



Data



Voice



Hotline

Black Box DVH™

Black Box Corporation (NASDAQ: BBOX) is the world's largest technical services company dedicated to designing, building, and maintaining today's complicated data and voice network infrastructure systems.

The Black Box Team of approximately 5,000 Team Members serves more than 175,000 clients in 141 countries around the world. Black Box operates in five continents and is headquartered near Pittsburgh in Lawrence, Pennsylvania.

Financial Highlights 2006

(Dollars in Millions, Except Per Share Amounts)

	2005	2006
Revenues	\$ 535	\$ 721
Year-over-year growth	3%	35%
Operating income ⁽¹⁾	\$ 61	\$ 84
Operating income ⁽¹⁾ as a % of revenues	11.3%	11.7%
Net income ⁽¹⁾	\$ 38	\$ 49
Net income ⁽¹⁾ as a % of revenues	7.1%	6.8%
Year-over-year growth	(20)%	30%
GAAP diluted earnings per share	\$ 1.68	\$ 2.13
Year-over-year growth	(33)%	27%
Diluted earnings per share ⁽¹⁾	\$ 2.13	\$ 2.81
Year-over-year growth	(15)%	32%
Cash provided by operating activities	\$ 52	\$ 52
Cash provided by operating activities as a % of net income	175%	139%

(1) Excludes Special Items in 2005 and 2006. See Management's Discussion and Analysis of Financial Condition and Results of Operations for detail of Special Items. See also Non-GAAP Reconciliations.

Data...Voice...Hotline Services & Products

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(1) Excludes Special Items in 2005 and 2006. See Management's Discussion and Analysis of Financial Condition and Results of Operations for detail of Special Items. See also Non-GAAP Reconciliations.

% of Net Income:		
159%	175%	139%

Black Box: The leader in DVH™ services

To Our Stockholders: 30 and Counting!

FY06 officially makes it number 30. Three decades of profitable revenue and positive cash flow. All made possible through a passionate commitment to providing our worldwide clients with the very best network services available in the industry. The Black Box service-based model is centered around what we affectionately call DVH™...Data, Voice, and Hotline technical services. The opportunity for clients to now receive DVH Services from a single service provider is relatively new to the market. This innovative approach was developed by Black Box. We believe Black Box is a one-of-a-kind source for designing, installing, and maintaining data and voice networks—large or small. Black Box, historically an industry pioneer, is again setting a new standard in the industry with this innovative approach.

Revenue up 35%— Earnings Per Share Up 27%— Cash Flow of \$52 Million.

- Revenues of \$721 million were up 35% from FY05.
- GAAP Earnings Per Share of \$2.13 was up 27% from FY05.
- Cash Provided by Operating Activities was \$52 million, which was 139% of GAAP Net Income.

We believe a strong business model is measured by its growth, profits, and cash flow. Having a sound strategy is one key ingredient. Having a sound operating model is a required companion. Black Box's success is a direct result of 5,000 dedicated Team Members who passionately service our clients every day. This ability to execute has earned Black Box worldwide trust and loyalty from over 175,000 buying clients.

\$500 Million to \$700 Million and Now on to \$1 Billion.

Black Box is aggressively on the move. We are pleased that we have profitably increased revenues in FY06 by 35%. We are also pleased that at the same time we have strategically positioned ourselves to achieve \$1 billion in revenues for FY07. Starting in May 2006, Black Box is effectively a \$1 billion company as a result of the recent

NextiraOne acquisition. This significant achievement doubles the size of Black Box from a short 14 months ago.

There was a tremendous amount of planning and execution required to ensure the NextiraOne transaction was completed in a manner which we felt would meet both our operational and financial objectives. We believe we have accomplished this. From an industry positioning perspective, this combination significantly strengthens Black Box's leadership position.

Our FY07 plan is to fully integrate NextiraOne into Black Box. We believe this will allow us to take full advantage of combined synergies in all functional areas. This applies particularly to marketing and operations, where we now have a significant increase in resources available to our clients, and the overall implementation of a much more efficient cost management philosophy.

The Very Best in DVH Services.

The Black Box technical services model is very unique in the industry and, we believe, provides the best value proposition to our clients. We call it the Black Box Experience. No other company in the world has the combined breadth of technical knowledge that is available from Black Box. Now, add to this technical knowledge Black Box's operational reach spanning



Fred C. Young, Chief Executive Officer

5 continents...141 countries...168 offices...speaking 23 distinct languages...operating 24/7/365. The Black Box Experience is all about passion for providing the best services, the best products, and the best return on our clients' budgets.

FY07 and FY08 Look Promising.

We entered FY06 with a goal of achieving \$1 billion in revenues in FY08. We now should be able to achieve \$1 billion in revenues in FY07—a full 12 months earlier.

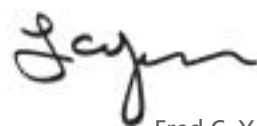
Our critical success factors for FY07 will be focused around three key programs:

- 1) Successfully completing the integration of NextiraOne into Black Box to ensure we achieve our targeted marketing and financial objectives,
- 2) Successfully operating Black Box at large to achieve our financial objectives based on expected levels of revenues, and
- 3) Leveraging our financial strength to continue to acquire market share, which should allow us to grow faster than our markets at large.

Sounds similar to FY06. We think that is a good thing.

In Closing.

We have high expectations for the future of Black Box and will stay focused on the tasks at hand. Delivering these expectations will require us to successfully complete our key programs. Accomplish these and FY07 will be a record year for Black Box. And importantly, one that should be very rewarding for our stockholders, clients, and Team Members.



Fred C. Young
Chief Executive Officer

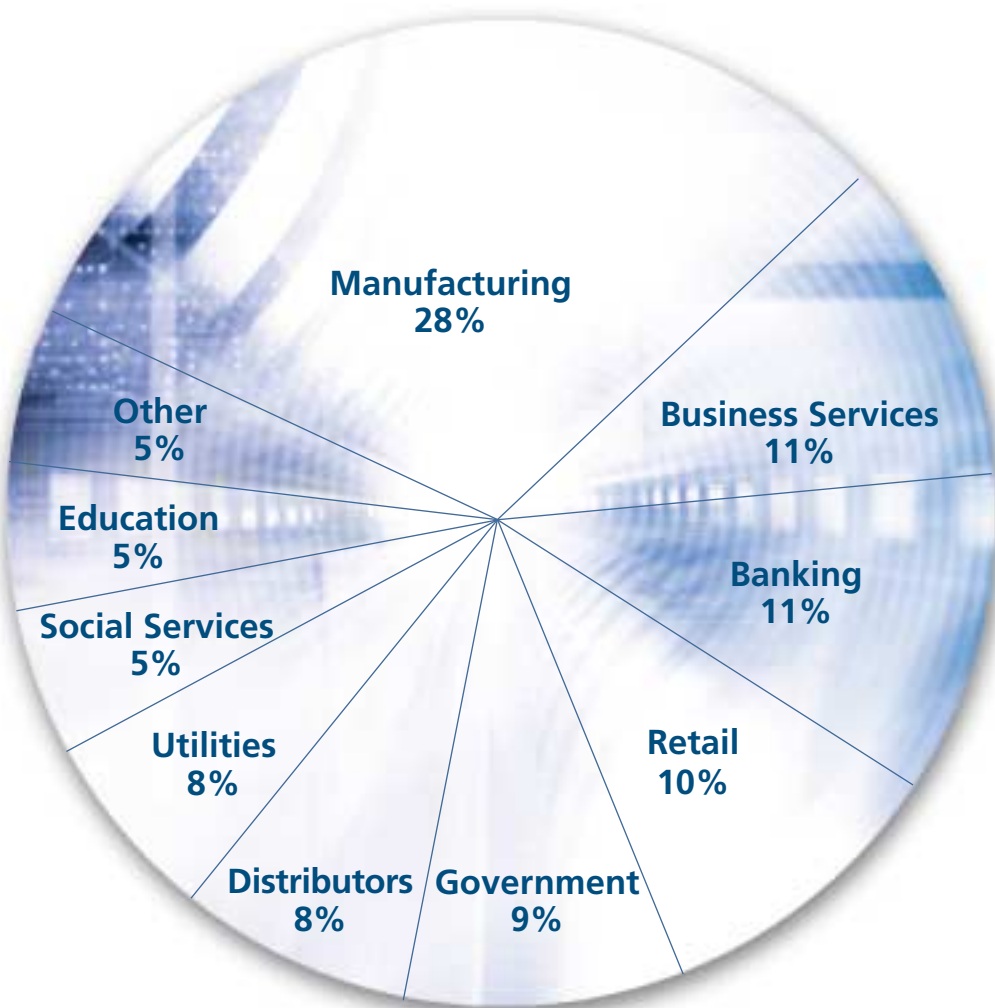
***"All existing and prospective clients need a full complement of DVH™ Services.
Black Box is uniquely positioned to satisfy this need."***

Fred C. Young

Facts and Figures

Our Commitment. Black Box is committed to remaining profitable by running a well-balanced business, generating significant cash flow, and by strategically expanding market share.

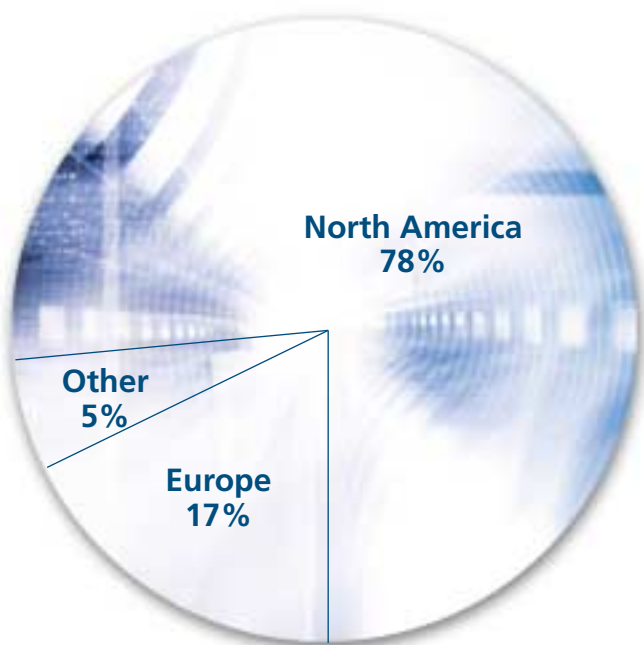
Revenues by Industry



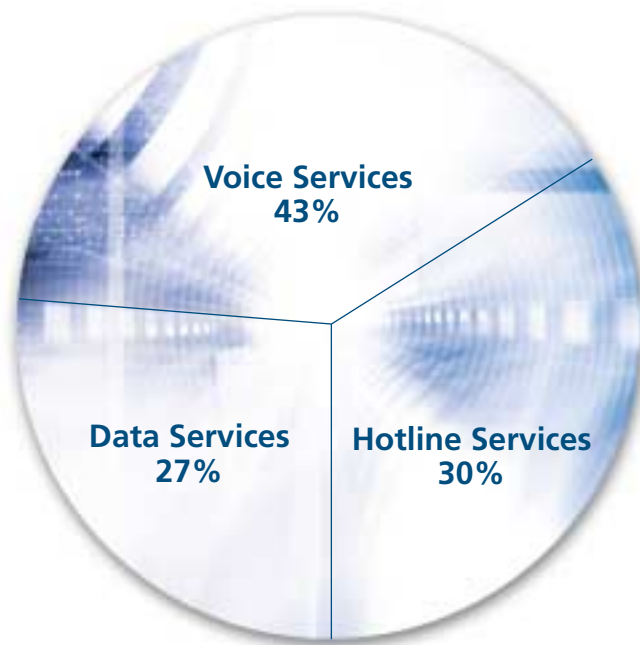
Black Box serves a diversified client base in both the public and private sectors.

Fiscal Year 2006 Revenues

Revenues by Geography



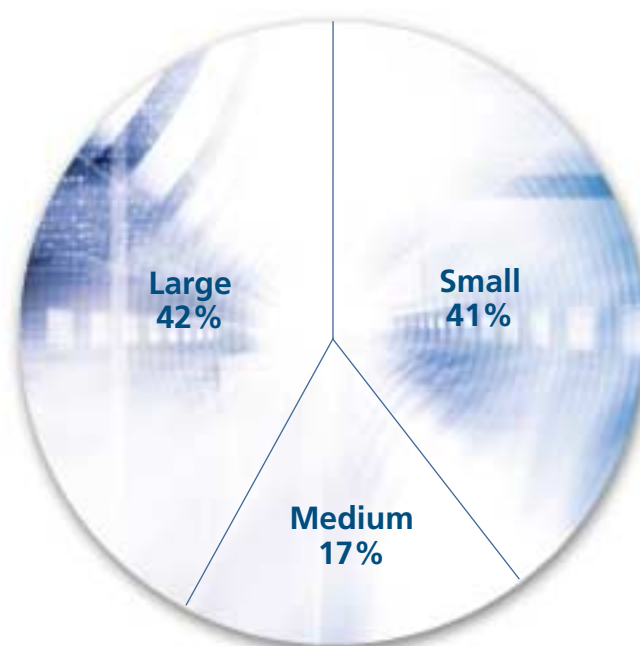
Revenues by Service Type



Revenues by Client Type



Revenues by Size of Client



Black Box Tech Support

Our specialty: Tech Support. When you have questions or need help with your networks, Black Box is the place to go. You have three ways to access the most knowledgeable Tech Support staff in the world:

- Locally at your site.
- 24/7/365 FREE Tech Support hotline.
- blackbox.com

Professionalism at its best. When you work with Black Box hotline and on-site techs, expect the satisfaction of working with experienced professionals. Our technical experts boast certifications from all leading manufacturers and systems, and they receive continuous training to stay up-to-date on the latest technology.



3 Ways

Locally—at your site.

- 24/7/365 call centers.
- Support for routine maintenance and emergencies.
- Work with the largest staff of registered and certified data network and telephony technicians anywhere.
- Our own industry-recognized BLACK BOX® Master Technician courses extend technician certifications beyond industry standards.
- To ensure quality, we follow proven design methods and installation processes and procedures.

24/7/365 FREE Tech Support hotline.

- FREE support—whether you buy or not! No contracts. No catches.
- FAST service—we'll answer your call in 20 seconds or less!
- Help when you need it: 24/7/365!
- In-house advice—our hotline techs answer your calls directly from Black Box offices.
- Expert advice—each tech trains an average of nearly 100 hours per year.



For 11 consecutive years, including 2006, Black Box catalogs have won top honors in the Computer Equipment and Software category at the Multichannel Merchant awards. Plus, the BLACK BOX® Catalog won "Catalog of the Year" two years in a row (2004 and 2005), an unprecedented accomplishment.

blackbox.com.

- FREE, 24/7/365 support. Click on "Talk to a Tech," and an expert will call you in 20 seconds or less!
- Access technical information, Black Box Explains, Technology Overviews, and more.
- Design your own custom cables and adapters with our on-line Wizards.

A Diversified Client Base

Black Box serves clients in vertical and horizontal markets in both the public and private sectors.

- | | | | |
|---------------------|---------------|-----------------|-------------------|
| • Agriculture | • Education | • Legal | • Social services |
| • Banking | • Finance | • Manufacturing | • Transportation |
| • Business services | • Government | • Petrochemical | • Utilities |
| • Distributors | • Health care | • Retail | • And more! |

"Your tech support is the best I've ever encountered. Less than five minutes elapsed from the time I requested a call to the time my problem was solved. Thanks Black Box Tech Support."

Steven Strouse
Engineer/Scientist 5, The Boeing Company

Black Box DVH™

Complete network infrastructure solutions. Build your worldwide network with the leader in network services: Black Box. From start to finish, you'll receive complete services for your data and voice network infrastructures from design through products, installation, and maintenance.

Because Black Box has a worldwide footprint, the largest of any network infrastructure provider, you'll get services designed to make managing your data and voice networks easier. These include standardized plans and materials, guaranteed installations, and 24/7/365 technical support—around the country and around the world.

Talk to Black Box for exceptional full-life-cycle services and products for your network. For new installations, upgrades to your existing system, or maintenance and support, Black Box is the only source you need to make all your network connections.



Connecting Networks Worldwide

Data Services

- Design, installation, product procurement, and maintenance of wired, wireless, and hybrid systems.



For more Data Services information, see pages 10–11.

Voice Services

- Design, installation, product procurement, and maintenance of telephony systems.



For more Voice Services information, see pages 12–13.

Hotline Services and Products

- Free Technical support provided via the phone for data and voice systems and products.



For more Hotline Services and Products information, see pages 14–15.

"I picked the best company to be our partner in this huge undertaking. I am more than satisfied with the quality of work, services, and professionalism that the Black Box team has provided to Xbox in our efforts to establish multiple data sites."

Nicky Pike
Xbox Live Operations

Data Services

The backbone of your business is our business. Build your worldwide network with the leader in network services: Black Box. From start to finish, you'll receive complete services for your data network infrastructures, including the products and support that are the backbone of your network. From copper and fiber wired networks to wireless and hybrid systems, Black Box can install and maintain your local, national, and international networks. When you want your mission-critical data network to run smoothly day after day, year after year, call Black Box.



Start-to-finish services.

- Design, installation, and maintenance for wired, wireless, and hybrid data network infrastructures.
- New installations and system upgrades.
- Moves/adds/changes, maintenance, and more.
- Custom services include kitting, shipping, and more.

Work with the experts.

- The largest staff of Registered Communications Distribution Designers (RCDDs) and BiCSi-trained and certified technicians anywhere!
- Industry-recognized BLACK BOX® Master Technician courses.
- On-call 24/7/365 technical support.
- Short-term, long-term, and emergency staffing.

Black Box Revenues



The best warranties.

- Guaranteed-for-Life Structured Cabling Systems.
- Certification Plus® lifetime network guarantees.
- No-questions-asked Fido Protection® product warranties.

One Source™ savings.

- Direct service with our own staff.
- Save by sourcing materials through Black Box.
- Earn PowerDollar\$ for 50% savings on BLACK BOX® products.

Worldwide Coverage

Black Box ensures all your sites receive the same high-quality design, workmanship, and equipment. You have a single contact dedicated to your project for seamless project management of all your sites.

- The largest footprint in the world serving 175,000 clients in 141 countries.
- Worry-free, multisite projects across the country and around the world.
- Exclusive e-Status on-line reports.
- Seamless project coordination for one site or thousands of sites.
- Consistent top-quality workmanship and materials from site to site.

"Critical to the success of our project was a vendor that could implement all the networks consistently from site-to-site and with a single project management contact. Black Box has delivered quality implementations throughout."

Ronald DeGrote
Vice President, NCS Pearson

Voice Services

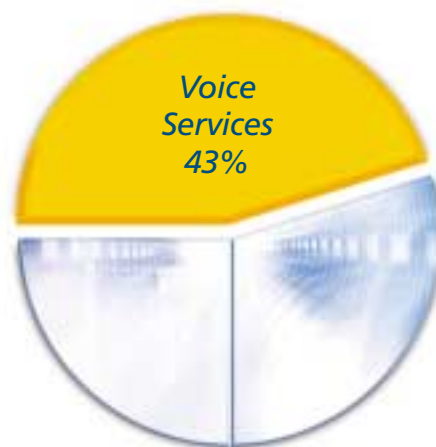
More comprehensive voice services. When you want the most options in voice and communications technology, call Black Box. With our greatly expanded voice services, you'll work with a leading provider of voice infrastructure, communications solutions, and telephony equipment. We'll evaluate your business and communication systems and offer you the right solutions for your specific environment. Plus, if you're considering converged IP-based communications, talk to Black Box first on how you can reduce operating costs and optimize your communications capabilities.



Work with the leaders in voice communications technology:

- Partnerships, strategic relationships, and product systems include: Aspect™, AVAYA, AVST, Cisco®, ClearOne®, Ericsson®, Executone, Genesys®, Inter-Tel®, Intervoice, Kentrox, Mitel®, NEC, Nortel®, Plantronics®, Polycom®, Siemens, ShoreTel™, SpectraLink®, Toshiba, Vertical™, and all other leading manufacturers.

Black Box Revenues



Complete communications solutions.

- Customized, integrated IP telephony, voice, and converged solutions.
- Connect everything from small telephony systems to large call centers.
- Evaluate, design, implement, integrate, and manage communications systems.
- Seamless project coordination across the country and around the world.
- Consistent, top-quality workmanship and materials for one site or thousands of sites.
- New installations and system upgrades, repairs, maintenance, disaster recovery, and more.

The best tech support at your service.

- 24/7/365 call center.
- Moves/adds/changes, routine maintenance, and more.
- Short-term, long-term, and emergency staffing.
- All work is performed by certified technicians.
- Every service, like our products, is backed by a 100% warranty.

The voice of experience.

- Technicians boast certifications from all major manufacturers.
- Installations include all brand-name equipment.
- Project managers solve the communication needs of many Fortune 500 companies.
- Black Box serves every major business sector.

Resale services for value-minded clients.

- Keep your budget in line with our affordable prices.
- One of the largest selections of high-quality refurbished telephony equipment, videoconferencing systems, components, desktop products, and accessories.
- Choose products from all leading manufacturers.
- All refurbished equipment is guaranteed.

"I would like to thank your on-site technician and 24/7/365 call center representative for the fast and effective measures to get us taken care of. It's nice to know when a problem arises, we can count on someone to take care of it without hassles."

Jo Dee Douda
Deputy Director of Administrative Services, LRADAC

Hotline Services

We work hard to be the best in the business—for your business.

Thirty years ago, Black Box set the standard in data communications by offering top-quality products with FREE hotline technical support. Today, Black Box products and 24/7/365 Tech Support hotline are used by 175,000 clients in 141 countries. And our Tech Support hotline services are still FREE—whether callers buy or not!

The products and support you want.

- Find more than 118,000 data and voice networking products.
- FREE 24/7/365 hotline Tech Support—whether you buy or not. No catches. No contracts.
- FAST service—reach a Tech or Customer Service Rep in 20 seconds or less!
- 95% of all in-stock products ship the same day.

Exclusive Black Box warranties.

- Every product and service comes with protection that guarantees your complete satisfaction.
- “No-questions-asked” Fido Protection® protects your product against accidental damage—even dog damage—for the life of the warranty.
- Almost all cables, manual switches, cabinets, and racks are guaranteed for life!



Black Box Revenues



One stop for customs.

- Black Box is the place to go for hard-to-find and custom products.
- If you can't find it, ask. Last year, we built 150,000 custom products.
- Order custom cables and adapters on our Web site.
- Ask about custom kitting, shipping, labeling, and more.

Certification and awards.

- Black Box is ISO 9001:2000 certified.
- Winner of the *Multichannel Merchant Catalog* of the Year award in 2004 and 2005. Named best in category for 11 consecutive years.

The Best Prices—Guaranteed!

With our Beat the Competition program, we will not be undersold by anyone! If you find the same or equivalent product at a lower price, we'll beat it with our own BLACK BOX® brand solution. We also have special discount programs for:

- | | |
|-------------------------------------|--|
| • Volume purchase agreement buyers. | • Educational institutions. |
| • Resellers and integrators. | • First-time buyers. |
| • GSA schedule buyers. | • Ask about a program designed just for you! |
| • State and local governments. | |

**WE'LL
BEAT
ANY
PRICE!**

"I just wanted to take a few seconds to thank you for your outstanding customer service. Everyone I dealt with was knowledgeable and courteous...Again, thank you for the pleasant experience and for letting me know that there are still companies who believe in customer service. "

Don Burns
Broadway Electric Service Corp.

Data Solution Profiles

Motorola, Inc.

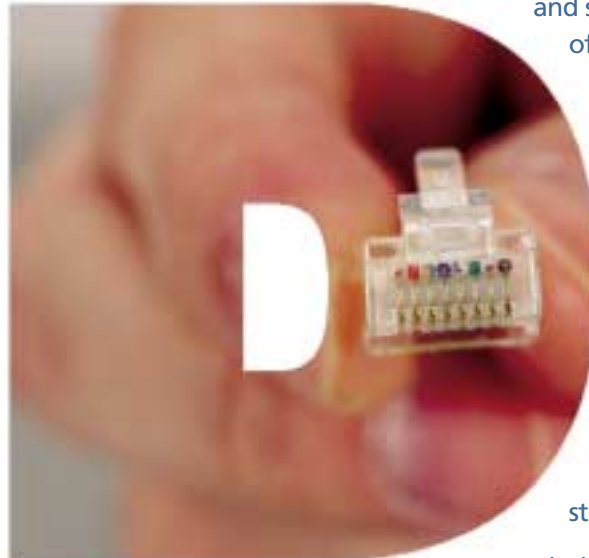
For many years, Black Box Network Services has built a solid, long-standing relationship with Motorola. Because Black Box is one of Motorola's preferred suppliers of network infrastructure products, Motorola turned to us when it had a critical, high-security project based in the U.K. called Airwave. This digital, nationwide mobile radio service serves police and other public safety organizations in England, Wales, and Scotland.

The project consisted of nine sites across the U.K. interconnected via a WAN (Wide Area Network). One site would be a backup site; another would be a test and development site.

Despite the project complexity and security issues, Black Box was able to ensure site-to-site consistency. Black Box had a true teamwork approach and worked alongside Motorola personnel.

"From the first pilot installation to the last, Black Box demonstrated to Motorola that they can deliver on time and within costs, two of the most important milestones of any project. And, just like any other project, target dates shifted, complexities changed, and quantities varied. Throughout these changes, Black Box changed with us to ensure that the final result would be a satisfied customer."

Peter Obeney
Motorola, Inc.



Danish Police

When someone dials 112 for an emergency in Denmark...a very advanced software system informs the officers about the location of the call. Often the situation is busy and stressful, and it's important that the environment is comfortable. Therefore, the offices were rebuilt...and a new IT setup was planned.

The Danish Police contracted Black Box Denmark to implement the new IT system. We designed a solution based on ServSwitch™ products and KVM extenders.

No CPUs are allowed in the office for safety and security reasons, but the police officers need to access different programs on different computers. It's important that anyone on the staff can sit at any desk and access the correct information.

Today, several alarm call centers in Denmark have a Black Box solution custom designed for each location. The system has been installed...and it works steadily and reliably.

Black Box was chosen because of the quality and reliability of our products, and the complete design, installation, and maintenance package concept that we offer.

"Every time we have an IT problem/challenge, I have a few mottos. 'We will find a solution' and 'This one we did together with Black Box'."

Soren Christensen
Police Superintendent, EDB-Manager
Danish Police

Voice Solution Profiles

Papa John's International, Inc.

Papa John's Pizza began in 1984. Today, the company boasts nearly 3,000 restaurants in 49 states and 23 countries.

Black Box has been supporting Papa John's since 1989 when we installed a 25-user voice system in the company's first headquarters. As Papa John's business grew, so did the Black Box installed voice systems.

In 1999, Papa John's moved into a new headquarters. Black Box installed the voice system, a call center, and the voice mail system, which served 600 users on campus and 1,100 managers at company restaurants around the world. Black Box also provides voice system maintenance, including MACs, repairs, upgrades, etc.

Last year, Black Box installed a new voice mail system at the company's headquarters. Papa John's also needed to expand its data cabling in more than 500 stores to accommodate new POS terminals. Black Box was awarded the project because we could offer consistent materials and services at multiple locations.

"We have been well pleased with the innovations Black Box brings to the Papa John's system. As the Papa John's brand expands, Black Box has kept pace right along with us with the technology required to sell millions of pizzas a year to happy customers."

Glenn West
Sr. Vice President
Information Services and E-Commerce
Papa John's International, Inc.

South Carolina Bank and Trust, N.A.

When South Carolina Bank and Trust (SCBT) decided to build a new, four-story headquarters in Columbia, SC, it chose the network services provider it has relied on for more than a decade: Black Box. During that time, SCBT and Black Box built a solid relationship based on quality service and quick turnarounds on moves, adds, and changes (MACs) and maintenance.

The headquarters' project presented a number of challenges. The most critical factor was designing a voice system and cabling infrastructure that would support the bank's needs for years to come. Because uptime is critical, the bank needed systems that would be reliable day in and day out. And, for efficiency and excellent customer service, the bank wanted a network with enough bandwidth for high-speed, high volume data transfer.

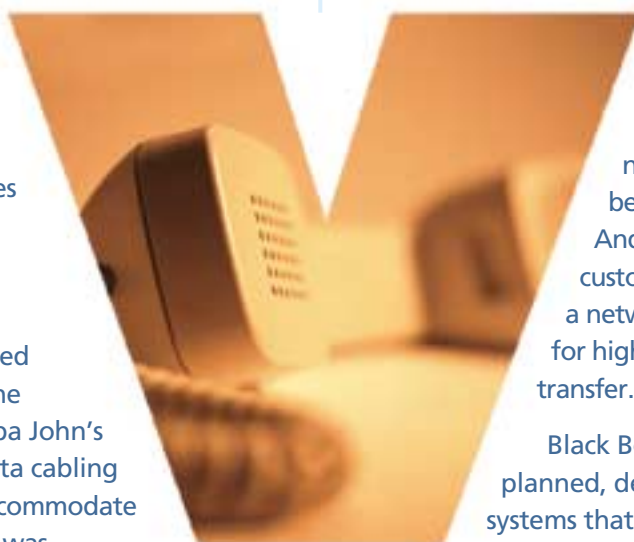
Black Box, working with SCBT, planned, designed, and engineered systems that would best serve the bank's data and voice needs.

For easier management, the project was handled through a single Black Box account manager.

Since the opening of the headquarters in 2003, SCBT continues to rely on Black Box for MAC work, and preventative and emergency services.

"We've worked with Black Box for years and trusted them to do the job right. And they did. The level and quality of the service was above par, as usual."

David Helms
Vice President of Facilities
South Carolina Bank and Trust, N.A.



Hotline Solution Profiles

Misys Healthcare Systems

One of the many services and products Misys Healthcare Systems provides for healthcare organizations is the development of software and instrumentation for medical laboratories.

Recently, Misys developed a new system for one of its clients that involved new instrumentation and software at three different sites. For the system to be properly connected, it required adapters with custom pinning. Based on previous experience, Misys recommended Black Box to its client for the custom adapters.

The Misys rep called Black Box and explained what type of adapters and special pinning was needed. Black Box provided the quote for the custom order and told Misys the adapters would take a week or more to be shipped. Unfortunately, critical system testing was about to begin in a few days. When the Black Box rep heard about the tight time frame, she went the extra mile to get the adapters produced and shipped in two days—plenty of time for the system launch.



"The crunch was on when the Black Box rep called back. She worked magic and was able to get the custom adapters out to us in two days—literally! Not only were we here at Misys ecstatic, but the client was very happy and relieved. Awesome teamwork!"

Jaime Schisel
Instrument Specialist
Misys Healthcare Systems

Fido Protection® saves the day!

"Last year, I bought a C50 Male/Male 10-foot cable from you. Before I received it, my (existing) cable began to work. So I just stored your cable while I waited for my old cable to give me trouble again.

"WELL, my new puppy found the new cable. It now has teeth holes in it. Do you think the puppy could have done any damage to the cable? I don't know how far she bit into the cable casing. The teeth holes are little, but the teeth are sharp.

"Okay. Stop laughing. I am really interested in how strong the casing is."

Thanks,
Pam Pullen

Dear Pam,
"Thank you for contacting Tech Support.

"We're not laughing. Your cable has lifetime protection. We call it our Fido Protection. If your dog eats it, we'll replace it. In this case, I would feel more comfortable having the cable replaced. It would be better not to take the risk of shorting something. Call me, and we can arrange a return and replacement.

"Thank you again for contacting Tech Support, and good luck with the puppy!"

Gillian Forest
Tech Support Specialist
Black Box Network Services

Financials/Management's Discussion & Analysis

The following table sets forth certain selected historical consolidated financial data for Black Box Corporation (the "Company") for the periods indicated. Information should be read in conjunction with the Company's Consolidated Financial Statements and Notes thereto included elsewhere in this report. The historical data presented below for Fiscal Years 2002 through 2006 were derived from the Consolidated Financial Statements of the Company.

Selected Financial Data *(In Thousands, Except Per Share Amounts and Ratios)*

	Fiscal Year Ended March 31,				
	2002	2003	2004	2005	2006
Income Statement Data:					
Revenues:					
Hotline products	\$ 309,744	\$ 252,105	\$ 237,872	\$ 227,601	\$ 213,946
On-site services ⁽¹⁾	<u>433,937</u>	<u>352,912</u>	<u>282,540</u>	<u>307,475</u>	<u>507,389</u>
Total	743,681	605,017	520,412	535,076	721,335
Cost of sales:					
Hotline products	159,063	123,470	112,949	108,281	108,220
On-site services ⁽¹⁾	<u>294,068</u>	<u>242,700</u>	<u>191,212</u>	<u>211,866</u>	<u>330,765</u>
Total	<u>453,131</u>	<u>366,170</u>	<u>304,161</u>	<u>320,147</u>	<u>438,985</u>
Gross profit	290,550	238,847	216,251	214,929	282,350
Selling, general & administrative expenses	181,867	152,808	140,805	160,002	205,866
Restructuring and other charges ⁽²⁾	3,500	6,536	—	5,059	5,290
Intangibles amortization ⁽³⁾	<u>170</u>	<u>377</u>	<u>246</u>	<u>1,332</u>	<u>4,999</u>
Operating income	105,013	79,126	75,200	48,536	66,195
Interest expense, net	6,268	2,826	1,808	2,755	9,123
Income tax expense	36,428	27,386	26,002	15,754	19,678
Net income	\$ 62,042	\$ 48,685	\$ 47,243	\$ 29,912	\$ 37,358
Basic earnings per share	\$ 3.11	\$ 2.46	\$ 2.60	\$ 1.72	\$ 2.18
Diluted earnings per share	\$ 2.97	\$ 2.39	\$ 2.52	\$ 1.68	\$ 2.13
Dividends declared per common share	\$ —	\$ 0.10	\$ 0.20	\$ 0.22	\$ 0.24
Balance Sheet Data <i>(at end of period)</i>:					
Working capital ⁽⁴⁾	\$ 143,464	\$ 118,592	\$ 109,431	\$ 112,536	\$ 103,256
Total assets	650,787	626,729	617,302	772,890	799,734
Long-term debt	75,497	49,453	35,177	147,196	122,673
Total debt	78,676	50,379	36,238	147,888	123,722
Stockholders' equity	490,098	494,422	504,904	490,701	540,900

(1) Represents combined Data Services and Voice Services.

(2) See Note 17 of the Notes to Consolidated Financial Statements.

(3) See Note 5 of the Notes to Consolidated Financial Statements.

(4) Represents Current Assets minus Current Liabilities.

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

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.

References herein to "Fiscal Year" or "Fiscal" mean the Company's Fiscal Year ended March 31 for the year referenced.

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.

During the fourth quarter of Fiscal 2006, the Company incurred a pre-tax charge of \$7.1 million related to an adjustment of earnings over multiple years, from Fiscal 2003 through Fiscal 2006, from the Company's Italian Operations (the "Italian Operations Adjustment"). The Italian Operations Adjustment resulted from intentional misconduct by certain local operational and financial managers of the Company's Italian Operations acting in collusion with one another for the purpose of overstating local financial results. All involved team members have been terminated and the Company intends to pursue all available legal remedies against these individuals. The misconduct was brought to the Company management's attention by a team member of the Italian Operations pursuant to the Company's "Open Door" Policy. Company management responded by immediately suspending the management team of the Italian Operations and conducting a full investigation of the matter. The Company believes that all accounting irregularities have been identified, corrective action taken and that the Italian Operations Adjustment captures all necessary corrections.

The Company's management concluded, with the concurrence of the Audit Committee of the Board of Directors, that the impact of the Italian Operations Adjustment was not material to the Company's consolidated financial statements for any interim or annual period between Fiscal 2003 through Fiscal 2006. In reaching this conclusion, the Company reviewed and analyzed the Securities and Exchange Commission ("SEC") Staff Accounting Bulletin ("SAB") No. 99, "Materiality," in order to determine that the impact was not material on a quantitative or qualitative basis to any one period. As a result, the Company recorded a cumulative adjustment in the fourth quarter of Fiscal 2006.

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.

On January 25, 2005, the Company completed the acquisition of Norstan, Inc. ("Norstan"). Norstan's revenues are included in North America and Voice Services revenues.

The following table has been included to provide the allocation of Fiscal 2006 and Fiscal 2005 actual acquisition related expenses and the estimated allocation of such expenses in Fiscal 2007 and in Fiscal 2008 to Fiscal 2025 directly related to the acquisition of Norstan:

	FY05 Total		FY06 Total		FY07 Total		FY08 to FY25	
P&L Impact								
Gross Profit	\$	1,028	\$	1,543	\$	—	\$	—
SG&A		913		490		—		—
Intangibles amortization		759		3,821		672		10,356
Total	\$	2,700	\$	5,854	\$	672	\$	10,356

During Fiscal 2006 and Fiscal 2005, the Company incurred pre-tax, non-cash charges of \$5.9 million and \$2.7 million, respectively, in connection with the acquisition of Norstan.

During Fiscal 2005, the Company incurred \$4.4 million of costs associated with establishment of certain internal monitoring processes in accordance with the compliance requirements of Section 404 of the Sarbanes-Oxley Act of 2002 ("Section 404").

On April 30, 2006, the Company acquired the USA Commercial and Government and Canadian operations of NextiraOne, LLC ("NextiraOne") from Platinum Equity, LLC. 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 Nu-Vision Technologies, Inc. and Nu-Vision Technologies, LLC (collectively referred to as "NUVT"), privately held companies, which provide 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.

Dollars in Thousands, unless Otherwise Indicated

The tables below should be read in conjunction with the following discussion.

	Year Ended March 31,					
	2004		2005		2006	
	\$	% of total revenues	\$	% of total revenues	\$	% of total revenues
By Geography						
Revenues:						
North America	\$ 341,299	66%	\$ 355,013	66%	\$ 564,700	78%
Europe	142,158	27%	142,838	27%	120,051	17%
All Other	36,955	7%	37,225	7%	36,584	5%
Total	\$ 520,412	100%	\$ 535,076	100%	\$ 721,335	100%
Operating Income:						
North America	\$ 44,281		\$ 26,798		\$ 53,550	
% of North America revenues	13.0%		7.5%		9.5%	
Europe	21,812		13,639		5,518	
% of Europe revenues	15.3%		9.5%		4.6%	
All Other	9,107		8,099		7,127	
% of All Other revenues	24.6%		21.8%		19.5%	
Total	\$ 75,200		\$ 48,536		\$ 66,195	
% of Total revenues	14.5%		9.1%		9.2%	
Restructuring and other charges and reconciling items:						
North America	\$ —		\$ 11,156		\$ 7,358	
Europe	—		1,003		10,807	
All Other	—		—		—	
Total	\$ —		\$ 12,159		\$ 18,165	
% of Total revenues			2.2%		2.5%	

Information on revenues and gross profit for Data Services, Voice Services and Hotline Services is presented below:

	Year Ended March 31,					
	2004		2005		2006	
	\$	% of total revenues	\$	% of total revenues	\$	% of total revenues
By Service Type						
Revenues:						
Data Services ⁽¹⁾	\$ 214,299	41%	\$ 200,935	38%	\$ 196,585	27%
Voice Services ⁽¹⁾	68,241	13%	106,540	20%	310,804	43%
Hotline Services	237,872	46%	227,601	42%	213,946	30%
Total	\$ 520,412	100%	\$ 535,076	100%	\$ 721,335	100%
Gross Profit:						
Data Services	\$ 67,329		\$ 59,354		\$ 57,068	
% of Data Services revenues	31.4%		29.5%		29.0%	
Voice Services	23,999		36,255		119,556	
% of Voice Services revenues	35.2%		34.0%		38.5%	
Hotline Services	124,923		119,320		105,726	
% of Hotline Services revenues	52.5%		52.4%		49.4%	
Total	\$ 216,251		\$ 214,929		\$ 282,350	
% of Total revenues	41.6%		40.2%		39.1%	
Reconciling items:						
Data Services	—		—		\$ 2,071	
Voice Services	—		—		—	
Hotline Services	—		—		1,517	
Total	—		—		\$ 3,588	
% of Total revenues					0.5%	

(1) Data Services and Voice Services may also be collectively referred to as "On-Site Services"

Fiscal 2006 Compared To Fiscal 2005

Total Revenues

Total revenues for Fiscal 2006 were \$721,335, an increase of 35% compared to Fiscal 2005 total revenues of \$535,076. The increase was due to the acquisitions of Telecommunication Systems Management, Inc., GTC Technology Group, Inc. and Technology Supply, Inc., Business Communications, Inc., Bainbridge Communication, Inc., BCI of Tampa, LLC and Networx, L.L.C., substantially all of the assets and certain liabilities of Universal Solutions of North America, L.L.C. and related entities, Communication is World InterActive Networking, Inc. and Converged Solutions Group, LLC during Fiscal 2006, and a full twelve months of revenue from the acquisition of Norstan (collectively referred to as "Acquired Companies") during the fourth quarter of Fiscal 2005. The Acquired Companies added revenue of \$227,313 and \$35,208 for Fiscal 2006 and Fiscal 2005, respectively. Excluding the Acquired Companies, revenues decreased by 1%. The decrease included \$4,321 negative impact of exchange rates relative to the U.S. dollar. If exchange rates relative to the U.S. dollar had remained unchanged from Fiscal 2005, and excluding the Acquired Companies, total Fiscal 2006 revenues would have increased a total of 1% compared to Fiscal 2005.

Revenues by Geography

North America Revenues

Revenues in North America were \$564,700 for Fiscal 2006, an increase of 59% compared to \$355,013 for Fiscal 2005. The North America revenue increase was primarily due to the acquisition of the Acquired Companies. The Acquired Companies added North America revenue of \$227,313 and \$35,208 for Fiscal 2006 and Fiscal 2005, respectively. Excluding the Acquired Companies, revenues would have increased 5%. The Company believes this overall increase was generally due to the increased demand for Data Services and Voice Services and success in the Company's DVH (Data, Voice and Hotline) Services cross-selling initiatives, offset in part by \$281 negative impact of exchange rates relative to the U.S. dollar. If exchange rates relative to the U.S. dollar had remained unchanged from Fiscal 2005, and excluding the impact of the Acquired Companies, total Fiscal 2006 revenues would have increased a total of \$17,865, or 5%.

Europe Revenues

Revenues in Europe were \$120,051 for Fiscal 2006, a decrease of 16% from Fiscal 2005 revenues of \$142,838. If exchange rates relative to the U.S. dollar had remained unchanged from Fiscal 2005, Europe revenues would have increased by \$4,046 for a decrease of 13%. The Company believes the Europe revenues decrease was due to the weak general economic conditions that affected client demand and the Italian Operations Adjustment.

All Other Revenues

Revenues for All Other were \$36,584 for Fiscal 2006, a slight decrease compared to \$37,225 for Fiscal 2005. If exchange rates relative to the U.S. dollar had remained unchanged from Fiscal 2005, All Other revenues would have increased by \$556 for a decrease of less than 1%.

Revenue by Service Type

Data Services

Revenues from Data Services were \$196,585 for Fiscal 2006, a decrease of 2% compared to \$200,935 for Fiscal 2005. The Company believes the overall decline in Data Services revenue was driven by weak general economic conditions in the European market, the Italian Operations Adjustment and by \$1,357 negative impact of exchange rates relative to the U.S. dollar for its International Data Services. If exchange rates relative to the U.S. dollar had remained unchanged from Fiscal 2005, Data Services revenues would have decreased 1%.

Voice Services

Revenues from Voice Services were \$310,804 for Fiscal 2006, an increase of 192% compared to \$106,540 for Fiscal 2005. The increase is primarily due to the Acquired Companies, which added \$227,313 and \$35,208 revenues to total Fiscal 2006 and Fiscal 2005, respectively. Excluding the effects of the Acquired Companies, Voice Services revenues increased 17% over Fiscal 2005. The Company believes the overall increase in Voice Services revenues was driven by increased client demands and the Company's ability to successfully cross-sell the DVH services to its existing customers. There was no exchange rate impact on Voice Service revenues as all of the Company's Voice Services revenue is denominated in U.S. dollars.

Hotline Services

Revenues from Hotline Services were \$213,946 for Fiscal 2006, a decrease of 6% compared to \$227,601 for Fiscal 2005. The Company believes the overall decline in Hotline Services revenues was driven by weak general economic conditions in the European market, the Italian Operations Adjustment and by \$2,966 negative impact of exchange rates relative to the U.S. dollar for its International Hotline Services. If exchange rates relative to the U.S. dollar had remained unchanged from Fiscal 2005, Hotline Services revenues would have decreased 5%.

Gross Profit

Gross profit dollars for Fiscal 2006 increased to \$282,350 from \$214,929 for Fiscal 2005. The Company believes the increase in gross profit dollars over the prior year was primarily due to the acquisition of the Acquired Companies, offset in part by the Italian Operations Adjustment. Gross profit as a percent of revenues for Fiscal 2006 decreased to 39.1% of revenues from 40.2% of revenues for Fiscal 2005. The Company believes the percent decrease was primarily related to a lower gross profit percent in Hotline Services and the Italian Operations Adjustment.

Gross profit dollars for Data Services were \$57,068 or 29.0% of revenues, for Fiscal 2006 compared to \$59,354, or 29.5% of revenues, for Fiscal 2005. Gross profit dollars for Voice Services were \$119,556, or 38.5% of revenues, for Fiscal 2006 compared to \$36,255, or 34.0% of revenues, for Fiscal 2005. Gross profit dollars for Hotline Services were \$105,726, or 49.4% of revenues, for Fiscal 2006 compared to \$119,320, or 52.4% of revenues, for Fiscal 2005.

SG&A Expenses

Selling, general and administrative ("SG&A") expenses for Fiscal 2006 were \$205,866, an increase of \$45,864 over SG&A expenses of \$160,002 for Fiscal 2005. SG&A expenses as a percent of revenue for Fiscal 2006 were 28.5% of revenues compared to 29.9% of revenues for Fiscal 2005. The dollar increase is primarily due to the acquisition of the Acquired Companies and lower expenses as a result of execution of a previously announced restructuring plan.

Restructuring and Other Charges

In the first quarter of Fiscal 2006, the Company recorded a restructuring charge of \$5,290 to complete its staffing level adjustments in Europe and North America and for real estate consolidations initiated in the fourth quarter of Fiscal 2005. Of this charge, \$1,548 and \$3,742 related to North America and Europe, respectively. See Notes to Consolidated Financial Statements for further details related to the restructuring and other charges.

In the fourth quarter of Fiscal 2005, the Company recorded a restructuring and other charge of \$5,059. This charge was comprised of \$3,019 for staffing level adjustments and real estate consolidations in Europe and North America and \$2,040 for the satisfaction of a previously disclosed litigation judgment. Of this charge, \$4,056 and \$1,003 related to North America and Europe, respectively. See Notes to Consolidated Financial Statements for further details related to the restructuring and other charges.

Intangibles Amortization

Intangibles amortization for Fiscal 2006 increased to \$4,999 from \$1,332 for Fiscal 2005. The increase was primarily attributable to the addition of \$16,306 and \$15,971 of intangible assets acquired through the acquisition of the Acquired Companies in Fiscal 2006 and Fiscal 2005, respectively. These intangibles consisted of non-compete agreements, backlog and customer relationships and will be amortized from one to twenty years (see Notes to Consolidated Financial Statements). The Company expects to incur additional amortization expense relative to these newly acquired intangibles of \$2,135 in Fiscal 2007 and approximately \$25,566 in the aggregate thereafter through Fiscal 2026. In addition, the Company paid \$180 of deferred financing costs related to the Second Amended and Restated Credit Facility, as amended (the "Credit Agreement"). These costs will be amortized through the Fiscal 2011 maturity date of the Credit Agreement.

Operating Income

Operating income for Fiscal 2006 was \$66,195, or 9.2% of revenues, compared to \$48,536, or 9.1% of revenues, for Fiscal 2005.

Interest Expense, Net

Net interest expense for Fiscal 2006 increased to \$9,123 from \$2,755 for Fiscal 2005 due to an increase in the weighted average outstanding debt of approximately \$155,898 for Fiscal 2006 compared to approximately \$74,977 for Fiscal 2005. The increase in debt relates primarily to the Acquired Companies during Fiscal 2006 and Fiscal 2005. In addition, the weighted average interest rate outstanding for Fiscal 2006 was 5.10% compared to the Fiscal 2005 rate of 2.98%.

Provision for Income Taxes

The tax provision for Fiscal 2006 was \$19,678, an effective tax rate of 34.5%. This compares to the tax provision for Fiscal 2005 of \$15,754, an effective tax rate of 34.5%.

The annual effective tax rate is lower than the U.S. statutory rate of 35.0% primarily due to foreign income taxes at rates lower than 35.0%. The Company anticipates that its deferred tax asset is realizable in the foreseeable future.

Net Income

Net income for Fiscal 2006 was \$37,358, or 5.2% of revenues, compared to \$29,912, or 5.6% of revenues, for Fiscal 2005.

Fiscal 2005 Compared To Fiscal 2004

Total Revenues

Total revenues for Fiscal 2005 were \$535,076, an increase of 3% compared to Fiscal 2004 total revenues of \$520,412. The increase was due to the acquisition of Norstan during the fourth quarter, which added \$35,208 of revenues to total Fiscal 2005 results. Excluding the Norstan acquisition, revenues would have decreased 4%. The overall decrease was generally due to weak general economic conditions that affected client demand, offset in part by \$11,860 positive impact of exchange rates relative to the U.S. dollar. If exchange rates relative to the U.S. dollar had remained unchanged from Fiscal 2004, and excluding the impact of the Norstan acquisition, total Fiscal 2005 revenues would have decreased a total of 6% compared to Fiscal 2004.

Revenues by Geography

North America Revenues

Revenues in North America were \$355,013 for Fiscal 2005, an increase of 4% compared to \$341,299 for Fiscal 2004. The North America revenue increase was due to the acquisition of Norstan, which added \$35,208 of revenues to total Fiscal 2005 results. Excluding the Norstan acquisition, revenues would have decreased 6%. The overall decrease was generally due to weak general economic conditions that affected client demand, offset in part by \$235 positive impact of exchange rates relative to the U.S. dollar. If exchange rates relative to the U.S. dollar had remained unchanged from Fiscal 2004, and excluding the impact of the Norstan acquisition, total Fiscal 2005 revenues would have decreased a total of \$21,729, with no change to the percentage decrease.

Europe Revenues

Revenues in Europe were \$142,838 for Fiscal 2005, comparable to Fiscal 2004 revenues of \$142,158. If exchange rates relative to the U.S. dollar had remained unchanged from Fiscal 2004, Europe revenues would have decreased by \$10,253 or 7%. The Company believes the overall decline in Europe revenues was due to weak general economic conditions that affected client demand.

All Other Revenues

Revenues for All Other were \$37,225 for Fiscal 2005, an increase of 1% compared to \$36,955 for Fiscal 2004. If exchange rates relative to the U.S. dollar had remained unchanged from Fiscal 2004, All Other revenues would have decreased by \$1,372 or 3%. The Company believes the overall revenue decline in these regions was due to weak general economic conditions that affected client demand.

Revenue by Service Type

Data Services

Revenues from Data Services were \$200,935 for Fiscal 2005, a decrease of 6% compared to \$214,299 for Fiscal 2004. The Company believes the overall decline in Data Services revenue was driven by weak general economic conditions, offset in part by \$4,444 positive impact of exchange rates relative to the U.S. dollar for its International Data Services. If exchange rates relative to the U.S. dollar had remained unchanged from Fiscal 2004, Data Services revenues would have decreased 8%.

Voice Services

Revenues from Voice Services were \$106,540 for Fiscal 2005, an increase of 56% compared to \$68,241 for Fiscal 2004. The increase is primarily due to the acquisition of Norstan during the fourth quarter, which added \$35,208 of revenues to total Fiscal 2005 results. Excluding the effects of the Norstan acquisition, Voice Services revenues increased 5% over Fiscal 2004. There was no exchange rate impact on Voice Service revenues as all of the Company's Voice Services revenue is denominated in U.S. dollars.

Hotline Services

Revenues from Hotline Services were \$227,601 for Fiscal 2005, a decrease of 4% compared to \$237,872 for Fiscal 2004. The Company believes the overall decline in Hotline Services revenues was driven by weak general economic conditions, offset in part by \$7,417 positive impact of exchange rates relative to the U.S. dollar for its International Hotline Services. If exchange rates relative to the U.S. dollar had remained unchanged from Fiscal 2004, Hotline Services revenues would have decreased 7%.

Gross Profit

Gross profit dollars for Fiscal 2005 decreased to \$214,929 from \$216,251 for Fiscal 2004. The decrease in gross profit dollars over the prior year was due to the decline in revenues. Gross profit as a percent of revenues for Fiscal 2005 decreased to 40.2% of revenues from 41.6% of revenues for Fiscal 2004. The decrease in gross profit percentage was due primarily to service mix and \$1,028 of negative impact related to the amortization of the step-up to fair value of Norstan inventory recorded through purchase accounting (see Notes to Consolidated Financial Statements).

Gross profit dollars for Data Services were \$59,354, or 29.5% of revenues, for Fiscal 2005 compared to \$67,329, or 31.4% of revenues, for Fiscal 2004. Gross profit dollars for Voice Services were \$36,255, or 34.0% of revenues, for Fiscal 2005 compared to \$23,999, or 35.2% of revenues, for Fiscal 2004. Gross profit dollars for Hotline Services were \$119,320, or 52.4% of revenues, for Fiscal 2005 compared to \$124,923, or 52.5% of revenues, for Fiscal 2004.

SG&A Expenses

Selling, general and administrative ("SG&A") expenses for Fiscal 2005 were \$160,002, an increase of \$19,197 over SG&A expenses of \$140,805 for Fiscal 2004. SG&A expenses as a percent of revenue for Fiscal 2005 were 29.9% of revenues compared to 27.1% of revenues for Fiscal 2004. The dollar increase is primarily due to the acquisition of Norstan which added \$11,550 of SG&A expenses, \$4,400 of costs incurred in relation to the Company's compliance with the requirements of Section 404 and a \$2,100 increase in worldwide marketing costs.

Restructuring and Other Charges

In the fourth quarter of Fiscal 2005, the Company recorded a restructuring and other charge of \$5,059. This charge was comprised of \$3,019 for staffing level adjustments and real estate consolidations in Europe and North America, and \$2,040 for the final settlement of a previously disclosed litigation matter. Of this charge, \$4,056 and \$1,003 related to North America and Europe, respectively. See Notes to Consolidated Financial Statements for further details related to the restructuring and other charges.

Intangibles Amortization

Intangibles amortization for Fiscal 2005 increased to \$1,332 from \$246 for Fiscal 2004. The increase was primarily attributable to the addition of \$15,971 of intangible assets acquired through the Norstan acquisition. These intangibles consisted of non-compete agreements, backlog and customer relationships and will be amortized from one to twenty years (see Notes to Consolidated Financial Statements). The Company recorded an additional \$759 of amortization expense in the fourth quarter due to these intangibles. The Company expects to incur additional amortization expense relative to these newly acquired intangibles of \$3,808 in Fiscal 2006 and approximately \$600 in the aggregate thereafter through Fiscal 2025. In addition, the Company paid \$1,352 of deferred financing costs related to the Credit Agreement, for which \$92 of amortization was recognized during Fiscal 2005. These costs will be amortized through the Credit Agreement maturity date in Fiscal 2011.

Operating Income

Operating income for Fiscal 2005 was \$48,536, or 9.1% of revenues, compared to \$75,200, or 14.5% of revenues, for Fiscal 2004.

Interest Expense, Net

Net interest expense for Fiscal 2005 increased to \$2,755 from \$1,808 for Fiscal 2004 due to an increase in the weighted average outstanding debt of approximately \$74,977 for Fiscal 2005 compared to approximately \$52,000 for Fiscal 2004. The increase in debt relates primarily to the Norstan acquisition. In addition, the weighted average interest rate outstanding for Fiscal 2005 was 2.98% compared to the Fiscal 2004 rate of 1.97%.

Provision for Income Taxes

The tax provision for Fiscal 2005 was \$15,754, an effective tax rate of 34.5%. This compares to the tax provision for Fiscal 2004 of \$26,002, an effective tax rate of 35.5%. The tax rate for Fiscal 2005 was lower than Fiscal 2004 due to the effect of implementing various international tax planning strategies.

The annual effective tax rate is lower than the U.S. statutory rate of 35.0% primarily due to foreign income taxes at rates lower than 35.0%. The Company anticipates that its deferred tax asset is realizable in the foreseeable future.

Net Income

Net income for Fiscal 2005 was \$29,912, or 5.6% of revenues, compared to \$47,243, or 9.1% of revenues, for Fiscal 2004. The decrease in net income dollars is primarily due to the restructuring and other charges and reconciling items incurred during Fiscal 2005.

Liquidity and Capital Resources

Cash Flows from Operating Activities

Net cash provided by operating activities for Fiscal 2006 was \$51,797. Significant factors contributing to a source of cash were: net income of \$37,358; a decrease in accounts receivable and costs and estimated earnings in excess of billings on uncompleted contracts of \$9,369 and \$3,573, respectively; and a decrease in net inventory consistent with efforts to increase inventory turns. Significant factors contributing to a use of cash were: a decrease in the short and long term restructuring reserve of \$5,948; a decrease of deferred revenue and billings in excess of costs and estimated earnings on uncompleted contracts of \$3,267; and an offset of \$5,825 related to accrued acquisition costs, which have not been recognized as investing activities at year-end. Changes in the above accounts are based on an average Fiscal 2006 exchange rate.

Net cash provided by operating activities for Fiscal 2005 was \$52,206. Significant factors contributing to a source of cash were: net income of \$29,912; a decrease in accounts receivable and costs and estimated earnings in excess of billings on uncompleted contracts of \$8,878 and \$7,635, respectively, consistent with the decrease in revenue; and an increase in overall billings/collections efforts. Changes in the above accounts are based on an average Fiscal 2005 exchange rate.

Net cash provided by operating activities for Fiscal 2004 was \$74,955. Significant factors contributing to a source of cash were: net income of \$47,243; a decrease in accounts receivable of \$7,486, consistent with the decrease in revenue and an increase in overall collection efforts; decrease in inventory of \$1,144, primarily a result of the decrease in revenue; a decrease in other current assets primarily related to the reduction of costs and estimated earnings in excess of billings on uncompleted contracts of \$4,498; and other assets of \$1,294, related to normal business activities. Changes in the above accounts are based on an average Fiscal 2004 exchange rate.

At March 31, 2006, the Company had cash and cash equivalents of \$11,207, working capital of \$103,256 and long-term debt of \$122,673.

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

Cash used by investing activities for all periods primarily represented acquisition of businesses and capital expenditures. Net cash used in investing activities during Fiscal 2006, 2005 and 2004 was \$43,730, \$104,765 and \$2,832, respectively.

During Fiscal 2006, gross capital expenditures were \$4,115, while capital disposals were \$1,445. Gross capital expenditures were \$3,506, while capital disposals were \$1,187 in Fiscal 2005. Gross capital expenditures for Fiscal 2007 are projected to be \$5,000 to \$7,000 and will be spent primarily on information systems, general equipment and facility improvements.

The net cash impact of acquisitions during Fiscal 2006, 2005 and 2004 was \$40,682, \$102,553 and \$0, respectively. See Note 18 of the Notes to Consolidated Financial Statements for additional detail on acquisitions made during Fiscal 2006. The cash impact of prior merger-related (recoveries)/payments, such as earn-outs, made during Fiscal 2006, 2005 and 2004 was \$378, (\$107) and \$3,010, respectively.

Financing Activities

Net cash provided by/(used) in financing activities during Fiscal 2006, 2005 and 2004 was (\$7,978), \$55,800 and (\$76,875), respectively. Cash used by financing activities in Fiscal 2006 primarily represents the net decrease in debt obligations combined with dividend payments to shareholders offset by cash received from the exercise of stock options. Cash provided by financing activities in Fiscal 2005 primarily represents the net increase in debt obligations and cash received from the exercise of stock options, offset by cash used for dividends and purchase of treasury stock. Cash used by financing activities in Fiscal 2004 primarily represents the net reduction of debt obligations combined with dividend payments to shareholders and purchases of treasury stock, offset by cash received from the exercise of stock options.

Total Debt

In June 2004, the Company entered into a \$120,000 amended and restated credit facility with Citizens Bank of Pennsylvania, as agent, and a group of lenders (the "Amended and Restated Credit Facility"). Under the Amended and Restated Credit Facility, up to \$5,000 was available for use under a swing line facility (at a LIBOR rate plus a margin) and up to \$15,000 was available for use in connection with letters of credit.

Interest under the Amended and Restated Credit Facility was variable based on the Company's option of selecting the bank's LIBOR rate plus an applicable margin or the base rate plus an applicable margin. The majority of the Company's borrowings were under the LIBOR option. The applicable margin was adjusted each quarter based on the consolidated leverage ratio (as defined in the Amended and Restated Credit Facility). The applicable margin varied from 0.75% to 1.75% on the LIBOR rate option and from 0.00% to 0.75% on the base rate option. The Amended and Restated Credit Facility provided for the payment of quarterly commitment fees on unborrowed funds, also based on the consolidated leverage ratio. The commitment fee percentage ranged from 0.15% to 0.375%.

On January 24, 2005, in connection with the acquisition of Norstan (see Note 18 of the Notes to Consolidated Financial Statements), the Company amended and restated the Amended and Restated Credit Facility (the "Second Amended and Restated Credit Facility"), also with Citizens Bank of Pennsylvania, as agent, and a group of lenders. Borrowings under the Second Amended and Restated Credit Facility were permitted up to a maximum amount of \$240,000, including up to \$15,000 of swingline loans and \$25,000 of letters of credit. Interest on outstanding indebtedness under the Second Amended and Restated Credit Facility accrued, 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 1.50% (determined by a leverage ratio based on the Company's EBITDA). The other terms and conditions of the Second Amended and Restated Credit Facility were substantially the same as the Amended and Restated Credit Facility.

On March 28, 2006, the Company amended the Second Amended and Restated Credit Facility, also with Citizens Bank of Pennsylvania, as agent, and a group of lenders. Borrowings under the Second Amended and Restated Credit Facility, as amended (previously defined as the "Credit Agreement"), are permitted up to a maximum amount of \$310,000, including up to \$15,000 of swingline 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 as of March 31, 2006 of \$123,722 was comprised of \$121,303 under the Credit Agreement, \$1,891 of obligations under capital leases and \$528 of various other third-party, non-employee loans. The weighted average interest rate on all indebtedness of the Company during the fourth quarter ending March 31, 2006 and March 31, 2005 was approximately 5.89% and 3.61%, respectively, and the weighted average interest rate on all indebtedness of the Company during the fiscal year ended March 31, 2006 and March 31, 2005 was 5.10% and 2.98%, respectively. In addition, as of March 31, 2006, the Company had \$3,065 of letters of credit outstanding and \$185,632 available under the Credit Agreement.

Dividends

Beginning in the third quarter of Fiscal 2003 and in all subsequent quarters through the first quarter of Fiscal 2005, the Company's Board of Directors declared quarterly cash dividends of \$0.05 per share on all outstanding shares of the Company's common stock, par value \$.001 per share (the "Common Stock"). In August 2004, the Company declared an increase to its current annual dividend payment rate from \$0.20 to \$0.24 so as to provide an additional return on investment to its stockholders. In the second quarter of Fiscal 2005 and in all subsequent quarters through the fourth quarter of Fiscal 2006, the Company's Board of Directors declared quarterly cash dividends of \$0.06 per share on all outstanding shares of Common Stock.

The dividend declared in the fourth quarter of Fiscal 2006 totaled \$1,055 and was paid on April 14, 2006 to stockholders of record at the close of business on March 31, 2006. The dividend declared in the first quarter of Fiscal 2007 will be 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

The Company initiated a stock repurchase program in 1999. Since inception of the repurchase program in April 1999 through March 31, 2006, the Company has repurchased in aggregate approximately 6.9 million shares for approximately \$297,000. During Fiscal 2006, the Company repurchased 565 shares for \$27. Repurchases for the year ended March 31, 2005 totaled approximately 1,400,000 shares of the Common Stock for \$56,912. Funding for the stock repurchases came primarily from cash flow from operations. Repurchases of stock during Fiscal 2007 and future periods 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 for the foreseeable future, there can be no assurance as to the timing or amount of such repurchases.

The Credit Agreement (see Note 6 of the Notes to Consolidated Financial Statements) provides that the Company is not permitted to repurchase the Common Stock if the Company is in default under the Credit Agreement or would be in default under the Credit Agreement as a result of such repurchase. Additionally, without the consent of the lenders holding a majority of the commitments, which consent may not be unreasonably withheld, the Company may not repurchase stock if it is not in compliance with a leverage ratio.

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 other comprehensive income (loss) ("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 March 31, 2006, the open foreign exchange contracts were in Euro, Pound sterling, Canadian dollar, Swiss franc, Japanese yen, Swedish krona, Danish krone, Norwegian kroner and Australian dollar. The open contracts have contract rates of 0.7850 to 0.8460 Euro, 0.5365 to 0.5816 Pound sterling, 1.1751 to 1.1774 Canadian dollar, 1.2149 to 1.3015 Swiss franc, 105.47 to 110.1 Japanese yen, 7.3773 to 8.0267 Swedish krona, 5.9275 to 6.3445 Danish krone, 6.2087 to 6.8514 Norwegian kroner and 1.3077 to 1.4194 Australian dollar, all per U.S. dollar.

The total open contracts, with a notional amount of approximately \$66,870, have a fair value of \$64,411 and will expire within 36 months.

Contractual Obligations

The Company has various contractual obligations and commitments to make future payments including debt agreements, operating and capital lease obligations and discounted lease rental commitments. See Notes 6, 7 and 9 of the Notes to Consolidated Financial Statements for additional information about these obligations and commitments.

The following table summarizes significant contractual obligations and commitments of the Company as of March 31, 2006. Except as set forth in the following table, the Company does not have any material long-term purchase obligations (as defined in SEC Regulation S-K 303(a)(5)) nor other long-term liabilities that are reflected on its balance sheet as of March 31, 2006:

	Payments Due by Period				
	Total	Less than 1 Year	1-3 Years	3-5 Years	More than 5 Years
Long-term debt obligations	\$ 121,831	\$ 528	\$ —	\$ 121,303	\$ —
Interest expense on long-term debt	31,331	6,293	12,545	12,493	—
Capital lease obligations	1,891	521	1,123	247	—
Operating lease obligations	53,850	13,746	20,213	12,871	7,019
Discounted lease rentals	30	30	—	—	—
Total contractual obligations	\$ 208,933	\$ 21,118	\$ 33,881	\$ 146,914	\$ 7,019

The following table summarizes significant commercial commitments of the Company as of March 31, 2006 and the related expiration per period:

	Amount of Commitment Expiration Per Period				
	Total	Less than 1 Year	1-3 Years	3-5 Years	More than 5 Years
Letters of credit	\$ 3,065	\$ 3,065	—	—	—
Total commercial commitments	\$ 3,065	\$ 3,065	—	—	—

Off-Balance Sheet Arrangements

The Company has no off-balance sheet arrangements that have or are reasonably likely to have a current or future effect on its financial condition, changes in its financial condition, revenues or expenses, results of operations, liquidity, capital expenditures or capital resources, other than those disclosed above, that are material to investors.

Recent Accounting Pronouncements

Accounting for Conditional Asset Retirement Obligations

In March 2005, the Financial Accounting Standards Board (the "FASB") issued Financial Interpretation Number ("FIN") 47, "Accounting for Conditional Asset Retirement Obligations" ("FIN 47"). FIN 47 clarifies the term "conditional asset retirement obligation" as used in Statement of Financial Accounting Standards ("SFAS") No. 143, "Accounting for Asset Retirement Obligations" ("SFAS No. 143"), 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.

Consolidation of Variable Interest Entities

In January 2003, the FASB issued FIN 46, "Consolidation of Variable Interest Entities, an Interpretation of ARB No. 51" ("FIN 46"). The guidance expanded upon and clarified existing accounting guidance that addresses when a company should include in its financial statements the assets, liabilities and activities of variable interest entities, including special-purpose entities or off-balance sheet structures. In December 2003, the FASB issued a revision to FIN 46 ("FIN 46R") that modified some of the provisions and effective dates of FIN 46, and provided exemptions to certain entities from the original guidance. FIN 46R sets forth criteria to be used in determining whether an investment in a variable interest entity should be consolidated, and is based on the general premise that companies that control another entity through interests other than voting interests should consolidate the controlled entity. The consolidation requirements of FIN 46 apply immediately to variable interest entities created after January 31, 2003. As amended, the consolidation requirements apply to older entities in the first fiscal year or interim period ending after March 15, 2004. Certain of the disclosure requirements apply in all financial statements issued after January 31, 2003, regardless of when the variable interest entity was established. There was no impact to the Company upon the adoption of FIN 46 and FIN 46R.

Stock-Based Compensation

In December 2004, the FASB issued SFAS No. 123 (revised 2004), "Share-Based Payment" ("SFAS No. 123(R)"). SFAS No. 123(R) is a revision of SFAS No. 123, "Accounting for Stock-Based Compensation" ("SFAS No. 123"), supersedes Accounting Principles Board Opinion ("APB") No. 25, "Accounting for Stock Issued to Employees" ("APB No. 25") and amends SFAS No. 95, "Statement of Cash Flows." SFAS No. 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 will no longer be an alternative under SFAS No. 123(R). The Statement is effective for public companies at the beginning of the first annual reporting period that begins after June 15, 2005.

As permitted by SFAS No. 123, the Company currently accounts for its stock-based compensation plans under APB No. 25's intrinsic value method and, as such, generally recognizes no compensation cost for employee stock options. Accordingly, the adoption of SFAS No. 123(R)'s fair value method will have a significant impact on the Company's results of operations, although it will have no impact on the Company's overall financial position or cash flows. The impact of adopting SFAS No. 123(R) cannot be predicted at this time because it will depend on levels of share-based payments granted in the future. However, had the Company adopted SFAS No. 123(R) in prior periods, the impact would have approximated the amounts in its pro forma disclosure as described in the disclosure of pro forma net income and earnings per share in Note 1 of the Notes to Consolidated Financial Statements. Based on SFAS No. 123(R), the Company will transition to the new requirements by 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.

SFAS No. 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 current standards. This requirement will reduce net operating cash flows and increase net financing cash flows in periods after adoption. 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. The amount of operating cash flows recognized for such excess tax deductions was \$3,200, \$3,472 and \$6,789 during Fiscal 2006, 2005 and 2004, respectively.

The Company plans to adopt SFAS No. 123(R) as of the first day of the first quarter of Fiscal 2007, or April 1, 2006, as required.

Foreign Earnings Repatriation

In October 2004, the "American Jobs Creation Act of 2004" was signed into law. The law creates a temporary incentive for U.S. multinational companies to repatriate a portion of accumulated income earned outside of the U.S. at an effective tax rate of 5.25%. The law also includes a tax deduction of up to 9 percent of the lesser of (a) "qualified production activities income" or (b) taxable income. An issue arose as to whether that deduction should be accounted for as a special deduction or a tax rate reduction under SFAS No. 109, "Accounting for Income Taxes" ("SFAS No. 109").

In December 2004, the FASB issued Staff Position No. FAS 109-1, "Application of FASB Statement No. 109, Accounting for Income Taxes, to the Tax Deduction on Qualified Production Activities Provided by the American Jobs Creation Act of 2004." The FASB staff believes that the deduction should be accounted for as a special deduction in accordance with SFAS No. 109. The Company believes that this treatment does not have an effect on its deferred taxes.

In December 2004, the FASB issued Staff Position No. FAS 109-2, "Accounting and Disclosure Guidance for the Foreign Earnings Repatriation Provision within the American Jobs Creation Act of 2004" ("FSP 109-2"). FSP 109-2 allows additional time to assess the effect of repatriating international earnings under the law and requires explanatory disclosures from those who need the additional time.

The Company has evaluated the effects of the law and recent regulations on its plan for reinvestment or repatriation of international earnings. The Company believes that the temporary incentive to repatriate international earnings does not provide any tax benefit to the Company.

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 No. 04-10"). This statement clarifies the aggregation criteria of operating segments as defined in SFAS No. 131 (as defined below in Note 19 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 No. 04-10.

Accounting Changes and Error Corrections

In May 2005, the FASB issued SFAS No. 154, "Accounting Changes and Error Corrections" ("SFAS No. 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 principles 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 No. 154 had no impact on its financial position, results of operations or cash flows.

Critical Accounting Policies

The Company's Consolidated Financial Statements are prepared in accordance with accounting principles generally accepted in the United States, which require the Company to make estimates and assumptions that may affect the reported financial condition and results of operations should actual results differ. The Company bases its estimates and assumptions on the best available information and believes them to be reasonable for the circumstances. The Company believes that of its significant accounting policies, the following may involve a higher degree of judgment and complexity. See also Note 1 of the Notes to Consolidated Financial Statements for a summary of the Company's significant accounting policies.

Revenue Recognition

Within the Company's Hotline Services, revenues are recognized when title to products sold passes to the customer, which generally occurs upon shipment from the Company's location.

Within the Company's Data Services and Voice Services segments, revenues are recognized from maintenance service contracts, moves, adds and changes and network integration services, when the services are provided and revenues generally are recognized from the sale of IP application software upon delivery. Service contracts are generally pre-billed and are reflected on the balance sheet as deferred revenue and are generally recognized as revenue over the service period on a straight-line basis. Revenues from the sale and installation of products and systems are recognized using the percentage-of-completion method based upon the proportion of actual costs incurred to estimated total costs. At the time a loss on a contract becomes known, the entire amount of the estimated loss is recognized immediately in the financial statements.

The Company has historically made reasonably accurate estimates of the extent of progress towards completion, contract revenues and contract costs on its long-term contracts. However, due to uncertainties inherent in the estimation process, actual results could differ materially from those estimates.

Allowance for Doubtful Accounts

The Company maintains allowances for doubtful accounts for estimated losses resulting from the inability of its clients to make required payments. These allowances are based on both recent trends of certain clients estimated to be a greater credit risk as well as general trends of the entire client pool. If the financial condition of the Company's clients were to deteriorate, resulting in an impairment of their ability to make payments, additional allowances may be required. In order to calculate the appropriate provision, the Company reviews its accounts receivable aging and calculates an allowance through application of historic reserve factors to specifically identified at-risk receivables. In addition to specific reserves, a general reserve is provided based upon the age of the receivables. The Company's policy is to fully reserve for accounts receivable when an account is determined to be uncollectible.

Inventories and Related Inventory Reserves

The Company's inventory is valued at the lower of cost or market value and has been reduced by an allowance for excess and obsolete inventories. The Company records an estimate for slow moving and obsolete inventory based upon product knowledge, physical inventory observation, future demand and market conditions and an aging analysis of the inventory on hand. If actual market conditions are less favorable than those projected by management, additional reductions to inventory may be required. Upon a subsequent sale or disposal of the impaired inventory, the corresponding reserve for impaired value is relieved to ensure that the cost basis of the inventory reflects any reductions.

Loss Contingencies

The Company incurs contingencies as a normal part of its business operations, such as future warranty obligations and potential liabilities relating to legal or regulatory matters. The Company accrues for contingent obligations when a loss is probable and the amount can be reasonably estimated.

Deferred Tax Valuation Allowances

Should the Company determine that it would not be able to realize all or part of its net deferred tax assets in the future, an adjustment to the deferred tax assets would be expensed in the period such determination was made.

Long-Lived Assets

The Company evaluates the recoverability of property, plant and equipment and intangible assets other than goodwill and indefinite life intangibles whenever events or changes in circumstances indicate the carrying amount of any such assets may not be fully recoverable. Changes in circumstances include technological advances, changes in the Company's business model, capital strategy, economic conditions or operating performance. The Company's evaluation is based upon, among other things, assumptions about the estimated future undiscounted cash flows these assets are expected to generate. When the sum of the undiscounted cash flows is less than the carrying value, the Company would recognize an impairment loss. The Company continually applies its best judgment when performing these evaluations to determine the timing of the testing, the undiscounted cash flows used to assess recoverability and the fair value of the asset.

In accordance with SFAS No. 142, "Goodwill and Other Intangible Assets," the Company is required to test goodwill and indefinite life intangibles for impairment at least annually. Changes in management's judgments and estimates could significantly affect the Company's analysis of the impairment of goodwill. To test goodwill for impairment, the Company is required to estimate the fair value of each of its reporting units. Estimated fair values of reporting units are estimated using an earnings model and a discounted cash flow valuation model. The discounted cash flow model incorporates the Company's estimates of future cash flows, allocations of certain assets and cash flows among reporting units, future growth rates and management's judgment regarding the applicable discount rates used to discount those estimated cash flows. Significant changes to the judgments and estimates used in the models could result in a significantly different estimate of the fair value of the reporting units, which could result in an impairment of goodwill.

Restructuring

The Company accrues the cost of restructuring activities in accordance with the appropriate accounting guidance depending upon the facts and circumstances surrounding the situation. The Company exercises its judgment in estimating the total costs of each of these activities. As these activities are implemented, the actual costs may differ from the estimated costs due to changes in the facts and circumstances that were not foreseen at the time of the initial cost accrual.

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 effect of inflation through improved productivity and cost reduction programs as well as price adjustments within the constraints of market competition.

Forward-Looking Statements

When included in this Annual Report on Form 10-K 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, general economic and business conditions, 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 service companies and various other matters, including those discussed in Part I, Item A, "Risk Factors," 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 Annual Report on Form 10-K. 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.

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 March 31, 2006, the Company had total long-term obligations, including the current portion of those obligations, of \$123,722. Of that amount, \$2,121 was in fixed rate obligations and \$121,601 was in variable rate obligations. For the amounts in variable rate debt at March 31, 2006, an instantaneous 100 basis point increase in the interest rate would reduce the Company's expected net income in the subsequent fiscal year by \$808, assuming the Company employed no intervention strategies. The Company had no interest rate hedging agreements in effect during the fiscal year ended March 31, 2006. Subsequent to March 31, 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 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. See Note 1 of the Notes to Consolidated Financial Statements for additional information about the Company's foreign currency hedging activities. At March 31, 2006, the Company had total open contracts valued at approximately \$66,870 with a fair value of approximately \$64,411.

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

Report of Independent Accountants

Report of Independent Registered Public Accounting Firm

Board of Directors and Stockholders
Black Box Corporation
Lawrence, Pennsylvania

We have audited the accompanying consolidated balance sheets of Black Box Corporation as of March 31, 2006 and 2005 and the related consolidated statements of income, stockholders' equity, and cash flows for the years then ended. We have also audited the schedules listed in the accompanying index. These financial statements and schedules are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements and schedules based on our audits.

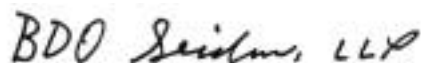
We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements and schedules are free of material misstatement.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

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Black Box Corporation at March 31, 2006 and 2005 and the results of their operations and cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

Also, in our opinion, the 2006 and 2005 schedules present fairly, in all material respects, the information set forth therein.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the effectiveness of Black Box Corporation's internal control over financial reporting as of March 31, 2006, based on criteria established in *Internal Control - Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) and our report dated May 26, 2006 expressed an unqualified opinion thereon.

BDO Seidman, LLP



Chicago, Illinois
May 26, 2006

Report of Independent Accountants

Report of Independent Registered Public Accounting Firm

To the Board of Directors and Stockholders of Black Box Corporation:

We have audited the consolidated statements of income, shareholders' equity and cash flows of Black Box Corporation and subsidiaries for the year ended March 31, 2004. Our audit also included the financial statement schedule listed in the index at Item 15 for the year ended March 31, 2004. These financial statements and supplemental schedule are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements and supplemental schedule based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. We were not engaged to perform an audit of the Company's internal control over financial reporting. Our audits included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements and schedule, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the financial statements and schedule. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated results of operations and cash flows of Black Box Corporation and subsidiaries' for the year ended March 31, 2004 in conformity with U.S. generally accepted accounting principles. Also, in our opinion, the financial statement schedule for the year ended March 31, 2004 referred to above, when considered in relation to the basic financial statements taken as a whole, presents fairly in all material respects the information set forth therein.

ERNST & YOUNG LLP



Pittsburgh, Pennsylvania
June 10, 2004

Consolidated Financial Statements & Notes

Consolidated Statements of Income

(In Thousands, Except Per Share Amounts)

	Year Ended March 31,		
	2004	2005	2006
Revenues			
Hotline products	\$ 237,872	\$227,601	\$213,946
On-site services	282,540	307,475	507,389
Total	520,412	535,076	721,335
Cost of sales			
Hotline products	112,949	108,281	108,220
On-site services	191,212	211,866	330,765
Total	304,161	320,147	438,985
Gross profit	216,251	214,929	282,350
Selling, general and administrative expenses	140,805	160,002	205,866
Restructuring and other charges	—	5,059	5,290
Intangibles amortization	246	1,332	4,999
Operating income	75,200	48,536	66,195
Interest expense, net	1,808	2,755	9,123
Other expense, net	147	115	36
Income before provision for income taxes	73,245	45,666	57,036
Provision for income taxes	26,002	15,754	19,678
Net income	\$ 47,243	\$ 29,912	\$ 37,358
Earnings per common share			
Basic	\$ 2.60	\$ 1.72	\$ 2.18
Diluted	\$ 2.52	\$ 1.68	\$ 2.13
Weighted average common shares outstanding			
Basic	18,173	17,411	17,164
Diluted	18,766	17,845	17,544
Dividends per share	\$ 0.20	\$ 0.22	\$ 0.24

See Notes To Consolidated Financial Statements

Consolidated Balance Sheets

(In Thousands, Except Par Value)

	March 31,	
	2005	2006
Assets		
Cash and cash equivalents	\$ 11,592	\$ 11,207
Trade accounts receivable, net of allowance for doubtful accounts of \$9,517 and \$7,342	116,865	116,713
Lease receivables (Note 2)	1,697	512
Inventories, net (Note 3)	57,176	53,926
Costs and estimated earnings in excess of billings on uncompleted contracts	25,695	23,803
Deferred tax asset	9,236	8,973
Net current assets of discontinued operations	549	467
Other current assets	14,724	15,523
Total current assets	237,534	231,124
Property, plant and equipment, net (Note 4)	38,268	35,124
Goodwill, net (Note 5)	444,567	468,724
Other intangibles, net (Note 5)	44,157	55,440
Lease receivables, net of current portion	473	—
Deferred tax asset	3,793	4,231
Discontinued operations, net of current portion	373	—
Other assets	3,725	5,091
Total assets	\$ 772,890	\$ 799,734
Liabilities		
Current maturities of long-term debt (Note 6)	\$ 692	\$ 1,049
Current maturities of discounted lease rentals (Note 7)	890	30
Accounts payable	36,032	44,943
Billings in excess of costs and estimated earnings on uncompleted contracts	8,947	8,648
Deferred revenue	21,456	22,211
Accrued liabilities:		
Compensation and benefits	14,270	13,954
Restructuring (Note 17)	6,709	3,292
Other liabilities	32,708	27,817
Income taxes	3,295	5,924
Total current liabilities	124,999	127,868
Long-term debt (Note 6)	147,196	122,673
Discounted lease rentals	30	—
Other liabilities	75	887
Restructuring reserve (Note 17)	9,889	7,406
Stockholders' Equity		
Preferred stock authorized 5,000, par value \$1.00, none issued	—	—
Common stock authorized 100,000, par value \$.001, 17,593 and 16,840 shares outstanding	24	25
Additional paid-in capital	336,290	362,810
Retained earnings	428,632	461,853
Treasury stock, at cost, 6,935 and 6,935 shares	(296,797)	(296,824)
Accumulated other comprehensive income	22,552	13,036
Total stockholders' equity	490,701	540,900
Total liabilities and stockholders' equity	\$ 772,890	\$ 799,734

See Notes To Consolidated Financial Statements

Consolidated Statements of Changes in Stockholders' Equity

(In Thousands, Except Share Amounts)

	Common Stock		Additional	Retained	Treasury	Accumulated	Total
	Shares	Amount	Paid-in Capital	Earnings	Stock	Other Comprehensive Income	
Balance at March 31, 2003	22,594,034	\$ 23	295,271	\$ 359,037	\$ (163,547)	\$ 3,638	\$ 494,422
Comprehensive income:							
Net income				47,243			47,243
Foreign currency translation adjustment						14,013	14,013
Unrealized gains on derivatives designated and qualified as cash flow hedges, net of tax						454	454
Reclassification of unrealized losses on expired derivatives						(233)	(233)
Comprehensive income							61,477
Dividends declared				(3,605)			(3,605)
Purchase of treasury stock					(76,338)		(76,338)
Exercise of options, net of tax	799,644		22,159				22,159
Tax benefit from exercised options			6,789				6,789
Balance at March 31, 2004	23,393,678	23	324,219	402,675	(239,885)	17,872	504,904
Comprehensive income:							
Net income				29,912			29,912
Foreign currency translation adjustment						5,281	5,281
Unrealized gains on derivatives designated and qualified as cash flow hedges, net of tax						(147)	(147)
Reclassification of unrealized gains on expired derivatives						(454)	(454)
Comprehensive income							34,592
Stock compensation expense			680				680
Dividends declared				(3,955)			(3,955)
Purchase of treasury stock					(56,912)		(56,912)
Exercise of options, net of tax	381,272	1	7,919				7,920
Tax benefit from exercised options			3,472				3,472
Balance at March 31, 2005	23,774,950	24	336,290	428,632	(296,797)	22,552	490,701
Comprehensive income:							
Net income				37,358			37,358
Foreign currency translation adjustment						(10,511)	(10,511)
Unrealized losses on derivatives designated and qualified as cash flow hedges, net of tax						1,142	1,142
Reclassification of unrealized gains on expired derivatives						(147)	(147)
Comprehensive income							27,842
Dividends declared				(4,137)			(4,137)
Purchase of treasury stock					(27)		(27)
Exercise of options, net of tax	753,487	1	23,320				23,321
Tax benefit from exercised options			3,200				3,200
Balance at March 31, 2006	24,528,437	\$ 25	\$ 362,810	\$ 461,853	\$ (296,824)	\$ 13,036	\$ 540,900

See Notes To Consolidated Financial Statements

Consolidated Statements of Cash Flows

(In Thousands)

	Year Ended March 31,		
	2004	2005	2006
Operating Activities			
Net income	\$ 47,243	\$ 29,912	\$ 37,358
Adjustments to reconcile net income to cash provided by operating activities:			
Depreciation and amortization	6,765	7,955	13,930
Gain on disposal of assets	(531)	—	—
Deferred tax (benefit)/provision	2,386	(77)	(212)
Stock compensation expense	—	680	—
Tax benefit from exercised options	(6,789)	(3,472)	(3,200)
Changes in operating assets and liabilities (net of acquisitions):			
Accounts receivable, net	7,486	8,878	9,369
Inventories, net	1,144	(76)	5,000
Other current assets	16,455	3,307	7,541
Proceeds from lease contracts	—	504	1,658
Accounts payable and accrued liabilities	(796)	4,595	(19,647)
Net cash provided by operating activities	74,955	52,206	51,797
Investing Activities			
Capital expenditures	(1,673)	(3,506)	(4,115)
Capital disposals	1,851	1,187	1,445
Acquisition of businesses, net of cash acquired	—	(102,553)	(40,682)
Prior merger-related recovery/(payments)	(3,010)	107	(378)
Net cash used in investing activities	(2,832)	(104,765)	(43,730)
Financing Activities			
Repayment of borrowings	(229,914)	(127,959)	(218,989)
Proceeds from borrowings	215,600	238,409	192,882
Repayments on discounted lease rentals	—	(458)	(890)
Proceeds from the exercise of options	22,159	7,919	23,320
Payment of dividends	(3,663)	(3,847)	(4,094)
Deferred financing costs	—	(1,352)	(180)
Purchase of treasury stock	(81,057)	(56,912)	(27)
Net cash (used)/provided by financing activities	(76,875)	55,800	(7,978)
Foreign currency exchange impact on cash	(15)	(955)	(474)
(Decrease)/increase in cash and cash equivalents	(4,737)	2,286	(385)
Cash and cash equivalents at beginning of year	14,043	9,306	11,592
Cash and cash equivalents at end of year	\$ 9,306	\$11,592	\$11,207
Supplemental Cash Flow:			
Cash paid for interest	\$ 1,808	\$ 3,045	\$ 8,336
Cash paid for income taxes	25,176	17,064	17,223
Non-cash financing activities:			
Dividends payable	903	1,011	1,055
Capital leases	—	714	1,214

See Notes To Consolidated Financial Statements

Notes to Consolidated Financial Statements

(Dollars in Thousands, Except Per Share Amounts)

Note 1: 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.

Allowance for doubtful accounts receivable: Allowances for doubtful accounts are maintained for estimated losses resulting from the inability of clients to make required payments. These allowances are based on both recent trends of clients estimated to be a greater credit risk as well as general trends of the entire client pool. Specific accounts are evaluated on a case-by-case basis before they are written off.

Sales returns: At the time of sale, an estimate for sales returns is recorded based on historical experience.

Inventory valuation: The Company records an estimate for slow moving and obsolete inventory based upon product knowledge, physical inventory observation and an aging analysis of the inventory on hand.

Loss Contingencies: The Company accrues for contingent obligations when a loss is probable and the amount can be reasonably estimated.

Warranties: Estimated future warranty costs related to certain products are charged to operations in the period the related revenue is recognized based on historical experience.

Intangible Assets: The Company has purchased intangible assets, such as customer relationships, non-compete agreements and backlog, which have finite lives. These intangible assets are amortized over the estimated economic lives.

Cash and Cash Equivalents

The Company considers all highly liquid investments purchased with maturity of three months or less to be cash equivalents. Cash and cash equivalents are stated at cost, which approximates market.

Inventories

Inventories are valued at the lower of cost or market. The first-in, first-out average cost method is used to value the majority of the inventory. However, some locations of the Company use other methods, including first-in first-out and actual current costs.

Property, Plant and Equipment

Property, plant and equipment are stated at cost. Maintenance, repairs and minor renewals are charged to operations as incurred. Major renewals and betterments, which substantially extend the useful life of the property, are capitalized at cost. Upon sale or other disposition of assets, the costs and related accumulated depreciation are removed from the accounts and the resulting gain or loss, if any, is reflected in income.

Depreciation is computed using the straight-line method based on the estimated useful lives of 30 years for buildings and improvements and 3 to 5 years for machinery and equipment. Leasehold improvements are depreciated over their lease terms, or useful lives if shorter. The Company reviews long-lived assets for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable.

Goodwill and Other Intangible Assets

Goodwill is the excess of purchase price over the value of the net assets acquired. The Company adopted Statement of Financial Accounting Standards ("SFAS") No. 142, "Goodwill and Other Intangible Assets" ("SFAS No. 142") on April 1, 2001. Under SFAS No. 142, goodwill and intangible assets with indefinite useful lives are no longer amortized but are subject to, at a minimum, an annual impairment assessment of their carrying value. Under SFAS No. 142, goodwill impairment is deemed to exist if the net book value of a reporting unit exceeds its estimated fair value. Estimated fair values of the reporting units were estimated using an earnings model and a discounted cash flow valuation model. The discounted cash flow model incorporates

the Company's estimates of future cash flows, allocations of certain assets and cash flows among reporting units, future growth rates and management's judgment regarding the applicable discount rates used to discount those estimated cash flows. See Note 5 for further discussion regarding goodwill and intangibles.

The cost of other acquired intangibles is amortized on a straight-line basis over their estimated useful lives of 3-10 years for non-compete agreements, one year for backlog and 20 years for customer relationships.

The Company assesses the carrying value of its long-lived assets, including land, building, equipment and leasehold improvement and amortizable intangible assets, whenever economic events or changes in circumstances indicate that the carrying values of the assets may not be recoverable. Long-lived assets are considered to be impaired when the sum of the undiscounted expected future net operating cash flows is less than the carrying values of the related assets.

Income Taxes

Deferred income taxes are recognized for all temporary differences between the tax and financial bases of the Company's assets and liabilities, using the enacted tax laws and statutory tax rates applicable to the periods in which the differences are expected to affect taxable income.

Risk Management and Financial Derivatives

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, 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 other comprehensive income (loss) ("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.

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

Foreign Currency Translation

The financial statements of the Company's foreign subsidiaries, except for the subsidiaries located in Brazil and Mexico, are recorded in the local currency, which is the functional currency. Foreign currency assets and liabilities are translated into U.S. dollars at the rate of exchange existing at the statement date. Income and expense amounts are translated at the average of the monthly exchange rates. Adjustments resulting from these translations are credited or charged directly to accumulated comprehensive income (loss) and will be included in income upon sale or liquidation of the foreign investment. Gains and losses from foreign currency transactions, denominated in a currency other than the functional currency, are credited or charged directly to income. For the subsidiaries located in Brazil and Mexico, the U.S. dollar is the functional currency.

Revenue Recognition

Within the Company's Hotline Services, revenues are recognized when title to products sold passes to the customer, which generally occurs upon shipment from the Company's location.

Within the Company's Data Services and Voice Services segments, revenues are recognized from maintenance service contracts, moves, adds and changes and network integration services, when the services are provided. Service contracts are generally pre-billed and are reflected on the balance sheet as deferred revenue and are generally recognized over the service period on a straight-line basis. Revenues from the sale and installation of products and systems are recognized using the percentage-of-completion method based upon the proportion of actual costs incurred to estimated total costs. At the time a loss on a contract becomes known, the entire amount of the estimated loss is recognized immediately in the financial statements. The Company has historically made reasonably accurate estimates of the extent of progress towards completion, contract revenues and contract costs on its long-term contracts. However, due to uncertainties inherent in the estimation process, actual results could differ materially from those estimates.

Billings in excess of costs and estimated earnings are classified as current liabilities and any costs and estimated earnings in excess of billings are classified as current assets.

Shipping and Handling Fees and Costs

All fees billed to clients for shipping and handling are classified as a component of net revenues. All costs associated with shipping and handling are classified as a component of cost of sales.

Advertising Costs

Catalogs and other direct mail costs are expensed over their useful life. All other advertising costs are expensed as incurred. The Company recognized \$9,414, \$11,649 and \$9,550 in advertising expenses during Fiscal 2006, 2005 and 2004, respectively.

Stock-Based Compensation

Stock options are granted to certain employees and members of the Company's Board of Directors at the fair market value of the Company's stock on the date of the grant. For the periods covered by these financial statements, the Company accounted for its stock-based compensation plans under the provisions of Accounting Principles Board Opinion ("APB") No. 25, "Accounting for Stock Issued to Employees" ("APB No. 25"), as amended and related guidance. Under this guidance there are no charges or credits to income with respect to stock options. The pro forma information below is based on provisions of SFAS No. 123, "Accounting for Stock-Based Compensation" ("SFAS No. 123"), as amended by SFAS No. 148, "Accounting for Stock-Based Compensation - Transition and Disclosure" ("SFAS No. 148") issued in December 2002. SFAS No. 148 requires that the pro forma information regarding net income and earnings per share are determined as if the Company had accounted for its employee stock options under the fair value method as prescribed by SFAS No. 123.

The following table shows the effects on net income and earnings per share if the Company had applied the fair value recognition provisions of SFAS No. 123, as amended, to the stock-based awards:

		2004	2005	2006
Net income	As reported	\$ 47,243	\$ 29,912	\$ 37,358
	Plus: Stock-based compensation expense included in reported net income, net of related tax	—	445	—
	Less: Stock-based compensation expense determined by the fair value method for all awards, net of related tax	(9,881)	(9,492)	(23,972)
	Pro forma	\$ 37,362	\$ 20,865	\$ 13,386
Earnings per share:	Basic – as reported	\$ 2.60	\$ 1.72	\$ 2.18
	Basic – pro forma	\$ 2.06	\$ 1.20	\$ 0.78
	Diluted – as reported	\$ 2.52	\$ 1.68	\$ 2.13
	Diluted – pro forma	\$ 1.99	\$ 1.17	\$ 0.76

For options with a vesting period, compensation expense is recognized on a ratable basis over the service period which corresponds to the vesting period. Compensation expense is recognized immediately for options that are granted fully vested on the date of the grant. The incremental fair value of each option grant is estimated on the date of grant using the Black-Scholes options pricing model. The model requires the use of various assumptions.

The following assumptions were used in Fiscal 2004, 2005 and 2006:

	2004	2005	2006
Expected life (in years)	5.1	5.1	5.6
Risk free interest rate	3.0%	3.5%	4.2%
Volatility	61%	60%	49%
Dividend yield	0.5%	0.6%	0.6%

On October 31, 2005, in response to the issuance of SFAS No. 123(R) (as defined below), the Compensation Committee of the Board of Directors of the Company authorized the acceleration of the vesting of all of the Company's outstanding out-of-the-money unvested stock options held by current employees, including officers, and directors. Approximately 405,224 options that would have otherwise vested from time to time over the next three years became immediately exercisable. The Company also granted on October 31, 2005 fully vested options to purchase approximately 984,000 additional shares of Common Stock. The combined options had an exercise price greater than \$39.77, the approximate fair value of the Company's common stock, par value \$.001 per share (the "Common Stock") on October 31, 2005. The accelerated vesting of these options increased pro-forma compensation expense for the three months ended December 31, 2005 by approximately \$15,483 net of tax.

During the second quarter of Fiscal 2005, the Company recorded compensation expense, as a result of a modification to a retiring director's stock option agreements. Based on the guidance under Financial Interpretation Number ("FIN") 44, "Accounting for Certain Transactions Involving Stock Compensation" ("FIN 44"), the Company recorded compensation expense in the amount of \$680. The expense was recorded as a component of Selling, General and Administrative expense.

Earnings Per Share

Basic earnings per share are calculated by dividing net income (loss) by the weighted average of common shares outstanding during the year. Diluted earnings per share is calculated by using the weighted average of common shares outstanding adjusted to include the potentially dilutive effect of outstanding stock options utilizing the treasury stock method.

Reclassification

Certain reclassifications have been made to the Consolidated Financial Statements for prior periods in order to conform to the Fiscal 2006 presentation.

Recent Accounting Pronouncements

Accounting for Conditional Asset Retirement Obligations

In March 2005, the Financial Accounting Standards Board (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.

Consolidation of Variable Interest Entities

In January 2003, the FASB issued FIN 46, "Consolidation of Variable Interest Entities, an Interpretation of ARB No. 51" ("FIN 46"). The guidance expanded upon and clarified existing accounting guidance that addresses when a company should include in its financial statements the assets, liabilities and activities of variable interest entities, including special-purpose entities or off-balance sheet structures. In December 2003, the FASB issued a revision to FIN 46 ("FIN 46R") that modified some of the provisions and effective dates of FIN 46, and provided exemptions to certain entities from the original guidance. FIN 46R sets forth criteria to be used in determining whether an investment in a variable interest entity should be consolidated, and is based on the general premise that companies that control another entity through interests other than voting interests should consolidate the controlled entity. The consolidation requirements of FIN 46 apply immediately to variable interest entities created after January 31, 2003. As amended, the consolidation requirements apply to older entities in the first fiscal year or interim period ending after March 15, 2004. Certain of the disclosure requirements apply in all financial statements issued after January 31, 2003, regardless of when the variable interest entity was established. There was no impact to the Company upon the adoption of FIN 46 and FIN 46R.

Stock-Based Compensation

In December 2004, the FASB issued SFAS No. 123 (revised 2004), "Share-Based Payment" ("SFAS No. 123(R)"). SFAS No. 123(R) is a revision of SFAS No. 123, "Accounting for Stock-Based Compensation" ("FASB No. 123"), supersedes APB No. 25, and amends SFAS No. 95, "Statement of Cash Flows." SFAS No. 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 will no longer be an alternative under SFAS No. 123(R). The Statement is effective for public companies at the beginning of the first annual reporting period that begins after June 15, 2005.

As permitted by SFAS No. 123, the Company currently accounts for its stock-based compensation plans under APB No. 25's intrinsic value method and, as such, generally recognizes no compensation cost for employee stock options. Accordingly, the adoption of SFAS No. 123(R)'s fair value method will have a significant impact on the Company's results of operations, although it will have no impact on the Company's overall financial position or cash flows. The impact of adopting SFAS No. 123(R) cannot be predicted at this time because it will depend on levels of share-based payments granted in the future. However, had the Company adopted SFAS No. 123(R) in prior periods, the impact would have approximated the amounts in its pro forma disclosure as described in the disclosure of pro forma net income and earnings per share in Note 1 of the Notes to Consolidated Financial Statements. Based on SFAS No. 123(R), the Company will transition to the new requirements by 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.

SFAS No. 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 current standards. This requirement will reduce net operating cash flows and increase net financing cash flows in periods after adoption. 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. The amount of operating cash flows recognized for such excess tax deductions was \$3,200, \$3,472 and \$6,789 during Fiscal 2006, 2005 and 2004, respectively.

The Company plans to adopt SFAS No. 123(R) as of the first day of the first quarter of Fiscal 2007, or April 1, 2006, as required.

Foreign Earnings Repatriation

In October 2004, the "American Jobs Creation Act of 2004" was signed into law. The law creates a temporary incentive for U.S. multinational companies to repatriate a portion of accumulated income earned outside of the U.S. at an effective tax rate of 5.25%. The law also includes a tax deduction of up to 9 percent of the lesser of (a) "qualified production activities income" or (b) taxable income. An issue arose as to whether that deduction should be accounted for as a special deduction or a tax rate reduction under SFAS No. 109, "Accounting for Income Taxes" ("SFAS No. 109").

In December 2004, the FASB issued Staff Position No. FAS 109-1, "Application of FASB Statement No. 109, Accounting for Income Taxes, to the Tax Deduction on Qualified Production Activities Provided by the American Jobs Creation Act of 2004." The FASB staff believes that the deduction should be accounted for as a special deduction in accordance with SFAS No. 109. The Company believes that this treatment does not have an effect on its deferred taxes.

In December 2004, the FASB issued Staff Position No. FAS 109-2, "Accounting and Disclosure Guidance for the Foreign Earnings Repatriation Provision within the American Jobs Creation Act of 2004" ("FSP 109-2"). FSP 109-2 allows additional time to assess the effect of repatriating international earnings under the law and requires explanatory disclosures from those who need the additional time.

The Company has evaluated the effects of the law and recent regulations on its plan for reinvestment or repatriation of international earnings. The Company believes that the temporary incentive to repatriate international earnings does not provide any tax benefit to the Company.

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 No. 04-10"). This statement clarifies the aggregation criteria of operating segments as defined in SFAS No. 131 (as defined in Note 19 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 No. 04-10.

Accounting Changes and Error Corrections

In May 2005, the FASB issued SFAS No. 154, "Accounting Changes and Error Corrections" ("SFAS No. 154"). This statement replaces APB No. 20 "Accounting Changes" cumulative effect accounting with accounting treatment based on retroactive restatement of comparative financials 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 No. 154 had no impact on its financial position, results of operations or cash flows.

Note 2: Lease Receivables

The acquisition of Norstan, Inc. ("Norstan") (see Note 18) included outstanding lease receivables, which were primarily accounted for as sales-type leases for financial reporting purposes. Prior to the Company's acquisition, Norstan had made a strategic decision to discontinue offering financing directly to their customers. The Company concurs with this decision and will continue to not offer financing to customers in the future.

The components of lease receivables outstanding are as follows:

	March	
	2005	2006
Gross lease receivables	\$ 2,697	\$ 730
Residual values	219	94
Less:		
Unearned income	(553)	(236)
Allowance for financing losses	(193)	(76)
Total lease receivables, net	2,170	512
Less - current maturities	1,697	512
Long-term lease receivables	\$ 473	\$ —

The aggregate amounts of gross lease receivables maturing in each of the two years following March 31, 2006 are as follows:

	Years Ending March 31,
2007	\$ 636
2008	94
	<u>\$ 730</u>

Note 3: Inventories

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

	March 31	
	2005	2006
Raw materials	\$ 1,447	\$ 1,426
Finished goods	68,275	66,787
Subtotal	69,722	68,213
Excess and obsolete inventory reserves	(12,546)	(14,287)
Inventory, net	\$ 57,176	\$ 53,926

Note 4: Property, Plant and Equipment

Property, plant and equipment balances, net of accumulated depreciation:

	March 31	
	2005	2006
Land	\$ 2,554	\$ 2,369
Building and improvements	26,019	26,052
Machinery	58,238	58,562
Subtotal	86,811	86,983
Accumulated depreciation	(48,543)	(51,859)
Property, plant and equipment, net	\$ 38,268	\$ 35,124

Depreciation expense for Fiscal 2004, 2005 and 2006 was \$6,519, \$6,623 and \$8,931, respectively.

Note 5: Goodwill and Other Intangible Assets

On April 1, 2001, the Company adopted SFAS No. 142, "Goodwill and Other Intangible Assets." Under this statement, goodwill and intangible assets with indefinite useful lives are not amortized. The Company was required to perform an impairment test upon adoption. In addition, the Company is required to perform an impairment test annually, or as often as impairment indicators are present.

At the time of adoption, the Company performed the required impairment test by comparing the fair value of each reporting unit to its carrying value. The Company concluded that no impairment existed. Based on the policy, the Company has performed the annual test for Fiscal 2005 and Fiscal 2006, with the most recent test having been conducted during the third quarter of Fiscal 2006, and concluded that no impairment existed. During the third quarter of each future fiscal year, the Company will evaluate its non-amortizable intangible assets for impairment with any resulting impairment reflected as an operating expense. The Company's only intangibles, as identified in SFAS No. 141, "Business Combinations" ("SFAS No. 141"), other than goodwill, are its trademarks, non-compete agreements, customer relationships and acquired backlog.

Changes in the carrying amount of goodwill in Fiscal 2005 and Fiscal 2006 by reporting segment:

	North America	Europe	All Other	Total
Balance as of March 31, 2004	\$ 311,540	\$ 67,358	\$ 1,871	\$ 380,769
Currency translation	45	3,099	15	3,159
Goodwill on businesses acquired	60,416	—	—	60,416
Actual earnout payments	—	277	82	359
Other	(136)	—	—	(136)
Balance as of March 31, 2005	371,865	70,734	1,968	444,567
Currency translation	24	(5,271)	33	(5,214)
Goodwill on businesses acquired	28,993	—	—	28,993
Actual earnout payments	—	—	41	41
Other	116	221	—	337
Balance as of March 31, 2006	\$ 400,998	\$ 65,684	\$ 2,042	\$ 468,724

At March 31, 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:

	March 31, 2005			March 31, 2006		
	Gross Carrying Amount	Accum. Amort.	Net Carrying Amount	Gross Carrying Amount	Accum. Amort.	Net Carrying Amount
Non-compete agreements	\$ 2,676	\$ 1,105	\$ 1,571	\$ 4,894	\$ 1,851	\$ 3,043
Customer relationships	11,699	114	11,585	25,654	997	24,657
Acquired backlog	3,930	668	3,262	3,935	3,934	1
Total	\$ 18,305	\$ 1,887	\$ 16,418	\$ 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 Fiscal 2004, 2005 and 2006 was \$246, \$1,332 and \$4,999, respectively. The estimated intangible amortization expenses for the next five years are as follows:

Years Ending March 31,	
2007	\$ 2,135
2008	2,097
2009	1,953
2010	1,903
2011	995
Thereafter	18,618
	<u>\$27,701</u>

Intangible assets not subject to amortization consist solely of the Company's trademark portfolio. The net carrying amount was \$27,739 at March 31, 2005 and 2006.

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

	Trademarks	Non-Competes and Backlog	Customer Relationships	Goodwill	Total
Balance as of March 31, 2005	\$ 27,739	\$ 4,833	\$ 11,585	\$ 444,567	\$ 488,724
Change in net intangible assets during the period related to:					
Amortization expense	—	(4,116)	(883)	—	(4,999)
Currency translation	—	(24)	—	(5,214)	(5,238)
Acquisitions	—	2,351	13,955	30,668	46,974
Adjustment on previous acquisitions	—	—	—	(1,675)	(1,675)
Other	—	—	—	378	378
Balance as of March 31, 2006	\$ 27,739	\$ 3,044	\$ 24,657	\$ 468,724	\$ 524,164

Note 6: Indebtedness

Long-term debt consisted of the following:

	March 31,	
	2005	2006
Revolving credit agreement	\$146,560	\$ 121,303
Capital lease obligations	772	1,891
Other	556	528
Total debt	147,888	123,722
Less: current portion	(692)	(1,049)
Long-term debt	\$147,196	\$ 122,673

In June 2004, the Company entered into a \$120,000 amended and restated credit facility with Citizens Bank of Pennsylvania, as agent, and a group of lenders (the "Amended and Restated Credit Facility"). Under the Amended and Restated Credit Facility, up to \$5,000 was available for use under a swing line facility (at a LIBOR rate plus a margin) and up to \$15,000 was available for use in connection with letters of credit. Other borrowings under the Amended and Restated Credit Facility bore interest, at the Company's option, at either the banks' base rate or the LIBOR rate, in each case plus a margin. The applicable margins were adjusted each quarter based on the consolidated leverage ratio and ranged from 0.00% to 0.75% for the base rate and 0.75% to 1.75% for the LIBOR rate. The Company was also subject, under the Amended and Restated Credit Facility, to various financial and non-financial covenants. The Amended and Restated Credit Facility was scheduled to expire on August 31, 2008.

On January 24, 2005, in connection with the acquisition of Norstan (see Note 18), the Company amended and restated the Amended and Restated Credit Facility (the "Second Amended and Restated Credit Facility"), also with Citizens Bank of Pennsylvania, as agent, and a group of lenders. Borrowings under the Second Amended and Restated Credit Facility were permitted up to a maximum amount of \$240,000, including up to \$15,000 of swingline loans and \$25,000 of letters of credit. Interest on outstanding indebtedness under the Second Amended and Restated Credit Facility accrued, 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 1.50% (determined by a leverage ratio based on the Company's EBITDA). The other terms and conditions of the Second Amended and Restated Credit Facility were substantially the same as the Amended and Restated Credit Facility.

On March 28, 2006, the Company amended the Second Amended and Restated Credit Facility, also with Citizens Bank of Pennsylvania, as agent, and a group of lenders. Borrowings under the Second Amended and Restated Credit Facility, as amended (the "Credit Agreement"), are permitted up to a maximum amount of \$310,000, including up to \$15,000 of swingline 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.

During the year ended March 31, 2006, the maximum amount and weighted average balance outstanding under the Credit Agreement was \$173,535 and \$155,898, respectively. As of March 31, 2006, the Company had \$3,065 outstanding in letters of credit and \$185,632 available under the Credit Agreement. The weighted average interest rate on all outstanding debt during the year ended March 31, 2006 was approximately 5.10%. At March 31, 2006, the Company is in compliance with all required covenants under the Credit Agreement.

During the year ended March 31, 2006, the Company has incurred an aggregate of \$180 in financing costs associated with the execution of the Second Amended and Restated Credit Facility and the amendment to the Second Amended and Restated Credit Facility on March 28, 2006. These costs are being amortized over the life of the Credit Agreement and are recognized as a component of interest expense. For the year ended March 31, 2006, the Company recognized \$15 in interest expense related to these costs.

The capital lease obligations are primarily for facilities and equipment. The lease agreements have remaining terms ranging from less than one 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 to five years with interest rates ranging from 0% to 7.1%.

Aggregate maturities of long-term debt for the next five years are as follows:

Years Ending March 31,	
2007	\$ 1,049
2008	596
2009	527
2010	247
2011	121,303
Thereafter	—
	<u>\$ 123,722</u>

Note 7: Discounted Lease Rentals

Through the acquisition of Norstan (see Note 18), the Company has recorded discounted lease rentals. Norstan historically utilized the lease receivables (see Note 2) and corresponding underlying equipment to borrow funds from financial institutions at fixed rates on a nonrecourse basis by discounting the stream of future lease payments. Proceeds from discounting are recorded on the Consolidated Balance Sheet as discounted lease rentals. Interest rates on these credit agreements range from 6.0% to 8.0% and payments are generally due in varying monthly installments through March 2007.

Discounted lease rentals consisted of the following:

	March	
	2005	2006
Total discounted lease rentals	\$ 920	\$ 30
Less – current maturities	(890)	(30)
Long-term discounted lease rentals	\$ 30	\$ —

Note 8: 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 year ended March 31, 2006.

At March 31, 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 \$66,870 and a fair value of \$64,411 and mature within the next 36 months.

For the year ended March 31, 2006, the Company recognized in earnings approximately \$865 in net gains on matured contracts. As of March 31, 2006, a gain of \$1,142 was included in OCI. This gain is expected to be included in 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.

Note 9: Operating Leases

The Company is obligated under various operating lease agreements for certain office facilities and equipment. Certain of these leases contain renewal options and rent escalation clauses.

Future minimum lease payments under noncancelable operating leases with initial or remaining terms of one year or more as of March 31, 2006 are as follows:

Years Ending March 31,	
2007	\$ 13,746
2008	11,306
2009	8,908
2010	7,102
2011	5,769
Thereafter	7,019
	<u>\$ 53,850</u>

For the years ended March 31, 2004, 2005 and 2006, rent expense was \$9,395, \$12,484 and \$16,059, respectively. Included in the above amounts is approximately \$10,438 related to restructuring and other charges (see Note 17).

Note 10: Discontinued Operations

The Company has recorded net assets and liabilities of discontinued operations from the acquisition of Norstan (see Note 18). These discontinued operations were related to the divestiture of Norstan's IT consulting business in 2001 and the sale of their Network Services business in 2002.

Net assets (liabilities) of discontinued operations included the following:

	March	
	2005	2006
Assets:		
Cash, accounts receivable and inventories	\$ 125	\$ 81
Notes receivable and property	826	386
Liabilities:		
Other liabilities	(29)	—
Net assets of discontinued operations	922	467
Less: current portion liabilities (assets)	(549)	(467)
Net non-current assets (liabilities) of discontinued operations	\$ 373	\$ —

Note 11: Income Taxes

The domestic and foreign components of pretax income from continuing operations for the years ended March 31 are as follows:

	2004	2005	2006
Domestic	\$ 59,516	\$ 35,773	\$ 40,231
Foreign	13,729	9,893	16,805
Consolidated	\$ 73,245	\$ 45,666	\$ 57,036

The provision/(benefit) for income tax charged to continuing operations for the years ended March 31 are as follows:

	2004	2005	2006
Current:			
Federal	\$ 20,356	\$ 12,784	\$ 11,506
State	1,151	1,118	1,230
Foreign	4,629	3,449	5,038
Total current	26,136	17,351	17,774
Deferred	(134)	(1,597)	1,904
Total provision for income taxes	\$ 26,002	\$ 15,754	\$ 19,678

Reconciliations between income taxes from continuing operations computed using the federal statutory income tax rate and the Company's effective tax rate for the years ended March 31 are as follows:

	2004	2005	2006
Federal statutory tax rate	35.0%	35.0%	35.0%
Foreign taxes, net of foreign tax credits	1.0	0.6	—
Effect of permanent book/tax differences	(0.9)	1.0	2.2
State income taxes, net of federal benefit	0.6	(0.2)	0.8
Valuation allowance	—	(2.7)	(2.5)
Other, net	(0.2)	0.8	(1.0)
Effective tax rate	35.5%	34.5%	34.5%

The components of current and long-term deferred tax liabilities/assets at March 31 are as follows:

	2005	2006
Deferred Tax Liabilities:		
Tradename and trademarks	\$ 9,685	\$ 9,684
Amortization of intangibles	7,385	8,940
Unrequited earnings of Japanese subsidiary	1,283	2,109
Basis of fixed assets	4,089	4,586
Other	—	22
Gross deferred tax liabilities	22,442	25,341
Deferred Tax Assets:		
Net operating losses	15,752	16,519
Restructuring reserves	6,090	6,462
Outsourced leases	6,403	6,403
Basis of finished goods inventory	2,541	3,166
Reserve for bad debts	2,704	2,796
Miscellaneous accrued expenses	1,372	230
Foreign tax credit carryforwards	1,283	2,109
Accrued employee costs	912	1,093
Foreign exchange	719	719
Other	62	—
Gross deferred tax assets	37,838	39,497
Valuation allowance	(2,367)	(952)
Net deferred tax assets	35,471	38,545
Net deferred tax assets/(liabilities)	\$ 13,029	\$ 13,204

At March 31, 2006, the Company had \$12,083, \$36,834 and \$27,543 of federal, state and foreign net operating loss carryforwards, respectively. As a result of the Company's reorganization in 1992 and concurrent ownership change and the Company's acquisition of Norstan, Section 382 of the Internal Revenue Code limits the amount of net operating losses available to the Company to approximately \$4,148 per year. The federal net operating loss carryforwards expire in Fiscal 2021. The state net operating loss carryforwards expire at various times through Fiscal 2026 and the foreign net operating loss carryforwards expire at various times through Fiscal 2016, with the exception of \$939 for Belgium and \$8,420 for Brazil, which have no expirations.

A valuation allowance is provided when it is more likely than not that some portion or all of the deferred tax assets will not be realized. The Company has recorded a valuation allowance of \$952 for certain foreign net operating loss carryforwards anticipated to produce no tax benefit. The valuation allowance was decreased in Fiscal 2006 by \$1,415 in order to recognize the ability to use certain foreign net operating loss carryforwards.

In general, except for certain earnings in Japan, it is management's intention to reinvest undistributed earnings of foreign subsidiaries, which aggregate approximately \$14,954 based on exchange rates at March 31, 2006. However, from time to time, the foreign subsidiaries declare dividends to the U.S. parent, at which time the appropriate amount of tax is determined. Also, additional taxes could be necessary if foreign earnings were loaned to the parent or if the Company should sell its stock in the subsidiaries. It is not practicable to estimate the amount of additional tax that might be payable on undistributed foreign earnings.

Note 12: Incentive Compensation Plans

Performance Bonus

The Company has a variable compensation plan covering certain team members. This plan provides for the payment of a bonus based on the attainment of certain annual or quarterly performance targets. The amount expensed under this variable compensation plan for the years ended March 31, 2006, 2005 and 2004 was \$5,431, \$1,123 and \$2,523, respectively.

Profit Sharing and Savings Plan

The Company has various profit sharing and savings plans (the "Plans") which qualify as deferred salary arrangements under Section 401(k) of the Internal Revenue Code. Under the Plans, participants are permitted to contribute various percentages of their compensation, as defined, and the Company matches a percentage of the participant's contributions. The total Company contribution for the years ended March 31, 2006, 2005 and 2004 was \$3,532, \$2,243 and \$2,992, respectively.

Stock Option Plans

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 March 31, 2006, the Employee Plan authorized the issuance of options and stock appreciation rights ("SARs") for up to 9,200,000 shares of the Common Stock. Options are issued by the Board of Directors or a Board committee to key employees of the Company and generally become exercisable in equal amounts over a three-year period. Option prices are equal to the fair market value of the stock on the date of the grant. No SARs have been issued.

The Director Plan authorizes the issuance of options and SARs for up to 250,000 shares of the Common Stock. Options are issued by the Board of Directors or a Board designee and generally become exercisable in equal amounts over a three-year period. Option prices are equal to the fair market value of the Common Stock on the date of the grant. No SARs have been issued.

The following is a summary of the Company's stock option plans for the years ended March 31:

	2004		2005		2006	
<i>Shares in thousands</i>	Shares	Weighted Average Exercise Price	Shares	Weighted Average Exercise Price	Shares	Weighted Average Exercise Price
Outstanding at beginning of year	4,487	\$ 34.30	4,414	\$ 36.40	4,780	\$ 37.14
Granted	911	39.68	924	34.86	1,256	38.51
Exercised	(799)	27.71	(381)	20.78	(753)	30.95
Forfeited	(185)	39.01	(177)	42.01	(228)	39.84
Outstanding at end of year	4,414	\$ 36.40	4,780	\$ 37.14	5,055	\$ 38.28
Exercisable at end of year	2,935	\$ 34.93	3,143	\$ 37.33	4,247	\$ 39.07
Weighted average incremental fair value of options granted during the year using Black-Scholes option pricing model		\$ 20.00		\$ 18.19		\$18.33

The following table summarizes information about the stock options outstanding at March 31, 2006:

Range of Exercise Prices	Shares Outstanding	Options Outstanding		Options Exercisable	
		Weighted Average Remaining Contractual Life	Weighted Average Exercise Price	Shares Exercisable	Weighted Average Exercise Price
\$19.9500 - \$26.60	328,335	1.9 years	\$ 22.47	328,335	\$ 22.47
\$26.6001 - \$33.25	367,329	3.1 years	30.07	364,528	30.07
\$33.2501 - \$39.90	1,985,052	9.0 years	36.93	1,179,109	38.82
\$39.9001 - \$46.55	2,215,840	5.7 years	42.38	2,215,840	42.38
\$46.5501 - \$53.20	155,120	3.6 years	49.39	155,120	49.39
\$53.2001 - \$59.85	1,668	3.8 years	55.88	1,668	55.88
\$59.8501 - \$66.50	2,000	3.7 years	63.22	2,000	63.22
\$ 19.95 - \$66.50	5,055,344	6.5 years	\$ 38.28	4,246,600	\$ 39.07

Note 13: Earnings Per Share

The following table details this calculation for the years ended March 31:

	2004	2005	2006
Net income, as reported	\$ 47,243	\$ 29,912	\$37,358
Weighted average shares outstanding	18,173	17,411	17,164
Effect of dilutive securities from employee stock options, net of tax savings	593	434	380
Weighted average diluted shares outstanding	18,766	17,845	17,544
Basic earnings per share	\$ 2.60	\$ 1.72	\$ 2.18
Dilutive earnings per share	\$ 2.52	\$ 1.68	\$ 2.13

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 1,287,219, 875,060 and 941,749 non-dilutive options outstanding during the years ended March 31, 2006, 2005 and 2004, respectively, that are not included in the above calculation.

Note 14: Repurchase of Common Stock

In April 1999, the Board of Directors of the Company initiated a plan to repurchase shares of the Common Stock. During Fiscal 2006, the Company repurchased approximately 565 shares for an aggregate purchase price of \$27. During Fiscal 2005, the Company repurchased approximately 1,400,000 shares for an aggregate purchase price of \$56,912. During Fiscal 2004, the Company repurchased approximately 1,700,000 shares for an aggregate purchase price of \$76,338 and paid \$4,719 for treasury share repurchases payable in relation to Fiscal 2003 repurchases. Since inception of the repurchase program, approximately 6,935,000 shares have been repurchased at a total cost of approximately \$297,000. Funding for the stock repurchases came primarily from cash flow from operations.

The Company expects to continue to repurchase shares of the Common Stock; however, no assurance can be given as to the timing or amount of future repurchases. The Credit Agreement (see Note 6) provides that the Company is not permitted to repurchase Common Stock if the Company is in default under the Credit Agreement or would be in default under the Credit Agreement as a result of such repurchase.

Note 15: Comprehensive Income

The components of accumulated other comprehensive income as of March 31:

	2005	2006
Foreign currency translation adjustment	\$ 22,699	\$ 12,041
Unrealized (losses)/gains on derivatives designated and qualified as cash flow hedges, net of reclassification of unrealized losses on expired derivatives, net of tax	(147)	995
Total accumulated other comprehensive income	\$ 22,552	\$ 13,036

Note 16: Commitments and Contingencies Litigation

The Company is, as a normal part of its business operations, a party to legal proceedings in addition to those described in current and previous filings. Based on the facts currently available, management believes legal matters are adequately provided for, covered by insurance, without merit or not probable that an unfavorable outcome will result.

As previously disclosed, the Company received a subpoena, dated December 8, 2004, from the United States General Services Administration ("GSA"), Office of Inspector General. The subpoena requires production of documents and information. The Company understands that the materials are being sought in connection with an investigation regarding potential violations of the terms of a GSA Multiple Award Schedule contract. The Company has not received any communication on this matter from the GSA since June 2005.

Product Warranties

Changes in the liability for product warranties are as follows:

	March 31,		
	2004	2005	2006
Beginning balance	\$ 184	\$ 422	\$ 1,895
Increases to warranty reserve	360	233	62
Increases to reserve from acquisitions	—	1,683	—
Decreases for service costs	(122)	(443)	(574)
Ending balance	\$ 422	\$ 1,895	\$ 1,383

The accrual for product warranties is classified with other accrued expenses in the Consolidated Balance Sheets. The expense for product warranties is classified with cost of sales in the Consolidated Statements of Income.

Note 17: Restructuring and Other Charges

During the first quarter of Fiscal 2006, the Company recorded a restructuring charge of \$5,290 related to staffing level adjustments and real estate consolidation in Europe and North America. This charge was in connection with the restructuring initiated in the fourth quarter of Fiscal 2005 and discussed below. The majority of restructuring costs have now been recognized with the exception of certain facility costs, which will extend through Fiscal 2012.

During the fourth quarter of Fiscal 2005, the Company recorded restructuring and other charges of \$5,059. This amount was comprised of restructuring expense of \$3,019 related to staffing level adjustments and real estate consolidations, as well as other charges of \$2,040 related to the satisfaction of a previously disclosed litigation judgment. These charges are discussed in further detail below.

In the fourth quarter of Fiscal 2005, the Company recorded a restructuring charge of \$3,019 primarily related to staffing level adjustments and real estate consolidations in its Europe and North America segments. The restructuring was initiated as the Company continued to right-size the organization and bring its expense structure in-line with anticipated revenues and changing market demand for its solutions and services. As a result of the restructuring actions, approximately 28 employees were involuntarily terminated in its Europe segment resulting in a restructuring charge of \$613. The Company also recorded a charge of \$2,406 related to idle facility rent obligations and the write-off of leasehold improvements related to these facilities. \$2,016 and \$390 related to real estate consolidations in North America and Europe, respectively.

Upon completion of the acquisition of Norstan, Company management committed to a plan of reorganization of the Norstan operations. Restructuring accruals under SFAS No. 141 of approximately \$14,761 have been recorded in both short and long term liabilities. See Note 18 for additional information on the restructuring charges related to the acquisition of Norstan.

As a result of the second quarter Fiscal 2006 acquisition of substantially all of the assets and certain liabilities of Universal Solutions of North America, L.L.C. and related entities ("Universal"), the Company's management committed to a plan of reorganization of Universal's operations. In connection with these integration actions, the Company incurred integration costs for facility consolidations of \$364. These costs were included in the purchase price allocation for Universal in accordance with SFAS No. 141. Facility costs to be paid are anticipated to extend through Fiscal 2008.

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

	Employee Severance	Facility Closures	Total
Accrued March 31, 2004	\$ 352	\$ 241	\$ 593
Restructuring charge	613	2,406	3,019
Acquisition restructuring	2,887	11,874	14,761
Asset write-downs	—	(122)	(122)
Cash expenditures	(1,063)	(590)	(1,653)
Accrued March 31, 2005	2,789	13,809	16,598
Restructuring charge	3,473	1,817	5,290
Acquisition restructuring	66	298	364
Asset write-downs	—	(636)	(636)
Cash expenditures	(6,068)	(4,850)	(10,918)
Accrued at March 31, 2006	\$ 260	\$ 10,438	\$ 10,698

As previously disclosed, the Company had appealed an adverse arbitration award. By opinion filed March 9, 2005, the Court of Appeals affirmed the decision of the District Court confirming the award. The Company recorded a charge of \$2,040 that is classified with restructuring and other charges on the Consolidated Statements of Income. This charge was comprised of \$1,778 awarded to the plaintiff, which included interest, fees and costs as well as \$262 of legal fees incurred by the Company previously capitalized in Goodwill. The Company accrued the award of \$1,800 within accrued liabilities on the Consolidated Balance Sheet. On May 6, 2005, the Company paid the award of \$1,800 in satisfaction of this judgment in full.

Note 18: Acquisitions

Fiscal 2006

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 \$9,950 and \$4,263, 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 to be amortized over a period of five to twenty years.

During the second quarter of Fiscal 2006, the Company acquired substantially all of the assets and certain liabilities of 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 prepared preliminary allocations of goodwill and definite-lived intangible assets of \$11,971 and \$4,899, 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 twenty 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 twenty years.

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 individual acquisition dates during Fiscal 2006. 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.

Fiscal 2005

On December 20, 2004, the Company signed a definitive agreement to acquire all of the outstanding shares of Norstan common stock for \$5.60 per share in cash via a tender offer and merger. On January 25, 2005, the Company completed its cash tender offer and purchased approximately 86% of the outstanding shares of Norstan common stock. Also, on January 25, 2005, the Company acquired 6,000,000 Norstan shares through the exercise of a stock option granted by Norstan. The Company's exercise of the option resulted in the Company owning in excess of 90% of the outstanding shares of Norstan and qualified the Company to complete a short-form merger under Minnesota law. The remaining Norstan shares not acquired in the tender offer were then acquired through the short-form merger, also effected on January 25, 2005. In the merger, each share of Norstan common stock was converted into the right to receive \$5.60 per share in cash, the same consideration paid for shares in the tender offer. As a result of the tender offer and merger, Norstan is now a wholly-owned subsidiary of the Company.

The Company paid a total of \$77,717 for all outstanding shares through the cash tender offer and subsequent merger. The Company also paid \$5,764 for all vested and unvested options and warrants outstanding at the date of the merger. In addition, the Company repaid Norstan's credit facility outstanding at the date of the merger of \$17,500 and incurred transaction costs of \$6,428 directly related to the acquisition (consisting primarily of banking, key-employee change of control payments and other professional fees), bringing the total acquisition cost to approximately \$102,553, net of cash acquired of \$4,856. The cost of the Norstan acquisition was funded with borrowings under the Credit Agreement described in Note 6.

The following table summarizes the fair value of the assets acquired and liabilities assumed at the date of acquisition. The allocation of the purchase price was final as of March 31, 2005.

	At January 25, 2005
Current assets, primarily consisting of accounts receivable and inventories	\$ 71,141
Property, plant and equipment	12,649
Other non-current assets, primarily consisting of deferred taxes	18,779
Intangible assets	15,971
Goodwill	58,741
Total assets acquired	177,281
Current liabilities, primarily consisting of deferred revenue and accrued expenses	61,128
Other non-current liabilities, primarily consisting of restructuring accrual	8,744
Net assets acquired	\$107,409

The amounts assigned to intangible assets are shown below:

Non-compete agreements	\$ 342
Backlog	3,930
Customer relationships	11,699
Total intangible assets	\$ 15,971

The amortization period is three years for non-compete agreements, one year for backlog and 20 years for customer relationships.

The transaction resulted in \$58,742 of goodwill, none of which is deductible for tax purposes. The Company paid a premium for Norstan 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 and customer market, providing for a stronger worldwide technical services partner for its collective clients.

After consummation of the acquisition, the Company began to integrate Norstan's products, employees and facilities with its own. In connection with these integration actions, the Company incurred severance costs of \$2,887 for the separation of approximately 150 employees. In addition, the Company incurred integration costs for facility consolidations of \$11,874. These costs were properly included in the purchase price allocation for Norstan, in accordance with the SFAS No. 141. The majority of the severance costs were paid in Fiscal 2006 with certain facility costs extending through Fiscal 2012.

The following unaudited pro forma summary presents the Company's results of operations as if the acquisition had occurred at the beginning of the period indicated and does not purport to represent what the Company's results of operations would have been had the acquisition 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. The pro forma results of operations include adjustments to give effect to amortization of intangibles and other 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.

	Year Ended	
	March 31, 2004	March 31, 2005
Pro forma revenue	\$ 746,261	\$ 716,853
Pro forma net income from continuing operations	32,732	22,451
Pro forma earnings per share:		
Basic	\$ 1.80	\$ 1.29
Diluted	\$ 1.74	\$ 1.26

Norstan had an April fiscal year-end, which differed from the Company's March year-end. However, as the difference was less than 93 days, the pro forma information compiled for the fiscal year ended March 31, 2004 was not required to be adjusted to account for the different year-ends. For the fiscal year ended 2005 pro forma information, the Company's audited income statement for the year ended March 31, 2005 (which included Norstan's results of operations effective January 25, 2005) was combined with Norstan's unaudited income statement for the period April 1, 2004 through January 25, 2005.

Note 19: Segment Reporting

As required by SFAS No. 131, "Disclosures about Segments of an Enterprise and Related Information" ("SFAS No. 131"), the Company reports the results of its operating segments. During the fourth quarter of Fiscal 2003, the Company changed its primary segments to be 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 No. 131, the Company aggregates similar operating segments into reportable segments.

The accounting policies of the various segments are the same as those described in "Summary of Significant Accounting Principles" in Note 1. 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 for the years ended March 31:

	2004	2005	2006
North America			
Revenues	\$ 341,299	\$ 355,013	\$ 564,700
Operating income	44,281	26,798	53,550
Depreciation	4,515	5,144	8,012
Amortization	46	878	4,472
Segment assets	557,239	705,762	745,746
Europe			
Revenues	\$ 142,158	\$ 142,838	\$ 120,051
Operating income	21,812	13,639	5,518
Depreciation	1,670	1,213	671
Amortization	177	398	491
Segment assets	131,302	134,982	116,717
All Other			
Revenues	\$ 36,955	\$ 37,225	\$ 36,584
Operating income	9,107	8,099	7,127
Depreciation	334	266	248
Amortization	23	56	36
Segment assets	15,981	15,357	16,416

Operating income for Fiscal 2005 for North America and Europe was reduced by \$4,056 and \$1,003, respectively, for restructuring and other charges incurred during that year.

Operating income for Fiscal 2006 for North America and Europe was reduced by \$1,548 and \$3,742, respectively, for restructuring charges incurred during that year.

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 for the years ending March 31:

	2004	2005	2006
Assets for North America, Europe and All Other segments	\$ 704,522	\$ 856,101	\$ 878,879
Corporate eliminations	(88,233)	(83,211)	(79,145)
Total consolidated assets	\$ 616,289	\$ 772,890	\$ 799,734

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

Revenues	2004	2005	2006
Data Services ⁽¹⁾	\$ 214,299	\$ 200,935	\$ 196,585
Voice Services ⁽¹⁾	68,241	106,540	310,804
Hotline Products	237,872	227,601	213,946
Total revenues	\$ 520,412	\$ 535,076	\$ 721,335

⁽¹⁾ Data Services and Voice Services are also collectively referred to as "On-Site Services."

Note 20: Quarterly Data (Unaudited)

	First Quarter	Second Quarter	Third Quarter	Fourth Quarter	Year
Fiscal 2005					
Revenues					
Hotline products	\$ 57,852	\$ 56,972	\$ 57,267	\$ 55,510	\$ 227,601
On-site services	<u>66,503</u>	<u>69,623</u>	<u>69,629</u>	<u>101,720</u>	<u>307,475</u>
Total	124,355	126,595	126,896	157,230	535,076
Gross profit					
Hotline products	30,978	30,217	29,400	28,725	119,320
On-site services	<u>20,902</u>	<u>22,098</u>	<u>21,618</u>	<u>30,991</u>	<u>95,609</u>
Total	51,880	52,315	51,018	59,716	214,929
Net income	\$ 10,003	\$ 10,623	\$ 9,249	\$ 37	\$ 29,912
Basic earnings per common share	0.56	0.61	0.54	0.00	1.72 ⁽¹⁾
Diluted earnings per common share	0.54	0.60	0.52	0.00	1.68 ⁽¹⁾
Fiscal 2006					
Revenues					
Hotline products	\$ 53,542	\$ 54,056	\$ 52,771	\$ 53,667	\$ 213,946
On-site services	<u>125,830</u>	<u>130,994</u>	<u>129,364</u>	<u>121,201</u>	<u>507,389</u>
Total	179,282	185,050	182,135	174,868	721,335
Gross profit					
Hotline products	27,578	27,227	26,463	24,458	105,726
On-site services	<u>43,362</u>	<u>46,655</u>	<u>46,939</u>	<u>39,668</u>	<u>176,624</u>
Total	70,940	73,882	73,402	64,126	282,350
Net income	\$ 7,394	\$ 12,797	\$ 12,511	\$ 4,656	\$ 37,358
Basic earnings per common share	0.44	0.75	0.72	0.26	2.18 ⁽¹⁾
Diluted earnings per common share	0.43	0.74	0.70	0.26	2.13 ⁽¹⁾

(1) Earnings per share for the year is different than the sum of the quarterly earnings per share due to rounding and average share prices.

During the fourth quarter of Fiscal 2006, the Company incurred a pre-tax charge of \$7.1 million related to an adjustment of earnings over multiple years, from Fiscal 2003 through Fiscal 2006, from the Company's Italian Operations (the "Italian Operations Adjustment"). The Italian Operations Adjustment resulted from intentional misconduct by certain local operational and financial managers of the Company's Italian Operations acting in collusion with one another for the purpose of overstating local financial results.

The Company's management concluded, with the concurrence of the Audit Committee of the Board of Directors, that the impact of the Italian Operations Adjustment was not material to the Company's consolidated financial statements for any interim or annual period between Fiscal 2003 through Fiscal 2006. In reaching this conclusion, the Company reviewed and analyzed the SEC's Staff Accounting Bulletin No. 99, "Materiality," in order to determine that the impact was not material on a quantitative or qualitative basis to any one period. As a result, the Company recorded a cumulative adjustment in the fourth quarter of Fiscal 2006.

Controls and Procedures

Evaluation of Disclosure Controls and Procedures

An evaluation was performed, under the supervision and with the participation of Company management, including the Chief Executive Officer ("CEO") and Chief Financial Officer ("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 "Act")). 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. Based on that evaluation, management, including the CEO and CFO, has concluded that, as of March 31, 2006, the Company's disclosure controls and procedures were effective in all material respects at the reasonable assurance level to ensure that information required to be disclosed in reports that the Company files or submits under the Act is recorded, processed, summarized and timely reported in accordance with the rules and forms of the SEC.

Management's Report on Internal Control Over Financial Reporting

Company management is responsible for establishing and maintaining adequate internal control over financial reporting; as such term is defined in Rule 13a-15(f) under the Act. Under the supervision and with the participation of Company management, including the CEO and CFO, an evaluation was performed of the effectiveness of the Company's internal control over financial reporting. The evaluation was based on the framework in "Internal Control - Integrated Framework" issued by the Committee of Sponsoring Organizations of the Treadway Commission ("COSO"). There are inherent limitations in the effectiveness of any internal control, including the possibility of human error and the circumvention or overriding of controls. Accordingly, even effective internal controls over financial reporting can provide only reasonable assurance with respect to financial statement preparation. Further, because of changes in conditions, the effectiveness of internal control may vary over time. Based on the evaluation under the framework in "Internal Control - Integrated Framework" issued by COSO, Company management concluded that the Company's internal control over financial reporting was effective at the reasonable assurance level as of March 31, 2006.

The scope of management's assessment of the effectiveness of internal controls over financial reporting includes all of the Company's businesses except for Universal, C=Win and CSG. The businesses represented approximately 6% and 3% of total assets and revenues, respectively, as of March 31, 2006.

Attestation Report of the Registered Public Accounting Firm

Company management's assessment of the effectiveness of its internal control over financial reporting as of March 31, 2006 has been audited by BDO Seidman, LLP, an independent registered public accounting firm, as stated in its report which appears below.

Changes in Internal Control Over Financial Reporting

In the fourth fiscal quarter ended March 31, 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.

Report of Independent Registered Public Accounting Firm on Internal Control over Financial Reporting

Board of Directors
Black Box Corporation
Lawrence, Pennsylvania

We have audited management's assessment, included in the accompanying Management's Report that Black Box Corporation maintained effective internal control over financial reporting as of March 31, 2006, based on criteria established in Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (the COSO criteria). The Company's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting. Our responsibility is to express an opinion on management's assessment and an opinion on the effectiveness of the Company's internal control over financial reporting based on our audit.

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

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

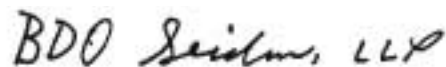
Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree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

As indicated in the accompanying Management's Report on Internal Control Over Financial Reporting, management's assessment of and conclusion on the effectiveness of internal control over financial reporting did not include the internal controls of three locations, which the Company acquired on various dates throughout fiscal year 2006, and whose financial statements reflect total assets and total revenues constituting 6% and 3%, respectively, of the related consolidated financial statements as of and for the year ended March 31, 2006. Our audit of internal control over financial reporting of the Company also did not include an evaluation of the internal control over financial reporting of these three locations.

In our opinion, management's assessment that the Company maintained effective internal control over financial reporting as of March 31, 2006, is fairly stated, in all material respects, based on the COSO criteria. Also in our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of March 31, 2006, based on the COSO criteria.

We have also audited, in accordance with the standards of the Public Company Accounting Standards Board (United States), the consolidated balance sheets of Black Box Corporation as of March 31, 2006 and 2005, and the related consolidated statements of income, shareholder's equity and cash flows for the years then ended and our report dated May 26, 2006 expressed an unqualified opinion on those consolidated financial statements.

BDO Seidman, LLP



Chicago, Illinois
May 26, 2006

Non-GAAP Reconciliations:

A reconciliation of diluted earnings per common share (EPS) to diluted EPS excluding special items is presented below:

	FY05	FY06
Diluted EPS	\$ 1.68	\$ 2.13
EPS impact of restructuring and other charges	0.19	0.20
EPS impact of reconciling items	0.26	0.48
Diluted EPS excluding special items	\$ 2.13	\$ 2.81

A reconciliation of net income to net income excluding special items is presented below:

	FY05	FY06
Net income	\$ 29,912	\$ 37,358
% of revenues	5.6%	5.2%
Restructuring and other charges, after tax impact	3,314	3,465
Reconciling items, after tax impact	4,650	8,431
Net income excluding special items	\$ 37,876	\$ 49,254
% of revenues	7.1%	6.8%

A reconciliation of operating income to operating income excluding special items is presented below:

	FY05	FY06
Operating income	\$ 48,536	\$ 66,195
% of revenues	9.1%	9.2%
Restructuring and other charges	5,059	5,290
Reconciling items	7,100	12,875
Operating income excluding special items	\$ 60,695	\$ 84,360
% of revenues	11.3%	11.7%

A reconciliation of operating income to EBITDA is presented below:

	FY05	FY06
Operating income	\$ 48,536	\$ 66,195
% of revenues	9.1%	9.2%
Depreciation	6,623	8,931
Amortization	1,332	4,999
EBITDA	\$ 56,491	\$ 80,125
% of revenues	10.6%	11.1%

Investor Information

Corporate Headquarters

1000 Park Drive, Lawrence, PA 15055
Telephone: (724) 746-5500;
Facsimile: (724) 746-0746;
Web: blackbox.com

Dividend Policy

Cash dividends of \$0.05 per share of Common Stock were paid each of the first two quarters of Fiscal 2005 on April 15, 2004 and July 15, 2004, respectively. Cash dividends were increased to \$0.06 per share for each of the final two quarters of Fiscal Year 2005 and each of the four quarters of Fiscal Year 2006.

Investor Relations

To receive further information about Black Box Corporation, including copies of press releases; Annual, Quarterly, and Current Reports; and other SEC Filings—without charge—contact:

Investor Relations Department
1000 Park Drive, Lawrence, PA 15055
Telephone: (724) 873-6788;
Facsimile: (724) 873-6799
Or visit the Black Box Web site: blackbox.com.

Registrar and Transfer Agent

American Stock Transfer & Trust Company
59 Maiden Lane, New York, NY 10038
Telephone: (718) 921-8275; Facsimile: (718) 921-8331

Corporate Counsel

Buchanan Ingersoll PC
One Oxford Centre, 301 Grant Street, 20th Floor
Pittsburgh, PA 15219-1410

Annual Meeting

The Annual Meeting of Stockholders will take place on Tuesday, August 8, 2006.

Worldwide Locations

Headquartered in the United States, the Company operates subsidiaries in Australia, Austria, Belgium, Brazil, Canada, Chile, Denmark, Finland, France, Germany, Italy, Japan, Mexico, the Netherlands, New Zealand, Norway, Puerto Rico, Singapore, Spain, Sweden, Switzerland, and the United Kingdom, and services clients in 141 countries.

2006 Worldwide Executive Management Team



Directors

William F. Andrews, Chairman, Corrections Corporation of America and Katy Industries, Inc.; Principal, Kohlberg & Co.; Director, Corrections Corporation of America, Katy Industries, Inc., O'Charley's, Inc., and Trex Company, Inc.

Richard L. Crouch, retired General Partner, PricewaterhouseCoopers LLP

Thomas Golonski, retired Chairman, President, and Chief Executive Officer, National City Bank of Pennsylvania, and retired Executive Vice President, National City Corporation

Thomas G. Greig, Managing Director, Liberty Capital Partners; Director, Rudolph Technologies, Inc.

Edward A. Nicholson, Ph.D., retired President, Robert Morris University; Director, Shopsmith Inc.

Fred C. Young, Chief Executive Officer, Black Box Corporation; Director, Citizens Bank of Pennsylvania



Fred C. Young
Chief Executive Officer



Mike McAndrew
Chief Financial Officer



Roger Croft
Senior Vice President



Francis Wertheimer
Senior Vice President

Common Stock Information

As of March 31, 2006, there were 2,242 holders of record.

The following table sets forth the fiscal quarterly high and low sale prices of the Company's Common Stock as reported by the NASDAQ National Market.

	High	Low
Fiscal 2005		
1st Quarter	\$ 58.18	\$ 40.20
2nd Quarter	44.88	33.13
3rd Quarter	48.67	35.07
4th Quarter	48.00	33.70
Fiscal 2006		
1st Quarter	\$ 37.93	\$ 31.83
2nd Quarter	45.94	34.93
3rd Quarter	50.45	37.82
4th Quarter	55.37	45.12

Black Box Corporation
World Headquarters



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