flows and the $26.5 million ending balance is due to translating euro borrowings and repayments at the average exchange rate each month and the ending euro balance at the period ending spot rate. The average daily balance on the revolving credit facility was $14.2 million for the year ended June 30, 2011. There was $223.5 million available for additional borrowings as of June 30, 2011, and there were no letters of credit issued.

For the year ended June 30, 2010, the Company borrowed $141.9 million on the revolving credit facility. The Company repaid $141.9 million. Net cash flows for the year-to-date period netted to zero. The average daily balance on the revolving credit facility was $1.4 million for the year ended June 30, 2010. There was $250.0 million available for additional borrowings as of June 30, 2010, and there were no letters of credit issued.

Long-Term Debt

On August 1, 2007, the Company entered into an agreement with the State of Mississippi in order to provide financing for the acquisition and installation of certain equipment to be utilized at the Company s current Southaven, Mississippi distribution facility, through the issuance of an industrial development revenue bond. The bond matures on September 1, 2032 and accrues interest at the 30-day LIBOR rate plus a spread of 0.85%. The terms of the bond allow for payment of interest only for the first 10 years of the agreement, and then, starting on September 1, 2018 through 2032, principal and interest payments are due until the maturity date or the redemption of the bond. As of June 30, 2011, the Company was in compliance with all covenants under this bond.

On January 2, 2008, the Company entered into a $25 million promissory note with a third party lender. This note payable accrues interest on the unpaid balance at a rate per annum equal to the 30-day LIBOR plus 0.65% and matures on September 28, 2012. The terms of the note payable allow for payments to be due and payable in consecutive monthly payment terms of accrued interest only, commencing on January 31, 2008, and continuing on the last day of each month thereafter until the principal balance is fully re-paid. This note may be prepaid in whole or in part at any time without penalty. Under the terms of this agreement, the Company has agreed not to encumber its headquarters property, except as permitted by the lender. As of June 30, 2011, the Company was in compliance with all covenants under this note payable.

The balances on the bond and promissory note as of June 30, 2011 and 2010 are as follows:

	0000000 **June 30, 2011**	0000000 **June 30, 2010**
	(in thousands)	
Industrial Development Revenue Bond, monthly payments of interest only, 1.0% variable interest rate at June 30, 2011 and maturing on September 1, 2032	$ 5,429	$ 5,429
Unsecured note payable to a bank, monthly payments of interest only, 0.84% variable interest rate at June 30, 2011 and maturing on September 28, 2012 (see Note 8)	25,000	25,000
	30,429	30,429
Less current portion	-	-
Long-term portion	$ 30,429	$ 30,429

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Notes to Consolidated Financial Statements (Continued)

June 30, 2011

The book value of debt listed above is considered to approximate fair value, as our debt instruments are indexed to LIBOR or the prime rate using the market approach.

Scheduled maturities of the Company s revolving credit facility and long-term debt at June 30, 2011 are as follows:

		Long-Term Debt *(in thousands)*
Fiscal year:		
2012	$	3,164
2013		51,513
2014		-
2015		-
2016		-
Thereafter		5,429
Total principal payments	$	60,106

(8) Derivatives and Hedging Activities

The Company s results of operations could be materially impacted by significant changes in foreign currency exchange rates and interest rates. These risks and the management of these risks are discussed in greater detail below. In an effort to manage the exposure to these risks, the Company periodically enters into various derivative instruments. The Company s accounting policies for these instruments are based on whether the instruments are designated as hedge or non-hedge instruments in accordance with generally accepted accounting principles in the United States. The Company records all derivatives on the balance sheet at fair value. Derivatives that are not designated as hedging instruments or the ineffective portions of cash flow hedges are adjusted to fair value through earnings in other income and expense.

Foreign Currency the Company conducts a portion of its business internationally in a variety of foreign currencies. The exposure to market risk for changes in foreign currency exchange rates arises from foreign currency denominated assets and liabilities, and transactions arising from non-functional currency financing or trading activities. The Company s objective is to preserve the economic value of non-functional currency denominated cash flows. The Company attempts to hedge transaction exposures with natural offsets to the fullest extent possible and, once these opportunities have been exhausted, through forward contracts or other hedging instruments with third parties. At June 30, 2011, the Company had contracts outstanding with notional amounts of $76.8 million to exchange foreign currencies, including the US Dollar, Euro, British Pound, Canadian Dollar, and Mexican Peso. To date, the Company has chosen not to designate these derivatives as hedging instruments, and accordingly, these instruments are adjusted to fair value through earnings in other income and expense. Summarized financial information related to these derivative contracts and changes in the underlying value of the foreign currency exposures are as follows:

	0000000000	0000000000	0000000000
	Fiscal Year Ended June 30,		

	2011	2010	2009
		(in thousands)	
Net foreign exchange derivative contract (loss) gain	**$ (2,706)**	$ (1,065)	$ 5,147
Net foreign currency transactional and remeasurement gain (loss)	**$ 1,741**	$ 826	$ (6,734)
Net foreign currency transactional and remeasurement (loss)	**$ (965)**	$ (239)	$ (1,587)

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June 30, 2011

Interest Rates the Company s earnings are also affected by changes in interest rates due to the impact those changes have on interest expense from floating rate debt instruments. To manage the exposure to interest rates, the Company may enter into interest rate swap agreements. In January 2008, the Company entered into an interest rate swap agreement to hedge the variability in future cash flows of interest payments related to the $25 million promissory note payable discussed in Note 7. Interest rate differentials paid or received under the swap agreement are recognized as adjustments to interest expense. To the extent the swap is effective in offsetting the variability of the hedged cash flows, changes in the fair value of the swap are not included in current earnings but are reported as other comprehensive income (loss). The fair value of the swap was a liability of $0.2 million as of June 30, 2011. To date, there has not been any ineffectiveness associated with this instrument, and there are no other swap agreements outstanding.

The components of the cash flow hedge included in accumulated other comprehensive income (loss), net of income taxes, in the Consolidated Statements of Shareholders Equity, are as follows:

	$(276)	**$(276)**
	Fiscal Year Ended June 30,	
	2011	**2010**
	(in thousands)	
Net interest expense recognized as a result of interest rate swap	**$ 859**	$ 859
Unrealized gain (loss) in fair value of interest swap rates	**(119)**	(626)
Net increase (decrease) in accumulated other comprehensive income (loss)	**$ 740**	$ 233
Income tax effect	**(272)**	(85)
Net increase (decrease) in accumulated other comprehensive income (loss), net of tax	**$ 468**	$ 148

The Company has the following derivative instruments located on the Consolidated Balance Sheets and Income Statements, utilized for the risk management purposes detailed above:

	As of June 30, 2011	
	Fair Value of Derivatives Designated as Hedge Instruments	**Fair Value of Derivatives Not Designated as Hedge Instruments**
	(in thousands)	
Derivative assets[(a)]:		
Foreign exchange contracts	$ -	$ 165
Derivative liabilities[(b)]:		
Foreign exchange contracts	$ -	$ (236)
Interest rate swap agreement	$ (215)	$ -

(a) All derivative assets are recorded as prepaid expense and other assets in the Consolidated Balance Sheets.
(b) All derivative liabilities are recorded as accrued expenses and other liabilities in the Consolidated Balance Sheets.

(9) Fair Value of Financial Instruments

The Company s financial assets and liabilities measured at fair value are required to be grouped in one of three levels. The levels prioritize the inputs used to measure the fair value of the assets or liabilities. These levels are:

Level 1 Unadjusted quoted prices in active markets that are accessible at the measurement date for identical, unrestricted assets or liabilities;

Level 2 Quoted prices in markets that are not active, or inputs which are observable, either directly or indirectly, for substantially the full term of the asset or liability;

Level 3 Prices or valuation techniques that require inputs that are both significant to the fair value measurement and unobservable (i.e. supported by little or no market activity).

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SCAN*SOURCE*, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements (Continued)

June 30, 2011

The following table summarizes the valuation of the Company s short-term investments and financial instruments by the above categories as of June 30, 2011:

	unobservable **Total**	unobservable **Quoted prices in active markets (Level 1)**	unobservable **Significant other observable inputs (Level 2)**	unobservable **Significant unobservable inputs (Level 3)**
		(in thousands)		
Assets:				
Deferred compensation plan investments[(1)]	$ 12,926	$ 12,926	$ -	$ -
Total assets at fair value	$ 12,926	$ 12,926	$ -	$ -
Liabilities:				
Derivative instruments[(2)]				
Forward foreign currency exchange contracts	$ 71	-	$ 71	$ -
Interest rate swap liability	215	-	215	-
Liability for contingent consideration, current and non-current	23,794	-	-	23,794
Total liabilities at fair value	$ 24,080	$ -	$ 286	$ 23,794

(1) These investments are held in a rabbi trust and include mutual funds and cash equivalents for payment of certain non-qualified benefits for certain retired, terminated and active employees. as well as the Founder s SERP. As of June 30, 2011, approximately $3.1 million was considered current.

(2) See Note 8, Derivatives and Hedging Activities .

The Company s foreign currency forward contracts are measured using the market approach on a recurring basis considering foreign currency spot rates and forward rates quoted by banks or foreign currency dealers (Level 2 criteria).

The Company s interest rate swap contract is measured using the market approach on a recurring basis considering LIBOR forward rates quoted by the Company s counter-party (Level 2 criteria).

The Company recorded a contingent consideration liability at the acquisition date representing the amounts payable to former CDC shareholders, as outlined under the terms of the Share Purchase and Sale Agreement, based upon the achievement of projected earnings, net of specific pro forma adjustments. As the Company is still finalizing the valuation process, the fair value of the liability recorded at the acquisition date is subject to change with the corresponding change to goodwill. The fair value of this Level 3 liability is estimated using a probability-weighted discounted cash flow analysis. Subsequent changes in the fair value of these contingent consideration liabilities are recorded to the selling, general and administrative expenses line item in the Consolidated Income Statement. The Company remeasured the fair value at June 30, 2011. The change in fair value is driven primarily by changes to the discounted cash flow analysis as actual results for the first

twelve month earnout period varied from the initial projections, partially offset by normal lapse of time in the discount period. Refer to Note 5 for further details.

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The table below provides a summary of the changes in fair value of the Company s only financial asset or liability, the contingent consideration for the CDC earnout that is measured at fair value on a recurring basis using significant unobservable inputs (Level 3) for the year ended June 30, 2011:

	Contingent Consideration for the Year Ended June 30, 2011 *(in thousands)*
Fair value at beginning of period	$ -
Issuance of contingent consideration	23,952
Change in valuation	(128)
Fluctuation due to foreign currency exchange	(30)
Fair value at end of period	$ 23,794

There were no Level 3 assets or liabilities in the prior fiscal year.

(10) Share-Based Compensation

Share-Based Compensation Plans

The Company has awards outstanding from four share-based compensation plans (the 1993 Incentive Stock Option Plan, the 1997 Stock Incentive Plan, the 2002 Long-Term Incentive Plan, and the 2003 Director Plan), two of which (the 2002 Long-Term Incentive Plan and the 2003 Director Plan) are available for future grants. As of June 30, 2011, there were 2,073,794 and 100,100 shares available for future grant under the 2002 Long-Term Incentive Plan and the 2003 Director Plan, respectively. All of the Company s share-based compensation plans are shareholder approved, and it is the Company s belief that such awards better align the interests of its employees and directors with those of its shareholders. Under the plans, the Company is authorized to award officers, employees, and non-employee members of the Board of Directors various share-based payment awards, including options to purchase common stock and restricted stock. Restricted stock can be in the form of a restricted stock award (RSA) or a restricted stock unit (RSU). An RSA is common stock that is subject to risk of forfeiture or other restrictions that lapse upon satisfaction of specified conditions. RSUs represent the right to receive shares of common stock in the future with the right to future delivery of the shares subject to risk of forfeiture or other restrictions that lapse upon satisfaction of specified conditions.

The Company accounts for its share-based compensation awards in accordance with ASC 718 *Stock Compensation*. This standard requires all share-based compensation to be recognized in the income statement based on fair value and applies to all awards granted, modified, cancelled, or repurchased after the effective date. Total share-based compensation included as a component of selling, general, and administrative expense in our Consolidated Income Statements was as follows:

	Fiscal Year Ended June 30,		
	2011	2010	2009
		(in thousands)	
Share-based compensation related to:			
Equity classified stock options	$ 1,771	$ 4,698	$ 4,168
Equity classified restricted stock	3,106	1,367	570
Total share-based compensation	$ 4,877	$ 6,065	$ 4,738

Stock Options

During the fiscal year ended June 30, 2011, the Company granted 165,000 stock options to certain employees. These options vest annually over 3 years and have a 10-year contractual life. In accordance with the requirements of the Company s Equity Award Grant Policy, the options issued during the fiscal year were granted with an exercise price that is no less than 100% of the fair market value of those shares on the date of the grant.

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Notes to Consolidated Financial Statements (Continued)

June 30, 2011

The fair value of each option (for purposes of calculation of share-based compensation) was estimated on the date of grant using the Black-Scholes-Merton option pricing formula that uses assumptions determined at the date of grant. Use of this option pricing model requires the input of subjective assumptions. These assumptions include estimating the length of time employees will retain their vested stock options before exercising them (expected term), the estimated volatility of our common stock price over the expected term (expected volatility) and the number of options that will ultimately not complete their vesting requirements (forfeitures). Changes in the subjective assumptions can materially affect the estimate of the fair value of share-based compensation and, consequently, the related amount recognized in the Consolidated Income Statements.

The Company used the following weighted average assumptions for the options granted during the following fiscal years:

	Fiscal Year Ended June 30,		
	2011	**2010**	**2009**
Expected term	**6.88 years**	6.82 years	5.12 years
Expected volatility	**42.92%**	46.27%	45.73%
Risk-free interest rate	**2.56%**	2.89%	1.67%
Dividend yield	**0.00%**	0.00%	0.00%
Weighted average fair value per option	**$ 17.21**	$ 12.43	$ 7.49

The weighted average expected term of the options represents the period of time the options are expected to be outstanding based on historical trends and behaviors of certain groups and individuals receiving these awards. The expected volatility is predominately based on the historical volatility of our common stock for a period approximating the expected life. The risk-free interest rate reflects the interest rate at grant date on zero-coupon U.S. governmental bonds that have a remaining life similar to the expected option term. The dividend yield assumption was based on our dividend payment history and expectations of future dividend payments.

A summary of our stock option plans is presented below:

	$14,731,784	$14,731,784	$14,731,784	$14,731,784
	Fiscal Year Ended June 30, 2011			
	Options	**Weighted-Average Exercise Price**	**Weighted-Average Remaining Contractual Life**	**Aggregate Intrinsic Value**
Outstanding, beginning of year	2,198,900	$ 25.58		
Granted during the period	165,000	36.11		
Exercised during the period	(362,805)	19.36		
Cancelled, forfeited, or expired during the period	(31,618)	32.89		
Outstanding, end of year	1,969,477	27.47	6.10	$ 19,712,906
Vested and expected to vest at June 30, 2011	1,968,468	27.47	6.10	$ 19,701,875

Exercisable, end of year	1,524,467	$	27.82	5.38	$ 14,731,784

The aggregate intrinsic value was calculated using the market price of our stock on June 30, 2011 and the exercise price for only those options that have an exercise price that is less than the market price of our stock. This amount will change as the market price per share changes. The aggregate intrinsic value of options exercised during the fiscal years ended June 30, 2011, 2010, and 2009 was $5.2 million, $1.6 million, and $2.4 million.

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SCAN*SOURCE*, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements (Continued)

June 30, 2011

A summary of the status of the Company s unvested shares is presented below:

	Fiscal Year Ended June 30, 2011		
	Options	Weighted Average Exercise Price	Weighted Average Grant Date Fair-Value
Unvested, beginning of year	622,307	$ 22.98	$ 9.79
Granted	165,000	36.11	17.21
Vested	(339,262)	25.06	10.20
Cancelled or forfeited	(3,035)	19.96	6.28
Unvested, end of year	445,010	$ 26.29	$ 12.25

As of June 30, 2011 there were approximately $4.1 million of total unrecognized compensation cost related to non-vested share-based compensation arrangements granted under the plans. The cost is expected to be recognized over a weighted-average period of 1 year. The total fair value of shares vested during the fiscal years ended June 30, 2011, 2010, and 2009 is $3.5 million, $4.3 million and $3.6 million, respectively. The following table summarizes information about stock options outstanding and exercisable as of June 30, 2011:

	Options Outstanding			Options Exercisable	
Range of Exercise Prices	Shares Outstanding	Weighted Average Remaining Contractual Life	Weighted Average Exercise Price	Number Exercisable	Weighted Average Exercise Price
$ 0.00 - $ 3.67	-	-	$ -	-	$ -
$ 3.67 - $ 7.34	-	-	$ -	-	$ -
$ 7.34 - $11.01	18,752	0.43	$ 10.62	18,752	$ 10.62
$11.01 - $14.68	97,026	1.27	$ 12.86	97,026	$ 12.86
$14.68 - $18.35	481,871	7.04	$ 18.03	305,481	$ 17.97
$18.35 - $22.01	18,800	2.43	$ 21.58	18,800	$ 21.58
$22.01 - $25.68	200,850	7.14	$ 24.52	97,230	$ 24.53
$25.68 - $29.35	83,000	4.52	$ 27.48	83,000	$ 27.48
$29.35 - $33.02	449,908	5.52	$ 31.35	449,908	$ 31.35
$33.02 - $36.69	619,270	6.71	$ 35.93	454,270	$ 35.86
	1,969,477	6.10	$ 27.47	1,524,467	$ 27.82

The Company issues shares to satisfy the exercise of options.

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Restricted Stock

Grants of Restricted Shares

During the fiscal year ended June 30, 2011, the Company elected to grant 144,968 shares of restricted stock to employees and non-employee directors, of which 6,000 of these shares were issued in the form of RSU s:

	Fiscal Year Ended June 30, 2011				
	Shares granted	**Date granted**	**Grant date fair value**		**Vesting period**
Employees					
Certain employees based on promotions	2,200	August 24, 2010	$	24.77	Annually over 3 years
Certain employees	89,760	December 3, 2010	$	31.13	Annually over 3 years
Certain employees	30,040	May 4, 2011	$	36.17	Annually over 3 years
Executive officers, vesting based on certain service and performance conditions	12,268	June 6, 2011	$	35.05	Annually over 3 years
Non-Employee Directors (1)	10,700	May 4, 2011	$	36.17	6 months

(1) Per the Amended and Restated Director s Equity Compensation Plan, non-employee directors will receive annual awards of restricted stock, as opposed to stock options. The number of shares of restricted stock to be granted will be established from time to time by the Board of Directors. Currently, the number of shares of restricted stock awarded to each non-employee director will be determined by dividing $80,000 by the fair market value of the common stock on the date of grant. These awards will generally vest in full on the day that is six months after the date of grant or upon the earlier occurrence of (i) the director s termination of service as a director by reason of death, disability or retirement, or (ii) a change in control by the Company. The compensation expense associated with these awards will be recognized on a pro-rata basis over this period.

A summary of the status of the Company s outstanding restricted stock is presented below:

	Fiscal Year Ended June 30, 2011		
	Shares		**Weighted Average Grant Date Fair-Value**
Outstanding, beginning of year	172,288	$	23.33
Granted during the period	144,968		32.78
Vested during the period	(69,452)		23.02
Cancelled, forfeited, or expired during the period	(6,719)		26.06
Outstanding, end of year	241,085	$	23.13

As of June 30, 2011, there was approximately $5.6 million of unrecognized compensation cost related to unvested restricted stock awards granted, which is expected to be recognized over a weighted average period of 2.04 years.

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Notes to Consolidated Financial Statements (Continued)

June 30, 2011

(11) Employee Benefit Plans

The Company has a defined contribution plan under Section 401(k) of the Internal Revenue Code of 1986, as amended that covers all employees located in the United States meeting certain eligibility requirements. The Company provided a matching contribution for each period which was equal to one-half of each participant s contribution, up to a maximum matching contribution per participant of $800. The Company determines its matching contributions annually and can make discretionary contributions in addition to matching contributions. Employer contributions are vested based upon tenure over a five-year period.

	00000000	00000000	00000000
	Fiscal Year Ended June 30,		
	2011	**2010**	**2009**
		(in thousands)	
Matching contributions	**$ 419**	$ 395	$ 419
Discretionary contributions	**5,952**	3,200	4,400
Total contributions	**$ 6,371**	$ 3,595	$ 4,819

Internationally, the Company contributes to either plans required by local governments or to various employee annuity plans. Additionally, the Company maintains a non-qualified, unfunded, deferred compensation plan that allows eligible executives to defer a portion of their compensation in addition to receiving discretionary matching contributions from the Company. Employer contributions are vested over a five-year period

In March 2011, the Company made a $2.4 million contribution to the Founder s SERP for the Company s founder and former Chief Executive Officer who retired in March 2011. The SERP investments are included within the deferred compensation plan investments referenced in Note 9.

(12) Income Taxes

Income tax expense (benefit) consists of:

	00000000	00000000	00000000
	Fiscal Year Ended June 30,		
	2011	**2010**	**2009**
		(in thousands)	
Current:			
Federal	**$ 34,782**	$ 27,749	$ 20,444
State	**248**	1,104	(314)
Foreign	**5,008**	2,922	5,626
Total current	**40,038**	31,775	25,756

Deferred:			
Federal	**(168)**	(4,410)	2,253
State	**(9)**	(323)	191
Foreign	**(1,498)**	(113)	(234)
Total deferred	**(1,675)**	(4,846)	2,210
Provision for income taxes	**$ 38,363**	$ 26,929	$ 27,966

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SCAN*SOURCE*, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements (Continued)

June 30, 2011

A reconciliation of the U.S. Federal income tax expense at a statutory rate of 35% to actual income tax expense, excluding any other taxes related to extraordinary gain is as follows:

	00000000	00000000	00000000
	Fiscal Year Ended June 30,		
	2011	**2010**	**2009**
		(in thousands)	
U.S. Federal income tax at statutory rate	**$ 39,160**	$ 26,509	$ 26,479
Increase (decrease) in income taxes due to:			
State and local income taxes, net of Federal benefit	**625**	935	(81)
Tax credits	**(312)**	(633)	(175)
Valuation allowance	**(195)**	(128)	21
Effect of foreign operations, net	**(2,054)**	(1,342)	(162)
Stock compensation	**239**	580	548
Other	**900**	1,008	1,336
Provision for income taxes	**$ 38,363**	$ 26,929	$ 27,966

The tax effects of temporary differences that give rise to significant portions of the deferred tax assets and liabilities are presented below:

	00000000	00000000
	June 30,	
	2011	**2010**
	(in thousands)	
Deferred tax assets derived from:		
Allowance for accounts receivable	**$ 2,857**	$ 4,164
Inventories	**11,310**	7,891
Nondeductible accrued expenses	**2,204**	974
Net operating loss carryforwards	**452**	290
Tax credits	**241**	643
Deferred compensation	**4,822**	3,132
Stock compensation	**2,868**	4,857
Total deferred tax assets	**24,754**	21,951
Valuation allowance	**(517)**	(712)
Total deferred tax assets	**24,237**	21,239
Deferred tax liabilities derived from:		
Timing of amortization deduction from intangible assets	**(2,717)**	(2,317)
Timing of depreciation and other deductions for building and equipment	**(238)**	(459)

Total deferred tax liabilities	**(2,955)**	(2,776)
Net deferred tax assets	**$ 21,282**	$ 18,463

The components of pretax earnings are as follows:

	0000000000	0000000000	0000000000
	Fiscal Year Ended June 30,		
	2011	**2010**	**2009**
		(in thousands)	
Domestic	**$ 96,436**	$ 65,566	$ 59,957
Foreign	**15,450**	10,175	15,697
Worldwide pretax earnings	**$ 111,886**	$ 75,741	$ 75,654

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SCAN*SOURCE*, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements (Continued)

June 30, 2011

At June 30, 2011, the Company has: (i) gross net operating loss carry forwards of approximately $0.1 million for U.S. Federal income tax purposes that will begin to expire in 2020; (ii) gross net operating loss carry forwards of approximately $0.9 million for state income tax purposes, (iii) foreign gross net operating loss carry forwards of approximately $1.2 million and (iv) state income tax credit carry forwards of approximately $0.1 million that will begin to expire in 2025. As of June 30, 2011, the Company has established a full valuation reserve against the foreign net operating loss carry forwards, and, for both periods, a valuation allowance of less than $0.1 million for state net operating losses where it was determined that, in accordance with ASC 740, it is more likely than not that they cannot be utilized.

The Company has not provided U.S. income taxes for undistributed earnings of foreign subsidiaries that are considered to be retained indefinitely for reinvestment. The distribution of these earnings would result in additional foreign withholding taxes and additional U.S. federal income taxes to the extent they are not offset by foreign tax credits. It has been the practice of the Company to reinvest those earnings in the business outside the United States. These undistributed earnings amounted to approximately $57.2 million at June 30, 2011. If these earnings were remitted to the U.S. they would be subject to income tax. The tax, after foreign tax credits, is estimated to be approximately $8.2 million.

As of June 30, 2011, the Company had gross unrecognized tax benefits of $2.1 million, $1.8 million of which, if recognized, would affect the effective tax rate. This reflects no change on a net basis over the prior fiscal year. The Company does not expect that the total amounts of unrecognized tax benefits will significantly increase or decrease within the next twelve months.

A reconciliation of the beginning and ending amount of unrecognized tax benefits is as follows:

	0000000000 **2011**	0000000000 **2010**	0000000000 **2009**
		(in thousands)	
Beginning Balance	**$ 2,257**	$ 2,309	$ 1,976
Additions based on tax positions related to the current year	**252**	-	173
Additions for tax positions of prior years	**155**	307	182
Reduction for tax positions of prior years	**(559)**	(359)	(22)
Settlements	**-**	-	-
Ending Balance	**$ 2,105**	$ 2,257	$ 2,309

The Company conducts business globally and, as a result, one or more of its subsidiaries files income tax returns in the U.S. federal, various state, local and foreign jurisdictions. In the normal course of business, the Company is subject to examination by taxing authorities in countries in which it operates. With few exceptions, the Company is no longer subject to state and local, or non-U.S. income tax examinations by tax authorities for the years before 2007.

The Company s continuing practice is to recognize interest and penalties related to income tax matters in income tax expense. As of June 30, 2011, the Company had approximately $0.9 million accrued for interest and penalties, of which $0.2 million was a current period expense.

(13) Commitments and Contingencies

Leases

The Company leases office and warehouse space under non-cancelable operating leases that expire through September 2017. Lease expense and future minimum lease payments under operating leases are as follows:

	00000000	00000000	00000000
	Fiscal Year Ended June 30,		
	2011	**2010**	**2009**
	(in thousands)		
Lease expense	**$ 4,989**	$ 4,430	$ 4,400

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SCAN*SOURCE*, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements (Continued)

June 30, 2011

	00000000 **Payments** ***(in thousands)***
Fiscal Year Ended June 30,	
2012	$ 4,816
2013	4,043
2014	3,268
2015	2,459
2016	2,278
Thereafter	2,525
Total future minimum lease payments	$ 19,389

On April 27, 2007, the Company entered into an agreement to lease approximately 600,000 square feet for distribution, warehousing and storage purposes in a building located in Southaven, Mississippi. The lease also provides for a right of first refusal on an additional 147,000 square feet of expansion space. The term of the lease is 120 months with 2 consecutive 5-year extension options.

Commitments and Contingencies

A majority of the Company s net revenues in 2011, 2010 and 2009 were received from the sale of products purchased from the Company s ten largest vendors. The Company has entered into written distribution agreements with substantially all of its major vendors. While the Company s agreements with most of its vendors contain standard provisions for periodic renewals, these agreements generally permit termination by either party without cause upon 30 to 120 days notice.

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

In fiscal 2010, the Company began devoting resources to the implementation of a global ERP system. The Company has spent approximately $18.5 million on implementation of the new ERP system as of June 30, 2011. The expected cash flow impact of this project will be in the range of $8 to $15 million in fiscal 2012 and $4 to $5 million in fiscal 2013. The Company expects total expense for the project to be within $30.5 to $38.5 million, which includes cost of internal personnel and outside consultants. These costs will be financed using cash flow from operations and the revolving credit facility.

(14) Segment Information

The Company is a leading distributor of specialty technology products, providing value-added distribution sales to resellers in the specialty technology markets. The Company has two reporting segments, based on geographic location.

North American Distribution

North American Distribution offers products for sale in four primary categories: (i) AIDC and POS equipment sold by the Scan*Source* POS and Barcoding sales unit, (ii) voice, data and converged communications equipment sold by the Catalyst *Telecom* sales unit, (iii) video conferencing, telephony, and communications products sold by the Scan*Source* Communications unit, (iv) electronic security products and wireless

infrastructure products through the Scan*Source* Security Distribution sales unit. These products are sold to more than 14,000 resellers and integrators of technology products that are geographically dispersed over the United States and Canada in a pattern that mirrors population concentration. No single account represented more than 5% of the Company s consolidated net sales for the fiscal years ended June 30, 2011, 2010, and 2009, respectively.

International Distribution

The international distribution segment sells to two geographic areas, Latin America aggregated with Europe, offers AIDC and POS equipment as well as communications products to more than 16,000 resellers and integrators of technology products. Additionally, the Company offers security products in Latin America. Of this segment s customers, no single account represented more than 2% of the Company s consolidated net sales during the fiscal years ended June 30, 2011, 2010, and 2009, respectively.

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Inter-segment sales consist primarily of sales by the North American distribution segment to the international distribution segment. All inter-segment revenues and profits have been eliminated in the accompanying Consolidated Financial Statements.

Selected financial information for each business segment is presented below:

	0000000000	0000000000	0000000000
	Fiscal Year Ended June 30,		
	2011	**2010**	**2009**
		(in thousands)	
Sales:			
North American distribution	**$ 2,048,767**	$ 1,688,663	$ 1,527,656
International distribution	**643,863**	448,967	347,825
Less intersegment sales	**(26,099)**	(22,651)	(27,512)
	$ 2,666,531	$ 2,114,979	$ 1,847,969
Depreciation and amortization:			
North American distribution	**$ 4,246**	$ 4,730	$ 5,833
International distribution	**2,416**	1,334	948
	$ 6,662	$ 6,064	$ 6,781
Operating income:			
North American distribution	**$ 90,406**	$ 64,342	$ 56,261
International distribution	**22,703**	11,434	17,857
	$ 113,109	$ 75,776	$ 74,118
Assets:			
North American distribution	**$ 958,825**	$ 784,559	$ 689,865
International distribution	**223,362**	75,191	58,766
	$ 1,182,188	$ 859,750	$ 748,631
Capital expenditures:			
North American distribution	**$ 14,366**	$ 5,344	$ 3,513
International distribution	**503**	262	142
	$ 14,869	$ 5,606	$ 3,655

Selected financial information by product category is presented below:

	0000000000	0000000000	0000000000
	Fiscal Year Ended June 30,		
	2011	**2010**	**2009**
		(in thousands)	
Sales by Product Category:			
POS, barcoding and security products	**$ 1,615,461**	$ 1,300,525	$ 1,161,956

Communication products	**1,051,070**	814,454	686,013
	$ 2,666,531	$ 2,114,979	$ 1,847,969

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SCAN*SOURCE*, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements (Continued)

June 30, 2011

(15) Accumulated Other Comprehensive Income

The components of accumulated other comprehensive income, net of tax, are as follows:

	00000000 **2011**	00000000 **2010**	00000000 **2009**
		(in thousands)	
Currency translation adjustment	**$ 3,768**	$ (11,127)	$ 3,918
Unrealized gain (loss) on fair value of interest rate swap	**(139)**	(607)	(755)
Accumulated other comprehensive income	**3,629**	(11,734)	3,163

(16) Related Party Transactions

During fiscal years 2011, 2010, and 2009, the Company had sales of $5.1 million, $3.7 million, and $3.2 million, respectively, to companies affiliated with the former minority shareholder of Netpoint, the legacy company of ScanSource LatinAmerica s Miami based operations. At June 30, 2011 and 2010, accounts receivable from these companies totaled $1.2 million and $0.7 million, respectively.

During fiscal year 2009, the Company had sales of $9.0 million to a company affiliated with a former member of management. There has been no sales activity since fiscal 2009. There were no accounts receivable from this company at June 30, 2011 and 2010, respectively.

During fiscal year 2011, the Company had sales of $0.2 million to companies affiliated with a former shareholder of CDC in Brazil. As of June 30, 2011, accounts receivable from these customers were less than $0.1 million.

During fiscal 2011, the Company had purchases of $0.4 million of a vendor affiliated with the former CEO and current member on the Board of Directors. At June 30, 2011, accounts payable to this vendor was $0.1 million.

(17) Subsequent Events

In accordance with ASC 855 *Subsequent Events*, the Company evaluated events occurring between from the end of the most recent fiscal year through the date the financial statements were filed with the SEC.

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

ITEM 9A. Controls and Procedures.
(a) Evaluation of Disclosure Controls and Procedures

We maintain disclosure controls and procedures, as such term is defined in Rule 13a-15(e) under the Securities Exchange Act of 1934 (the Exchange Act), that are designed to ensure that information required to be disclosed by us in reports that we file or submit under the Exchange Act is recorded, processed, summarized, and reported within the time periods specified in Securities and Exchange Commission rules and forms, and that such information is accumulated and communicated to our management, including our Chief Executive Officer and Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosure. In designing and evaluating our disclosure controls and procedures, management recognized that disclosure controls and procedures, no matter how well conceived and operated, can provide only reasonable, not absolute, assurance that the objectives of the disclosure controls and procedures are met. Additionally, in designing disclosure controls and procedures, our management necessarily was required to apply judgment in evaluating the cost-benefit relationship of those disclosure controls and procedures. The design of any disclosure controls and procedures also is based in part upon certain assumptions about the likelihood of future events, and there can be no assurance that any design will succeed in achieving its stated goals under all potential future conditions. Our disclosure controls and procedures are designed to provide reasonable assurance that the controls and procedures will meet their objectives.

Based on their evaluation as of the end of the period covered by this Annual Report on Form 10-K, our Chief Executive Officer and Chief Financial Officer have concluded that our disclosure controls and procedures, as of June 30, 2011, were effective in providing reasonable assurance that the objectives of the disclosure controls and procedures are met.

(b) Management s Report on Internal Control over Financial Reporting

Our management is responsible for establishing and maintaining adequate internal control over financial reporting as defined in Rule 13a-15(f) of the Exchange Act. Because of its inherent limitations, internal control over financial reporting may not prevent or detect all misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

We assessed the effectiveness of the Company s internal control over financial reporting as of June 30, 2011. In making this assessment, we used the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) in *Internal Control Integrated Framework*. Based on its assessment using those criteria, our management concluded that our internal control over financial reporting was effective as of June 30, 2011.

Management s assessment of the effectiveness of the Company s internal control over financial reporting as of June 30, 2011 excluded CDC Brasil, S.A. (CDC), which was acquired by the Company on April 15, 2011. CDC constituted 10.1% and 3.1% of total and net assets, respectively, as of June 30, 2011 and 1.1% and 0.9% of revenues and net income, respectively, for the year then ended. Companies are allowed to exclude acquisitions from their assessment of internal control over financial reporting during the first year of an acquisition while integrating the acquired company under guidelines established by the Securities and Exchange Commission.

The effectiveness of our internal control over financial reporting as of June 30, 2011 has been audited by Ernst & Young, LLP, an independent registered public accounting firm, as stated in their Report of Independent Registered Certified Public Accounting Firm on Internal Control Over Financial Reporting which is included with the Financial Statements in Part II, Item 8 of this Annual Report on Form 10-K and is incorporated herein by reference.

(c) Changes in Internal Control over Financial Reporting

There were no changes in our internal control over financial reporting that occurred during the fiscal year ended June 30, 2011 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

ITEM 9B. Other Information.

Not applicable.

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PART III

Information called for by Part III (Items 10, 11, 12, 13 and 14) of this Annual Report on Form 10-K has been omitted as the Company intends to file with the SEC not later than 120 days after the end of its fiscal year ended June 30, 2011, a definitive Proxy Statement relating to the 2011 Annual Meeting of Shareholders pursuant to Regulation 14A promulgated under the Exchange Act. Such information will be set forth in such Proxy Statement and is incorporated herein by reference.

ITEM 10. Directors, Executive Officers and Corporate Governance.

Incorporated herein by reference to the information presented under the headings *Board of Directors and Executive Officers, Corporate Governance Matters Section 16(a) Beneficial Reporting Compliance, Corporate Governance Matters Code of Ethics, Corporate Governance Matters Independent Directors, and Corporate Governance Matters Board Meetings and Committees Audit Committee,* in the Company s 2011 Proxy Statement, which will be filed with the SEC not later than 120 days after June 30, 2011.

ITEM 11. Executive Compensation.

Incorporated herein by reference to the information presented under the headings *Executive Compensation, Corporate Governance Matters Compensation Committee Interlocks and Insider Participation,* and *Compensation Committee Report* in the Company s 2011 Proxy Statement, which will be filed with the SEC not later than 120 days after June 30, 2011.

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

Incorporated herein by reference to the information presented under the headings *Equity Compensation Plan Information* and *Security Ownership of Certain Beneficial Owners and Management* in the Company s 2011 Proxy Statement, which will be filed with the SEC not later than 120 days after June 30, 2011.

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

Incorporated herein by reference to the information presented under the heading *Certain Relationships and Related Transactions* and *Corporate Governance Matters Independent Directors* in the Company s 2011 Proxy Statement, which will be filed with the SEC not later than 120 days after June 30, 2011.

ITEM 14. Principal Accountant Fees and Services.

Incorporated herein by reference to the information presented under the headings *Proposal Four Ratification of Appointment of Independent Auditors Principal Accountant Fees and Services* and *Proposal Four Ratification of Appointment of Independent Auditors Audit Committee s Pre-Approval Policies and Procedures* in the Company s 2011 Proxy Statement, which will be filed with the SEC not later than 120 days after June 30, 2011.

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PART IV

ITEM 15. Exhibits and Financial Statement Schedules.

(a)(1) *Financial Statements.* For a list of the financial statements included in this Annual Report on Form 10-K, see Index to the Financial Statements on page 34.

(a)(2) *Financial Statement Schedules.* Schedule II Valuation and Qualifying Accounts appears below.

(a)(3) *Exhibits.* The list of exhibits filed as a part of this Annual Report on Form 10-K is set forth on the Exhibit Index immediately preceding such exhibits and is incorporated by reference in this Item 15(a)(3).

(b) *Exhibits*. See Exhibit Index.

(c) *Separate Financial Statements and Schedules*. None.

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SCHEDULE II

SCAN*SOURCE*, INC. AND SUBSIDIARIES

Valuation and Qualifying Accounts

(in thousands)

Description	Balance at Beginning of Period	Amounts Charged to Expense	Reductions [1]	Other [2]	Balance at End of Period
Valuation account for trade and notes receivable:					
Year ended June 30, 2009	$ 17,244	6,404	(6,696)	(69)	$ 16,883
Trade and current note receivable allowance					$ 16,883
Long-term note allowance					$ -
Year ended June 30, 2010	$ 16,883	10,854	(7,097)	1,267	$ 21,907
Trade and current note receivable allowance					$ 21,907
Long-term note allowance					$ -
Year ended June 30, 2011	**$ 21,907**	**7,488**	**(11,098)**	**8,265**	**$ 26,562**
Trade and current note receivable allowance					**$ 26,562**
Long-term note allowance					**$ -**

[1] Reductions amounts represent write-offs for the years indicated.
[2] Other amounts include recoveries and the effect of foreign currency fluctuations. The amount in 2011 includes $3.9 million of recoveries and $3.1 million of accounts receivable reserves acquired with CDC Brasil, S.A., on April 15, 2011.

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SIGNATURES

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

August 29, 2011

SCAN*SOURCE* , INC.

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

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

Signature	Title	Date
/s/ STEVEN R. FISCHER Steven R. Fischer	Chairman of the Board	August 29, 2011
/s/ MICHAEL L. BAUR Michael L. Baur	Chief Executive Officer and Director (principal executive officer)	August 29, 2011
/s/ RICHARD P. CLEYS Richard P. Cleys	Vice President and Chief Financial Officer, (principal financial and accounting officer)	August 29, 2011
/s/ MICHAEL J. GRAINGER Michael J. Grainger	Director	August 29, 2011
/s/ STEVEN H. OWINGS Steven H. Owings	Director	August 29, 2011
/s/ JOHN P. REILLY John P. Reilly	Director	August 29, 2011
/s/ CHARLES R. WHITCHURCH Charles R. Whitchurch	Director	August 29, 2011

Exhibit Number	Description	Filed herewith	Form	Period Ending	Exhibit	Filing Date
2.1	Share Purchase and Sale Agreement by and among ScanSource DO Brasil Participacoes LTDA as Buyer, Alexandre Machado De Campos Conde, Marcelo Duarte Hirsch, Gustavo Conde, Rosania De Souza Possebom, Juliane Possebom, Daniele Possebom, Gabriela Possebom, Adolar Nardes Junior and Caio Vinicius Domingos Nardes as Sellers; and CDC Brasil S.A., formerly called CDC Brasil Distribuidora LTDA, AECO Participacoes LTDA, Rhouse Participacoes LTDA and Nardes Administracao LTDA (as Agreeing Parties) dated April 7, 2011		8-K		2.1	4/15/11
3.1	Amended and Restated Articles of Incorporation of the Registrant and Articles of Amendment Amending the Amended and Restated Articles of Incorporation of the Registrant		10-Q	12/31/04	3.1	2/3/05
3.2	Amended and Restated Bylaws of the Registrant, effective December 5, 2008		8-K		3.1	12/9/08
4.1	Form of Common Stock Certificate		SB-2		4.1	2/7/94
	Executive Compensation Plans and Arrangements					
10.1	1993 Incentive Stock Option Plan, as amended, of the Registrant and Form of Stock Option Agreement		S-1		10.10	1/23/97
10.2	1997 Stock Incentive Plan, as amended, of the Registrant and Form of Stock Option Agreement		10-K	6/30/99	10.13	9/28/99
10.3	Scan*Source*, Inc. Amended and Restated Directors Equity Compensation Plan		10-Q	12/31/10	10.1	2/4/11
10.4	Form of Restricted Stock Award (for Scan*Source*, Inc. Amended and Restated Directors Equity Compensation Plan)		10-Q	3/31/11	10.3	5/6/11
10.5	Amended and Restated 2002 Long-Term Incentive Plan		8-K		10.1	12/7/09
10.6	Form of Incentive Stock Option Award Certificate under the Amended and Restated 2002 Long-Term Incentive Plan for grants on or after December 3, 2010		10-Q	12/31/10	10.2	2/4/11
10.7	Form of Non-Qualified Stock Option Award Certificate under the Amended and Restated 2002 Long-Term Incentive Plan for grants on or after December 3, 2010		10-Q	12/31/10	10.3	2/4/11
10.8	Form of Restricted Stock Unit Award Certificate under the Amended and Restated 2002 Long-Term Incentive Plan for grants on or after December 3, 2010		10-Q	12/31/10	10.4	2/4/11
10.9	Form of Restricted Stock Award Certificate under the Amended and Restated 2002 Long-Term Incentive Plan for grants on or after December 3, 2010		10-Q	12/31/10	10.5	2/4/11

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Exhibit Number	Description	Filed herewith	Form	Period Ending	Exhibit	Filing Date
10.10	Form of Restricted Stock Award Certificate (US) under the 2002 Amended and Restated Long-Term Incentive Plan		10-Q	12/31/08	10.1	2/4/09
10.11	Form of Restricted Stock Award Certificate (UK) under the 2002 Amended and Restated Long-Term Incentive Plan		10-Q	12/31/08	10.2	2/4/09
10.12	Form of Restricted Stock Award Certificate (Europe, not UK) under the 2002 Amended and Restated Long-Term Incentive Plan		10-Q	12/31/08	10.3	2/4/09
10.13	Form of Restricted Stock Award Certificate under the Amended and Restated 2002 Long-Term Incentive Plan for grants on or after December 3, 2009		8-K		10.2	12/7/09
10.14	Form of Incentive Stock Option Award Certificate under the Amended and Restated 2002 Long-Term Incentive Plan for grants on or after December 3, 2009		8-K		10.3	12/7/09
10.15	Form of Non-Qualified Stock Option Award Certificate under the Amended and Restated 2002 Long-Term Incentive Plan for grants on or after December 3, 2009		8-K		10.4	12/7/09
10.16	Founder s Supplemental Executive Retirement Plan Agreement		10-Q	3/31/11	10.2	5/6/11
10.17	ScanSource, Inc. Nonqualified Deferred Compensation Plan, as amended and restated effective January 1, 2005		10-Q	9/30/09	10.2	11/9/09
10.18	Amended and Restated Employment Agreement, effective as of June 6, 2011, between the Registrant and Michael L. Baur	X				
10.19	Amended and Restated Employment Agreement, effective as of June 6, 2011, between the Registrant and Richard P. Cleys	X				
10.20	Amended and Restated Employment Agreement, effective as of June 6, 2011, between the Registrant and R. Scott Benbenek	X				
10.21	Amended and Restated Employment Agreement, effective as of June 6, 2011, between the Registrant and Andrea D. Meade	X				
10.22	Amended and Restated Employment Agreement, dated June 6, 2011, between the Registrant and John J. Ellsworth	X				
10.20	Form of Amendment to Stock Option Agreement and Promise to Make Cash Payment for Andrea D. Meade and R. Scott Benbenek		10-Q	12/31/07	10.1	2/6/08
10.21	Amendment to Stock Option Agreement and Promise to Make Cash Payment for Richard P. Cleys and Bobby McLain		10-Q	12/31/07	10.2	2/6/08

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Exhibit Number	Description	Filed herewith	Form	Period Ending	Exhibit	Filing Date
10.22	Description of Option Remediation for Certain Executive Officers and Directors		10-Q	12/31/07	10.3	2/6/08
10.23	Form of Restricted Stock Award Certificate for R. Scott Benbenek, dated May 21, 2009		10-K	6/30/09	10.19	8/27/09
10.24	Form of Restricted Stock Award Certificate for Andrea D. Meade, dated May 21, 2009		10-K	6/30/09	10.20	8/27/09
10.25	Form of Restricted Stock Award Certificate for John J. Ellsworth, dated May 17, 2010		10-K	6/30/10	10.24	8/26/10
10.26	Form of Restricted Stock Award Agreement for R. Scott Benbenek, dated June 6, 2011	X				
10.27	Form of Restricted Stock Award Agreement for Andrea D. Meade, dated June 6, 2011	X				
10.28	Form of Restricted Stock Award Agreement for Richard P. Cleys, dated June 6, 2011	X				
	Bank Agreements					
10.29	Amended and Restated Credit Agreement dated as of July 16, 2004 among Scan*Source*, Inc., Netpoint International, Inc., 4100 Quest, LLC, and Partner Services, Inc., ScanSource Europe SPRL, ScanSource Europe Limited and ScanSource UK Limited, Branch Banking and Trust Company of South Carolina, as Administrative Agent and a Bank, Wachovia Bank, National Association, as Syndication Agent and an Other Currency Lender, and Fifth Third Bank, First Tennessee Bank National Association and Hibernia National Bank as Banks		10-K	6/30/04	10.19	9/10/04
10.30	First Amendment dated as of May 13, 2005 to Amended and Restated Credit Agreement dated as of July 16, 2004 among ScanSource, Inc., Netpoint International, Inc., 4100 Quest, LLC and Partner Services, Inc., ScanSource Europe SPRL, ScanSource Europe Limited and ScanSource UK Limited, Branch Banking and Trust Company of South Carolina, as Administrative Agent and a Bank, Wachovia Bank, National Association, as Syndication Agent and an Other Currency Lender, and Fifth Third Bank, First Tennessee Bank National Association and Hibernia National Bank as Banks		10-K	6/30/05	10.25	9/1/05
10.31	Letter Agreement and Consent dated July 3, 2006 amending the Amended and Restated Credit Agreement dated as of July 16, 2004 among ScanSource, Inc., Netpoint International, Inc., 4100 Quest, LLC, and Partner Services, Inc., ScanSource Europe SPRL, ScanSource Europe Limited and ScanSource UK Limited, Branch Banking and Trust Company of South Carolina, as Administrative Agent and a Bank, Wachovia Bank, National Association, as		10-K	6/30/06	10.30	9/1/06

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Exhibit Number	Description	Filed herewith	Form	Period Ending	Exhibit	Filing Date
	Syndication Agent and an Other Currency Lender, and Fifth Third Bank, First Tennessee Bank National Association and Capital One, N.A. (formerly Hibernia National Bank) as Banks					
10.32	Waivers dated as of November 7, 2006 to Amended and Restated Credit Agreement dated as of July 16, 2004, as amended, among ScanSource, Inc., Netpoint International, Inc., Scansource Europe Limited, Scansource UK Limited, 4100 Quest, LLC, Partner Services, Inc. and T2 Supply, Inc., Branch Banking and Trust Company of South Carolina, Wachovia Bank, National Association, Fifth Third Bank, First Tennessee Bank National Association and Capital One, N.A.		10-Q	12/31/06	10.1	6/18/07
10.33	Amendment dated as of February 14, 2007 to Amended and Restated Credit Agreement dated as of July 16, 2004, as amended, among Scan*Source*, Inc., Netpoint International, Inc., Scansource Europe Limited, Scansource UK Limited, 4100 Quest, LLC, Partner Services, Inc. and T2 Supply, Inc., Branch Banking and Trust Company of South Carolina, Wachovia Bank, National Association, Fifth Third Bank, First Tennessee Bank National Association and Capital One, N.A.		10-Q	3/31/07	10.1	6/18/07
10.34	Waivers dated as of February 14, 2007 to Amended and Restated Credit Agreement dated as of July 16, 2004, as amended, among Scan*Source*, Inc., Netpoint International, Inc., Scansource Europe Limited, Scansource UK Limited, 4100 Quest, LLC, Partner Services, Inc. and T2 Supply, Inc., Branch Banking and Trust Company of South Carolina, Wachovia Bank, National Association, Fifth Third Bank, First Tennessee Bank National Association and Capital One, N.A.		10-Q	3/31/07	10.2	6/18/07
10.35	Third Amendment dated as of April 20, 2007 to its Amended and Restated Credit Agreement dated as of July 16, 2004, as amended, among Scan*Source*, Inc., Netpoint International, Inc., Scansource Europe Limited, Scansource UK Limited, 4100 Quest, LLC, Partner Services, Inc. and T2 Supply, Inc., Branch Banking and Trust Company of South Carolina, Wachovia Bank, National Association, Fifth Third Bank, First Tennessee Bank National Association and Capital One, N.A. (formerly Hibernia National Bank) as Banks		10-K	6/30/07	10.25	8/29/07

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Exhibit Number	Description	Filed herewith	Form	Period Ending	Exhibit	Filing Date
10.36	Waivers dated as of May 14, 2007 to Amended and Restated Credit Agreement dated as of July 16, 2004, as amended, among ScanSource, Inc., Netpoint International, Inc., Scansource Europe Limited, Scansource UK Limited, 4100 Quest, LLC, Partner Services, Inc. and T2 Supply, Inc., Branch Banking and Trust Company of South Carolina, Wachovia Bank, National Association, Fifth Third Bank, First Tennessee Bank National Association and Capital One, N.A		10-K	6/30/07	10.28	8/29/07
10.37	Credit Agreement dated as of September 28, 2007, among Scan*Source*, Inc., the Subsidiary Borrowers party thereto, the Lenders party thereto and, J.P. Morgan Chase Bank, N.A. as Administrative Agent, Swingline Lender and Issuing Bank, Wachovia Bank, N.A. as Syndication Agent, and Regions Bank and Wells Fargo Bank, N.A. as Co-Documentation Agents, J.P. Morgan Securities Inc., as Sole Bookrunner and Sole Lead Arranger		8-K		10.1	10/1/07
10.38	Amendment No. 1 to Credit Agreement and Waiver entered into as of October 30, 2009, among Scan*Source*, Inc., the Subsidiary Borrowers party thereto, J.P. Morgan Chase Bank, N.A., individually and as administrative agent and the other financial institutions signatory thereto		10-Q	9/30/09	10.1	11/9/09
10.39	Amendment No. 2 to Credit Agreement entered into as of April 8, 2011, among ScanSource, Inc., the subsidiary Borrowers party hereto, J.P. Morgan Chase Bank, N.A., individually and as administrative agent and other financial institutions signatory thereto		10-Q	3/31/11	10.1	5/6/11
	Other Agreements					
10.40+	Industrial Lease Agreement dated April 27, 2007 between Registrant and Industrial Developments International, Inc.		10-K	6/30/07	10.26	8/29/07
10.41	Purchase and Sale Agreement dated December 13, 2007 between 4100 Quest, LLC, a wholly owned subsidiary of Scan*Source*, Inc., and Kansas City Life Insurance Company		10-K	6/30/08	10.31	8/28/08
10.42	Amendment dated as of January 18, 2008 to Purchase and Sale Agreement dated December 13, 2007 between 4100 Quest, LLC and Kansas City Life Insurance Company		10-K	6/30/08	10.32	8/28/08
10.43	Amendment dated as of January 30, 2008 to Purchase and Sale Agreement dated December 13, 2007 between 4100 Quest, LLC and Kansas City Life Insurance Company		10-K	6/30/08	10.33	8/28/08
10.44+	US Avaya Contract with Scan*Source*, Inc.		10-K	6/30/10	10.39	8/26/10
10.45+	US Motorola (f/k/a Symbol Technologies) Contract with Scan*Source*, Inc.		10-K	6/30/10	10.40	8/26/10
10.46+	Letter Agreement with US Motorola		10-K	6/30/10	10.41	8/26/10

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Exhibit Number	Description	Filed herewith	Form	Period Ending	Exhibit	Filing Date
21.1	Subsidiaries of the Company	X				
23.1	Consent of Ernst & Young LLP	X				
31.1	Certification of the Chief Executive Officer, Pursuant to Rule 13a-14(a) or 15d-14(a) of the Exchange Act, as Adopted Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002	X				
31.2	Certification of the Chief Financial Officer, Pursuant to Rule 13a-14(a) or 15d-14(a) of the Exchange Act, as Adopted Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002	X				
32.1	Certification of the Chief Executive Officer, Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002	X				
32.2	Certification of the Chief Financial Officer, Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002	X				
99.1	Consent Order for Final Approval of Settlement		8-K		99.1	6/19/09
99.2	Stipulation of Compromise and Settlement, dated as of April 15, 2009		8-K		99.1	4/15/09

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Exhibit Number	Description	Filed herewith	Form	Period Ending	Exhibit	Filing Date
101++	The following materials from our Annual Report on Form 10-K for the year ended June 30, 2011, formatted in XBRL (eXtensible Business Reporting Language): (i) the Condensed Consolidated Balance Sheets as of June 30, 2011 and June 30, 2010, (ii) the Condensed Consolidated Income Statements for the years ended June 30, 2011, June 30, 2010 and June 30, 2009, (iii) the Condensed Consolidated Statements of Shareholders Equity for the years ended June 30, 2011, June 30, 2010 and June 30, 2009, (iv) the Condensed Consolidated Statements of Cash Flows for the years ended June 30, 2011, June 30, 2010 and June 30, 2009, and (v) the Notes to the Condensed Consolidated Financial Statements, tagged as blocks of text	X				

+ Confidential treatment has been granted with respect to certain portions of this Exhibit, which portions have been omitted and filed separately with the Commission as part of an application for confidential treatment.

++ The XBRL-related information has been furnished electronically herewith. This exhibit, regardless of whether it is an exhibit to a document incorporated by reference into any of our filings and except to the extent specifically stated otherwise, is deemed not filed or part of a registration statement or prospectus for purposes of sections 11 or 12 of the Securities Act of 1933, as amended, is deemed not filed for purposes of section 18 of the Securities Exchange Act of 1934, as amended, and otherwise is not subject to liability under these sections.

Our SEC file number for documents filed with the SEC pursuant to the Securities Exchange Act of 1934, as amended, is 000-26926.