

BLACK BOX CORP  
Form 10-Q/A  
July 23, 2007

**Table of Contents**

**UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549  
FORM 10-Q/A**

(Mark One)

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

**For the quarterly period ended July 1, 2006**

OR

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

**For the transition period from \_\_\_\_\_ to \_\_\_\_\_**

**Commission File Number: 0-18706**

**Black Box Corporation**

(Exact name of registrant as specified in its charter)

**Delaware**

(State or other jurisdiction of incorporation or organization)

**95-3086563**

(I.R.S. Employer Identification No.)

**1000 Park Drive, Lawrence, Pennsylvania**

(Address of principal executive offices)

**15055**

(Zip Code)

Registrant's telephone number, including area code: **724-746-5500**

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes  No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of accelerated filer and large accelerated filer in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer  Accelerated filer  Non-accelerated filer

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes  No

As of August 8, 2006, there were 17,680,303 shares of common stock, par value \$.001 (the common stock), outstanding.

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**BLACK BOX CORPORATION  
INDEX**

	<b>Page</b>
<b><u>EXPLANATORY NOTE</u></b>	3
<b><u>PART I. FINANCIAL INFORMATION</u></b>	
<u>Item 1. Financial Statements (Unaudited).</u>	
<u>Consolidated Balance Sheets July 1, 2006 (restated) and March 31, 2006 (restated).</u>	11
<u>Consolidated Statements of Income Three months ended July 1, 2006 (restated) and July 2, 2005 (restated).</u>	12
<u>Consolidated Statements of Cash Flows Three months ended July 1, 2006 (restated) and July 2, 2005 (restated).</u>	13
<u>Notes to Consolidated Financial Statements (restated).</u>	14
<u>Management's Discussion and Analysis of Financial Condition and Results of Operations (restated).</u>	40
<u>Item 2.</u>	
<u>Item 3. Quantitative and Qualitative Disclosures about Market Risk.</u>	54
<u>Item 4. Controls and Procedures.</u>	55
<b><u>PART II. OTHER INFORMATION</u></b>	
<u>Item 6. Exhibits.</u>	56
<b><u>SIGNATURE</u></b>	57
<b><u>EXHIBIT INDEX</u></b>	58
<u>EX-31.1</u>	
<u>EX-31.2</u>	
<u>EX-32.1</u>	

**Table of Contents**

**EXPLANATORY NOTE**

In this Quarterly Report on Form 10-Q/A for the quarter ended July 1, 2006 ( Form 10-Q/A ), Black Box Corporation ( Black Box or the Company ) is restating its Consolidated Balance Sheets as of July 1, 2006 and March 31, 2006, Consolidated Statements of Income and Consolidated Statements of Cash Flows for the three (3) month periods ended July 1, 2006 and July 2, 2005 and the related Notes to the Consolidated Financial Statements. This Form 10-Q/A also includes the amendment of Management s Discussion and Analysis of Financial Condition and Results of Operations presented in the Company s Quarterly Report on Form 10-Q for the quarter ended July 1, 2006 (the 1Q07 Form 10-Q ) as it relates to the three (3) month periods ended July 1, 2006 and July 2, 2005. All restated information identified above is collectively referred to as the Restatement. References herein to Fiscal Year or Fiscal mean the Company Fiscal Year ended March 31 for the year referenced.

The Restatement reflects adjustments arising from the determinations of the Audit Committee (the Audit Committee ) of the Company s Board of Directors (the Board ), with the assistance of outside legal counsel, and the Company s management to record additional non-cash charges for stock-based compensation expense and the related income tax effects, relating to certain stock option grants during the period from 1992 through September, 2006.

Following the filing of this Form 10-Q/A, the Company will file its amended Quarterly Report on Form 10-Q/A for the quarter ended September 30, 2006 (the 2Q07 Form 10-Q/A ), its Quarterly Report on Form 10-Q for the quarter ended December 30, 2006 (the 3Q07 Form 10-Q ) and its Annual Report on Form 10-K for the period ended March 31, 2007 (the FY07 Form 10-K ). The 2Q07 Form 10-Q/A and the 3Q07 Form 10-Q will include, respectively, restated financial information for (i) the three (3) and six (6) month periods ended September 30, 2006 and October 1, 2005 and as of March 31, 2006 and September 30, 2006 and (ii) the three (3) and nine (9) month periods ended December 30, 2006 and December 31, 2005 and as of March 31, 2006 and December 30, 2006. In the FY07 Form 10-K, the Company will restate its Consolidated Balance Sheet at March 31, 2006, its Consolidated Statements of Income for the years ended March 31, 2006 and 2005, its Consolidated Statements of Changes in Stockholders Equity for the years ended March 31, 2006, 2005 and as of April 1, 2004, its Consolidated Statements of Cash Flows for the years ended March 31, 2006 and 2005, its quarterly financial data as of and for the quarters ended in the fiscal year ended March 31, 2006 and its Selected Financial Data as of and for the years ended March 31, 2006, 2005, 2004 and 2003.

The Company has not amended and does not intend to amend any of its other previously-filed reports on Form 10-K or Form 10-Q for the periods affected by the Restatement other than those specifically stated above. As previously disclosed, the consolidated financial statements and related financial information contained in such previously filed reports should no longer be relied upon.

**Restatement through March 31, 2006**

**Background**

On November 13, 2006, Black Box received a letter of informal inquiry from the Enforcement Division of the Securities and Exchange Commission (the SEC ) relating to the Company s stock option practices from January 1, 1997 to present. As a result, the Audit Committee, with the assistance of outside legal counsel, commenced an independent review of the Company s historical stock option grant practices and related accounting for stock option grants during the period from 1992 to the present (the Review Period ).

On February 1, 2007, the Company announced that, while the review of option grant practices was continuing, it believed that it would need to record additional non-cash charges for stock-based compensation expense relating to certain stock option grants and, accordingly, cautioned investors about relying on its historical financial statements until the Company could determine with certainty whether a restatement would be required and, if so, the extent of any such restatement and the periods affected.

On March 19, 2007, although the Audit Committee had not yet completed its review, the Audit Committee concluded that the exercise price of certain stock option grants differed from the fair market value of the underlying shares on the appropriate measurement date. At that time, the Company and the Audit Committee announced that it was currently expected that the Company s additional non-cash, pre-tax charges for stock-based compensation expense relating to certain stock option grants would approximate \$63 million for the Review Period. In addition, the Company and the Audit Committee concluded that the Company would need to restate its previously-issued financial statements

contained in reports previously filed by the Company with the SEC. Accordingly, on March 19, 2007, the Company and the Audit Committee concluded that the Company's previously-issued financial statements and other historical financial information and related disclosures for the Review Period, including applicable reports of its current or former independent registered public accounting firms and related press releases, should not be relied upon.

On May 25, 2007, the Company was advised by the Enforcement Division of the SEC that a Formal Order of Private Investigation arising out of the Company's stock option practices had been entered and on May 29, 2007 the Company received a subpoena that was issued by the SEC.

**Table of Contents**

On May 31, 2007, the Company announced that, as a result of the ongoing review of stock option practices, Company management and the Audit Committee expected that the Company's additional non-cash, pre-tax charges for stock-based compensation expense relating to certain stock option grants would approximate \$70 million for the Review Period.

**Findings of the Audit Committee**

During the Review Period, the Company granted stock options pursuant to an employee stock option plan and a director stock option plan to acquire approximately 10.9 million shares of common stock. Such plans at all relevant times provided for option grants to be approved by a designated committee of non-employee directors or, in the case of the director stock option plan, by the Board. Approximately 2,000 stock option grants were awarded during the Review Period with 69 recorded grant dates. No stock options have been granted since September, 2006. The Audit Committee reviewed all stock options granted during the Review Period, including option grants to the Company's directors, officers and rank and file employees (including grants to new employees, grants awarded in connection with Company acquisitions and grants made as individual or group performance awards). The Audit Committee's review of the Company's stock option granting practices included a comprehensive examination of reasonably available relevant physical and electronic documents as well as interviews with current and former directors, officers and Company personnel.

The Audit Committee's review was initially focused on determining whether the Company's prior stock option granting practices were in compliance with the plans' granting provisions and applicable law or called into question its accounting for such options. Once it became evident that such issues and accounting implications existed, the inquiry focused on those matters necessary: to determine whether any accounting charges were material and whether a restatement of the Company's previously-issued financial statements would be required; to establish a basis for effecting any required restatement; to assure that, on as timely a basis as possible, the Company could file any required curative disclosures with the SEC and assure its continued eligibility for listing on The NASDAQ Stock Market (NASDAQ); and to provide an informed basis for the Company's response to the identified issues, including appropriate corrective and remedial actions.

The following information summarizes certain of the findings of the Audit Committee. The findings identified approximately \$71.5 million of unrecorded expense at the time of grant (i.e., the difference between the fair market value of the common stock on the appropriate measurement date and the stated exercise price), net of forfeitures, during the Review Period, of which \$70.0 million was recorded in the Company's Consolidated Financial Statements through March 31, 2006 and \$1.5 million of unrecorded expense at the time of grant will be included, beginning at April 1, 2006, in the Company's computation of compensation expense in accordance with Statement of Financial Accounting Standards (SFAS) No. 123 (revised 2004) Share-Based Payment (SFAS 123(R)). The following summarizes the unrecorded expense at the time of grant by time period and category of recipient:

\$4.2 million for the period from Fiscal 1993 through Fiscal 1997 (\$0.2 million for directors, \$2.5 million for officers and \$1.5 million for rank and file employees)

\$45.6 million for the period from Fiscal 1998 through August 2002 (\$1.1 million for directors, \$25.7 million for officers and \$18.7 million for rank and file employees)

\$21.8 million for the period from August 2002 to the present (\$0.04 million for directors, \$0.6 million for officers and \$21.1 million for rank and file employees)

The Audit Committee's additional key findings are summarized below:

**Lack of Adequate Documentation:** For a majority of grants issued by the Company during the Review Period, there is either no or inadequate documentation of approval actions that satisfies the requisites for establishing a measurement date under Accounting Principles Board Opinion No. 25, Accounting for Stock Issued to Employees (APB 25). Of the 69 recorded grant dates, there are documented approval actions by the Board or the Option or Compensation Committee of the Board (the Compensation Committee) with respect to particular grants for 12 dates. In the period December 1992 to May 1996, neither the minutes of the Compensation Committee nor of the Board reflect any action to approve specific grants. In some instances, evidence of single director (the chairman of the

Compensation Committee) approval actions exists. This absence of non-employee director level documentation also applies to a majority of grants with a recorded grant date after 1996. In some cases, Compensation Committee minutes contain a reference to reports on the status of the option pool but do not document any action to approve specific grants.

**Table of Contents**

Approval documentation for certain grants has internal inconsistencies or conflicts with other documents thereby rendering this documentation unreliable as a basis for establishing a measurement date. In some cases, the only existing documentation is the executed option agreement and/or the entry of the option grant into the option database. Notwithstanding these approval documentation inadequacies, the Company entered into option agreements with grantees and has honored such grants.

**Grant Approvals:** During the Review Period, relatively few option grants were approved in complete compliance with the Company's stock option plans. Available documentation reflects that the Company approved option grants in a variety of ways. With respect to the employee stock option plan, grants were approved by the Compensation Committee as contemplated by the plan at various times, by the full Board in 1998 and 1999, by a single director (the chairman of the Compensation Committee) on nine recorded grant dates during the period 1994 through 2001 and by the Company's Chief Executive Officer ( CEO ) at various times. With respect to the director stock option plan, grants were generally approved by the designated Board committee and, in a few cases, by the chairman of the Compensation Committee. In one instance in 2000, there is no conclusive documentary evidence of the approval of director grants other than the signed director option agreements.

The delegation of authority by the Compensation Committee to the CEO with respect to grants to rank and file employees was not fully documented. However, there was an understood and accepted practice between the CEO and the Compensation Committee whereby the CEO made certain awards to individual employees. In some instances, this involved the allocation among rank and file employees of blocks of shares approved by the Compensation Committee; in three (3) such instances, the number of shares ultimately awarded pursuant to this process exceeded the approved size of the block, which was contrary to the understanding of the Compensation Committee members. Further, contrary to the understanding of Committee members, the award and/or documentation of those individual grants often significantly lagged the approval of the block grant. In August 2005, the Compensation Committee specifically acknowledged a prior grant of delegated authority to the CEO to make option grants to rank and file employees and ratified all prior awards by the CEO. In some cases, documentation of approval action is either inconclusive or missing, and the Company therefore has been unable to determine what entity or person actually approved specific grants.

**Option Pricing:** The recorded grant dates for a majority of grants do not match the applicable measurement dates as determined under APB 25. The grants of options with exercise prices lower than the fair market values of the stock on the actual measurement dates did not satisfy the fair market pricing requirement in the Company's plans, as amended in 1998, and were not consistent with the Company's disclosures in SEC filings stating that the exercise price of options was equal to the fair market value of the stock on the date of the grant.

The relationship between the stated exercise price of options and the fair market value of the Company's stock on the date of the identifiable approval actions varied from grant to grant. In some cases, the exercise price of grants reflected the fair market value of the underlying shares on the date of any documented approval action. In other cases, the exercise prices reflected the fair market value of the underlying shares on a date either prior or subsequent to any such documented approval action and the exercise price was lower than the fair market value on the date of any such action. In several such cases before August 2002, the use of such grant dates and lower exercise prices (together with other available evidence) supports a finding that the recorded grant dates and corresponding exercise prices were selected with the benefit of hindsight. For certain grants where the mismatch between the recorded grant date and the approval action was only a matter of days, however, the mismatch appears to have been attributable to inaccurate recording or administrative delays. In some cases, the apparent approval action did not identify all grantees; for example, there are cases where a block grant was approved subject to a later determination of individual grant recipients and grants were recorded with a grant date, and corresponding exercise price, that matched the date of the apparent approval of the block grant and the fair market value of the common stock on that date although individual grant recipients may have been identified some time after approval of the block grant. Finally, in some cases, the approval action for specific grants is not adequately documented. Where the recorded grant date did not satisfy the requisites for a measurement date under APB 25, the Company relied on default methodologies to determine an appropriate measurement date.



**Internal Controls:** As outlined above, the Company's historical administration of its options program lacked discipline as it relates to proper adherence to the plan requirements, corporate recordkeeping and documentation. Since November 2003, however, the Company has properly administered the stock option program as it relates to awards to directors and officers. During the investigation, the Company identified control gaps related to grants made throughout the Review Period. As of March 31, 2007, the Company implemented additional procedures to its process that are focused on formalized documentation of appropriate approvals and determination of grant terms to employees.

**Procedural and Remedial Actions**

The Audit Committee and other relevant Board committees are committed to a continued review and implementation of procedural enhancements and remedial actions in light of the foregoing findings. Consistent with its obligation to act in the best interests of the Company taking into account all relevant facts and circumstances, the Audit Committee is continuing to assess the appropriateness of a broad range of possible procedural enhancements and potential remedial measures in light of the findings of its investigation. While the Audit Committee has not completed its consideration of all such steps, procedural enhancements may include recommendations regarding improved stock option administration procedures and controls, training and monitoring compliance with those procedures, corporate recordkeeping, corporate risk assessment, evaluation of the internal compliance environment and other remedial steps that

**Table of Contents**

may be appropriate. The Audit Committee is also expected to address issues of individual conduct or responsibility, including those of the Board, CEOs and Chief Financial Officers ( CFOs ) serving during the Review Period. Potential remedial measures may include an evaluation of the role of and possible claims or other remedial actions against current and former Company personnel who may be found to have been responsible for identified problems during the Review Period. The Audit Committee expects to recommend to the Board and/or its appropriate committees procedural enhancements and remedial measures that appropriately address the issues raised by its findings. In advance of action by the Audit Committee, as noted above, the Company has implemented additional procedures to its process for approving stock option grants that are focused on formalized documentation of appropriate approvals and determination of grant terms to employees.

**Restatement Methodologies**

As of April 1, 2006, the Company adopted SFAS 123(R) using the modified prospective transition method. Under this transition method, compensation expense is to be recognized for all share-based compensation awards granted after the date of adoption and for all unvested awards existing on the date of adoption. Prior to April 1, 2006, the Company accounted for stock-based compensation awards to directors, officers and rank and file employees using the intrinsic value method in accordance with APB 25 as allowed under SFAS No. 123 Accounting for Stock-Based Compensation ( SFAS 123 ). Under the intrinsic value method, no share-based compensation expense related to stock options was required to be recognized if the exercise price of the stock option was at least equal to the fair market value of the common stock on the measurement date. APB 25 defines the measurement date as the first date on which are known both (1) the number of shares that an individual grant recipient is entitled to receive and (2) the option or purchase price, if any.

In light of the Audit Committee's review of the Company's stock option granting practices during the Review Period and as to those cases in which the Company previously used a recorded grant date as the measurement date that the Company determined could no longer be relied upon, the Company has developed and applied the following methodologies to remeasure those stock option grants and record the relevant charges in accordance with APB 25 by considering the following sources of information: (i) meeting minutes of the Board and of committees thereof and related materials, (ii) Unanimous Written Consents of the Board and of committees thereof, (iii) the dates on which stock option grants were entered into the Company's stock option database ( create date ), (iv) relevant email correspondence reflecting stock option grant approval actions, (v) individual stock option agreements and related materials, (vi) employee and Board offer letters, (vii) documents relating to acquisitions, (viii) reports on Form 4 filed with the SEC and (ix) guidance of the Office of the Chief Accountant of the SEC on stock option matters as set forth in its letter dated September 19, 2006.

***Grants with Appropriate Committee Approval.*** With respect to grants of approximately 1.0 million shares, or approximately 9% of the total grants in the Review Period, the Company has evidence to support the approval of the grant under the stock option plans by the relevant committee of the Board, and such evidence includes the number of options each individual was entitled to receive and the option price. However, the relationship between these documented approval actions and the originally-recorded grant dates and exercise prices for the options so approved varied during the Review Period. In some cases, grants were recorded with a grant date and a corresponding exercise price that matched the date of the approval action or were otherwise consistent with the terms of the approval actions. In other cases, however, the recorded grant dates and corresponding exercise prices of the grants reflected the fair market value of the common stock on a date prior to the committee's documented approval actions. The Company has restated the compensation expense for stock option grants relating to approximately 0.4 million shares of common stock by using the date of the documented approval action as the measurement date. The total additional non-cash, pre-tax charge for these grants is approximately \$1.8 million, net of forfeitures, amortized over the appropriate vesting period through March 31, 2006, of which \$0.07 million relates to director options, \$1.3 million relates to officer options and \$0.4 million relates to rank and file employee options.

***Grants with Other Approvals.*** With respect to grants of approximately 1.9 million shares, or approximately 18% of the total grants in the Review Period, the Company has evidence to support the approval of the grant by the Board, an outside director or the Company's CEO and the identification of the number of options each individual was entitled to receive together with the option price. These grants are distinguished from the grants described in the prior paragraph

in that the nature of the approval was not fully consistent with the terms of the relevant stock option plan. As with the grants discussed in the preceding paragraph, the relationship between these documented approval actions and the originally-recorded grant dates and exercise prices for the options so approved varied during the Review Period. In some cases, grants were recorded with a grant date and a corresponding exercise price that matched the date of the approval action or were otherwise consistent with the terms of the approval action. In other cases, however, the recorded grant dates and corresponding exercise prices of the grants reflected the fair market value of the Company's stock on a date prior to the approval action. The Company has restated the compensation expense for stock option grants relating to approximately 1.6 million shares of common stock by using the date of the documented approval action as the measurement date. The total additional non-cash, pre-tax charge for these grants is approximately \$7.6 million, net of forfeitures, amortized over the appropriate vesting period through March 31, 2006, of which \$0.5 million relates to director options, \$2.6 million relates to officer options and \$4.5 million relates to rank and file employee options.

**Table of Contents**

***Grants Lacking Adequate Documentation.*** With respect to grants of approximately 7.9 million shares (5.0 million shares to rank and file employees), or 73.0% of the total grants in the Review Period, the Company has been unable to locate adequate documentation of approval actions that would satisfy the requisites for a measurement date under APB 25. For these grants, management considered all available relevant information to form a reasonable conclusion as to the most reasonable measurement date. For all grants in this category, the Company has established default methodologies for determining the most appropriate measurement date under APB 25.

With respect to grants entered into the Company's stock option database after September 9, 1999, when the database began to reflect a create date which is the date on which a grant was entered into the system, the Company has determined to use the individual create date for each grant as the APB 25 measurement date, which was in most cases different from the originally-recorded grant date. The Company believes that this create date is the most appropriate methodology in the absence of sufficient evidence of approvals for these grants as it represents the earliest point in time at which the evidence shows that all requisites for the establishment of the measurement date had been satisfied. Such create dates preceded, often by a significant amount of time, the execution of stock option agreements, which, generally, were manually signed by the Company's CEO and manually signed and dated by the grantee. In addition, in almost all cases, a grant entered into the database, which established the create date, ultimately resulted in the creation of a stock option agreement reflecting such grant. Accordingly, while execution of the stock option agreements constituted a clear acknowledgement by the grantee and the Company of the grantee's legal entitlement to the grant the Company believes the create date more accurately reflects the date of approval than does the signed option agreement. The Company has restated the compensation expense for stock option grants relating to approximately 4.2 million shares of common stock by using the create date as the measurement date. The total additional non-cash, pre-tax charge for these grants is approximately \$49.8 million, net of forfeitures, amortized over the appropriate vesting period through March 31, 2006, of which \$0.5 million relates to director options, \$17.2 million relates to officer options and \$32.2 million relates to rank and file employee options. The Company's procedures for evaluating the appropriateness of measurement dates fixed with reference to such create dates included a sensitivity analysis which provided an understanding of the differences between the additional recorded charge for stock-based compensation expense and the charges that would result from using other identified alternative methods for determining measurement dates. The Company's sensitivity analysis included identifying the range of potential grant dates defined by the recorded grant date and the create date for each grant. The Company then identified the low and high closing prices of the common stock within that range of potential grant dates and applied both the low and high closing prices of the common stock to the number of shares granted for which the create date methodology was utilized to determine the range of potential adjustments to stock-based compensation expense for these grants, which was \$0.09 million to \$73.8 million, net of forfeitures, as compared to the additional non-cash, pre-tax charge for these grants of approximately \$49.8 million, net of forfeitures, included in the Restatement.

For options entered into the Company's option database before September 9, 1999, the Company determined the measurement date generally by reference to signed option agreements (or the deemed signature date for certain options as discussed below). The executed option agreements (hereinafter signed option agreements), manually signed by the Company's CEO and manually signed and dated by the grantee, constituted an acknowledgement by the grantee and the Company of the grantee's legal entitlement to the grant and, in the absence of authoritative information as to when all the requisites for the establishment of the measurement date had been satisfied, provides a measurement date framework based on entitlement. The Company has restated the compensation expense for stock option grants relating to approximately 1.4 million shares of common stock by using the signed option agreements as the measurement date. The total additional non-cash, pre-tax charge for these grants is approximately \$6.4 million, net of forfeitures, amortized over the appropriate vesting period through March 31, 2006, of which \$0.3 million relates to director options, \$3.6 million relates to officer options and \$2.5 million relates to rank and file employee options. The Company believes this methodology was the most appropriate in the absence of sufficient evidence of approvals for these grants as it represents the earliest point in time at which the evidence shows that all requisites for the establishment of the measurement date had been satisfied for these grants. The Company's procedures for evaluating the appropriateness of measurement dates fixed with reference to the dating of signed option agreements included a sensitivity analysis which provided an understanding of the differences between the additional recorded charge for

stock-based compensation expense and the charges that would result from using other identified alternative methods for determining measurement dates. The Company's sensitivity analysis included identifying the range of potential grant dates defined by the recorded grant date and the date of the grantee's signature on the stock option agreement for each grant. The Company then identified the low and high closing prices of the common stock within that range of potential grant dates and applied both the low and high closing prices of the common stock to the number of shares granted for which the signed option agreements methodology was utilized to determine the range of potential adjustments to stock-based compensation expense for these grants, which was \$0.03 million to \$9.6 million, net of forfeitures, as compared to the additional non-cash, pre-tax charge for these grants of approximately \$6.4 million, net of forfeitures, included in the Restatement.

In those cases where no reliably-dated signed option agreement could be located and where no post-September 9, 1999 create date exists (stock option grants totaling approximately 0.9 million shares), the Company used the average period between recorded grant date and date of the signatures on all other grantee signed option agreements with the same grant date as the measurement date. For example, if there were four stock option grants with a grant date of January 1, 1996, the Company had the signed option agreements for three of these stock option grants and the average number of days between the grant date and the signature dates of these three

**Table of Contents**

signed option agreements was 20 days, January 21, 1996 was used as the measurement date for the grant for which no signed option agreement could be located. The Company has restated the compensation expense for stock option grants relating to approximately 0.7 million shares of common stock using this average days to sign agreement method. The total additional non-cash, pre-tax charge for these grants is approximately \$4.4 million, net of forfeitures, amortized over the appropriate vesting period through March 31, 2006, of which \$0.06 million relates to director options, \$4.2 million relates to officer options and \$0.2 million relates to rank and file employee options. The Company believes this methodology was the most appropriate in the absence of sufficient evidence of approvals for these grants because it gives a reasonable approximation of the measurement date related to these options in light of the available evidence. The Company conducted a sensitivity analysis by comparing the Company's current default methodology (i.e., average days to sign agreement) with another default methodology. For this analysis, the Company identified the range of potential grant dates defined by the earliest signed option agreement and the latest signed option agreement. The Company then identified the low and high closing prices of the common stock over the range of potential grant dates and applied both the low and high closing prices of the common stock to the number of shares granted to determine the range of potential adjustments to stock-based compensation expense for these grants, which was \$2.6 million to \$5.9 million, net of forfeitures. The Company's analyses indicate that stock-based compensation expense computed using other identified alternative default methodologies would not materially differ from stock-based compensation expense computed using the average days to sign agreement methodology. The Company's procedures for evaluating the appropriateness of measurement dates fixed with reference to the average days to sign agreements also included a sensitivity analysis which provided an understanding of the differences between the additional recorded charge for stock-based compensation expense and the charges that would result from using other identified alternative methods for determining measurement dates. The Company's sensitivity analysis included identifying the range of potential grant dates defined by the recorded grant date and the average days to sign agreement for each grant. The Company then identified the low and high closing prices of the common stock within that range of potential grant dates and applied both the low and high closing prices of the common stock to the number of shares granted to determine the range of potential adjustments to stock-based compensation expense for these grants, which was \$0.03 million to \$6.1 million, net of forfeitures, as compared to the additional non-cash, pre-tax charge for these grants of approximately \$4.4 million, net of forfeitures, included in the Restatement.

Given the volatility of the common stock during much of the Review Period, the use of methodologies and measurement dates different from those described above could have resulted in a higher or lower cumulative compensation expense which would have caused net income or loss to be different from the amounts reported in the restated consolidated financial statements. The Company's procedures for evaluating the appropriateness of measurement dates fixed using the default methodologies described above also included a sensitivity analysis which provided an understanding of the differences between the additional recorded charge for stock-based compensation expense and the charges that would result from using other identified alternative methods for determining measurement dates. The Company's sensitivity analysis included identifying the range of potential grant dates defined by the recorded grant date and the appropriate measurement date for each grant. The Company then identified the low and high closing prices of the common stock within that range of potential grant dates and applied both the low and high closing prices of the common stock to the number of shares granted to determine the range of potential adjustments to stock-based compensation expense for these grants, which was \$9.3 million to \$99.3 million, net of forfeitures, as compared to the additional non-cash, pre-tax charge for these grants of approximately \$70.0 million, net of forfeitures, included in the Restatement.

**Other adjustments through March 31, 2006**

From 1994 through 1998, the Company did not properly account for stock options for one officer that were modified after the grant date pursuant to a separation agreement. Some of these modifications were not identified in the Company's financial reporting processes and were therefore not properly reflected in its financial statements. As a result, the Company has recorded a non-cash charge for stock-based compensation of \$1.0 million during Fiscal 1999.

**Summary**

In summary, the Company recorded cumulative non-cash charges for stock-based compensation of \$70.9 million through March 31, 2006, offset in part by a cumulative income tax benefit of \$27.7 million, for a total after-tax charge

of \$43.2 million. These charges had no impact on net sales or cash and cash equivalents as previously reported in the Company's financial statements; as a result, no changes to these items are reflected in the Restatement. Non-cash charges for stock-based compensation expense have been recorded as adjustments to Selling, General, and Administrative Expenses within the Company's Consolidated Statements of Income.

**1Q07 Restatement**

In addition to the Restatement noted above through March 31, 2006, the Company has recorded a non-cash charge for stock-based compensation of \$1.6 million for the three (3) month period ended July 1, 2006, offset in part by an income tax benefit of \$0.6 million, or a total after-tax charge of \$1.0 million. This charge was recorded to reflect additional non-cash, stock-based

**Table of Contents**

compensation expense recognized under the fair value method (SFAS 123(R)) because the exercise price for certain stock option grants prior to, but not vested as of March 31, 2006, differed from the fair market value of the underlying shares on the appropriate measurement date, some of which occurred during Fiscal 2007.

The table below reflects the impact of the additional non-cash charges for stock-based compensation expense on the Company's Consolidated Statements of Income, including the cumulative adjustment to Retained Earnings as of March 31, 2006 and July 1, 2006 on the Company's Consolidated Balance Sheet. See Note 3 of the Notes to Consolidated Financial Statements for reference to footnote disclosure that reconciles the previously filed annual financial information to the restated annual financial information. All dollar amounts are presented in thousands except per share amounts. Per share amounts may not total due to rounding.

	(As previously reported) Net Income	Adjust- ment, Pre-Tax	Income Tax Benefit	Adjust- ment, Net of Tax	(As Restated) Net Income	(As previously reported) Diluted EPS	Adjust- ment	(As Restated) Diluted EPS
FY 94	\$ 13,370	\$ 43	\$ (19)	\$ 24	\$ 13,346	\$ 0.83	\$	\$ 0.83
FY 95	14,515	461	(144)	317	14,198	0.89	(0.02)	0.87
FY 96	18,278	406	(151)	255	18,023	1.10	(0.01)	1.09
FY 97	24,792	1,172	(456)	716	24,076	1.40	(0.04)	1.36
FY 98	32,404	3,595	(1,393)	2,202	30,202	1.79	(0.12)	1.67
FY 99	38,145	4,506	(1,732)	2,774	35,371	2.09	(0.15)	1.94
FY 00	48,852	5,778	(2,209)	3,569	45,283	2.60	(0.19)	2.41
FY 01	64,190	10,290	(3,953)	6,337	57,853	3.22	(0.32)	2.90
FY 02	62,042	11,333	(4,381)	6,952	55,090	2.97	(0.33)	2.64
FY 03	48,685	8,927	(2,328)	6,599	42,086	2.39	(0.32)	2.07
FY 04	47,243	8,197	(4,156)	4,041	43,202	2.52	(0.22)	2.30
FY 05	29,912	5,178	(2,312)	2,866	27,046	1.68	(0.16)	1.52
Cumulative 03/31/05	\$ 442,428	\$ 59,886	\$(23,234)	\$ 36,652	\$ 405,776	\$ 23.48	\$(1.89)	\$ 21.59
1Q06	7,394	1,120	(442)	678	6,716	0.43	(0.04)	0.39
2Q06	12,797	1,126	(444)	682	12,115	0.74	(0.04)	0.70
3Q06	12,511	2,431	(959)	1,472	11,039	0.70	(0.08)	0.62
4Q06	4,656	6,368	(2,612)	3,756	900	0.26	(0.21)	0.05
FY 06	\$ 37,358	\$ 11,045	\$ (4,457)	\$ 6,588	\$ 30,770	\$ 2.13	\$(0.37)	\$ 1.76
Cumulative 03/31/06	\$ 479,786	\$ 70,931	\$(27,691)	\$ 43,240	\$ 436,546	\$ 25.61	\$(2.26)	\$ 23.35
1Q07	7,807	1,629	(635)	994	6,813	0.43	(0.06)	0.37



Cumulative

07/01/06	\$ 487,593	\$ 72,560	\$(28,326)	\$ 44,234	\$ 443,359	\$ 26.04	\$(2.32)	\$ 23.72
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For the convenience of the reader, this Form 10-Q/A sets forth Part I of the 1Q07 Form 10-Q in its entirety, as amended by, and to reflect, the Restatement. This Form 10-Q/A generally does not reflect events that have occurred after August 10, 2006, the original filing date of the 1Q07 Form 10-Q, or modify or update the disclosures originally presented in the 1Q07 Form 10-Q except to reflect the effects of the Restatement, to reflect changes in the Company's evaluation of disclosure controls and procedures. Accordingly, only the following items of the 1Q07 Form 10-Q have been amended:

- Part I      Item 1      Financial Statements (Unaudited)
- Part I      Item 2      Management's Discussion and Analysis of Financial Condition and Results of Operations
- Part I      Item 4      Controls and Procedures
- Part II     Item 6      Exhibits

**Income Tax Considerations**

In the course of the investigation, the Company determined that a number of officers may have exercised options for which the application of Section 162(m) of the Internal Revenue Code of 1986, as amended (the Code), may apply. It is possible that these options will be treated as having been granted at less than fair market value for federal income tax purposes because the Company incorrectly applied the measurement date as defined in APB 25. If such options are deemed to be granted at less than fair market value, pursuant to Section 162(m) of the Code (Section 162(m)), any compensation to officers, including proceeds from options exercised, in any given tax year in excess of \$1.0 million will be disallowed as a deduction for tax purposes. The Company estimates that the potential tax effected liability for any such disallowed Section 162(m) deduction would approximate \$3.6 million. The Company may also incur interest and penalties if it were to incur any such tax liability, which could be material.

**Table of Contents**

In addition, the Company is considering the application of Section 409A of the Code ( Section 409A ) to those options for which it incorrectly applied the measurement date as defined in APB 25. It is possible that these options will be treated as having been granted at less than fair market value for federal income tax purposes and thus subject to Section 409A. Accordingly, the Company may adopt measures to address the application of Section 409A. The Company does not currently know what impact Section 409A will have, or any such measures, if adopted, would have, on its results of operations, financial position or cash flows, although such impact could be material.

**Expenses Incurred by the Company**

The Company has incurred expenses for legal fees and external audit firm fees, in the aggregate amount of approximately \$0.6 million, in the fiscal year ended March 31, 2007, in relation to (i) the Audit Committee's review of the Company's historical stock option practices and related accounting for stock option grants, (ii) the informal inquiry and formal order of investigation by the Securities and Exchange Commission regarding its past stock option practices, (iii) the derivative action relating to the Company's historical stock option practices filed against the Company as a nominal defendant and certain of the Company's current and former directors and officers as to whom it may have indemnification obligations and (iv) related matters. Further, the Company expects to incur significant additional expense related to the foregoing matters in the fiscal year ending March 31, 2008. It is anticipated that certain of those expenses will be reimbursed under the Company's directors' & officers' indemnification insurance.

**Table of Contents****PART I - FINANCIAL INFORMATION****Item 1. Financial Statements.****BLACK BOX CORPORATION  
CONSOLIDATED BALANCE SHEETS <sup>(1)</sup>**

<b>In thousands, except par value</b>	<b>(As Restated) July 1, 2006 (Unaudited)</b>	<b>(As Restated) March 31, 2006 (Unaudited)</b>
<b>Assets</b>		
Cash and cash equivalents	\$ 14,360	\$ 11,207
Accounts receivable, net of allowance for doubtful accounts of \$15,884 and \$9,517	172,315	116,713
Lease receivables	1,071	512
Inventories, net	68,243	53,926
Costs and estimated earnings in excess of billings on uncompleted contracts	55,400	23,803
Deferred tax asset	8,873	8,973
Net current assets of discontinued operations	404	467
Other current assets	27,187	15,523
<b>Total current assets</b>	<b>347,853</b>	<b>231,124</b>
Property, plant and equipment, net	39,029	35,124
Goodwill, net	593,188	468,724
Customer relationships, net	54,036	24,657
Other intangibles, net	35,471	30,783
Lease receivables, net of current portion	987	--
Deferred tax asset	19,065	19,909
Other assets	3,982	5,091
<b>Total assets</b>	<b>\$ 1,093,611</b>	<b>\$ 815,412</b>
<b>Liabilities</b>		
Current maturities of long-term debt	\$ 704	\$ 1,049
Current maturities of discounted lease rentals	9	30
Accounts payable	73,753	44,943
Billings in excess of costs and estimated earnings on uncompleted contracts	15,483	8,648
Deferred revenue	53,365	22,211
Accrued liabilities:		
Compensation and benefits	25,644	13,954
Restructuring reserve	16,090	3,292
Other liabilities	52,245	27,817
Income taxes	9,887	9,511
<b>Total current liabilities</b>	<b>247,180</b>	<b>131,455</b>
Long-term debt	243,886	122,673
Restructuring reserve	14,646	7,406

Other liabilities	16,863	887
<b>Stockholders' Equity</b>		
Preferred stock authorized 5,000, par value \$1.00, none issued	--	--
Common stock authorized 100,000, par value \$.001, 17,680 and 17,593 shares outstanding	25	25
Additional paid-in capital	424,141	418,141
Retained earnings	424,365	418,613
Treasury stock, at cost, 6,935 and 6,935 shares	(296,824)	(296,824)
Accumulated other comprehensive income	19,329	13,036
Total stockholders' equity	571,036	552,991
Total liabilities and stockholders' equity	\$ 1,093,611	\$ 815,412

(1) See Note 3 of the Notes to Consolidated Financial Statements

**See Notes to Consolidated Financial Statements**

**Table of Contents**

**BLACK BOX CORPORATION**  
**CONSOLIDATED STATEMENTS OF INCOME** <sup>(1)</sup>

	<b>Three months ended</b>	
	<b>(Unaudited)</b>	
	(As <b>Restated</b> )	(As <b>Restated</b> )
<b>In thousands, except per share amounts</b>	<b>July 1, 2006</b>	<b>July 2, 2005</b>
Revenues		
Hotline products	\$ 52,225	\$ 53,452
On-site services	178,170	125,830
Total	230,395	179,282
Cost of sales		
Hotline products	25,461	25,874
On-site services	119,090	82,468
Total	144,551	108,342
Gross profit	85,844	70,940
Selling, general and administrative expenses	70,202	52,040
Restructuring and other charges	--	5,290
Intangibles amortization	1,506	1,558
Operating income	14,136	12,052
Interest expense, net	3,640	1,959
Other expense, net	115	(75)
Income before provision for income taxes	10,381	10,168
Provision for income taxes	3,568	3,452
Net income	\$ 6,813	\$ 6,716
Earnings per common share		
Basic	\$ 0.39	\$ 0.40
Diluted	\$ 0.37	\$ 0.39
Weighted average common shares outstanding		

Basic	17,626	16,845
Diluted	18,262	17,042

Dividends per share	\$ 0.06	\$ 0.06
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(1) See Note 3 of  
the Notes to  
Consolidated  
Financial  
Statements

**See Notes to Consolidated Financial Statements**

12

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**Table of Contents**

**BLACK BOX CORPORATION**  
**CONSOLIDATED STATEMENTS OF CASH FLOWS <sup>(1)</sup>**

<b>In thousands</b>	<b>Three months ended (Unaudited)</b>	
	<b>(As Restated) July 1, 2006</b>	<b>(As Restated) July 2, 2005</b>
<b><i>Operating Activities</i></b>		
Net income	\$ 6,813	\$ 6,716
Adjustments to reconcile net income to cash provided by operating activities:		
Depreciation and amortization	3,806	3,791
Deferred tax provision/(benefit)	(508)	(3,091)
Stock compensation expense	3,249	1,120
Tax impact from exercised options	779	187
Changes in operating assets and liabilities (net of acquisitions):		
Accounts receivable, net	11,218	4,785
Inventories, net	(1,066)	5,032
Other current assets	(2,427)	(7,371)
Proceeds from lease contracts	312	735
Accounts payable and accrued liabilities	(9,569)	(1,101)
Net cash provided by operating activities	12,607	10,803
<b><i>Investing Activities</i></b>		
Capital expenditures	(1,523)	(492)
Capital disposals	30	813
Acquisition of businesses, net of cash acquired	(129,161)	(13,492)
Prior merger-related (payments)/recoveries	(1,350)	44
Net cash used in investing activities	(132,004)	(13,127)
<b><i>Financing Activities</i></b>		
Repayment of borrowings	(73,769)	(53,177)
Proceeds from borrowings	194,522	56,249
Repayments on discounted lease rentals	(21)	(423)
Proceeds from the exercise of options	3,530	136
Payment of dividends	(1,055)	(1,011)
Net cash provided by financing activities	123,207	1,774
Foreign currency exchange impact on cash	(657)	(34)
Increase/(decrease) in cash and cash equivalents	3,153	(584)
Cash and cash equivalents at beginning of year	11,207	11,592
Cash and cash equivalents at end of year	\$ 14,360	\$ 11,008

***Supplemental Cash Flow:***

Cash paid for interest	\$	2,601	\$	2,140
Cash paid for income taxes		2,685		1,240
Non-cash financing activities:				
Dividends payable		1,061		1,011
Capital leases		109		390

(1) See Note 3 of  
the Notes to  
Consolidated  
Financial  
Statements

**See Notes to Consolidated Financial Statements**

13

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**Table of Contents**

**BLACK BOX CORPORATION  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
(UNAUDITED)**

*(Dollars in thousands, except per share amounts)*

**Note 1: Basis of Presentation**

The unaudited interim consolidated financial statements included herein have been prepared in accordance with accounting principles generally accepted in the United States and with the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by accounting principles generally accepted in the United States for complete financial statements.

Black Box Corporation (the Company) believes that these consolidated financial statements reflect all normal, recurring adjustments needed to present fairly the Company's results for the interim periods presented. The results for interim periods may not be indicative of the results of operations for any other interim period or for the full year.

As previously disclosed, the financial statements and notes thereto included in the Company's most recent Annual Report on Form 10-K as filed with the Securities and Exchange Commission (SEC) for the fiscal year ended March 31, 2006 will need to be restated and, therefore, should not be relied upon. See Note 3 of the Notes to Consolidated Financial Statements.

The Company's fiscal year ends on March 31. The fiscal quarters consist of 13 weeks and end on the Saturday nearest each calendar quarter end. The actual ending dates for the periods presented in these Notes as of June 30, 2006 and 2005 were July 1, 2006 and July 2, 2005, respectively. References to Fiscal Year or Fiscal mean the Company's fiscal year ended March 31 for the year referenced.

**Note 2: Significant Accounting Policies**

**Principles of Consolidation**

The consolidated financial statements include the accounts of the parent company and its subsidiaries. All significant intercompany accounts and transactions have been eliminated in consolidation.

**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. Significant estimates in these financial statements include allowances for doubtful accounts receivable, sales returns, net realizable value of inventories, loss contingencies, warranty reserves and intangible assets. Actual results could differ from those estimates. Management believes the estimates made are reasonable.

**Stock-Based Compensation**

On April 1, 2006, the Company adopted Statement of Financial Accounting Standards (SFAS) No. 123 (revised 2004), Share-Based Payment (SFAS 123(R)) which requires the measurement and recognition of compensation expense for all share-based payment awards made to employees and directors based on estimated fair values. SFAS 123(R) supersedes the Company's previous accounting under Accounting Principles Board Opinion No. 25, Accounting for Stock Issued to Employees (APB 25) for periods beginning in Fiscal 2007.

**Table of Contents**

SFAS 123(R) requires companies to estimate the fair value of share-based payment awards on the grant-date using an option-pricing model. The value of the portion of the award that is ultimately expected to vest is recognized as expense over the requisite service periods in the Company's Consolidated Statements of Income. Prior to the adoption of SFAS 123(R), the Company accounted for share-based awards to employees and directors using the intrinsic value method in accordance with APB 25 as allowed under SFAS No. 123, Accounting for Stock-Based Compensation (SFAS 123). Under the intrinsic value method, no share-based compensation expense related to stock options was required to be recognized in the Company's Consolidated Financial Statements if the exercise price of the stock options was equal to or greater than the fair market value of the underlying stock at the measurement date.

The Company adopted SFAS 123(R) using the modified prospective transition method, which requires the application of the accounting standard as of April 1, 2006, the first day of the Company's fiscal year 2007. The Company's Consolidated Financial Statements as of and for the three months ended June 30, 2006 reflect the impact of SFAS 123(R). In accordance with the modified prospective transition method, the Company's Consolidated Financial Statements for prior periods have not been retrospectively adjusted to reflect, and do not include, the impact of SFAS 123(R). See Note 14 of the Notes to the Consolidated Financial Statements for additional information.

On November 10, 2005, the Financial Accounting Standards Board (the FASB) issued Staff Position No. SFAS 123(R)-3, Transition Election Related to Accounting for Tax Effects of Share-Based Payment Awards (SFAS 123(R)-3). The alternative transition method includes simplified methods to establish the beginning balance of the additional paid-in capital pool (APIC pool) related to the tax effects of employee share-based compensation, and to determine the subsequent impact on the APIC pool and Consolidated Statements of Cash Flows of the tax effects of employee share-based compensation awards that are outstanding upon adoption of SFAS 123(R). The Company is in the process of evaluating whether to adopt the provisions of SFAS 123(R)-3.

**Reclassification**

Certain reclassifications have been made to the Consolidated Financial Statements for prior periods in order to conform to the Fiscal 2007 first quarter (fiscal quarter ending June 30, 2006) presentation.

**Recent Accounting Pronouncements***Accounting for Income Taxes*

In July 2006, the FASB issued FASB Interpretation No. (FIN) 48, Accounting for Uncertainty in Income Taxes (FIN 48). This Interpretation requires that realization of an uncertain income tax position must be more likely than not (*i.e.*, greater than 50% likelihood of receiving a benefit) before it can be recognized in the financial statements. Further, FIN 48 prescribes the benefit to be recorded in the financial statements as the amount most likely to be realized assuming a review by tax authorities having all relevant information and applying current conventions. The Interpretation also clarifies the financial statement classification of tax-related penalties and interest and sets forth new disclosures regarding unrecognized tax benefits.

FIN 48 is effective for the next fiscal year beginning after December 15, 2006. The Company plans to adopt the Interpretation as of April 1, 2007 as required. The Interpretation is currently being evaluated by the Company for its full impact and, at this time, the Company believes it has properly and adequately provided for all income tax positions and therefore expects minimal impact from adopting the Interpretation.

*Accounting Changes and Error Corrections*

In May 2005, the FASB issued SFAS No. 154, Accounting Changes and Error Corrections (SFAS 154). This Statement replaces APB No. 20 Accounting Changes cumulative effect accounting with accounting treatment based on retroactive restatement of comparative financial statements. It applies to all voluntary changes in accounting principle and defines retrospective application to differentiate it from restatements due to incorrect accounting. The provisions of this Statement are effective for accounting changes and corrections of errors made in fiscal years beginning after December 15, 2005. The Company's adoption of SFAS 154 had no impact on its financial position, results of operations or cash flows.

*Accounting for Conditional Asset Retirement Obligations*

In March 2005, the FASB issued FIN 47, Accounting for Conditional Asset Retirement Obligations (FIN 47). FIN 47 clarifies the term conditional asset retirement obligation as used in SFAS No. 143, Accounting for Asset Retirement Obligations, which refers to a legal obligation to perform an asset retirement activity in which the timing and/or

method of settlement are conditional on a future event. Uncertainty about the timing and/or method of settlement of a conditional asset retirement obligation should be factored into the measurement of the liability when sufficient information exists. FIN 47 is effective no later than the end of fiscal years ending after December 15, 2005. There was no impact to the Company upon adoption of FIN 47.

## **Table of Contents**

### *Segments*

In February 2005, the FASB issued Emerging Issues Task Force ( EITF ) No. 04-10, Determining Whether to Aggregate Segments That Do Not Meet the Quantitative Thresholds ( EITF 04-10 ). This Statement clarifies the aggregation criteria of operating segments as defined in SFAS 131 (as defined below in Note 15 of the Notes to Consolidated Financial Statements). The effective date of this Statement is for fiscal years ending after September 15, 2005. The Company believes that its current segment reporting complies with EITF 04-10.

### *Stock-Based Compensation*

In December 2004, the FASB issued SFAS 123(R). SFAS 123(R) is a revision of SFAS 123, supersedes APB 25 and amends SFAS No. 95, Statement of Cash Flows. SFAS 123(R) requires that companies recognize all share-based payments to employees, including grants of employee stock options, in the financial statements. The recognized cost will be based on the fair value of the equity or liability instruments issued. Pro forma disclosure of this cost is no longer an alternative under SFAS 123(R). The Company adopted SFAS 123(R) as of April 1, 2006, the first day of the Company's Fiscal Year 2007, using the modified prospective transition method. This transition method requires compensation cost to be recognized for all share-based payments granted after the date of adoption and for all unvested awards existing on the date of adoption. The Company's Consolidated Financial Statements as of and for the three months ended June 30, 2006 reflect the impact of SFAS 123(R). In accordance with the modified prospective transition method, the Company's Consolidated Financial Statements for prior periods have not been restated to reflect, and do not include, the impact of SFAS 123(R). However, had the Company adopted SFAS 123(R) in prior periods, the impact would have approximated the amounts in its disclosure of pro forma net income and earnings per share in Note 14 of the Notes to Consolidated Financial Statements.

The impact on future reporting periods of adopting SFAS 123(R) cannot be predicted at this time because it will depend on levels of share-based payments granted in the future. SFAS 123(R) also requires the benefits of tax deductions in excess of recognized compensation cost be reported as a financing cash flow, rather than as an operating cash flow as required under past standards. This requirement will reduce net operating cash flows and increase net financing cash flows in future reporting periods. The Company cannot estimate what those amounts will be in the future because they are dependant on, among other things, when employees exercise stock options.

### **Note 3: Restatement of Consolidated Financial Statements**

#### **Restatement through March 31, 2006**

##### **Background**

On November 13, 2006, Black Box received a letter of informal inquiry from the Enforcement Division of the SEC relating to the Company's stock option practices from January 1, 1997 to present. As a result, the Audit Committee, with the assistance of outside legal counsel, commenced an independent review of the Company's historical stock option grant practices and related accounting for stock option grants during the period from 1992 to the present (the Review Period ).

On February 1, 2007, the Company announced that, while the review of option grant practices was continuing, it believed that it would need to record additional non-cash charges for stock-based compensation expense relating to certain stock option grants and, accordingly, cautioned investors about relying on its historical financial statements until the Company could determine with certainty whether a restatement would be required and, if so, the extent of any such restatement and the periods affected.

On March 19, 2007, although the Audit Committee had not yet completed its review, the Audit Committee concluded that the exercise price of certain stock option grants differed from the fair market value of the underlying shares on the appropriate measurement date. At that time, the Company and the Audit Committee announced that it was currently expected that the Company's additional non-cash, pre-tax charges for stock-based compensation expense relating to certain stock option grants would approximate \$63 million for the Review Period. In addition, the Company and the Audit Committee concluded that the Company would need to restate its previously-issued financial statements contained in reports previously filed by the Company with the SEC. Accordingly, on March 19, 2007, the Company and the Audit Committee concluded that the Company's previously-issued financial statements and other historical financial information and related disclosures for the Review Period, including applicable reports of its current or former independent registered public accounting firms and related press releases, should not be relied upon.



**Table of Contents**

On May 25, 2007, the Company was advised by the Enforcement Division of the SEC that a Formal Order of Private Investigation arising out of the Company's stock option practices had been entered and on May 29, 2007 the Company received a subpoena that was issued by the SEC.

On May 31, 2007, the Company announced that, as a result of the ongoing review of stock option practices, Company management and the Audit Committee expected that the Company's additional non-cash, pre-tax charges for stock-based compensation expense relating to certain stock option grants would approximate \$70 million for the Review Period.

**Findings of the Audit Committee**

During the Review Period, the Company granted stock options pursuant to an employee stock option plan and a director stock option plan to acquire approximately 10.9 million shares of common stock, par value \$.001 per share (the common stock). Such plans at all relevant times provided for option grants to be approved by a designated committee of non-employee directors or, in the case of the director stock option plan, by the Company's Board of Directors (the Board). Approximately 2,000 stock option grants were awarded during the Review Period with 69 recorded grant dates. No stock options have been granted since September, 2006. The Audit Committee reviewed all stock options granted during the Review Period, including option grants to the Company's directors, officers and rank and file employees (including grants to new employees, grants awarded in connection with Company acquisitions and grants made as individual or group performance awards). The Audit Committee's review of the Company's stock option granting practices included a comprehensive examination of reasonably available relevant physical and electronic documents as well as interviews with current and former directors, officers and Company personnel.

The Audit Committee's review was initially focused on determining whether the Company's prior stock option granting practices were in compliance with the plans' granting provisions and applicable law or called into question its accounting for such options. Once it became evident that such issues and accounting implications existed, the inquiry focused on those matters necessary: to determine whether any accounting charges were material and whether a restatement of the Company's previously-issued financial statements would be required; to establish a basis for effecting any required restatement; to assure that, on as timely a basis as possible, the Company could file any required curative disclosures with the SEC and assure its continued eligibility for listing on The NASDAQ Stock Market; and to provide an informed basis for the Company's response to the identified issues, including appropriate corrective and remedial actions.

The following information summarizes certain of the findings of the Audit Committee. The findings identified approximately \$71.5 million of unrecorded expense at the time of grant (i.e., the difference between the fair market value of the common stock on the appropriate measurement date and the stated exercise price), net of forfeitures, during the Review Period, of which \$70.0 million was recorded in the Company's Consolidated Financial Statements through March 31, 2006 and \$1.5 million of unrecorded expense at the time of grant will be included, beginning at April 1, 2006, in the Company's computation of compensation expense in accordance with SFAS 123(R). The following summarizes the unrecorded expense at the time of grant by time period and category of recipient:

\$4.2 million for the period from Fiscal 1993 through Fiscal 1997 (\$0.2 million for directors, \$2.5 million for officers and \$1.5 million for rank and file employees)

\$45.6 million for the period from Fiscal 1998 through August 2002 (\$1.1 million for directors, \$25.7 million for officers and \$18.7 million for rank and file employees)

\$21.8 million for the period from August 2002 to the present (\$0.04 million for directors, \$0.6 million for officers and \$21.1 million for rank and file employees)

The Audit Committee's additional key findings are summarized below:

**Lack of Adequate Documentation:** For a majority of grants issued by the Company during the Review Period, there is either no or inadequate documentation of approval actions that satisfies the requisites for establishing a measurement date under APB 25. Of the 69 recorded grant dates, there are documented approval actions by the Board or the Option or Compensation Committee of the Board (the Compensation Committee) with respect to particular grants for 12 dates. In the period December 1992 to May 1996, neither the minutes of the Compensation Committee

nor of the Board reflect any action to approve specific grants. In some instances, evidence of single director (the chairman of the Compensation Committee) approval actions exists. This absence of non-employee director level documentation also applies to a majority of grants with a recorded grant date after 1996. In some cases, Compensation Committee minutes contain a reference to reports on the status of the option pool but do not document any action to approve specific grants. Approval documentation for certain grants has internal inconsistencies or conflicts with other documents thereby rendering this documentation unreliable as a basis for establishing a measurement date. In some cases, the only existing documentation is the executed option agreement and/or the entry of the option grant into the option database. Notwithstanding these approval documentation inadequacies, the Company entered into option agreements with grantees and has honored such grants.

**Table of Contents**

**Grant Approvals:** During the Review Period, relatively few option grants were approved in complete compliance with the Company's stock option plans. Available documentation reflects that the Company approved option grants in a variety of ways. With respect to the employee stock option plan, grants were approved by the Compensation Committee as contemplated by the plan at various times, by the full Board in 1998 and 1999, by a single director (the chairman of the Compensation Committee) on nine recorded grant dates during the period 1994 through 2001 and by the Company's Chief Executive Officer ( CEO ) at various times. With respect to the director stock option plan, grants were generally approved by the designated Board committee and, in a few cases, by the chairman of the Compensation Committee. In one instance in 2000, there is no conclusive documentary evidence of the approval of director grants other than the signed director option agreements.

The delegation of authority by the Compensation Committee to the CEO with respect to grants to rank and file employees was not fully documented. However, there was an understood and accepted practice between the CEO and the Compensation Committee whereby the CEO made certain awards to individual employees. In some instances, this involved the allocation among rank and file employees of blocks of shares approved by the Compensation Committee; in three (3) such instances, the number of shares ultimately awarded pursuant to this process exceeded the approved size of the block, which was contrary to the understanding of the Compensation Committee members. Further, contrary to the understanding of Committee members, the award and/or documentation of those individual grants often significantly lagged the approval of the block grant. In August 2005, the Compensation Committee specifically acknowledged a prior grant of delegated authority to the CEO to make option grants to rank and file employees and ratified all prior awards by the CEO. In some cases, documentation of approval action is either inconclusive or missing, and the Company therefore has been unable to determine what entity or person actually approved specific grants.

**Option Pricing:** The recorded grant dates for a majority of grants do not match the applicable measurement dates as determined under APB 25. The grants of options with exercise prices lower than the fair market values of the stock on the actual measurement dates did not satisfy the fair market pricing requirement in the Company's plans, as amended in 1998, and were not consistent with the Company's disclosures in SEC filings stating that the exercise price of options was equal to the fair market value of the stock on the date of the grant.

The relationship between the stated exercise price of options and the fair market value of the Company's stock on the date of the identifiable approval actions varied from grant to grant. In some cases, the exercise price of grants reflected the fair market value of the underlying shares on the date of any documented approval action. In other cases, the exercise prices reflected the fair market value of the underlying shares on a date either prior or subsequent to any such documented approval action and the exercise price was lower than the fair market value on the date of any such action. In several such cases before August 2002, the use of such grant dates and lower exercise prices (together with other available evidence) supports a finding that the recorded grant dates and corresponding exercise prices were selected with the benefit of hindsight. For certain grants where the mismatch between the recorded grant date and the approval action was only a matter of days, however, the mismatch appears to have been attributable to inaccurate recording or administrative delays. In some cases, the apparent approval action did not identify all grantees; for example, there are cases where a block grant was approved subject to a later determination of individual grant recipients and grants were recorded with a grant date, and corresponding exercise price, that matched the date of the apparent approval of the block grant and the fair market value of the common stock on that date although individual grant recipients may have been identified some time after approval of the block grant. Finally, in some cases, the approval action for specific grants is not adequately documented. Where the recorded grant date did not satisfy the requisites for a measurement date under APB 25, the Company relied on default methodologies to determine an appropriate measurement date.

**Internal Controls:** As outlined above, the Company's historical administration of its options program lacked discipline as it relates to proper adherence to the plan requirements, corporate recordkeeping and documentation. Since November 2003, however, the Company has properly administered the stock option program as it relates to awards to directors and officers. During the investigation, the Company identified control gaps related to grants made throughout the Review Period. As of March 31, 2007, the Company implemented additional procedures to its process that are focused on formalized documentation of appropriate approvals and determination of grant terms to



employees.

**Procedural and Remedial Actions**

The Audit Committee and other relevant Board committees are committed to a continued review and implementation of procedural enhancements and remedial actions in light of the foregoing findings. Consistent with its obligation to act in the best interests of the Company taking into account all relevant facts and circumstances, the Audit Committee is continuing to assess the appropriateness of a broad range of possible procedural enhancements and potential remedial measures in light of the findings of its investigation. While the Audit Committee has not completed its consideration of all such steps, procedural enhancements may include recommendations regarding improved stock option administration procedures and controls, training and monitoring compliance with those procedures, corporate recordkeeping, corporate risk assessment, evaluation of the internal compliance environment and other remedial steps that

**Table of Contents**

may be appropriate. The Audit Committee is also expected to address issues of individual conduct or responsibility, including those of the Board, CEOs and Chief Financial Officers ( CFOs ) serving during the Review Period. Potential remedial measures may include an evaluation of the role of and possible claims or other remedial actions against current and former Company personnel who may be found to have been responsible for identified problems during the Review Period. The Audit Committee expects to recommend to the Board and/or its appropriate committees procedural enhancements and remedial measures that appropriately address the issues raised by its findings. In advance of action by the Audit Committee, as noted above, the Company has implemented additional procedures to its process for approving stock option grants that are focused on formalized documentation of appropriate approvals and determination of grant terms to employees.

**Restatement Methodologies**

As of April 1, 2006, the Company adopted SFAS 123(R) using the modified prospective transition method. Under this transition method, compensation expense is to be recognized for all share-based compensation awards granted after the date of adoption and for all unvested awards existing on the date of adoption. Prior to April 1, 2006, the Company accounted for stock-based compensation awards to directors, officers and rank and file employees using the intrinsic value method in accordance with APB 25 as allowed under SFAS 123. Under the intrinsic value method, no share-based compensation expense related to stock options was required to be recognized if the exercise price of the stock option was at least equal to the fair market value of the common stock on the measurement date. APB 25 defines the measurement date as the first date on which are known both (1) the number of shares that an individual grant recipient is entitled to receive and (2) the option or purchase price, if any.

In light of the Audit Committee's review of the Company's stock option granting practices during the Review Period and as to those cases in which the Company previously used a recorded grant date as the measurement date that the Company determined could no longer be relied upon, the Company has developed and applied the following methodologies to remeasure those stock option grants and record the relevant charges in accordance with APB 25 by considering the following sources of information: (i) meeting minutes of the Board and of committees thereof and related materials, (ii) Unanimous Written Consents of the Board and of committees thereof, (iii) the dates on which stock option grants were entered into the Company's stock option database ( create date ), (iv) relevant email correspondence reflecting stock option grant approval actions, (v) individual stock option agreements and related materials, (vi) employee and Board offer letters, (vii) documents relating to acquisitions, (viii) reports on Form 4 filed with the SEC and (ix) guidance of the Office of the Chief Accountant of the SEC on stock option matters as set forth in its letter dated September 19, 2006.

***Grants with Appropriate Committee Approval.*** With respect to grants of approximately 1.0 million shares, or approximately 9% of the total grants in the Review Period, the Company has evidence to support the approval of the grant under the stock option plans by the relevant committee of the Board, and such evidence includes the number of options each individual was entitled to receive and the option price. However, the relationship between these documented approval actions and the originally-recorded grant dates and exercise prices for the options so approved varied during the Review Period. In some cases, grants were recorded with a grant date and a corresponding exercise price that matched the date of the approval action or were otherwise consistent with the terms of the approval actions. In other cases, however, the recorded grant dates and corresponding exercise prices of the grants reflected the fair market value of the common stock on a date prior to the committee's documented approval actions. The Company has restated the compensation expense for stock option grants relating to approximately 0.4 million shares of common stock by using the date of the documented approval action as the measurement date. The total additional non-cash, pre-tax charge for these grants is approximately \$1.8 million, net of forfeitures, amortized over the appropriate vesting period through March 31, 2006, of which \$0.07 million relates to director options, \$1.3 million relates to officer options and \$0.4 million relates to rank and file employee options.

***Grants with Other Approvals.*** With respect to grants of approximately 1.9 million shares, or approximately 18% of the total grants in the Review Period, the Company has evidence to support the approval of the grant by the Board, an outside director or the Company's CEO and the identification of the number of options each individual was entitled to receive together with the option price. These grants are distinguished from the grants described in the prior paragraph in that the nature of the approval was not fully consistent with the terms of the relevant stock option plan. As with the

grants discussed in the preceding paragraph, the relationship between these documented approval actions and the originally-recorded grant dates and exercise prices for the options so approved varied during the Review Period. In some cases, grants were recorded with a grant date and a corresponding exercise price that matched the date of the approval action or were otherwise consistent with the terms of the approval action. In other cases, however, the recorded grant dates and corresponding exercise prices of the grants reflected the fair market value of the Company's stock on a date prior to the approval action. The Company has restated the compensation expense for stock option grants relating to approximately 1.6 million shares of common stock by using the date of the documented approval action as the measurement date. The total additional non-cash, pre-tax charge for these grants is approximately \$7.6 million, net of forfeitures, amortized over the appropriate vesting period through March 31, 2006, of which \$0.5 million relates to director options, \$2.6 million relates to officer options and \$4.5 million relates to rank and file employee options.

**Table of Contents**

***Grants Lacking Adequate Documentation.*** With respect to grants of approximately 7.9 million shares (5.0 million shares to rank and file employees), or 73.0% of the total grants in the Review Period, the Company has been unable to locate adequate documentation of approval actions that would satisfy the requisites for a measurement date under APB 25. For these grants, management considered all available relevant information to form a reasonable conclusion as to the most reasonable measurement date. For all grants in this category, the Company has established default methodologies for determining the most appropriate measurement date under APB 25.

With respect to grants entered into the Company's stock option database after September 9, 1999, when the database began to reflect a create date which is the date on which a grant was entered into the system, the Company has determined to use the individual create date for each grant as the APB 25 measurement date, which was in most cases different from the originally-recorded grant date. The Company believes that this create date is the most appropriate methodology in the absence of sufficient evidence of approvals for these grants as it represents the earliest point in time at which the evidence shows that all requisites for the establishment of the measurement date had been satisfied. Such create dates preceded, often by a significant amount of time, the execution of stock option agreements, which, generally, were manually signed by the Company's CEO and manually signed and dated by the grantee. In addition, in almost all cases, a grant entered into the database, which established the create date, ultimately resulted in the creation of a stock option agreement reflecting such grant. Accordingly, while execution of the stock option agreements constituted a clear acknowledgement by the grantee and the Company of the grantee's legal entitlement to the grant the Company believes the create date more accurately reflects the date of approval than does the signed option agreement. The Company has restated the compensation expense for stock option grants relating to approximately 4.2 million shares of common stock by using the create date as the measurement date. The total additional non-cash, pre-tax charge for these grants is approximately \$49.8 million, net of forfeitures, amortized over the appropriate vesting period through March 31, 2006, of which \$0.5 million relates to director options, \$17.2 million relates to officer options and \$32.2 million relates to rank and file employee options. The Company's procedures for evaluating the appropriateness of measurement dates fixed with reference to such create dates included a sensitivity analysis which provided an understanding of the differences between the additional recorded charge for stock-based compensation expense and the charges that would result from using other identified alternative methods for determining measurement dates. The Company's sensitivity analysis included identifying the range of potential grant dates defined by the recorded grant date and the create date for each grant. The Company then identified the low and high closing prices of the common stock within that range of potential grant dates and applied both the low and high closing prices of the common stock to the number of shares granted for which the create date methodology was utilized to determine the range of potential adjustments to stock-based compensation expense for these grants, which was \$0.09 million to \$73.8 million, net of forfeitures, as compared to the additional non-cash, pre-tax charge for these grants of approximately \$49.8 million, net of forfeitures, included in the Restatement.

For options entered into the Company's option database before September 9, 1999, the Company determined the measurement date generally by reference to signed option agreements (or the deemed signature date for certain options as discussed below). The executed option agreements (hereinafter signed option agreements), manually signed by the Company's CEO and manually signed and dated by the grantee, constituted an acknowledgement by the grantee and the Company of the grantee's legal entitlement to the grant and, in the absence of authoritative information as to when all the requisites for the establishment of the measurement date had been satisfied, provides a measurement date framework based on entitlement. The Company has restated the compensation expense for stock option grants relating to approximately 1.4 million shares of common stock by using the signed option agreements as the measurement date. The total additional non-cash, pre-tax charge for these grants is approximately \$6.4 million, net of forfeitures, amortized over the appropriate vesting period through March 31, 2006, of which \$0.3 million relates to director options, \$3.6 million relates to officer options and \$2.5 million relates to rank and file employee options. The Company believes this methodology was the most appropriate in the absence of sufficient evidence of approvals for these grants as it represents the earliest point in time at which the evidence shows that all requisites for the establishment of the measurement date had been satisfied for these grants. The Company's procedures for evaluating the appropriateness of measurement dates fixed with reference to the dating of signed option agreements included a sensitivity analysis which provided an understanding of the differences between the additional recorded charge for

stock-based compensation expense and the charges that would result from using other identified alternative methods for determining measurement dates. The Company's sensitivity analysis included identifying the range of potential grant dates defined by the recorded grant date and the date of the grantee's signature on the stock option agreement for each grant. The Company then identified the low and high closing prices of the common stock within that range of potential grant dates and applied both the low and high closing prices of the common stock to the number of shares granted for which the signed option agreements methodology was utilized to determine the range of potential adjustments to stock-based compensation expense for these grants, which was \$0.03 million to \$9.6 million, net of forfeitures, as compared to the additional non-cash, pre-tax charge for these grants of approximately \$6.4 million, net of forfeitures, included in the Restatement.

In those cases where no reliably-dated signed option agreement could be located and where no post-September 9, 1999 create date exists (stock option grants totaling approximately 0.9 million shares), the Company used the average period between recorded grant date and date of the signatures on all other grantee signed option agreements with the same grant date as the measurement date. For example, if there were four stock option grants with a grant date of January 1, 1996, the Company had the signed option agreements for three of these stock option grants and the average number of days between the grant date and the signature dates of these three signed option agreements was 20 days, January 21, 1996 was used as the measurement date for the grant for which no signed option agreement could be located. The Company has

**Table of Contents**

restated the compensation expense for stock option grants relating to approximately 0.7 million shares of common stock using this average days to sign agreement method. The total additional non-cash, pre-tax charge for these grants is approximately \$4.4 million, net of forfeitures, amortized over the appropriate vesting period through March 31, 2006, of which \$0.06 million relates to director options, \$4.2 million relates to officer options and \$0.2 million relates to rank and file employee options. The Company believes this methodology was the most appropriate in the absence of sufficient evidence of approvals for these grants because it gives a reasonable approximation of the measurement date related to these options in light of the available evidence. The Company conducted a sensitivity analysis by comparing the Company's current default methodology (i.e., average days to sign agreement) with another default methodology. For this analysis, the Company identified the range of potential grant dates defined by the earliest signed option agreement and the latest signed option agreement. The Company then identified the low and high closing prices of the common stock over the range of potential grant dates and applied both the low and high closing prices of the common stock to the number of shares granted to determine the range of potential adjustments to stock-based compensation expense for these grants, which was \$2.6 million to \$5.9 million, net of forfeitures. The Company's analyses indicate that stock-based compensation expense computed using other identified alternative default methodologies would not materially differ from stock-based compensation expense computed using the average days to sign agreement methodology. The Company's procedures for evaluating the appropriateness of measurement dates fixed with reference to the average days to sign agreements also included a sensitivity analysis which provided an understanding of the differences between the additional recorded charge for stock-based compensation expense and the charges that would result from using other identified alternative methods for determining measurement dates. The Company's sensitivity analysis included identifying the range of potential grant dates defined by the recorded grant date and the average days to sign agreement for each grant. The Company then identified the low and high closing prices of the common stock within that range of potential grant dates and applied both the low and high closing prices of the common stock to the number of shares granted to determine the range of potential adjustments to stock-based compensation expense for these grants, which was \$0.03 million to \$6.1 million, net of forfeitures, as compared to the additional non-cash, pre-tax charge for these grants of approximately \$4.4 million, net of forfeitures, included in the Restatement.

Given the volatility of the common stock during much of the Review Period, the use of methodologies and measurement dates different from those described above could have resulted in a higher or lower cumulative compensation expense which would have caused net income or loss to be different from the amounts reported in the restated consolidated financial statements. The Company's procedures for evaluating the appropriateness of measurement dates fixed using the default methodologies described above also included a sensitivity analysis which provided an understanding of the differences between the additional recorded charge for stock-based compensation expense and the charges that would result from using other identified alternative methods for determining measurement dates. The Company's sensitivity analysis included identifying the range of potential grant dates defined by the recorded grant date and the appropriate measurement date for each grant. The Company then identified the low and high closing prices of the common stock within that range of potential grant dates and applied both the low and high closing prices of the common stock to the number of shares granted to determine the range of potential adjustments to stock-based compensation expense for these grants, which was \$9.3 million to \$99.3 million, net of forfeitures, as compared to the additional non-cash, pre-tax charge for these grants of approximately \$70.0 million, net of forfeitures, included in the Restatement.

**Other adjustments through March 31, 2006**

From 1994 through 1998, the Company did not properly account for stock options for one officer that were modified after the grant date pursuant to a separation agreement. Some of these modifications were not identified in the Company's financial reporting processes and were therefore not properly reflected in its financial statements. As a result, the Company has recorded a non-cash charge for stock-based compensation of \$1.0 million during Fiscal 1999.

**Summary**

In summary, the Company recorded cumulative non-cash charges for stock-based compensation of \$70.9 million through March 31, 2006, offset in part by a cumulative income tax benefit of \$27.7 million, for a total after-tax charge of \$43.2 million. These charges had no impact on net sales or cash and cash equivalents as previously reported in the

Company's financial statements; as a result, no changes to these items are reflected in the Restatement. Non-cash charges for stock-based compensation expense have been recorded as adjustments to Selling, General, and Administrative Expenses within the Company's Consolidated Statements of Income.

**1Q07 Restatement**

In addition to the Restatement noted above through March 31, 2006, the Company has recorded a non-cash charge for stock-based compensation of \$1.6 million for the three (3) month period ended July 1, 2006, offset in part by an income tax benefit of \$0.6 million, or a total after-tax charge of \$1.0 million. This charge was recorded to reflect additional non-cash, stock-based compensation expense recognized

**Table of Contents**

under the fair value method (SFAS 123(R)) because the exercise price for certain stock option grants prior to, but not vested as of March 31, 2006, differed from the fair market value of the underlying shares on the appropriate measurement date, some of which occurred during Fiscal 2007.

The table below reflects the impact of the additional non-cash charges for stock-based compensation expense on the Company's Consolidated Statements of Income, including the cumulative adjustment to Retained Earnings as of March 31, 2006 and July 1, 2006 on the Company's Consolidated Balance Sheet. All dollar amounts are presented in thousands except per share amounts. Per share amounts may not total due to rounding.

	(As previously reported) Net Income	Adjust- ment, Pre-Tax	Income Tax Benefit	Adjust- ment, Net of Tax	(As Restated) Net Income	(As previously reported) Diluted EPS	Adjust- ment	(As Restated) Diluted EPS
FY 94	\$ 13,370	\$ 43	\$ (19)	\$ 24	\$ 13,346	\$ 0.83	\$	\$ 0.83
FY 95	14,515	461	(144)	317	14,198	0.89	(0.02)	0.87
FY 96	18,278	406	(151)	255	18,023	1.10	(0.01)	1.09
FY 97	24,792	1,172	(456)	716	24,076	1.40	(0.04)	1.36
FY 98	32,404	3,595	(1,393)	2,202	30,202	1.79	(0.12)	1.67
FY 99	38,145	4,506	(1,732)	2,774	35,371	2.09	(0.15)	1.94
FY 00	48,852	5,778	(2,209)	3,569	45,283	2.60	(0.19)	2.41
FY 01	64,190	10,290	(3,953)	6,337	57,853	3.22	(0.32)	2.90
FY 02	62,042	11,333	(4,381)	6,952	55,090	2.97	(0.33)	2.64
FY 03	48,685	8,927	(2,328)	6,599	42,086	2.39	(0.32)	2.07
FY 04	47,243	8,197	(4,156)	4,041	43,202	2.52	(0.22)	2.30
FY 05	29,912	5,178	(2,312)	2,866	27,046	1.68	(0.16)	1.52
Cumulative 03/31/05	\$ 442,428	\$ 59,886	\$ (23,234)	\$ 36,652	\$ 405,776	\$ 23.48	\$ (1.89)	\$ 21.59
1Q06	7,394	1,120	(442)	678	6,716	0.43	(0.04)	0.39
2Q06	12,797	1,126	(444)	682	12,115	0.74	(0.04)	0.70
3Q06	12,511	2,431	(959)	1,472	11,039	0.70	(0.08)	0.62
4Q06	4,656	6,368	(2,612)	3,756	900	0.26	(0.21)	0.05
FY 06	\$ 37,358	\$ 11,045	\$ (4,457)	\$ 6,588	\$ 30,770	\$ 2.13	\$ (0.37)	\$ 1.76
Cumulative 03/31/06	\$ 479,786	\$ 70,931	\$ (27,691)	\$ 43,240	\$ 436,546	\$ 25.61	\$ (2.26)	\$ 23.35
1Q07	7,807	1,629	(635)	994	6,813	0.43	(0.06)	0.37
Cumulative 07/01/06	\$ 487,593	\$ 72,560	\$ (28,326)	\$ 44,234	\$ 443,359	\$ 26.04	\$ (2.32)	\$ 23.72



### **Income Tax Considerations**

In the course of the investigation, the Company determined that a number of officers may have exercised options for which the application of Section 162(m) of the Internal Revenue Code of 1986, as amended (the Code), may apply. It is possible that these options will be treated as having been granted at less than fair market value for federal income tax purposes because the Company incorrectly applied the measurement date as defined in APB 25. If such options are deemed to be granted at less than fair market value, pursuant to Section 162(m) of the Code (Section 162(m)), any compensation to officers, including proceeds from options exercised in any given tax year, in excess of \$1.0 million will be disallowed as a deduction for tax purposes. The Company estimates that the potential tax effected liability for any such disallowed Section 162(m) deduction would approximate \$3.6 million. The Company may also incur interest and penalties if it were to incur any such tax liability, which could be material.

In addition, the Company is considering the application of Section 409A of the Code (Section 409A) to those options for which it incorrectly applied the measurement date as defined in APB 25. It is possible that these options will be treated as having been granted at less than fair market value for federal income tax purposes and thus subject to Section 409A. Accordingly, the Company may adopt measures to address the application of Section 409A. The Company does not currently know what impact Section 409A will have, or any such measures, if adopted, would have on its results of operations, financial position or cash flows, although such impact could be material.

### **Expenses Incurred by the Company**

The Company has incurred expenses for legal fees and external audit firm fees, in the aggregate amount of approximately \$0.6 million, in the fiscal year ended March 31, 2007, in relation to (i) the Audit Committee's review of the Company's historical stock option practices and related accounting for stock option grants, (ii) the informal inquiry and formal order of investigation by the Securities and Exchange Commission regarding its past stock option practices, (iii) the derivative action relating to the Company's historical stock option practices filed against the Company as a nominal defendant and certain of the Company's current and former directors and officers as to whom it may have indemnification obligations and (iv) related matters.

**Table of Contents**

Further, the Company expects to incur significant additional expense related to the foregoing matters in the fiscal year ending March 31, 2008. It is anticipated that certain of those expenses will be reimbursed under the Company's directors' & officers' indemnification insurance.

**Restatement Impact on the Consolidated Statements of Income**

The following tables reconcile the Company's Consolidated Statements of Income from the previously reported results to the restated results for the quarters ended July 1, 2006 and July 2, 2005. All dollar amounts are in thousands, except per share amounts. Per share amounts may not sum due to rounding.

	<b>Quarter ended July 1, 2006 (Unaudited)</b>		
	<b>As previously reported</b>	<b>Adjustment</b>	<b>As Restated</b>
<b>Revenues:</b>			
Hotline products	\$ 52,225	\$ --	\$ 52,225
On-Site services	178,170	--	178,170
Total	230,395	--	230,395
<b>Cost of Sales:</b>			
Hotline products	25,461	--	25,461
On-Site services	119,090	--	119,090
Total	144,551	--	144,551
<b>Gross profit</b>	<b>85,844</b>	<b>--</b>	<b>85,844</b>
Selling, general & administrative expenses	68,573	1,629	70,202
Restructuring and other charges	--	--	--
Intangibles amortization	1,506	--	1,506
<b>Operating income</b>	<b>15,765</b>	<b>(1,629)</b>	<b>14,136</b>
Interest expense (income), net	3,640	--	3,640
Other expenses (income), net	115	--	115
Income before provision for income taxes	12,010	(1,629)	10,381
Provision for income taxes	4,203	(635)	3,568
<b>Net income</b>	<b>\$ 7,807</b>	<b>\$ (994)</b>	<b>\$ 6,813</b>
Earnings per common share:			
Basic	\$ 0.44	\$ (0.06)	\$ 0.39

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Diluted	\$ 0.43	\$ (0.05)	\$ 0.37
Weighted average common shares outstanding			
Basic	17,626	--	17,626
Diluted	18,262	--	18,262
Dividends per share	\$ 0.06	\$ --	\$ 0.06

**Table of Contents**

	<b>Quarter ended July 2, 2005 (Unaudited)</b>		
	<b>As previously reported</b>	<b>Adjustment</b>	<b>As Restated</b>
<b>Revenues:</b>			
Hotline products	\$ 53,452	\$ --	\$ 53,452
On-Site services	125,830	--	125,830
Total	179,282	--	179,282
<b>Cost of Sales:</b>			
Hotline products	25,874	--	25,874
On-Site services	82,468	--	82,468
Total	108,342	--	108,342
<b>Gross profit</b>	<b>70,940</b>	<b>--</b>	<b>70,940</b>
Selling, general & administrative expenses	50,920	1,120	52,040
Restructuring and other charges	5,290	--	5,290
Intangibles amortization	1,558	--	1,558
<b>Operating income</b>	<b>13,172</b>	<b>(1,120)</b>	<b>12,052</b>
Interest expense (income), net	1,959	--	1,959
Other expenses (income), net	(75)	--	(75)
Income before provision for income taxes	11,288	(1,120)	10,168
Provision for income taxes	3,894	(442)	3,452
<b>Net income</b>	<b>\$ 7,394</b>	<b>\$ (678)</b>	<b>\$ 6,716</b>
Earnings per common share:			
Basic	\$ 0.44	\$ (0.04)	\$ 0.40
Diluted	\$ 0.43	\$ (0.04)	\$ 0.39
Weighted average common shares outstanding			
Basic	16,845	--	16,845
Diluted	17,042	--	17,042

Dividends per share	\$ 0.06	\$ --	\$ 0.06
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**Table of Contents****Restatement Impact on the Consolidated Balance Sheets**

The following tables reconcile the Company's Consolidated Balance Sheets from the previously reported results to the restated results as of July 1, 2006 and March 31, 2006. All dollar amounts are in thousands.

	<b>July 1, 2006 (Unaudited)</b>		
	<b>As previously reported</b>	<b>Adjustment</b>	<b>As Restated</b>
<b>Assets</b>			
Cash and cash equivalents	\$ 14,360	\$ --	\$ 14,360
Trade accounts receivable, net	172,315	--	172,315
Lease receivables	1,071	--	1,071
Inventories, net	68,243	--	68,243
Costs / estimated earnings in excess of billings on uncompleted contracts	55,400	--	55,400
Deferred tax asset	8,873	--	8,873
Net current assets of discontinued operations	404	--	404
Other current assets	27,187	--	27,187
<b>Total current assets</b>	<b>347,853</b>	<b>--</b>	<b>347,853</b>
Property, plant and equipment, net	39,029	--	39,029
Goodwill, net	593,188	--	593,188
Customer relationships, net	54,036	--	54,036
Other intangibles, net	35,471	--	35,471
Lease receivables, non-current	987	--	987
Deferred tax asset	3,189	15,876	19,065
Other assets	3,982	--	3,982
<b>Total assets</b>	<b>\$1,077,735</b>	<b>\$ 15,876</b>	<b>\$1,093,611</b>
<b>Liabilities</b>			
Current maturities of long-term debt	\$ 704	\$ --	\$ 704
Current maturities of discounted lease rentals	9	--	9
Accounts payable	73,753	--	73,753
Billings in excess of costs/estimated earnings on uncompleted contracts	15,483	--	15,483
Deferred revenue	53,365	--	53,365
Accrued liabilities:			
Compensation and benefits	25,644	--	25,644
Restructuring reserve	16,090	--	16,090
Other liabilities	52,245	--	52,245
Income taxes	6,300	3,587	9,887
<b>Total current liabilities</b>	<b>243,593</b>	<b>3,587</b>	<b>247,180</b>
Long-term debt	243,886	--	243,886

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Restructuring reserve	14,646	--	14,646
Other liabilities	16,863	--	16,863
<b>Stockholders Equity</b>			
Preferred stock	--	--	--
Common stock	25	--	25
Additional paid-in capital	367,618	56,523	424,141
Retained earnings	468,599	(44,234)	424,365
Treasury stock, at cost	(296,824)	--	(296,824)
Accumulated other comprehensive income	19,329	--	19,329
<b>Total stockholders equity</b>	<b>\$ 558,747</b>	<b>\$ 12,289</b>	<b>\$ 571,036</b>
<b>Total liabilities and stockholders equity</b>	<b>\$1,077,735</b>	<b>\$ 15,876</b>	<b>\$1,093,611</b>

**Table of Contents**

	<b>March 31, 2006 (Unaudited)</b>		
	<b>As previously reported</b>	<b>Adjustment</b>	<b>As Restated</b>
<b>Assets</b>			
Cash and cash equivalents	\$ 11,207	\$ --	\$ 11,207
Trade accounts receivable, net	116,713	--	116,713
Lease receivables	512	--	512
Inventories, net	53,926	--	53,926
Costs / estimated earnings in excess of billings on uncompleted contracts	23,803	--	23,803
Deferred tax asset	8,973	--	8,973
Net current assets of discontinued operations	467	--	467
Other current assets	15,523	--	15,523
<b>Total current assets</b>	<b>231,124</b>	<b>--</b>	<b>231,124</b>
Property, plant and equipment, net	35,124	--	35,124
Goodwill, net	468,724	--	468,724
Customer relationships, net	24,657	--	24,657
Other intangibles, net	30,783	--	30,783
Deferred tax asset	4,231	15,678	19,909
Other assets	5,091	--	5,091
<b>Total assets</b>	<b>\$ 799,734</b>	<b>\$ 15,678</b>	<b>\$ 815,412</b>
<b>Liabilities</b>			
Current maturities of long-term debt	\$ 1,049	\$ --	\$ 1,049
Current maturities of discounted lease rentals	30	--	30
Accounts payable	44,943	--	44,943
Billings in excess of costs/estimated earnings on uncompleted contracts	8,648	--	8,648
Deferred revenue	22,211	--	22,211
Accrued liabilities:			
Compensation and benefits	13,954	--	13,954
Restructuring reserve	3,292	--	3,292
Other liabilities	27,817	--	27,817
Income taxes	5,924	3,587	9,511
<b>Total current liabilities</b>	<b>127,868</b>	<b>3,587</b>	<b>131,455</b>
Long-term debt	122,673	--	122,673
Restructuring reserve	7,406	--	7,406
Other liabilities	887	--	887
<b>Stockholders Equity</b>			



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Preferred stock	--	--	--
Common stock	25	--	25
Additional paid-in capital	362,810	55,331	418,141
Retained earnings	461,853	(43,240)	418,613
Treasury stock, at cost	(296,824)	--	(296,824)
Accumulated other comprehensive income	13,036	--	13,036
<b>Total stockholders equity</b>	<b>\$ 540,900</b>	<b>\$ 12,091</b>	<b>\$ 552,991</b>
<b>Total liabilities and stockholders equity</b>	<b>\$ 799,734</b>	<b>\$ 15,678</b>	<b>\$ 815,412</b>

**Table of Contents****Restatement Impact on the Consolidated Statement of Cash Flows**

The following tables reconcile the Company's Consolidated Statements of Cash Flows from the previously reported results to the restated results for the quarters ended July 1, 2006 and July 2, 2005. All dollar amounts are in thousands.

	<b>Quarter ended July 1, 2006 (Unaudited)</b>		
	<b>As previously reported</b>	<b>Adjustment</b>	<b>As Restated</b>
<b>Operating Activities</b>			
Net income	\$ 7,807	\$ (994)	\$ 6,813
Adjustments to reconcile net income to cash provided by operating activities:			
Depreciation and amortization	3,806	--	3,806
Deferred tax (benefit)/provision	1,248	(1,756)	(508)
Stock compensation expense	1,620	1,629	3,249
Tax impact from exercised options	342	437	779
Changes in operating assets and liabilities (net of acquisitions):			
Accounts receivable, net	11,218	--	11,218
Inventories, net	(1,066)	--	(1,066)
Other current assets	(3,111)	684	(2,427)
Proceeds from lease contracts	312	--	312
Accounts payable and accrued liabilities	(9,569)	--	(9,569)
<b>Net cash provided by operating activities</b>	<b>12,607</b>	<b>--</b>	<b>12,607</b>
<b>Investing Activities</b>			
Capital expenditures	(1,523)	--	(1,523)
Capital disposals	30	--	30
Acquisition of businesses, net of cash acquired	(129,161)	--	(129,161)
Prior merger-related recovery/(payments)	(1,350)	--	(1,350)
<b>Net cash used in investing activities</b>	<b>(132,004)</b>	<b>--</b>	<b>(132,004)</b>
<b>Financing Activities</b>			
Repayment of borrowings	(73,769)	--	(73,769)
Proceeds from borrowings	194,522	--	194,522
Repayments on discounted lease rentals	(21)	--	(21)
Proceeds from the exercise of options	3,530	--	3,530
Payment of dividends	(1,055)	--	(1,055)
<b>Net cash (used) / provided by financing activities</b>	<b>123,207</b>	<b>--</b>	<b>123,207</b>
Foreign currency exchange impact on cash	(657)	--	(657)
<b>(Decrease)/increase in cash and cash equivalents</b>	<b>3,153</b>	<b>--</b>	<b>3,153</b>
Cash and cash equivalents at beginning of year	11,207	--	11,207
Cash and cash equivalents at end of year	\$ 14,360	\$ --	\$ 14,360

Supplemental Cash Flow:

Cash paid for interest	\$ 2,601	\$ --	\$ 2,601
Cash paid for income taxes	2,685	--	2,685
Non-cash financing activities:		--	
Dividends payable	1,061	--	1,061
Capital leases	109	--	109

**Table of Contents**

	<b>Quarter ended July 2, 2005 (Unaudited)</b>		
	<b>As</b>		
	<b>previously</b>		
	<b>reported</b>	<b>Adjustment</b>	<b>As</b>
			<b>Restated</b>
<b>Operating Activities</b>			
Net income	\$ 7,394	\$ (678)	\$ 6,716
Adjustments to reconcile net income to cash provided by operating activities:			
Depreciation and amortization	3,791	--	3,791
Deferred tax (benefit)/provision	(2,493)	(598)	(3,091)
Stock compensation expense	--	1,120	1,120
Tax impact from exercised options	(31)	218	187
Changes in operating assets and liabilities (net of acquisitions):			
Accounts receivable, net	4,785	--	4,785
Inventories, net	5,032	--	5,032
Other current assets	(7,371)	--	(7,371)
Proceeds from lease contracts	735	--	735
Accounts payable and accrued liabilities	(1,039)	(62)	(1,101)
<b>Net cash provided by operating activities</b>	<b>10,803</b>	<b>--</b>	<b>10,803</b>
<b>Investing Activities</b>			
Capital expenditures	(492)	--	(492)
Capital disposals	813	--	813
Acquisition of businesses, net of cash acquired	(13,492)	--	(13,492)
Prior merger-related recovery/(payments)	44	--	44
<b>Net cash used in investing activities</b>	<b>(13,127)</b>	<b>--</b>	<b>(13,127)</b>
<b>Financing Activities</b>			
Repayment of borrowings	(53,177)	--	(53,177)
Proceeds from borrowings	56,249	--	56,249
Repayments on discounted lease rentals	(423)	--	(423)
Proceeds from the exercise of options	136	--	136
Payment of dividends	(1,011)	--	(1,011)
<b>Net cash (used) / provided by financing activities</b>	<b>1,774</b>	<b>--</b>	<b>1,774</b>
Foreign currency exchange impact on cash	(34)	--	(34)
<b>(Decrease)/increase in cash and cash equivalents</b>	<b>(584)</b>	<b>--</b>	<b>(584)</b>
Cash and cash equivalents at beginning of year	11,592	--	11,592
Cash and cash equivalents at end of year	\$ 11,008	\$ --	\$ 11,008

Supplemental Cash Flow:

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Cash paid for interest	\$ 2,140	\$ --	\$ 2,140
Cash paid for income taxes	1,240	--	1,240
Non-cash financing activities:			
Dividends payable	1,011	--	1,011
Capital leases	390	--	390

**Note 4: Inventories**

Inventory balances, net of reserves for excess and obsolete inventories:

	<b>June 30, 2006</b>	<b>March 31, 2006</b>
Raw materials	\$ 1,516	\$ 1,426
Finished goods	92,438	66,787
Subtotal	93,954	68,213
Excess and obsolete inventory reserves	(25,711)	(14,287)
Inventory, net	\$ 68,243	\$ 53,926

**Table of Contents****Note 5: Goodwill and Other Intangible Assets**

As required by SFAS No. 142 Goodwill and Other Intangible Assets, goodwill and intangible assets with indefinite useful lives are not amortized. Also, the Company is required to perform an impairment test annually, or as often as impairment indicators are present. The Company's policy is to evaluate its non-amortizable intangible assets for impairment during the third quarter of each fiscal year. The Company performed the most recent test during the third quarter of Fiscal 2006, and concluded that no impairment existed. The Company's only intangibles, as identified in SFAS No. 141 Business Combinations (SFAS 141), other than goodwill, are its trademarks, non-compete agreements, customer relationships and acquired backlog.

	North America	Europe	All Other	Total
Balance as of March 31, 2006	\$ 400,998	\$65,684	\$ 2,042	\$468,724
Currency translation	29	4,110	(30)	4,109
Goodwill on businesses acquired	120,355	--	--	120,355
Actual earnout payments	--	--	--	--
Other	--	--	--	--
Balance as of June 30, 2006	\$ 521,382	\$69,794	\$ 2,012	\$593,188

At June 30, 2006, certain merger agreements provided for contingent payments of up to \$4,588. If future operating performance goals are met, goodwill will be adjusted for the amount of the contingent payments.

The Company's intangible assets are comprised of the appraised fair market values of employee non-compete contracts, backlog and customer relationships obtained through business acquisitions. The Company has the following definite-lived intangibles:

	June 30, 2006			March 31, 2006		
	Gross Carrying Amount	Accum. Amort.	Net Carrying Amount	Gross Carrying Amount	Accum. Amort.	Net Carrying Amount
Non-compete agreements	\$ 7,209	\$ 2,227	\$ 4,982	\$ 4,894	\$ 1,851	\$ 3,043
Customer relationships	55,689	1,653	54,036	25,654	997	24,657
Acquired backlog	7,239	4,489	2,750	3,935	3,934	1
Total	\$70,137	\$ 8,369	\$ 61,768	\$34,483	\$ 6,782	\$ 27,701

Intangible asset amortization is computed using the straight-line method based upon the estimated useful lives of the respective assets, which range from one to 20 years.

Intangible asset amortization expense for the three months ended June 30, 2006 and 2005 was \$1,506 and \$1,558, respectively. The Company acquired definite-lived intangibles from the completion of two acquisitions during the first quarter of Fiscal 2007 (see Note 10). The estimated definite-lived intangibles recorded of \$32,416 were based on a preliminary allocation pending completion of third party valuation, which is expected to be completed during the second quarter of Fiscal 2007. The Company recorded amortization expense of \$838 during the three months ended June 30, 2006 for these definite-lived assets.

Excluding the newly acquired definite-lived intangibles, the Company's estimated amortization expense for fiscal years ending March 31 is as follows:

**Years Ending March 31,**

2007	\$ 2,135
2008	2,097
2009	1,953
2010	1,903
2011	995
Thereafter	18,618
	\$ 27,701

Intangible assets not subject to amortization consist solely of the Company's trademark portfolio. The net carrying amount was \$27,739 at June 30, 2006 and March 31, 2006.

**Table of Contents**

The changes in the carrying amount of goodwill and intangible assets, net of accumulated amortization:

<b>Three months ended June 30, 2006</b>	<b>Trademarks</b>	<b>Non- Competes and Backlog</b>	<b>Customer Relationships</b>	<b>Goodwill</b>	<b>Total</b>
Balance at beginning of period	\$ 27,739	\$ 3,044	\$ 24,657	\$468,724	\$524,164
Change in net intangible assets during the period related to:					
Amortization expense	--	(850)	(656)	--	(1,506)
Currency translation	--	56	--	4,109	4,165
Acquisitions (Note 10)	--	5,482	30,035	120,355	155,872
Balance at end of period	\$ 27,739	\$ 7,732	\$ 54,036	\$593,188	\$682,695

**Note 6: Indebtedness**

Long-term debt consisted of the following:

	<b>June 30, 2006</b>	<b>March 31, 2006</b>
Revolving credit agreement	\$ 242,565	\$ 121,303
Capital lease obligations	1,826	1,891
Other	199	528
Total debt	244,590	123,722
Less: current portion	(704)	(1,049)
Long-term debt	\$ 243,886	\$ 122,673

On March 28, 2006, the Company entered into a Second Amendment to the Second Amended and Restated Credit Agreement dated January 24, 2005, as amended February 17, 2005 (collectively, the Credit Agreement ) with Citizens Bank of Pennsylvania, as agent, and a group of lenders. The Credit Agreement expires on March 28, 2011.

During the three months ended June 30, 2006, the Company increased net borrowings under the Credit Agreement by approximately \$121,262, primarily to fund acquisitions (see Note 10). During the three months ended June 30, 2006, the maximum amount and weighted average balance outstanding under the Credit Agreement were \$266,055 and \$221,584, respectively. As of June 30, 2006, the Company had \$3,065 outstanding in letters of credit and \$64,370 available under the Credit Agreement. The weighted average interest rate on all outstanding debt during the three months ended June 30, 2006 and June 30, 2005 was approximately 6.06% and 4.05%, respectively. At June 30, 2006, the Company was in compliance with all required covenants under the Credit Agreement.

The capital lease obligations are primarily for facilities and equipment. The lease agreements have remaining terms ranging from less than one year to four years with interest rates ranging from 3.83% to 10.83%.

Other debt is composed of various bank and third party loans secured by specific pieces of equipment and real property. The loans have remaining terms of less than one year to five years with interest rates ranging from 0% to 7.1%.

**Note 7: Derivative Instruments and Hedging Activities**

The Company enters into derivative instruments to hedge exposure to variability in expected fluctuations in foreign currencies. All of the Company's derivatives have been designated and qualify as cash flow hedges. There was no



hedge ineffectiveness during the three months ended June 30, 2006.

At June 30, 2006, the Company had open contracts in Australian and Canadian dollar, Danish krone, Euro, Japanese yen, Norwegian kroner, Pound sterling, Swedish krona and Swiss franc. These contracts had a notional amount of approximately \$63,129 and a fair value of \$62,777 and mature within the next thirty-three months.

For the three months ended June 30, 2006, the Company recognized in earnings approximately \$186 in net gains on matured contracts. As of June 30, 2006, a gain of \$910 was included in other comprehensive income (loss) ( OCI ). This gain is expected to be credited to earnings over the life of the maturing contracts as the hedged transactions occur and it is expected that the gain will be offset by currency losses on the items being hedged.

**Table of Contents**

Subsequent to June 30, 2006, the Company entered into an interest rate swap agreement with a notional value of \$100,000, the effect of which will be to effectively convert a portion of the variable interest rate-based debt to a fixed rate portion.

**Note 8: Earnings Per Share**

The following table details this calculation for the three months ended June 30:

	(As Restated) 2006	(As Restated) 2005
Net income, as reported	\$ 6,813	\$ 6,716
Weighted average shares outstanding	17,626	16,845
Effect of dilutive securities from employee stock options	636	197
Weighted average diluted shares outstanding	18,262	17,042
Basic earnings per share	\$ 0.39	\$ 0.40
Dilutive earnings per share	\$ 0.37	\$ 0.39

There is no impact to the weighted average share calculations during any period where the exercise price of a stock option is greater than the average market price during the same period. There were 489,573 and 2,867,000 non-dilutive options outstanding during the three months ended June 30, 2006 and 2005, respectively that are not included in the above calculation.

**Note 9: Comprehensive Income and Stockholders Equity**

Comprehensive income for the three months ended June 30, 2006 and 2005 consisted of the following:

	(As Restated) 2006	(As Restated) 2005
Net income	\$ 6,813	\$ 6,716
Other comprehensive income (loss):		
Foreign currency translation adjustment	6,525	(9,764)
Unrealized gains/(losses) on derivatives designated and qualified as cash flow hedges, net of reclassification of unrealized gains/(losses) on expired derivatives	(232)	158
Comprehensive income (loss)	\$ 13,106	\$ (2,890)

The components of accumulated other comprehensive income consisted of the following:

	June 30, 2006	March 31, 2006
Foreign currency translation adjustment	\$ 19,561	\$ 12,041
Unrealized gains/(losses) on derivatives designated and qualified as cash flow hedges, net of reclassification of unrealized	(232)	995

gains/(losses) on expired derivatives

Total accumulated other comprehensive income	\$ 19,329	\$ 13,036
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**Table of Contents****Note 10: Acquisitions**

During the first quarter of Fiscal 2007, the Company acquired the USA Commercial and Government and Canadian operations of NextiraOne, LLC ( NextiraOne ).

The following table summarizes the fair value of the NextiraOne assets acquired and liabilities assumed at the date of acquisition.

	<b>At April 30, 2006</b>
Current assets, primarily consisting of accounts receivable and inventories	\$ 87,562
Property, plant and equipment	4,434
Other non-current assets	3,208
Intangible assets	19,743
Goodwill	102,776
<b>Total assets acquired</b>	<b>\$ 217,723</b>
Current liabilities, primarily consisting of deferred revenue, restructuring reserve and accrued expenses	100,700
Other non-current liabilities, primarily consisting of restructuring reserve	28,250
<b>Net assets acquired</b>	<b>\$ 88,773</b>

The amounts assigned to intangible assets are shown below:

Backlog	\$ 3,300
Customer relationships and contracts	16,443
<b>Total intangible assets</b>	<b>\$ 19,743</b>

The amortization period is estimated to be one year for backlog and 20 years for customer relationships and contracts. The Company obtained various contractual obligations in the form of operating leases for facilities and vehicles as part of the NextiraOne acquisition. The following table summarizes those obligations as of June 30, 2006, and are in addition to the contractual obligations previously disclosed in the Company's Annual Report on Form 10-K for the period ending March 31, 2006:

	<b>Total</b>	<b>Payments Due by Period</b>			<b>More than 5 years</b>
		<b>Less than 1 year</b>	<b>1-3 years</b>	<b>3-5 years</b>	
Operating lease obligations	41,612	15,872	21,517	4,223	-

The transaction resulted in \$102,776 of goodwill. The Company paid a premium for NextiraOne in order to further expand its operational footprint in the voice and data technology markets. In addition, the purchase increased the Company's solutions offerings, providing for a stronger worldwide technical services partner for its collective clients.

The Company paid a cash total of \$97,305 for all outstanding interest in NextiraOne. This amount included an estimate for the equity book value (total assets less total liabilities, as adjusted by the parties for certain items) as of the closing date. The actual equity book value adjustment is expected to be confirmed within the next two quarters, at which time the final purchase price will be determined. The cash total above has been reflected on the Company's Consolidated Statements of Cash Flows as an Investing Activity in the first quarter of Fiscal 2007.

As of the first quarter of Fiscal 2007, the Company has included an equity book value adjustment of \$10,535. This amount is included in Other Current Assets of \$27,187 on the Company's Consolidated Balance Sheet as of June 30, 2006 as a receivable from the seller and is considered collectable.

As part of the purchase price paid, \$42,143 (the Escrow Amount) was allocated to escrow accounts, which include a general holdback and specifically set aside funds to satisfy defined items including: litigation matters, accounts receivable matters and vendor and leasing disputes. These amounts will be paid from time to time based on the terms set forth in the agreement. The Escrow Amount has been reflected on the Company's Consolidated Statements of Cash Flows as an Investing Activity in the first quarter of Fiscal 2007.

After consummation of the acquisition, the Company began to integrate NextiraOne products, employees and facilities with its own. In connection with these integration actions, the Company incurred severance costs of \$8,694 for the separation of approximately 250 employees. In addition, the Company incurred integration costs for facility consolidations of \$15,767. These costs were properly included in the purchase price allocation for NextiraOne, in accordance with the SFAS 141. The majority of the severance costs will be paid in Fiscal 2007 with certain facility costs extending through Fiscal 2014.

**Table of Contents**

Also, during the first quarter of Fiscal 2007, the Company acquired Nu-Vision Technologies, Inc. and Nu-Vision Technologies, LLC (collectively referred to as NUVT ). In connection with the NUVT acquisition, the Company has prepared preliminary allocations of goodwill and definite-lived intangible assets of \$20,682 and \$12,673, respectively. The definite-lived intangible assets recorded represent the estimated fair market value of acquired backlog, customer relationships and non-compete agreements. The Company estimates that the definite-lived intangibles are to be amortized over a period of one to 20 years.

The allocation of the purchase price of these acquisitions is based upon preliminary estimates of the fair values of certain assets acquired and liabilities assumed as of the date of the acquisition. Management, with the assistance of independent valuation specialists, is currently assessing the fair values of the tangible and intangible assets acquired and liabilities assumed. This preliminary allocation of the purchase price is dependant upon certain estimates and assumptions, which are preliminary and may vary from the amounts herein.

The acquisitions contributed on-site services revenues of approximately \$60,158 and are included in the first quarter of Fiscal 2007 results.

The following unaudited pro forma summary presents the Company s results of operations as if the acquisitions of NextiraOne and NUVT had occurred on April 1, 2005, and does not purport to represent what the Company s results of operations would have been had the acquisitions occurred on such date or at the beginning of the period indicated, or to project the Company s results of operations for any future date or period, or to be a fair reflection of the assets purchased at the date of acquisition. The pro forma results of operations exclude the impact of nonrecurring or extraordinary adjustments, together with related income tax effects. These pro forma results of operations do not include the effects of cost synergies and one-time nonrecurring transactions associated with the acquisition.

	<b>For the three months ended June 30,</b>	
	<b>(As Restated) 2006</b>	<b>(As Restated) 2005</b>
Pro forma revenue	\$ 259,903	\$ 304,568
Pro forma income from operations, net of tax	9,614	11,437
Pro forma per share income from operations, net of tax:		
Basic	\$ 0.55	\$ 0.68
Diluted	\$ 0.53	\$ 0.67

During the first quarter of Fiscal 2006, the Company acquired 100% of the issued and outstanding equity interests of Telecommunication Systems Management, Inc. ( TSM ), GTC Technology Group, Inc. and Technology Supply, Inc. (collectively referred to as GTC ) and Business Communications, Inc., Bainbridge Communication, Inc., BCI of Tampa, LLC and Networx, L.L.C. (collectively referred to as BCI ). These companies primarily provide full-service voice communication solutions and services in the Florida and Virginia markets. In connection with the acquisitions, the Company has allocated goodwill and definite-lived intangible assets of \$8,369 and \$5,846, respectively. The definite-lived intangible assets recorded represent the fair market value of acquired customer relationships and non-compete agreements. The definite-lived intangibles are being amortized over a period of five to 20 years.

During the second quarter of Fiscal 2006, the Company acquired substantially all of the assets and certain liabilities of Universal Solutions of North America, L.L.C. and related entities ( Universal ). Universal primarily provides planning, installation and maintenance services for voice and data network systems in 14 states. In connection with the acquisition, the Company has allocated goodwill and definite-lived intangible assets of \$8,860 and \$8,010, respectively. The definite-lived intangible assets recorded represent the estimated fair market value of acquired customer relationships and non-compete agreements. The definite-lived intangibles are being amortized over a period of four to 20 years.

During the third quarter of Fiscal 2006, the Company purchased 100% of the issued and outstanding equity interests of Communication is World InterActive Networking, Inc. ( C=WIN ) and Converged Solutions Group, LLC ( CSG ).

C=WIN has an active customer base which includes commercial and various government agency accounts. CSG has an active customer base which includes commercial, education, health care and various government agency accounts. The C=WIN and CSG acquisitions primarily provide planning, installation and maintenance services for voice and data network systems in 15 states. In connection with the acquisitions, the Company has prepared preliminary allocations of goodwill and definite-lived intangible assets of \$10,328 and \$5,561, respectively. The definite-lived intangible assets recorded represent the estimated fair market value of acquired customer relationships and non-compete agreements. The Company estimates that the definite-lived intangibles are to be amortized over a period of four to 20 years.

**Table of Contents**

The results of operations of TSM, GTC, BCI, Universal, C=WIN and CSG are included in the Company's Consolidated Statements of Income beginning on their respective acquisition dates. The acquisitions taken individually did not have a material impact on the Company's results of operations. The costs of the acquisitions were funded with borrowings under the Credit Agreement described in Note 6.

The following acquired companies will collectively be referred to as Acquired Companies: TSM, GTC, BCI, Universal, C=WIN, CSG, NextiraOne and NUVT.

**Note 11: Commitments and Contingencies****Litigation**

The Company is involved in, or has pending, various legal proceedings, claims, suits and complaints arising out of the normal course of business.

Based on the facts currently available to the Company, management believes its litigation matters are adequately provided for, covered by insurance, without merit or not probable that an unfavorable outcome will result.

**Product Warranties**

Estimated future warranty costs related to certain products are charged to operations in the period the related revenue is recognized. The product warranty liability reflects the Company's best estimate of probable liability under those warranties.

There has been no significant or unusual activity other than the acquisitions discussed in Note 10 during the three months ended June 30, 2006. As of June 30, 2006 and March 31, 2006, the Company has recorded a warranty reserve of \$5,780 and \$1,383, respectively.

The accrual for product warranties is classified with other Accrued Liabilities in the Consolidated Balance Sheets. The expense for product warranties is classified with Cost of Sales in the Consolidated Income Statements.

**Note 12: Pension Plan Costs**

NextiraOne, acquired on April 30, 2006, is the sponsor of a non-contributory defined benefit plan (the CWA Plan) for the Communication Workers of America Local 1109 (CWA 1109). Benefits from the CWA Plan are based upon years of service and rates negotiated by the Company and CWA 1109. Pension costs are funded to satisfy minimum requirements prescribed by the Employee Retirement Income Security Act of 1974.

The following table summarizes the net periodic benefit costs beginning after the acquisition date through the end of the first quarter of Fiscal 2007:

	<b>May 1, 2006 to June 30, 2006</b>
Service cost	\$ 71
Interest cost	116
Expected return on plan assets	(108)
Amortization of prior service cost	-
Amortization of unrealized gains and losses	42
Net periodic benefit cost	\$ 121

As of April 30, 2006, the projected benefit obligation, accumulated benefit obligation and fair value of plan assets were \$25,400, \$25,400 and \$18,697, respectively. A liability of \$6,703, representing the unfunded portion of the CWA Plan, is included in the Other Liabilities (long-term) balance of \$16,863 on the Company's Consolidated Balance Sheet as of June 30, 2006.



**Table of Contents**

The following are the weighted-average assumptions utilized for this plan:

**April 30, 2006**

Discount rate	5.50%
Rate of compensation increase	N/A
Expected long-term rate of return	8.00%

**Note 13: Restructuring and Other Charges**

As announced in Fiscal 2005, the Company initiated a restructuring plan intended to right-size the organization and bring its expense structure in-line with anticipated revenues and changing market demand for its solutions and services. The restructuring charges recorded during the first quarter of Fiscal 2006 and fourth quarter of Fiscal 2005 of \$5,290 and \$3,019, respectively, relate to staffing level adjustments and real estate consolidations in the Europe and North America segments. With the additional charges incurred during the first quarter of Fiscal 2006, the Company has completed its restructuring plan.

As a result of the first quarter Fiscal 2006 restructuring actions, approximately 90 and 34 employees were involuntarily terminated in its Europe and North America segments, respectively, resulting in a restructuring charge related to staffing level adjustments of \$2,951 and \$522 in Europe and North America, respectively. The Company also recorded a charge of \$1,817 in the first quarter of Fiscal 2006 related to idle facility rent obligations and the write-off of leasehold improvements related to these facilities resulting in a restructuring charge of \$791 and \$1,026 related to real estate consolidations in Europe and North America, respectively. The majority of the costs were paid by the end of Fiscal 2006, with the exception of certain facility costs, which extend through Fiscal 2012 (fiscal year ending March 31, 2012).

As a result of the acquisition of NextiraOne, the Company committed to a plan of reorganization of NextiraOne's operations. In connection with these integration actions, the Company incurred severance costs of \$8,694 for the separation of approximately 250 employees. In addition, the Company incurred integration costs for facility consolidations of \$15,767. These costs were included in the purchase price allocation for NextiraOne in accordance with SFAS 141. For the three months ended June 30, 2006, the Company paid \$3,470 related to these obligations. The Company anticipates a majority of the severance costs to be paid by the end of Fiscal 2007, with certain facility costs extending through Fiscal 2014.

The following table summarizes the restructuring and other charges and the remaining reserves reflected on the Consolidated Balance Sheet:

**Three months ended  
June 30, 2006**

	<b>Employee Severance</b>	<b>Facility Closures</b>	<b>Total</b>
Balance at beginning of period	\$ 260	\$ 10,438	\$ 10,698
Acquisition adjustments	8,864	15,884	24,748
Cash expenditures	(2,668)	(2,042)	(4,710)
Balance at end of period	\$ 6,456	\$ 24,280	\$ 30,736

**Note 14: Stock-based Compensation**

Share-based compensation expense recognized during the current period is based on the value of the portion of share-based payment awards that is ultimately expected to vest. SFAS 123(R) requires forfeitures to be estimated at the time of grant in order to estimate the amount of share-based awards that will ultimately vest. The forfeiture rate is based on historical rates. Share-based compensation expense recognized in the Company's Consolidated Statements of Income for the first quarter of Fiscal 2007 includes (i) compensation expense for share-based awards granted prior to, but not yet vested as of March 31, 2006, based on the grant-date fair value estimated in accordance with the pro forma

provisions of SFAS 123 and (ii) compensation expense for the share-based payment awards granted subsequent to March 31, 2006 based on the grant-date fair value estimated in accordance with the provisions of SFAS 123(R). The fair value of each option grant is estimated on the date of the grant using the Black-Scholes options pricing model. The model requires the use of various assumptions. The fair value of grants awarded prior to, but not yet vested as of March 31, 2006 and grants issued during the first quarter of Fiscal 2007 was estimated on the grant-date with the following weighted average assumptions:

	<b>1Q07</b>	<b>1Q06</b>
Expected life (in years)	5.7	5.1
Risk free interest rate	3.66%	3.89%
Annual forfeiture rate	1.54%	2.27%
Volatility	43.21%	59.13%
Dividend yield	0.60%	0.70%

**Table of Contents**

The Company calculates expected volatility based on historical volatility of its common stock. The dividend yield assumption is based on the Company's historical and projected dividend payouts. The risk-free interest rate assumption is based upon observed interest rates appropriate for the term of the Company's employee stock options. The annual forfeiture rate and expected holding period assumptions were estimated based on historical experience.

As a result of the Restatement through March 31, 2006, the Company has recorded an additional non-cash charge for stock-based compensation for the three (3) month period ended July 1, 2006. This charge was recorded to reflect additional non-cash, stock-based compensation expense recognized under the fair value method (SFAS 123(R)) because the exercise price for certain stock option grants prior to, but not vested as of March 31, 2006, differed from the fair market value of the underlying shares on the appropriate measurement date, some of which occurred during Fiscal 2007. The following table reconciles the Company's stock-based compensation expense from the previously reported results to the restated results for the quarters ended June 30, 2006 and June 30, 2005. All dollar amounts are in thousands. Stock-based compensation expense is recorded to Selling, General, and Administrative expense.

	Stock-Based Compensation Expense, Pre-Tax		
	(As previously reported)	Adjustment	(As Restated)
Three Months 6/30/06	\$ 1,620	\$ 1,629	\$ 3,249
Three Months 6/30/05	--	1,120	1,120

As noted above, the restated stock-based compensation expense for the three months ended June 30, 2006 and June 30, 2005 was \$3,249 (\$2,112 net of tax), or approximately \$0.12 per diluted share and \$1,120 (\$728 net of tax), or approximately \$0.04 per diluted share respectively.

The following table illustrates the effect on net income and earnings per share for the three months ended June 30, 2005 as if the Company had applied the fair value recognition provisions of SFAS 123(R): Per share amounts may not total due to rounding.

	Three months ended June 30, 2005		
	As previously reported	Adjustment	As Restated
Net income (As reported)	\$ 7,394	\$ (678)	\$ 6,716
Plus: Stock-based compensation expense included in reported net income, net of related tax	--	1,120	1,120
Less: Stock-based compensation expense determined by the fair value method for all awards, net of related tax	(2,577)	(2,781)	(5,358)
Net Income (Pro forma)	\$ 4,817	\$ (2,339)	\$ 2,478
Earnings per common share			
Basic as reported	\$ 0.44	\$ (0.04)	\$ 0.40
Basic pro forma	\$ 0.29	\$ (0.14)	\$ 0.15
Diluted as reported	\$ 0.43	\$ (0.04)	\$ 0.39
Diluted pro forma	\$ 0.28	\$ (0.13)	\$ 0.15

The Company has two stock option plans, the 1992 Stock Option Plan, as amended (the Employee Plan ), and the 1992 Director Stock Option Plan, as amended (the Director Plan ). As of June 30, 2006, the Employee Plan authorized the issuance of options and stock appreciation rights ( SARs ) for up to 9,200,000 shares of common stock. The Employee Plan provides that options are to be granted by a committee appointed by the Board to key employees of the Company; such stock options generally become exercisable in equal amounts over a three-year period. The Director Plan authorized the issuance of options and SARs for up to 250,000 shares of common stock as of June 30, 2006. The Director Plan provides that options are to be granted by the Board or a committee appointed by the Board; such options generally become exercisable in equal amounts over a three-year period. No SARs have been issued under either plan.

**Table of Contents**

The following is a summary of the Company's stock option plans for the three-month period ended June 30, 2006:

	<b>Three month period ended June 30, 2006</b>	
	<b>Shares</b>	<b>Weighted-Average Exercise Price (per share)</b>
Outstanding at March 31, 2006	5,055	\$ 38.28
Granted	35	38.84
Exercised	(87)	40.46
Forfeited or expired	(30)	38.56
Outstanding at June 30, 2006	4,973	\$ 38.25
Exercisable at June 30, 2006	4,227	\$ 38.93
Weighted average fair value of options granted during the period using Black-Scholes option pricing model		\$ 17.20

The following table summarizes information about the stock options outstanding at June 30, 2006:

Range of Exercise Prices	Shares Outstanding (000 s)	Options Outstanding			Options Exercisable		
		Weighted Average Remaining Contractual Life (Years)	Weighted Average Exercise Price	Average Intrinsic Value (000 s)	Shares Exercisable (000 s)	Weighted Average Exercise Price	Average Intrinsic Value (000 s)
\$19.95 - \$26.60	328	1.6	\$ 22.47	\$ 5,269	328	\$ 22.47	\$ 5,269
\$26.60 - \$33.25	357	2.9	30.06	3,020	357	30.06	3,020
\$33.25 - \$39.90	1,983	8.9	36.97	4,281	1,237	38.52	1,200
\$39.90 - \$46.55	2,147	5.5	42.37	--	2,147	42.37	--
\$46.55 - \$53.20	154	3.3	49.39	--	154	49.39	--
\$53.20 - \$59.85	2	3.5	55.88	--	2	55.88	--
\$59.85 - \$66.50	2	3.5	63.22	--	2	63.22	--
\$19.95 - \$66.50	4,973	6.4	\$ 38.25	\$ 12,570	4,227	\$ 38.93	\$ 9,489

The aggregate intrinsic value in the preceding table represents the total pre-tax intrinsic value, based on the Company's average stock price on June 30, 2006 of \$38.52, which would have been received by the option holders had all option holders exercised their options as of that date.

As of June 30, 2006, there was approximately \$10,468 of total unrecognized pre-tax compensation expense related to non-vested stock options granted under the plans which is expected to be recognized over a weighted average period of 3.0 years.

**Note 15: Segment Reporting**

As required by SFAS No. 131, Disclosures about Segments of an Enterprise and Related Information (SFAS 131), the Company reports the results of its operating segments on a geographic basis. This is consistent with how the Company is organized and how the business is managed on a day-to-day basis. The primary reportable segments are comprised

of North America, Europe and All Other. Consistent with SFAS 131, the Company aggregates similar operating segments into reportable segments.

The accounting policies of the various segments are the same as those described in the Notes to the Company's Consolidated Financial Statements for the year ended March 31, 2006 contained in the Company's Annual Report on Form 10-K. The Company evaluates the performance of each segment based on operating income. Inter-segment sales and segment interest income or expense and expenditures for segment assets are not presented to or reviewed by management and, therefore, are not presented below.

Summary information by reportable segment is as follows:

37

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**Table of Contents**

	<b>Three months ended June 30</b>	
	<b>(As Restated)</b>	<b>(As Restated)</b>
	<b>2006</b>	<b>2005</b>
<b>North America</b>		
Revenues	\$ 192,572	\$ 136,861
Operating income	9,397	10,739
Depreciation	2,161	1,960
Amortization	1,457	1,205
Segment assets	1,031,765	734,522
<b>Europe</b>		
Revenues	\$ 29,345	\$ 33,750
Operating income	3,143	(367)
Depreciation	119	196
Amortization	40	343
Segment assets	124,252	122,606
<b>All Other</b>		
Revenues	\$ 8,478	\$ 8,671
Operating income	1,596	1,680
Depreciation	20	77
Amortization	9	10
Segment assets	15,636	14,269

Operating income for the first quarter of Fiscal 2006 for North America and Europe was reduced by \$1,548 and \$3,742, respectively, for restructuring charges incurred during the period.

The sum of the segment revenues, operating income, depreciation and amortization equals the consolidated revenues, operating income, depreciation and amortization. The following reconciles segment assets to total consolidated assets:

	<b>(As Restated)</b>	<b>(As Restated)</b>
	<b>June 30, 2006</b>	<b>March 31, 2006</b>
Assets for North America, Europe and All Other segments	\$ 1,171,653	\$ 894,557
Corporate eliminations	(78,042)	(79,145)
Total consolidated assets	\$ 1,093,611	\$ 815,412

Management is also presented with and reviews revenues by service type. The following information is presented:

	<b>Three months ended June 30</b>	
	<b>2006</b>	<b>2005</b>
<b>Revenues</b>		
Data Services	\$ 44,531	\$ 52,901
Voice Services	133,639	72,929
Hotline Services	52,225	53,452

Total revenues	\$ 230,395	\$ 179,282
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**Note 16: Subsequent Events***Regulatory Matters*

As previously disclosed, on November 13, 2006, the Company received a letter of informal inquiry from the Enforcement Division of the Securities and Exchange Commission (the SEC) relating to the Company's stock option practices from January 1, 1997 to present. On May 24, 2007, the SEC issued a formal order of investigation in connection with this matter, and, on May 29, 2007, the Company received a document subpoena from the SEC acting pursuant to such order. The Company has cooperated with the SEC in this matter and intends to continue to do so. As previously disclosed, the Audit Committee, with the assistance of outside legal counsel, is conducting an independent review of the Company's historical stock option grant practices and related accounting for stock option grants. See the Explanatory Note preceding Part I, Item 1 of this Form 10-Q/A for more information regarding this and related matters.



**Table of Contents**

On September 20, 2006, the Company received formal notice from the Internal Revenue Service ( IRS ) regarding its intent to begin an audit of the Company s tax years 2004 and 2005. In connection with this normal recurring audit, the IRS has requested certain documentation with respect to stock options for the Company s 2004 and 2005 tax years. The Company has produced various documents requested by the IRS and is currently in the process of responding to additional documentation requests.

At the conclusion of these regulatory matters, the Company could be subject to additional taxes, fines or penalties which could be material.

*Litigation Matters*

In November 2006, two stockholder derivative lawsuits were filed against the Company itself, as a nominal defendant, and several of the Company s current and former officers and directors in the United States District Court for the Western District of Pennsylvania. The two substantially identical stockholder derivative complaints allege that the individual defendants improperly backdated grants of stock options to several officers and directors in violation of the Company s stockholder-approved stock option plans during the period 1996-2002, improperly recorded and accounted for backdated stock options in violation of generally accepted accounting principles, improperly took tax deductions based on backdated stock options in violation of the Internal Revenue Code of 1986, as amended, produced and disseminated false financial statements and SEC filings to the Company s stockholders and to the market that improperly recorded and accounted for the backdated option grants, concealed the alleged improper backdating of stock options and obtained substantial benefits from sales of Company stock while in the possession of material inside information. The complaints seek damages on behalf of the Company against certain current and former officers and directors and allege breach of fiduciary duty, unjust enrichment, securities law violations and other claims. The two lawsuits have been consolidated into a single action as *In re Black Box Corporation Derivative Litigation*, Master File No. 2:06-CV-1531-TMH, and plaintiffs filed a consolidated amended complaint on January 29, 2007. The parties have stipulated that responses by the defendants, including the Company, are due on or before August 1, 2007. The Company may have indemnification obligations arising out of this matter to its current and former directors and officers named in this litigation. The Company has made a claim for such costs under an insurance policy.

**Table of Contents**

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

**The discussion and analysis set forth below in this Item 2 has been amended to reflect the Restatement as described in the Explanatory Note and in Note 3 of the Notes to Consolidated Financial Statements. For this reason, the data set forth in this section may not be comparable to discussions and data in the Company's previously filed Quarterly Reports on Form 10-Q. All dollar amounts are presented in thousands unless otherwise noted.**

**Restatement through March 31, 2006**

**Background**

On November 13, 2006, Black Box received a letter of informal inquiry from the Enforcement Division of the SEC relating to the Company's stock option practices from January 1, 1997 to present. As a result, the Audit Committee, with the assistance of outside legal counsel, commenced an independent review of the Company's historical stock option grant practices and related accounting for stock option grants during the Review Period.

On February 1, 2007, the Company announced that, while the review of option grant practices was continuing, it believed that it would need to record additional non-cash charges for stock-based compensation expense relating to certain stock option grants and, accordingly, cautioned investors about relying on its historical financial statements until the Company could determine with certainty whether a restatement would be required and, if so, the extent of any such restatement and the periods affected.

On March 19, 2007, although the Audit Committee had not yet completed its review, the Audit Committee concluded that the exercise price of certain stock option grants differed from the fair market value of the underlying shares on the appropriate measurement date. At that time, the Company and the Audit Committee announced that it was currently expected that the Company's additional non-cash, pre-tax charges for stock-based compensation expense relating to certain stock option grants would approximate \$63 million for the Review Period. In addition, the Company and the Audit Committee concluded that the Company would need to restate its previously-issued financial statements contained in reports previously filed by the Company with the SEC. Accordingly, on March 19, 2007, the Company and the Audit Committee concluded that the Company's previously-issued financial statements and other historical financial information and related disclosures for the Review Period, including applicable reports of its current or former independent registered public accounting firms and related press releases, should not be relied upon.

On May 25, 2007, the Company was advised by the Enforcement Division of the SEC that a Formal Order of Private Investigation arising out of the Company's stock option practices had been entered and on May 29, 2007 the Company received a subpoena that was issued by the SEC.

On May 31, 2007, the Company announced that, as a result of the ongoing review of stock option practices, Company management and the Audit Committee expected that the Company's additional non-cash, pre-tax charges for stock-based compensation expense relating to certain stock option grants would approximate \$70 million for the Review Period.

**Findings of the Audit Committee**

During the Review Period, the Company granted stock options pursuant to an employee stock option plan and a director stock option plan to acquire approximately 10.9 million shares of common stock. Such plans at all relevant times provided for option grants to be approved by a designated committee of non-employee directors or, in the case of the director stock option plan, by the Board. Approximately 2,000 stock option grants were awarded during the Review Period with 69 recorded grant dates. No stock options have been granted since September, 2006. The Audit Committee reviewed all stock options granted during the Review Period, including option grants to the Company's directors, officers and rank and file employees (including grants to new employees, grants awarded in connection with Company acquisitions and grants made as individual or group performance awards). The Audit Committee's review of the Company's stock option granting practices included a comprehensive examination of reasonably available relevant physical and electronic documents as well as interviews with current and former directors, officers and Company personnel.

The Audit Committee's review was initially focused on determining whether the Company's prior stock option granting practices were in compliance with the plans' granting provisions and applicable law or called into question its accounting for such options. Once it became evident that such issues and accounting implications existed, the inquiry

focused on those matters necessary: to determine whether any accounting charges were material and whether a restatement of the Company's previously-issued financial statements would be required; to establish a basis for effecting any required restatement; to assure that, on as timely a basis as possible, the Company could file any required curative disclosures with the SEC and assure its continued eligibility for listing on NASDAQ; and to provide an informed basis for the Company's response to the identified issues, including appropriate corrective and remedial actions.

**Table of Contents**

The following information summarizes certain of the findings of the Audit Committee. The findings identified approximately \$71.5 million of unrecorded expense at the time of grant (i.e., the difference between the fair market value of the common stock on the appropriate measurement date and the stated exercise price), net of forfeitures, during the Review Period, of which \$70.0 million was recorded in the Company's Consolidated Financial Statements through March 31, 2006 and \$1.5 million of unrecorded expense at the time of grant will be included, beginning at April 1, 2006, in the Company's computation of compensation expense in accordance with SFAS 123(R). The following summarizes the unrecorded expense at the time of grant by time period and category of recipient:

\$4.2 million for the period from Fiscal 1993 through Fiscal 1997 (\$0.2 million for directors, \$2.5 million for officers and \$1.5 million for rank and file employees)

\$45.6 million for the period from Fiscal 1998 through August 2002 (\$1.1 million for directors, \$25.7 million for officers and \$18.7 million for rank and file employees)

\$21.8 million for the period from August 2002 to the present (\$0.04 million for directors, \$0.6 million for officers and \$21.1 million for rank and file employees)

The Audit Committee's additional key findings are summarized below:

**Lack of Adequate Documentation:** For a majority of grants issued by the Company during the Review Period, there is either no or inadequate documentation of approval actions that satisfies the requisites for establishing a measurement date under APB 25. Of the 69 recorded grant dates, there are documented approval actions by the Board or the Option or Compensation Committee with respect to particular grants for 12 dates. In the period December 1992 to May 1996, neither the minutes of the Compensation Committee nor of the Board reflect any action to approve specific grants. In some instances, evidence of single director (the chairman of the Compensation Committee) approval actions exists. This absence of non-employee director level documentation also applies to a majority of grants with a recorded grant date after 1996. In some cases, Compensation Committee minutes contain a reference to reports on the status of the option pool but do not document any action to approve specific grants. Approval documentation for certain grants has internal inconsistencies or conflicts with other documents thereby rendering this documentation unreliable as a basis for establishing a measurement date. In some cases, the only existing documentation is the executed option agreement and/or the entry of the option grant into the option database. Notwithstanding these approval documentation inadequacies, the Company entered into option agreements with grantees and has honored such grants.

**Grant Approvals:** During the Review Period, relatively few option grants were approved in complete compliance with the Company's stock option plans. Available documentation reflects that the Company approved option grants in a variety of ways. With respect to the employee stock option plan, grants were approved by the Compensation Committee as contemplated by the plan at various times, by the full Board in 1998 and 1999, by a single director (the chairman of the Compensation Committee) on nine recorded grant dates during the period 1994 through 2001 and by the Company's CEO at various times. With respect to the director stock option plan, grants were generally approved by the designated Board committee and, in a few cases, by the chairman of the Compensation Committee. In one instance in 2000, there is no conclusive documentary evidence of the approval of director grants other than the signed director option agreements.

The delegation of authority by the Compensation Committee to the CEO with respect to grants to rank and file employees was not fully documented. However, there was an understood and accepted practice between the CEO and the Compensation Committee whereby the CEO made certain awards to individual employees. In some instances, this involved the allocation among rank and file employees of blocks of shares approved by the Compensation Committee; in three (3) such instances, the number of shares ultimately awarded pursuant to this process exceeded the approved size of the block, which was contrary to the understanding of the Compensation Committee members. Further, contrary to the understanding of Committee members, the award and/or documentation of those individual grants often significantly lagged the approval of the block grant. In August 2005, the Compensation Committee specifically acknowledged a prior grant of delegated authority to the CEO to make option grants to rank and file employees and ratified all prior awards by the CEO. In some cases, documentation of approval action is either inconclusive or

missing, and the Company therefore has been unable to determine what entity or person actually approved specific grants.

**Option Pricing:** The recorded grant dates for a majority of grants do not match the applicable measurement dates as determined under APB 25. The grants of options with exercise prices lower than the fair market values of the stock on the actual measurement dates did not satisfy the fair market pricing requirement in the Company's plans, as amended in 1998, and were not consistent with the Company's disclosures in SEC filings stating that the exercise price of options was equal to the fair market value of the stock on the date of the grant.

**Table of Contents**

The relationship between the stated exercise price of options and the fair market value of the Company's stock on the date of the identifiable approval actions varied from grant to grant. In some cases, the exercise price of grants reflected the fair market value of the underlying shares on the date of any documented approval action. In other cases, the exercise prices reflected the fair market value of the underlying shares on a date either prior or subsequent to any such documented approval action and the exercise price was lower than the fair market value on the date of any such action. In several such cases before August 2002, the use of such grant dates and lower exercise prices (together with other available evidence) supports a finding that the recorded grant dates and corresponding exercise prices were selected with the benefit of hindsight. For certain grants where the mismatch between the recorded grant date and the approval action was only a matter of days, however, the mismatch appears to have been attributable to inaccurate recording or administrative delays. In some cases, the apparent approval action did not identify all grantees; for example, there are cases where a block grant was approved subject to a later determination of individual grant recipients and grants were recorded with a grant date, and corresponding exercise price, that matched the date of the apparent approval of the block grant and the fair market value of the common stock on that date although individual grant recipients may have been identified some time after approval of the block grant. Finally, in some cases, the approval action for specific grants is not adequately documented. Where the recorded grant date did not satisfy the requisites for a measurement date under APB 25, the Company relied on default methodologies to determine an appropriate measurement date.

**Internal Controls:** As outlined above, the Company's historical administration of its options program lacked discipline as it relates to proper adherence to the plan requirements, corporate recordkeeping and documentation. Since November 2003, however, the Company has properly administered the stock option program as it relates to awards to directors and officers. During the investigation, the Company identified control gaps related to grants made throughout the Review Period. As of March 31, 2007, the Company implemented additional procedures to its process that are focused on formalized documentation of appropriate approvals and determination of grant terms to employees.

**Procedural and Remedial Actions**

The Audit Committee and other relevant Board committees are committed to a continued review and implementation of procedural enhancements and remedial actions in light of the foregoing findings. Consistent with its obligation to act in the best interests of the Company taking into account all relevant facts and circumstances, the Audit Committee is continuing to assess the appropriateness of a broad range of possible procedural enhancements and potential remedial measures in light of the findings of its investigation. While the Audit Committee has not completed its consideration of all such steps, procedural enhancements may include recommendations regarding improved stock option administration procedures and controls, training and monitoring compliance with those procedures, corporate recordkeeping, corporate risk assessment, evaluation of the internal compliance environment and other remedial steps that may be appropriate. The Audit Committee is also expected to address issues of individual conduct or responsibility, including those of the Board, CEOs and CFOs serving during the Review Period. Potential remedial measures may include an evaluation of the role of and possible claims or other remedial actions against current and former Company personnel who may be found to have been responsible for identified problems during the Review Period. The Audit Committee expects to recommend to the Board and/or its appropriate committees procedural enhancements and remedial measures that appropriately address the issues raised by its findings. In advance of action by the Audit Committee, as noted above, the Company has implemented additional procedures to its process for approving stock option grants that are focused on formalized documentation of appropriate approvals and determination of grant terms to employees.

**Restatement Methodologies**

As of April 1, 2006, the Company adopted SFAS 123(R) using the modified prospective transition method. Under this transition method, compensation expense is to be recognized for all share-based compensation awards granted after the date of adoption and for all unvested awards existing on the date of adoption. Prior to April 1, 2006, the Company accounted for stock-based compensation awards to directors, officers and rank and file employees using the intrinsic value method in accordance with APB 25 as allowed under SFAS 123. Under the intrinsic value method, no share-based compensation expense related to stock options was required to be recognized if the exercise price of the

stock option was at least equal to the fair market value of the common stock on the measurement date. APB 25 defines the measurement date as the first date on which are known both (1) the number of shares that an individual grant recipient is entitled to receive and (2) the option or purchase price, if any.

In light of the Audit Committee's review of the Company's stock option granting practices during the Review Period and as to those cases in which the Company previously used a recorded grant date as the measurement date that the Company determined could no longer be relied upon, the Company has developed and applied the following methodologies to remeasure those stock option grants and record the relevant charges in accordance with APB 25 by considering the following sources of information: (i) meeting minutes of the Board and of committees thereof and related materials, (ii) Unanimous Written Consents of the Board and of committees thereof, (iii) create date, (iv) relevant email correspondence reflecting stock option grant approval actions, (v) individual stock option

**Table of Contents**

agreements and related materials, (vi) employee and Board offer letters, (vii) documents relating to acquisitions, (viii) reports on Form 4 filed with the SEC and (ix) guidance of the Office of the Chief Accountant of the SEC on stock option matters as set forth in its letter dated September 19, 2006.

***Grants with Appropriate Committee Approval.*** With respect to grants of approximately 1.0 million shares, or approximately 9% of the total grants in the Review Period, the Company has evidence to support the approval of the grant under the stock option plans by the relevant committee of the Board, and such evidence includes the number of options each individual was entitled to receive and the option price. However, the relationship between these documented approval actions and the originally-recorded grant dates and exercise prices for the options so approved varied during the Review Period. In some cases, grants were recorded with a grant date and a corresponding exercise price that matched the date of the approval action or were otherwise consistent with the terms of the approval actions. In other cases, however, the recorded grant dates and corresponding exercise prices of the grants reflected the fair market value of the common stock on a date prior to the committee's documented approval actions. The Company has restated the compensation expense for stock option grants relating to approximately 0.4 million shares of common stock by using the date of the documented approval action as the measurement date. The total additional non-cash, pre-tax charge for these grants is approximately \$1.8 million, net of forfeitures, amortized over the appropriate vesting period through March 31, 2006, of which \$0.07 million relates to director options, \$1.3 million relates to officer options and \$0.4 million relates to rank and file employee options.

***Grants with Other Approvals.*** With respect to grants of approximately 1.9 million shares, or approximately 18% of the total grants in the Review Period, the Company has evidence to support the approval of the grant by the Board, an outside director or the Company's CEO and the identification of the number of options each individual was entitled to receive together with the option price. These grants are distinguished from the grants described in the prior paragraph in that the nature of the approval was not fully consistent with the terms of the relevant stock option plan. As with the grants discussed in the preceding paragraph, the relationship between these documented approval actions and the originally-recorded grant dates and exercise prices for the options so approved varied during the Review Period. In some cases, grants were recorded with a grant date and a corresponding exercise price that matched the date of the approval action or were otherwise consistent with the terms of the approval action. In other cases, however, the recorded grant dates and corresponding exercise prices of the grants reflected the fair market value of the Company's stock on a date prior to the approval action. The Company has restated the compensation expense for stock option grants relating to approximately 1.6 million shares of common stock by using the date of the documented approval action as the measurement date. The total additional non-cash, pre-tax charge for these grants is approximately \$7.6 million, net of forfeitures, amortized over the appropriate vesting period through March 31, 2006, of which \$0.5 million relates to director options, \$2.6 million relates to officer options and \$4.5 million relates to rank and file employee options.

***Grants Lacking Adequate Documentation.*** With respect to grants of approximately 7.9 million shares (5.0 million shares to rank and file employees), or 73.0% of the total grants in the Review Period, the Company has been unable to locate adequate documentation of approval actions that would satisfy the requisites for a measurement date under APB 25. For these grants, management considered all available relevant information to form a reasonable conclusion as to the most reasonable measurement date. For all grants in this category, the Company has established default methodologies for determining the most appropriate measurement date under APB 25.

With respect to grants entered into the Company's stock option database after September 9, 1999, when the database began to reflect a create date which is the date on which a grant was entered into the system, the Company has determined to use the individual create date for each grant as the APB 25 measurement date, which was in most cases different from the originally-recorded grant date. The Company believes that this create date is the most appropriate methodology in the absence of sufficient evidence of approvals for these grants as it represents the earliest point in time at which the evidence shows that all requisites for the establishment of the measurement date had been satisfied. Such create dates preceded, often by a significant amount of time, the execution of stock option agreements, which, generally, were manually signed by the Company's CEO and manually signed and dated by the grantee. In addition, in almost all cases, a grant entered into the database, which established the create date, ultimately resulted in the creation of a stock option agreement reflecting such grant. Accordingly, while execution of the stock option agreements



constituted a clear acknowledgement by the grantee and the Company of the grantee's legal entitlement to the grant the Company believes the create date more accurately reflects the date of approval than does the signed option agreement. The Company has restated the compensation expense for stock option grants relating to approximately 4.2 million shares of common stock by using the create date as the measurement date. The total additional non-cash, pre-tax charge for these grants is approximately \$49.8 million, net of forfeitures, amortized over the appropriate vesting period through March 31, 2006, of which \$0.5 million relates to director options, \$17.2 million relates to officer options and \$32.2 million relates to rank and file employee options. The Company's procedures for evaluating the appropriateness of measurement dates fixed with reference to such create dates included a sensitivity analysis which provided an understanding of the differences between the additional recorded charge for stock-based compensation expense and the charges that would result from using other identified alternative methods for determining measurement dates. The Company's sensitivity analysis included identifying the range of potential grant dates defined by the recorded grant date and the create date for each grant. The Company then identified the low and high closing prices of the common stock within that range of potential grant dates and applied both the low and high closing prices of the common stock to the number of shares granted for which the create date methodology was utilized to determine the range of potential adjustments to stock-based compensation expense for these

**Table of Contents**

grants, which was \$0.09 million to \$73.8 million, net of forfeitures, as compared to the additional non-cash, pre-tax charge for these grants of approximately \$49.8 million, net of forfeitures, included in the Restatement.

For options entered into the Company's option database before September 9, 1999, the Company determined the measurement date generally by reference to signed option agreements (or the deemed signature date for certain options as discussed below). The executed option agreements (hereinafter "signed option agreements"), manually signed by the Company's CEO and manually signed and dated by the grantee, constituted an acknowledgement by the grantee and the Company of the grantee's legal entitlement to the grant and, in the absence of authoritative information as to when all the requisites for the establishment of the measurement date had been satisfied, provides a measurement date framework based on entitlement. The Company has restated the compensation expense for stock option grants relating to approximately 1.4 million shares of common stock by using the signed option agreements as the measurement date. The total additional non-cash, pre-tax charge for these grants is approximately \$6.4 million, net of forfeitures, amortized over the appropriate vesting period through March 31, 2006, of which \$0.3 million relates to director options, \$3.6 million relates to officer options and \$2.5 million relates to rank and file employee options. The Company believes this methodology was the most appropriate in the absence of sufficient evidence of approvals for these grants as it represents the earliest point in time at which the evidence shows that all requisites for the establishment of the measurement date had been satisfied for these grants. The Company's procedures for evaluating the appropriateness of measurement dates fixed with reference to the dating of signed option agreements included a sensitivity analysis which provided an understanding of the differences between the additional recorded charge for stock-based compensation expense and the charges that would result from using other identified alternative methods for determining measurement dates. The Company's sensitivity analysis included identifying the range of potential grant dates defined by the recorded grant date and the date of the grantee's signature on the stock option agreement for each grant. The Company then identified the low and high closing prices of the common stock within that range of potential grant dates and applied both the low and high closing prices of the common stock to the number of shares granted for which the signed option agreements methodology was utilized to determine the range of potential adjustments to stock-based compensation expense for these grants, which was \$0.03 million to \$9.6 million, net of forfeitures, as compared to the additional non-cash, pre-tax charge for these grants of approximately \$6.4 million, net of forfeitures, included in the Restatement.

In those cases where no reliably-dated signed option agreement could be located and where no post-September 9, 1999 "create date" exists (stock option grants totaling approximately 0.9 million shares), the Company used the average period between recorded grant date and date of the signatures on all other grantee signed option agreements with the same grant date as the measurement date. For example, if there were four stock option grants with a grant date of January 1, 1996, the Company had the signed option agreements for three of these stock option grants and the average number of days between the grant date and the signature dates of these three signed option agreements was 20 days, January 21, 1996 was used as the measurement date for the grant for which no signed option agreement could be located. The Company has restated the compensation expense for stock option grants relating to approximately 0.7 million shares of common stock using this "average days to sign agreement" method. The total additional non-cash, pre-tax charge for these grants is approximately \$4.4 million, net of forfeitures, amortized over the appropriate vesting period through March 31, 2006, of which \$0.06 million relates to director options, \$4.2 million relates to officer options and \$0.2 million relates to rank and file employee options. The Company believes this methodology was the most appropriate in the absence of sufficient evidence of approvals for these grants because it gives a reasonable approximation of the measurement date related to these options in light of the available evidence. The Company conducted a sensitivity analysis by comparing the Company's current default methodology (i.e., "average days to sign agreement") with another default methodology. For this analysis, the Company identified the range of potential grant dates defined by the earliest signed option agreement and the latest signed option agreement. The Company then identified the low and high closing prices of the common stock over the range of potential grant dates and applied both the low and high closing prices of the common stock to the number of shares granted to determine the range of potential adjustments to stock-based compensation expense for these grants, which was \$2.6 million to \$5.9 million, net of forfeitures. The Company's analyses indicate that stock-based compensation expense computed using other identified alternative default methodologies would not materially differ from stock-based compensation expense

computed using the average days to sign agreement methodology. The Company's procedures for evaluating the appropriateness of measurement dates fixed with reference to the average days to sign agreements also included a sensitivity analysis which provided an understanding of the differences between the additional recorded charge for stock-based compensation expense and the charges that would result from using other identified alternative methods for determining measurement dates. The Company's sensitivity analysis included identifying the range of potential grant dates defined by the recorded grant date and the average days to sign agreement for each grant. The Company then identified the low and high closing prices of the common stock within that range of potential grant dates and applied both the low and high closing prices of the common stock to the number of shares granted to determine the range of potential adjustments to stock-based compensation expense for these grants, which was \$0.03 million to \$6.1 million, net of forfeitures, as compared to the additional non-cash, pre-tax charge for these grants of approximately \$4.4 million, net of forfeitures, included in the Restatement.

Given the volatility of the common stock during much of the Review Period, the use of methodologies and measurement dates different from those described above could have resulted in a higher or lower cumulative compensation expense which would have caused net income or loss to be different from the amounts reported in the restated consolidated financial statements. The Company's procedures for evaluating the appropriateness of measurement dates fixed using the default methodologies described above also included a

**Table of Contents**

sensitivity analysis which provided an understanding of the differences between the additional recorded charge for stock-based compensation expense and the charges that would result from using other identified alternative methods for determining measurement dates. The Company's sensitivity analysis included identifying the range of potential grant dates defined by the recorded grant date and the appropriate measurement date for each grant. The Company then identified the low and high closing prices of the common stock within that range of potential grant dates and applied both the low and high closing prices of the common stock to the number of shares granted to determine the range of potential adjustments to stock-based compensation expense for these grants, which was \$9.3 million to \$99.3 million, net of forfeitures, as compared to the additional non-cash, pre-tax charge for these grants of approximately \$70.0 million, net of forfeitures, included in the Restatement.

**Other adjustments through March 31, 2006**

From 1994 through 1998, the Company did not properly account for stock options for one officer that were modified after the grant date pursuant to a separation agreement. Some of these modifications were not identified in the Company's financial reporting processes and were therefore not properly reflected in its financial statements. As a result, the Company has recorded a non-cash charge for stock-based compensation of \$1.0 million during Fiscal 1999.

**Summary**

In summary, the Company recorded cumulative non-cash charges for stock-based compensation of \$70.9 million through March 31, 2006, offset in part by a cumulative income tax benefit of \$27.7 million, for a total after-tax charge of \$43.2 million. These charges had no impact on net sales or cash and cash equivalents as previously reported in the Company's financial statements; as a result, no changes to these items are reflected in the Restatement. Non-cash charges for stock-based compensation expense have been recorded as adjustments to Selling, General, and Administrative Expenses within the Company's Consolidated Statements of Income.

**1Q07 Restatement**

In addition to the Restatement noted above through March 31, 2006, the Company has recorded a non-cash charge for stock-based compensation of \$1.6 million for the three (3) month period ended July 1, 2006, offset in part by an income tax benefit of \$0.6 million, or a total after-tax charge of \$1.0 million. This charge was recorded to reflect additional non-cash, stock-based compensation expense recognized under the fair value method (SFAS 123(R)) because the exercise price for certain stock option grants prior to, but not vested as of March 31, 2006, differed from the fair market value of the underlying shares on the appropriate measurement date, some of which occurred during Fiscal 2007.

The table below reflects the impact of the additional non-cash charges for stock-based compensation expense on the Company's Consolidated Statements of Income, including the cumulative adjustment to Retained Earnings as of March 31, 2006 and July 1, 2006 on the Company's Consolidated Balance Sheet. See Note 3 of the Notes to Consolidated Financial Statements for reference to footnote disclosure that reconciles the previously filed annual financial information to the restated annual financial information. All dollar amounts are presented in thousands except per share amounts. Per share amounts may not total due to rounding.

**Table of Contents**

	(As previously reported) Net Income	Adjust- ment, Pre-Tax	Income Tax Benefit	Adjust- ment, Net of Tax	(As Restated) Net Income	(As previously reported) Diluted EPS	Adjust- ment	(As Restated) Diluted EPS
FY 94	\$ 13,370	\$ 43	\$ (19)	\$ 24	\$ 13,346	\$ 0.83	\$ --	\$ 0.83
FY 95	14,515	461	(144)	317	14,198	0.89	(0.02)	0.87
FY 96	18,278	406	(151)	255	18,023	1.10	(0.01)	1.09
FY 97	24,792	1,172	(456)	716	24,076	1.40	(0.04)	1.36
FY 98	32,404	3,595	(1,393)	2,202	30,202	1.79	(0.12)	1.67
FY 99	38,145	4,506	(1,732)	2,774	35,371	2.09	(0.15)	1.94
FY 00	48,852	5,778	(2,209)	3,569	45,283	2.60	(0.19)	2.41
FY 01	64,190	10,290	(3,953)	6,337	57,853	3.22	(0.32)	2.90
FY 02	62,042	11,333	(4,381)	6,952	55,090	2.97	(0.33)	2.64
FY 03	48,685	8,927	(2,328)	6,599	42,086	2.39	(0.32)	2.07
FY 04	47,243	8,197	(4,156)	4,041	43,202	2.52	(0.22)	2.30
FY 05	29,912	5,178	(2,312)	2,866	27,046	1.68	(0.16)	1.52
Cumulative 03/31/05	\$ 442,428	\$ 59,886	\$ (23,234)	\$ 36,652	\$ 405,776	\$ 23.48	\$ (1.89)	\$ 21.59
1Q06	7,394	1,120	(442)	678	6,716	0.43	(0.04)	0.39
2Q06	12,797	1,126	(444)	682	12,115	0.74	(0.04)	0.70
3Q06	12,511	2,431	(959)	1,472	11,039	0.70	(0.08)	0.62
4Q06	4,656	6,368	(2,612)	3,756	900	0.26	(0.21)	0.05
FY 06	\$ 37,358	\$ 11,045	\$ (4,457)	\$ 6,588	\$ 30,770	\$ 2.13	\$ (0.37)	\$ 1.76
Cumulative 03/31/06	\$ 479,786	\$ 70,931	\$ (27,691)	\$ 43,240	\$ 436,546	\$ 25.61	\$ (2.26)	\$ 23.35
1Q07	7,807	1,629	(635)	994	6,813	0.43	(0.06)	0.37
Cumulative 07/01/06	\$ 487,593	\$ 72,560	\$ (28,326)	\$ 44,234	\$ 443,359	\$ 26.04	\$ (2.32)	\$ 23.72

**Income Tax Considerations**

In the course of the investigation, the Company determined that a number of officers may have exercised options for which the application of Section 162(m) of the Code, may apply. It is possible that these options will be treated as having been granted at less than fair market value for federal income tax purposes because the Company incorrectly applied the measurement date as defined in APB 25. If such options are deemed to be granted at less than fair market value, pursuant to Section 162(m), any compensation to officers, including proceeds from options exercised in any

given tax year, in excess of \$1.0 million will be disallowed as a deduction for tax purposes. The Company estimates that the potential tax effected liability for any such disallowed Section 162(m) deduction would approximate \$3.6 million. The Company may also incur interest and penalties if it were to incur any such tax liability, which could be material.

In addition, the Company is considering the application of Section 409A to those options for which it incorrectly applied the measurement date as defined in APB 25. It is possible that these options will be treated as having been granted at less than fair market value for federal income tax purposes and thus subject to Section 409A. Accordingly, the Company may adopt measures to address the application of Section 409A. The Company does not currently know what impact Section 409A will have, or any such measures, if adopted, would have, on its results of operations, financial position or cash flows, although such impact could be material.

**Expenses Incurred by the Company**

The Company has incurred expenses for legal fees and external audit firm fees, in the aggregate amount of approximately \$0.6 million, in the fiscal year ended March 31, 2007, in relation to (i) the Audit Committee's review of the Company's historical stock option practices and related accounting for stock option grants, (ii) the informal inquiry and formal order of investigation by the Securities and Exchange Commission regarding its past stock option practices, (iii) the derivative action relating to the Company's historical stock option practices filed against the Company as a nominal defendant and certain of the Company's current and former directors and officers as to whom it may have indemnification obligations and (iv) related matters. Further, the Company expects to incur significant additional expense related to the foregoing matters in the fiscal year ending March 31, 2008. It is anticipated that certain of those expenses will be reimbursed under the Company's directors' & officers' indemnification insurance.

**Table of Contents**

**The Company**

The Company offers one-source network infrastructure services for: data networks (Data Services), including structured cabling for wired and wireless systems; voice systems (Voice Services), including new and upgraded telephony systems; and 24/7/365 hotline technical support (Hotline Services) for more than 118,000 network infrastructure products that it sells through its catalog, Internet Web site and on-site services offices.

The Company manages its business based on geographic segments: North America, Europe and All Other. In addition, certain revenue and gross profit information by service type is also provided herein for purposes of further analysis. All dollars are presented in thousands unless otherwise indicated.

As of April 1, 2006, the Company implemented SFAS 123(R) which requires share-based compensation to be charged to expense. During the first quarter of Fiscal 2007, the Company's reconciling items include pre-tax charges of \$3.2 million for share-based compensation, \$1.4 million in acquisition related expenses and charges of \$1.1 million in severance expenses. During the first quarter of Fiscal 2006 and as previously disclosed, the Company recorded a pre-tax restructuring charge of \$5.3 million and incurred pre-tax non-cash charges of \$2.8 million related to acquisitions.

On April 30, 2006, the Company acquired NextiraOne. The acquired operations service commercial and various government agency clients and represent approximately \$270 million to \$280 million of projected annualized Voice Services revenues.

On May 1, 2006, the Company acquired NUVT, a privately-held company, which provides planning, installation, monitoring and maintenance services for voice and data network systems. NUVT has an active customer base, which includes commercial, education and various government agency accounts and is expected to provide annual revenues of approximately \$55 million.

During the first quarter of Fiscal 2006 and fourth quarter of Fiscal 2005, the Company recorded pre-tax restructuring charges of \$5.3 million and \$5.1 million, respectively, related to staffing level adjustments and real estate consolidations in Europe and North America. These restructuring charges completed the Company's previously announced restructuring plans that were initiated during the fourth quarter of Fiscal 2005.

**Table of Contents**

The tables below should be read in conjunction with the following discussion. The additional non-cash charges for stock-based compensation expense was recorded in Selling, General and Administrative expense which is included in the Company's measure of Operating Income. See Note 3 of the Notes to Consolidated Financial Statement.

	<b>Three months ended June 30,</b>			
	<b>(As Restated)</b>		<b>(As Restated)</b>	
	<b>2006</b>		<b>2005</b>	
	<b>(1Q07)</b>		<b>(1Q06)</b>	
		% of total revenues		% of total revenues
	\$		\$	
<b>By Geography</b>				
Revenues:				
North America	\$ 192,572	84%	\$ 136,861	76%
Europe	29,345	13%	33,750	19%
All Other	8,478	3%	8,671	5%
Total	\$ 230,395	100%	\$ 179,282	100%
Operating Income:				
North America	\$ 9,397		\$ 10,739	
% of North America revenues	4.9%		7.8%	
Europe	3,143		(367)	
% of Europe revenues	10.7%		(1.1)%	
All Other	1,596		1,680	
% of All Other revenues	18.8%		19.4%	
Total	\$ 14,136		\$ 12,052	
% of Total revenues	6.1%		6.7%	
Restructuring charges and other reconciling items:				
North America	\$ 5,797		\$ 5,499	
Europe	--		3,742	
All Other	--		--	
Total	\$ 5,797		\$ 9,241	
% of Total revenues	2.5%		5.2%	



**Table of Contents**

Information on revenues and gross profit for Data Services, Voice Services and Hotline Services is presented below. The additional non-cash charges for stock-based compensation expense were recorded in Selling, General and Administrative expense which is not included in the Company's measure of Gross Profit and therefore does not impact the following table or the corresponding discussions.

	<b>Three months ended June 30,</b>			
	<b>2006 (1Q07)</b>	<b>% of total revenues</b>	<b>2005 (1Q06)</b>	<b>% of total revenues</b>
	\$		\$	
<b>By Service Type</b>				
Revenues:				
Data Services <sup>(1)</sup>	\$ 44,531	19%	\$ 52,901	30%
Voice Services <sup>(1)</sup>	133,639	58%	72,929	40%
Hotline Services	52,225	23%	53,452	30%
<b>Total</b>	<b>\$ 230,395</b>	<b>100%</b>	<b>\$ 179,282</b>	<b>100%</b>
 Gross Profit:				
Data Services	\$ 13,317		\$ 15,524	
% of Data Services revenues	29.9%		29.3%	
Voice Services	45,763		27,838	
% of Voice Services revenues	34.2%		38.2%	
Hotline Services	26,764		27,578	
% of Hotline Services revenues	51.2%		51.6%	
<b>Total</b>	<b>\$ 85,844</b>		<b>\$ 70,940</b>	
% of Total revenues	37.3%		39.6%	

<sup>(1)</sup> Data Services and Voice Services may also be collectively referred to as On-Site Services

**First Quarter Fiscal 2007 (1Q07) Compared to First Quarter Fiscal 2006 (1Q06)****Total Revenues**

Total revenues for 1Q07 were \$230,395, an increase of 29% compared to 1Q06 total revenues of \$179,282. The increase was primarily due to the incremental revenue from the Acquired Companies, which added \$76,099 and \$7,437 of revenues to the 1Q07 and 1Q06 results, respectively. Excluding the effects of these acquisitions and the positive impact of exchange rates of \$273 relative to the U.S. dollar, revenues would have decreased 10% from \$171,845 to \$154,023 between periods.

**Revenues by Geography**

**North America Revenues**

Revenues in North America were \$192,572 for 1Q07, an increase of 41% compared to 1Q06 revenues of \$136,861. The increase was primarily due to the incremental revenue from the Acquired Companies, which added \$76,099 and \$7,437 of revenues to the 1Q07 and 1Q06 results, respectively. Excluding the effects of these acquisitions, revenues would have decreased 10% from \$129,424 to \$116,473 between periods. The Company believes the overall decrease is due to the completion of several nonrecurring projects, offset in part by success in the Company's DVH (Data, Voice and Hotline) Services cross-selling initiatives.

**Europe Revenues**

Revenues in Europe were \$29,345 for 1Q07, a decrease of 13% compared to 1Q06 revenues of \$33,750. The Company believes the overall decline in Europe revenues was due to weak general economic conditions that affected client demand.

**Table of Contents****All Other Revenues**

Revenues for All Other were \$8,478 for 1Q07, a decrease of 2% compared to \$8,671 for 1Q06. If exchange rates relative to the U.S. dollar had remained unchanged from 1Q06, All Other revenues would have increased by \$151 for an increase of less than 1%.

**Revenue by Service Type****Data Services**

Revenues from Data Services were \$44,531 for 1Q07, a decrease of 16% compared to \$52,901 for 1Q06. The Company believes the overall decrease in Data Services revenue was due to the completion of several nonrecurring projects and weak general economic conditions in its European market.

**Voice Services**

Revenues from Voice Services were \$133,639 for 1Q07, an increase of 83% compared to \$72,929 for 1Q06. The increase was primarily due to the incremental revenue from the Acquired Companies, which added \$76,099 and \$7,437 of revenues to the 1Q07 and 1Q06 results, respectively. Excluding the effects of these acquisitions, revenues would have decreased 12% from \$65,492 to \$57,540 between periods. The Company believes that this overall decrease in Voice Services revenue is primarily due to planned post-merger client attrition from its Norstan acquisition completed in 4Q05.

**Hotline Services**

Revenues from Hotline Services were \$52,225 for 1Q07, a decrease of 2% compared to \$53,452 for 1Q06. The Company believes the overall decline in Hotline Services revenues was driven by weak economic conditions in the European market, offset in part by success in the Company's DVH (Data, Voice and Hotline) Services cross-selling initiatives.

**Gross Profit**

Gross profit dollars for 1Q07 increased to \$85,844 from \$70,940 for 1Q06. The increase in gross profit dollars over the prior year was due to the increase in revenues related to the Acquired Companies. Gross profit as a percent of revenues for 1Q07 decreased to 37.3% of revenues from 39.6% of revenues for 1Q06. The decrease in gross profit percentage was due primarily to the impact of lower gross profit in its Voice Services segment driven by the acquisition of NextiraOne.

Gross profit dollars for Data Services were \$13,317, or 29.9% of revenues, for 1Q07 compared to \$15,524, or 29.3% of revenues, for 1Q06. Gross profit dollars for Voice Services were \$45,763, or 34.2% of revenues, for 1Q07 compared to \$27,838, or 38.2% of revenues, for 1Q06. Gross profit dollars for Hotline Services were \$26,764, or 51.2% of revenues, for 1Q07 compared to \$27,578, or 51.6% of revenues, for 1Q06.

**SG&A Expenses**

Selling, general and administrative ( SG&A ) expenses for 1Q07 were \$70,202, an increase of \$18,162 over SG&A expenses of \$52,040 for 1Q06. The increase in SG&A expense dollars over the prior year was due primarily to the Acquired Companies. SG&A expenses as a percent of revenue for 1Q07 were 30.5% of revenues comparable to 29.0% of revenues for 1Q06. The increase in SG&A expense as a percent of revenue was due primarily to an increase in non-cash stock-based compensation expense of \$2,120 and \$1,115 in severance expenses incurred in 1Q07.

**Restructuring Charges**

The Company did not record any restructuring charges during the first quarter of Fiscal 2007. In the first quarter of Fiscal 2006, the Company recorded a restructuring charge of \$5,290. This charge was comprised of \$3,473 for staffing level adjustments and \$1,817 for real estate consolidations in Europe and North America. Of this charge, \$3,742 and \$1,548 related to Europe and North America, respectively. *See* Notes to Consolidated Financial Statements for further details related to the restructuring charges.

**Intangibles Amortization**

Intangibles amortization for 1Q07 decreased to \$1,506 from \$1,558 for 1Q06. The decrease was primarily attributable to the completion of specific amortization expense related to the purchase of Norstan, which ended in 4Q06, offset in part by the estimated amortization expense of \$1,234 related to the intangible assets acquired through the purchase of the Acquired Companies. The Company expects to finalize the valuations of these intangibles for the Acquired Companies in 2Q07. *See* Notes to Consolidated Financial Statements for further details related to the acquisitions.



**Table of Contents****Operating Income**

Operating income for 1Q07 was \$14,136, or 6.1% of revenues, compared to \$12,052, or 6.7% of revenues, for 1Q06.

**Interest Expense, Net**

Net interest expense for 1Q07 increased to \$3,640 from \$1,959 for 1Q06 due to an increase in the weighted average outstanding debt of approximately \$221,584 for 1Q07 compared to approximately \$166,796 for 1Q06. The increase in debt relates primarily to the acquisitions of NextiraOne and NUVT during the first quarter of Fiscal 2007. In addition, the weighted average interest rate outstanding for 1Q07 was 6.06%, an increase of 2.01% compared to the 1Q06 rate of 4.05%.

**Provision for Income Taxes**

The tax provision for 1Q07 was \$3,568, an effective tax rate of 34.4%. This compares to the tax provision for 1Q06 of \$3,452, an effective tax rate of 33.9%. The tax rate for 1Q07 was higher than 1Q06 due to changes in the overall mix of taxable income among worldwide offices.

**Net Income**

Net income for 1Q07 was \$6,813, or 3.0% of revenues, compared to \$6,716, or 3.7% of revenues, for 1Q06.

**Liquidity and Capital Resources****Cash Flows from Operating Activities**

Net cash provided by operating activities during 1Q07 was \$12,607. Significant factors contributing to a source of cash were: net income of \$6,813 and decrease in accounts receivable of \$11,579. Significant factors contributing to a use of cash were: increase in net inventory of \$1,066 and increase in estimated earnings in excess of billings on uncompleted contracts of \$7,674. Non-cash items included amortization and depreciation expense and stock compensation expense of \$3,806 and \$3,249, respectively. Changes in the above accounts are based on average Fiscal 2007 exchange rates.

Net cash provided by operating activities during 1Q06 was \$10,803. Significant factors contributing to a source of cash were: net income of \$6,716 and decrease in accounts receivable of \$4,701. Significant factors contributing to a use of cash were: increase in net inventory of \$5,163 and increase in estimated earnings in excess of billings on uncompleted contracts of \$4,119. Non-cash items included amortization and depreciation expense and stock compensation expense of \$3,791 and \$1,120, respectively. Changes in the above accounts are based on average Fiscal 2006 exchange rates.

As of the end of 1Q07 and 1Q06, the Company had cash and cash equivalents of \$14,360 and \$11,008, respectively, and working capital of \$100,673 and \$103,363, respectively. The Company's current ratio was 1.41 and 1.78 as of the end of 1Q07 and 1Q06, respectively.

The Company believes that its cash provided by operating activities and availability under its credit facility will be sufficient to fund the Company's working capital requirements, capital expenditures, dividend program, potential stock repurchases, potential future acquisitions or strategic investments and other cash needs for the next 12 months.

**Investing Activities**

Net cash used by investing activities during 1Q07 and 1Q06 was \$132,004 and \$13,127, respectively. The Company's primary use of cash during 1Q07 was related to the acquisition of businesses.

During 1Q07, gross capital expenditures were \$1,523, while capital disposals were \$30.

During 1Q07, the Company paid \$129,161 to acquire NextiraOne and NUVT, net of cash acquired in the transaction. During 1Q06, the Company paid \$13,492 to acquire TSM, GTC and BCI, net of cash acquired in the transaction. The cash impact of prior merger-related payments made during 1Q07 was \$1,350. The cash impact of prior merger-related recoveries made during 1Q06 was \$44. See Note 10 of the Notes to Consolidated Financial Statements for additional detail on acquisitions made during 1Q07.

**Table of Contents****Financing Activities**

Net cash provided by/(used in) financing activities during 1Q07 and 1Q06 was \$123,207 and \$1,774, respectively. Cash provided by financing activities in 1Q07 and 1Q06 resulted primarily from the \$120,753 and \$3,072 net increase in debt obligations and \$3,530 and \$136 cash received from the exercise of stock options, partially offset by cash used of \$1,055 and \$1,011 for payment of dividends, respectively. The increase in debt obligations was due to the funding of the 1Q07 acquisitions.

**Total Debt**

Borrowings under the Credit Agreement are permitted up to a maximum amount of \$310,000, which includes up to \$15,000 of swing-line loans and \$25,000 of letters of credit. The Credit Agreement may be increased by the Company up to an additional \$90,000 with the approval of the lenders and may be unilaterally and permanently reduced by the Company to not less than the then outstanding amount of all borrowings. Interest on outstanding indebtedness under the Credit Agreement accrues, at the Company's option, at a rate based on either: (a) the greater of (i) the prime rate per annum of the agent then in effect and (ii) 0.50% plus the rate per annum announced by the Federal Reserve Bank of New York as being the weighted average of the rates on overnight Federal funds transactions arranged by Federal funds brokers on the previous trading day or (b) a rate per annum equal to the LIBOR rate plus 0.75% to 1.25% (determined by a leverage ratio based on the Company's EBITDA). The Credit Agreement expires on March 28, 2011. The Company's total debt at the end of 1Q07 of \$244,590 was comprised of \$242,565 under the Credit Agreement, \$1,826 of obligations under capital leases and \$199 of various other third-party, non-employee loans. The weighted average interest rate on all indebtedness of the Company during 1Q07 and 1Q06 was approximately 6.06% and 4.05%, respectively. In addition, as of the end of 1Q07, the Company had \$3,065 of letters of credit outstanding and \$64,370 available under the Credit Agreement.

The Credit Agreement includes financial covenants requiring a minimum net worth, leverage and fixed charge coverage ratio. At the end of 1Q07, the Company was in compliance with all required covenants under the Credit Agreement.

**Dividends**

During 1Q07, the Board declared a cash dividend of \$0.06 per share on all outstanding shares of common stock. The dividend totaled \$1,061 and was paid on July 14, 2006 to stockholders of record at the close of business on June 30, 2006. While the Company expects to continue to declare dividends for the foreseeable future, there can be no assurance as to the timing or amount of such dividends.

**Repurchase of Common Stock**

There were no repurchases of common stock during 1Q07. Since inception of the repurchase program in April 1999 through June 30, 2006, the Company has repurchased in aggregate approximately 6,900,000 shares of common stock for approximately \$297,000. Funding for the stock repurchases came primarily from existing cash flow from operations. Additional repurchases of stock may occur from time to time depending upon factors such as the Company's cash flows and general market conditions. While the Company expects to continue to repurchase shares of common stock for the foreseeable future, there can be no assurance as to the timing or amount of such repurchases.

**Foreign Currency Exchange Impact**

The Company has operations, clients and suppliers worldwide, thereby exposing the Company's financial results to foreign currency fluctuations. In an effort to reduce this risk, the Company generally sells and purchases inventory based on prices denominated in U.S. dollars. Intercompany sales to subsidiaries are generally denominated in the subsidiaries' local currency, although intercompany sales to the Company's subsidiaries in Brazil, Chile, Mexico and Singapore are denominated in U.S. dollars.

The Company has entered and will continue in the future, on a selective basis, to enter into foreign currency forward contracts to reduce the foreign currency exposure related to certain intercompany transactions, primarily trade receivables and loans. All of the contracts have been designated and qualify as cash flow hedges. The effective portion of any changes in the fair value of the derivative instruments is recorded in OCI until the hedged forecasted transaction occurs or the recognized currency transaction affects earnings. Once the forecasted transaction occurs or the recognized currency transaction affects earnings, the effective portion of any related gains or losses on the cash flow hedge is reclassified from OCI to earnings. In the event the hedged forecasted transaction does not occur, or it

becomes probable that it will not occur, the ineffective portion of any gain or loss on the related cash flow hedge would be reclassified from OCI to earnings at that time.

At the end of 1Q07, the open foreign exchange contracts were in Euro, Pound sterling, Canadian dollar, Swiss franc, Japanese yen,

**Table of Contents**

Swedish krona, Danish krone, Norwegian kroner and Australian dollar. The open contracts have contract rates of 0.7668 to 0.8262 Euro, 0.5312 to 0.5812 Pound sterling, 1.1141 to 1.1751 Canadian dollar, 1.1813 to 1.2899 Swiss franc, 105.47 to 110.10 Japanese yen, 7.0283 to 7.9878 Swedish krona, 5.7065 to 6.3120 Danish krone, 6.0294 to 6.8216 Norwegian kroner and 1.2950 to 1.3689 Australian dollar, all per U.S. dollar.

The total open contracts, with a notional amount of approximately \$63,129, have a fair value of \$62,777 and will expire within 33 months.

**Critical Accounting Policies**

The Company's critical accounting policies are described in the Notes to the Company's Consolidated Financial Statements for the year ended March 31, 2006 contained in the Company's Annual Report on Form 10-K. There have been no significant changes to these policies during the subsequent quarter.

**New Accounting Pronouncements**

See Notes to Consolidated Financial Statements.

**Inflation**

The overall effects of inflation on the Company have been nominal. Although long-term inflation rates are difficult to predict, the Company continues to strive to minimize the effects of inflation through improved productivity and cost reduction programs as well as price adjustments within the constraints of market competition.

**Cautionary Forward Looking Statements**

When included in this Quarterly Report on Form 10-Q/A or in documents incorporated herein by reference, the words expects, intends, anticipates, believes, estimates and analogous expressions are intended to identify forward-looking statements. Such statements are inherently subject to a variety of risks and uncertainties that could cause actual results to differ materially from those projected. Such risks and uncertainties include, among others, the timing and final outcome of the ongoing review of the Company's stock option practices, including the related SEC investigation, shareholder derivative lawsuit, NASDAQ process regarding listing of the common stock and tax matters, and the impact of any actions that may be required or taken as a result of such review, SEC investigation, shareholder derivative lawsuit, NASDAQ process or tax matters, levels of business activity and operating expenses, expenses relating to corporate compliance requirements, cash flows, global economic and business conditions, successful integration of acquisitions, including the NextiraOne business, the timing and costs of restructuring programs, successful marketing of DVH (Data, Voice and Hotline) Services, successful implementation of our M&A program, including identifying appropriate targets, consummating transactions and successfully integrating the businesses, competition, changes in foreign, political and economic conditions, fluctuating foreign currencies compared to the U.S. dollar, rapid changes in technologies, client preferences, the ability of the Company to identify, acquire and operate additional technical services companies and various other matters, many of which are beyond the Company's control. These forward-looking statements are made pursuant to the safe harbor provisions of the Private Securities Litigation Reform Act of 1995 and speak only as of the date of this Quarterly Report on Form 10-Q/A. The Company expressly disclaims any obligation or undertaking to release publicly any updates or any changes in the Company's expectations with regard thereto or any change in events, conditions or circumstances on which any statement is based.



**Table of Contents**

**Item 3. Quantitative and Qualitative Disclosures About Market Risk.**

The Company is exposed to market risks in the ordinary course of business that include interest rates and foreign currency exchange rates. Market risk is measured as the potential negative impact on earnings, cash flows or fair values resulting from a hypothetical change in interest rates or foreign currency exchange rates over the next year.

**Interest Rate Risk**

The Company's primary interest rate risk relates to its long-term debt obligations. At June 30, 2006, the Company had total long-term obligations, including the current portion of those obligations, of \$244,590. Of that amount, \$2,025 was in fixed rate obligations and \$242,565 was in variable rate obligations. For the amounts in variable rate debt at June 30, 2006, an instantaneous 100 basis point increase in the interest rate would reduce the Company's expected net income in the subsequent quarter by \$394 assuming the Company employed no intervention strategies. Subsequent to June 30, 2006, the Company entered into an interest rate swap agreement with a notional value of \$100,000, the effect of which will be to effectively convert a portion of the variable rate interest based debt to a fixed rate portion.

**Foreign Exchange Rate Risk**

The Company has operations, clients and suppliers worldwide, thereby exposing the Company's financial results to foreign currency fluctuations. In an effort to reduce this risk, the Company generally sells and purchases inventory based on prices denominated in U.S. dollars. Intercompany sales to subsidiaries are generally denominated in the subsidiaries' local currency. To mitigate this risk, the Company has entered and will continue in the future, on a selective basis, to enter into foreign currency forward contracts to reduce the foreign currency exposure related to certain intercompany transactions. At June 30, 2006, the Company had total open contracts valued at approximately \$63,129 with a fair value of approximately \$62,777.

The Company does not hold or issue any other financial derivative instruments nor does it engage in speculative trading of financial derivatives.

**Table of Contents****Item 4. Controls and Procedures.****Evaluation of Disclosure Controls and Procedures**

As disclosed in the Explanatory Note and in Note 3 of the Notes to Consolidated Financial Statements in this Form 10-Q/A, and as previously disclosed, the Audit Committee, with the assistance of outside legal counsel, commenced an independent review of the Company's historical stock option grant practices and related accounting for stock option grants for the Review Period. On March 19, 2007, the Audit Committee concluded that the exercise price of certain stock option grants differed from the fair market value of the underlying shares on the appropriate measurement date. At that time, the Company and the Audit Committee announced that it was currently expected that the Company's additional non-cash, pre-tax charges for stock-based compensation expense relating to certain stock option grants would approximate \$63 million (subsequently adjusted as set forth elsewhere in this Form 10-Q/A) for the Review Period. In addition, the Company and the Audit Committee concluded that the Company would need to restate its previously-issued financial statements contained in reports previously filed by the Company with the SEC. Accordingly, on March 19, 2007, the Company and the Audit Committee concluded that the Company's previously-issued financial statements and other historical financial information and related disclosures for the Review Period, including applicable reports of its current or former independent registered public accounting firms and related press releases, should not be relied upon.

In connection with the preparation of this Form 10-Q/A, an evaluation was performed, under the supervision and with the participation of Company management, including the CEO and the CFO, of the effectiveness of the design and operation of the Company's disclosure controls and procedures (as defined in Rule 13a-15(e)) under the Securities Exchange Act of 1934, as amended (the Exchange Act), as of July 1, 2006. Based on that evaluation and the foregoing, management, including the CEO and the CFO, has concluded that, as of July 1, 2006, the Company had a material weakness in internal control over financial reporting with respect to the Company's stock option grant practices and related accounting for stock option grants and that, as a result of this material weakness in internal control over financial reporting, its disclosure controls and procedures were not effective as of July 1, 2006.

There are inherent limitations to the effectiveness of any system of disclosure controls and procedures, including cost limitations, judgments used in decision making, assumptions regarding the likelihood of future events, soundness of internal controls, fraud, the possibility of human error and the circumvention or overriding of the controls and procedures. Accordingly, even effective disclosure controls and procedures can provide only reasonable, and not absolute, assurance of achieving their control objectives.

**Changes in Internal Control Over Financial Reporting**

In the first fiscal quarter ended July 1, 2006, there had been no change in the Company's internal control over financial reporting that has materially affected, or is reasonably likely to materially affect, the Company's internal control over financial reporting.

As of the date of filing of this Form 10-Q/A, Management has made significant revisions to the Company's internal control structure surrounding the Company's stock option grant practices, including the formalization of documentation with respect to appropriate approvals for stock option grants and additional levels of review with respect to stock option grant terms, which Management believes should facilitate the prevention and/or detection of material errors in future periods. Also, as of the date of filing of this Form 10-Q/A, the Audit Committee has completed its review of the Company's stock option grant practices and continues to analyze the facts discovered in its review in order to make additional recommendations for appropriate remedial actions regarding the Company's stock option grant practices and related accounting for stock option grants. It is anticipated that the Company will adopt and implement any such additional recommendations. Pending the Audit Committee's consideration of and the Company's implementation of these recommendations, the Company has not made and does not intend to make any stock option grants. The Company also took action to suspend the exercise of outstanding stock options. It is anticipated that the Company will permit stock option exercises following the filing of this Form 10-Q/A, the 2Q07 Form 10-Q/A, the 3Q07 Form 10-Q and the FY07 Form 10-K.

The scope of Management's assessment of the effectiveness of internal controls over financial reporting includes all of the Company's material businesses except for NextiraOne, a material business acquired on April 30, 2006. The NextiraOne portion of the business will be included in the current year assessment to be completed as of March 31,

2007.

**Table of Contents**

**PART II OTHER INFORMATION**

**Item 6. Exhibits.**

Exhibit

Number Description

- |      |  |
|------|--|
| 31.1 | Certification of the Chief Executive Officer pursuant to Rule 13a-14(a) of the Securities and Exchange Act of 1934, as amended, and Section 302 of the Sarbanes-Oxley Act of 2002 <sup>(1)</sup>   |
| 31.2 | Certification of the Chief Financial Officer pursuant to Rule 13a-14(a) of the Securities and Exchange Act of 1934, as amended, and Section 302 of the Sarbanes-Oxley Act of 2002 <sup>(1)</sup>   |
| 32.1 | Certification of the Chief Executive Officer and Chief Financial Officer pursuant to Rule 13a-14(b) of the Securities and Exchange Act of 1934, as amended, and 18 U.S.C. Section 1350 as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 <sup>(1)</sup> |

<sup>(1)</sup> Filed herewith.

**Table of Contents**

**SIGNATURE**

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.

**BLACK BOX CORPORATION**

Dated: July 23, 2007

By: /s/ Michael McAndrew  
Michael McAndrew, Vice President,  
Chief Financial Officer, Treasurer,  
Secretary  
and Principal Accounting Officer

57

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**Table of Contents**

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