Baird U.S. EQUITY RESEARCH

ScanSource, Inc. (SCSC)

Maintain Outperform Rating

				FY: Jun	2004A	2005E	2006E
Price: (10/28/04)	**70.10**	**Rating:**	**Outperform**				
52WK H-L:	**75 - 40**			Q1	0.59A	0.68A	
Market Cap (mil):	**911**	**Suitability:**	**Higher Risk**	Q2	0.58A	0.65E	
Shares Out (mil):	12.6			Q3	0.57A	0.65E	
Float (mil):	11.7			Q4	0.69A	0.75E	
Avg. Daily Vol (mil):	NM			**Total**	**2.42A**	**2.73E**	**2.99E**
		Price Target:	**75**	FY P/E	29.0x	25.7x	23.4x
Dividend:	0.00			**EPS Cal**	**2.59E**	**2.87E**	
Yield:	0.00			P/E	27.1x	24.4x	NM

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Please refer to "Appendix - Important Disclosures."

Action

ScanSource posted revenue at the high end of the positive pre-release expectations. However, we expect the stock will come under pressure given gross margin concerns. We recommend buying on weakness based on evidence that strong revenue trends remain. We expect operating margins will remain intact. We maintain our Outperform rating.

Summary

- ScanSource reported revenue of $362.7M (+31%), or at the high end of its pre-release revenue range. EPS came in at $0.68 versus $0.59 last year. Our estimate was $0.68 and the Street was $0.66.
- While new initiatives and gross margin pressure create concern, we maintain our Outperform rating based on the following:
- First, we continue to believe that end-market growth remains in tact. Our reseller contacts suggest business trends continue to improve – further, Metrologic and Zebra have reported positive results. In addition, we believe the POS upgrade cycle continues to unfold, we expect a 4Q budget flush could create upside to the December results.
- Second, we believe key vendors, including Avaya, IBM and Intermec will continue to shift revenue towards the indirect channel for the foreseeable future. NEC has provided incremental dealer opportunities to SCSC.
- Third, SCSC has found its next business segment -- security. The company will use existing vendors, including Zebra, Fargo and Datacard as a base. We expect increased growth opportunities.
- Fourth, the company's nimble expense structure allows the company flexibility; therefore, despite gross margin pressure from changes in vendor purchase programs, we expect a modest-to-no impact on the operating margin.
- Our price target of $75 is based on 25x our F2006 EPS estimate of $2.99. Historically, ScanSource trades 20x-25x when presented with strong revenue growth opportunities.

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Details

Investment Perspective

ScanSource is taking on several new initiatives, in addition, the gross margin was under expectations by 70bp this quarter due to mix and changes in vendor purchasing programs. We believe such concerns could result in estimates being lowered (we are $0.05 below Street consensus for F2005), which could place pressure on the stock. We maintain our Outperform rating and recommend buying on weakness based on the following:

First, we continue to believe that end-market growth remains intact. Our reseller contacts suggest business trends continue to improve, with most resellers indicating that business will trend positively in the next six months. Further, Metrologic and Zebra have reported positive results. In addition, we believe the POS upgrade cycle continues to unfold. One retail contact indicated to us that 50% of the POS systems could be replaced in the next 18-24 months. We believe ScanSource has strong position with NCR and IBM, who represent the majority of POS system sales. Also, based on past history, we expect a 4Q POS budget flush could create upside to the December results.

Second, we believe key vendors, including Avaya, IBM and Intermec will continue to shift revenue towards the indirect channel for the foreseeable future. Most of these vendors have multiple product lines that they would like to market though the indirect channel. ScanSource represents a key distributor for each of these vendors. In addition, NEC has provided a list of dealers currently being serviced on a direct basis that it would like serviced indirect. This process has been underway since early 2004.

Third, SCSC has found its next business segment -- security, which we view as a strategically positive move – an underpenetrated market that requires value-added services. The company will use existing vendors, including Zebra, Fargo and Datacard as a base. The company expects to add a small number of sales and merchandising personnel to augment the effort. Given that no significant infrastructure needs to be added, we expect only modest incremental near-term cost. Given SCSC's strong track record in building underpenetrated business opportunities and strong historical execution, we expect increased growth opportunities.

Fourth, the company's nimble expense structure allows the company flexibility. Therefore, despite gross margin pressure from changes in vendor purchase programs, we expect modest-to-no impact on the operating margin. These changes in vendor purchase programs amount to vendors seeking new types of value-added services. As a result, ScanSource "decouples" existing services, which reduce operating expenses by a similar amount as the gross margin reduction. We expect as new services are added, gross margins will again increase.

Also, given that vendor co-operative marketing dollars help to fund initiatives such as RFID, we do not expect a significant margin impact to SCSC.

F1Q05 Results

($ '000)	Quarter 1Q05	Ended 1Q04	Yr./Yr. Change	Actual	vs. Baird/	Estimate Variance
Total Revenues	$362,709	$276,474	31.2%	$362,709	$357,764	1.4%
Gross Profit	$36,982	$30,844	19.9%	$36,982	$39,139	-5.5%
Gross Margin	10.2%	11.2%	(100 bp)	10.2%	10.9%	(70 bp)
SG&A	$22,312	$18,884	18.2%	$22,312	$24,686	-9.6%
Operating Income	$14,670	$11,960	22.7%	$14,670	$14,454	1.5%
Operating Margin	4.0%	4.3%	(30 bp)	4.0%	4.0%	0 bp
Pretax Income	$14,426	$11,944	20.8%	$14,426	$14,154	1.9%
Taxes	$5,482	$4,405	24.4%	$5,532	$5,237	5.6%
Tax Rate	38.0%	36.9%		38.0%	37.0%	
Net Income (before charges)	$8,894	$7,539	18.0%	$8,894	$8,867	0.3%
Cash EPS	$0.68	$0.59	14.6%	$0.68	$0.68	0.1%
Shares	13,053	12,681	2.9%	13,053	13,029	0.2%

Revenue

Revenue for the quarter was $362.7 million versus $276.5 million a year ago, an increase of 31%. Our estimate was $357.8 million. Revenue came within the company's earlier pre-released range of $353-$363 million. The AIDC/point-of-sale segment grew 26% during the quarter, driven by solid results within both the AIDC and POS segments. AIDC resellers are growing their business by taking full advantage of partner programs and are benefiting from renewed industry growth and end-user demand. ScanSource has continued to sign new resellers and have gained market share from other two-tiered distribution players. POS sales to small and medium business have continued the strength experienced over the last several quarters. We believe the POS upgrade cycle continues to contribute.

On the telephony side, ScanSource indicated that its expectations were beat soundly as Avaya realized strong sales from its year-end, which is a seasonally strong quarter. The company saw record sales in Avaya's small and medium business (SMB) products and enterprise (ECG) products. Management also cited a good sales ramp from a group of resellers that signed with Catalyst earlier in the year. Paracon, which focuses on converged communications products from Intel and NEC, also had a record quarter. Sales in telephony increased 38% comparably during the quarter, which brings the segment mix to 60% AIDC/POS and 40% telephony.

From a geographic perspective, North America sales increased 31% comparably to $330.2 million. Growth was seen across the board as vendors drove more indirect sales and new product lines were added. Management commented that they continue to be pleased with early success of Solution City, which was helping to sign up additional vendors.

International distribution generated $33.1 million in sales during the quarter. This compares to $29.0 million a year ago. Management indicated that the company's recently opened a sales office near Frankfurt has begun to have a positive impact. Management continues to indicate that they have not yet seen the expected consolidation of distributors as was promised by vendors. Latin America is experiencing some price weakness due to increased competition and vendor pricing disparities (i.e., better pricing going direct).

Profitability

Gross margin for the quarter was 10.2%, 100 basis points lower than a year ago, and 70bp below our expectation. The margin pressure was related to large reseller ordering and changes in vendor purchasing programs. Typically, larger resellers do not require a high degree of value-added services, so their sales tend to have a lower gross margin. With respect to changes in vendor purchase programs, vendors are currently seeking new types of value-added services for ScanSource to provide. As a result, ScanSource "decouples" existing services, which reduce operating expenses by a similar amount as the gross margin reduction. Such changes have been a "normal" part of ScanSources operating model. We expect as new services are added, gross margins will again increase. Management is currently working to devise new service offerings with vendors.

Operating expenses came in at $22.3 million, or 6.2% of sales, below our 6.9% expectation, which came despite adding $1.8M to its bad debt reserve. Therefore, operating income was $14.7 million, or 4.0% of sales, a decrease of 30 basis points versus a year ago, but in line with our estimate. Going forward, management indicated it has already started increasing its investment in head count and new programs, including Solution City, NEC dealer recruitment and RFID.

Balance Sheet

- At the end of the quarter, ScanSource had $2.4 million in cash, up from $1.0 million at the end of 4Q04. At the end of 1Q05, ScanSource reported long-term debt of $1.6 million and a balance of $35.4M on its revolver. Total debt-to-capitalization stood at 16%.
- DSOs at the end of the quarter were 47 days, unchanged from F4Q04.
- Inventory turns at the end of the quarter were 7.0x, up from 6.4x at the end of F4Q04.
- ROIC was 28% during the quarter, above the company's target range of 23%-25%.

Investment Thesis

1) We believe ScanSource can generate annual revenue and EPS growth of 15%-20% over the next several years.

2) Most point of sale, AIDC, and telephony vendors are shifting a majority of their business to the indirect channel to reduce costs and expand their market reach. Vendors can reduce costs by off-loading technical support, transaction costs, and VAR recruitment to distributors. We believe that this can be a key catalyst in the current business environment, where vendors are searching for opportunities to reduce costs. For example, key shifts are expected from Symbol, Intermec and NCR. Symbol has stated that it expects indirect sales to reach 85%-90% in the next 18 months, up from 55% in 2Q03. Intermec, while not stating specific targets, has also indicated an intent to build its indirect presence. NCR sells roughly 10% indirect; we expect that it will increase indirect sales to approximately 25% to 30%. Other key vendors remain less than 50% indirect, with an expectation of achieving 65% to 70% indirect over the next several years.

3) ScanSource is well differentiated in the industry and has strong competitive advantages and barriers to entry: a) Specialty technology requires the strong value-added knowledge that ScanSource possesses. Smaller competitors have difficulty acquiring the expertise, while the niche aspect to specialty technology keeps larger "PC" distributors from entering the segment, as it is too small to warrant developing specialty technological knowledge. b) ScanSource has a distinct size advantage over competitors with its large inventory position, which allows for better customer fulfillment and lower costs. Key competitive advantages include the largest available inventory (rapid fulfillment), a larger allocation of cooperative marketing dollars, and reduced average procurement costs.

4) ScanSource's specialty technology focus and quality execution protects margins. Scan Source's 4.0% operating margin over the past year is over 200 basis points higher than "commodity" distributors (i.e., PC distributors). The specialty technology niche

allows ScanSource to offer value-added services that protect against price and margin pressure typically seen from distributors who offer commodity products. While we expect near-term margin pressure, we expect that margins will return to the 4.0% range. Margin declines are typically offset with working capital improvements to achieve a return on invested capital in between 23%-25%.

5) We believe SCSC has strong, long-term revenue and investment return opportunities. Given positive end-market momentum and possible tax benefits, we believe upside exists to our estimates and price target.

Risk & Caveats

Avaya's Business to ScanSource Is regulated by Avaya - Avaya, which represents roughly 30% of Scan Source's business, maintains control over its distribution channel (Avaya must approve all VARs), and could decide on short notice to slow all approvals. However, Avaya has articulated its intention of increasing its indirect presence. ScanSource is one of three distributors serving Avaya's voice products.

International Expansion - ScanSource has historically operated in North America. The company is now simultaneously expanding into Latin America and Europe. The risk of international expansion includes investment in new infrastructure as well as developing an understanding of multiple cultures and rules, most of which are new to the company. A longer-than-expected ramp may cause unexpected margin pressure.

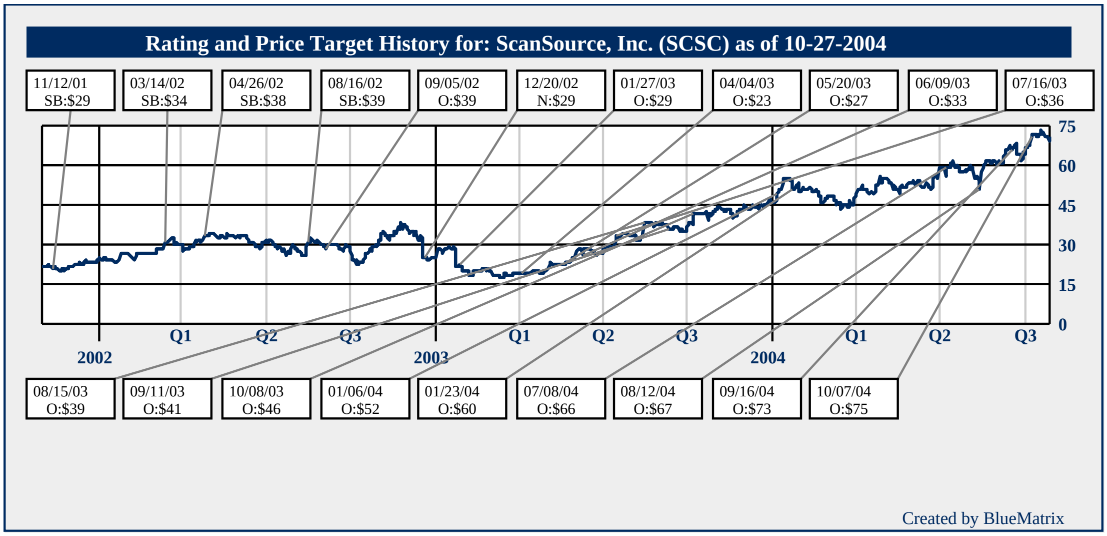
General IT Weakness - The IT environment has recently experienced several negative pre-releases, which could suggest broader weakness in a number of ScanSource's end markets. We believe SCSC can at least partially mitigate this weakness with continued market share gains and international expansion.

Increased competition - TechData has entered the telephony and bar code markets, and could compete for sophisticated resellers seeking logistical fulfillment, not technical expertise. In addition, Ingram Micro has recently entered the market with its purchase of Nimax (a direct ScanSource competitor). Such competition could have an adverse effect on reseller recruitment/retention and short-term pricing.

Company Description

ScanSource is the leading value-added distributor of "specialty technology" products in North America, including automatic identification and collection (bar coding, scanning, mobile computing), point of sale (terminals and receipt printers), and telephony equipment (telephones, PBX's , voice mail systems, computer telephony integration). ScanSource sells approximately 23,000 products from over 60 vendors to over 13,000 value-added resellers. Key vendors include Symbol Technologies, Zebra Technologies (ZBRA), Intermec, PSC, IBM, and Avaya.

"Appendix - Important Disclosures"



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October 28, 2004 | **ScanSource** | Reik W. Read (414) 298-1030

Fiscal year ends: June | Earnings Model | Amy W. Junker (414) 765-3790

($ thousands)	1Q03	2Q03	3Q03	4Q03	2003	1Q04	2Q04	3Q04	4Q04	2004	1Q05	2Q05E	3Q05E	4Q05E	2005E	2006E
Net Sales	**$ 260,603**	**$ 250,117**	**$ 227,452**	**$ 253,022**	**$ 991,194**	**$ 276,474**	**$ 288,966**	**$ 293,574**	**$ 333,076**	**$ 1,192,090**	**$ 362,709**	**$ 352,138**	**$ 352,029**	**$ 377,503**	**$ 1,444,378**	**$ 1,598,454**
Cost of Sales	230,408	223,207	202,029	223,667	879,311	245,630	258,063	261,803	296,014	1,061,510	325,727	315,868	315,242	335,978	1,292,814	1,423,643
Gross Profit	30,195	26,910	25,423	29,355	111,883	30,844	30,903	31,771	37,062	130,580	36,982	36,270	36,787	41,525	151,564	174,812
Selling, general and administrative	19,677	16,467	16,815	18,400	71,359	18,884	18,795	19,828	21,492	78,999	22,312	22,185	22,530	25,293	92,319	110,098
Amortization of intangibles	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Total expenses	19,677	16,467	16,815	18,400	71,359	18,884	18,795	19,828	21,492	78,999	22,312	22,185	22,530	25,293	92,319	110,098
Income from operations	**10,518**	**10,443**	**8,608**	**10,955**	**40,524**	**11,960**	**12,108**	**11,943**	**15,570**	**51,581**	**14,670**	**14,086**	**14,257**	**16,233**	**59,245**	**64,714**
Interest and other expense (income)	674	400	253	654	1,981	16	256	27	258	557	244	300	300	300	1,144	1,400
Income before income taxes	9,844	10,043	8,355	10,301	38,543	11,944	11,852	11,916	15,312	51,024	14,426	13,786	13,957	15,933	58,101	63,314
Income tax expense	3,933	4,221	3,806	4,090	16,050	4,405	4,380	4,463	6,264	19,512	5,482	5,238	5,304	6,054	22,079	23,426
Income before extraordinary items	**5,911**	**5,822**	**4,549**	**6,211**	**22,493**	**7,539**	**7,472**	**7,470**	**9,014**	**31,395**	**8,894**	**8,497**	**8,603**	**9,828**	**35,823**	**39,688**
Extraordinary Gain (Loss) - net of tax	-	-	-	-	-	(1,409)	(775)	734	-	(1,450)	-	-	-	-	-	-
Net Income	**$ 5,911**	**$ 5,822**	**$ 4,549**	**$ 6,211**	**$ 22,493**	**$ 6,130**	**$ 6,697**	**$ 8,204**	**$ 9,014**	**$ 29,945**	**$ 8,894**	**$ 8,497**	**$ 8,603**	**$ 9,828**	**$ 35,823**	**$ 39,688**
Weighted average common shares outstanding	12,408	12,646	12,500	12,496	12,513	12,681	12,942	13,095	12,997	12,952	13,053	13,118	13,151	13,184	13,127	13,291
EPS before extraordinary items	**$0.48**	**$0.46**	**$0.36**	**$0.50**	**$1.80**	**$0.59**	**$0.58**	**$0.57**	**$0.69**	**$2.42**	**$0.68**	**$0.65**	**$0.65**	**$0.75**	**$2.73**	**$2.99**
One-time expense items	-	-	-	-	-	(0.11)	(0.06)	0.06	-	(0.11)	-	-	-	-	-	-
EPS	$0.48	$0.46	$0.36	$ 0.49	$ 1.79	$0.48	$0.52	$0.63	$0.69	$2.31	$0.68	$0.65	$0.65	$0.75	$2.73	$2.99
Calendar EPS, before extraord. Items					**$2.03**					**$2.59**					**$2.87**	
% of Sales																
Gross Margin	11.6%	10.8%	11.2%	11.6%	11.3%	11.2%	10.7%	10.8%	11.1%	11.0%	10.2%	10.3%	10.5%	11.0%	10.5%	10.9%
Operating Margin	4.0%	4.2%	3.8%	4.3%	4.1%	4.3%	4.2%	4.1%	4.7%	4.3%	4.0%	4.0%	4.1%	4.3%	4.1%	4.0%
Pretax Margin	3.8%	4.0%	3.7%	4.1%	3.9%	4.3%	4.1%	4.1%	4.6%	4.3%	4.0%	3.9%	4.0%	4.2%	4.0%	4.0%
Net Margin (before extraordinary items)	2.3%	2.3%	2.0%	2.5%	2.3%	2.7%	2.6%	2.5%	2.7%	2.6%	2.5%	2.4%	2.4%	2.6%	2.5%	2.5%
SG&A	7.6%	6.6%	7.4%	7.3%	7.2%	6.8%	6.5%	6.8%	6.5%	6.6%	6.2%	6.3%	6.4%	6.7%	6.4%	6.9%
Total Operating Expenses	7.6%	6.6%	7.4%	7.3%	7.2%	6.8%	6.5%	6.8%	6.5%	6.6%	6.2%	6.3%	6.4%	6.7%	6.4%	6.9%
Growth Rate																
Total Revenue	38.0%	20.3%	7.6%	8.3%	17.7%	6.1%	15.5%	29.1%	31.6%	20.3%	31.2%	21.9%	19.9%	13.3%	21.2%	10.7%
Gross Margin	44.4%	22.6%	10.0%	14.7%	22.2%	2.1%	14.8%	25.0%	26.3%	16.7%	19.9%	17.4%	15.8%	12.0%	16.1%	15.3%
Operating Income	33.0%	34.7%	1.6%	13.4%	19.9%	13.7%	15.9%	38.7%	42.1%	27.3%	22.7%	16.3%	19.4%	4.3%	14.9%	9.2%
Pretax Income	34.8%	35.9%	3.2%	8.5%	19.4%	21.3%	18.0%	42.6%	48.6%	32.4%	20.8%	16.3%	17.1%	4.1%	13.9%	9.0%
Net Income (excluding extraordinary items)	30.6%	27.1%	-7.9%	13.8%	12.8%	27.5%	28.3%	64.2%	45.1%	33.1%	18.0%	13.7%	15.2%	9.0%	19.6%	10.8%
EPS (excluding extraordinary items)	29.8%	24.8%	-8.0%	14.7%	14.9%	24.8%	25.4%	56.8%	39.5%	34.8%	14.6%	12.2%	14.7%	7.5%	12.6%	9.4%
Share count	0.6%	1.9%	0.2%	-0.9%	0.6%	2.2%	2.3%	4.8%	4.0%	3.5%	2.9%	1.4%	0.4%	1.4%	1.3%	1.3%
Other																
Income Tax Rate	40.0%	42.0%	45.6%	39.7%	41.6%	36.9%	37.0%	37.5%	40.9%	38.2%	38.0%	38.0%	38.0%	38.0%	38.0%	37.0%

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Revenue Breakdown - ScanSource

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(in millions)	1Q03	2Q03	3Q03	4Q03	2003	1Q04	2Q04	3Q04	4Q04	2004	1Q05	2Q05E	3Q05E	4Q05E	2005E	2006E
Revenue																
POS/AIDC	117,714	127,191	117,913	126,286	489,104	134,851	146,463	152,108	166,893	600,315	166,873	175,756	179,487	191,927	714,043	821,149
Positive ID acquisition	4,500	-	-	-	4,500	-	-	-	-	-	-	-	-	-	-	-
Total POS/AIDC - North America	122,214	127,191	117,913	126,286	493,604	134,851	146,463	152,108	166,893	600,315	166,873	175,756	179,487	191,927	714,043	821,149
Europe	8,000	9,000	9,800	11,000	37,800	13,500	16,962	18,649	18,349	67,460	18,532	19,829	21,217	22,702	82,281	88,041
Latin America	5,300	7,600	7,100	8,000	28,000	10,200	12,000	12,960	13,800	48,960	14,766	14,323	14,466	15,479	59,034	63,167
Total POS/AIDC - International	13,300	16,600	16,900	19,000	65,800	23,700	28,962	31,609	32,149	116,420	33,298	34,152	35,684	38,181	141,315	151,207
Total POS/AIDC	135,514	143,791	134,813	145,286	559,404	158,551	175,425	175,257	199,042	716,735	200,171	209,908	215,171	230,108	855,358	972,356
Telephony/CTI	125,089	106,340	92,898	107,974	432,301	117,584	113,784	117,981	133,995	483,344	162,501	142,230	136,858	147,395	588,983	626,098
Pinacor acquisition	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Total Telephony	125,089	106,340	92,898	107,974	432,301	117,584	113,784	117,981	133,995	483,344	162,501	142,230	136,858	147,395	588,983	626,098
Total Revenue	260,603	250,131	227,711	253,260	991,705	276,135	289,209	293,238	333,037	1,200,079	362,672	352,138	352,029	377,503	1,444,341	1,598,454
% of Revenue																
POS/AIDC - North America	46.9%	50.8%	51.8%	49.9%	49.8%	48.8%	50.6%	51.9%	50.1%	50.0%	46.0%	49.9%	51.0%	50.8%	49.4%	51.4%
POS/AIDC - International	2.0%	3.0%	3.1%	3.2%	2.8%	3.7%	4.1%	4.4%	4.1%	4.1%	4.1%	4.1%	4.1%	4.1%	4.1%	4.0%
POS/AIDC	52.0%	57.5%	59.2%	57.4%	56.4%	57.4%	60.7%	59.8%	59.8%	59.7%	55.2%	59.6%	61.1%	61.0%	59.2%	60.8%
Telephony/CTI	48.0%	42.5%	40.8%	42.6%	43.6%	42.6%	39.3%	40.2%	40.2%	40.3%	44.8%	40.4%	38.9%	39.0%	40.8%	39.2%
Total	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%
Growth																
POS/AIDC - Internal - North America	25.9%	25.8%	11.1%	4.9%	16.2%	-0.5%	15.2%	29.0%	32.2%	21.6%	23.7%	20.0%	18.0%	15.0%	18.9%	15.0%
POS/AIDC - Internal - Total	40.2%	38.4%	22.0%	20.2%	27.5%	17.0%	NA	36.3%	37.0%	28.1%	26.3%	19.7%	17.1%	15.6%	19.3%	13.7%
POS/AIDC - Overall	45.0%	38.4%	22.0%	11.0%	27.5%	17.0%	22.0%	30.0%	37.0%	28.1%	26.3%	19.7%	22.8%	15.6%	19.3%	13.7%
Telephony/CTI - Internal	31.1%	2.4%	-8.0%	5.0%	7.2%	-6.0%	7.0%	27.0%	24.1%	11.8%	38.2%	25.0%	16.0%	10.0%	21.9%	6.3%
Total - NA	28.5%	12.4%	-0.3%	0.2%	9.5%	-3.1%	4.0%	18.6%	18.8%	9.3%	19.3%	10.0%	7.9%	1.9%	8.6%	0.2%
Total - Overall	38.0%	20.4%	7.7%	8.4%	17.8%	6.0%	15.6%	28.8%	31.5%	21.0%	31.3%	21.8%	20.0%	13.4%	20.4%	10.7%

(in millions)	1Q03	2Q03	3Q03E	4Q03E	2003E	1Q04E	2Q04E	3Q04E	4Q04E	2004E	1Q05E	2Q05E	3Q05E	4Q05E	2005E
Revenue															
POS/AIDC	117,913	126,286	134,851	146,463	525,513	152,108	166,893	166,873	175,756	661,629	179,487	191,927	191,904	202,119	765,437
Telephony/CTI	92,898	107,974	117,584	113,784	432,239	117,981	133,995	162,501	142,230	556,707	136,858	147,395	175,501	150,764	610,517
Total	210,811	234,260	252,435	260,247	957,753	270,089	300,888	329,374	317,985	1,218,336	316,345	339,322	367,405	352,883	1,375,954
% of Revenue															
POS/AIDC	55.9%	53.9%	53.4%	56.3%	54.9%	56.3%	55.5%	50.7%	55.3%	54.3%	56.7%	56.6%	52.2%	57.3%	55.6%
Telephony/CTI	44.1%	46.1%	46.6%	43.7%	45.1%	43.7%	44.5%	49.3%	44.7%	45.7%	43.3%	43.4%	47.8%	42.7%	44.4%
Total	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%
Growth															
POS/AIDC	25.3%	14.4%	14.6%	15.2%	16.9%	29.0%	32.2%	23.7%	20.0%	25.9%	18.0%	15.0%	15.0%	15.0%	15.7%
Telephony/CTI	14.7%	22.9%	-6.0%	7.0%	8.0%	27.0%	24.1%	38.2%	25.0%	28.8%	16.0%	10.0%	8.0%	6.0%	9.7%
Total	20.4%	18.2%	4.0%	11.4%	12.7%	28.1%	28.4%	30.5%	22.2%	27.2%	17.1%	12.8%	11.5%	11.0%	12.9%

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Fiscal Year Ends: June

Balance Sheet	2001	2002	2003	2004	1Q05	2Q05E	3Q05E	4Q05E
Assets								
Cash and Equivalents	294	1,296	2,565	1,047	2,438	144	3,701	10,771
Receivables, Net	86,917	119,158	129,105	175,417	191,420	199,735	209,877	197,527
Inventory	154,182	182,636	152,261	182,868	188,398	209,171	194,773	207,789
Other Current Assets	18,662	19,343	15,657	14,029	13,450	13,450	13,450	13,450
Total Current Assets	**185,392**	**185,393**	**185,394**	**185,394**	**395,706**	**422,500**	**421,801**	**429,537**
Property Plant and Equipment	21,746	25,995	27,270	23,663	22,756	22,412	22,068	21,801
Other Assets	2,084	10,604	17,489	16,168	16,761	16,761	16,761	16,761
Total Assets	**209,222**	**221,992**	**230,153**	**225,225**	**435,223**	**461,674**	**460,630**	**468,099**
Liabilities and Equity								
Payables	154,561	175,406	151,389	167,053	181,741	200,798	200,005	208,498
Other	9,877	11,524	13,222	18,212	18,771	18,771	18,771	18,771
Total Current Liabilities	**104,848**	**104,849**	**104,850**	**104,850**	**200,512**	**219,569**	**218,776**	**227,269**
Long-term debt	8,866	8,319	7,385	6,584	1,673	1,673	1,673	1,673
Line of Credit/ Other	17,219	45,734	21,464	34,699	35,452	30,952	20,952	8,952
Shareholders Equity	93,362	118,049	150,887	186,644	197,586	209,480	219,229	230,205
Total Liability and Equity	**224,295**	**276,951**	**284,586**	**332,777**	**435,223**	**461,674**	**460,630**	**468,099**

Balance Sheet Analysis	2001	2002	2003	2004	1Q05	2Q05E	3Q05E	4Q05E
Total Debt/Total Capital	22%	31%	16%	18%	16%	13%	9%	4%
LT Debt/Equity	9%	7%	5%	4%	1%	1%	1%	1%
Current Ratio	1.8	1.8	1.8	1.8	2.0	1.9	1.9	1.9
Quick Ratio	0.8	1.1	1.3	1.7	1.0	0.9	1.0	0.9
Days Sales Outstanding	45	45	46	47	47	47	47	47
Inventory Turns	4.4	4.5	5.3	6.3	6.6	6.6	6.6	6.6
Working Capital	80,544	80,544	80,544	80,544	195,194	202,931	203,025	202,268
Book Value/Share	7.62	9.50	12.06	14.41	15.14	15.97	16.67	17.46

Cash Flow Statement	1999	2000	2001	2002	2003	2004
Net Income	7,470	13,785	16,464	19,942	22,493	29,982
+Dep. and Amortization	1,256	2,678	4,434	4,666	5,745	6,379
+Other/Deferred Taxes	(5,564)	(192)	2,521	7,507	9,462	4,861
-Working Cap. Changes	18,333	(39,813)	(4,138)	(30,270)	(6,329)	(57,646)
Cash Flow from Operations	21,495	(23,542)	19,281	1,845	31,371	(16,424)
-Capital Expenditures	(2,081)	(6,588)	(7,619)	(8,520)	(6,324)	(2,484)
Free Cash Flow	19,414	(30,130)	11,662	(6,675)	25,047	(18,908)
Shares (millions)	11,322	11,938	12,249	12,432	12,513	12,952
Operating Cash Flow/ Share	$1.90	($1.97)	$1.57	$0.15	$2.51	($1.27)
Free Cash Flow /Share	$1.71	($2.52)	$0.95	($0.54)	$2.00	($1.46)

DuPont Formula	1999	2000	2001	2002	2003	2004
Net Margins (N/S)	2.6%	2.8%	2.6%	2.3%	2.3%	2.6%
Asset Turnover (S/A)	3.0	3.0	2.6	2.6	2.8	3.1
Leverage (A/E)	1.8	2.5	2.9	3.0	2.6	2.2
Return on Equity	14.0%	20.7%	19.6%	18.4%	16.7%	18.6%

Valuation Measures		1999	2000	2001	2002	2003	2004
Stock Price (fiscal year)		$ 12.38	$ 24.94	$ 36.28	$ 34.97	$ 36.50	$ 38.36
		$ 6.69	$ 10.50	$ 13.60	$ 19.75	$ 19.73	$ 24.24
	6/30	$ 10.82	$ 19.44	$ 23.71	$ 30.71	$ 26.75	$ 49.27
Historical P/E		29.4	28.5	26.4	22.4	22.0	17.0
		14.8	16.4	10.4	12.6	11.0	10.0
Historical P/CF		6.5	NA	23.0	235.6	14.6	-30.3
		3.5	NA	8.6	133.1	7.9	-19.1

Debt Adj. Market Value	1999	2000	2001	2002	2003	2004
Market Value	122,504	232,045	290,412	381,725	334,709	638,136
Liabilities/Other	1,743	26,085	54,053	28,849	10,625	41,283
Cash & Equivalents	15,282	294	1,296	2,565	10,771	1,047
Total DAMV(Enterprise Value)	108,965	257,836	343,169	408,009	334,563	678,372
EBITDA	13,485	25,551	33,232	38,466	46,269	57,960
DAMV/EBITDA	8.1	10.1	10.3	10.6	7.2	11.7

"Appendix - Important Disclosures"

ADDITIONAL INFORMATION ON COMPANIES MENTIONED HEREIN IS AVAILABLE UPON REQUEST

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