

CARNIVAL PLC
Form DEF 14A
March 05, 2008

SCHEDULE 14A

(Rule 14a-101)

INFORMATION REQUIRED IN PROXY STATEMENT

SCHEDULE 14A INFORMATION

Proxy Statement Pursuant to Section 14(a) of the
Securities Exchange Act of 1934 (Amendment No.)

Filed by the Registrant
Filed by a Party other than the Registrant

Check the appropriate box:

- Preliminary Proxy Statement Soliciting Material Under Rule 14a-12
- Confidential, For Use of the Commission Only (as permitted by Rule 14a-6(e)(2))
- Definitive Proxy Statement
- Definitive Additional Materials

CARNIVAL CORPORATION
CARNIVAL PLC

(Name of Registrant as Specified In Its Charter)

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

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

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

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1) Amount previously paid:

2) Form, Schedule or Registration Statement No.:

3) Filing Party:

4) Date Filed:

February 20, 2008

MICKY ARISON
Chairman of the Boards
Chief Executive Officer

To our Shareholders:

We will hold our joint annual meetings of shareholders at The Biltmore Hotel, 1200 Anastasia Avenue, Coral Gables, Florida on Tuesday, April 22, 2008. The meetings will commence at 10:00 a.m. (EDT), and although there are technically two separate meetings (the Carnival plc meeting will begin first), shareholders of Carnival Corporation may attend the Carnival plc meeting and vice-versa. Because we have shareholders in both the United Kingdom and the United States, we plan to continue to rotate the location of the annual meetings between the United States and the United Kingdom each year in order to accommodate shareholders on both sides of the Atlantic.

We are also pleased to offer an audio web cast of the annual meetings at www.carnivalcorp.com or www.carnivalplc.com. We will also host an audio broadcast of the annual meetings at our P&O Cruises headquarters located at Richmond House, Terminus Terrace, Southampton, Hampshire, United Kingdom. Although shareholders will not be able to vote in person from Southampton (they must submit a proxy to vote), they will be able to submit questions to the directors in Florida.

You will find information regarding the matters to be voted on in the attached notices of annual meetings of shareholders and proxy statement. **The Carnival Corporation Notice of Annual Meeting begins on page 1 and the Carnival plc Notice of Annual General Meeting begins on page 3.** Because of the DLC structure, all voting will take place on a poll (or ballot).

We are also pleased to offer our shareholders the opportunity to receive future proxy statements and annual reports over the internet. By using these services, you are not only accessing these materials more quickly than ever before, but you will also help us reduce printing and postage costs associated with their distribution as well as help conserve the earth's valuable resources. Carnival Corporation shareholders can enroll for electronic delivery, after voting online, at www.proxyvote.com. Carnival plc shareholders can enroll at www.shareview.co.uk.

Your vote is important. Whether or not you plan to attend the annual meetings in person, please submit your vote as soon as possible using one of the voting methods described in the attached materials. Submitting your voting instructions by any of these methods will not affect your right to attend the meetings in person should you so choose.

The boards of directors consider Carnival Corporation Proposals 1-8 (being Carnival plc Resolutions 1-20) to be in the best interests of Carnival Corporation & plc and the shareholders as a whole. Accordingly, the boards of directors unanimously recommend that you cast your vote "FOR" Carnival Corporation Proposals 1-8 (being Carnival plc Resolutions 1-20).

Thank you for your ongoing interest in, and continued support of, Carnival Corporation & plc.

Sincerely,

Micky Arison

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Annex A	Carnival plc Directors' Report
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Annex C	Carnival plc Corporate Governance Report

**3655 N.W. 87th Avenue
Miami, Florida 33178**

NOTICE OF ANNUAL MEETING OF CARNIVAL CORPORATION SHAREHOLDERS

IMPORTANT NOTICE REGARDING THE AVAILABILITY OF PROXY MATERIALS FOR THE SHAREHOLDERS MEETING TO BE HELD ON TUESDAY, APRIL 22, 2008

Carnival Corporation's Notice of Annual Meeting and Proxy Statement, Annual Report and other proxy materials are available at www.proxyvote.com.

DATE	Tuesday, April 22, 2008
TIME	10:00 a.m. (EDT), being 3:00 p.m. (BST)
	The Carnival Corporation annual meeting will start directly following the annual general meeting of Carnival plc.
PLACE	The Biltmore Hotel 1200 Anastasia Avenue Coral Gables, Florida 33134
WEB CAST	www.carnivalcorp.com or www.carnivalplc.com
ITEMS OF BUSINESS	<ol style="list-style-type: none">1. To re-elect 13 directors to the boards of each of Carnival Corporation and Carnival plc;2. To re-appoint the independent auditors for Carnival plc and to ratify the selection of the independent registered certified public accounting firm for Carnival Corporation;3. To authorize the Audit Committee of Carnival plc to agree the remuneration of the independent auditors;4. To receive the UK accounts and reports of the directors and auditors of Carnival plc for the financial year ended November 30, 2007 (in accordance with legal requirements applicable to UK companies);5.

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- To approve the directors' remuneration report of Carnival plc (in accordance with legal requirements applicable to UK companies);
6. To approve limits on the authority to allot shares by Carnival plc (in accordance with customary practice for UK companies);
 7. To approve the disapplication of pre-emption rights for Carnival plc shares (in accordance with customary practice for UK companies);
 8. To approve a general authority for Carnival plc to buy back Carnival plc ordinary shares in the open market (in accordance with legal requirements applicable to UK companies desiring to implement share buy back programs); and
 9. To transact such other business as may properly come before the meeting.

RECORD DATE

You are entitled to vote your Carnival Corporation shares if you were a shareholder at the close of business on February 22, 2008.

MEETING ADMISSION

Attendance at the meeting is limited to shareholders. Each Carnival Corporation shareholder may be asked to present valid picture identification, such as a driver's license or passport. Shareholders holding shares in brokerage accounts ("under a street name") will need to bring a copy of a brokerage statement reflecting share ownership as of the record date. Due to security measures, all bags will be subject to search, and all persons who attend the meeting will be subject to a metal detector and/or a hand wand search. We will be unable to admit anyone who does not comply with these security procedures.

VOTING BY PROXY

Please submit a proxy as soon as possible so that your shares can be voted at the meeting in accordance with your instructions. For specific instructions, please refer to the Questions and Answers beginning on page 8 of this proxy statement and the instructions on your proxy card.

On behalf of the Board of Directors
ARNALDO PEREZ
*Senior Vice President,
General Counsel & Secretary*

A proxy statement and proxy card are enclosed. All Carnival Corporation shareholders are urged to follow the instructions attached to the proxy card and complete, sign, date and mail the proxy card promptly. The enclosed envelope for return of the proxy card requires no postage. Any shareholder attending the meeting in Florida may personally vote on all matters that are considered, in which event the signed proxy will be revoked.

This proxy statement and accompanying proxy card are being distributed on or about March 10, 2008.

THIS NOTICE OF ANNUAL GENERAL MEETING IS IMPORTANT. IF YOU ARE IN ANY DOUBT AS TO THE ACTION YOU SHOULD TAKE, YOU SHOULD IMMEDIATELY CONSULT YOUR STOCKBROKER, BANK MANAGER, SOLICITOR, ACCOUNTANT OR OTHER INDEPENDENT FINANCIAL ADVISER AUTHORIZED UNDER THE UK FINANCIAL SERVICES AND MARKETS ACT 2000.

IF YOU HAVE SOLD OR OTHERWISE TRANSFERRED ALL YOUR SHARES IN CARNIVAL PLC, PLEASE SEND THIS DOCUMENT AND THE ACCOMPANYING DOCUMENTS TO THE PURCHASER OR TRANSFEREE OR TO THE STOCKBROKER, BANK OR OTHER AGENT THROUGH WHOM THE SALE OR TRANSFER WAS EFFECTED FOR TRANSMISSION TO THE PURCHASER OR TRANSFEREE.

**Carnival House
5 Gainsford Street
London SE1 2NE
United Kingdom**

NOTICE OF ANNUAL GENERAL MEETING OF CARNIVAL PLC SHAREHOLDERS

NOTICE IS HEREBY GIVEN that an ANNUAL GENERAL MEETING of Carnival plc will be held at The Biltmore Hotel, 1200 Anastasia Avenue, Coral Gables, Florida, United States of America on Tuesday, April 22 2008 at 10:00 a.m. (EDT), being 3:00 p.m. (BST), for the purpose of considering and, if thought fit, passing the resolutions described below:

- Resolutions 1 through 18 will be proposed as ordinary resolutions. For ordinary resolutions, the required majority is more than 50% of the combined votes cast at this meeting and Carnival Corporation's annual meeting.
- Resolutions 19 and 20 will be proposed as special resolutions. For special resolutions, the required majority is not less than 75% of the combined votes cast at this meeting and Carnival Corporation's annual meeting.

To consider the following resolutions as ordinary resolutions:

Re-election of directors

1. To re-elect Micky Arison as a director of Carnival Corporation and as a director of Carnival plc.
2. To re-elect Ambassador Richard G. Capen, Jr. as a director of Carnival Corporation and as a director of Carnival plc.
3. To re-elect Robert H. Dickinson as a director of Carnival Corporation and as a director of Carnival plc.
4. To re-elect Arnold W. Donald as a director of Carnival Corporation and as a director of Carnival plc.
5. To re-elect Pier Luigi Foschi as a director of Carnival Corporation and as a director of Carnival plc.
6. To re-elect Howard S. Frank as a director of Carnival Corporation and as a director of Carnival plc.
7. To re-elect Richard J. Glasier as a director of Carnival Corporation and as a director of Carnival plc.
8. To re-elect Modesto A. Maidique as a director of Carnival Corporation and as a director of Carnival plc.

9. To re-elect Sir John Parker as a director of Carnival Corporation and as a director of Carnival plc.
10. To re-elect Peter G. Ratcliffe as a director of Carnival Corporation and as a director of Carnival plc.
11. To re-elect Stuart Subotnick as a director of Carnival Corporation and as a director of Carnival plc.
12. To re-elect Laura Weil as a director of Carnival Corporation and as a director of Carnival plc.

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13. To re-elect Uzi Zucker as a director of Carnival Corporation and as a director of Carnival plc.

Re-appointment and remuneration of Carnival plc auditors and ratification of Carnival Corporation auditors

14. To re-appoint the UK firm of PricewaterhouseCoopers LLP as independent auditors of Carnival plc and to ratify the selection of the U.S. firm of PricewaterhouseCoopers LLP as the independent registered certified public accounting firm of Carnival Corporation.
15. To authorize the Audit Committee of the board of directors of Carnival plc to agree the remuneration of the independent auditors.

Accounts and Reports

16. To receive the UK accounts and the reports of the directors and auditors of Carnival plc for the financial year ended November 30, 2007.

Directors' remuneration report

17. To approve the directors' remuneration report of Carnival plc as set out in the annual report for the financial year ended November 30, 2007.

Allotment of shares

18. THAT the authority and power conferred on the directors by Article 30 of Carnival plc's articles of association be renewed for a period commencing at the end of the meeting and expiring at the end of the next annual general meeting of Carnival plc after the date on which this resolution is passed and for that period the Section 80 amount shall be \$21,111,639.

To consider the following resolutions as special resolutions:

Disapplication of pre-emption rights

19. THAT subject to passing ordinary resolution 18 set out in the notice, the power conferred on the directors by Article 31 of Carnival plc's articles of association be renewed for a period commencing at the end of the meeting and expiring at the end of the next annual general meeting of Carnival plc after the date on which this resolution is passed and for that period the Section 89 amount shall be \$17,694,418.

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General authority to buy back Carnival plc ordinary shares

20. THAT Carnival plc be and is generally and unconditionally authorized to make market purchases (within the meaning of Section 163(3) of the UK Companies Act 1985 (the "Companies Act 1985")) of ordinary shares of \$1.66 each in the capital of Carnival plc provided that:
- (a) the maximum number of ordinary shares authorized to be acquired is 21,318,575;
- (b) the minimum price (exclusive of expenses) which may be paid for an ordinary share is \$1.66;

- (c) the maximum price which may be paid for an ordinary share is an amount (exclusive of expenses) equal to the higher of (1) 105% of the average middle market quotation for an ordinary share, as derived from the London Stock Exchange Daily Official List, for the five business days immediately preceding the day on which such ordinary share is contracted to be purchased and (2) the amount stipulated by Article 5 of Commission Regulation No. 2273/2003 of 22 December 2003; and
- (d) this authority shall expire on the earlier of (i) the conclusion of the annual general meeting of Carnival plc to be held in 2009 and (ii) 18 months from the date of this resolution (except in relation to the purchase of ordinary shares, the contract of which was entered into before the expiry of such authority).

By Order of the Board

Arnaldo Perez
Company Secretary

February 20, 2008

Registered Office:
Carnival House
5 Gainsford Street
London SE1 2NE
United Kingdom

Registered Number 4039524

Voting Arrangements for Carnival plc Shareholders

Carnival plc shareholders can vote in either of two ways:

- by attending the meeting and voting in person or by attorney or, in the case of corporate shareholders, by corporate representatives; or
- by appointing a proxy to attend and vote on their behalf, using the proxy form enclosed with this notice of annual general meeting.

Voting in person (or by attorney)

If you come to the annual general meeting, please bring the attendance card (attached to the enclosed proxy form) with you. This will mean you can register more quickly. If you appoint an attorney to attend instead of you, he or she should bring an original or certified copy of the power of attorney under which you have authorized them to attend and vote.

In order to attend and vote at the annual general meeting, a corporate shareholder may appoint one or more individuals to act as its representative. The appointment must comply with the requirements of Section 323 of the Companies Act 2006. Each representative should bring evidence of their appointment, including any authority under which it is signed, to the meeting. If you are a corporation and are considering appointing a corporate representative to represent you and vote your shareholding in Carnival plc at the annual general meeting you are strongly encouraged to pre-register your corporate representative to make registration on the day of the meeting more efficient. In order to pre-register, please fax your Letter of Representation to Carnival plc's registrars, Equiniti, on 01903 833168 from within the United Kingdom or +44 1903 833168 from elsewhere.

Voting by proxy

A shareholder entitled to attend and vote at the meeting is entitled to appoint one or more proxies to attend, speak and vote in his or her stead. A proxy need not be a shareholder of Carnival plc. A shareholder who appoints more than one proxy must appoint each proxy to exercise the votes attaching to specified shares held by that shareholder. A person who is nominated to enjoy information rights in accordance with Section 146 of the Companies Act 2006, but is not a shareholder, is not entitled to appoint a proxy.

If you are a person nominated to enjoy information rights in accordance with Section 146 of the Companies Act 2006 you may have a right under an agreement between you and the member by whom you were nominated to be

appointed, or to have someone else appointed, as a proxy for the meeting. If you have no such right, or you have such a right but do not wish to exercise it, you may have a right under such an agreement to give instructions to the member as to the exercise of voting rights.

To be effective, a duly completed proxy form and the authority (if any) under which it is signed, or a notarially certified copy of such authority, must be deposited (whether delivered personally or by post) at the offices of Carnival plc's registrars, Equiniti, Aspect House, Spencer Road, Lancing, West Sussex BN99 6BE, United Kingdom as soon as possible and in any event no later than 3:00 p.m. (BST) on April 20, 2008. Alternatively, a proxy vote may be submitted via the internet in accordance with the instructions set out on the proxy form.

In the case of joint registered holders, the signature of one holder on a proxy card will be accepted and the vote of the senior holder who tenders a vote, whether in person or by proxy, shall be accepted to the exclusion of the votes of the other joint holders. For this purpose, seniority shall be determined by the order in which names stand on the register of shareholders of Carnival plc in respect of the relevant joint holding.

In order for a proxy appointment or instruction made using the CREST service to be valid, the appropriate CREST message (a "CREST Proxy Instruction") must be properly authenticated in accordance with Euroclear's specifications and must contain the information required for such instructions, as described in the CREST Manual. The message, regardless of whether it constitutes the appointment of a proxy or an amendment to the instruction given to a previously appointed proxy must, in order to be valid, be transmitted so as to be received by the issuer's agent (ID 7RA01) by the latest time(s) for receipt of proxy appointments specified in the notice of meeting. For this purpose, the time of receipt will be taken to be the time (as determined by the timestamp applied to the message by the CREST Applications Host) from which the issuer's agent is able to retrieve the message by enquiry to CREST in the manner prescribed by CREST. After this time any change of instructions to proxies appointed through CREST should be communicated to the appointee through other means.

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CREST members and, where applicable, their CREST sponsors or voting service providers should note that Euroclear does not make available special procedures in CREST for any particular messages. Normal system timings and limitations will therefore apply in relation to the input of CREST Proxy Instructions. It is the responsibility of the CREST member concerned to take (or, if the CREST member is a CREST personal member or sponsored member or has appointed a voting service provider(s), to procure that his CREST sponsor or voting service provider(s) take(s)) such action as shall be necessary to ensure that a message is transmitted by means of the CREST system by any particular time. In this connection, CREST members and, where applicable, their CREST sponsors or voting service providers are referred, in particular, to those sections of the CREST Manual concerning practical limitations of the CREST system and timings.

Carnival plc may treat as invalid a CREST Proxy Instruction in the circumstances set out in Regulation 35(5)(a) of the Uncertificated Securities Regulations 2001.

Shareholders who are entitled to vote

Carnival plc, pursuant to Regulation 41 of the Uncertificated Securities Regulations 2001, specifies that only those shareholders registered in the register of members of Carnival plc at 11:00 p.m. (BST) on April 20, 2008 shall be entitled to attend or vote at the meeting in respect of the number of shares registered in their name at that time. Changes to the entries on the register of members after 11:00 p.m. (BST) on April 20, 2008 shall be disregarded in determining the rights of any person to attend or vote at the meeting.

Documents available for inspection

Copies of all service agreements (including letters of appointment) between each director and Carnival plc will be available for inspection during normal business hours on any weekday (public holidays excluded) at the registered office of Carnival plc from the date of this notice until and including the date of the meeting and at the place of the meeting for at least 15 minutes prior to and during the meeting.

* * *

There are 20 Resolutions that require shareholder approval at the annual meeting this year. The directors unanimously recommend that you vote in favor of Resolutions 1-20 (inclusive), and encourage you to submit your vote using one of the voting methods described herein. Submitting your voting instructions by any of these methods will not affect your right to attend the meeting in person should you so choose.

**QUESTIONS AND ANSWERS
ABOUT THE PROXY MATERIALS AND THE ANNUAL MEETINGS**

Q: *Why am I receiving these materials?*

A: The board of directors of each of Carnival Corporation and Carnival plc (together, "Carnival Corporation & plc," "we" or "us") is providing these proxy materials to you in connection with our joint annual meetings of shareholders on Tuesday, April 22, 2008. The annual meetings will be held at The Biltmore Hotel, 1200 Anastasia Avenue, Coral Gables, Florida 33134, United States of America. The meetings will commence at 10:00 a.m. (EDT), and although technically two separate meetings (the Carnival plc meeting will begin first), shareholders of Carnival Corporation may attend the Carnival plc meeting and vice-versa. For our UK shareholders, we will be hosting a live audio broadcast of the annual meeting at our P&O Cruises headquarters located at Richmond House, Terminus Terrace, Southampton, Hampshire, United Kingdom. Shareholders in Southampton will be able to submit questions to the directors in Florida, but will not be able to vote at that meeting.

Q: *What information is contained in these materials?*

A: The information included in this proxy statement relates to the proposals to be voted on at the meetings, the voting process, the compensation of directors and certain executive officers and certain other information required by U.S. Securities and Exchange Commission rules applicable to both companies. We have attached as Annexes A, B and C to this proxy statement information that Carnival plc is required to provide to its shareholders under applicable UK rules.

Q: *What proposals will be voted on at each of the meetings?*

A: The proposals to be voted on at each of the meetings are set out in the notices of meetings starting on pages 1 and 3 of this proxy statement.

Q: *What is the voting recommendation of the boards of directors?*

A: Your boards of directors recommend that you vote "FOR" all of the proposals described in this proxy statement.

Q: *How does the DLC structure affect my voting rights?*

A: On most matters that affect all of the shareholders of Carnival Corporation and Carnival plc, the shareholders of both companies effectively vote together as a single decision-making body. These matters are called "joint electorate actions." Combined voting is accomplished through the special voting shares that have been issued by each company. Certain matters specified in the organizational documents of Carnival Corporation and Carnival plc where the

interests of the two shareholder bodies may diverge are called "class rights actions." These class rights actions are voted on separately by the shareholders of each company. If either group of shareholders does not approve a class rights action, that action generally cannot be taken by either company. All of the proposals to be voted on at these annual meetings are joint electorate actions, and there are no class rights actions.

Q: ***Generally, what actions are joint electorate actions?***

A: Any resolution to approve an action other than a class rights action or a procedural resolution (described below) is designated as a joint electorate action. The actions designated as joint electorate actions include:

- the appointment, removal, election or re-election of any director of either or both companies;
- if required by law, the receipt or adoption of the annual accounts of both companies;
- the appointment or removal of the independent auditors of either company;
- a change of name by either or both companies; or
- the implementation of a mandatory exchange of Carnival plc shares for Carnival Corporation shares based on a change in tax laws, rules or regulations.

The relative voting rights of Carnival plc shares and Carnival Corporation shares are equalized based on a ratio which we refer to as the "equalization ratio." Based on the current equalization ratio of 1:1, each Carnival Corporation share has the same voting rights as one Carnival plc share on joint electorate actions.

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Q: ***How are joint electorate actions voted on?***

A: Joint electorate actions are voted on as follows:

- Carnival plc shareholders vote at the annual general meeting of Carnival plc (whether in person or by proxy). Voting is on a poll (or ballot) which remains open for sufficient time to allow the vote at the Carnival Corporation meeting to be held and reflected in the Carnival plc meeting through the mechanism of the special voting share. An equivalent vote is cast at the subsequent Carnival Corporation meeting on each of the corresponding resolutions through a special voting share issued by Carnival Corporation; and
- Carnival Corporation shareholders vote at the Carnival Corporation annual meeting (whether in person or by proxy). Voting is by ballot (or on a poll) which remains open for sufficient time to allow the vote at the Carnival plc meeting to be held and reflected in the Carnival Corporation meeting through the mechanism of the special voting share. An

equivalent vote is cast on the corresponding resolutions at the Carnival plc meeting through a special voting share issued by Carnival plc.

A joint electorate action is approved if it is approved by:

- a simple majority of the votes cast in the case of an ordinary resolution (or not less than 75% of the votes cast in the case of a special resolution if required by applicable law and regulations or Carnival plc's articles) by the holders of Carnival plc's shares and the holder of the Carnival plc special voting share as a single class at a meeting at which a quorum was present and acting;
- a simple majority of the votes cast (or other majority if required by applicable law and regulations or the Carnival Corporation articles and by-laws) by the holders of Carnival Corporation shares and the holder of the Carnival Corporation special voting share, voting as a single class at a meeting which a quorum was present and acting; and
- a minimum of one-third of the total votes available to be voted by the combined shareholders must be cast on each resolution for it to be effective. Formal abstentions (or votes withheld) by a shareholder on a resolution will be counted as having been "cast" for this purpose.

Q: *How are the directors of each company elected or re-elected?*

A: Resolutions relating to the election or re-election of directors are considered as joint electorate actions. No person may be a member of the board of directors of Carnival Corporation or Carnival plc without also being a member of the board of directors of the other company. There are 13 nominees for re-election to the board of directors of each company this year. Each nominee currently serves as a director of Carnival Corporation and Carnival plc. All directors are to be re-elected to serve until the next annual meetings and until their successors are elected.

Q: *What votes are required to elect directors or approve the other proposals?*

A: Carnival Corporation Proposals 7 and 8 (being Carnival plc Resolutions 19 and 20) are required to be approved by 75% of the combined votes cast at both meetings.

Each of the other proposals, including the re-election of directors, requires the approval of a majority of the combined votes cast at both meetings. Abstentions (including votes withheld, except in the case of the re-election of directors by Carnival Corporation shareholders as discussed below) and broker non-votes are not deemed votes cast for purposes of calculating the vote, but do count for the purpose of determining whether a quorum is present. In the election of directors by Carnival Corporation shareholders, votes withheld in respect of one or more nominees count for the purpose of determining whether a quorum is present and are deemed votes cast against such nominee or nominees.

If you are a beneficial owner of Carnival Corporation shares and do not provide the shareholder of record with a signed voting instruction card, your shares may constitute broker non-votes, as described in "*How is the quorum determined?*" In tabulating the voting result for any particular proposal, shares which constitute broker non-votes are not deemed cast for purposes of calculating the vote.

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Q: ***Generally, what are procedural resolutions?***

A: Procedural resolutions are resolutions of a procedural or technical nature that do not adversely affect the shareholders of the other company in any material respect and are put to the shareholders at a meeting. The special voting shares do not represent any votes on "procedural resolutions." The chairman of each of the meetings will determine whether a resolution is a procedural resolution.

To the extent that such matters require the approval of the shareholders of either company, any of the following will be procedural resolutions:

- that certain people be allowed to attend or be excluded from attending the meeting;
- that discussion be closed and the question put to the vote (provided no amendments have been raised);
- that the question under discussion not be put to the vote (where a shareholder feels the original motion should not be put to the meeting at all, if such original motion was brought during the course of that meeting);
- to proceed with matters in an order other than that set out in the notice of the meeting;
- to adjourn the debate (for example, to a subsequent meeting); and
- to adjourn the meeting.

Q: ***Where can I find the voting results of the meeting?***

A: The voting results will be announced to the media and the relevant stock exchanges and posted on our website at www.carnivalcorp.com and www.carnivalplc.com, after both shareholder meetings have closed. The results will also be published in our joint quarterly report on Form 10-Q for the second quarter of fiscal 2008 ending May 31, 2008.

Q: ***What is the quorum requirement for the meetings?***

A: The quorum requirement for holding the meetings and transacting business at the meetings is one-third of the total votes of all shareholders of both companies entitled to be voted. Shareholders may be present in person (or by attorney) or represented by proxy at the meetings.

Q: ***How is the quorum determined?***

A: For purposes of determining a quorum with respect to joint electorate actions, the special voting shares have the maximum number of votes

attached to them as were cast on such joint electorate actions, either for, against or abstained, at the parallel shareholder meeting of the other company, and such maximum number of votes (including abstentions) constitutes shares entitled to vote and present for purposes of determining whether a quorum exists at such meeting.

In order for a quorum to be validly constituted with respect to meetings of shareholders convened to consider a joint electorate action or class rights action, the special voting entities must be present.

Abstentions (including votes withheld) and broker non-votes are counted as present for the purpose of determining the presence of a quorum. Generally, broker non-votes occur when shares held by a broker for a beneficial owner are not voted with respect to a particular proposal because (1) the broker has not received voting instructions from the beneficial owner and (2) the broker lacks discretionary voting power to vote such shares.

Q: *Is my vote confidential?*

A: Proxy instructions, ballots and voting tabulations that identify individual shareholders are handled in a manner that protects your voting privacy. Your vote will not be disclosed to third parties except (1) as necessary to meet applicable legal requirements, (2) to allow for the tabulation of votes and certification of the vote or (3) to facilitate a successful proxy solicitation by our boards of directors. Occasionally, shareholders provide written comments on their proxy card which are then forwarded to management.

Q: *Who will bear the cost of soliciting votes for the meetings?*

A: We will pay the entire cost of preparing, assembling, printing, mailing and distributing these proxy materials and soliciting votes for the meetings. We will also reimburse brokerage houses and other custodians, nominees and fiduciaries for their reasonable out-of-pocket expenses for forwarding proxy materials to shareholders.

Q: *Can I view the proxy materials electronically?*

A: Yes. This proxy statement and any other proxy materials will be posted on our website at www.carnivalcorp.com and www.carnivalplc.com.

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Q: *What reports are filed by Carnival Corporation and Carnival plc with the U.S. Securities and Exchange Commission and how can I obtain copies?*

A: We file this proxy statement, joint annual reports on Form 10-K, joint quarterly reports on Form 10-Q and joint current reports on Form 8-K with the U.S. Securities and Exchange Commission. Copies of this proxy statement, the Carnival Corporation & plc joint annual report on Form 10-K for the year ended November 30, 2007, as well as any joint quarterly reports on Form 10-Q or joint current reports on Form 8-K, as filed with the U.S. Securities and Exchange Commission can be viewed or obtained without charge through the U.S. Securities and Exchange Commission's website at www.sec.gov (under Carnival Corporation or Carnival plc) or at www.carnivalcorp.com or www.carnivalplc.com. Copies will also be provided to shareholders without charge upon written request to Investor Relations, Carnival Corporation, 3655 N.W. 87th Avenue, Miami, Florida 33178 or Carnival plc, Carnival House, 5 Gainsford Street, London SE1

2NE, United Kingdom. We encourage you to take advantage of the convenience of accessing these materials through the internet as it is simple and fast to use, saves time and money, and is environmentally friendly.

Q: *May I propose actions for consideration at next year's annual meetings?*

A: Carnival Corporation shareholders and Carnival plc shareholders (to the extent permitted under Carnival plc's governing documents and UK law) may submit proposals for consideration at future shareholder meetings, including director nominations. In order for shareholder proposals to be considered for inclusion in our proxy statement for next year's annual meetings, the written proposals must be received by our Secretary no later than November 10, 2008. Such proposals also will need to comply with U.S. Securities and Exchange Commission regulations and UK corporate law requirements regarding the inclusion of shareholder proposals in company sponsored proxy materials. Any proposal of shareholders to be considered at next year's meetings, but not included in our proxy statement, must be submitted in writing by January 24, 2009.

Q: *May I nominate individuals to serve as directors?*

A: You may propose director candidates for consideration by our board's Nominating & Governance Committees. In order to have a nominee considered by the Nominating & Governance Committees for election at the 2008 annual meetings you must submit your recommendation in writing to the attention of our Secretary at our headquarters not later than November 10, 2008. Any such recommendation must include:

- the name and address of the candidate;
- a brief biographical description, including his or her occupation for at least the last five years, and a statement of the qualifications of the candidate, taking into account the factors referred to below in "*Board Structure and Committee Meetings [Nominations of Directors]*"; and
- the candidate's signed consent to serve as a director if elected and to be named in the proxy statement.

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QUESTIONS SPECIFIC TO SHAREHOLDERS OF CARNIVAL CORPORATION

Carnival plc shareholders should refer to the "*Questions Specific to Shareholders of Carnival plc*" beginning on page 15.

Q: *What Carnival Corporation shares owned by me can be voted?*

A: All Carnival Corporation shares owned by you as of February 22, 2008, the record date, may be voted by you. These shares include those (1) held directly in your name as the shareholder of record, including shares purchased through Carnival Corporation's Dividend Reinvestment Plan and its Employee Stock Purchase Plan and (2) held for you as the beneficial owner through a stockbroker, bank or other nominee.

Q: *Will I be asked to vote at the Carnival plc annual meeting?*

A: No. Your vote at the Carnival Corporation annual meeting, for purposes of determining the outcome of combined voting, is automatically reflected as appropriate at the parallel annual meeting of Carnival plc through the mechanism of the special voting share issued by Carnival plc.

Q: ***What is the difference between holding shares as a shareholder of record and as a beneficial owner?***

A: Most of the shareholders of Carnival Corporation hold their shares through a stockbroker, bank or other nominee rather than directly in their own name. As summarized below, there are some distinctions between shares held of record and those owned beneficially.

Shareholder of Record

If your shares are registered directly in your name with Carnival Corporation's transfer agent, Computershare Investor Services LLC, you are considered, with respect to those shares, the shareholder of record, and these proxy materials are being sent directly to you by us. As the shareholder of record, you have the right to grant your voting proxy directly to the persons named in the proxy or to vote in person at the meeting. Carnival Corporation has enclosed a proxy card for you to use.

Beneficial Owner

If your shares are held in a stock brokerage account or by a bank or other nominee, you are considered the beneficial owner of shares held in street name, and these proxy materials are being forwarded to you by your broker or nominee who is considered, with respect to those shares, the shareholder of record. As the beneficial owner, you have the right to direct your broker on how to vote and are also invited to attend the meeting. However, since you are not the shareholder of record, you may not vote these shares in person at the meeting. Your broker or nominee has enclosed a voting instruction card for you to use.

Q: ***How can I vote my Carnival Corporation shares in person at the meeting?***

A: Shares held directly in your name as the shareholder of record may be voted in person at the annual meeting in Florida. If you choose to do so, please bring the enclosed proxy card and proof of identification.

Even if you plan to attend the annual meeting, we recommend that you also submit your proxy as described below so that your vote will be counted if you later decide not to attend the meeting. Shares held in street name may be voted in person by you only if you obtain a signed proxy from the record holder giving you the right to vote the shares. Please refer to the voting instructions provided by your broker or nominee.

Q: ***How can I vote my Carnival Corporation shares without attending the meeting?***

A: Whether you hold shares directly as the shareholder of record or beneficially in street name, you may direct your vote without attending the meeting. You may vote by granting a proxy or, for shares held in street name, by submitting voting instructions to your broker or nominee. For shareholders of record, you may do this by signing your proxy card and mailing it in the enclosed envelope. If you provided specific voting instructions, your shares will be voted as you instruct. If you sign but do not provide instructions, your shares will be voted as described below in "*How are votes counted?*" Where your shares are held in street name, in most instances you will be able to do this over the internet at www.proxyvote.com, by telephone or by mail. Please refer to the voting instruction card included by your broker or nominee.

Q: ***Can I change my vote?***

A: You may change your proxy instruction at any time prior to the vote at the annual meeting. For shares held directly in your name, you may accomplish this by granting a new proxy bearing a later date (which automatically revokes the earlier proxy) or by attending the annual meeting and voting in person. Attendance at the meeting will not cause your previously granted proxy to be revoked unless you specifically so request. For shares owned beneficially by you, you may accomplish this by submitting new voting instructions to your broker or nominee.

Q: ***What does it mean if I receive more than one proxy or voting instruction card?***

A: It means your shares are registered differently or are in more than one account. Please provide voting instructions on each proxy or voting card you receive and mail each, as directed.

Q: ***Only one set of proxy materials was delivered to my address, but there are two or more shareholders at this address. How do I request additional copies of the proxy materials?***

A: Broadridge Financial Solutions, Inc., the entity we have retained to mail the proxy materials to Carnival Corporation's registered owners and the entity retained by the brokerage community to mail the proxy materials to Carnival Corporation's beneficial owners, has been instructed to deliver only one set of the proxy materials to multiple security holders sharing an address unless we have received contrary instructions from you or one of the other shareholders. We will promptly deliver a separate copy of the proxy materials to any shareholder upon written or oral request.

Q: ***Who can attend the Carnival Corporation meeting?***

A: All Carnival Corporation shareholders of record as of February 22, 2008, or their duly appointed proxies, may attend and vote at the meeting. Each shareholder may be asked to present valid picture identification, such as a driver's license or passport.

If you hold your shares through a stockbroker or other nominee, you will need to provide proof of ownership by bringing either a copy of the voting instruction card provided by your broker or a copy of a brokerage statement showing your share ownership as of February

22, 2008 together with proof of identification. Cameras, recording devices and other electronic devices will not be permitted at the meeting.

Q: ***What class of shares are entitled to be voted at the Carnival Corporation meeting?***

A: Carnival Corporation has only one class of common stock outstanding. Each share of Carnival Corporation common stock outstanding as of the close of business on February 22, 2008, the record date, is entitled to one vote at the annual meeting. As of January 22, 2008, Carnival Corporation had 623,620,686 shares of common stock issued and outstanding. The trust shares of beneficial interest in the P&O Princess Special Voting Trust that are paired with your shares of common stock do not give you separate voting rights.

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Q: ***How are votes counted?***

A: In the election of directors, you may vote "FOR" all of the nominees or you may "WITHHOLD" your vote with respect to one or more of the nominees. In the election of directors, a vote "withheld" on the Carnival Corporation proxy card has the same effect as a vote against the indicated nominee or nominees. You may vote "FOR," "AGAINST" or "ABSTAIN" for each of the other proposals. If you "ABSTAIN," it has no effect on the outcome of the votes, although abstentions will be counted for purposes of determining if a quorum is present for joint electorate actions. If you sign your proxy card or broker voting instruction card with no further instructions, your shares will be voted in accordance with the recommendations of the boards of directors.

Q: ***What happens if additional proposals are presented at the meeting?***

A: Other than the proposals described in this proxy statement, Carnival Corporation does not expect any matters to be presented for a vote at the annual meeting. If you grant a proxy, the persons named as proxy holders, Micky Arison, Carnival Corporation's Chairman of the Board and Chief Executive Officer, and Arnaldo Perez, Carnival Corporation's Senior Vice President, General Counsel and Secretary, will have the discretion to vote your shares on any additional matters properly presented for a vote at the meeting. If for any unforeseen reason any of our nominees is unable to accept nomination or election (which is not anticipated), the persons named as proxy holders will vote your proxy for such other candidate or candidates as may be nominated by the boards of directors.

Q: ***Who will count the vote?***

A: A representative of Computershare Investor Services LLC, our transfer agent, will tabulate the votes and act as the inspector of elections.

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QUESTIONS SPECIFIC TO SHAREHOLDERS OF CARNIVAL PLC

Carnival Corporation shareholders should refer to "Questions Specific to Shareholders of Carnival Corporation" beginning on page 12.

Q: *Who is entitled to attend and vote at the annual general meeting of Carnival plc?*

A: If you are a Carnival plc shareholder registered in the register of members of Carnival plc at 11:00 p.m. (BST) on April 20, 2008, you will be entitled to attend in person and vote at the annual general meeting to be held in Coral Gables, Florida in respect of the number of Carnival plc shares registered in your name at that time. You may also appoint one or more proxies to attend, speak and vote instead of you. If you are a corporation you may appoint one or more corporate representatives to represent you and vote your shareholding in Carnival plc at the annual general meeting to be held in Coral Gables, Florida. For further details regarding appointing a proxy or corporate representative please see below.

We are also offering an audio web cast of the annual meetings. If you choose to listen to the web cast, go to our website at www.carnivalcorp.com or www.carnivalplc.com shortly before the start of the meetings and follow the instructions provided. For your convenience, we will also be hosting a live audio broadcast of the Carnival plc annual general meeting and the Carnival Corporation annual meeting, at our P&O Cruises headquarters located at Richmond House, Terminus Terrace, Southampton, Hampshire, United Kingdom, from 3:00 p.m. (BST). All Carnival plc and Carnival Corporation shareholders and their guests are welcome to attend the live audio broadcast, although only Carnival plc and Carnival Corporation shareholders will be able to submit questions to the directors from Southampton. Please note further that only shareholders attending the meetings to be held in Florida will be able to vote in person. Accordingly, Carnival plc shareholders attending the audio broadcast of the meetings in Southampton will need to submit a proxy to make their vote count.

Q: *Will I be asked to vote at the Carnival Corporation annual meeting?*

A: No. Your vote at the Carnival plc annual general meeting, for purposes of determining the outcome of combined voting, will automatically be reflected as appropriate at the parallel annual meeting of Carnival Corporation through the mechanism of a special voting share issued by Carnival Corporation.

Q: *How do I vote my Carnival plc shares without attending the annual general meeting?*

A: You may vote your Carnival plc shares at the annual general meeting by completing and signing the enclosed form of proxy in accordance with the instructions set out on the form and returning it as soon as possible, but in any event so as to be received by Carnival plc's registrars, Equiniti, Aspect House, Spencer Road, Lancing, West Sussex BN99 6BE, by not later than 3:00 p.m. (BST) on April 20, 2008. Alternatively, a proxy vote may be submitted via the internet in accordance with the instructions set out in the proxy form. It is also possible to appoint a proxy via the CREST system, please see the Carnival plc Notice of Annual General Meeting for further details.

Voting by proxy does not preclude you from attending the annual general meeting and voting in person should you wish to do so.

If you are a corporation you can vote your Carnival plc shares at the annual general meeting by appointing one or more corporate representatives. You are strongly encouraged to pre-register your corporate representative to make registration on the day of the annual meeting more efficient. In order to pre-register you would need to fax your Letter of Representation to Carnival plc's registrars, Equiniti, on 01903 833168 from within the United Kingdom or +44 1903 833168 from elsewhere.

Corporate representatives themselves are urged to arrive at least two hours before commencement of the annual general meeting to assist Carnival plc's registrars with the appropriate registration formalities. Whether or not you intend to appoint a corporate representative, you are strongly encouraged to return the enclosed form of proxy to Carnival plc's registrars.

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Q: ***Can I change my vote given by proxy or by my corporate representative?***

A: Yes, in certain circumstances. You may change your proxy vote by either completing, signing and dating a new form of proxy in accordance with its instructions and returning it to Carnival plc's registrars by no later than 3:00 p.m. (BST) on April 20, 2008, or by attending and voting in person at the annual general meeting.

If you do not attend and vote in person at the annual general meeting and wish to revoke the appointment of your proxy or corporate representative you must do so by delivering a notice of such revocation to Carnival plc's registrars at least three hours before the start of the annual general meeting.

Q: ***What class of shares are entitled to be voted at the Carnival plc meeting?***

A: Carnival plc has only one class of ordinary shares in issue. Each Carnival plc ordinary share in issue as of the close of business on April 20, 2008, is entitled to one vote at the annual general meeting. As of January 22, 2008, Carnival plc had 213,185,759 ordinary shares issued and outstanding. However, the 50,930,744 Carnival plc ordinary shares indirectly held by Carnival Corporation have no voting rights (in accordance with Carnival plc's articles of association).

Q: ***How are votes counted?***

A: You may vote "FOR," "AGAINST" or "WITHHOLD" your vote for each of the resolutions. If you "WITHHOLD," it has no effect on the outcome of the votes, although withheld votes will be counted for purposes of determining if a quorum is present for joint electorate actions.

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Set forth below is information concerning the share ownership of (1) all persons known by us to be the beneficial owners of 5% or more of the 623,620,686 shares of Carnival Corporation common stock and trust shares of beneficial interest in the P&O Princess Special Voting Trust outstanding as of January 22, 2008, (2) all persons known by us to be the beneficial owners of 5% or more of the 213,185,759 ordinary shares of Carnival plc outstanding as of January 22, 2008, 50,930,744 of which are indirectly owned by Carnival Corporation and have no voting rights, (3) each of our executive officers named in the Summary Compensation Table for Fiscal Year 2007 which appears elsewhere in this proxy statement, (4) each of our directors and (5) all directors and executive officers as a group.

Micky Arison, Chairman of the board and Chief Executive Officer of each of Carnival Corporation and Carnival plc, certain other members of the Arison family and trusts for their benefit (collectively, the "Principal Shareholders"), beneficially own shares representing approximately 36% of the voting power of Carnival Corporation and approximately 29% of the combined voting power of Carnival Corporation & plc and have informed us that they intend to cause all such shares to be voted in favor of the 13 nominees to the boards of directors named in this proxy statement and in favor of Proposals 2 through 8 listed in the accompanying Carnival Corporation Notice of Meeting. The table begins with ownership of the Principal Shareholders.

The number of shares beneficially owned by each entity, person, director, nominee or executive officer is determined under rules of the U.S. Securities and Exchange Commission, and the information is not necessarily indicative of beneficial ownership for any other purpose. Under such rules, beneficial ownership includes any shares as to which the individual has the sole or shares voting power or investment power and also any shares which the individual would have the right to acquire as of March 22, 2008 (being 60 days after January 22, 2008) through the exercise of any stock option ("Vested Options"), the vesting of restricted share units (RSUs) and restricted shares, which had no voting rights prior to vesting.

Beneficial Ownership Table

Name and Address of Beneficial Owners or Identity of Group ⁽¹⁾ (in thousands)	Amount and Nature of Beneficial Ownership of Carnival Corporation				
	Amount and Nature of Beneficial Ownership of Carnival Corporation	Percent of Carnival Corporation Ordinary	Percent of Carnival plc	Percent of Carnival plc	Percent of Combined Voting
Fiscal year ended June 30,	Compensation adjustments	Related income tax expense (benefit)	Audit adjustments	Related income tax expense (benefit)	Total net of tax restatement
1995	\$ 16	\$ (6)			\$ 10
1996	20	(8)			12
1997	129	(49)			80
1998	191	(63)			128
1999	605	(216)			389
2000	690	(213)			477
2001	908	(282)			626
2002	1,255	(259)			996
2003	1,426	(290)	185	(70)	1,251
Subtotal	5,240	(1,386)	185	(70)	3,969

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2004	666	(57)	407	(154)	862
2005	1,158	(340)	(1,112)	422	128
2006	(82)	29	534	(187)	294
Total through June 30, 2006	\$ 6,982	\$ (1,754)	\$ 14	\$ 11	\$ 5,253

The restatement is comprised of (i) \$5.3 million of additional non-cash stock option compensation, (ii) an additional expense associated with payroll taxes of \$1.6 million related to exercises of stock options for the same periods, and (iii) because the Company receives a tax deduction upon the exercise of employee stock options that were granted in the money, an income tax benefit of \$1.7 million, resulting in a cumulative after tax adjustment to reduce net income over the period 1995 to 2006 by \$5.3 million. Additionally, the audit adjustments described below in

Restatement related to audit differences impact the restatement by \$25,000. The expected impact of the restatement on fiscal year 2007 and future years is approximately \$0.7 million of additional stock option expense although this amount may decrease if future forfeitures are greater than anticipated forfeitures. No single year impact is material for fiscal year 2007 and future years.

The cumulative after tax adjustment for fiscal years 1995 through 2003 subtotaled above is included in the restated fiscal year 2004 balance sheet as a reduction in retained earnings.

As part of the restatement process, management reviewed any other items in our previously issued financial statements which it believed should be corrected. There were two additional adjustments as of our fiscal 2006 year end audit; one related to the overstatement of the allowance for doubtful accounts and the other related to an understated accrual for value added tax on goods and services. The aggregate adjustments for these items decreased net income by \$25,000. For the fiscal year ended June 30, 2006, net income decreased \$330,000; for fiscal year ended June 30, 2005, net income increased \$689,000; for fiscal year ended June 30, 2004, net income decreased \$250,300, and for fiscal year 2003 and prior fiscal years, net income decreased \$115,100.

The table below shows the effect of the restatement adjustments on our previously reported condensed consolidated balance sheet for June 30, 2006.

Table of Contents**SCANSOURCE, INC. AND SUBSIDIARIES****NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)****Consolidated Condensed Balance Sheets (Unaudited)**

(in thousands)

	June 30, 2006			
	As previously reported	Restatement adjustments	Audit adjustments	Restated
<u>Assets</u>				
Current assets:				
Cash and cash equivalents	\$ 3,831	\$	\$	\$ 3,831
Trade and notes receivable:				
Trade, less allowance of \$14,008, (11,508 restated)	297,740		2,500	300,240
Other	4,558			4,558
Inventories	244,005			244,005
Prepaid expenses and other assets	2,293			2,293
Prepaid taxes				
Deferred income taxes	14,659	300	750	15,709
Total current assets	567,086	300	3,250	570,636
Property and equipment, net	27,098			27,098
Goodwill	14,404			14,404
Other assets, including identifiable intangible assets	4,631	1,473	(745)	5,359
Total assets	\$ 613,219	\$ 1,773	\$ 2,505	\$ 617,497
<u>Liabilities and Shareholders' Equity</u>				
Current liabilities:				
Current portion of long-term debt	\$ 229	\$	\$	\$ 229
Short-term borrowings				
Trade accounts payable	271,519			271,519
Accrued expenses and other liabilities	26,170	1,677	2,512	30,359
Income taxes payable	5,072	1,269	17	6,358
Total current liabilities	302,990	2,946	2,529	308,465
Deferred income taxes				
Long-term debt	4,398			4,398
Borrowings under revolving credit facility	27,558			27,558
Other long-term liabilities	2,757			2,757
Total liabilities	337,703	2,946	2,529	343,178
Minority interest	910			910
Shareholders' equity:				
Preferred stock, no par value; 3,000,000 shares authorized, none issued				
Common stock, no par value; 45,000,000 shares authorized, 25,725,214 shares issued and outstanding	72,860	4,055		76,915

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Retained earnings	197,129	(5,228)	(25)	191,876
Accumulated other comprehensive income	4,617		1	4,618
Total shareholders' equity	274,606	(1,173)	(24)	273,409
Total liabilities and shareholders' equity	\$ 613,219	\$ 1,773	\$ 2,505	\$ 617,497

Table of Contents**SCANSOURCE, INC. AND SUBSIDIARIES****NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)**

The following table shows the impact of the restatement adjustments described above on the previously reported consolidated condensed statement of income for the quarter ended September 30, 2005.

Condensed Consolidated Income Statements (Unaudited)

(in thousands, except per share data)

	Quarter ended September 30, 2005			
	As previously reported	Restatement adjustments	Audit adjustments	Restated
Net sales	\$ 390,396	\$	\$	\$ 390,396
Cost of goods sold	350,067			350,067
Gross profit	40,329			40,329
Operating expenses:				
Selling, general and administrative expenses	25,009	255	182	25,446
Operating income	15,320	(255)	(182)	14,883
Other expense (income):				
Interest expense	511			511
Interest income	(149)			(149)
Other, net	(48)		76	28
Total other expense (income)	314		76	390
Income before income taxes and minority interest	15,006	(255)	(258)	14,493
Provision for income taxes	5,613	(95)	(97)	5,421
Income before minority interest	9,393	(160)	(161)	9,072
Minority interest in income of consolidated subsidiaries, net of income tax expense	59			59
Net income	\$ 9,334	\$ (160)	\$ (161)	\$ 9,013
Per share data:				
Net income per common share, basic	\$ 0.37	\$ (0.01)	\$	\$ 0.36
Net income per common share, assuming dilution	\$ 0.36	\$ (0.01)	\$	\$ 0.35
Weighted-average shares outstanding, basic	25,333			25,333
Weighted-average shares outstanding, assuming dilution	26,012	(129)		25,883

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The following table shows the impact of the restatement adjustments described above on certain line items of the previously reported consolidated condensed statement of cash flows for the quarter ended September 30, 2005.

Table of Contents**SCANSOURCE, INC. AND SUBSIDIARIES****NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)****Condensed Consolidated Statements of Cash Flows (Unaudited)**

(in thousands)

	As previously reported	Quarter Ended September 30, 2005 Restatement adjustments	Audit adjustments	Restated
Cash flows from operating activities:				
Net income	\$ 9,334	\$ (160)	\$ (161)	\$ 9,013
Adjustments to reconcile net income to net cash provided by (used in) operating activities:				
Depreciation	1,362			1,362
Amortization of intangible assets	50			50
Allowance for accounts and notes receivable	438			438
Share-based compensation and restricted stock	892	139		1,031
Impairment of capitalized software				
Deferred income tax (benefit) expense	353	(147)		206
Excess tax benefits from share-based payment arrangements	(293)	(184)		(477)
Minority interest in income of subsidiaries	59			59
Changes in operating assets and liabilities, net of acquisitions:				
Trade and notes receivable	(13,187)			(13,187)
Other receivables	(697)			(697)
Inventories	(5,903)			(5,903)
Prepaid expenses and other assets	788		1	789
Other noncurrent assets	5,218			5,218
Trade accounts payable	17,223			17,223
Accrued expenses and other liabilities	1,177	116	257	1,550
Income taxes payable	(2,653)	52	(97)	(2,698)
Net cash (used in) provided by operating activities	14,161	(184)		13,977
Cash flows used in investing activities:				
Capital expenditures	(1,172)			(1,172)
Cash paid for business acquisitions, net of cash acquired	(1,265)			(1,265)
Net cash used in investing activities	(2,437)			(2,437)
Cash flows from financing activities:				
Increases (decreases) in short-term borrowings, net	(4,478)			(4,478)
Advances (payments) on revolving credit, net	780			780
Exercise of stock options	88			88
Excess tax benefits from share-based payment arrangements	293	184		477
Advances (repayments) of long-term debt borrowings	(113)			(113)
Net cash provided by (used in) financing activities	(3,430)	184		(3,246)
Effect of exchange rate changes on cash and cash equivalents	(122)			(122)

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(Decrease) Increase in cash and cash equivalents	8,172			8,172
Cash and cash equivalents at beginning of period	8,609			8,609
Cash and cash equivalents at end of period	\$ 16,781	\$	\$	\$ 16,781

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SCANSOURCE, INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

(2) Business Description

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 Memphis, Tennessee distribution center, and an international segment currently serving Latin America (including Mexico) and Europe from distribution centers located in Florida and Mexico, and in Belgium, respectively. The North American distribution segment markets automatic identification and data capture (AIDC) and point-of-sale (POS) products through its ScanSource sales unit; voice, data and converged communications equipment through its Catalyst Telecom sales unit; voice, data and converged communications products through its Paracon sales unit; video conferencing and telephony products through its T2 Supply unit; and electronic security products through its ScanSource Security Distribution unit. The international distribution segment markets AIDC and POS products through its ScanSource sales unit.

(3) Summary of Significant Accounting Policies and Accounting Standards Recently Issued

Stock Split

Effective June 5, 2006, the Board of Directors of the Company approved a two-for-one stock split of the common stock effected in the form of a 100% common stock dividend. All shares and per share amounts have been retroactively adjusted to reflect the stock split.

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.

Minority Interest

Minority interest represents that portion of the net equity of majority-owned subsidiaries of the Company held by minority shareholders. The minority shareholders share of the subsidiaries income or loss is listed separately in the Condensed Consolidated Income Statements. Effective July 1, 2006, the Company acquired an additional 8% of Netpoint International, Inc. (Netpoint) and now owns 92% of the subsidiary.

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. Management determines the estimate

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SCANSOURCE, INC. AND SUBSIDIARIES

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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 at the time of sale based 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. Likewise, if these products are sold for more than the estimated amounts, reserves may be reduced.

Reclassifications

Certain prior year amounts have been reclassified to conform to the current year presentation in the accompanying 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. Book overdrafts, representing checks prepared but not yet cleared at the Company's bank, of \$55,825,000 and \$43,421,000 as of September 30, 2006 and June 30, 2006, respectively, are included in accounts payable.

Derivative Financial Instruments

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. The Company currently does not use derivative financial instruments for trading or speculative purposes, nor is the Company a party to leveraged derivatives.

Derivative financial instruments are accounted for on an accrual basis with gains and losses on these contracts recorded in income in the period in which their value changes, with the offsetting entry for unsettled positions being booked to 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 value recorded in the Consolidated Income Statement each period. The underlying exposures are denominated primarily in British Pounds, Euros, and Canadian Dollars. Summarized financial information related to these derivative contracts and changes in the underlying value of the foreign currency exposures follows:

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	Quarter ended September 30,	
	2006	2005 (restated) ⁽¹⁾
Foreign exchange derivative contract gains/(losses)	\$ 11,000	\$ (30,000)
Foreign currency transactional and remeasurement gains, net of losses	334,000	(52,000)
Net foreign currency transactional and remeasurement gains/(losses)	\$ 345,000	\$ (82,000)

⁽¹⁾ See Note 1A, Notes to Condensed Consolidated Financial Statements

The Company had three currency forward contracts outstanding as of September 30, 2006 with a net liability under these contracts of \$14,000. At June 30, 2006 the Company had three currency forward contracts outstanding with a net liability under these contracts of \$25,000. These amounts are included in accrued expenses and other liabilities. The following table provides information about our outstanding foreign currency derivative financial instruments:

	As of September 30, 2006		As of June 30, 2006	
	Notional Amount	Adjustment to Fair Market Value Compared to Notional Amount	Notional Amount	Adjustment to Fair Market Value Compared to Notional Amount
Forward Contracts:				
<u>British Pound Functional Currency</u>				
Purchase British Pound, sell Euro	\$ 5,584,000	\$ (6,000)	\$ 5,584,000	\$ (21,000)
<u>Euro Functional Currency</u>				
Purchase Euro, sell British Pound	\$ 2,807,000	(6,000)	\$ 2,774,000	(4,000)
<u>US Dollar Functional currency</u>				
Purchase US Dollar, sell Canadian Dollar	\$ 2,242,000	(2,000)	\$ 2,242,000	
		\$ (14,000)		\$ (25,000)

The notional amount of forward exchange contracts is the amount of foreign currency to be bought or sold at maturity. Notional amounts are indicative of the extent of the Company's involvement in the various types and uses of derivative financial instruments and are not a measure of the Company's exposure to credit or market risks through its use of derivatives. The estimated fair value of derivative financial instruments represents the amount required to enter into similar offsetting contracts with similar remaining maturities based on quoted market prices.

Inventories

Inventories (consisting of AIDC, POS, business phone, converged communications equipment, video conferencing equipment, and electronic security system products) 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

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expenses. EITF Issue No. 02-16, *Accounting by a Customer (Including a Reseller) for Certain Consideration Received from a Vendor* (EITF 02-16) requires that the portion of these vendor funds in excess of our costs to 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 receivable from vendors that are not yet earned are deferred in the consolidated balance sheet. 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. EITF 02-16 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.

Product Warranty

The Company's vendors generally warrant 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. The Company does not independently warrant the products it distributes; however, to maintain customer relations, the Company facilitates vendor warranty policies by accepting for exchange, with the Company's prior approval, most defective products within 30 days of invoicing. The Company offers certain warranty service programs and records a provision for estimated service warranty costs at the time of sale, adjusting periodically to reflect actual experience. To date neither warranty expense, nor the accrual for warranty costs has been material to the Company's consolidated financial statements.

Property and Equipment, and Other Assets (except Other Identifiable Intangible Assets)

Property and equipment are recorded at cost. Depreciation is computed using the straight-line method over estimated useful lives of 3 to 5 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.

For property and equipment and other assets, except other identifiable intangible assets, if the sum of the expected cash flows, undiscounted and without interest, is less than the carrying amount of the asset, an impairment loss is recognized as the amount by which the carrying amount of the asset exceeds its fair value.

The Company reviews its long-lived assets for impairment whenever events or circumstances indicate that the carrying amount of an asset may not be recoverable or may be impaired. Impairment charges of \$148,000 and \$0 were recognized for the quarters ended September 30, 2006, and 2005, respectively, in operating expenses for the impairment of certain capitalized assets for the North American distribution segment. These assets included software that was no longer functional based on operational needs.

Goodwill and Other Identifiable Intangible Assets

Goodwill represents the excess of the purchase price over the fair value of the identifiable net assets acquired in acquisitions accounted for using the purchase method. During fiscal years 2006 and 2005, the Company performed its annual test of goodwill to determine if there was impairment. The Company's impairment tests included the determination of each reporting unit's fair value using market multiples and discounted cash flows modeling. No impairment was required to be recorded related to the Company's annual impairment testing. In addition, the Company performs an impairment analysis for goodwill whenever indicators of impairment are present. No such indicators existed for the quarters ended September 30, 2005 and 2006, respectively.

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The Company reviews the carrying value of its intangible assets with finite lives, which includes customer lists, debt issue costs, trade names, and non-compete agreements, as current events and circumstances warrant to determine whether there are any impairment losses. If indicators of impairment are present in intangible assets used in operations, and future cash flows are not expected to be sufficient to recover the assets carrying amount, an impairment loss is charged to expense in the period identified. Customer lists are amortized using the straight-line method over their estimated useful lives, which range from 5 to 10 years. Debt issue costs are amortized over the term of the credit facility. Trade names are amortized over 10 years. Non-compete agreements are amortized over their contract life. These assets are included in other assets (see Note 7).

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.

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) collectibility must be reasonably assured. A provision for estimated losses on returns is recorded at the time of sale based on historical experience.

The Company has service revenue associated with configuration and marketing, which is recognized when the work is complete and all obligations are substantially met. The Company also sells third-party services, such as maintenance contracts. Since the Company is acting as an agent for these services, revenue is recognized net of cost at the time of sale. Revenue from multiple element arrangements is allocated to the various elements based on the relative fair value of the elements, and each revenue cycle is considered a separate accounting unit with recognition of revenue based on the criteria met for the individual element of the multiple deliverables.

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 quarters ended September 30, 2006 and 2005 was \$2.8 million and \$2.0 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 the quarters ended September 30, 2006 or 2005. Deferred advertising costs at September 30, 2006 and 2005 were not significant.

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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 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 Condensed Consolidated Income Statement. Such gains, net of losses, were \$345,000 for the quarter ended September 30, 2006. Such losses, net of gains, were \$82,000 for the quarter ended September 30, 2005.

Income Taxes

Income taxes are accounted for under the 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 Statement of Financial Accounting Standards (SFAS) No. 109, *Accounting for Income Taxes*. Federal income taxes are not provided on the undistributed earnings of foreign subsidiaries because it has been the practice of the Company to reinvest those earnings in the business outside of the United States.

Deferred Income Taxes

Deferred income taxes are determined in accordance with SFAS No. 109, *Accounting for Income Taxes*. Deferred tax assets and liabilities are recognized for the expected future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases, and operating loss and tax credit carryforwards. The Company evaluates the tax assets and liabilities on a periodic basis and adjusts the balances as appropriate.

The Company records valuation allowances to reduce its deferred tax assets to the amount expected to be realized. In assessing the adequacy of recorded valuation allowances, the Company considers a variety of factors including, the scheduled reversal of deferred tax liabilities, future taxable income, and prudent and feasible tax planning strategies. In the event the Company determines it would be able to use a deferred tax asset in the future in excess of its net carrying value, an adjustment to the deferred tax asset would reduce income tax expense, thereby increasing net income in the period such determination was made. Likewise, should the Company determine that it was unable to use all or part of its net deferred tax asset in the future, an adjustment to the deferred tax asset would be charged to income tax expense, thereby reducing net income in the period such determination was made.

Share-Based Payment

Effective July 1, 2005, the Company began accounting for share-based compensation under the provisions of SFAS No. 123(R), *Share-Based Payment*, which requires the recognition of the fair value of share-based compensation. Under the fair value recognition provisions of SFAS No. 123(R), share-based compensation is estimated at the grant date based on the fair value of the awards expected to vest and recognized as expense ratably over the requisite service period of the award. The Company has used the Black-Scholes valuation model to estimate fair value of share-based awards, which requires various assumptions including estimating stock price volatility, forfeiture rates and expected life.

For the quarters ended September 30, 2006 and 2005, the number of options exercised for shares of common stock were 17,761 and 23,272, respectively.

Comprehensive Income

Comprehensive income is comprised of net income and foreign currency translation. The foreign currency translation gains or losses are not tax-effected because the earnings of foreign subsidiaries are considered by Company management

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to be permanently reinvested. For the quarters ended September 30, 2006 and 2005, comprehensive income consisted of net income of the Company of \$12.5 million and \$9.0 million, respectively, and net translation adjustments of \$105,000 and \$199,000, respectively.

Accounting Standards Recently Issued

In September 2006, the Securities and Exchange Commission issued Staff Accounting Bulletin (SAB) No. 108, *Considering the Effects of Prior Year Misstatements when Quantifying Current Year Misstatements*. SAB No. 108 requires analysis of misstatements using both an income statement (rollover) approach and a balance sheet (iron curtain) approach in assessing materiality and provides for a one-time cumulative effect transition adjustment. SAB No. 108 is effective for the Company's fiscal year 2007 annual financial statements. The Company is currently evaluating the potential impact that the adoption of SAB No. 108 will have on its consolidated financial statements; the impact is not expected to be material.

In September 2006, FASB issued SFAS No. 158, *Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans - an amendment of FASB Statements No. 87, 88, 106 and 132(R)*. SFAS No. 158 requires an employer to recognize the overfunded or underfunded status of a defined benefit postretirement plan as an asset or liability in its statement of financial position and to recognize changes in that funded status in the year in which the changes occur through comprehensive income. SFAS No. 158 will become effective for the Company as of the fiscal year ending June 30, 2007. The Company does not have a defined benefit pension plan and is currently evaluating the potential impact, if any, the adoption of SFAS No. 158 will have on its consolidated financial statements.

In September 2006, the FASB issued SFAS No. 157, *Fair Value Measurements*, which defines fair value, establishes a framework for measuring fair value in generally accepted accounting principles, and expands disclosures about fair value measurements. SFAS No. 157 does not require any new fair value measurements, but provides guidance on how to measure fair value by providing a fair value hierarchy used to classify the source of the information. This statement is effective for the Company beginning July 1, 2008. The Company is currently evaluating the potential impact, if any, that the adoption of SFAS No. 157 will have on its consolidated financial statements.

On July 13, 2006, the FASB issued Interpretation No. 48 (FIN 48), *Accounting for Uncertainty in Income Taxes - an Interpretation of FASB Statement No. 109*. FIN 48 clarifies the accounting for uncertainty in income taxes recognized in a company's financial statements by prescribing a recognition threshold and measurement attribute for financial statement recognition and measurement of a tax position taken or expected to be taken on a tax return. Additionally, FIN 48 provides guidance on de-recognition of tax benefits previously recognized and additional disclosures for unrecognized tax benefits, interest and penalties. FIN 48 is effective for fiscal years beginning after December 15, 2006, and is required to be adopted by the Company in the first quarter of fiscal year 2008. The Company is currently evaluating whether the adoption of FIN 48 will have a material effect on its consolidated financial position, results of operations or cash flows.

Table of Contents**SCANSOURCE, INC. AND SUBSIDIARIES****NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)****(4) 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.

	Net		
	Income	Shares	Per Share Amount
Quarter ended September 30, 2006:			
Income per common share, basic	\$ 12,461,000	25,729,000	\$ 0.48
Effect of dilutive stock options		484,000	
Income per common share, assuming dilution	\$ 12,461,000	26,213,000	\$ 0.48
Quarter ended September, 2005, (restated)⁽¹⁾:			
Income per common share, basic	\$ 9,013,000	25,333,000	\$ 0.36
Effect of dilutive stock options		550,000	
Income per common share, assuming dilution	\$ 9,013,000	25,883,000	\$ 0.35

⁽¹⁾ See Note 1A, Notes to Condensed Consolidated Financial Statements

For the quarters ended September 30, 2006 and 2005, there were 577,000 and 549,000 weighted average shares, respectively, excluded from the computation of diluted earnings per share because their effect would have been antidilutive.

(5) Revolving Credit Facility and Subsidiary Lines of Credit

At September 30, 2006 and June 30, 2006, the Company had a multi-currency revolving credit facility with its bank group (the Bank Group) of \$140 million and \$100 million, respectively, which matures on July 31, 2008. This facility was entered into on July 16, 2004 and has an accordion feature that allows the Company to unilaterally increase the revolving credit line up to a commitment of \$150 million. During the quarter ended September 30, 2006, the Company exercised \$40 million of its \$50 million credit facility accordion, increasing the revolving credit facility exercised amount to \$140 million with the maximum commitment remaining at \$150 million. The revolving credit facility may be increased by the Company up to an additional \$10 million through commitments from the existing Bank Group. (See Note 11 for a discussion of a subsequent amendment). The facility bears interest at either the 30-day LIBOR rate of interest on U.S. dollar borrowings or the 30, 60, 90 or 180-day LIBOR rate of interest on other currency borrowings. The interest rate is the appropriate LIBOR rate plus a rate varying from 0.75% to 1.75% tied to the Company's funded debt to EBITDA ratio ranging from 0.00:1.00 to 2.50:1.00 and a fixed charge coverage ratio of not less than 1.50:1. The effective weighted average interest rate at September 30, 2006 and June 30, 2006 was 5.44% and 4.38%, respectively. The outstanding borrowings at September 30, 2006 were \$85.7 million on a total commitment of \$150 million, leaving \$64.3 million available for additional borrowings. (See Note 11 for a discussion on current commitments). The outstanding borrowings at June 30, 2006 were \$27.6 million on a total commitment of \$130 million, leaving \$102.4 million available for additional borrowings. The facility is collateralized by domestic assets, primarily accounts receivable and inventory. The agreement contains other restrictive financial covenants, including among other things, total liabilities to tangible net worth ratio, capital expenditure limits, and a prohibition on the payment of dividends. On November 9, 2006, a ninety day waiver was received under the Company's revolving credit facility with respect to the delivery of certain quarterly information and documentation to the Company's lenders, to the extent impacted by the review of the Special Committee of the Company's stock option grant

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practices and related accounting issues. The waiver was extended on February 14, 2007 and on May 14, 2007. The May 14, 2007 waiver covers information and documentation for three quarters and is effective through June 30, 2007 (or as late as July 31, 2007 under certain conditions).

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At September 30, 2006 and June 30, 2006, Netpoint, doing business as ScanSource Latin America, had an asset-based line of credit with a bank that was due on demand and had a borrowing limit of \$1 million. The facility was renewed in January 2007, and is scheduled to mature on January 31, 2008. The facility is collateralized by accounts receivable and eligible inventory, and contains a restrictive covenant which requires an average deposit of \$50,000 with the bank. The Company has guaranteed 92% and 84% of the balance on the line as of September 30, 2006 and June 30, 2006, respectively, while the remaining balance was guaranteed by Netpoint's minority shareholder. The facility bears interest at the bank's prime rate minus one percent. At September 30, 2006 and June 30, 2006, the effective interest rate was 7.25%. At September 30, 2006 and June 30, 2006, there were no outstanding balances and outstanding standby letters of credit totaled \$40,000, leaving \$960,000 available for borrowings.

(6) Short-term Borrowings and Long-term Debt

Short-term borrowings at September 30, 2006 consist of a 3.0 million secured revolving credit facility obtained on August 17, 2006, with a variable interest rate of 4.02% and no maturity date. At September 30, 2006, 2.9 million or \$3.7 million was outstanding. The Company had no short-term borrowings at June 30, 2006.

Long-term debt consists of the following at September 30, 2006 and June 30, 2006:

	September 30, 2006	June 30, 2006
Unsecured note payable to a bank, monthly payments of interest only; 5.98% variable interest rate at September 30, 2006; maturing in fiscal year 2009	\$ 13,000,000	\$
Note payable to a bank, secured by distribution center land and building; monthly payments of principal and interest of \$41,000; 6.08% and 5.88% variable interest rate, respectively at September 30, 2006 and June 30, 2006; maturing in fiscal year 2009 with a balloon payment of approximately \$4,175,000	4,575,000	4,627,000
	17,575,000	4,627,000
Less current portion	223,000	229,000
Long-term portion	\$ 17,352,000	\$ 4,398,000

The \$13 million unsecured long-term note payable was entered into on July 25, 2006, and includes a requirement that the Company not encumber its headquarters property except as permitted by the lender. The note payable secured by the distribution center contains certain financial covenants, including minimum net worth, capital expenditure limits, and a maximum debt to tangible net worth ratio, and prohibits the payment of dividends.

(7) Goodwill and Identifiable Intangible Assets

In accordance with SFAS No. 142, *Goodwill and Other Intangible Assets*, the Company performs its annual test of

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goodwill at the end of each fiscal year to determine if impairment has occurred. In addition, the Company performs an impairment analysis for goodwill 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. At the end of fiscal year 2006, no impairment charge related to goodwill was recorded. During the first quarter of fiscal year 2007, the Company acquired additional goodwill through the acquisition of T2 Supply, LLC (T2 Supply) and through the purchase of an additional 8% of Netpoint. The table below includes the valuation of goodwill and intangible assets for T2 Supply.

Changes in the carrying amount of goodwill and other intangibles assets for the quarter ended September 30, 2006, by operating segment, are as follows:

	North American Distribution Segment	International Distribution Segment	Total
Balance as of June 30, 2006	\$ 6,259,000	\$ 8,145,000	\$ 14,404,000
Excess of cost over fair value of acquired net assets, and other	22,419,000	679,000	23,098,000
Fluctuations in foreign currency		63,000	63,000
Balance as of September 30, 2006	\$ 28,678,000	\$ 8,887,000	\$ 37,565,000

Included within other assets are identifiable intangible assets as follows:

	As of September 30, 2006			As of June 30, 2006		
	Gross Carrying Amount	Accumulated Amortization	Net Book Value	Gross Carrying Amount	Accumulated Amortization	Net Book Value
Amortized intangible assets:						
Customer lists	\$ 9,868,000	\$ 556,000	\$ 9,312,000	\$ 338,000	\$ 302,000	\$ 36,000
Debt issue costs	606,000	290,000	316,000	532,000	254,000	278,000
Trade names	825,000	21,000	804,000			
Non-compete agreements	1,635,000	136,000	1,499,000			
Total	\$ 12,934,000	\$ 1,003,000	\$ 11,931,000	\$ 870,000	\$ 556,000	\$ 314,000

The weighted average amortization period for all intangible assets was approximately nine years for the quarter ended September 30, 2006 and four years for the fiscal year ended June 30, 2006. Amortization expense for the quarters ended September 30, 2006 and 2005 was \$448,000 and \$50,000, respectively. Amortization expense for fiscal years 2007, 2008, 2009, 2010 and 2011 and thereafter is estimated to be approximately \$1.8 million, \$1.8 million, \$1.6 million, \$1.0 million, \$1.0 million and \$5.2 million, respectively.

(8) 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. The measure of segment profit is operating income, and the accounting policies of the segments are the same as those described in Note 3.

Table of Contents**SCANSOURCE, INC. AND SUBSIDIARIES****NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)****North American Distribution**

North American Distribution offers products for sale in five primary categories: (i) AIDC and POS equipment sold by the ScanSource sales unit, (ii) voice, data and converged communications equipment sold by the Catalyst *Telecom* sales unit, (iii) voice, data and converged communications products sold by the Paracon sales unit, (iv) video conferencing and telephone products sold by the T2 Supply sales unit, and (v) electronic security products through its ScanSource Security Distribution sales unit. These products are sold to more than 13,000 resellers and integrators of technology products that are geographically disbursed over the United States and Canada in a pattern that mirrors population concentration. No single account represented more than 7% of the Company's consolidated net sales during the quarters ended September 30, 2006 and 2005.

International Distribution

International Distribution sells to two geographic areas, Latin America (including Mexico) and Europe, and offers AIDC and POS equipment to more than 6,000 resellers and integrators of technology products. This segment began during fiscal 2002 with the Company's purchase of a majority interest in Netpoint and the start-up of the Company's European operations. Of this segment's customers, no single account represented 1% or more of the Company's consolidated net sales during the quarters ended September 30, 2006 and 2005.

Inter-segment sales consist 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 of each business segment are presented below:

	Quarter ended	
	September 30, 2006	2005
Sales:		
North American distribution	\$ 434,002,000	\$ 350,400,000
International distribution	68,235,000	43,842,000
Less intersegment sales	(6,007,000)	(3,846,000)
	\$ 496,230,000	\$ 390,396,000
Depreciation and amortization:		
North American distribution	\$ 1,675,000	\$ 1,277,000
International distribution	167,000	135,000
	\$ 1,842,000	\$ 1,412,000
Capital expenditures:		
North American distribution	\$ 415,000	\$ 1,088,000
International distribution	133,000	84,000
	\$ 548,000	\$ 1,172,000

Table of Contents**SCANSOURCE, INC. AND SUBSIDIARIES****NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)**

	September 30, 2006	September 30,		
		As previously reported	Adjustments	Restated ⁽¹⁾
Operating Income				
North American distribution	\$ 19,277,000	\$ 14,686,000	\$ (380,000)	\$ 14,306,000
International distribution	2,241,000	634,000	(57,000)	577,000
	\$ 21,518,000	\$ 15,320,000	\$ (437,000)	\$ 14,883,000

⁽¹⁾ See Note 1A, Notes to Condensed Consolidated Financial Statements
Assets for each business segment are summarized below:

Assets:	September 30, 2006	June 30,		
		As previously reported	Adjustments	Restated ⁽¹⁾
North American distribution	\$ 586,314,000	\$ 504,313,000	\$ 4,278,000	\$ 508,591,000
International distribution	118,472,000	108,906,000		108,906,000
	\$ 704,786,000	\$ 613,219,000	\$ 4,278,000	\$ 617,497,000

⁽¹⁾ See Note 1A, Notes to Condensed Consolidated Financial Statements

(9) Commitments and Contingencies

Contingencies The Company received an assessment for a sales and use tax matter for the five calendar years ended 2003 and the first quarter ended March 31, 2004. Based on this assessment, the Company has determined a probable range for the disposition of that assessment and for subsequent periods. Although the Company is disputing the assessment, it accrued a liability of \$1.3 million at June 30, 2005. As of September 30, 2006, the Company has paid approximately \$1.0 million. The Company is disputing the entire \$1.3 million assessment including payments made on the liability. Although there can be no assurance of the ultimate outcome at this time, the Company intends to vigorously defend its position.

As of September 30, 2006, the Company has an accrued liability of \$2.5 million for a value-added tax matter covering a 3.5 year period. This accrual has been recorded to those periods through the restated Form 10-K/A for the year ended June 30, 2006. In providing for this accrual, the Company has recorded a net foreign exchange loss of approximately \$216,000 due to changes in rates over the 3.5 year period. The Company is in discussions with the governing tax authority. No assessments have been made by that governing tax authority as of this reporting period. Although there can be no assurance of the ultimate outcome at this time, the Company intends to vigorously defend its position.

The Company has contractual obligations of approximately \$1.0 million for the purchase of real property and renovations, and for interest in an aircraft at September 30, 2006.

(10) Acquisitions

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On July 3, 2006, the Company entered into an agreement with SKC Communications Products, Inc. to purchase the assets of T2 Supply. The purchase price of approximately \$50 million includes approximately \$34 million of intangible assets related to the North American distribution segment. The Company has obtained a third-party valuation related to

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SCANSOURCE, INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

certain intangible assets and has allocated the purchase price based upon that valuation. The Company finalized the valuation in the quarter ended September 30, 2006.

T2 Supply, which has 36 employees, is a distributor of video conferencing and telephony products and is based in Lenexa, Kansas. T2 Supply provides its reseller customers technical support for the configuration of video conferencing and sound solutions, an extended warranty program, training, marketing, a customer resource website, and bridging services. As a result of the acquisition, the Company expects to enhance its long-term convergence strategy by adding video conferencing products and expertise. T2 Supply's customer base of voice and video conferencing resellers will also provide cross-selling opportunities.

(11) Subsequent Events and Other Matters

On November 9, 2006, a ninety day waiver was received under the Company's revolving credit facility with respect to the delivery of certain quarterly information and documentation to the Company's lenders, to the extent impacted by the review of the Special Committee of the Company's stock option grant practices and related accounting issues. The waiver was extended on February 14, 2007 and on May 14, 2007. The May 14, 2007 waiver covers information and documentation for three quarters and is effective through June 30, 2007 (or as late as July 31, 2007 under certain conditions).

On February 14, 2007, the Company's revolving credit facility was amended to permit the Company to redeem shares of its capital stock, so long as the amount paid in connection with the redemptions does not exceed \$2 million during any fiscal year.

On April 20, 2007, the Company's revolving credit facility Bank Group agreed to an increase in the Bank Group's commitment from \$150 million to \$200 million. Effective that date, the facility has an accordion feature that allows the Company to unilaterally increase the availability from \$180 million to \$200 million, in minimum increments of \$5 million.

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 lease provides for market rental rates and commences upon substantial completion of construction, which is expected to be October 1, 2007, with a term of 120 months, and 2 consecutive 5-year extension options. Subject to finalization of construction costs, the minimum average annual rent commitment is approximately \$1.9 million. The lease is conditioned upon the Company receiving approval for certain economic development tax incentives from the state of Mississippi.

On November 21, 2006, a purported stockholder filed a derivative lawsuit in the United States District Court for the District of South Carolina in Greenville, South Carolina against certain current and former officers and directors of the Company and against the Company, as a nominal defendant, asserting causes of action based on alleged violations of securities laws (including alleged violations of Section 10(b), 14(a) and 20(a) of the Securities Exchange Act of 1934 and Rule 10b-5 of the SEC) and other common law claims including, breach of fiduciary duty, aiding and abetting and unjust enrichment relating to allegations concerning certain of the Company's prior stock option grants. It seeks relief in the form of an accounting, rescission, unspecified money damages, disgorgement, attorneys' fees, fees and expenses and other relief.

On April 2, 2007 the Court appointed the plaintiff as lead plaintiff and ordered that any later actions filed in the same Court and that relate to the same facts shall be consolidated. Our response, including a motion to dismiss the lawsuit, is currently due on July 11, 2007.

On April 11, 2007, another purported stockholder filed a substantially similar derivative lawsuit also related to the Company's prior grants of stock options. This action was also filed in the United States District Court for the District of South Carolina in Greenville, South Carolina against certain current and former officers and directors of the Company and against the Company, as a nominal defendant, and asserts substantially similar causes of action and claims for relief. The plaintiff in this second action has filed a motion to consolidate the two actions and appoint the plaintiff as a co-lead plaintiff. Our response, including a motion to dismiss the lawsuit, is currently due July 11, 2007. The derivative lawsuits are in a preliminary stage and the Company believes that it is taking appropriate actions regarding both derivative lawsuits.

For more information concerning the review by the Special Committee of the Board of Directors of the Company's stock option granting practices and the findings and recommendations of the Special Committee see Note 1A to the Notes to Consolidated Condensed Financial

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Statements presented in Part I, Item I of this report, Part II, Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations Restatement related to stock options of the Company's amended Annual Report on Form 10-K/A for the fiscal year ended June 30, 2006, and Note 1A to the Notes to Consolidated Financial Statements in the Company's amended Annual Report on Form 10-K/A for the fiscal year ended June 30, 2006. The Company is also continuing voluntarily to provide information to the SEC and the Department of Justice in connection with the Special Committee's review.

On March 12, 2007 the Company's insurance carrier, subject to a reservation of rights, provided a preliminary position on coverage for the first derivative claim in which the carrier indicated that the lawsuit allegations appear to constitute a claim within coverage of the Company's insurance policy. The carrier continues to assess coverage of this matter.

On April 13, 2007, the Company provided notice to the insurance carrier of the second action. The insurance carrier is reviewing the second action and assessing coverage for the matter. The carrier has indicated, however, that its coverage position with regard to the second action will be consistent with the first; i.e., that the allegations of the second derivative lawsuit appear to constitute a claim within the coverage of the Company's insurance policy. The carrier has not recognized as within coverage the costs, fees and expenses incurred for the work related to the Special Committee at this stage. The Company is evaluating its alternatives to address its coverage claim position.

Table of Contents**ITEM 2. Management's Discussion and Analysis of Financial Condition and Results of Operations**
Results of Operations*Net Sales*

The following tables summarize the Company's net sales results (net of inter-segment sales):

	Quarter ended September 30,			Percentage
	2006	2005 (In thousands)	Difference	Change
North American distribution	\$ 427,995	\$ 346,554	\$ 81,441	23.5%
International distribution	68,235	43,842	24,393	55.6%
Net sales	\$ 496,230	\$ 390,396	\$ 105,834	27.1%

North American Distribution

North American distribution sales include sales to technology resellers in the United States and Canada from the Company's Memphis, Tennessee distribution center. Sales to technology resellers in Canada account for less than 5% of total net sales for the quarters ended September 30, 2006 and 2005. The 23.5% or \$81.4 million increase in North American distribution sales for the quarter ended September 30, 2006, as compared to the same period in the prior year, was due primarily to the reasons described below.

Sales of the AIDC and POS product categories for the North America distribution segment increased 20.0% as compared to the prior year quarter. The AIDC and POS businesses grew primarily through increased market share and improvement in the POS systems business. The ScanSource Security Distribution sales unit was created during the quarter ended December 31, 2004. Sales of that unit were immaterial for the quarter ended September 30, 2006.

Sales of communications products increased 27.2% as compared to the prior year quarter. Catalyst *Telecom*, which distributes small and medium business and enterprise products, and *Paracon*, which distributes communications products, experienced sales growth from increased market share. The communications business also included sales for T2 Supply, a sales unit acquired July 3, 2006. Prior twelve month sales for T2 Supply prior to the acquisition were approximately \$77 million.

International Distribution

The international distribution segment includes sales to Latin America (including Mexico) and Europe from the ScanSource selling unit. Sales for the overall international segment increased 55.6% or \$24.4 million for the quarter ended September 30, 2006 as compared to the prior year quarter. The increase in sales was primarily attributable to increased sales from larger deals in Mexico and increased market share in Europe. Further, we chose to carry higher inventory levels in Europe for both RoHS compliant and non-RoHS compliant inventory. (RoHS is a European Union environmental directive which caused manufacturers to comply with new guidelines effective July 1, 2006. The RoHS Directive bans the placing on the European Union market of new electrical and electronic equipment containing more than agreed levels of lead, cadmium, mercury, hexavalent chromium, polybrominated biphenyl (PBB) and polybrominated diphenyl ether (PBDE) flame retardants). The higher inventory levels allowed us better availability than competition during the quarter. Without the foreign exchange fluctuations, the increase in sales for the quarter ended September 30, 2006 would have been \$22.2 million or 50.7%.

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The following tables summarize the Company's gross profit:

	Quarter ended September 30,		Difference	Percentage Change	Percentage of Sales September 30,	
	2006	2005 (In thousands)			2006	2005
North American distribution	\$ 43,403	\$ 34,763	\$ 8,640	24.9%	10.1%	10.0%
International distribution	8,435	5,566	2,869	51.5%	12.4%	12.7%
Gross profit	\$ 51,838	\$ 40,329	\$ 11,509	28.5%	10.4%	10.3%

North American Distribution

Gross profit for the North American distribution segment increased 24.9% or \$8.6 million for the quarter ended September 30, 2006 as compared to the prior year quarter as a result of increased sales volume including the acquisition of T2 Supply.

Gross profit as a percentage of net sales for the North American distribution segment increased compared to the same periods in the prior year due to a favorable customer mix, including higher services revenues. Normally, good growth in sales includes the impact of large lower gross profit margin percentage deals. In the quarter ended September 30, 2006, there were fewer larger deals, and hence, our customer mix had higher value add content which gains better gross margin percentages.

International Distribution

Gross profit for the international distribution segment increased 51.5% or \$2.9 million for the quarter ended September 30, 2006 as compared to the same period in the prior year. The increase was primarily due to increased distribution sales volume.

Gross profit, as a percentage of net sales, which is typically greater than the North American Distribution segment, decreased for the quarter ended September 30, 2006 as compared to the prior year quarter due primarily to larger deals at lower margins in Mexico with lower value-add requirements.

Operating Expenses

The following table summarizes the Company's operating expenses:

Table of Contents**ITEM 2. Management's Discussion and Analysis of Financial Condition and Results of Operations**

	Period ended			Percentage Change	Percentage of Sales	
	September 30,		Difference		September 30,	
	2006	2005 (restated) ⁽¹⁾ (In thousands)			2006	2005
Quarter	\$ 30,320	\$ 25,446	\$ 4,874	19.2%	6.1%	6.5%

⁽¹⁾ See Note 1A, Notes to Condensed Consolidated Financial Statements

For the quarter ended September 30, 2006, operating expenses increased compared to the same period in the prior year. The increase is due principally to the recognition of higher bad debt expense of approximately \$2.1 million, amortization expense for T2 Supply intangibles of \$395,000, and \$1.9 million for both incremental and T2 Supply-related increases in employee headcount and related benefits.

The Company continues to invest in North America customer training and development programs for new technologies and vertical marketing (such as converged communications, RFID Edge, and Solution City) and its electronic security business. In addition, the Company continues to invest in Europe and Latin America due to its growth potential in those markets. In Europe, the Company has expanded geographically, increased marketing, and increased employee headcount. With respect to its Latin American market, the Company has increased employee headcount in Miami and Mexico City in order to serve an expanding customer base and continues its expanded regional VAR training program.

Operating Income

The following table summarizes the Company's operating income:

	Period ended			Percentage Change	Percentage of Sales	
	September 30,		Difference		September 30,	
	2006	2005 (restated) ⁽¹⁾ (In thousands)			2006	2005
Quarter	\$ 21,518	\$ 14,883	\$ 6,635	44.6%	4.3%	3.8%

⁽¹⁾ See Note 1A, Notes to Condensed Consolidated Financial Statements

Operating income increased 44.6% or \$6.6 million for the quarter ended September 30, 2006 as compared to the same period in the prior year. The increase was a result of increased gross profit on higher sales volume and improved gross profit margin percentages discussed above.

Operating income as a percentage of net sales increased compared to the same period in the prior year, primarily due to the increased gross profit amounts discussed above.

Table of Contents**ITEM 2. Management's Discussion and Analysis of Financial Condition and Results of Operations****Total Other Expense (Income)**

The following table summarizes the Company's total other expense (income):

	Quarter ended			Percentage Change	Percentage of Sales September 30,	
	2006	2005 (restated) ⁽¹⁾ (In thousands)	Difference		2006	2005
Interest expense	\$ 1,770	\$ 511	\$ 1,259	246.4%	0.4%	0.1%
Interest income	(108)	(149)	41	-27.5%	0.0%	0.0%
Net foreign exchange (gains) losses	(345)	82	(427)	-520.7%	-0.1%	0.0%
Other, net	(91)	(54)	(37)	68.5%	0.0%	0.0%
Total other expense	\$ 1,226	\$ 390	\$ 836	214.4%	0.3%	0.1%

⁽¹⁾ See Note 1A, Notes to Condensed Consolidated Financial Statements

Interest expense reflects interest paid on borrowings on the Company's line of credit and long-term debt. Interest expense for the quarters ended September 30, 2006 and 2005 was \$1.8 million and \$511,000, respectively. The increased expense during the quarter ended September 30, 2006 was due to higher average debt balances, primarily due to the acquisition of T2 Supply and to an increase in working capital.

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. Net foreign exchange gains for the quarter ended September 30, 2006 were \$345,000. Net foreign exchange losses for the quarter ended September 30, 2005 were \$82,000. The change in foreign exchange gains and losses for the quarter ended September 30, 2006 as compared to the prior year quarter are primarily the result of fluctuations in the value of the Euro versus the British Pound, and to a lesser extent, the U.S. Dollar versus other currencies. The Company utilizes foreign exchange contracts and debt in non-functional currencies to hedge foreign currency exposure. The Company's foreign exchange policy prohibits entering into speculative transactions.

Provision for Income Taxes

Income tax expense was \$7.8 million and \$5.4 million (restated) for the quarters ended September 30, 2006 and 2005, respectively, reflecting an effective income tax rate of 38.4% and 37.4%, respectively. The increase in the effective tax rate is due to the mix of earnings by country, and to the prior year utilization of net operating loss benefits which were fully utilized prior to fiscal year 2007.

Minority Interest in Income of Consolidated Subsidiaries

The Company consolidates subsidiaries that have a minority ownership interest. For the quarter ended September 30, 2006 and 2005, the Company recorded \$33,000 and \$59,000, net of income tax, respectively, of minority interest expense in the Company's majority owned subsidiary's net income. The decrease in minority interest expense is primarily due to the decreased percentage of minority interest in Netpoint, the Company's majority-owned subsidiary.

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ITEM 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

Net Income

The following table summarizes the Company's net income:

Quarter	Period ended			Percentage Change	Percentage of Sales	
	September 30,		Difference		September 30,	
	2006	2005 (restated) ⁽¹⁾ (In thousands)			2006	2005
	\$ 12,461	\$ 9,013	\$ 3,448	38.3%	2.5%	2.3%

⁽¹⁾ See Note 1A, Notes to Condensed Consolidated Financial Statements

The increase in the amount of net income is attributable to the changes in operations discussed above.

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ITEM 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

Liquidity and Capital Resources

The Company's primary sources of liquidity are cash flow from operations, borrowings under the revolving credit facility, secured and unsecured borrowings, and, to a lesser extent, borrowings under the subsidiary's line of credit, and proceeds from the exercise of stock options.

The Company's cash and cash equivalent balance totaled \$3.1 million at September 30, 2006 compared to \$3.8 million at June 30, 2006. Domestic cash is generally swept on a nightly basis to pay down the Company's line of credit. The Company's working capital increased to \$314.0 million at September 30, 2006 from \$262.2 million at June 30, 2006. The increase in working capital resulted primarily from a \$46.7 million increase in the Company's trade and notes receivable and a \$2.9 million increase in inventories, both financed through an increase in the revolving credit facility. These increases are the result of higher sales at the end of the quarter and the worldwide growth of the Company, including the T2 Supply acquisition.

The increase in the amount of trade accounts receivable is attributable to an increase in sales during the quarter. The number of days sales outstanding (DSO) in ending trade receivables increased to 63 days at September 30, 2006 compared to 59 days at June 30, 2006. The increase in DSO for the quarter ended September 30, 2006 is a result of longer negotiated terms on larger, strategic deals reflecting the Company's decision to manage receivables to attain return on invested capital targets. Inventory turnover remained at 7.2 times in both the quarter ended September 30, 2006 and the quarter ended June 30, 2006 reflecting management's effectiveness in managing increased inventory relative to sales growth and certain duplicate RoHS inventory for Europe.

Cash used in operating activities was \$25.8 million for the quarter ended September 30, 2006 compared to \$14.0 million of cash provided by operating activities for the quarter ended September 30, 2005. The increase in cash used in operating activities was primarily attributable to a strategic increase in trade receivables and the timing of vendor payments (in accordance with such terms).

Cash used in investing activities for the quarter ended September 30, 2006 was \$51.1 million. Cash used for business acquisitions totaled \$50.6 million, primarily for the acquisition of T2 Supply and for an additional ownership interest in the Company's majority-owned subsidiary, Netpoint. The Company's capital expenditures of \$548,000 were primarily for purchases of equipment, software, and furniture.

Cash used in investing activities for the quarter ended September 30, 2005 was \$2.4 million, which included \$1.2 million for capital expenditures and \$1.2 million primarily for the purchase of additional ownership interest in the Company's majority-owned subsidiary, Netpoint, and its now wholly-owned subsidiary, OUI. The Company's capital expenditures included \$1.1 million related to the expansion of the Memphis, Tennessee distribution center, as well as purchases of software, furniture and equipment.

At September 30, 2006 and June 30, 2006, the Company had a multi-currency revolving credit facility with its Bank Group of \$140 million and \$100 million, respectively, which matures on July 31, 2008. This facility was entered into on July 16, 2004 and has an accordion feature that allows the Company to unilaterally increase the revolving credit line up to a commitment of \$150 million. During the quarter ended September 30, 2006, the Company exercised \$40 million of its \$50 million credit facility accordion, increasing the revolving credit facility exercised amount to \$140 million with the maximum commitment remaining at \$150 million. The revolving credit facility may be increased by the Company up to an additional \$10 million through commitments from the existing Bank Group. The facility bears interest at either the 30-day LIBOR rate of interest on U.S. dollar borrowings or the 30, 60, 90 or 180-day LIBOR rate of interest on other currency borrowings. The interest rate is the appropriate LIBOR rate plus a rate varying from 0.75% to 1.75% tied to the Company's funded debt to EBITDA ratio ranging from 0.00:1.00 to 2.50:1.00 and a fixed charge coverage ratio of not less than 1.50:1. The effective weighted average interest rate at September 30, 2006 and June 30, 2006 was 5.44% and 4.38%, respectively. The outstanding borrowings at September 30, 2006 were \$85.7 million on a total commitment of \$150 million, leaving \$64.3 million available for additional borrowings. The outstanding borrowings at June 30, 2006 were \$27.6 million on a total commitment of \$130 million, leaving \$102.4 million available for additional borrowings. The facility is collateralized by domestic assets, primarily accounts receivable and inventory. The agreement contains

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ITEM 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

other restrictive financial covenants, including among other things, total liabilities to tangible net worth ratio, capital expenditure limits, and a prohibition on the payment of dividends. On November 9, 2006, a ninety day waiver was received under the Company's revolving credit facility with respect to the delivery of certain quarterly information and documentation to the Company's lenders, to the extent impacted by the review of the Special Committee of the Company's stock option grant practices and related accounting issues. The waiver was extended on February 14, 2007 and on May 14, 2007. The May 14, 2007 waiver covers information and documentation for three quarters and is effective through June 30, 2007 (or as late as July 31, 2007 under certain conditions). The Company was in compliance with its covenants at September 30, 2006.

On February 14, 2007, the Company's revolving credit facility was amended to permit the Company to redeem shares of its capital stock, so long as the amount paid in connection with the redemptions does not exceed \$2 million during any fiscal year.

On April 20, 2007, the Company's revolving credit facility Bank Group agreed to an increase in the Bank Group's commitment from \$150 million to \$200 million. Effective that date, the facility has an accordion feature that allows the Company to unilaterally increase the availability from \$180 million to \$200 million, in minimum increments of \$5 million.

At September 30, 2006 and June 30, 2006, Netpoint, doing business as ScanSource Latin America, had an asset-based line of credit with a bank that was due on demand and had a borrowing limit of \$1 million. The facility was renewed in January 2007, and is scheduled to mature on January 31, 2008. The facility is collateralized by accounts receivable and eligible inventory, and contains a restrictive covenant which requires an average deposit of \$50,000 with the bank. The Company has guaranteed 92% and 84% of the balance on the line as of September 30, 2006 and June 30, 2006, respectively, while the remaining balance was guaranteed by Netpoint's minority shareholder. The facility bears interest at the bank's prime rate minus one percent. At September 30, 2006 and June 30, 2006, the effective interest rate was 7.25%. At September 30, 2006 and June 30, 2006, there were no outstanding balances and outstanding standby letters of credit totaled \$40,000, leaving \$960,000 available for borrowings. The Company was in compliance with its loan covenants at September 30, 2006.

On July 25, 2006, the Company entered into an agreement with a bank for a \$13 million unsecured long-term note payable with monthly payments of interest only. At September 30, 2006, the balance of the note was \$13 million and the effective rate of interest was 5.98%. The note matures in fiscal year 2009.

On August 17, 2006, the Company obtained an overdraft facility with a borrowing limit of 3 million. At September 30, 2006, the balance was 2.9 million or \$3.7 million, and the effective rate of interest was 4.02%.

Cash provided by financing activities for the quarter ended September 30, 2006 totaled \$76.2 million, including advances of \$57.7 million under the Company's credit facility, \$12.9 million in additional long-term debt, a \$3.7 million increase in short-term borrowings, \$1.6 million in excess tax benefits from share-based payment arrangements and \$269,000 in proceeds from stock option exercises.

Cash used in financing activities for the quarter ended September 30, 2005 totaled \$3.2 million, including a \$4.5 million decrease in short-term borrowings and \$113,000 in payments on long-term debt offset with \$780,000 in advances under the Company's credit facility, \$477,000 in excess tax benefits from share-based payment arrangements, and \$88,000 in proceeds from stock option exercises.

The Company believes that it has sufficient liquidity to meet its forecasted cash requirements for at least the next fiscal year.

Accounting Standards Recently Issued

In September 2006, the Securities and Exchange Commission issued Staff Accounting Bulletin (SAB) No. 108, *Considering the Effects of Prior Year Misstatements when Quantifying Current Year Misstatements*. SAB No. 108

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ITEM 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

requires analysis of misstatements using both an income statement (rollover) approach and a balance sheet (iron curtain) approach in assessing materiality and provides for a one-time cumulative effect transition adjustment. SAB No. 108 is effective for the Company's fiscal year 2007 annual financial statements. The Company is currently evaluating the potential impact that the adoption of SAB No. 108 will have on its consolidated financial statements; the impact is not expected to be material.

In September 2006, the FASB issued Statement of Financial Accounting Standards (SFAS) No. 158, *Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans - an amendment of FASB Statements No. 87, 88, 106 and 132(R)*. SFAS No. 158 requires an employer to recognize the overfunded or underfunded status of a defined benefit postretirement plan as an asset or liability in its statement of financial position and to recognize changes in that funded status in the year in which the changes occur through comprehensive income. SFAS No. 158 will become effective for the Company as of the fiscal year ending June 30, 2007. The Company does not have a defined benefit pension plan and is currently evaluating the potential impact, if any, the adoption of SFAS No. 158 will have on its consolidated financial statements.

In September 2006, the FASB issued SFAS No. 157, *Fair Value Measurements*, which defines fair value, establishes a framework for measuring fair value in generally accepted accounting principles, and expands disclosures about fair value measurements. SFAS No. 157 does not require any new fair value measurements, but provides guidance on how to measure fair value by providing a fair value hierarchy used to classify the source of the information. This statement is effective for the Company beginning July 1, 2008. The Company is currently evaluating the potential impact, if any, that the adoption of SFAS No. 157 will have on its consolidated financial statements.

On July 13, 2006, the FASB issued Interpretation No. 48 (FIN 48), *Accounting for Uncertainty in Income Taxes - an Interpretation of FASB Statement No. 109*. FIN 48 clarifies the accounting for uncertainty in income taxes recognized in a company's financial statements by prescribing a recognition threshold and measurement attribute for financial statement recognition and measurement of a tax position taken or expected to be taken on a tax return. Additionally, FIN 48 provides guidance on de-recognition of tax benefits previously recognized and additional disclosures for unrecognized tax benefits, interest and penalties. FIN 48 is effective for fiscal years beginning after December 15, 2006, and is required to be adopted by the Company in the first quarter of fiscal year 2008. The Company is currently evaluating whether the adoption of FIN 48 will have a material effect on its consolidated financial position, results of operations or cash flows.

Impact of Inflation

The Company has not been adversely affected by inflation as technological advances and competition within specialty technology markets has generally caused prices of the products sold by the Company to decline. Management believes that any price increases could be passed on to its customers, as prices charged by the Company are not set by long-term contracts.

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Item 3. 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. The Company has chosen to present this information below in a sensitivity analysis format.

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. The definitive extent of the Company's interest rate is not quantifiable or predictable because of the variability of future interest rates and business financing requirements, but the Company does not believe such risk is material. A hypothetical 100 basis point increase or decrease in interest rates on borrowings on the Company's revolving line of credit, variable rate long term debt and subsidiary line of credit for the quarters ended September 30, 2006 and 2005 would have resulted in an approximately \$308,000 and \$87,000 increase or decrease, respectively, in pre-tax income. The Company does not currently use derivative instruments or take other actions to adjust the Company's interest rate risk profile.

The Company is exposed to foreign currency risks that arise from its foreign operations in Canada, Mexico 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. Foreign exchange risk is managed by using foreign currency forward and option 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. The Company continually evaluates foreign exchange risk and may enter into foreign exchange transactions in accordance with its policy. 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, and Canadian Dollars. At September 30, 2006, the Company had currency forward contracts outstanding with a net liability under these contracts of \$14,000. At June 30, 2006, the Company had currency forward contracts outstanding with a net liability under these contracts of \$25,000.

The Company does not utilize financial instruments for trading or other speculative purposes, nor does it utilize leveraged financial instruments. On the basis of the fair value of the Company's market sensitive instruments at September 30, 2006, the Company does not consider the potential near-term losses in future earnings, fair values and cash flows from reasonably possible near-term changes in interest rates and exchange rates to be material.

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ITEM 4. Controls and Procedures

Special Committee Review of Stock Option Grant Practices and Restatement

On October 9, 2006, a Special Committee of the Board of Directors, consisting solely of independent directors, began a review of the Company's historical stock option grant practices and related accounting issues from the time of its initial public offering in 1994 to 2006. The Special Committee with the assistance of independent legal counsel concluded its review and reported its findings and recommendations to management on January 15, 2007. The findings of the Special Committee were reported to the SEC in a Current Report on Form 8-K filing dated January 19, 2007 and indicated that, among other things, that there were deficiencies in the administration and oversight of the Company's stock option grant process including a lack of adequate processes and procedures for making grants, and an inattention to the need for accurate and timely documentation of grant decisions.

The Special Committee also recommended that management determine the impact of the findings on the Company's accounting for the option grants referenced in the findings and make appropriate adjustments and required disclosures.

In accordance with the Special Committee's recommendations, management initiated a detailed analysis of the facts and circumstances for all options granted between 1994 and 2006 and initially concluded that under applicable accounting rules, the appropriate measurement dates for certain stock option grants differed from the recorded measurement grant dates. Management completed the analysis and provided a preliminary estimate to the Board of the adjustment required for the changes to measurement dates to appropriately account for such grants.

On April 16, 2007, after consultation with management, the Board determined that the Company's previously issued financial statements included in its Annual Report on Form 10-K for the year ended June 30, 2006 (and perhaps financial statements for earlier periods) should no longer be relied upon because the adjustments were material and would require restatement. The non-cash stock based compensation adjustments reflected in the restatement total \$5.3 million and relate primarily to stock option grant measurement date errors.

For more information regarding the review of the Company's stock option grant practices and the related restatement of financial statements included in our Annual Report on Form 10-K for the fiscal year ended June 30, 2006, see Note 1A to the Notes to Consolidated Condensed Financial Statements presented in Part I, Item I of this report, Part II, Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations Restatement related to stock options of the Company's amended Annual Report on Form 10-K/A for the fiscal year ended June 30, 2006, and Note 1A to the Notes to Consolidated Financial Statements included in the Company's amended Annual Report on Form 10-K/A for the fiscal year ended June 30, 2006.

Evaluation of Controls and Procedures

The Company maintains disclosure controls and procedures designed to ensure that information required to be disclosed in reports filed or submitted under the Securities Exchange Act of 1934, as amended (the Exchange Act), is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms. The Company's Chief Executive Officer (CEO) and Chief Financial Officer (CFO) evaluated, with the participation of management, the effectiveness of the Company's disclosure controls and procedures as of the end of the period covered by this report as required by Rule 13a-15 or 15d-15 of the Exchange Act.

Based on this evaluation, which included the findings of the Special Committee's investigation and the restatement described herein, our CEO and CFO concluded that disclosure controls and procedures were not effective at a reasonable assurance level on September 30, 2006 because of a material weakness in internal control over financial reporting as it relates to stock option granting practices, as described in Management's Report on Internal Control Over Financial Reporting (Restated) in Item 9A, Controls and Procedures, in the Company's amended Annual Report on Form 10-K/A for the fiscal year ended June 30, 2006.

Specifically, the Company did not have adequate controls in place over the determination of appropriate measurement dates and the related accounting for the stock option compensation costs included in selling, general and administrative expenses. As discussed below, certain changes to the Company's internal controls have been implemented as of the date

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ITEM 4. Controls and Procedures

of this filing.

Changes in Internal Control over Financial Reporting

Management has taken and continues to take additional steps to remediate the material weakness discussed above for the fiscal year ending June 30, 2007, to significantly strengthen stock option grant practices and to implement processes to prevent and detect any future instances of improper accounting for stock options. The Board of Directors has reviewed and approved the steps being taken, including enhancements to policies and procedures, assignment of appropriate personnel to provide oversight over the administration and accounting for the stock option plans, and clear statements of the responsibilities and authority with respect to the granting of equity awards. These steps include:

Conducting a complete review of substantially all stock options granted for the period from 1994 to 2006 - Management performed a detailed review of the facts and circumstances surrounding each option grant made to employees for the period from 1994 to 2006, and believes that all accounting issues were identified and have been appropriately adjusted.

Modifying policies and procedures - Specific requirements for documentation of stock option award authorization and details, including timing of grant activities, are now identified in policies and procedures. These policies and procedures include procedures for determining the grant date, the exercise price, the detailed lists of award recipients and other procedures for ensuring that the awards are in accordance with the applicable stock option plan provisions and that the administration and accounting occurs within the appropriate time frame.

Changing personnel and responsibilities for authority and oversight - The authority to grant equity awards is now clearly stated as the responsibility of the Compensation Committee of the Board, except that equity awards for newly-hired employees may be delegated to the CEO within appropriate written guidelines. The CFO and General Counsel of the Company have been given responsibility for ensuring compliance with the equity award policies and oversight for documentation and accounting for stock option awards.

Clarifying Board procedures for grant approval and documentation - The Compensation Committee of the Board will have regularly scheduled meetings to discuss option awards and will document their meetings in minutes. Equity awards will only be approved at these meetings and will be promptly communicated to the CFO and the General Counsel. The minutes of the meetings will explicitly state the details of the awards including grantees, exercise price, number of shares underlying awards, and vesting schedules.

Enhancing stock option administration - An independent third-party specializing in stock option administration is being hired to provide administrative services for the Company's stock option plans.

There were no changes in the Company's internal control over financial reporting identified in connection with the evaluation required by paragraph (d) of Rule 13a-15 or 15d-15 of the Exchange Act, that occurred during the Company's fiscal quarter ended September 30, 2006 that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting. Subsequent to September 30, 2006, the Company initiated the review of stock option grants described above. Stock option grant policies were approved by the Board of Directors on April 12, 2007. The Company began taking the remaining remediation actions described above, including the establishment of detailed stock option grant procedures, during the fiscal quarter ending June 30, 2007.

Limitations on the Effectiveness of Controls

The Company maintains a system of internal accounting controls to provide reasonable assurance that assets are safeguarded and that transactions are executed in accordance with management's authorization and recorded properly to permit the preparation of financial statements in accordance with accounting principles generally accepted in the United States. However, the Company's management, including the CEO and CFO, does not expect that the Company's disclosure controls or internal controls will prevent all errors and all fraud. A control system, no matter how well conceived and operated, can provide only reasonable, not absolute, assurance that the objectives of the control system are

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ITEM 4. Controls and Procedures

met. Further, the design of a control system must reflect the fact that there are resource constraints, and the benefits of controls must be considered relative to their costs. Because of the inherent limitations in all control systems, no evaluation of controls can provide absolute assurance that all control issues and instances of fraud, if any, within the Company have been detected. These inherent limitations include the realities that judgments in decision-making can be faulty. Breakdowns in the control systems can occur because of a simple error or mistake. Additionally, controls can be circumvented by the individual acts of some persons, by collusion of two or more people, or by management override of the controls. The design of any system of controls 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. Over time, controls may become inadequate because of changes in conditions, or the degree of compliance with the policies or procedures may deteriorate. Because of the inherent limitations in a cost-effective control system, misstatements due to error or fraud may occur and not be detected.

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PART II. OTHER INFORMATION

Item 1. Legal Proceedings

On November 21, 2006, a purported stockholder filed a derivative lawsuit in the United States District Court for the District of South Carolina in Greenville, South Carolina against certain current and former officers and directors of the Company and against the Company, as a nominal defendant, asserting causes of action based on alleged violations of securities laws (including alleged violations of Section 10(b), 14(a) and 20(a) of the Securities Exchange Act of 1934 and Rule 10b-5 of the SEC) and other common law claims including, breach of fiduciary duty, aiding and abetting and unjust enrichment relating to allegations concerning certain of the Company's prior stock option grants. It seeks relief in the form of an accounting, rescission, unspecified money damages, disgorgement, attorneys' fees, fees and expenses and other relief. On April 2, 2007 the Court appointed the plaintiff as lead plaintiff and ordered that any later actions filed in the same Court and that relate to the same facts shall be consolidated. Our response, including a motion to dismiss the lawsuit, is currently due on July 11, 2007.

On April 11, 2007, another purported stockholder filed a substantially similar derivative lawsuit also related to the Company's prior grants of stock options. This action was also filed in the United States District Court for the District of South Carolina in Greenville, South Carolina against certain current and former officers and directors of the Company and against the Company, as a nominal defendant, and asserts substantially similar causes of action and claims for relief. The plaintiff in this second action has filed a motion to consolidate the two actions and appoint the plaintiff as a co-lead plaintiff. Our response, including a motion to dismiss the lawsuit, is currently due July 11, 2007. The derivative lawsuits are in a preliminary stage and the Company believes that it is taking appropriate actions regarding both derivative lawsuits.

For more information concerning the review by the Special Committee of the Board of Directors of the Company's stock option granting practices and the findings and recommendations of the Special Committee see Note 1A to the Notes to Consolidated Condensed Financial Statements presented in Part I, Item I of this report, Part II, Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations Restatement related to stock options of the Company's amended Annual Report on Form 10-K/A for the fiscal year ended June 30, 2006, and Note 1A to the Notes to Consolidated Financial Statements in the Company's amended Annual Report on Form 10-K/A for the fiscal year ended June 30, 2006. The Company is also continuing voluntarily to provide information to the SEC and the Department of Justice in connection with the Special Committee's review.

On March 12, 2007 the Company's insurance carrier, subject to a reservation of rights provided a preliminary position on coverage for the first derivative claim in which the carrier indicated that the lawsuit allegations appear to constitute a claim within coverage of the Company's insurance policy. The carrier continues to assess coverage of this matter.

On April 13, 2007, the Company provided notice to the insurance carrier of the second action. The insurance carrier is reviewing the second action and assessing coverage for the matter. The carrier has indicated, however, that its coverage position with regard to the second action will be consistent with the first; i.e., that the allegations of the second derivative lawsuit appear to constitute a claim within the coverage of the Company's insurance policy. The carrier has not recognized as within coverage the costs, fees and expenses incurred for the work related to the Special Committee at this stage. The Company is evaluating its alternatives to address its coverage claim position.

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

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Item 6. Exhibits

Exhibits

- 10.1 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 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 (incorporated by reference to Exhibit 10.30 to the Registrant's Annual Report on Form 10-K for the fiscal year ended June 30, 2006).
- 31.1 Certification Pursuant to Rule 13a-14(a)/15d-14(a) of the Securities Exchange Act of 1934, as amended.
- 31.2 Certification Pursuant to Rule 13a-14(a)/15d-14(a) of the Securities Exchange Act of 1934, as amended.
- 32.1 Certification Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
- 32.2 Certification Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

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SIGNATURES

Pursuant to the requirements 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.

SCANSOURCE, INC.

/s/ MICHAEL L. BAUR
MICHAEL L. BAUR
President and Chief Executive Officer

(Principal Executive Officer)

/s/ RICHARD P. CLEYS
RICHARD P. CLEYS
Vice President and Chief Financial Officer

(Principal Financial Officer)

Date: June 18, 2007