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FORM 10-K

SCANSOURCE INC - SCSC

Filed: August 28, 2014 (period: June 30, 2014)

Annual report with a comprehensive overview of the company

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-K

(Mark One)

☒ **Annual Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934**
For the fiscal year ended June 30, 2014

OR

☐ **Transition Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934**
For the transition period from _____ to _____.

Commission File Number: 000-26926



ScanSource, Inc.
(Exact name of registrant as specified in its charter)

South Carolina
(State or other jurisdiction of
incorporation or organization)

6 Logue Court
Greenville, South Carolina
(Address of principal executive offices)

57-0965380
(I.R.S. Employer
Identification No.)

29615
(Zip Code)

(864) 288-2432

(Registrant's telephone number, including area code)

Securities registered pursuant to Section 12(b) of the Act:

Title of Each Class	Name of Each Exchange on Which Registered
Common Stock, no par value	NASDAQ Global Select Market
Securities registered pursuant to Section 12(g) of the Act:	
None.	

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. ☒ Yes ☐ No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. ☐ Yes ☒ No

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). ☒ Yes ☐ No

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§229.405) is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. ☐

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer	<input checked="" type="checkbox"/>	Accelerated filer	<input type="checkbox"/>
Non-accelerated filer (Do not check if a smaller reporting company)	<input type="checkbox"/>	Smaller reporting company	<input type="checkbox"/>

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

The aggregate market value of the voting common stock of the Registrant held by non-affiliates of the Registrant at December 31, 2013 was \$1,198,337,846, as computed by reference to the closing price of such stock on such date.

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date.

Class	Outstanding at August 26, 2014
Common Stock, no par value per share	28,541,465 shares

DOCUMENTS INCORPORATED BY REFERENCE

The registrant has incorporated by referenced into Part III of this report certain portions of its proxy statement for its 2014 Annual Meeting of Shareholders, which is expected to be filed pursuant to Regulation 14A within 120 days after the end of the registrant's fiscal year ended June 30, 2014.

FORWARD-LOOKING STATEMENTS

The forward-looking statements included in the "Business," "Risk Factors," "Legal Proceedings," "Management's Discussion and Analysis of Financial Condition and Results of Operations," and "Quantitative and Qualitative Disclosures About Market Risk" sections and elsewhere herein, which reflect our best judgment based on factors currently known, involve risks and uncertainties. Words such as "expects," "anticipates," "believes," "intends," "plans," "hopes," "forecasts" and variations of such words and similar expressions are intended to identify such forward-looking statements. Except as may be required by law, we expressly disclaim any obligation to update these forward-looking statements to reflect events or circumstances after the date of this Annual Report on Form 10-K or to reflect the occurrence of unanticipated events. Actual results could differ materially from those anticipated in these forward-looking statements as a result of a number of factors including, but not limited to, the factors discussed in such sections and, in particular, those set forth in the cautionary statements contained in "Risk Factors." The forward-looking information we have provided in this Annual Report on Form 10-K pursuant to the safe harbor established under the Private Securities Litigation Reform Act of 1995 should be evaluated in the context of these factors.

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PART I

ITEM 1. Business.

ScanSource, Inc. was incorporated in South Carolina in 1992 and is a leading international wholesale distributor of specialty technology products. ScanSource, Inc. and its subsidiaries ("the Company") provide value-added distribution services for technology manufacturers and sell to resellers in the following specialty technology markets: POS and Barcode, Physical Security, and Communications.

The Company operates in the United States, Canada, Latin America, and Europe and uses centralized distribution centers for major geographic regions. The Company distributes to the United States and Canada from its Southaven, Mississippi distribution center; to Latin America, principally from distribution centers located in Florida, Mexico and Brazil; and to Europe from its distribution center in Belgium.

Business Segments

Historically, the Company's reporting units coincided with its geographic operating segments of North America and International. In the fourth quarter of 2013, the Company reorganized its management structure and reporting to globally leverage the Company's leadership in specific technology markets, changing from a geographic focus to a technology focus. As part of this new structure, the Company formed two operating segments with a global technology focus: Worldwide Barcode and Security ("Barcode/Security") and Worldwide Communications and Services ("Communications/Services"). Each segment is managed around its global technology focus and is supported by centralized infrastructure, including distribution centers and back office operations. Each operating segment has its own management team led by a president and includes regional presidents within the operating group who manage the various functions within each segment. Decisions and planning for the Company as a whole are made at the corporate level by analyzing results from the operating segments.

Worldwide Barcode & Security Segment

The Barcode & Security distribution segment focuses on automatic identification and data capture ("AIDC"), point-of-sale ("POS"), and electronic physical security technologies. We have business units within this segment for sales and merchandising functions, including ScanSource POS and Barcode business units in North America, Latin America, and Europe and the ScanSource Security business unit in North America. We see adjacencies among these technologies in helping our resellers develop solutions, such as with networking products. AIDC and POS products interface with computer systems and are used to automate the collection, processing and communication of information for commercial and industrial applications, including retail sales, distribution, shipping, inventory control, materials handling, warehouse management and health care applications. Electronic physical security products include identification, access control, video surveillance, intrusion-related and wireless infrastructure products. During fiscal year 2014, the Barcode & Security distribution segment added 3D printing solutions to their product offerings that are targeted at the manufacturing, healthcare, aerospace, and automotive markets.

Worldwide Communications & Services Segment

The Communications & Services distribution segment focuses on communications technologies and services. We have business units within this segment for sales and merchandising functions, including the ScanSource Catalyst business unit in North America, ScanSource Communications business units in North America and Europe, and the ScanSource Services Group business unit in North America. ScanSource Catalyst and ScanSource Communications business units market voice, video conferencing, data networking and converged communications solutions. The ScanSource Services Group business unit delivers value-added support programs and services, including education and training, network assessments, custom configuration, implementation and marketing.

Products and Markets

The Company currently markets over 100,000 products from approximately 290 hardware and software vendors to approximately 28,000 reseller customers primarily from its centralized distribution centers in Mississippi, Florida, Mexico, Brazil and Belgium.

The Barcode & Security distribution segment focuses on AIDC, POS, and physical security technologies.

- AIDC technology incorporates the capabilities for electronic identification and data processing without the need for manual input and consists of a wide range of products that include portable data collection terminals, wireless products, bar code label printers and scanners. As AIDC technology has become more pervasive, applications have evolved from traditional uses such as inventory control, materials handling, distribution, shipping and warehouse management to more advanced applications, such as health care.
- POS products include those computer-based systems that have replaced electronic cash registers in grocery, retail and hospitality environments. POS product lines include computer-based terminals, monitors, receipt printers, pole displays, cash drawers, keyboards, peripheral equipment and fully integrated processing units. In addition, ScanSource POS and Barcode business units sell products that attach to the POS network in the store, including kiosks, network access points, routers and digital signage displays.
- Electronic physical security products include identification, access control, video surveillance and intrusion-related products, and networking. Physical security products are used every day across every vertical market to protect lives, property and information; there is a heavy penetration into schools, municipalities, correctional institutions and retail environments. Physical security products are deployed across both wired and wireless infrastructures and often serve as the backbone of the solution. These technology products require specialized knowledge to deploy effective solutions, and ScanSource Security offers in-depth training and education to its partners to enable them to maintain the appropriate skill levels.

The Communications & Services distribution segment focuses on communications technologies and services.

- In Communications, voice and data products include private branch exchanges ("PBXs"), key systems, telephone handsets and components used in voice, fax, data, voice recognition, call center management and IP communication applications. Converged communication products combine voice, data, fax and speech technologies to deliver communications solutions that combine computers, telecommunications and the Internet. Converged communications products include telephone and IP network interfaces, Voice over Internet Protocol ("VoIP") systems, PBX integration products and carrier-class board systems-level products. Video products include video and voice conferencing and network systems; and data networking products include switches, servers and routers.
- Through our ScanSource Services Group business unit, we deliver value-added support programs and services, including education and training, customer configuration, marketing services, network assessments, WiFi services, and partnership programs, including our SUMO partner directory. ScanSource Services Group focuses on reducing complexity, building efficiency, and helping our resellers grow their businesses.

See Item 7, "Management's Discussion and Analysis of Financial Condition and Results of Operations" below for a discussion of the amount of the Company's net sales contributed by product categories.

Industry Overview

The distribution channels for specialty technology products generally consist of manufacturers (also referred to as vendors), wholesale distributors such as ScanSource, resellers and end users. The "sales channel" for specialty technology products typically evolves through a three-stage process: (i) direct sales by manufacturers to end-users; (ii) single-tier distribution in which manufacturers sell to resellers who, in turn, sell directly to end users; and (iii) two-tier, or wholesale distribution, in which manufacturers sell to wholesale distributors, including ScanSource, who sell only to resellers who, in turn, sell directly to end users. Currently, the wholesale distribution channel for technology products is served by both broad line and specialty distributors. The broad line distributors are engaged primarily in conventional order fulfillment and typically offer their reseller customers less support and fewer value-added services than do specialty distributors. The specialty distributors that compete with ScanSource are generally smaller, both in terms of size and geographic area covered.

Competition among an expanding number of manufacturers typically causes product prices to decrease and product applications to expand, which has resulted in an increasing number of resellers entering the market in order to support a broader base of potential end users. As the number of resellers and end-users has grown, competition among manufacturers and within the reseller channel has intensified. Because many specialty technology manufacturers develop products that represent only one part of a total solution, most products eventually are developed to provide interoperability among products from multiple manufacturers. As a result of interoperability, a variety of manufacturers' products are typically configured together to create a system solution. Therefore, both

manufacturers and resellers have become more dependent upon value-added wholesale distributors, such as ScanSource, for the aggregation of products and reseller support services, as well as the organization and maintenance of an efficient market structure.

In addition, manufacturers that face declining product prices and rising costs of direct sales increasingly rely upon value-added wholesale distributors by outsourcing certain support functions, such as product assortment, delivery, inventory management, technical assistance and marketing. At the same time, shortened product life cycles and the introduction of new products and applications have caused resellers increasingly to rely on wholesale distributors for various inventory management, financing, technical support and related functions. The Company believes that, as the reseller market grows and becomes more fragmented, and as specialty technology products continue to transition to open systems, the wholesale distribution channel in which the Company operates will become increasingly more important.

Vendors

The Company's key vendors in barcode technologies include Bematech, Cisco, Datalogic, Datamax-O'Neil, Elo, Epson, Honeywell, Intermec by Honeywell, Motorola, NCR, Toshiba Global Commerce Solutions and Zebra Technologies. The Company's key vendors for security technologies include Arecont, Axis, Bosch, Cisco, Datacard, Exacq Technologies, Fargo, HID, March Networks, Panasonic, Ruckus Wireless, Samsung, Sony and Zebra Card. The Company's key vendors in communications technologies include Aruba, Avaya, AudioCodes, Cisco, Dialogic, Extreme Networks, Meru Networks, Plantronics, Polycom, Shoretel and Sonus.

In April 2014, it was announced that Zebra Technologies intends to purchase much of Motorola Solutions' enterprise business. Zebra Technologies and Motorola Solutions represent key vendors in our barcode technologies business.

The Company's products are typically purchased directly from the manufacturer on a non-exclusive basis. The Company's agreements with its vendors generally do not restrict the Company from selling similar or comparable products manufactured by competitors. The Company has the flexibility to terminate or curtail sales of one product line in favor of another due to technological change, pricing considerations, product availability, customer demand or vendor distribution policies.

The Company has approximately 290 hardware and software vendors that currently supply its products. Three vendors, Motorola, Avaya and Honeywell, each constituted more than 10% of the Company's net sales. These vendors represent key vendors for the Company, and further, represent a vendor concentration for fiscal year 2014.

The Company has two non-exclusive distribution agreements with Motorola. One agreement covers sales of Motorola hardware and software products in North and South America, and another agreement covers sales of Motorola hardware and software products in Europe, the Middle East and Africa ("EMEA"). The Motorola agreements each have a one year term that automatically renews for additional one year terms, and either party may terminate the agreement upon 30 days notice to the other party.

The Company also has two non-exclusive distribution agreements with Avaya. One agreement covers the distribution of Avaya products in the United States and Latin America, and the other agreement covers distribution of Avaya products in the United Kingdom and certain portions of continental Europe. The Company's Avaya agreements each have a one year term that automatically renews for additional one year terms. These agreements may be terminated upon providing notice to the other party of 180 days for the US and Latin America agreement and 90 days for the European agreement.

In September 2013, Honeywell acquired Intermec. The Company has several non-exclusive distribution agreements with Honeywell and Intermec that cover the distribution of products in various geographies across the globe. The Company's Honeywell agreements each have a one year term that automatically renews for additional one year terms. The Company's Intermec agreements each have a two year term that automatically renews for additional two year terms. The agreements may be terminated upon providing notice to the other party of 30 days for the Honeywell agreements and 60 days for the Intermec agreements.

In addition to the Motorola and Avaya agreements mentioned above, the Company has written distribution agreements with almost all of its vendors. These agreements are in the form that the Company believes are customarily used by manufacturers and distributors. The Company's agreements generally provide it with non-exclusive distribution rights and often include territorial restrictions that limit the countries in which the Company can distribute its products. These agreements, including those with Motorola, Avaya and Honeywell typically provide the Company with stock rotation and price protection provisions. Stock rotation rights give the Company the ability, subject to certain limitations, to return for credit or exchange a portion of those inventory items purchased from the vendor. Price protection situations occur when a vendor credits the Company for declines in inventory value resulting from the vendor's price reductions. Along with the Company's inventory management policies and practices, these

provisions are designed to reduce the Company's risk of loss due to slow-moving inventory, vendor price reductions, product updates or obsolescence.

Some of the Company's distribution agreements contain minimum purchase requirements that the Company must meet in order to receive preferential prices. The Company participates in various rebate, cash discount and cooperative marketing programs offered by its vendors to support expenses associated with distributing and marketing the vendor's products. These rebates and purchase discounts are generally influenced by sales volumes and are subject to change.

The Company's distribution agreements are generally short term, subject to periodic renewal, and provide for termination by either party without cause upon 30 to 120 days notice. The Company's vendors generally warrant the products the Company distributes and allow returns of defective products, including those returned to the Company by its customers. The Company generally does not independently warrant the products it distributes; however, local laws may in some cases impose warranty obligations on the Company.

The Company's merchandising departments recruit vendors and manage important aspects of its vendor relationships, such as purchasing arrangements, cooperative marketing initiatives, vendor sales force relationships, product training, monitoring of rebate programs, and various contract terms and conditions.

Customers

The Company's reseller customers currently include approximately 28,000 active value-added reseller ("VAR") accounts located in the United States, Canada, Latin America and Europe. No single customer accounted for more than 5% of the Company's total net sales for the fiscal year ended June 30, 2014. The Company generally targets resellers, including specialty technology VARs and Information Technology ("IT") system integrators and service providers.

Specialty Technology VARs

These resellers focus on selling specialty technology products as tailored software or integrated hardware solutions for their end-users' existing applications. They also incorporate specialty technology products into customized technology solutions for their end-users. Primary industries served by these resellers include manufacturing, distribution, health care, pharmaceutical, hospitality, government, convenience, grocery, financial and other retail markets.

IT System Integrators

These resellers develop computer and networking solutions for their end-users' IT needs. They typically have well-established relationships with end-user decision makers and are seeking additional revenue and profit opportunities in technology markets, such as AIDC, POS, physical security or communications.

Service Providers

These providers focus on providing advanced services that offer customized solutions that bundle data, collaboration, cloud, network and digital telecommunication services for their end-users' needs. They specialize in multi-vendor and multi-discipline services within various geographies.

Sales and Electronic Commerce

The Company's sales department consists primarily of inside sales representatives located in the United States, Canada, Mexico, Brazil, Belgium, France, Germany, the United Kingdom and the Netherlands. In order to build strong customer relationships, most active resellers are assigned to a sales representative. Each sales representative negotiates pricing directly with their assigned customers. The Company also employs business development representatives who are responsible for developing technical expertise within broad product markets, recruiting customers, creating demand, and reviewing overall product and service requirements of resellers. Each sales representative and business development representative receives comprehensive training with respect to the technical characteristics of each vendor's products. This training is supplemented by frequent product seminars conducted by vendors' representatives and bi-weekly meetings among product, marketing and sales managers.

Increasingly, customers rely upon the Company's electronic ordering and information systems, in addition to its product catalogs and frequent mailings, as sources for product information, including availability and price. Through the Company's websites, most customers can gain remote access to the Company's information systems to check real-time product availability, see their customized pricing and place orders. Customers can also follow the status of their orders and obtain United Parcel Service ("UPS") and Federal Express ("FedEx") package tracking numbers from this site.

Marketing

The Company provides a range of marketing services, including cooperative advertising with vendors through trade publications and direct mail, product catalogs for each of the North American, European and Latin American markets, periodic newsletters, management of sales leads, trade shows with hardware and software companies and vendors and sales promotions. In addition, the Company organizes and operates its own web seminars and works closely with top vendors to recruit prospective resellers and introduce new applications for the specialty technology products it distributes. The Company frequently customizes its marketing services for vendors and, through its ScanSource Services Group, for resellers.

Value-Added Services

We differentiate ourselves by providing our resellers and our vendors an array of pre-sale business tools and value-added services, including logistics, financial services, product configuration tools, sales expertise, and technical support. These services allow our customers to gain knowledge on marketing, to gain expertise in selling and negotiation, to grow their business profitably, and to be more cost effective in their business. These services allow our vendors to recognize cost savings in their business, to improve their market presence, and to reduce variation in their business. Our business is based upon our abilities and our willingness to provide the extra service that keeps both our vendors and our customers coming back. In addition, our ScanSource Services Group ("SSG") assists resellers in providing more complete solutions and improving customer service. The mission of SSG is to provide our partners with the best and most cost-effective tools that will help accelerate business growth. Through our professional services, integration, custom configuration, marketing, education and training programs and partnership services, SSG improves efficiency, productivity, quality control, and profitability of our business partners. Since partners can leverage our expertise to complement or expand their reach, SSG is positioned to create opportunities, extend resources and increase profit for our partners.

Operations

Information Systems

The Company's multiple information systems that are centralized by geography and are scalable and capable of supporting numerous operational functions including purchasing, receiving, order processing, shipping, inventory management and accounting. Sales representatives rely on the information systems for on-line, real-time information on product pricing, inventory availability and reservation, and order status. The Company's warehouse operations use bar code technology for receiving and shipping, and automated UPS and FedEx systems for freight processing and shipment tracking, each of which is integrated with the Company's multiple information systems. The customer service and technical support departments employ the systems for documentation and faster processing of customer product returns. To ensure that adequate inventory levels are maintained, the Company's buyers depend on the system's purchasing and receiving functions to track inventory on a continual basis.

Warehouse and Shipping Strategy

We operate a 600,000 square foot centralized distribution center in Southaven, Mississippi, which is located near the FedEx hub facility in Memphis, Tennessee and serves all of North America. Our European operation utilizes a centralized third party warehouse located in Liege, Belgium that services all of Europe. Warehouses for our Latin American operations are located in Florida, Mexico and Brazil. Our distribution model creates several advantages, including: (i) a reduced amount of "safety stock" inventory which, in turn, reduces the Company's working capital requirements; (ii) an increased turnover rate through tighter controls over inventory; (iii) maintenance of a consistent order-fill rate; (iv) improved personnel productivity; (v) improved delivery time; (vi) simplified purchasing and tracking; (vii) decreased demand for management personnel; and (viii) flexibility to meet customer needs for systems integration. Our objective is to ship all orders on the same day, using bar code technology to expedite shipments and minimize shipping errors. The Company offers reduced freight rates and flexible delivery options to minimize a reseller's need for inventory.

Financial Services

Our sales terms are competitive within our specific geographic areas for qualified resellers and facilitate various third-party financing options which include leasing, flooring and other secured financing. We believe this policy reduces the customer's need to establish multiple credit relationships with a large number of manufacturers.

Competition

The markets in which we operate are highly competitive. Competition is based primarily on factors such as price, product availability, speed and accuracy of delivery, effectiveness of sales and marketing programs, credit availability, ability to tailor specific solutions to customer needs, quality and breadth of product lines and services, and availability of technical and product information.

Our competitors include regional and national wholesale distributors, as well as hardware manufacturers (including most of the Company's vendors) that sell directly to resellers and to end users. In addition, our competitors include master resellers that sell to franchisees, third party dealers and end users. Certain current and potential competitors have greater financial, technical, marketing and other resources than the Company has and may be able to respond more quickly to new or emerging technologies and changes in customer requirements. Certain smaller, regional competitors, who are specialty two tier or mixed model master resellers, may also be able to respond more quickly to new or emerging technologies and changes in customer requirements. Competition has increased for our sales units over the last several years as broad line and other value added distributors have entered into the specialty technology markets. Such competition could also result in price reductions, reduced margins and/or loss of market share.

In our Barcode/Security segment, we compete with broad-line distributors, such as Avnet, Ingram Micro, Synnex, and Tech Data in all geographic areas, and more specialized security distributors, such as ADI, Anixter and Tri-Ed. Additionally, the Company also competes against other smaller, more specialized AIDC and POS distributors, such as Azerty, BlueStar, BP Solutions, Prime Interway Do Brasil and Nimax. In our Communications/Services segment, the Company competes against other broad-line distributors, such as Avnet, Ingram Micro, Synnex and Tech Data, and more specialized distributors, such as Jenne, NETXUSA and Westcon. As the Company seeks to expand its business into other areas closely related to the Company's offerings, the Company may encounter increased competition from current competitors and/or from new competitors, some of which may be the Company's current customers.

Employees

As of June 30, 2014, we had approximately 1,500 employees located in the United States, Canada, Latin America and Europe. The Company has no organized labor or trade unions in the United States. The Company considers its employee relations to be good.

Service Marks

The Company conducts its business under the trade names and service marks "ScanSource POS and Barcode," "ScanSource Catalyst," "ScanSource Communications," "ScanSource Services," "ScanSource Security," "ScanSource Europe," "ScanSource Europe Communications," "ScanSource Latin America," "ScanSource Mexico," and "ScanSource Brasil."

The Company has been issued registrations for the service marks "ScanSource," "Catalyst Telecom," and "NetPoint" in countries in its principal markets. Additionally, we have registered "ScanSource Catalyst" as a trademark in the United States. These trade names and service marks do not have value assigned to them and have a designated indefinite life. The Company does not believe that its operations are dependent upon any of its trade names or service marks. The Company also sells products and provides services under various trade names and service marks to which reference is made in this report that are the property of owners other than the Company.

Additional Information

The Company's principal internet address is www.scansource.com. The information contained on, or that can be accessed through, the Company's website is not incorporated by reference into this annual report. The Company has included its website address as a factual reference and does not intend it as an active link to its website. The Company provides its annual reports on Form 10-K, quarterly reports on Form 10-Q and current reports on Form 8-K, and all amendments to those reports, free of charge on

www.scansourceinc.com, as soon as reasonably practicable after they are electronically filed with, or furnished to, the Securities and Exchange Commission ("SEC").

ITEM 1A. Risk Factors.

The following are certain risk factors that could affect our business, financial position and results of operations. These risks should be considered in connection with evaluating the forward looking statements contained in this Annual Report on Form 10-K because these factors could cause the actual results and conditions to differ materially from those projected in the forward looking statements or from our historical performance. Additionally, there are other risks that we may not describe, because we currently do not perceive them to be material or because they are presently unknown, which could impact us. If any of these risks develops into actual events, our business, financial condition or results of operations could be negatively affected, the market price of our common stock could decline and you may lose all or part of your investment in our common stock. We expressly disclaim any obligation to update or revise any risk factors, whether as a result of new information, future events or otherwise, except as required by law.

IT Systems and the transition to a new Enterprise Resource Planning System - Our ability to manage our business and monitor results is highly dependent upon information and communication systems. A failure of these systems or a new ERP system could disrupt our business.

We are highly dependent upon a variety of internal computer and telecommunication systems to operate our business, including our enterprise resource planning ("ERP") systems. In order to continue support of our growth, we are making significant technological upgrades to our information systems. We have been in the process of developing a company-wide, single ERP software system and related processes to perform various functions and improve on the efficiency of our global business. This is a lengthy and expensive process that has and will continue to result in a diversion of resources from other operations.

Any disruptions, delays or deficiencies in the design and/or implementation of the new ERP system, or in the performance of our legacy systems, particularly any disruptions, delays or deficiencies that impact our operations, could adversely affect our ability to effectively run and manage our business and potentially our customers' ability to access our price and product availability information or place orders. Further, as we are dependent upon our ability to gather and promptly transmit accurate information to key decision makers, our business, results of operations and financial condition may be adversely affected if our information systems do not allow us to transmit accurate information, even for a short period of time. Failure to properly or adequately address these issues could impact our ability to perform necessary business operations, which could adversely affect our reputation, competitive position, business, results of operations and financial condition.

In addition, the information systems of companies we acquire may not be sufficient to meet our standards or we may not be able to successfully convert them to provide acceptable information on a timely and cost-effective basis. Furthermore, we must attract and retain qualified people to operate our systems, expand and improve them, integrate new programs effectively with our existing programs, and convert to new systems efficiently when required. Any disruption to our business due to such issues, or an increase in our costs to cover these issues that is greater than what we have anticipated, could have an adverse effect on our financial results and operations.

Our customers rely increasingly on our electronic ordering and information systems as a source for product information, including availability and pricing. There can be no assurance that our systems will not fail or experience disruptions, and any significant failure or disruption of these systems could prevent us from making sales, ordering and delivering products and otherwise conducting our business. Many of our customers use our website to check real-time product availability, see their customized pricing and place orders. The Internet and individual websites have experienced a number of disruptions and slowdowns. In addition, some websites have experienced security breakdowns. While our website has not experienced any material disruptions or security breakdowns, any disruptions or breaches in security or a breach that compromises sensitive information could harm our relationship with our vendors, customers and other business partners. Any material disruption of our website or the Internet in general could impair our order processing or prevent our vendors and customers from accessing information and cause us to lose business.

Additional costs, cost overruns and delays with a new ERP system - Our business and results of operations have been and will continue to be adversely affected if we experience significant costs, cost overruns and delays in connection with a new ERP system.

Our new ERP system has and will continue to involve substantial expenditures on system hardware and software, as well as design, development and implementation activities. We may experience cost overruns and project delays in connection with the process.

Our business and results of operations will be adversely affected if we experience operating problems, additional costs, or cost overruns during the ERP process. To the extent that the ERP project cannot be completed in a timely and cost efficient manner, or there are significant problems with the transition to a new ERP system, our business, results of operations and financial results could experience a material adverse affect.

Acquisitions - Our growth strategy includes potential acquisitions of companies that complement or expand our existing business. Acquisitions involve a number of risks and uncertainties.

We have and expect to continue to acquire companies that complement or expand our business in the United States or internationally. This expansion increases the complexity of our business and places a significant strain on our management, operations, technical performance, financial resources and internal financial control and reporting functions, and there are no assurances that we will be able to manage it effectively. Our personnel, systems, procedures, and controls may not be adequate to effectively manage our future operations, especially as we employ personnel in multiple domestic and international locations. We may not be able to hire, train, retain and manage the personnel required to address our growth. Failure to effectively manage our growth opportunities could damage our reputation, limit our future growth, negatively affect our operating results, and harm our business.

Acquisitions may involve significant risks and uncertainties, including the following: distraction of management's attention away from normal business operations; insufficient revenue generation to offset liabilities assumed and expenses associated with the acquisition; difficulty in the integration of acquired businesses, including new employees, business systems and technology; inability to adapt to challenges of new markets, including geographies, products and services, or to attract new sources of profitable business from expansion of products or services; exposure to new regulations; and issues not discovered in our due diligence process, such as unknown liabilities, fraud, cultural or business environment issues or that may not have adequate internal controls as required by Section 404 of the Sarbanes-Oxley Act of 2002. Also, we may be unable to retain or replace key employees of our acquired companies. Our operations may be adversely impacted by an acquisition that is not suited for us, is improperly executed, or substantially increases our debt. In addition, adverse movements in foreign currency exchange rates could increase the purchase price paid, including earnout payments. Any of these factors could adversely affect our operating results or financial condition. Moreover, future acquisitions could result in dilutive issuances of equity securities, the incurrence of debt, contingent liabilities, amortization of intangible assets, or impairment of goodwill. Acquisitions could also result in a dilutive impact to our earnings. No assurances can be given that we will be able to dispose of business units on favorable terms or without significant costs, nor can there be any assurance future acquisitions will not result in future impairment charges.

International operations - Our international operations expose us to risks that are different from, or possibly greater than, the risks we are exposed to domestically.

We currently have facilities in eight countries outside the United States and sell products in a number of others. A significant portion of our revenue is derived from our international operations. These operations are subject to a variety of risks that are in addition to the risks that we face domestically or are similar risks but with potentially greater exposure. These risks include:

- Changes in international trade laws, such as the North American Free Trade Agreement, affecting our import and export activities, including export license requirements, restrictions on the export of certain technology, and tariff changes;
- Difficulties in collecting accounts receivable and longer collection periods;
- Changes in, or expiration of, various foreign incentives that provide economic benefits to us;
- Changes in labor laws and regulations affecting our ability to hire and retain employees;
- Difficulties in staffing and managing operations in foreign countries;
- Fluctuations of foreign currency, exchange controls and currency devaluations;
- Changes in the interpretation and enforcement of laws (in particular related to items such as duty and taxation);
- Potential political and economic instability and changes in governments;
- Compliance with foreign and domestic import and export regulations and anti-corruption laws, including the Iran Threat Reduction and Syria Human Rights Act of 2012, U.S. Foreign Corrupt Practices Act, or similar laws of other jurisdictions for our business activities outside the United States, the violation of which could result in severe penalties including monetary fines, criminal proceedings and suspension of export privileges;
- Terrorist or military actions that result in destruction or seizure of our assets or suspension or disruption of our operations or those of our customers;
- Natural disasters, power shortages, telecommunication failures, water shortages, fires, medical epidemics or pandemics, and other manmade or natural disasters or business interruptions in a region or specific country;
- Potential regulatory changes, including foreign environmental restrictions; and
- Different general economic conditions.

The potential criminal penalties for violations of export regulations and anti-corruption laws, particularly the U.S. Foreign Corrupt Practices Act, data privacy laws and environmental laws and regulations in many jurisdictions, create heightened risks for our international operations. In the event that a governing regulatory body determined that we have violated applicable export regulations or anti-corruption laws, we could be fined significant sums, incur sizable legal defense costs and/or our export capabilities could be restricted, which could have a material and adverse effect on our business and reputation.

In addition, in foreign markets we are more dependent upon third party providers of key services, such as third party freight forwarders and third party warehouses in Europe and Latin America. We also rely on third party legal advisors to provide guidance on trade compliance issues and information systems providers to provide services related to denied party screening. Adverse changes in any of these third party services could have an adverse effect on our business, financial condition or results of operations. As we expand our international operations, we expect these risks to increase.

Our company conducts business in the United States, Brazil, Canada, Mexico, Europe and Latin American countries, which exposes our business to fluctuations in currency exchange rates. Significant volatility and fluctuations in the rates of exchange for the U.S. dollar against currencies such as the euro, British pound, Mexican peso and the Brazilian real may also negatively impact our customer pricing, operating results and acquisition purchase prices, including earnout payments. While we manage our short-term exposure to fluctuations in the value of currencies using various derivatives or other financial instruments, such attempts to mitigate these risks are costly and not always successful. Our ability to engage in such mitigation may decrease or become even more costly as a result of more volatile market conditions.

Exchange rate fluctuations may cause our international results to fluctuate significantly when translated into U.S. dollars. Developing economies, such as Brazil, could have sudden and drastic changes in foreign exchange rates compared to others. The uncertainty of certain European countries to continue to service their sovereign debt obligations and the related European financial restructuring efforts may cause the value of the euro and other European currencies to fluctuate. Currency variations also contribute to variations in sales of products in impacted jurisdictions. Thus, the volatility in exchange rates can have tremendous impact on our customers' ability to purchase our products.

The value of our equity investment in foreign subsidiaries may fluctuate based on changes in foreign currency exchange rates. These fluctuations may result in losses in the event a foreign subsidiary is sold or closed at a time when the foreign currency is weaker than when we initially invested. We are unable to predict the impact of future exchange rate fluctuations on our business, financial position or operating results.

Brazilian and Latin America operations - We face special political, economic and regulatory risks by doing business in Brazil and other South American countries, which could materially and adversely affect our financial condition and results of operations.

As a result of our April 2011 acquisition of all of the shares of CDC Brasil Distribuidora de Tecnologias Especiais LTDA ("CDC" or "ScanSource Brasil"), we have substantial operations in Brazil and face risks related to that country's complex tax, labor, trade compliance and consumer protection laws and regulations. We may now have exposure to the complex tax structure in Brazil, where we have noted that several other companies have had issues with Brazilian tax authorities that have impacted earnings. Additionally, developing markets such as Brazil have greater political volatility, greater vulnerability to infrastructure and labor disruptions, are more likely than developed economies to experience market, currency and interest rate fluctuations and may have higher inflation. In addition, doing business in Brazil poses additional challenges such as finding qualified employees, underdeveloped infrastructure, and identifying and retaining qualified suppliers and service providers among other risks. Any of these factors could adversely affect our financial condition and results of operations. Furthermore, in developing markets it may be common for others to engage in business practices prohibited by laws and regulations applicable to us, such as the Foreign Corrupt Practices Act or similar local anti-bribery laws. These laws generally prohibit companies and their employees, contractors or agents from making improper payments to government officials for the purpose of obtaining or retaining business. Failure to comply with these laws could subject us to civil and criminal penalties that could materially and adversely affect our financial condition and results of operations.

In addition, competition in developing markets such as Brazil is increasing as our competitors grow their global operations. Our success in integrating CDC's operations is critical to our growth strategy. If we cannot successfully increase our business in Brazil, our product sales, financial condition and results of operations could be materially and adversely affected.

Our operations also expose us to risks related to South America more generally and we are dependent on the general state of the South American economy. We cannot assure you that favorable economic, political, and other business conditions will exist in the

future. A general economic recession in the region or any volatility or uncertainty related to the conditions to do business in the region could materially and adversely affect our financial condition and results of operations.

Vendor relationships - Terminations of a distribution or services agreement or a significant change in supplier terms, authorizations, or lack of product availability, or conditions of sale could negatively affect our operating margins, revenues or the level of capital required to fund our operations.

A significant percentage of our net sales relates to products sold to us by relatively few vendors. As a result of such concentration risk, terminations of supply or services agreements or a change in terms or conditions of sale from one or more of our vendors could negatively affect our operating margins, revenues or the level of capital required to fund our operations. Our vendors have the ability to make adverse changes in their sales terms and conditions, such as reducing the level of purchase discounts and rebates they make available to us. We have no guaranteed price or delivery agreements with our vendors. In certain product categories, limited price protection or return rights offered by our vendors may have a bearing on the amount of product we may be willing to stock. Our inability to pass through to our reseller customers the impact of these changes, as well as our failure to develop systems to manage ongoing vendor programs, could cause us to record inventory write-downs or other losses and could have significant negative impact on our gross margins.

We receive purchase discounts and rebates from some vendors based on various factors, including goals for quantitative and qualitative sales or purchase volume and customer related metrics. Certain purchase discounts and rebates may affect gross margins. Many purchase discounts from vendors are based on percentage increases in sales of products. Our operating results could be negatively impacted if these rebates or discounts are reduced or eliminated or if our vendors significantly increase the complexity of their refund procedures and thus costs for us to receive such rebates.

Our ability to obtain particular products or product lines in the required quantities and our ability to fulfill customer orders on a timely basis is critical to our success. Our manufacturers have experienced product supply shortages from time to time due to the inability of certain suppliers to supply certain products on a timely basis. As a result, we have experienced, and may in the future continue to experience, short-term shortages of specific products. We cannot provide any assurances that vendors will be able to maintain an adequate supply of products to fulfill all of our customer orders on a timely basis.

In addition, vendors who currently distribute their products through us, may decide to shift to or substantially increase their existing distribution with other distributors, their own dealer networks, or directly to resellers or end-users. Suppliers have, from time to time, made efforts to reduce the number of distributors with which they do business. This could result in more intense competition as distributors strive to secure distribution rights with these vendors, which could have an adverse impact on our operating results. Our reputation, sales and profitability may suffer if vendors are not able to provide us with an adequate supply of products to fulfill our customer orders on a timely basis or if we cannot otherwise obtain particular products or a product lines.

Vendor consolidation may also lead to changes in the nature and terms of relationships with our vendors. The loss or deterioration of a major vendor relationship would adversely affect our business, operation results and financial condition.

Competition - We experience intense competition in all of our markets. Such competition could result in reduced margins and loss of our market share.

The markets that we operate in are highly competitive. We compete on the basis of price, product availability, speed and accuracy of delivery, effectiveness of sales and marketing programs, credit availability, ability to tailor solutions to the needs of our customers, quality and breadth of product line and services and availability of technical and product information. Our competitors include local, regional, national and international distributors as well as hardware manufacturers (including most of our vendors) that sell directly to resellers and to end-users. In addition, we compete with master resellers that sell to franchisees, third party dealers and end-users. Certain of our current and potential competitors have greater financial, technical, marketing and other resources than we have and may be able to respond more quickly to new or emerging technologies and changes in customer requirements. Certain smaller, regional competitors, who are specialty two-tier or mixed model master resellers, may also be able to respond more quickly to new or emerging technologies and changes in customer requirements. Competition has increased for our sales units as broad line and other value-added distributors have entered into the specialty technology markets. Such competition could result in price reductions, reduced margins and loss of our market share.

As a result of intense price competition in our industry, our gross margins and our operating profit margins have historically been narrow, and we expect them to be narrow in the future. To remain competitive, we may be forced to offer more credit or extended payment terms to our customers. This could result in an increase in our need for capital, increase our financing costs, increase our bad debt expenses and have a negative impact on our financial results. We do not offer any assurance that we will not lose market

share, or that we will not be forced in the future to reduce our prices in response to the action of our competitors and thereby experience a reduction in our gross margins. We expect continued intense competition as current competitors expand their operations and new competitors enter the market. Our inability to compete successfully against current and future competitors could cause our revenue and earnings to decline.

Laws and regulations - Changes in tax laws and other laws and regulations may adversely impact us.

We are subject to a wide range of local, state and federal laws and regulations both in the United States and in the other countries in which we operate. While we plan our operations based upon existing and anticipated laws and regulations, we cannot anticipate every change and can have only little, if any, impact on others. When new legislation is enacted with minimal advance notice, or when new interpretations or applications of existing laws are made, we may need to implement changes in our policies or structure. We are particularly susceptible to changes in income and other tax laws, laws regulating international trade, and accounting and securities disclosure laws and regulations. To a lesser degree, changes in environmental regulation, including electronic waste recovery legislation, may impact us. In each case, a change in the laws or regulations that we are required to comply with could have an adverse impact on our business operations or financial results.

Violation of any laws, rules, or regulations applicable to our business could result in fines or other actions by regulatory agencies, increased cost of doing business, reduced profits, or restrictions on our ability to conduct business such as our ability to export products or bans on our ability to offer certain services. Additionally, any significant changes, developments, or new interpretations of laws, rules, or regulations applicable to our business will increase our costs of compliance and may further restrict our overseas client base, may require significant management and other resources to respond appropriately, and may harm our operating results.

Growth strategies - If we fail to effectively manage and implement our organic growth strategies, we will experience a negative effect on our business and financial results.

A significant component of our growth strategy has been to add new vendors and products, and we expect to be able to enter new product markets in the future. Expansion of our existing product markets and entry into new product markets divert the use of our resources and systems, require additional resources that might not be available (or available on acceptable terms), result in new or more intense competition, may require longer implementation times or greater start-up expenditures than anticipated, and may otherwise fail to achieve the desired results in a timely fashion, if at all. In addition, while we have been very successful in adding new vendors in the past, we already represent most of the significant vendors in our primary areas of focus, and there is regular consolidation among our vendors. As a result, there may be fewer expansion opportunities of this nature in the future. If we are unable to increase our sales and earnings by expanding our product offerings in a cost effective manner, then our revenues may not grow.

Our ability to successfully manage our growth will require continued enhancement of our operational, managerial and financial resources and controls. Our failure to effectively manage our growth would have an adverse effect on our business, financial condition or results of operations. Additionally, our growth may increase our working capital requirements and as a result, we may require additional equity or debt financing. Such financing may not be available on terms that are favorable to us, if at all.

Global economic instability - Current world-wide economic conditions and market disruptions may adversely affect our business, pricing strategy and results of operations.

The results of our business are subject to the effects of global economic conditions. The slow recovery from the past economic downturn and the continued uncertainty regarding the future health of the global economy may adversely affect revenues, margins, earnings and growth rates. High levels of unemployment and reduced consumer confidence in various markets we have operations in can affect both our company directly and indirectly by affecting other companies that we do business with.

Financial markets throughout the world could experience extreme disruption, including, among other things, severely diminished liquidity and credit availability, rating downgrades of certain investments and declining valuations and pricing volatility of others, volatile energy costs, geopolitical issues and failure and potential failures of major financial institutions. These developments and/or a related general economic downturn may adversely impact our business and financial condition in a number of ways. We recently experienced weakened demand in our European operations as a result of current economic conditions in the region. Economic slowdowns can lead to reduced information technology spending by end users, which can adversely affect our sales. Economic instability has increased competitive pressure throughout the channels we serve, resulting in pricing pressures that have decreased our margins. This effect may continue in the future.

Global economic downturn and instability may also result in changes in vendor terms and conditions, such as rebates, cash discounts and cooperative marketing efforts, which may result in downward pressure on our gross margins. Tightening of credit in financial markets and general economic downturn may adversely affect the ability of our reseller customers, vendors and service providers to obtain financing for significant purchases and operations and to perform their obligations under our agreements with them. Instability in financial and currency markets or changes in intergovernmental relations can also lead to limited access to U.S. dollars or other currencies by our customers. This can result in a decrease in or cancellation of orders for our products and services, negatively impact our ability to collect our accounts receivable on a timely basis, result in additional reserves for uncollectible accounts receivable being required and lead to elevated levels of obsolete inventory.

We continue to be unable to predict any duration of any economic downturn and disruption in financial markets or their effects on our business, financial position or results of operations.

Customer relationships - We operate in a highly competitive environment and good customer relations are critical to our success. There can be no assurance that we will be able to retain and expand our customer relationships or acquire new customers.

Meeting our customers' needs quickly and fairly is critical to our business success. Our transactions with our customers are generally performed on a purchase order basis rather than under long term supply agreements. Our customers generally do not have an obligation to purchase from us. Therefore, our customers can readily choose to purchase from other distributors. From time to time, we experience shortages in availability of some products from vendors, and this impacts our customers' decisions regarding whether to make purchases from us. Anything that negatively impacts our customer relations also can negatively impact our operating results. Accordingly, our sales can vary as a result of fluctuations in pricing, product availability, purchasing patterns of end-users and general competitive and economic conditions.

Credit exposure - We have credit exposure to our reseller customers. Any adverse trends in their businesses could cause us to suffer credit losses.

We have credit exposure to our reseller customers and negative trends in their businesses could increase our credit risk. As is customary in our industry, we extend credit to our reseller customers, and most of our sales are on open accounts. We may be unable to collect on receivables if our reseller customers experience decreases in demand for their products and services, do not manage their businesses adequately, or otherwise become less able to pay due to adverse economic conditions or refinancing events. As we grow and compete for business, our typical payment terms tend to be longer, and therefore may increase our credit risk.

While we evaluate our resellers' qualifications for credit and monitor our extensions of credit, these efforts cannot prevent all credit losses, and credit losses in excess of historical levels would negatively impact our performance. In addition, for financial reporting purposes, we estimate future credit losses and establish an appropriate reserve. To the extent that our credit losses exceed those reserves, our financial performance will be negatively impacted. There is no guarantee that our operating expenses will not increase as a result of the recognition of bad debt expense from our reseller customers. If there is a substantial deterioration in the collectability of our receivables or if we are unable to collect under existing credit insurance policies, or we fail to take other actions to adequately mitigate such credit risk, our earnings, cash flows and our ability to utilize receivable-based financing could deteriorate.

In addition, extending credit to international customers creates additional risks. It is often more difficult to evaluate credit of a customer or obtain credit protections in our international operations. Also, credit cycles and collection periods are typically longer in our international operations. As a result of these factors and other challenges in extending credit to international customers, we generally face greater credit risk from sales internationally compared to domestic sales.

People - The departure, transition or replacement of key personnel could significantly impact results of our operations. If we cannot continue to hire and retain high quality employees, our business and financial results may be negatively affected.

Our operating results could be adversely affected by increased competition for employees, higher employee turnover, or increased salary and benefit costs. Like most businesses, our employees are important to our success and we are dependent in part on our ability to retain the services of our key management, sales, IT, operational, finance and administrative personnel. We have built our business on a set of core values, and we attempt to hire employees who are committed to these values. We want to hire and retain employees who will fit our culture of providing exceptional service to our vendors and customers. In order to compete and to continue to grow, we must attract, retain and motivate employees, including those in executive, senior management, sales, marketing, logistics, technical support and other operating positions. Our new worldwide management structure, announced in June 2013, is expected to provide improved management of our operations and improved succession planning within our organization.

Many of our employees work in small teams to provide specific services to vendors and customers. They are trained to develop their knowledge of vendor products, programs and practices and customer business needs, as well as to enhance the skills required to provide exceptional service and to manage our business. As they gain experience and develop their knowledge and skills, our employees become highly desired by other businesses. Therefore, to retain our employees, we have to provide a satisfying work environment and competitive compensation and benefits. If our costs to retain our skilled employees increase, then our business and financial results may be negatively affected.

Our continued growth is also dependent, in part, on the skills, experience and efforts of our senior management, including but not limited to, Michael Baur, our Chief Executive Officer. We may not be successful in retaining the members of our senior management team or our other key employees. While we have entered into employment agreements with key executives and have obtained a key person life insurance policy on our CEO's life, the loss of the services of Mr. Baur or any member of our senior management team could also have an adverse effect on our business, financial condition and results of operations. The process of identifying management successors creates uncertainty and could become a distraction to our senior management and the Board. We may not be successful in attracting qualified candidates to replace key positions when necessary. As a result, the transition process and the identification and recruitment of candidates to fill senior management positions may be disruptive to our business or operations.

Centralized functions - We have centralized a number of functions to provide efficient support to our business. As a result, a loss or reduction of use of one of our locations would have an adverse effect on our business operations and financial results.

In order to be as efficient as possible, we centralize a number of critical functions. For instance, we currently distribute products in North America from a single warehouse near Memphis, Tennessee (with corresponding arrangements for our Latin American and European markets). Similarly, for the primary business operations, we utilize a single information system based in Greenville, South Carolina for our North American and European operations, while our Latin American operations have separate systems. While we have backup systems and business continuity plans, any significant or lengthy interruption of our ability to provide these centralized functions would significantly impair our ability to continue normal business operations. In addition, the centralization of these functions increases our exposure to local risks, such as the availability of qualified employees and the lessening of competition for critical services, such as freight and communications.

Although we have business interruption insurance, not all losses are covered, and an uninsured loss from electrical or telephone failure, fire or other casualty, water damage, theft, or other disruption would have an adverse effect on our business, financial condition or results of operations. In addition, there are limits on all of our insurance coverage, and it is possible that losses might exceed that coverage.

Inventory - The value of our inventory may be adversely affected by market and other factors.

Our business, like that of other distributors, is subject to the risk that the value of our inventory will be adversely affected by price reductions by manufacturers or by technological changes affecting the usefulness or desirability of our products or by foreign currency fluctuations. The electronic components and computer products industries are subject to rapid technological change, new and enhanced products, changes in customer needs and changes in industry standards, which can contribute to a decline in value or obsolescence of inventory. Under the terms of most of our vendor agreements and the policy of most manufacturers of specialty technology products, we have some price protection and stock rotation opportunities with respect to slow-moving or obsolete inventory items. However, these protections are limited in scope and do not protect against all declines in inventory value, excess inventory, or product obsolescence, and in some instances we may not be able to fulfill all necessary conditions or successfully manage such price protection or stock rotation opportunities. In addition, these industry practices are sometimes not reflected in vendor agreements and their application in a particular situation is dependent upon negotiations between our vendors and us. As a result, from time-to-time we are required to write down the value of excess and obsolete inventory, and should any of these write-downs occur at a significant level, they could have an adverse effect on our business, financial condition or results of operations. Also, we may have to write-down our inventory due to water damage, theft or other factors that may decrease our number of merchantable products.

Should there be an economic downturn, it is possible that prices may decline due to an oversupply of product, and therefore, there may be a greater risk of declines in inventory value. In addition, our vendors may become insolvent and unable to fulfill their product obligations to us. Significant declines in inventory value in excess of established inventory reserves or dramatic changes in prevailing technologies could have an adverse effect on our business, financial condition or results of operations.

Narrow gross profit margins - Our narrow gross profit margins significantly impact our operating results.

Our industry is highly competitive and characterized by narrow gross profit margins and operating profit margins. Because of our narrow margins, fluctuations in sales can have a magnified impact on our overall operating results. We may not be able to reduce our operating expense as a percentage of revenue to mitigate any further reductions in profit margins in the future. If we cannot proportionately decrease our cost structure in response to competitive price pressures, our business and operating results could suffer.

Cyber security risk - Our reputation and business may be harmed from cyber security risk and we may be subject to legal claims if there is loss, disclosure or misappropriation of or access to our customers' or our business partners' or our own information or other breaches of our information security.

We make extensive use of online services and centralized data processing, including through third party service providers. The secure maintenance and transmission of customer information is a critical element of our operations. Our information technology and other systems that maintain and transmit customer or employee information or those of service providers or business partners may be compromised by a malicious third party penetration of our network security, or that of a third party service provider or business partner, or impacted by advertent or inadvertent actions or inactions by our employees, or those of a third party service provider or business partner. Experienced computer programmers and hackers may be able to penetrate our network security, or that of our third party service provider, and misappropriate or compromise our confidential information, create system disruptions, or cause shutdowns. As a result, our customers' information may be lost, disclosed, accessed or taken without our customers' consent.

In addition, our third party service providers and other business partners process and maintain proprietary business information and data related to our business-to-business customers, suppliers and other business partners. Our information technology and other systems that maintain and transmit this information, or those of service providers or business partners, may also be compromised by a malicious third party penetration of our network security or that of a third party service provider or business partner, or impacted by advertent or inadvertent actions or inactions by our employees or those of a third party service provider or business partner. As a result, our business information, customer, supplier, and other business partner data may be lost, disclosed, accessed or taken without their consent.

We are subject to regulations relating to customer privacy and the protection of personal information. Any such loss, disclosure or misappropriation of, or access to, customers' or business partners' information or other breach of our information security can result in legal claims or legal proceedings, including regulatory investigations and actions, may have a serious impact on our reputation and may adversely affect our businesses, operating results and financial condition. Furthermore, the loss, disclosure or misappropriation of our business information may adversely affect our businesses, operating results and financial condition.

Internal control over financial reporting - The internal control structure we have in place over our financial reporting may not be effective in detecting fraud or errors in a timely manner, which could result in a material adverse effect on our business or the market price of our securities.

Pursuant to Section 404 of the Sarbanes-Oxley Act of 2002, our management, including our Chief Executive Officer and Chief Financial Officer, is required to evaluate the effectiveness of our internal control over financial reporting as of the end of each year, and to include a management report assessing the effectiveness of our internal control over financial reporting in each Annual Report on Form 10-K. Moreover, an independent registered public accounting firm must attest to the effectiveness of our internal control over financial reporting. If our Chief Executive Officer, Chief Financial Officer or independent registered public accounting firm determines that our internal control over financial reporting is not effective as defined under Section 404, investor perceptions and our reputation may be adversely affected and the market price of our stock could decline.

A weakness in our internal control over financial reporting may be identified in the future. Any failure to maintain or implement required new or improved controls, or any difficulties we encounter in their implementation, could result in additional material weaknesses, cause us to fail to meet our periodic reporting obligations, or result in material misstatements of our financial statements. Any such failure could also adversely affect the results of periodic management evaluations and annual auditor attestation reports regarding the effectiveness of our internal control over financial reporting. The existence of a material weakness could result in errors in our financial statements resulting in a restatement of financial statements, which could cause us to fail to meet our reporting obligations and cause investors to lose confidence in our reported financial information, leading to a decline in our share price. Even effective internal controls cannot provide absolute assurance with respect to the preparation and fair presentation of financial statements. We do not expect our internal control over financial reporting to detect all errors or fraudulent conduct.

Third party logistics and warehousing providers - We use third party logistics and warehousing providers in certain parts of the world that may expose us to risks or liabilities based on their execution that may adversely affect our business operations or financial results.

In Europe and Brazil, we use third parties to provide warehousing and logistics services in order to provide cost effective operations and scale in certain regions. The failure or inability of one or more of these third parties to deliver products from suppliers to us or products from us to our customers for any reason could disrupt our business and harm our reputation and operating results. We work closely with our third party logistics and warehousing providers to anticipate issues, and also review public information regarding their financial health. However, issues may not be identified timely, which may lead to lack of or poor execution, loss or litigation. Additionally, deterioration of the financial condition of our logistical and warehousing providers could have an adverse impact on our logistical processes. Poor financial condition of these providers could result in delayed responsiveness or delivery failure, which would ultimately affect our responsiveness to our customers and thus may adversely affect our business, operations and financial performance.

Reliance on third parties - We are dependent on third parties for services including the delivery of a majority of our products. Changes in shipping terms or the failure or inability of our third party shippers to perform could have an adverse impact on our business and results of operations.

We rely on arrangements with third parties to perform certain services our business depends on and services for our customers, which, if not performed by these third parties in accordance with the terms of the arrangement could result in significant disruptions or costs to our organization, including monetary damages and an adverse effect on our customer relationships.

In particular, we are dependent upon major shipping companies, including FedEx and UPS, for the shipment of our products to and from our centralized warehouses. Changes in shipping terms, or the inability of these third party shippers to perform effectively (whether as a result of mechanical failure, casualty loss, labor stoppage, or any other reason), could have an adverse effect on our business, financial condition and results of operations. From time to time, we have experienced significant increases in shipping costs due to increases in fuel costs. Additionally, deterioration of the financial condition of our carriers could have an adverse impact on our logistical processes and shipping costs. Poor financial condition of our freight carriers could result in delayed responsiveness in their service lead times, which would ultimately affect our responsiveness to our customers. Additionally, if our carriers were to increase our shipping costs, it may adversely affect our financial results if we are unable to pass on these higher costs to our customers.

Fair value measurement of contingent consideration, goodwill and other intangible assets - Changes in the fair value of the assets and liabilities measured at fair value could have a significant effect on our reported earnings.

We have structured acquisitions with an upfront payment and additional earnout payments. The acquisition of CDC was structured having an upfront payment with five annual cash installments based upon the financial performance of CDC for the twelve month periods ended on June 30, 2011 through June 30, 2015. In accordance with ASC 805, Business Combinations, a liability for the contingent consideration driven by an earn-out must be recorded at the onset of the purchase and must be revalued at every reporting period. Changes in the fair value of the liability are recorded as an adjustment to operating income. These changes can occur due to changes in estimated future financial results, the probabilities of achieving these results, the discount rate reflective of our creditworthiness, and the market risk premium associated with the Brazilian market. Both gains and losses can occur due to changes in these fair value estimates, thus increasing volatility of our earnings. We expect to continue to use this structure for future acquisitions.

On at least an annual basis, we are required to assess our goodwill and other intangible assets, including but not limited to customer relationships and trade names, for impairment. This includes continuously monitoring events and circumstances that could trigger an impairment test outside of our annual impairment testing date in the fourth quarter of each year. Testing goodwill and other intangibles for impairment requires the use of significant estimates and other inputs outside of our control. If the carrying value of goodwill in any of our goodwill reporting units or other intangible assets is determined to exceed their respective fair values, we may be required to record significant impairment charges that would adversely affect our operating results. A global economic downturn could impact our prior judgments and assumptions about the fair value of our business, and we may be required to record impairment charges of goodwill or other identifiable intangible assets in the future.

Goodwill impairments - Goodwill impairments and impairments of long-lived assets could have a material non-cash adverse effect on our results of operations.

We test our goodwill for impairment in the fourth quarter of each year for all reporting units, or more frequently if events occur or circumstances change that would warrant such a review. We performed our annual impairment test for fiscal 2014 and determined that no goodwill impairment charge was necessary. In the fourth quarter of fiscal 2013 we recorded a non-cash charge for goodwill impairment in our European Communications and Brazilian POS & Barcode reporting units.

In the future, should the recent economic uncertainty continue in Latin America, Europe, or other global economies, the fair value of one or more of our reporting units may decrease below its carrying amount and future goodwill impairments that may be material could be recognized. Any declines resulting in a goodwill impairment or long-lived asset impairment may result in material non-cash charges to our earnings. Impairment charges would also reduce our consolidated shareholders' equity and increase our debt-to-total-capitalization ratio, which could negatively impact our credit rating and access to the public debt and equity markets.

Accounting rules - Changes in accounting rules or standards could have a significant adverse effect on our reported earnings.

Our financial statements are prepared in accordance with U.S. generally accepted accounting principles. These principles are subject to interpretations by various governing bodies including the Financial Accounting Standards Board, the Public Company Accounting Oversight Board, the SEC and the American Institute of Certified Public Accountants. These governing bodies create and interpret appropriate accounting standards. Future periodic assessments required by current or new accounting standards may result in additional non-cash charges and/or changes in presentation or disclosure. A change from current accounting standards could have a significant adverse effect on our financial position or results of operations.

In May 2014, the Financial Accounting Standards Board ("FASB") issued a comprehensive new revenue recognition standard for contracts with customers that will supersede most current revenue recognition guidance, including industry-specific guidance. The standard permits the use of either the retrospective or cumulative effect transition method. This guidance will be applicable to the Company at the beginning of its first quarter of fiscal year 2018. This change in accounting standard could have a significant adverse effect on our financial position or results of operations.

Terrorist or military operations - Future terrorist or military operations could result in a disruption of our operation or loss of assets in certain markets.

Future terrorist or military actions, in the United States or abroad, could result in destruction or seizure of assets or suspension or disruption of our operations. Additionally, such actions could affect the operations of our suppliers or customers, resulting in loss of access to products, potential losses on supplier programs, loss of business, higher losses on receivables or inventory, and/or other disruptions in our business, which could negatively affect our operating results. We do not carry broad insurance covering such terrorist or military actions, and even if we were to seek such coverage, the cost would likely be prohibitive.

Natural disasters and other crises - Exposure to adverse weather conditions or other emergency situations could result in a disruption of our operation or loss of assets in certain markets.

Extreme weather conditions such as floods, hurricanes, tornadoes, earthquakes, or other natural disasters, electrical failures, medical pandemics or epidemics, telecommunication failures, or other similar events may disrupt our ability to distribute products. Any of these events could significantly and adversely affect our operational results. Particularly, these events could materially impact us because our business has centralized business operations and thus any major damage done to one of our facilities could greatly impact our operations. While we may mitigate some of this risk through insurance, we cannot guarantee that our losses will not exceed the value of our policies. Any disruption in business may adversely affect our operations or damage relationships with customers.

Failure to comply with environmental regulations - We are subject to various environmental regulations, and failing to comply with any requirements may adversely affect our business operations or financial results.

We are subject to various federal, state, local and foreign laws and regulations addressing environmental and other impacts from product disposal, use of hazardous materials in products, recycling of products at the end of their useful life and other related matters. Compliance with these environmental laws may have a material adverse effect on our business. These laws include the Restriction of Hazardous Substances Directive, ("RoHS"), RoHS Directive 2011/65/EU ("RoHS 2") and the European Union Waste Electrical and Electronic Equipment Directive ("WEEE") as enacted by individual European Union countries and other similar legislation adopted in North America. These directives can make companies involved in the production or distribution of electrical goods, including computers and printers, responsible for collection, recycling, treatment and disposal of recovered products. In addition, these directives and similar legislation can have an impact on the types and design of products we are able to sell in jurisdictions that have adopted such restrictions. While we strive to ensure we are in compliance with all applicable

regulations, certain of these regulations impose strict liability. Additionally, we may be held responsible for the prior activities of entities that we have acquired or will acquire in the future. Failure to comply with these regulations could result in substantial costs, fines and civil or criminal sanctions, as well as third party claims for property damage or personal injury. Further, environmental laws may become more stringent over time, imposing greater compliance costs and increasing risks and penalties associated with violation, which could adversely affect our business, financial position or operating results.

Liquidity and capital resources - Market factors may increase the cost and availability of capital. Additional capital may not be available to us on acceptable terms to fund our working capital needs and growth.

Our business requires significant levels of capital to finance accounts receivable and product inventory that is not financed by trade creditors. We have an increased demand for capital when our business is expanding, including through acquisitions. Changes in payment terms with either suppliers or customers could increase our capital requirements. We have historically relied upon cash generated from operations, borrowings under our revolving credit facility, secured and unsecured borrowings, and, to a lesser extent, borrowings under a subsidiary's line of credit to satisfy our capital needs and to finance growth. While we believe that our existing sources of liquidity will provide sufficient resources to meet our current working capital and cash requirements, if we require an increase in capital to meet our future business needs, such capital may not be available to us on terms acceptable to us, or at all. Changes in how lenders rate our credit worthiness, as well as macroeconomic factors such as an economic downturn and global economic instability may restrict our ability to raise capital in adequate amounts or on terms acceptable to us, and the failure to do so could harm our ability to operate our business.

In addition, our cash and cash equivalents are deposited with various financial institutions located in the various countries in which we operate. We endeavor to monitor these financial institutions regularly for credit quality; however, we are exposed to risk of loss on such funds or we may experience significant disruptions in our liquidity needs if one or more of these financial institutions were to suffer bankruptcy or similar restructuring.

Volatility of Stock Price- The trading price of our common stock

The stock market as a whole and the trading prices of companies in the wholesale electronics industry have been volatile. Companies in our industry experience significant quarter-to-quarter fluctuations. This broad market and industry volatility could significantly reduce the price of our common stock at any time, without regard to our own operating performance. This volatility may affect the price at which you could sell your common stock. Our stock price is likely to continue to be volatile and subject to price and volume fluctuations in response to market and other factors; variations in our quarterly operating results from our expectations or those of securities analysts or investors; downward revisions in securities analysts' estimates; and announcement by us or our competitors of significant acquisitions, transactions, partnerships, joint ventures, or capital commitments.

A material decline in the price of our common stock may result in the assertion of certain claims against us, and/or the commencement of inquiries and/or investigations against us. A prolonged decline in the price of our common stock could result in a reduction in the liquidity of our common stock and a reduction in our ability to raise capital, if needed, and the inability for you to obtain a favorable price at which you could sell your shares.

Quarterly fluctuations - Our net sales and operating results are dependent on a number of factors. Our net sales may fluctuate from quarter to quarter, and these fluctuations may cause volatility in our stock price.

Our net sales and operating results may fluctuate quarterly as a result of changes in demand for our products and services, the introduction of new technology, actions by our competitors, changes in vendors' prices or price protection policies, changes in vendors' business practices or strategies, changes in freight rates, the timing or the addition of operating expenses to support our growth, the timing of major marketing or other service projects, product supply shortages, changes in product mix, the impact of possible disruption caused by integration and reorganization of technology systems, currency fluctuations in countries we have operations, the loss of a major supplier or customer, occurrence of unexpected events, impairments and the general economic factors referenced above. In addition, a substantial portion of our net sales in each quarter results from orders booked in that quarter, which are difficult to accurately forecast in advance. As a result, our performance in one period may vary significantly from our performance in the preceding quarter, and may differ significantly from our forecast of performance from quarter to quarter. The impact of these variances may cause volatility in our stock price. Additionally, any past financial performance should not be considered an indicator of future performance, and investors should not use historical trends to anticipate results or trends in the future as our operating results may fluctuate significantly quarter to quarter. Our narrow operating margins may magnify the impact of the foregoing factors on our operating results. The results of any quarterly period are not indicative of results to be expected for a full fiscal year.

Litigation - We routinely are involved in litigation that can be costly and lead to adverse results.

In the ordinary course of our business, we are involved in a wide range of disputes, some of which result in litigation. In addition, as a public company with a large shareholder base, we are susceptible to class-action and other litigation resulting from disclosures that we make and our other activities. Litigation is expensive to bring and defend, and the outcome of litigation can be adverse and significant. Not all adverse outcomes can be anticipated, and applicable accounting rules do not always require or permit the establishment of a reserve until a final result has occurred or becomes probable and estimable. In some instances we are insured for the potential losses; in other instances we are not. An uninsured or underinsured adverse outcome in significant litigation could have an adverse effect on our business, financial condition and results of operations. We can make no assurances that we will ultimately be successful in our defense of any of these disputes. See Item 3. "Legal Proceedings" for further discussion of our material legal matters.

ITEM 1B. Unresolved Staff Comments.

Not applicable.

ITEM 2. Properties.

The Company owns a 70,000 square foot building in Greenville, South Carolina, which is the site of its principal executive and sales offices, and a 103,000 square foot building on adjacent property, of which approximately 40,000 square feet is subleased to an unrelated third party. Following our reorganization and changes in reportable segments, all of our properties are now utilized by both our Worldwide Barcode & Security and our Worldwide Communications & Services segments.

North American Distribution Facilities

The Company's North American distribution operations are located in Southaven, Mississippi. The Southaven facility accommodates approximately 600,000 square feet with an optional 147,000 square feet of available expansion space. In 2007, a subsidiary of the Company entered into a ten-year lease associated with this facility, with options to extend the lease for two consecutive five-year periods.

The Company or its subsidiaries also have offices, each of approximately 13,000 square feet or less, in leased facilities in Norcross, Georgia; Cheektowaga, New York; Tempe, Arizona; Lenexa, Kansas; and Mississauga, Canada.

International Distribution Facilities

The Company or its subsidiaries lease 29,000 square feet of office and distribution center space in Miami, Florida, 25,000 square feet of office and distribution center space in Mexico City, Mexico, 17,000 square feet of office space in Cologne, Germany and 30,000 square feet of office space in Brussels, Belgium. The Company utilizes the logistical services of a third party warehouse in Liège, Belgium and has distribution center space in Cologne, Germany. During fiscal 2012, we consolidated the European warehouse operations in Liège and transferred our inventory from Cologne to the third party warehouse in Liège. The Company leases approximately 24,000 square feet of office and distribution center space in São José dos Pinhais, Brazil, leases 10,000 square feet of office and distribution center space in Barueri, Brazil, and utilizes the logistical services of a third party warehouse in Jaboatão dos Guararapes, Brazil.

The Company or its subsidiaries have additional sales offices, each of approximately 10,000 square feet or less, in leased facilities in Bad Homburg, Germany; Hull, England; Crawley, England; Egham, England; Olivet, France; Eindhoven, Netherlands, Curitiba, Brazil; Blumenau, Brazil; and Fortaleza, Brazil.

Management believes the Company's office and warehouse facilities are adequate to support its operations at their current levels and for the foreseeable future.

ITEM 3. Legal Proceedings.

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

As previously discussed in our Annual Report on Form 10-K for the year ended June 30, 2013, and in our Quarterly Reports or Form 10-Q for the quarters ended September 30, 2013, December 31, 2013 and March 31, 2014, on January 2, 2013, through our wholly-owned subsidiary Partner Services, Inc. ("PSI"), we filed a lawsuit in the U.S. District Court in Atlanta, Georgia

against our former ERP software systems integration partner, Avanade, Inc. ("Avanade"). In June 2014, the parties reached a Settlement Agreement where both parties agreed to mutually dismiss all claims and counterclaims against the other in exchange for Avanade's payment to the Company of \$15.0 million.

ITEM 4. Mine Safety Disclosures.

Not applicable.

PART II

ITEM 5. Market For Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities.

The Company's common stock is quoted on the NASDAQ Global Select Market under the symbol "SCSC." The Company has never declared or paid a cash dividend since inception. Under the terms of the Company's revolving credit facility, the payment of cash dividends is restricted. As of August 28, 2014, there were approximately 534 holders of record of our common stock. The following table sets forth, for the periods indicated, the high and low sales prices of the Company's common stock on the NASDAQ Global Select Market.

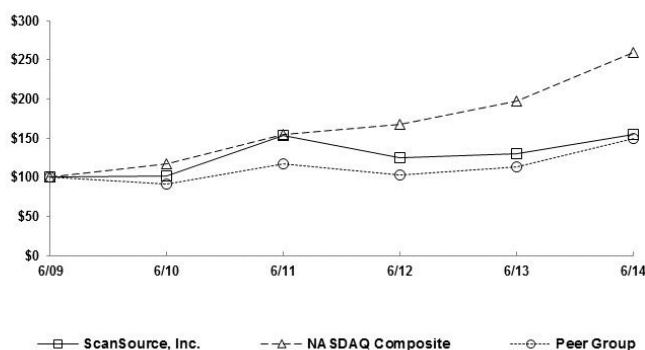
	High	Low
Fiscal Year 2014		
First quarter	\$ 36.74	\$ 30.60
Second quarter	43.65	33.75
Third quarter	42.64	35.56
Fourth quarter	42.99	36.10
Fiscal Year 2013		
First quarter	\$ 33.78	\$ 26.41
Second quarter	32.55	27.06
Third quarter	34.08	28.15
Fourth quarter	34.84	25.83

Stock Performance Chart

The following stock performance graph compares cumulative total shareholder return on the Company's common stock over a five-year period with the Nasdaq Market Index and with the Standard Industrial Classification ("SIC") Code Index (SIC Code 5045 – Wholesale Computers and Peripheral Equipment and Software) for the same period. Total shareholder return represents stock price changes and assumes the reinvestment of dividends. The graph assumes the investment of \$100 on June 30, 2009.

COMPARISON OF 5 YEAR CUMULATIVE TOTAL RETURN*

Among ScanSource, Inc., the NASDAQ Composite Index, and a Peer Group



*\$100 invested on 6/30/09 in stock or index, including reinvestment of dividends.
Fiscal year ending June 30.

	2009	2010	2011	2012	2013	2014
ScanSource, Inc.	\$ 100	\$ 102	\$ 153	\$ 125	\$ 131	\$ 155
NASDAQ Composite	\$ 100	\$ 117	\$ 155	\$ 167	\$ 197	\$ 259
SIC Code 5045 – Computers & Peripheral Equipment	\$ 100	\$ 92	\$ 117	\$ 103	\$ 113	\$ 149

ITEM 6. Selected Financial Data.

The selected financial data below should be read in conjunction with "Management's Discussion and Analysis of Financial Condition and Results of Operations" and the Consolidated Financial Statements and related notes thereto included elsewhere in this Annual Report on Form 10-K. The following statement of income data and balance sheet data were derived from the Company's Consolidated Financial Statements.

FIVE YEAR FINANCIAL SUMMARY

	Fiscal Year Ended June 30,				
	2014	2013	2012	2011	2010
<i>(in thousands, except per share data)</i>					
Statement of income data:					
Net sales	\$ 2,913,634	\$ 2,876,964	\$ 3,015,296	\$ 2,666,531	\$ 2,114,979
Cost of goods sold	2,612,535	2,584,090	2,713,272	2,392,224	1,896,052
Gross profit	301,099	292,874	302,024	274,307	218,927
Selling, general and administrative expenses	192,492	191,216	188,388	161,326	143,151
Impairment charges (legal recovery)	(15,490)	48,772	—	—	—
Change in fair value of contingent consideration	2,311	1,843	120	(128)	—
Operating income	121,786	51,043	113,516	113,109	75,776
Interest (income) expense, net	(1,633)	(1,463)	(1,247)	511	85
Other (income) expense, net	312	(520)	3,552	712	(50)
Income before income taxes	123,107	53,026	111,211	111,886	75,741
Provision for income taxes	41,318	18,364	36,923	38,363	26,929
Net income	\$ 81,789	\$ 34,662	\$ 74,288	\$ 73,523	\$ 48,812
Net income per common share, basic	\$ 2.89	\$ 1.25	\$ 2.72	\$ 2.74	\$ 1.83
Weighted-average shares outstanding, basic	28,337	27,774	27,362	26,872	26,605
Net income per common share, diluted	\$ 2.86	\$ 1.24	\$ 2.68	\$ 2.70	\$ 1.82
Weighted-average shares outstanding, diluted	28,602	27,994	27,751	27,246	26,869

	As of June 30,				
	2014	2013	2012	2011	2010
<i>(in thousands)</i>					
Balance sheet data:					
Working capital	\$ 715,850	\$ 614,378	\$ 533,529	\$ 532,167	\$ 436,953
Total assets	1,335,124	1,164,183	1,201,806	1,182,188	859,750
Total long-term debt (including short-term borrowings)	5,429	5,429	9,697	60,106	30,429
Total shareholders' equity	\$ 802,643	\$ 695,956	\$ 652,311	\$ 587,394	\$ 486,851

ITEM 7. Management's Discussion and Analysis of Financial Condition and Results of Operations.

Certain statements within this Annual Report on Form 10-K, including this Management's Discussion and Analysis of Financial Condition and Results of Operations ("MD&A"), are not historical facts and contain "forward-looking statements" as described in the "safe harbor" provision of the Private Securities Litigation Reform Act of 1995. These statements involve a number of risks and uncertainties and actual results could differ materially from those projected. Factors that could cause actual results to differ materially include the following: our dependence upon information systems and the ability to transition to a new ERP system without business disruption and in a timely and cost efficient manner; our ability to integrate acquisitions, and effectively manage and implement our growth strategies; our ability to manage the potential adverse effects of operating in foreign jurisdictions, including, adverse changes in economic, political and market conditions in Europe, Latin America, and in Brazil, Venezuela, and Argentina in particular; our ability to hedge or mitigate the effects of fluctuations in foreign exchange rates; our dependence on vendors, product supply, and availability; our ability to decrease our cost structure in response to competitive price pressures and changes in demand for our products; our ability to compete in new and existing markets that are highly competitive; our ability to anticipate adverse changes in tax laws, accounting rules, and other laws and regulations; our ability to effectively manage and implement our growth strategies; our ability to manage our business when general economic conditions are poor; our ability to retain and expand our existing and new customer relationships; our ability to manage and limit our credit exposure due to the deterioration in the financial condition of our customers; our ability to retain key employees, particularly senior management; our ability to centralize certain functions to provide efficient support to our business; our ability to manage and negotiate successful pricing and stock rotation opportunities associated with inventory value decreases; our ability to remain profitable in the face of narrow margins; our ability to manage loss, disclosure or misappropriation of, or access to, information or other breaches of our information security; our dependence on third-party freight carriers; our ability to manage the distribution channels; our ability to increase our business in Brazil; our exposure to the volatility of earnings due to changes in fair value of assets and liabilities, including changes in the fair value of our earn-out obligation to the sellers of CDC, changes in accounting principles, and our ability to make estimates and the assumptions underlying the estimates, which could have an effect on earnings; our ability to avoid goodwill and long-lived asset impairments resulting in material non-cash charges to earnings; our ability to manage disruptions or loss of certain assets from terrorist or military operations; our ability to obtain required capital at acceptable terms to fund our working capital and growth strategies; and our ability to resolve or settle potentially adverse litigation matters. Additional discussion of these and other factors affecting our business and prospects is contained in our periodic filings with the SEC, copies of which can be obtained under the "Investors Relations" tab on our website at www.scansource.com. Please refer to the cautionary statements and important factors discussed in Item 1A. "Risk Factors" in this Annual Report on Form 10-K for further information. This discussion and analysis should be read in conjunction with Item 6. "Selected Financial Data" and the Consolidated Financial Statements and the Notes thereto included elsewhere in this Annual Report on Form 10-K. We caution readers not to place undue reliance on forward-looking statements. We undertake no obligation to update publicly or otherwise revise any forward-looking statements, whether as a result of new information, future events or other factors that affect the subject of these statements, except where we are expressly required to do so by law.

Overview

ScanSource, Inc. is a leading international wholesale distributor of specialty technology products. ScanSource, Inc. and its subsidiaries (the "Company") provide value-added distribution services for approximately 290 technology manufacturers and sells to approximately 28,000 resellers in the following specialty technology markets: POS and Barcode, Security and Communications.

The Company operates in the United States, Canada, Latin America, and Europe and uses centralized distribution centers for major geographic regions. The Company distributes to the United States and Canada from its Southaven, Mississippi distribution center; to Latin America principally from distribution centers located in Florida, Mexico and Brazil; and to Europe from its distribution center in Belgium.

The Company distributes products for many of its key vendors in all of its geographic markets; however certain vendors only allow distribution to specific geographies. The Company's key vendors in barcode technologies include Bematech, Cisco, Datalogic, Datamax-O'Neil, Elo, Epson, Honeywell, Intermec by Honeywell, Motorola, NCR, Toshiba Global Commerce Solutions and Zebra Technologies. The Company's key vendors for security technologies include Arecont, Axis, Bosch, Cisco, Datacard, Exacq Technologies, Fargo, HID, March Networks, Panasonic, Ruckus Wireless, Samsung, Sony and Zebra Card. The Company's key vendors in communications technologies include Aruba, Avaya, AudioCodes, Cisco, Dialogic, Extreme Networks, Meru Networks, Plantronics, Polycom, ShoreTel and Sonus.

During fiscal year 2014, the Barcode & Security distribution segment added 3D printing solutions to their product offerings that are targeted at the manufacturing, healthcare, aerospace, and automotive markets.

In April 2014, it was announced that Zebra Technologies intends to purchase Motorola Solutions' enterprise business. Zebra Technologies and Motorola Solutions represent key vendors in our barcode technologies business.

In the fourth quarter of fiscal 2013, we announced a new management structure to enhance our worldwide technology markets focus and growth strategy. This worldwide management structure creates new leadership roles and reporting segments to globally leverage the Company's leadership in specific technology markets. As a part of this new structure, ScanSource has created two technology segments, each with its own president. The two segments are Worldwide Barcode & Security, which includes ScanSource POS and Barcode and ScanSource Security business units, and Worldwide Communications & Services, which encompasses ScanSource Catalyst, ScanSource Communications and ScanSource Services Group business units. The reporting segments of Worldwide Barcode & Security and Worldwide Communications & Services replaced the geographic segments of North America and International and gave the Company the ability to leverage its size and experience to deliver more value to our vendor and reseller partners in its existing markets.

We restructured our European Communications sales unit in the third quarter of fiscal year 2013 in order to support a strategy for profitable growth. The new organizational structure provided focused business unit leadership, as well as dedicated merchandising, sales and technical support teams, at the appropriate scale. In addition, the Company moved certain European support functions to centralized global teams in the United States to gain efficiencies. The annualized cost savings in connection with the restructuring, principally associated with the elimination of positions, was estimated at approximately \$3.1 million. The Company incurred approximately \$1.2 million in associated costs, including related severance expenses. These restructuring costs, which were accrued in the third quarter of fiscal year 2013, are included in selling, general and administration costs in the accompanying Consolidated Income Statements. For further discussion on our restructuring, refer to *Note 14 -Restructuring Costs*.

In the fourth quarter of fiscal year 2013, the Company decided not to proceed with the development of the Enterprise Resource Planning ("ERP") project using the Microsoft Dynamics AX software and we wrote off substantially all of the total capitalized expenses related to the original project. The non-cash charge recorded of \$28.2 million before the effect of income taxes (\$18.0 million net of the tax impact), included software development costs, hardware, software interfaces and other related costs. The remaining \$0.6 million of the total \$28.8 million capitalized balance was placed into service in July 2013. The software that was placed into service is not the ERP system itself, but an auxiliary database system designed to assist in the management of the product offerings. Prior to the write off, the capitalized software was included in property and equipment at cost on the Consolidated Balance Sheets.

In January 2013, through the Company's wholly-owned subsidiary Partner Services, Inc. ("PSI"), the Company filed a lawsuit in the U.S. District Court in Atlanta, Georgia against our former ERP software systems integration partner, Avanade, Inc. ("Avanade"). In June 2014, the parties reached a Settlement Agreement where both parties agreed to mutually dismiss all claims and counterclaims against the other in exchange for Avanade's payment to the Company of \$15.0 million. The Company also reversed \$2.0 million in accrued liabilities for unpaid invoices received from Avanade and paid a contingency fee of \$1.5 million to the law firm who represented the Company in the lawsuit. The settlement, net of attorney fees and reversal of accrued liabilities is included in the impairment charges (legal recovery) line item on the Consolidated Income Statements.

In December 2013, the Company retained Systems Applications Products ("SAP") for software platform and implementation consulting services for a new Enterprise Resource Planning ("ERP") system. Development of our new ERP system began in January of 2014.

After we performed our annual goodwill impairment test in 2013 we determined that a goodwill impairment charge was necessary for our Brazilian POS & Barcode and European Communications reporting units. Prior to the test, no interim impairment indicators were identified. The Company's impairment testing included the determination of the reporting unit's fair value using market multiples and discounted cash flows modeling. The impairment charges were a result of reduced earnings and cash flow forecasts primarily due to the general macroeconomic environment and lower expectations of future results. Furthermore, earnout payments made to CDC shareholders have been lower than those forecasted and assumed in the calculation of goodwill, at the time of acquisition. During the fourth quarter of fiscal 2013, the Company recorded a non-cash charge for goodwill impairment of \$5.4 million and \$15.1 million in Europe and Brazil, respectively.

During fiscal year 2014, the Company completed its annual impairment test as of April 30 and determined that no goodwill impairment charge was necessary.

As compared to prior year, our Latin America subsidiary has been experiencing a significant drop in revenue in Venezuela due to increased country-specific risks. The Company's transactions in Venezuela are denominated in U.S. dollars, however, our Venezuelan resellers are having difficulties getting U.S. dollars to pay us as the government controls the available U.S. dollars within the country. Hence, we have heightened risk of collectability in this country. At June 30, 2014, the Company held \$2.3 million in accounts receivable with 87% reserves specific to accounts receivable in Venezuela.

Our objective is to continue to grow profitable sales in the technologies we distribute and to focus on growth in security and communication technologies. We continue to evaluate strategic acquisitions to enhance our technological and geographic portfolios. In doing so, we face numerous challenges that require attention and resources. Certain business units and geographies are experiencing increased competition for the products we distribute. This competition may come in the form of pricing, credit terms, service levels and product availability. As this competition could affect both our market share and pricing of our products, we may change our strategy in order to effectively compete in the marketplace.

Cost Control/Profitability

Our operating income growth is driven not only by gross profits but by a disciplined control of operating expenses. Our operations feature scalable information systems, streamlined management, and centralized distribution, enabling us to achieve the economies of scale necessary for cost-effective order fulfillment. From inception, we have managed our general and administrative expenses by maintaining strong cost controls. However, in order to continue to grow in our markets, we have continued to invest in new technologies, specifically, security, communication and 3D technology; increased marketing efforts to recruit resellers; and enhanced employee benefit plans to retain employees.

Evaluating Financial Condition and Operating Performance

In addition to disclosing results that are determined in accordance with United States Generally Accepted Accounting Principles ("GAAP"), we also disclose certain non-GAAP financial measures, including adjusted net income and adjusted EPS, return on invested capital ("ROIC"), and "constant currency" a measure that excludes the translation exchange impact from changes in foreign currency exchange rates between reporting periods. We use non-GAAP financial measures to better understand and evaluate performance, including comparisons from period to period.

These non-GAAP financial measures have limitations as analytical tools, and the non-GAAP financial measures that we report may not be comparable to similarly titled amounts reported by other companies. Analysis of results and outlook on a non-GAAP basis should be considered in addition to, and not in substitution for or as superior to, measurements of financial performance prepared in accordance with GAAP.

Adjusted Net Income and Adjusted EPS

To evaluate current period performance on a clearer and more consistent basis with prior periods, we disclose adjusted net income and adjusted diluted EPS. Results for the current year ended June 30, 2014 excluded a legal recovery, net of attorney fees. Results for the year ended June 30, 2013 excluded charges associated with the impairment of our old ERP project using Microsoft Dynamics AX software and goodwill in two of our reporting units, and costs associated with tax compliance and personnel replacement in the Company's Belgian office. Please see notes 1, 5 and 14 of the Notes to Consolidated Financial Statements for additional information on these items. We believe that these historical items are outside of our normal operating expenses. Adjusted net income and adjusted diluted EPS are useful in better assessing and understanding our operating performance, especially when comparing results with previous periods or forecasting results for future periods.

Below, we are providing a non-GAAP reconciliation of net income and earnings per share adjusted for the costs and charges mentioned above:

	Year ended June 30, 2014			Year ended June 30, 2013		
	Pre-Tax Income	Net Income (Loss)	Diluted EPS	Pre-Tax Income	Net Income (Loss)	Diluted EPS
GAAP Measures	\$ 123,107	\$ 81,789	\$ 2.86	\$ 53,026	\$ 34,662	\$ 1.24
Adjustments:						
Legal recovery, net of attorney fees	(15,490)	(9,756)	(0.34)	—	—	—
Costs associated with Belgian tax compliance and personnel replacement costs, including related professional fees	—	—	—	2,121	1,400	0.05
Impairment charges - ERP	—	—	—	28,210	18,015	0.64
Impairment charges - Goodwill	—	—	—	20,562	15,201	0.54
Non-GAAP measures	<u>\$107,617</u>	<u>\$ 72,033</u>	<u>\$ 2.52</u>	<u>\$103,919</u>	<u>\$ 69,278</u>	<u>\$ 2.47</u>

Return on Invested Capital

Management uses ROIC as a performance measurement to assess efficiency at allocating capital under the Company's control to generate returns. Management believes this metric balances the Company's operating results with asset and liability management, is not impacted by capitalization decisions and is considered to have a strong correlation with shareholder value creation. In addition, it is easily computed, communicated and understood. ROIC also provides management a measure of the Company's profitability on a basis more comparable to historical or future periods.

ROIC assists us in comparing our performance over various reporting periods on a consistent basis because it removes from our operating results the impact of items that do not reflect our core operating performance. We believe the calculation of ROIC provides useful information to investors and is an additional relevant comparison of our performance during the year. In addition, the Company's Board of Directors uses ROIC in evaluating business and management performance. Certain management incentive compensation targets are set and measured relative to ROIC.

We calculate ROIC as earnings before interest expense, income taxes, depreciation and amortization ("EBITDA") divided by invested capital. Invested capital is defined as average equity plus average daily funded interest-bearing debt for the period. The following table summarizes annualized return on invested capital ratio for the fiscal years ended June 30, 2014, 2013, and 2012, respectively.

Management adjusted the calculation of ROIC to exclude the impact of legal recoveries, net of attorney fees for the current year ended June 30, 2014. Management also adjusted the calculation of ROIC to exclude the impact of ERP and goodwill impairment charges and costs associated with Belgian tax compliance for the year ended June 30, 2013. Management believes these adjustments provide a measure of the Company's profitability on a basis more comparable to historical or future periods. Had management not adjusted for the above mentioned items, the ROIC would have been 17.4% and 9% for the fiscal year ended June 30, 2014 and 2013, respectively. We believe the calculation of ROIC including adjusted EBITDA and adjusted average equity provides useful information to investors and is an additional relevant comparison of our performance during the year.

	2014	2013	2012
Return on invested capital ratio	<u>15.4%</u>	<u>16.0%</u>	<u>17.2%</u>

The components of our ROIC calculation and reconciliation to the Company's financial statements are shown, as follows:

Reconciliation of EBITDA to Net Income

	Fiscal Year Ended June 30,		
	2014	2013	2012
	<i>(in thousands)</i>		
Net income (GAAP)	\$ 81,789	\$ 34,662	\$ 74,288
Plus: income taxes	41,318	18,364	36,923
Plus: interest expense	731	775	1,639
Plus: depreciation & amortization	7,375	8,457	9,580
EBITDA	131,213	62,258	122,430
Adjustments ^(a)	(15,490)	50,893	—
Adjusted EBITDA (numerator for ROIC) (non-GAAP)	\$ 115,723	\$ 113,151	\$ 122,430

Invested capital calculations

	Fiscal Year Ended June 30,		
	2014	2013	2012
	<i>(in thousands)</i>		
Equity – beginning of the year	\$ 695,956	\$ 652,311	\$ 587,394
Equity – end of the year	802,643	695,956	652,311
Adjustments, net of tax ^(a)	(9,756)	34,616	—
Average equity, adjusted	744,422	691,442	619,853
Average funded debt ^(b)	5,429	15,405	92,125
Invested capital (denominator)	\$ 749,851	\$ 706,847	\$ 711,978
Return on invested capital	15.4%	16.0%	17.2%

^(a) Includes a legal recovery, net of attorney fees for the year ended June 30, 2014 and includes non-cash impairment charges, and expenses associated with Belgian tax compliance and personnel replacement costs, including related professional fees for year ended June 30, 2013.

^(b) Average funded debt is calculated as the daily average amounts outstanding on our short-term and long-term interest-bearing debt.

The decrease in our return on invested capital from the prior year is largely due to higher average equity from retained earnings.

Results of Operations

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

	Fiscal Year Ended June 30,		
	2014	2013	2012
Statement of income data:			
Net sales	100.0 %	100.0 %	100.0 %
Cost of goods sold	89.7	89.8	90.0
Gross profit	10.3	10.2	10.0
Selling, general and administrative expenses	6.6	6.6	6.2
Impairment charges (legal recovery)	(0.5)	1.7	0.0
Change in fair value of contingent consideration	0.1	0.1	0.0
Operating income	4.2	1.8	3.8
Interest expense (income), net	(0.1)	0.0	0.0
Other expense (income), net	0.0	0.0	0.1
Income before income taxes and minority interest	4.2	1.8	3.7
Provision for income taxes	1.4	0.6	1.2
Net income	2.8 %	1.2 %	2.5 %

Comparison of Fiscal Years Ended June 30, 2014 and 2013

Currency

In this Management Discussion and Analysis, we make references to "constant currency," a non-GAAP performance measure, that excludes the foreign exchange rate impact from fluctuations in the weighted average foreign exchange rates between reporting periods. Certain financial results are adjusted by translating current period results from currencies other than the U.S. dollar using the comparable weighted average foreign exchange rates from the prior year period. This information is provided to view financial results without the impact of fluctuations in foreign currency rates, thereby enhancing comparability between reporting periods.

Net Sales

The Company has two reportable segments, which are based on product sales. The following table summarizes the Company's net sales results by product categories and by geographic location for the comparable fiscal years ending June 30th:

Segments

	2014	2013	\$ Change	% Change
	<i>(in thousands)</i>			
Worldwide Barcode & Security	\$ 1,873,177	\$ 1,828,219	\$ 44,958	2.5 %
Worldwide Communications & Services	1,040,457	1,048,745	(8,288)	(0.8)%
Total net sales	<u>\$ 2,913,634</u>	<u>\$ 2,876,964</u>	<u>\$ 36,670</u>	<u>1.3 %</u>

Geographic Sales

	2014	2013	\$ Change	% Change
	<i>(in thousands)</i>			
North American sales units	\$ 2,179,890	\$ 2,139,723	\$ 40,167	1.9 %
International sales units	\$ 733,744	737,241	(3,497)	(0.5)%
Total net sales	<u>\$ 2,913,634</u>	<u>\$ 2,876,964</u>	<u>\$ 36,670</u>	<u>1.3 %</u>

Worldwide Barcode & Security

The Barcode & Security distribution segment consists of sales to technology resellers in our ScanSource POS & Barcode business units in North America, Europe and Latin America and our ScanSource Security business unit in North America. During fiscal year 2014 net sales for this segment increased \$45.0 million or 2.5% compared to the prior fiscal year. On a constant currency basis, net sales for fiscal 2014 increased \$46.4 million or 2.5% compared to prior year. The increase is primarily due to growth in all business units within Worldwide Barcode & Security, with the exception of the Miami export business.

Worldwide Communications & Services

The Communications & Services distribution segment consists of sales to technology resellers in our ScanSource Communications business units in North America and Europe, ScanSource Catalyst in North America, and ScanSource Services Group. During fiscal year 2014, net sales for this segment decreased \$8.3 million or 0.8% compared to the prior fiscal year. On a constant currency basis, net sales for fiscal 2014 decreased \$11.1 million or 1.1% compared to prior year. Sales growth in the North America Communications business unit was offset by weaker sales results for the Catalyst and Europe Communications business units.

Gross Profit

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

	2014	2013	\$ Change	% Change	% of Sales June 30,	
					2014	2013
	<i>(in thousands)</i>					
Worldwide Barcode & Security	\$ 168,233	\$ 168,123	\$ 110	0.1%	9.0%	9.2%
Worldwide Communications & Services	132,866	124,751	8,115	6.5%	12.8%	11.9%
Total gross profit	\$ 301,099	\$ 292,874	\$ 8,225	2.8%	10.3%	10.2%

Worldwide Barcode & Security

Gross profit dollars for the Barcode & Security distribution segment remained relatively flat for the fiscal year ended June 30, 2014 as compared to prior year. As a percentage of sales, gross profit margin decreased slightly to 9.0% for fiscal year 2014 as compared to 9.2% for fiscal year 2013. This reduction is largely the result sales mix, principally higher sales volume of lower margin products.

Worldwide Communications & Services

Gross profit dollars and gross profit margin for the Communications & Services distribution segment increased for the fiscal year ended June 30, 2014. As a percentage of sales, gross profit margin increased to 12.8% for fiscal year 2014 compared to 11.9% for fiscal year 2013, primarily due to higher service fee income and improved vendor program attainment.

Operating Expenses

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

	2014	2013	\$ Change	% Change	% of Sales June 30,	
					2014	2013
	<i>(in thousands)</i>					
Selling, general and administrative expenses	\$ 192,492	\$ 191,216	\$ 1,276	0.7 %	6.6 %	6.6%
Impairment charges (legal recovery)	(15,490)	48,772	(64,262)	(131.8)%	(0.5)%	1.7%
Change in fair value of contingent consideration	2,311	1,843	468	25.4 %	0.1 %	0.1%
Operating expenses	\$ 179,313	\$ 241,831	\$ (62,518)	(25.9)%	6.2 %	8.4%

Selling, general and administrative expenses ("SG&A") increased \$1.3 million for the fiscal year ending June 30, 2014. The increase in SG&A expenses is primarily due to increased personnel headcount and higher healthcare costs, partially offset by lower bad debt expense.

In the fourth quarter of 2014, we recorded a \$15.5 million legal recovery, net of attorney fees, related to our previously disclosed ERP litigation. In the fourth quarter of fiscal 2013, we recorded impairment charges from our ERP project and goodwill in our ScanSource Communications Europe and ScanSource Brasil sales units as mentioned above. Discussion on these impairments can be found in the overview section of the MD&A as well as Note 3 - *Property & Equipment* and Note 5 - *Goodwill and Other Identifiable Intangible Assets* in the notes to the consolidated financial statements.

We have elected to present changes in fair value of the contingent consideration owed to former shareholders of CDC separately from other selling, general and administrative expenses. In the current year, we have recorded a \$2.3 million loss, driven by recurring amortization of the unrecognized fair value discount and a decline in the discount rate used, partially offset by a reduction in forecasted results.

Operating Income

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

					% of Sales June 30,	
	2014	2013	\$ Change	% Change	2014	2013
	(in thousands)					
Worldwide Barcode & Security	\$ 51,523	\$ 34,665	\$ 16,858	48.6 %	2.8%	1.9%
Worldwide Communications & Services	54,773	44,588	10,185	22.8 %	5.3%	4.3%
Corporate	15,490	(28,210)	43,700	(154.9)%	—%	nm*
Total operating income	\$ 121,786	\$ 51,043	\$ 70,743	138.6 %	4.2%	1.8%

*nm - percentages are not meaningful

Worldwide Barcode & Security

For the Barcode & Security distribution segment, operating income increased \$16.9 million for the fiscal year ended June 30, 2014. The increase is largely the result of a \$15.1 million impairment expense related to ScanSource Brasil, included in prior year results, as well as, a decrease in the provision for doubtful accounts.

Worldwide Communications & Services

For the Communications & Services distribution segment, operating income increased \$10.2 million for the fiscal year ended June 30, 2014. The increase is primarily attributable to increased gross profit margin and \$5.4 million of goodwill impairment charges related to Europe Communications included in prior year results.

Corporate

For the year ended June 30, 2014 Corporate received a legal recovery, net of attorney fees, of \$15.5 million, related to our previously disclosed ERP litigation for the year ended June 30, 2014. We incurred a \$28.2 million ERP impairment charge for the year ended June 30, 2013.

Total Other (Income) Expense

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

					% of Sales June 30,	
	2014	2013	\$ Change	% Change	2014	2013
	(in thousands)					
Interest expense	\$ 731	\$ 775	\$ (44)	(5.7)%	— %	— %
Interest income	(2,364)	(2,238)	(126)	5.6 %	(0.1)%	(0.1)%
Net foreign exchange losses (gains)	616	(32)	648	nm*	— %	— %
Other, net	(304)	(488)	184	(37.7)%	— %	— %
Total other (income) expense	\$ (1,321)	\$ (1,983)	\$ 662	(33.4)%	— %	(0.1)%

*nm - percentages are not meaningful

Interest expense reflects interest incurred on the Company's long-term debt, non-utilization fees from the Company's revolving credit facility and the amortization of debt issuance costs.

Interest income for the year ended June 30, 2014 was generated on interest-bearing customer receivables and interest earned on cash and cash equivalents.

Net foreign exchange gains and losses consist of foreign currency transactional and functional currency re-measurements, offset by net foreign currency exchange contract gains and losses. Foreign exchange gains and losses are generated as the result of fluctuations in the value of the British pound versus the euro, the U.S. dollar versus the euro, the U.S. dollar versus the Brazilian real, the Canadian dollar versus the U.S. dollar and other currencies versus U.S. dollar. While we utilize foreign exchange contracts and debt in non-functional currencies to hedge foreign currency exposure, our foreign exchange policy prohibits the use of derivative financial instruments for speculative transactions.

Provision for Income Taxes

Income tax expense was \$41.3 million and \$18.4 million for the fiscal years ended June 30, 2014 and 2013, respectively, reflecting an effective tax rate of 33.6% and 34.6%, respectively. The decrease in the effective tax rate is primarily due to the non-recurring impairment of goodwill in the United Kingdom for our European Communications reporting unit, which was not deductible for fiscal year 2013. The Company expects the fiscal year 2015 effective tax rate to range between 33% to 34%.

Comparison of Fiscal Years Ended June 30, 2013 and 2012

Net Sales

The Company has two reportable segments, which are based on product sales. The following table summarizes the Company's net sales results by product categories and by geographic location for the comparable fiscal years ending June 30th:

Segments

	2013	2012	\$ Change	% Change
	<i>(in thousands)</i>			
Worldwide Barcode & Security	\$ 1,828,219	\$ 1,837,307	\$ (9,088)	(0.5)%
Worldwide Communications & Services	1,048,745	1,177,989	(129,244)	(11.0)%
Total net sales	<u>\$ 2,876,964</u>	<u>\$ 3,015,296</u>	<u>\$ (138,332)</u>	<u>(4.6)%</u>

Geographic Sales

	2013	2012	\$ Change	% Change
	<i>(in thousands)</i>			
North American distribution sales units	\$ 2,139,723	\$ 2,236,459	\$ (96,736)	(4.3)%
International distribution sales units	737,241	778,837	(41,596)	(5.3)%
Total net sales	<u>\$ 2,876,964</u>	<u>\$ 3,015,296</u>	<u>\$ (138,332)</u>	<u>(4.6)%</u>

Worldwide Barcode & Security

The Barcode/Security distribution segment consists of sales to technology resellers in our ScanSource POS & Barcode business units in North America, Europe and Latin America and our ScanSource Security business unit. During fiscal year 2013 net sales for this segment decreased, primarily due to unfavorable foreign currency exchange translation. On a constant currency basis, net sales for fiscal 2013 increased \$25.4 million or 1.4%. The majority of the currency adjustment is from the change in the Brazilian Real. The Security and Brazil POS & Barcode sales units had year-over-year growth rates excluding the impact of foreign currency translation. The POS & Barcode sales units in North America and Europe experienced a slight decline in revenue. Our Latin America business unit had a slight increase in revenue.

Worldwide Communications & Services

The Communications/Services distribution segment consists of sales to technology resellers in our ScanSource Communications business units in North America and Europe, ScanSource Catalyst in North America, and ScanSource Services Group. During fiscal year 2013, net sales for this segment declined compared to the prior fiscal year, with little change attributable to foreign currency exchange translation. The decrease was largely attributable to the loss of Juniper Networks sales, which decreased approximately \$109 million year-over-year. Our distribution agreement with Juniper Networks ended in September 2012.

ScanSource Communications in North America had strong year-over-year growth. Sales for ScanSource Catalyst and ScanSource Communications in Europe declined primarily from the loss of Juniper sales as mentioned above.

Gross Profit

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

					% of Sales June 30,	
	2013	2012	\$ Change	% Change	2013	2012
	(in thousands)					
Worldwide Barcode & Security	\$ 168,123	\$ 169,080	\$ (957)	(0.6)%	9.2%	9.2%
Worldwide Communications & Services	124,751	132,944	(8,193)	(6.2)%	11.9%	11.3%
Total gross profit	\$ 292,874	\$ 302,024	\$ (9,150)	(3.0)%	10.2%	10.0%

Worldwide Barcode & Security

Gross profit for the Barcode/Security distribution segment decreased for the fiscal year ended June 30, 2013. This reduction is the result of lower sales volumes. The gross profit expressed as a percentage of net sales was unchanged for the fiscal year 2013 compared to fiscal year 2012.

Worldwide Communications & Services

Gross profit for the Communications/Services distribution segment decreased for the fiscal year ended June 30, 2013. This is the result of lower sales volume, primarily related to the loss of Juniper Networks revenues as described earlier. The gross profit expressed as a percentage of net sales increased for fiscal year 2013 compared to fiscal year 2012 driven by improved product sales mix and vendor incentives.

Operating Expenses

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

					% of Sales June 30,	
	2013	2012	\$ Change	% Change	2013	2012
	(in thousands)					
Selling, general and administrative expense	\$ 191,216	\$ 188,388	\$ 2,828	1.5%	6.6%	6.2%
Impairment charges	48,772	—	48,772	100.0%	1.7%	—%
Change in fair value of contingent consideration	1,843	120	1,723	1,435.8%	0.1%	—%
Operating expenses	\$ 241,831	\$ 188,508	\$ 53,323	28.3%	8.4%	6.2%

Selling, general and administrative expense increased for the fiscal year ending June 30, 2013 as a result of an increase in our provision for doubtful accounts for the year ended June 30, 2013. This increase was a result of increased expenses for the Barcode/Security segment in all geographies offset by recoveries and reserve reductions in North America. Included in the Barcode/Security expense is the increased country specific reserves for Venezuela that occurred during the current fiscal year. Fiscal year 2013 selling, general and administrative expense also includes \$2.1 million in costs associated with Belgian tax compliance and personnel replacement costs, including professional fees and \$1.2 million for restructuring costs associated with our Communications business unit in Europe.

In the fourth quarter of fiscal 2013, we recorded impairment charges from our ERP project, and goodwill in our ScanSource Communications Europe and ScanSource Brasil sales units as mentioned above. Discussion on these impairments can be found

in the overview section of the MD&A as well as Note 3 - *Property & Equipment* and Note 5 - *Goodwill and Other Identifiable Intangible Assets* in the notes to the consolidated financial statements.

We have elected to present changes in fair value of the contingent consideration owed to former shareholders of CDC separately from other selling, general and administrative expenses. In the current year, we have recorded a loss, driven by recurring amortization of the unrecognized fair value discount partially offset by income from changes to forecasted and actual results.

Operating Income

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

					% of Sales June 30,	
	2013	2012	\$ Change	% Change	2013	2012
	<i>(in thousands)</i>					
Worldwide Barcode & Security	\$ 34,665	\$ 56,669	\$ (22,004)	(38.8)%	1.9%	3.1%
Worldwide Communications & Services	44,588	56,847	(12,259)	(21.6)%	4.3%	4.8%
Corporate	(28,210)	—	(28,210)	nm*	nm*	—%
Total operating income	\$ 51,043	\$ 113,516	\$ (62,473)	(55.0)%	1.8%	3.8%

*nm - percentages are not meaningful

Worldwide Barcode & Security

For the Barcode/Security distribution segment, operating income dollars and percentage decreased for the fiscal year ended June 30, 2013. The change is largely the result of higher selling, general and administrative expenses which include a \$15.1 million impairment expense related to ScanSource Brasil, as mentioned in the overview above, as well as an increase in the provision for doubtful accounts.

Worldwide Communications & Services

For the Communications/Services distribution segment, operating income in dollars and as a percentage of sales decreased. The change is attributable to lower gross margin dollars resulting from lower sales in fiscal year 2013, the effect of the ScanSource Communications Europe restructuring costs, lower provision for doubtful accounts and \$5.4 million of goodwill impairment charges.

Corporate

Corporate incurred a \$28.2 million loss relating to the ERP impairment charge discussed previously.

Total Other (Income) Expense

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

					% of Sales June 30,	
	2013	2012	\$ Change	% Change	2013	2012
	<i>(in thousands)</i>					
Interest expense	\$ 775	\$ 1,639	\$ (864)	(52.7)%	— %	0.1 %
Interest income	(2,238)	(2,886)	648	(22.5)%	(0.1)%	(0.1)%
Net foreign exchange (gains) losses	(32)	3,766	(3,798)	(100.8)%	— %	0.1 %
Other, net	(488)	(214)	(274)	128.0 %	— %	— %
Total other (income) expense	\$ (1,983)	\$ 2,305	\$ (4,288)	(186.0)%	(0.1)%	0.1 %

Interest expense reflects interest incurred on borrowings on the Company's revolving credit facility and long-term debt, including commitment fees on non-utilized borrowing availability. The decrease in interest expense is the result of lower average debt balances in the current year versus the prior year.

The Company generates interest income on longer-term interest-bearing accounts receivable, cash invested in Brazil to fund a portion of future earnout payments and to supplement local working capital needs, and, to a lesser extent, interest earned on cash and cash equivalent balances in locations other than Brazil. The reduction in interest income year over year is the result of lower cash balances in Brazil in fiscal 2013 as compared to fiscal 2012.

Net foreign exchange gains and losses consist of foreign currency transactional and functional currency re-measurements, offset by net foreign currency exchange contract gains and losses. Foreign exchange gains and losses are generated as the result of fluctuations in the value of the British pound versus the euro, the U.S. dollar versus the euro, the U.S. dollar versus the Brazilian real and other currencies versus U.S. dollar. In September 2011, we incurred a \$2.5 million non-recurring loss in conjunction with an unfavorable forward exchange contract to purchase Brazilian reais. In August 2011, the Company decided to pre-fund a portion of the estimated earnout payments associated with the CDC acquisition. This contract was designed to preserve the currency exchange for the few weeks required to transfer the cash to Brazil. From the time that we entered into the contract through settlement, the real devalued from the contractual rate by 11.8%, ultimately resulting in a \$2.5 million loss. Further contributing to the foreign exchange loss in fiscal 2012, the Brazilian business incurred significant losses on U.S. dollar denominated exposures in the first quarter of fiscal 2012 that were not hedged at the time. Subsequently, we have been including these exposures in our hedging activities.

Goodwill Impairment Charge

We completed our annual impairment test as of June 30, 2013 and determined that the book value of the European Communications and the Brazilian POS & Barcode sales units were in excess of fair value and a goodwill impairment was required. Prior to this test, no interim indicators of impairment were identified. Reduced earnings and cash flow forecast primarily due to the general macroeconomic environment and lower expectations of future results contributed to our determination. Furthermore, earnout payments made to CDC shareholders have been lower than those forecasted and assumed in the calculation of goodwill, at the time of acquisition. Accordingly, we recorded a non-cash pretax goodwill impairment charge of \$20.6 million, or \$15.2 million after tax at the local tax rate, relating to our reporting units. These goodwill charges are included in a separate operating expense line item, "Impairment charges including ERP & goodwill" in our Consolidated Income Statements. Income and market approaches were used to determine the fair value of each of our seven reporting units. The application of goodwill impairment tests requires management's judgment for many of the inputs. Key assumptions in the impairment test included our forecasted revenue growth rate, discount rate assumptions, and working capital requirements. Changes in these estimates could result in additional impairment of goodwill in a future period. The impairment charge reflects our view of anticipated risks based on our expectations of market and general economic conditions. Annual impairment testing did not result in an impairment of goodwill for the year ended June 30, 2012. For additional information regarding goodwill, see Note 5 - *Goodwill and Other Identifiable Intangible Assets*.

Provision for Income Taxes

Income tax expense was \$18.4 million and \$36.9 million for the fiscal years ended June 30, 2013 and 2012, respectively, reflecting an effective tax rate of 34.6% and 33.2%, respectively. This increase in the effective tax rate is primarily the result of the nondeductible goodwill impairment in the United Kingdom for our European Communications reporting unit.

Quarterly Results

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

	Three Months Ended							
	Fiscal 2014				Fiscal 2013			
	Jun. 30 2014	Mar. 31 2014	Dec. 31 2013	Sept. 30 2013	Jun. 30 2013	Mar. 31 2013	Dec. 31 2012	Sept. 30 2012
	<i>(in thousands, except per share data)</i>							
Net sales	\$ 758,113	\$ 682,998	\$ 740,618	\$ 731,904	\$ 712,678	\$ 682,965	\$ 747,716	\$ 733,605
Cost of goods sold	684,120	609,647	663,362	655,405	637,027	614,133	673,365	659,565
Gross profit	\$ 73,993	\$ 73,351	\$ 77,256	\$ 76,499	\$ 75,651	\$ 68,832	\$ 74,351	\$ 74,040
Net income	\$ 27,105	\$ 16,949	\$ 18,298	\$ 19,437	\$ (13,315)	\$ 13,978	\$ 16,357	\$ 17,642
Weighted-average shares outstanding, basic	28,525	28,502	28,293	28,034	27,922	27,847	27,713	27,618
Weighted-average shares outstanding, diluted	28,763	28,730	28,597	28,257	27,922	28,024	27,958	27,901
Net income (loss) per common share, basic	\$ 0.95	\$ 0.59	\$ 0.65	\$ 0.69	\$ (0.48)	\$ 0.50	\$ 0.59	\$ 0.64
Net income (loss) per common share, diluted	\$ 0.94	\$ 0.59	\$ 0.64	\$ 0.69	\$ (0.48)	\$ 0.50	\$ 0.59	\$ 0.63

Critical Accounting Policies and Estimates

Management's discussion and analysis of financial condition and results of operations are based on our consolidated financial statements, which have been prepared in conformity with accounting principles generally accepted in the United States of America ("U.S. GAAP" or "GAAP"). The preparation of financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. On an ongoing basis management evaluates its estimates, including those related to the allowance for uncollectible accounts receivable, inventory reserves to reduce inventories to the lower of cost or market, and vendor incentives. Management bases its estimates on historical experience and on various other assumptions that management believes to be reasonable under the circumstances, the results of which form a basis for making judgments about the carrying value of assets and liabilities that are not readily available from other sources. Actual results may differ materially from these estimates under different assumptions or conditions, however, management believes that its estimates, including those for the above-described items, are reasonable and that the actual results will not vary significantly from the estimated amounts. For further discussion of our significant accounting policies, refer to Note 1 - *Business and Summary of Significant Accounting Policies*.

Revenue Recognition

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

Service revenue associated with configuration and marketing services is recognized when the work is complete and the four criteria discussed above have been substantially met. Service revenue associated with configuration, marketing, service contracts and other services approximated 2% or less of consolidated net sales for fiscal years 2014, 2013 and 2012.

We also distribute third-party service contracts, typically for product maintenance and support. These service contracts are sold separately from the products, and often the Company serves as the agent for the contract on behalf of the original equipment manufacturer. Since we act as an agent on behalf of most of these service contracts sold, revenue is recognized net of cost at the time of sale. We also distribute some self-branded warranty programs and engage a third party (generally the original equipment manufacturer) to cover the fulfillment of any obligations arising from these contracts. These revenues and associated third party costs are amortized over the life of contract and presented in net sales and cost of goods sold, respectively.

During the fiscal years ended June 30, 2014, 2013 and 2012, the Company has not engaged in any sales transactions involving multiple element arrangements. Had any arrangements with multiple deliverables occurred, we would follow the guidance set forth in the Financial Accounting Standards Board's ("FASB") Accounting Standards Codification ("ASC") 605 - *Revenue Recognition*.

Allowances for Trade and Notes Receivable

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

Inventory Reserves

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

returned to the vendor or sold. To the extent that specifically reserved inventory is sold, cost of goods sold is expensed for the new cost basis of the inventory sold.

Vendor Programs

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

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

Share-Based Payments

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

Income Taxes

Income taxes are accounted for under the asset and liability method. Deferred income taxes reflect tax consequences on future years of differences between the tax bases of assets and liabilities and their financial reporting amounts. Valuation allowances are provided against deferred tax assets in accordance with ASC 740, *Accounting for Income Taxes*. During fiscal 2013, the Company reviewed and modified its policy toward permanently reinvested foreign earnings. The Company has provided for U.S. income taxes for the current earnings of its Canadian subsidiary. Earnings from all other geographies will continue to be considered retained indefinitely for reinvestment. The tax effect of this accounting policy change is immaterial to the financial statements. See Note 11 - *Income Taxes*, for further discussion.

Additionally, the Company maintains reserves for uncertain tax provisions in accordance with ASC 740. See Note 11 - *Income Taxes*, in the Notes to Consolidated Financial Statements for more information.

Business Combinations

The Company accounts for business combinations in accordance with ASC Topic 805, *Business Combinations*. ASC 805 establishes principles and requirements for recognizing the total consideration transferred to and the assets acquired, liabilities assumed and any non-controlling interest in the acquired target in a business combination. ASC 805 also provides guidance for recognizing and measuring goodwill acquired in a business combination and requires the acquirer to disclose information that users may need to evaluate and understand the financial impact of the business combination. See Note 4 - *Acquisitions*, in the Notes to Consolidated Financial Statements for further discussion.

Goodwill

The carrying value of goodwill is reviewed at a reporting unit level at least annually for impairment, or more frequently if impairment indicators exist. Our goodwill reporting units are those components that are one level below our Worldwide Barcode & Security and Worldwide Communications & Services operating segments for a total of seven reporting units. The goodwill testing utilizes a two-step impairment analysis, whereby the Company compares the carrying value of each identified reporting unit to its fair value. The fair values of the reporting units are estimated using the net present value of discounted cash flows generated by each

reporting unit. Considerable judgment is necessary in estimating future cash flows, discount rates and other factors affecting the estimated fair value of the reporting units, including the operating and macroeconomic factors. Historical financial information, internal plans and projections, and industry information are used in making such estimates.

In the two-step impairment analysis, goodwill is first tested for impairment by comparing the fair value of the reporting unit with the reporting unit's carrying amount to identify any potential impairment. If fair value is determined to be less than carrying value, a second step is used whereby the implied fair value of the reporting unit's goodwill, determined through a hypothetical purchase price allocation, is compared with the carrying amount of the reporting units' goodwill. If the implied fair value of the reporting unit's goodwill is less than its carrying amount, an impairment charge is recorded in current earnings for the difference. We also assess the recoverability of goodwill if facts and circumstances indicate goodwill may be impaired. In our most recent annual test, we estimated the fair value of our reporting units primarily based on the discounted cash flow method. We also utilized fair value estimates derived from the market approach utilizing the public company market multiple method to validate the results of the discounted cash flow method, which required us to make assumptions about the applicability of those multiples to our reporting units. The discounted cash flow method required us to estimate future cash flows and discount those amounts to a present value.

The assumptions utilized in determining fair value included:

- Industry weighted-average cost of capital ("WACC"): We utilized a WACC relative to each reporting unit's respective geography and industry as the discount rate for estimated future cash flows. The WACC is intended to represent a rate of return that would be expected by a market place participant in each respective geography.
- Operating income: We utilized historical and expected revenue growth rates, gross margins and operating expense percentages, which varied based on the projections of each reporting unit being evaluated.
- Cash flows from working capital changes: We utilized a projected cash flow impact pertaining to expected changes in working capital as each of our goodwill reporting units grow.

While we believe our assumptions are appropriate, they are subject to uncertainty and by nature include judgments and estimates regarding future events, including projected growth rates, margin percentages and operating efficiencies. During fiscal year 2014, the Company completed its annual impairment test as of April 30 and determined that no goodwill impairment charge was necessary. However, as of the most recent annual impairment test the estimated fair value of the Company's Latin American goodwill reporting unit exceeded its carrying value by smaller margins than the Company's other goodwill reporting units. The estimated fair value of the Latin America goodwill reporting unit exceeded the carrying value by 10.2%. The increase in sensitivity to this goodwill reporting unit is driven largely by the general macroeconomic environment and lower expectations for future results in the units. Key assumptions used in determining fair value include projected growth and operating margin, working capital requirements and discount rates. While we do not believe that this goodwill reporting unit is impaired at this time, if we are not able to achieve projected operating margins within the expected working capital requirements and/or there are unfavorable changes to the discount rate, a future impairment of goodwill is at least reasonably possible.

During fiscal 2013, the Company recorded a non-cash impairment charge of \$5.4 million and \$15.1 million for our European Communications and ScanSource Brasil reporting units. The carrying value of the European POS & Barcode and ScanSource Latin America goodwill as of June 30, 2013 was \$4.5 million and \$4.0 million, respectively. The increase in sensitivity to these goodwill reporting units are driven largely by the general macroeconomic environment and lower expectations for future results in the units. Key assumptions used in determining fair value include projected growth and operating margin, working capital requirements and discount rates.

See Note 5 - *Goodwill and Other Identifiable Intangible Assets* in the Notes to Consolidated Financial Statements for further discussion on our goodwill impairment testing and results.

Liability for Contingent Consideration

In addition to the initial cash consideration paid to former CDC shareholders, the Company is obligated to make additional earnout payments based on future results through fiscal year 2015 based on a multiple of the subsidiary's pro forma net income as defined in the Share Purchase and Sale Agreement. Future payments are to be paid in Brazilian currency, the real. There are two remaining earnout payments payable in annual installments on August 31, 2014 and October 31, 2015. In accordance with ASC Topic 805, the Company determines the fair value of this liability for contingent consideration at each reporting date throughout the term of the earnout using a discounted cash flow model following the income approach. Each period the Company will reflect the contingent consideration liability at fair value with changes recorded in the change in fair value of contingent consideration line item on the Consolidated Income Statement. Current and noncurrent portions of the liability are presented in the current portion of contingent consideration and long-term portion of contingent consideration line items on the Consolidated Balance Sheets.

Accounting Standards Recently Issued

See Note 1 in the Notes to Consolidated Financial Statements for the discussion on recent accounting pronouncements.

Liquidity and Capital Resources

Our primary sources of liquidity are cash flows from operations and borrowings under the \$300 million revolving credit facility, \$5.4 million industrial revenue bond and €6 million line of credit for our European subsidiary. As a distribution company, our business requires significant investment in working capital, particularly accounts receivable and inventory, partially financed through our accounts payable to vendors, cash on hand and revolving lines of credit. In general, as our sales volumes increase, our net investment in working capital typically increases, which typically results in decreased cash flow from operating activities. Conversely, when sales volumes decrease, our net investment in working capital typically decreases, which typically results in increased cash flow from operating activities.

Cash and cash equivalents totaled \$194.9 million at June 30, 2014, compared to \$148.2 million at June 30, 2013, of which \$39.7 million and \$23.8 million was held outside of the United States as of June 30, 2014 and 2013, respectively. Checks released but not yet cleared from these accounts in the amounts of \$84.1 million and \$65.9 million are classified as accounts payable as of June 30, 2014 and June 30, 2013, respectively.

We conduct business in many locations throughout the world where we generate and use cash. The Company provides for U.S. income taxes for the earnings of its Canadian subsidiary. Earnings from all other geographies will continue to be considered retained indefinitely for reinvestment. If these funds were needed in the operations of the United States, we would be required to record and pay significant income taxes upon repatriation of these funds. See Note 11 - *Income Taxes* in the Notes to the Consolidated Financial Statements for further discussion.

Our net investment in working capital increased \$101.5 million to \$715.9 million at June 30, 2014 from \$614.4 million at June 30, 2013, principally from higher cash, accounts receivable and inventory balances, partially offset by higher accounts payable. Our net investment in working capital is affected by several factors such as fluctuations in sales volume, net income, timing of collections from customers, increases and decreases to inventory levels, payments to vendors, as well as cash generated or used by other financing and investing activities.

Net cash provided by operating activities was \$47.7 million for year ended June 30, 2014, compared to \$129.4 million provided by operating activity in the prior year. The decrease in operating cash flows is largely the result of higher inventory and accounts receivable balances, partially offset by higher accounts payable and net income.

The number of days sales outstanding ("DSO") was 55 at June 30, 2014 and June 30, 2013, which is within our typically expected range. Accounts receivable increased due to higher sales.

Inventory turnover decreased to 5.6 times during the fourth quarter of the current fiscal year, compared to 6.2 times in the prior year quarter. Throughout fiscal year 2014 inventory turnover ranged from 5.1 to 6.3 times. The decrease in inventory turns in relation to the prior year comparative quarter is primarily due to higher inventory levels in anticipation of the upcoming quarter demand.

Cash used in investing activities for the year ended June 30, 2014 was \$11.2 million, compared to \$4.8 million used in the prior year. Current year capital expenditures were attributable to the Company's new Enterprise Resource Planning ("ERP") system, while prior year investing cash flows were primarily attributable to investments that were subsequently impaired, as well as, building improvements in the United States and Europe.

In December 2013, we retained SAP for the software platform and implementation consulting services for a new ERP system. The Company is currently working on the development and implementation of the new ERP platform. Management expects capital spending for fiscal 2015 to range from \$17 million to \$22 million, primarily related to the ERP system.

In fiscal 2014, cash provided by financing activities totaled to \$9.3 million, compared to \$5.0 million cash used in financing activities in the prior year. The change in cash flow is primarily attributable to increased exercises of stock options and no activity related to our short-term borrowings.

The Company has a \$300 million multi-currency senior secured revolving credit facility that was scheduled to mature on October 11, 2016. On November 6, 2013, the Company entered into an amendment of this credit facility ("Amended Credit Agreement") with JP Morgan Chase Bank, N.A, as administrative agent, and a syndicate of banks to extend its maturity to November 6, 2018. The Amended Credit Agreement allows for the issuance of up to \$50 million for letters of credit and has a \$150 million accordion

feature that allows the Company to increase the availability to \$450 million, subject to obtaining additional credit commitments for the lenders participating in the increase.

At our option, loans denominated in U.S. dollars under the Amended Credit Agreement, other than swingline loans, bear interest at a rate equal to a spread over the London Interbank Offered Rate ("LIBOR") or alternate base rate depending upon the Company's ratio of total debt (excluding accounts payable and accrued liabilities) to EBITDA, measured as of the end of the most recent year or quarter, as applicable, for which financial statements have been delivered to the Lenders (the "Leverage Ratio"). The Leverage Ratio calculation excludes the Company's subsidiary in Brazil. This spread ranges from 1.00% to 2.25% for LIBOR-based loans and 0.00% to 1.25% for alternate base rate loans. Additionally, the Company is assessed commitment fees ranging from 0.175% to 0.40% depending on the Leverage Ratio, on non-utilized borrowings availability, excluding swingline loans. Borrowings under the Amended Credit Agreement are guaranteed by substantially all of the domestic assets of the Company and a pledge of up to 65% of capital stock or other equity interest in certain foreign subsidiaries determined to be either material or a subsidiary borrower as defined in the Amended Credit Agreement. We were in compliance with all covenants under the credit facility as of June 30, 2014.

There were no outstanding borrowings on the Company's \$300 million revolving credit facility as of June 30, 2014 and 2013.

On a gross basis, we made zero borrowings and repayments on the \$300.0 million revolving credit facility in fiscal 2014. In the prior year, we borrowed \$515.3 million and repaid \$515.9 million. The average daily balance on the revolving credit facility was \$0.0 million and \$9.4 million for the years ended June 30, 2014 and 2013, respectively. There were no standby letters of credits issued and outstanding as of June 30, 2014, leaving \$300 million available for borrowings under the revolving credit facility.

In addition to our multi-currency \$300 million revolving credit facility, we have a €6.0 million subsidiary line of credit utilized by our European operations which bears interest at the 30-day Euro Interbank Offered Rate ("EURIBOR") plus a spread ranging from 1.25% to 2.00% per annum. There were no outstanding borrowings as of June 30, 2014 and 2013. This facility is secured by the assets of our European operations and is guaranteed by ScanSource, Inc.

On April 15, 2011, the Company, through its wholly-owned subsidiary, ScanSource do Brasil Participações LTDA completed its acquisition of all of the shares of CDC, pursuant to a Share Purchase and Sale Agreement dated April 7, 2011. The purchase price was paid with an initial payment of \$36.2 million, net of cash acquired, assumption of working capital payables and debt, and variable annual payments through October 2015 based on CDC's annual financial results. The Company has made its first three payments to the former shareholders totaling \$10.4 million. As of June 30, 2014, we have \$11.1 million recorded for the earnout obligation, of which \$5.9 million is classified as current and due August 31, 2014. Future earnout payments will be funded by cash on hand and our existing revolving credit facility.

On August 1, 2007, the Company entered into an agreement with the State of Mississippi in order to provide financing for the acquisition and installation of certain equipment to be utilized at the Company's Southaven, Mississippi distribution facility, through the issuance of an industrial development revenue bond. The bond matures on September 1, 2032 and accrues interest at the 30-day LIBOR rate plus a spread of 0.85%. The terms of the bond allow for payment of interest only for the first 10 years of the agreement, and then, starting on September 1, 2018 through 2032, principal and interest payments are due until the maturity date or the redemption of the bond. The agreement also provides the bondholder with a put option, exercisable only within 180 days of each fifth anniversary of the agreement, requiring the Company to pay back the bonds at 100% of the principal amount outstanding. The outstanding balance on this facility was \$5.4 million as of June 30, 2014 and 2013, and the effective interest rate was 1.00% and 1.04%, respectively. The Company was in compliance with all covenants associated with this agreement as of June 30, 2014.

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

Commitments

At June 30, 2014, the Company had contractual obligations in the form of non-cancelable operating leases, a capital lease (including interest payments), debt (including interest payments) and the contingent consideration for the earnout pertaining to the CDC acquisition. See Notes 6, 8 and 12 of the Notes to the Consolidated Financial Statements. The following table summarizes our future contractual obligations:

	Payments Due by Period				
	Total	Year 1	Years 2-3	Years 4-5	Greater than 5 Years
	(in thousands)				
Contractual Obligations					
Non-cancelable operating leases ⁽¹⁾	\$ 15,871	\$ 4,734	\$ 7,510	\$ 2,417	\$ 1,210
Capital lease	743	250	493	—	—
Principal debt payments	5,429	—	—	231	5,198
Contingent consideration ⁽²⁾	11,107	5,851	5,256	—	—
Other ⁽³⁾	—	—	—	—	—
Total obligations	\$ 33,150	\$ 10,835	\$ 13,259	\$ 2,648	\$ 6,408

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

(2) Amounts disclosed regarding future CDC earnout payments are presented at their discounted fair value. Estimated future, undiscounted earnout payments total \$12.0 million as of June 30, 2014.

(3) Amounts totaling \$14.0 million of deferred compensation which are included in accrued expenses and other current liabilities and other long-term liabilities in our Consolidated Balance Sheets as of June 30, 2014 have been excluded from the table above due to the uncertainty of the timing of the payment of these obligations, which are generally at the discretion of the individual employees or upon death of the former employee, respectively.

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

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

Interest Rate Risk

The Company is exposed to changes in interest rates primarily as a result of its borrowing activities, which include revolving credit facilities with a group of banks used to maintain liquidity and fund the Company's business operations. The nature and amount of the Company's debt may vary as a result of future business requirements, market conditions and other factors. A hypothetical 100 basis point increase or decrease in interest rates on borrowings on the Company's revolving credit facility, variable rate long-term debt and subsidiary line of credit for the fiscal year ended June 30, 2014 would have resulted in less than a \$0.1 million increase or decrease, respectively, in pre-tax income for the period.

The Company evaluates its interest rate risk and may use interest rate swaps to mitigate the risk of interest rate fluctuations associated with the Company's variable rate long-term debt. At June 30, 2014, the Company had \$5.4 million in variable rate long-term debt outstanding with no interest rate swaps in place. If used, derivative instruments have the potential to expose the Company to certain market risks including the possibility of (1) the Company's hedging activities not being as effective as anticipated in reducing the volatility of the Company's cash flows, (2) the counterparty not performing its obligations under the applicable hedging arrangement, (3) the hedging arrangement being imperfect or ineffective, or (4) the terms of the swap or associated debt may change. The Company seeks to lessen such risks by having established a policy to identify, control, and manage market risks which may arise from changes in interest rates, as well as limiting its counterparties to major financial institutions.

Foreign Currency Exchange Rate Risk

The Company is exposed to foreign currency risks that arise from its foreign operations in Canada, Latin America and Europe. These risks include transactions denominated in non-functional currencies and intercompany loans with foreign subsidiaries. In the normal course of the business, foreign exchange risk is managed by the use of foreign currency forward contracts to hedge these exposures as well as balance sheet netting of exposures. In addition, exchange rate fluctuations may cause our international results to fluctuate significantly when translated into U.S. dollars. These risks may change over time as business practices evolve and could have a material impact on the Company's financial results in the future.

The Company's senior management has approved a foreign exchange hedging policy to reduce foreign currency exposure. The Company's policy is to utilize financial instruments to reduce risks where internal netting cannot be effectively employed and not to enter into foreign currency derivative instruments for speculative or trading purposes. The Company monitors its risk associated with the volatility of certain foreign currencies against its functional currencies and enters into foreign exchange derivative contracts to minimize short-term currency risks on cash flows. These positions are based upon balance sheet exposures and, in certain foreign currencies, our forecasted purchases and sales. The Company continually evaluates foreign exchange risk and may enter into foreign exchange transactions in accordance with its policy. Actual variances from these forecasted transactions can adversely impact foreign exchange results. Foreign currency gains and losses are included in other expense (income).

The Company has elected not to designate its foreign currency contracts as hedging instruments, and therefore, the instruments are marked-to-market with changes in their values recorded in the consolidated income statement each period. The Company's foreign currencies are primarily British pounds, euros, Mexican pesos, Brazilian real and Canadian dollars. At June 30, 2014, the fair value of the Company's currency forward contracts outstanding was a net payable of less than \$0.1 million. The Company does not utilize financial instruments for trading or other speculative purposes.

ITEM 8. Financial Statements and Supplementary Data.

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

Report of Independent Registered Public Accounting Firm

Board of Directors and Shareholders
ScanSource, Inc.

We have audited the accompanying consolidated balance sheet of ScanSource Inc. (a South Carolina corporation) and subsidiaries (the “Company”) as of June 30, 2014, and the related consolidated statements of income, comprehensive income, shareholders’ equity, and cash flows for the year ended June 30, 2014. Our audit of the basic consolidated financial statements included the financial statement schedule listed in the index appearing under Item 15(a)(2). These financial statements and financial statement schedule are the responsibility of the Company’s management. Our responsibility is to express an opinion on these financial statements and financial statement 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. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides 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 ScanSource, Inc. and subsidiaries as of June 30, 2014, and the results of their operations and their cash flows for the year ended June 30, 2014 in conformity with accounting principles generally accepted in the United States of America. Also in our opinion, the related financial statement schedule, when considered in relation to the basic consolidated financial statements taken as a whole, presents fairly, in all material respects, the information set forth therein.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the Company’s internal control over financial reporting as of June 30, 2014, based on criteria established in the 1992 *Internal Control-Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO), and our report dated August 28, 2014 expressed an unqualified opinion.

/s/ Grant Thornton LLP

Columbia, South Carolina
August 28, 2014

Report of Independent Registered Public Accounting Firm

Board of Directors and Shareholders
ScanSource, Inc.

We have audited the internal control over financial reporting of ScanSource, Inc. (a South Carolina corporation) and subsidiaries (the “Company”) as of June 30, 2014, based on criteria established in the 1992 *Internal Control-Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). 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, included in the accompanying Management’s Report on Internal Control over Financial Reporting. Our responsibility is to express an opinion on the Company’s internal control over financial reporting based on our audit.

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

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

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

In our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of June 30, 2014, based on criteria established in the 1992 *Internal Control-Integrated Framework* issued by COSO.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated financial statements of the Company as of and for the year ended June 30, 2014, and our report dated August 28, 2014 expressed an unqualified opinion on those financial statements.

/s/ Grant Thornton LLP

Columbia, South Carolina
August 28, 2014

Report of Independent Registered Public Accounting Firm

The Board of Directors and Shareholders of ScanSource, Inc.

We have audited the accompanying consolidated balance sheet of ScanSource, Inc. and subsidiaries as of June 30, 2013 and the related consolidated statements of income, comprehensive income, shareholders' equity, and cash flows for each of the two years in the period ended June 30, 2013. Our audits also included the financial statement schedule for each of the two years in the period ended June 30, 2013 listed in the Index at Item 15(a). These financial statements and schedule are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements and schedule based on our audits.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of ScanSource, Inc. and subsidiaries at June 30, 2013, and the consolidated results of their operations and their cash flows for each of the two years in the period ended June 30, 2013 in conformity with U.S. generally accepted accounting principles. Also, in our opinion, the related financial statement schedule, when considered in relation to the basic financial statements taken as a whole, presents fairly in all material respects the information for each of the two years in the period ended June 30, 2013 set forth therein.

/s/ Ernst & Young LLP

Greenville, South Carolina
August 26, 2013

ScanSource, Inc. and Subsidiaries
Consolidated Balance Sheets
(in thousands, except share information)

	June 30, 2014	June 30, 2013
Assets		
Current assets:		
Cash and cash equivalents	\$ 194,851	\$ 148,164
Accounts receivable, less allowance of \$26,257 at June 30, 2014 and \$25,479 at June 30, 2013	464,405	435,028
Inventories	504,758	402,307
Prepaid expenses and other current assets	33,558	40,105
Deferred income taxes	18,109	16,456
Total current assets	1,215,681	1,042,060
Property and equipment, net	31,823	20,203
Goodwill	32,342	31,795
Other non-current assets, including net identifiable intangible assets	55,278	70,125
Total assets	\$ 1,335,124	\$ 1,164,183
Liabilities and Shareholders' Equity		
Current liabilities:		
Short-term borrowings	\$ —	\$ —
Accounts payable	421,721	362,271
Accrued expenses and other current liabilities	63,574	59,983
Current portion of contingent consideration	5,851	3,732
Income taxes payable	8,685	1,696
Total current liabilities	499,831	427,682
Deferred income taxes	185	205
Long-term debt	5,429	5,429
Borrowings under revolving credit facility	—	—
Long-term portion of contingent consideration	5,256	8,813
Other long-term liabilities	21,780	26,098
Total liabilities	532,481	468,227
Commitments and contingencies		
Shareholders' equity:		
Preferred stock, no par value; 3,000,000 shares authorized, none issued	—	—
Common stock, no par value; 45,000,000 shares authorized, 28,539,481 and 27,971,809 shares issued and outstanding at June 30, 2014 and June 30, 2013, respectively	168,447	149,821
Retained earnings	650,896	569,107
Accumulated other comprehensive (loss) income	(16,700)	(22,972)
Total shareholders' equity	802,643	695,956
Total liabilities and shareholders' equity	\$ 1,335,124	\$ 1,164,183

See accompanying notes to consolidated financial statements.

ScanSource, Inc. and Subsidiaries
Consolidated Income Statements
Years Ended June 30, 2014, 2013, and 2012
(in thousands, except per share information)

	2014	2013	2012
Net sales	\$ 2,913,634	\$ 2,876,964	\$ 3,015,296
Cost of goods sold	2,612,535	2,584,090	2,713,272
Gross profit	301,099	292,874	302,024
Selling, general and administrative expenses	192,492	191,216	188,388
Impairment charges (legal recovery)	(15,490)	48,772	—
Change in fair value of contingent consideration	2,311	1,843	120
Operating income	121,786	51,043	113,516
Interest expense	731	775	1,639
Interest income	(2,364)	(2,238)	(2,886)
Other (income) expense, net	312	(520)	3,552
Income before income taxes	123,107	53,026	111,211
Provision for income taxes	41,318	18,364	36,923
Net income	\$ 81,789	\$ 34,662	\$ 74,288
Per share data:			
Net income per common share, basic	\$ 2.89	\$ 1.25	\$ 2.72
Weighted-average shares outstanding, basic	28,337	27,774	27,362
Net income per common share, diluted	\$ 2.86	\$ 1.24	\$ 2.68
Weighted-average shares outstanding, diluted	28,602	27,994	27,751

See accompanying notes to consolidated financial statements.

ScanSource, Inc. and Subsidiaries
Consolidated Statements of Comprehensive Income
Years Ended June 30, 2014, 2013, and 2012
(in thousands)

	2014	2013	2012
Net income	\$ 81,789	\$ 34,662	\$ 74,288
Unrealized gain on hedged transaction, net of tax	—	—	139
Foreign currency translation adjustment	6,272	(1,281)	(25,459)
Comprehensive income	<u>\$ 88,061</u>	<u>\$ 33,381</u>	<u>\$ 48,968</u>

See accompanying notes to these consolidated financial statements.

ScanSource, Inc. and Subsidiaries
Consolidated Statements of Shareholders' Equity
Years Ended June 30, 2014, 2013, and 2012
(in thousands, except share information)

	Common Stock (Shares)	Common Stock (Amount)	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Total
Balance at June 30, 2011	27,109,932	\$ 123,608	\$ 460,157	\$ 3,629	\$ 587,394
Net income	—	—	74,288	—	74,288
Unrealized gain on hedged transaction, net of tax of \$76	—	—	—	139	139
Foreign currency translation adjustment	—	—	—	(25,459)	(25,459)
Exercise of stock options and shares issued under share-based compensation plans, net of shares withheld for employee taxes	494,908	7,642	—	—	7,642
Share based compensation	—	7,004	—	—	7,004
Tax benefit of deductible compensation arising from exercise or vesting of share based payment arrangements	—	1,303	—	—	1,303
Balance at June 30, 2012	27,604,840	\$ 139,557	\$ 534,445	\$ (21,691)	\$ 652,311
Net income	—	—	34,662	—	34,662
Foreign currency translation adjustment	—	—	—	(1,281)	(1,281)
Exercise of stock options and shares issued under share-based compensation plans, net of shares withheld for employee taxes	366,969	4,024	—	—	4,024
Share based compensation	—	5,692	—	—	5,692
Tax benefit of deductible compensation arising from exercise or vesting of share based payment arrangements	—	548	—	—	548
Balance at June 30, 2013	27,971,809	\$ 149,821	\$ 569,107	\$ (22,972)	\$ 695,956
Net income	—	—	81,789	—	81,789
Foreign currency translation adjustment	—	—	—	6,272	6,272
Exercise of stock options and shares issued under share-based compensation plans, net of shares withheld for employee taxes	567,672	12,581	—	—	12,581
Share based compensation	—	5,328	—	—	5,328
Tax benefit of deductible compensation arising from exercise or vesting of share based payment arrangements	—	717	—	—	717
Balance at June 30, 2014	28,539,481	\$ 168,447	\$ 650,896	\$ (16,700)	\$ 802,643

See accompanying notes to consolidated financial statements.

ScanSource, Inc. and Subsidiaries
Consolidated Statements of Cash Flows
Years Ended June 30, 2014, 2013, and 2012
(in thousands)

	2014	2013	2012
Cash flows from operating activities:			
Net income	\$ 81,789	\$ 34,662	\$ 74,288
Adjustments to reconcile net income to net cash provided by (used in) operating activities:			
Depreciation and amortization	7,375	8,457	9,580
Amortization of debt issue costs	312	345	342
Provision for doubtful accounts	6,573	10,333	7,134
Share based compensation	5,248	5,618	6,840
Impairment charges	—	48,772	—
Deferred income taxes	8,606	(19,630)	(6,377)
Excess tax benefits from share-based payment arrangements	(982)	(849)	(1,720)
Change in fair value of contingent consideration	2,311	1,843	120
Changes in operating assets and liabilities, net of acquisitions:			
Accounts receivable	(31,860)	13,746	(34,322)
Inventories	(99,214)	86,821	(29,387)
Prepaid expenses and other assets	6,206	(28)	(4,103)
Other noncurrent assets	1,285	9,441	1,166
Accounts payable	57,532	(56,837)	28,306
Accrued expenses and other liabilities	(5,357)	(14,145)	8,371
Income taxes payable	7,898	895	(280)
Net cash provided by (used in) operating activities	47,722	129,444	59,958
Cash flows from investing activities:			
Capital expenditures	(11,228)	(4,831)	(12,790)
Net cash provided by (used in) investing activities	(11,228)	(4,831)	(12,790)
Cash flows from financing activities:			
Increases (decreases) in short-term borrowings, net	—	(4,459)	1,345
Borrowings on revolving credit, net of expenses	—	515,262	1,408,522
Repayments on revolving credit, net of expenses	—	(515,877)	(1,433,161)
Repayments on long-term debt	—	—	(25,000)
Debt issuance costs	(468)	—	(1,360)
Contingent consideration payments	(3,810)	(4,777)	(2,000)
Exercise of stock options	12,581	4,024	7,642
Excess tax benefits from share-based payment arrangements	982	849	1,720
Net cash provided by (used in) financing activities	9,285	(4,978)	(42,292)
Effect of exchange rate changes on cash and cash equivalents	908	(644)	(4,450)
Increase (decrease) in cash and cash equivalents	46,687	118,991	426
Cash and cash equivalents at beginning of period	148,164	29,173	28,747
Cash and cash equivalents at end of period	\$ 194,851	\$ 148,164	\$ 29,173
Supplemental disclosure of cash flow information:			
Interest paid during the year	\$ 739	\$ 796	\$ 1,578
Income taxes paid during the year	\$ 24,323	\$ 35,582	\$ 46,057

See accompanying notes to consolidated financial statements.

SCANSOURCE, INC. AND SUBSIDIARIES
Notes to Consolidated Financial Statements
June 30, 2014

(1) Business and Summary of Significant Accounting Policies

Business Description

ScanSource, Inc. is a leading international wholesale distributor of specialty technology products. ScanSource, Inc. and its subsidiaries ("the Company") provide value-added distribution services for technology manufacturers and sell to resellers in the following specialty technology markets: POS Barcode and Security through its Worldwide Barcode & Security segment and Communications through its Worldwide Communications & Services segment.

The Company operates in the United States, Canada, Latin America, and Europe and uses centralized distribution centers for major geographic regions. The Company distributes to the United States and Canada from its Southaven, Mississippi distribution center; to Latin America principally from distribution centers located in Florida, Mexico and Brazil; and to Europe from its distribution center in Belgium.

Consolidation Policy

The consolidated financial statements include the accounts of the Company. All significant inter-company accounts and transactions have been eliminated.

Use of Estimates

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

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

(a) Allowances for Trade and Notes Receivable

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

Management determines the estimate of the allowance for uncollectible accounts receivable by considering a number of factors, including: (1) historical experience, (2) aging of the accounts receivable, (3) specific information obtained by the Company on the financial condition and the current creditworthiness of its customers, and (4) the current economic and country specific environment. If the financial condition of the Company's customers were to deteriorate and reduce the ability of the Company's customers to make payments on their accounts, the Company may be required to increase its allowance by recording additional bad debt expense. Likewise, should the financial condition of the Company's customers improve and result in payments or settlements of previously reserved amounts, the Company may be required to record a reduction in bad debt expense to reverse the recorded allowance.

(b) Inventory Reserves

Management determines the inventory reserves required to reduce inventories to the lower of cost or market based principally on the effects of technological changes, quantities of goods and length of time on hand, and other factors. An estimate is made of the market value, less cost to dispose, of products whose value is determined to be impaired. If these products are ultimately sold at less than estimated amounts, additional reserves may be required. The estimates used to calculate these reserves are

SCANSOURCE, INC. AND SUBSIDIARIES
Notes to Consolidated Financial Statements—(Continued)
June 30, 2014

applied consistently. The adjustments are recorded in the period in which the loss of utility of the inventory occurs, which establishes a new cost basis for the inventory. This new cost basis is maintained until such time that the reserved inventory is disposed of, returned to the vendor or sold. To the extent that specifically reserved inventory is sold, cost of goods sold is expensed for the new cost basis of the inventory sold.

Reorganization and Segment changes

Prior to fiscal 2013 the Company's reporting units coincided with its geographic business segments of North America and International. In the fourth quarter of 2013, the Company reorganized its management structure and reporting segments to globally leverage the Company's leadership in specific technology markets. As part of this new structure, the Company created two technology business operating segments: Worldwide Barcode & Security ("Barcode/Security") and Worldwide Communications & Services ("Communications/Services"). Each operating segment is managed around its global technology focus and is supported by the Company's centralized infrastructure, including distribution centers and back office operations. Each operating segment has its own management team led by a president and includes regional presidents within the operating group who manage the various functions within each segment. Decisions and planning for the Company as a whole are made at the corporate level by analyzing results from the operating segments. These technology business segments replace the geographic segments previously used, and the Company has retrospectively reclassified the consolidated financial statements to conform to the new presentation.

Cash and Cash Equivalents

The Company considers all highly liquid investments with original maturities of three months, when purchased, or less to be cash equivalents. The Company maintains some zero-balance, disbursement accounts at various financial institutions in which the Company does not maintain significant depository relationships. Due to the nature of the Company's banking relationships with these institutions, the Company does not have the right to offset most if not all outstanding checks written from these accounts against cash on hand, and the respective institutions are not legally obligated to honor the checks until sufficient funds are transferred to fund the checks. Checks released but not yet cleared from these accounts in the amounts of \$84.1 million and \$65.9 million are classified as accounts payable as of June 30, 2014 and June 30, 2013, respectively.

The Company maintains its cash with various financial institutions globally that are monitored regularly for credit quality and holds amounts in excess of FDIC or other insured limits.

Concentration of Credit Risk

The Company sells its products to a large base of value-added resellers throughout United States, Canada, Latin America and Europe. The Company performs ongoing credit evaluations of its customers' financial condition. In certain cases, the Company will accept tangible assets as collateral to increase the trade credit of its customers. In addition, the Company carries credit insurance on certain subsections of the customer portfolio. No single customer accounted for more than 5% of the Company's net sales for the fiscal year 2014, and no single customer accounted for more than 6% of the Company's net sales for the fiscal year 2013 or 2012.

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

Derivative Financial Instruments

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

The Company's foreign currency exposure results from purchasing and selling internationally in several foreign currencies and intercompany loans with foreign subsidiaries. In addition, the Company may have foreign currency risk related to debt that is denominated in currencies other than the U.S. dollar. The Company's foreign currencies are denominated primarily by British pounds, euros, Mexican pesos, Brazilian reais and Canadian dollars.

SCANSOURCE, INC. AND SUBSIDIARIES
Notes to Consolidated Financial Statements—(Continued)
June 30, 2014

The Company may reduce its exposure to fluctuations in foreign exchange rates by creating offsetting positions through the use of derivative financial instruments. The market risk related to the foreign exchange agreements is offset by changes in the valuation of the underlying items. These contracts are generally for a duration of 90 days or less. The Company has elected not to designate its foreign currency contracts as hedging instruments. They are, therefore, marked-to-market with changes in their fair value recorded in the Consolidated Income Statement each period. Derivative financial instruments related to foreign currency exposure are accounted for on an accrual basis with gains or losses on these contracts recorded in income in the period in which their value changes, with the offsetting entry for unsettled positions reflected in either other assets or other liabilities.

During the fiscal year ended June 30, 2008, the Company entered into an interest rate swap and designated this instrument as a hedge of the cash flows on certain variable rate debt. The interest rate swap matured on September 28, 2011. To the extent the derivative instrument was effective in offsetting the variability of the hedged cash flows, changes in the fair value of the derivative instrument were not included in earnings in fiscal 2012, but were reported as other comprehensive income (loss). There was no ineffective portion to be recorded as an adjustment to earnings. No other interest rate swap agreements were executed or outstanding for fiscal year 2014, 2013, or 2012.

Investments

The Company has investments that are held in a grantor trust formed by the Company related to the ScanSource, Inc. Nonqualified Deferred Compensation Plan and Founder's Supplemental Executive Retirement Plan ("SERP"). The Company has classified these investments as trading securities, and they are recorded at fair market value with unrealized gains and losses included in the accompanying Consolidated Income Statements. The Company's obligations under this deferred compensation plan change in concert with the performance of the investments along with contributions and withdrawals to and from the plan. The fair value of these investments and the corresponding deferred compensation obligation was \$14.0 million and \$13.8 million as of June 30, 2014 and June 30, 2013, respectively. These investments are classified as either current assets or other non-current assets in the Consolidated Balance Sheets depending on the timing of planned disbursements. The deferred compensation obligation is classified either within current liabilities or other long-term liabilities as well. The amounts of these investments classified as current assets with corresponding current liabilities were \$0.6 million and \$1.6 million at June 30, 2014 and June 30, 2013, respectively.

Inventories

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

Vendor Programs

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

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

SCANSOURCE, INC. AND SUBSIDIARIES
Notes to Consolidated Financial Statements—(Continued)
June 30, 2014

Vendor Concentration

The Company sells products from many vendors, however, sales of products supplied by Motorola, Avaya and Honeywell each constituted more than 10% of the Company's net sales for year ended June 30, 2014. Sales of products supplied by Motorola and each Avaya constituted more than 10% of the Company's net sales for the years ended June 30, 2013 and 2012.

Product Warranty

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

Property and Equipment

Property and equipment are recorded at cost. Depreciation is computed using the straight-line method over estimated useful lives of 3 to 10 years for furniture, equipment and computer software, 40 years for buildings and 15 years for building improvements. Leasehold improvements are amortized over the shorter of the lease term or the estimated useful life. Maintenance, repairs and minor renewals are charged to expense as incurred. Additions, major renewals and betterments to property and equipment are capitalized.

To the extent that the Company has longstanding, "in-process" projects that have not been implemented for their intended operational use, the Company capitalizes the portion of interest expense incurred during the asset's acquisition period that theoretically could have been avoided in accordance with ASC 835. The amount capitalized is determined by applying the appropriate capitalization rate to the average amount of accumulated expenditures for the asset during the reporting period. The capitalization rate used is based on the rates applicable to borrowings outstanding during the reporting period.

Capitalized Software

The Company accounts for capitalized software in accordance with ASC 350-40, which provides guidance for computer software developed or obtained for internal use. The Company is required to continually evaluate the stage of the implementation process to determine whether or not costs are expensed or capitalized. Costs incurred during the preliminary project phase or planning and research phase are expensed as incurred. Costs incurred during the development phase, such as material and direct services costs, compensation costs of employees associated with the development, and interest cost, are capitalized as incurred. Costs incurred during the post implementation or operation phase, such as training and maintenance costs, are expensed as incurred. In addition, costs incurred to modify existing software that result in additional functionality are capitalized as incurred.

Goodwill

The Company accounts for recorded goodwill in accordance with ASC 350, *Goodwill and Other Intangible Assets*, which requires that goodwill is reviewed annually for impairment or more frequently if impairment indicators exist. Goodwill testing utilizes a two-step impairment analysis, whereby the Company compares the carrying value of each identified reporting unit to its fair value. The carrying value of goodwill is reviewed at a reporting unit level at least annually for impairment, or more frequently if impairment indicators exist. Our goodwill reporting units are primarily based on geography, one level below our Barcode & Security segment and Communications & Services segment. The fair values of the reporting units are estimated using the net present value of discounted cash flows generated by each reporting unit. Considerable judgment is necessary in estimating future cash flows, discount rates and other factors affecting the estimated fair value of the reporting units, including the operating and macroeconomic factors. Historical financial information, internal plans and projections, and industry information are used in making such estimates.

SCANSOURCE, INC. AND SUBSIDIARIES
Notes to Consolidated Financial Statements—(Continued)
June 30, 2014

In the two-step impairment analysis, goodwill is first tested for impairment by comparing the fair value of the reporting unit with the reporting unit's carrying amount to identify any potential impairment. If fair value is determined to be less than carrying value, a second step is used whereby the implied fair value of the reporting unit's goodwill, determined through a hypothetical purchase price allocation, is compared with the carrying amount of the reporting unit's goodwill. If the implied fair value of the reporting unit's goodwill is less than its carrying amount, an impairment charge is recorded in current earnings for the difference. We also assess the recoverability of goodwill if facts and circumstances indicate goodwill may be impaired. In our most recent annual test, we estimated the fair value of our reporting units primarily based on the income approach utilizing the discounted cash flow method. We also utilized fair value estimates derived from the market approach utilizing the public company market multiple method to validate the results of the discounted cash flow method, which required us to make assumptions about the applicability of those multiples to our reporting units. The discounted cash flow method required us to estimate future cash flows and discount those amounts to present value. The key assumptions utilized in determining fair value included:

- Industry weighted-average cost of capital ("WACC"): We utilized a WACC relative to each reporting unit's respective geography and industry as the discount rate for estimated future cash flows. The WACC is intended to represent a rate of return that would be expected by a market place participant in each respective geography.
- Operating income: We utilized historical and expected revenue growth rates, gross margins and operating expense percentages, which varied based on the projections of each reporting unit being evaluated.
- Cash flows from working capital changes: We utilized a projected cash flow impact pertaining to expected changes in working capital as each of our goodwill reporting units grow.

During the third quarter of fiscal 2014, the Company changed its annual goodwill impairment testing date from June 30 to April 30. This voluntary change is considered preferable as it better aligns the timing of the impairment test with management's financial planning and budgeting process, and ensures the completion of the test prior to the end of the annual reporting period. This change does not accelerate, delay or avoid a potential impairment charge.

See Note 5 - *Goodwill and Other Identifiable Intangible Assets* to the consolidated financial statements for more information regarding goodwill and the results of our testing.

Intangible Assets

Intangible assets consist of customer relationships, trade names, distributor agreements and non-compete agreements. Customer relationships and distributor agreements are amortized using the straight-line method over their estimated useful lives, which range from 5 to 15 years. Trade names are amortized over a period ranging from 1 to 2 years. Non-compete agreements are amortized over their contract life.

Debt issuance costs are amortized over the term of the credit facility.

These assets are included in other assets and are shown in detail in Note 5, *Goodwill and Other Identifiable Intangible Assets*.

Impairment of Long-Lived Assets

The Company reviews its long-lived assets for impairment whenever events or changes in circumstances indicate that the carrying amount of the asset or asset group may not be recoverable. Tests for recoverability of a long-lived asset to be held and used are measured by comparing the carrying amount of the long-lived asset to the sum of the estimated future undiscounted cash flows expected to be generated by the asset. In estimating the future undiscounted cash flows we use projections of cash flows directly associated with, and which are expected to arise as a direct result of, the use and eventual disposition of the assets. If it is determined that a long-lived asset is not recoverable, an impairment loss would be calculated equal to the excess of the carrying amount of the long-lived asset over its fair value.

In the fourth quarter of 2013, the Company decided not to proceed with the development of the Enterprise Resource Planning ("ERP") project using the Microsoft Dynamics AX software and wrote off substantially all of the total \$28.8 million in capitalized expenses related to the original project. The non-cash charge recorded of \$28.2 million before the effect of income taxes \$18.0 million net of the income tax impact, included software development costs, hardware, software interfaces and other related costs. Prior to the write-off, the capitalized software was included in property and equipment at cost on the consolidated balance sheet. The remaining balance of approximately \$0.6 million was placed into service in July 2014. See Note 3 - *Property and Equipment*

SCANSOURCE, INC. AND SUBSIDIARIES
Notes to Consolidated Financial Statements—(Continued)
June 30, 2014

for further discussion regarding our ERP project. The Company did not record any material impairment charges for the fiscal years ended June 30, 2014 and 2012.

Fair Value of Financial Instruments

The fair value of financial instruments is the amount at which the instrument could be exchanged in a current transaction between willing parties. The carrying values of financial instruments such as accounts receivable, accounts payable, accrued liabilities, borrowings under the revolving credit facility and subsidiary lines of credit approximate fair value based upon either short maturities or variable interest rates of these instruments. For additional information related to the fair value of derivatives, please see Note 8 - *Fair Value of Financial Instruments*.

Liability for Contingent Consideration

In addition to the initial cash consideration paid to former CDC shareholders, the Company is obligated to make additional earnout payments based on future results through fiscal year 2015 based on a multiple of the subsidiary's pro forma net income as defined in Exhibit 2.1.(b)(2) of the Share Purchase and Sale Agreement by and among the Company's Brazilian subsidiary, the former shareholders and CDC, dated April 7, 2011. Future payments are to be paid in Brazilian currency, the real. The Company has made its first three payments to the former shareholders totaling \$10.4 million. The next payment is anticipated to be made on August 31, 2014, based on the pro forma results of the twelve month period ended June 30, 2014. The final earnout payment will become payable on October 31, 2015. In accordance with ASC Topic 805, the Company determined the fair value of this liability for contingent consideration on the acquisition date using a probability weighted discounted cash flow model following the income approach. Each period the Company reflects the contingent consideration liability at fair value with changes recorded in the change in fair value of contingent consideration line item in the Consolidated Income Statements.

Contingencies

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

Revenue Recognition

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

Service revenue associated with configuration and marketing services is recognized when the work is complete, and the four criteria discussed above have been substantially met. Other service revenue associated with configuration, marketing, service contracts and other services approximates 2% or less of consolidated net sales for fiscal years 2014, 2013 and 2012.

The Company also distributes third-party service contracts, typically for product maintenance and support. These service contracts are sold separately from the products, and the Company often serves as the agent for the contract on behalf of the original equipment manufacturer. Since the Company acts as an agent on behalf of most of these service contracts sold, revenue is recognized net of cost at the time of sale. However, the Company distributes some self-branded warranty programs and engages a third party (generally the original equipment manufacturer) to cover the fulfillment of any obligations arising from these contracts. These revenues and associated third party costs are amortized over the life of the contract and presented in net sales and cost of goods sold, respectively.

During the fiscal years ended June 30, 2014, 2013 and 2012, the Company has not engaged in sales transactions involving multiple element arrangements.

Shipping Revenue and Costs

SCANSOURCE, INC. AND SUBSIDIARIES
Notes to Consolidated Financial Statements—(Continued)
June 30, 2014

Shipping revenue is included in net sales, and related costs are included in cost of goods sold. Shipping revenue for the years ended June 30, 2014, 2013 and 2012 was \$12.2 million, \$12.1 million and \$12.2 million, respectively.

Advertising Costs

The Company defers advertising-related costs until the advertising is first run in trade or other publications, or in the case of brochures, until the brochures are printed and available for distribution. Advertising costs, included in marketing costs, after vendor reimbursement, were not significant in any of the three fiscal years ended June 30, 2014. Deferred advertising costs at June 30, 2014 and 2013 were also not significant.

Foreign Currency

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

Income Taxes

Income taxes are accounted for under the asset and liability method. Deferred income taxes reflect tax consequences on future years of differences between the tax bases of assets and liabilities and their financial reporting amounts. Valuation allowances are provided against deferred tax assets when it is more likely than not that an asset will not be realized in accordance with ASC 740, *Accounting for Income Taxes*. During 2013, the Company reviewed and modified its policy toward permanently reinvested foreign earnings. The Company has provided for U.S. income taxes for the current earnings of its Canadian subsidiary. Earnings from all other geographies will continue to be considered retained indefinitely for reinvestment. The tax effect of this accounting policy change is immaterial to the financial statements. See Note 11 - *Income Taxes* for further discussion.

Additionally, the Company maintains reserves for uncertain tax provisions in accordance with ASC 740. See Note 11 - *Income Taxes* for more information.

Share-Based Payments

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

Comprehensive Income

ASC 220, *Comprehensive Income*, defines comprehensive income as the change in equity (net assets) of a business enterprise during a period from transactions and other events and circumstances from non-owner sources. The primary components of comprehensive income for the Company include net income, foreign currency translation adjustments arising from the consolidation of the Company's foreign subsidiaries, and any unrealized gains or losses on effectively hedged transactions, net of tax. Currently, the Company is not engaged in any cash flow hedges that qualify for hedge accounting.

Business Combinations

The Company accounts for business combinations in accordance with ASC Topic 805, *Business Combinations*. ASC 805 establishes principles and requirements for recognizing the total consideration transferred to and the assets acquired, liabilities assumed and

SCANSOURCE, INC. AND SUBSIDIARIES
Notes to Consolidated Financial Statements—(Continued)
June 30, 2014

any non-controlling interest in the acquired target in a business combination. ASC 805 also provides guidance for recognizing and measuring goodwill acquired in a business combination and requires the acquirer to disclose information that users may need to evaluate and understand the financial impact of the business combination. See Note 4 - *Acquisitions* for further discussion.

Recent Accounting Pronouncements

In May 2014, the FASB issued a comprehensive new revenue recognition standard for contracts with customers that will supersede most current revenue recognition guidance, including industry-specific guidance. The core principle of this standard is that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. To achieve this core principle, the standard provides a five-step analysis of transactions to determine when and how revenue is recognized. Other major provisions include the capitalization and amortization of certain contract costs, ensuring the time value of money is considered in the transaction price, and allowing estimates of variable consideration to be recognized before contingencies are resolved in certain circumstances. This guidance also requires enhanced disclosures regarding the nature, amount, timing and uncertainty of revenue and cash flows arising from an entity's contracts with customers. The new standard is effective for fiscal years, and interim periods within those years, beginning after December 15, 2016. Early application is prohibited. The standard permits the use of either the retrospective or cumulative effect transition method. This guidance will be applicable to the Company at the beginning of its first quarter of fiscal year 2018. The Company is currently evaluating the impact on its consolidated financial statements upon the adoption of this new standard.

(2) Earnings per Share

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

	Fiscal Year Ended June 30,		
	2014	2013	2012
	<i>(in thousands, except per share data)</i>		
Numerator:			
Net income	\$ 81,789	34,662	74,288
Denominator:			
Weighted-average shares, basic	28,337	27,774	27,362
Dilutive effect of share-based payments	265	220	389
Weighted-average shares, diluted	28,602	27,994	27,751
Net income per common share, basic	\$ 2.89	\$ 1.25	\$ 2.72
Net income per common share, diluted	\$ 2.86	\$ 1.24	\$ 2.68

For the years ended June 30, 2014, 2013 and 2012, weighted average shares outstanding excluded from the computation of diluted earnings per share because their effect would have been antidilutive were 230,706, 1,062,000 and 583,000, respectively.

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Notes to Consolidated Financial Statements—(Continued)
June 30, 2014

(3) Property and Equipment

Property and equipment is comprised of the following:

	June 30,	
	2014	2013
	<i>(in thousands)</i>	
Land	\$ 3,009	\$ 3,009
Buildings and leasehold improvements	21,088	20,020
Computer software and equipment	14,770	14,338
Furniture, fixtures and equipment	12,390	14,852
Construction in progress	13,193	629
	<u>64,450</u>	<u>52,848</u>
Less accumulated depreciation	(32,627)	(32,645)
	<u>\$ 31,823</u>	<u>\$ 20,203</u>

During the fiscal year ended June 30, 2014, the increase in gross fixed assets from the prior year is largely due to capital expenditures for the new ERP system using SAP software that is currently under development. In the fourth quarter of 2013, the Company ceased development of its ERP project using the Microsoft Dynamics AX software, rendering substantially all of the amount of the project impaired. Of the \$28.8 million in capitalized expenses related to the project, the Company wrote off \$28.2 million in the fiscal year ended June 30, 2013. The remaining \$0.6 million was placed into service in July 2014.

Depreciation expense was \$3.5 million, \$3.6 million, and \$3.5 million, respectively, for the fiscal years ended 2014, 2013, and 2012.

(4) Acquisitions

CDC Brazil S.A.

On April 15, 2011, the Company completed its acquisition of 100% of the shares of CDC, formerly known as CDC Brasil Distribuidora LTDA, Brazil's leading distributor of AIDC and POS solutions. This acquisition gave the Company an established presence in Latin America's largest specialty technology market and allowed the Company to more easily scale its Latin American operations.

Under the Share Purchase and Sale Agreement, the Company structured the purchase transaction as an all cash share purchase with an initial payment of \$36.2 million, net of cash acquired, and assumed working capital payables and debt at closing. The remaining purchase price is payable in annual cash installments based upon the financial performance of CDC for the twelve month periods ended on June 30 from 2011 through 2015. As of June 30, 2014, there are two remaining earnout payments to be made to the former shareholders. Please see Note 8 - *Fair Value of Financial Instruments* for further information regarding the fair value accounting for this contingent consideration.

In fiscal 2012, the Company incurred \$0.3 million of acquisition-related costs, primarily for professional fees incurred for due diligence, legal advice and tax planning. These costs are included in selling, general and administrative expenses in the Company's consolidated income statement. During the third quarter of fiscal 2012, the Company finalized the purchase accounting for the CDC acquisition.

The purchase price allocated to the fair value of identified intangible assets associated with the acquisition of CDC is as follows:

SCANSOURCE, INC. AND SUBSIDIARIES
Notes to Consolidated Financial Statements—(Continued)
June 30, 2014

	Amount
	(in thousands)
Identified intangible assets	
Trade names (2 year useful life)	\$ 2,746
Customer relationships (6 year useful life)	18,965
Non-compete agreements (5 year useful life)	894
Total identified intangible assets	<u>\$ 22,605</u>

The weighted average amortization period for these identified intangible assets after purchase accounting adjustments, other than goodwill, was 5 years.

During the Company's due diligence for the CDC acquisition, several pre-acquisition contingencies were identified regarding various Brazilian federal and state tax exposures. The Company is able to record indemnification receivables that are reported gross of the pre-acquisition contingency liabilities as they were escrowed in the Share Purchase and Sale Agreement. As part of the initial payment, the sellers placed \$25.5 million into a special and exclusive bank account to be released according to the specifications of the Share Purchase and Sale Agreement to provide for potential indemnification liabilities. However, indemnity claims can be made up to the entire purchase price, which includes the initial payment and all future earnout payments. During fiscal year 2012, the Company and former shareholders released \$5.3 million from the escrow account for the settlement of a pre-acquisition contingency and \$2.5 million to the sellers. The amount available after the impact of foreign currency translation, as of June 30, 2014 and 2013 for future pre-acquisition contingency settlements or to be released to the sellers, was \$11.8 million and \$11.7 million, respectively.

The table below summarizes the balances and line item presentation of these pre-acquisition contingencies and corresponding indemnification receivables in the Company's consolidated balance sheet:

	June 30, 2014	June 30, 2013	June 30, 2012
	(in thousands)		
Assets			
Prepaid expenses and other assets (current)	\$ 5,023	\$ 5,061	\$ 3,886
Other assets (noncurrent)	\$ 1,221	\$ 2,905	\$ 5,112
Liabilities			
Other current liabilities	\$ 5,023	\$ 5,061	\$ 3,886
Other long-term liabilities	\$ 1,221	\$ 2,905	\$ 5,112

The change in classification and amounts of the pre-acquisition contingencies is due to the finalization of purchase accounting in the third quarter of the fiscal 2012, foreign currency translation on a weaker Brazilian real against the U.S. dollar and the expiration of the statute of limitations for identified pre-acquisition contingencies. The Company finalized its quantitative assessments for various state and federal tax exposures and identified the statute of limitations for these exposures in determining the appropriate classification. The amount of reasonably possible undiscounted pre-acquisition contingencies as of June 30, 2014 is estimated to range as high as \$8.1 million at this time, of which all exposures are indemnifiable under the Share Purchase and Sale Agreement.

(5) Goodwill and Other Identifiable Intangible Assets

In accordance with ASC 350, *Intangibles - Goodwill and Other Intangible Assets*, the Company performs its annual goodwill impairment test during the fourth quarter of each fiscal year, or whenever indicators of impairment are present. This testing includes the determination of each reporting unit's fair value using a discounted cash flows model compared to each reporting unit's carrying value. The reporting units utilized for goodwill impairment tests are primarily based on geography, one level below the Barcode & Security and Communications & Services operating segments.

During fiscal year 2014, the Company completed its annual impairment test as of April 30, 2014 and determined that no goodwill impairment charge was necessary. However, as of the most recent annual impairment test, the estimated fair value of the Company's

SCANSOURCE, INC. AND SUBSIDIARIES
Notes to Consolidated Financial Statements—(Continued)
June 30, 2014

Latin American goodwill reporting unit exceeded its carrying values by a smaller margin than the Company's other goodwill reporting units. The estimated fair value of the Latin America goodwill reporting unit exceeded the carrying value by 10.2%. The increase in sensitivity to this goodwill reporting unit is driven largely by the general macroeconomic environment and lower expectations for future results in the unit. Key assumptions used in determining fair value include projected growth and operating margin, working capital requirements and discount rates. While we do not believe that this goodwill reporting unit is impaired at this time, if we are not able to achieve projected operating margins within the expected working capital requirements and/or there are unfavorable changes to the discount rate, a future impairment of goodwill is at least reasonably possible.

During fiscal year 2013, the Company completed its annual impairment test as of June 30, 2013 and determined that a goodwill impairment charge was necessary for its Brazilian POS & Barcode and European Communications reporting units. Prior to the test, no interim impairment indicators were identified. The Company's impairment testing included the determination of the reporting unit's fair value using market multiples and discounted cash flows modeling based on forecasts which were discounted using a weighted average cost of capital (a level 3 input). The impairment charges were a result of reduced earnings and cash flow forecast primarily due to the general macroeconomic environment and lower expectations of future results. During the fourth quarter of fiscal 2013, the Company recorded a non-cash charge for goodwill impairment of \$5.4 million and \$15.1 million in Europe Communications and Brazil POS & Barcode, respectively.

Changes in the carrying amount of goodwill for the years ended June 30, 2014 and 2013, by reportable segment, are as follows:

	Barcode & Security Segment	Communications & Services Segment	Total
	<i>(in thousands)</i>		
Balance as of June 30, 2012	\$ 33,008	\$ 20,877	\$ 53,885
Impairment charges	(15,143)	(5,419)	(20,562)
Unrealized gain (loss) on foreign currency translation	(1,536)	8	(1,528)
Balance as of June 30, 2013	\$ 16,329	\$ 15,466	\$ 31,795
Unrealized gain (loss) on foreign currency translation	547	—	547
Balance as of June 30, 2014	<u>\$ 16,876</u>	<u>\$ 15,466</u>	<u>\$ 32,342</u>

The following table shows the Company's identifiable intangible assets as of June 30, 2014 and 2013, respectively. These balances are included on the Consolidated Balance Sheet within other assets:

	June 30, 2014			June 30, 2013		
	Gross Carrying Amount	Accumulated Amortization	Net Book Value	Gross Carrying Amount	Accumulated Amortization	Net Book Value
	<i>(in thousands)</i>					
Amortized intangible assets:						
Customer relationships	\$ 33,417	\$ 17,981	\$ 15,436	\$ 33,166	\$ 14,191	\$ 18,975
Trade names	—	—	—	1,941	1,941	—
Non-compete agreements	636	408	228	888	535	353
Distributor agreements	424	93	331	637	153	484
Total intangibles	<u>\$ 34,477</u>	<u>\$ 18,482</u>	<u>\$ 15,995</u>	<u>\$ 36,632</u>	<u>\$ 16,820</u>	<u>\$ 19,812</u>

During the fourth quarter of fiscal 2014, the Company impaired certain customer relationships related to our German communications entity and wrote off the gross carrying amount and corresponding accumulated amortization.

The weighted average amortization period for all intangible assets was approximately 11 years for the year ended June 30, 2014 and 10 years for the years ended June 30, 2013 and 2012. Amortization expense for the years ended June 30, 2014, 2013 and 2012 was \$3.9 million, \$4.9 million and \$6.4 million, respectively.

SCANSOURCE, INC. AND SUBSIDIARIES
Notes to Consolidated Financial Statements—(Continued)
June 30, 2014

Estimated future amortization expense is as follows:

	Amortization Expense
	<i>(in thousands)</i>
Year Ended June 30,	
2015	\$ 3,783
2016	3,756
2017	3,187
2018	1,369
2019	1,252
Thereafter	2,648
Total	\$ 15,995

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

Short-Term Borrowings

A subsidiary of the Company has a €6.0 million line of credit, which is secured by the assets of our European operations and is guaranteed by ScanSource, Inc. This agreement can be withdrawn by the lender with minimal notice. The subsidiary line of credit bears interest at the 30-day Euro Interbank Offered Rate ("EURIBOR") plus a spread ranging from 1.25% to 2.00% per annum. The spread in effect for the period ended June 30, 2014 was 1.25%. Additionally, the Company is assessed commitment fees ranging from 0.10% to 0.275% on non-utilized borrowing availability if outstanding balances are below €3.0 million. The interest rate and commitment fee spreads are based on the Company's Leverage Ratio for its revolving credit facility, as defined below. There were no outstanding balances at June 30, 2014 and 2013.

Revolving Credit Facility

The Company has a \$300 million multi-currency senior secured revolving credit facility that was scheduled to mature on October 11, 2016. On November 6, 2013, the Company entered into an amendment of this credit facility ("Amended Credit Facility") with JPMorgan Chase Bank, N.A., as administrative agent and a syndicate of lenders to extend its maturity to November 6, 2018. The Amended Credit Agreement allows for the issuance of up to \$50 million for letters of credit and has a \$150 million accordion feature that allows the Company to increase the availability to \$450 million, subject to obtaining additional credit commitments for the lenders participating in the increase. The Company incurred debt issuance costs of \$0.5 million in connection with the Amended Credit Agreement, which were capitalized to other assets on the Consolidated Balance Sheets and added to the unamortized debt issuance costs from the previous credit facility.

At the Company's option, loans denominated in U.S. dollars under the New Credit Agreement, other than swingline loans, bear interest at a rate equal to a spread over the London Interbank Offered Rate ("LIBOR") or alternate base rate depending upon the Company's ratio of total debt (excluding accounts payable and accrued liabilities), measured as of the end of the most recent quarter, to adjusted earnings before interest expense, taxes, depreciation and amortization ("EBITDA") for the most recently completed four quarters (the "Leverage Ratio"). The Leverage Ratio calculation excludes the Company's subsidiary in Brazil. This spread ranges from 1.00% to 2.25% for LIBOR-based loans and 0.00% to 1.25% for alternate base rate loans. The spread in effect for the period ended June 30, 2014 was 1.00% for LIBOR-based loans and 0.00% for alternate base rate loans. Additionally, the Company is assessed commitment fees ranging from 0.175% to 0.40%, depending upon the Leverage Ratio, on non-utilized borrowing availability, excluding swingline loans. The commitment fee rate in effect for the period ended June 30, 2014 was 0.175%. Borrowings under the New Credit Agreement are guaranteed by substantially all of the domestic assets of the Company and a pledge of up to 65% of capital stock or other equity interest in certain foreign subsidiaries determined to be either material or a subsidiary borrower as defined in the New Credit Agreement. The Company was in compliance with all covenants under the credit facility as of June 30, 2014. There were no outstanding balances at June 30, 2014 and June 30, 2013.

SCANSOURCE, INC. AND SUBSIDIARIES
Notes to Consolidated Financial Statements—(Continued)
June 30, 2014

The average daily balance on the revolving credit facility during the year ended June 30, 2014 was \$0.0 million. There was \$300 million available for additional borrowings as of June 30, 2014, and there were no letters of credit issued under the revolving credit facility.

The average daily balance on the revolving credit facility during the year ended June 30, 2013 was \$9.4 million. There was \$300 million available for additional borrowings as of June 30, 2013, and there were no letters of credit issued under the revolving credit facility.

Long-Term Debt

On August 1, 2007, the Company entered into an agreement with the State of Mississippi in order to provide financing for the acquisition and installation of certain equipment to be utilized at the Company's current Southaven, Mississippi distribution facility, through the issuance of an industrial development revenue bond. The bond matures on September 1, 2032 and accrues interest at a rate equal to 30-day LIBOR plus a spread of 0.85%. The terms of the bond allow for payment of interest only for the first 10 years of the agreement, and then, starting on September 1, 2018 through 2032, principal and interest payments are due until the maturity date or the redemption of the bond. The agreement also provides the bondholder with a put option, exercisable only within 180 days of each 5th anniversary of the agreement, requiring the Company to pay back the bonds at 100% of the principal amount outstanding. As of June 30, 2014, the Company was in compliance with all covenants under this bond. The balance on the bond was \$5.4 million as of June 30, 2014 and 2013 and is included in long-term debt. The interest rate at June 30, 2014 and 2013 was 1.00% and 1.04%, respectively.

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

Scheduled maturities of the Company's revolving credit facility and long-term debt at June 30, 2014 are as follows:

	Future Debt Payments
	<i>(in thousands)</i>
Fiscal year:	
2015	\$ —
2016	—
2017	—
2018	—
2019	231
Thereafter	5,198
Total principal payments	<u>\$ 5,429</u>

Debt Issuance Costs

As of June 30, 2014, net debt issuance costs associated with the credit facility and bonds totaled \$1.3 million and are being amortized on a straight-line basis through the maturity date of each respective debt instrument.

SCANSOURCE, INC. AND SUBSIDIARIES
Notes to Consolidated Financial Statements—(Continued)
June 30, 2014

(7) Derivatives and Hedging Activities

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

Foreign Currency – The Company conducts a portion of its business internationally in a variety of foreign currencies. The exposure to market risk for changes in foreign currency exchange rates arises from foreign currency denominated assets and liabilities, and transactions arising from non-functional currency financing or trading activities. The Company's objective is to preserve the economic value of non-functional currency denominated cash flows. The Company attempts to hedge transaction exposures with natural offsets to the fullest extent possible and, once these opportunities have been exhausted, through forward contracts or other hedging instruments with third parties. These contracts will periodically hedge the exchange of various currencies, including the U.S. dollar, euro, British pound, Canadian dollar, Mexican peso and Brazilian real. While the Company utilizes foreign exchange contracts to hedge foreign currency exposure, the Company's foreign exchange policy prohibits the use of derivative financial instruments for speculative purposes.

At June 30, 2014, the Company had contracts outstanding with notional amounts of \$62.5 million to exchange foreign currencies. To date, the Company has chosen not to designate these derivatives as hedging instruments, and accordingly, these instruments are adjusted to fair value through earnings in other income and expense. Summarized financial information related to these derivative contracts and changes in the underlying value of the foreign currency exposures are as follows:

	Fiscal Year Ended June 30,		
	2014	2013	2012
	<i>(in thousands)</i>		
Net foreign exchange derivative contract (gain) loss	\$ 3,640	\$ (733)	\$ 1,480
Net foreign currency transactional and re-measurement (gain) loss	(3,024)	701	2,286
Net foreign currency (gain) loss	\$ 616	\$ (32)	\$ 3,766

Net foreign exchange gains and losses consist of foreign currency transactional and functional currency re-measurements, offset by net foreign currency exchange contract gains and losses and are included in other income and expense. Foreign exchange gains and losses are generated as the result of fluctuations in the value of the British pound versus the euro, the U.S. dollar versus the euro, U.S. dollar versus the Brazilian real and other currencies versus the U.S. dollar.

In fiscal year 2012 the majority of the losses were associated with exposures between the U.S. dollar and the Brazilian real. The Brazilian business incurred significant losses on U.S. dollar denominated exposures in the first quarter of 2012 that were not hedged at the time. Subsequently, the Company has been including these exposures in its daily hedging activities.

Interest Rates – The Company's earnings are also affected by changes in interest rates due to the impact those changes have on interest expense from floating rate debt instruments. To manage the exposure to interest rates, the Company may enter into interest rate swap agreements. Currently, there are no swap agreements outstanding.

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

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Notes to Consolidated Financial Statements—(Continued)
June 30, 2014

	As of June 30, 2014	
	Fair Value of Derivatives Designated as Hedge Instruments	Fair Value of Derivatives Not Designated as Hedge Instruments
	<i>(in thousands)</i>	
Derivative assets: ^(a)		
Foreign exchange contracts	\$ —	\$ 65
Derivative liabilities: ^(b)		
Foreign exchange contracts	\$ —	\$ 119

(a) All derivative assets are recorded as prepaid expense and other current assets in the Consolidated Balance Sheets.

(b) All derivative liabilities are recorded as accrued expenses and other current liabilities in the Consolidated Balance Sheets.

(8) Fair Value of Financial Instruments

Accounting guidance defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Under this guidance, the Company is required to classify certain assets and liabilities based on the fair value hierarchy, which groups fair value-measured assets and liabilities based upon the following levels of inputs:

- Level 1 – Unadjusted quoted prices in active markets that are accessible at the measurement date for identical, unrestricted assets or liabilities;
- Level 2 – Quoted prices in markets that are not active, or inputs which are observable, either directly or indirectly, for substantially the full term of the asset or liability;
- Level 3 – Prices or valuation techniques that require inputs that are both significant to the fair value measurement and unobservable (i.e. supported by little or no market activity).

The assets and liabilities maintained by the Company that are required to be measured at fair value on a recurring basis include deferred compensation plan investments, outstanding foreign exchange forward contracts and contingent consideration owed to the previous owners of CDC. The carrying value of debt listed in Note 6 is considered to approximate fair value, as the Company's debt instruments are indexed to LIBOR or the alternate base rate using the market approach (Level 2 criteria).

The following table summarizes the valuation of the Company's remaining assets and liabilities measured at fair value on a recurring basis as of June 30, 2014:

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Notes to Consolidated Financial Statements—(Continued)
June 30, 2014

	Total	Quoted prices in active markets (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)
<i>(in thousands)</i>				
Assets:				
Deferred compensation plan investments, current and non-current portion	\$ 14,044	\$ 14,044	\$ —	\$ —
Forward foreign currency exchange contracts	65	—	65	—
Total assets at fair value	<u>\$ 14,109</u>	<u>\$ 14,044</u>	<u>\$ 65</u>	<u>\$ —</u>
Liabilities:				
Deferred compensation plan investments, current and non-current portion	\$ 14,044	\$ 14,044	\$ —	\$ —
Forward foreign currency exchange contracts	119	—	119	—
Liability for contingent consideration, current and non-current	11,107	—	—	11,107
Total liabilities at fair value	<u>\$ 25,270</u>	<u>\$ 14,044</u>	<u>\$ 119</u>	<u>\$ 11,107</u>

The following table presents assets and liabilities measured at fair value on a recurring basis as of June 30, 2013:

	Total	Quoted prices in active markets (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)
<i>(in thousands)</i>				
Assets:				
Deferred compensation plan investments, current and non-current portion	\$ 13,752	\$ 13,752	\$ —	\$ —
Forward foreign currency exchange contracts	308	—	308	—
Total assets at fair value	<u>\$ 14,060</u>	<u>\$ 13,752</u>	<u>\$ 308</u>	<u>\$ —</u>
Liabilities:				
Deferred compensation plan investments, current and non-current portion	\$ 13,752	\$ 13,752	\$ —	\$ —
Forward foreign currency exchange contracts	34	—	34	—
Liability for contingent consideration, current and non-current	12,545	—	—	12,545
Total liabilities at fair value	<u>\$ 26,331</u>	<u>\$ 13,752</u>	<u>\$ 34</u>	<u>\$ 12,545</u>

The investments in the deferred compensation plan are held in a rabbi trust and include mutual funds and cash equivalents for payment of non-qualified benefits for certain retired, terminated or active employees. These investments are recorded to prepaid and other current assets or other non-current assets depending on their corresponding, anticipated distributions to recipients, which are reported in accrued expenses and other current liabilities or other long-term non-current liabilities, respectively.

Foreign currency forward contracts are measured using the market approach on a recurring basis considering foreign currency spot rates and forward rates quoted by banks or foreign currency dealers (Level 2). See Note 7 - *Derivatives and Hedging Activities*. Foreign currency contracts are classified in the consolidated balance sheet in prepaid expenses and other current assets or accrued expenses and other current liabilities, depending on the respective contracts' favorable or unfavorable positions.

SCANSOURCE, INC. AND SUBSIDIARIES
Notes to Consolidated Financial Statements—(Continued)
June 30, 2014

The Company recorded a contingent consideration liability at the acquisition date of CDC representing the amounts payable to former CDC shareholders, as outlined under the terms of the Share Purchase and Sale Agreement, based upon the achievement of projected earnings, net of specific pro forma adjustments. The current and non-current portions of this obligation are reported separately on the Consolidated Balance Sheets. The fair value of contingent consideration (Level 3) is determined using a probability weighted discounted cash flow model. Subsequent changes in the fair value of the contingent consideration liability are recorded to the change in fair value of contingent consideration line item in the Consolidated Income Statements. Fluctuations due to foreign currency translation are captured in other comprehensive income through the changes in foreign currency translation adjustments line item as seen in Note 15 - *Accumulated Other Comprehensive Income*.

The table below provides a summary of the changes in fair value of the Company's only financial asset or liability, the contingent consideration for the CDC earnout that is measured at fair value on a recurring basis using significant unobservable inputs (Level 3) for the year ended June 30, 2014 and 2013:

	Contingent Consideration for the Year Ended	Contingent Consideration for the Year Ended
	June 30, 2014	June 30, 2013
	<i>(in thousands)</i>	
Fair value at beginning of period	\$ 12,545	\$ 16,653
Payments	(3,810)	(4,777)
Change in fair value	2,311	1,843
Fluctuation due to foreign currency exchange	61	(1,174)
Fair value at end of period	<u>\$ 11,107</u>	<u>\$ 12,545</u>

The fair value of the liability for the contingent consideration recognized at June 30, 2014 was \$11.1 million, of which \$5.9 million is classified as current. As of June 30, 2013, the fair value of the contingent consideration was \$12.5 million, of which \$3.7 million was classified as current. The fair values of amounts owed are recorded in "current portion of contingent consideration" and "long-term portion of contingent consideration" in the Company's Consolidated Balance Sheets. The U.S. dollar amounts of actual disbursements made in conjunction with future earnout payments are subject to change as the liability is denominated in Brazilian reais and subject to foreign exchange fluctuation risk. Also, in accordance with ASC 805, the Company will revalue the contingent consideration liability at each reporting date through the last payment, with changes in the fair value of the contingent consideration reflected in the "change in fair value of contingent consideration" line item on the Company's Consolidated Income Statement that is included in the calculation of operating income. The fair value of the contingent consideration liability associated with future earnout payments is based on several factors, including:

- estimated future results, net of pro forma adjustments set forth in the Share Purchase and Sale Agreement;
- the probability of achieving these results; and
- a discount rate reflective of the Company's creditworthiness and market risk premium associated with the Brazilian market.

A change in any of these unobservable inputs can significantly change the fair value of the contingent consideration. The change in fair value of the contingent consideration recognized in the Consolidated Income Statement contributed a loss of \$2.3 million for the year ended June 30, 2014. Generally, the change in fair value of the contingent consideration will generate a loss as the earnout period lapses. In the current year, the loss was partially offset by a change in the estimated future results. In addition, volatility in the foreign exchange between the Brazilian real and the U.S. dollar has driven significant changes in the translation of the real-denominated liability. Although there is no contractual limit, total future undiscounted contingent consideration payments are estimated to be \$12.0 million, based on the Company's best estimate as the earnout is based on a multiple of adjusted earnings.

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Notes to Consolidated Financial Statements—(Continued)
June 30, 2014

(9) Share-Based Compensation

Share-Based Compensation Plans

The Company has awards outstanding from four share-based compensation plans (the 1997 Stock Incentive Plan, the 1999 Director Plan, the 2002 Long-Term Incentive Plan, and the 2013 Long-Term Incentive Plan). Awards are currently only granted under the 2013 Long-Term Incentive Plan. As of June 30, 2014, there were 2,754,984 shares available for future grant under the 2013 Long-Term Incentive Plan. All of the Company's share-based compensation plans are shareholder approved, and it is the Company's belief that such awards better align the interests of its employees and directors with those of its shareholders. Under the plans, the Company is authorized to award officers, employees, consultants and non-employee members of the Board of Directors various share-based payment awards, including options to purchase common stock and restricted stock. Restricted stock can be in the form of a restricted stock award ("RSA") or a restricted stock unit ("RSU"). An RSA is common stock that is subject to risk of forfeiture or other restrictions that lapse upon satisfaction of specified conditions. An RSU represents the right to receive shares of common stock in the future with the right to future delivery of the shares subject to risk of forfeiture or other restrictions that lapse upon satisfaction of specified conditions.

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

	Fiscal Year Ended June 30,		
	2014	2013	2012
	<i>(in thousands)</i>		
Share-based compensation related to:			
Equity classified stock options	\$ 1,577	\$ 2,125	\$ 2,875
Equity classified restricted stock	3,671	3,493	3,965
Total share-based compensation	<u>\$ 5,248</u>	<u>\$ 5,618</u>	<u>\$ 6,840</u>

Stock Options

During the fiscal year ended June 30, 2014, the Company granted stock options for 122,856 shares to certain employees. These options vest annually over 3 years and have a 10-year contractual life. In accordance with the requirements of the Company's Equity Award Grant Policy and the 2013 Long-Term Incentive Plan, the options issued during the fiscal year were granted with an exercise price that is no less than 100% of the fair market value of those shares on the date of the grant.

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

SCANSOURCE, INC. AND SUBSIDIARIES
Notes to Consolidated Financial Statements—(Continued)
June 30, 2014

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

	Fiscal Year Ended June 30,		
	2014	2013	2012
Expected term	4.00 years	4.64 years	6.77 years
Expected volatility	33.70%	42.90%	41.33%
Risk-free interest rate	1.07%	0.64%	1.42%
Dividend yield	0.00%	0.00%	0.00%
Weighted average fair value per option	\$ 11.91	\$ 10.48	\$ 14.94

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

A summary of our stock option plans is presented below:

	Fiscal Year Ended June 30, 2014			
	Options	Weighted-Average Exercise Price	Weighted-Average Remaining Contractual Life	Aggregate Intrinsic Value
Outstanding, beginning of year	1,478,283	\$ 31.18		
Granted during the period	122,856	42.57		
Exercised during the period	(498,971)	27.96		
Canceled, forfeited, or expired during the period	(31,071)	34.06		
Outstanding, end of year	<u>1,071,097</u>	33.91	5.51	\$ 5,025,390
Vested and expected to vest at June 30, 2014	<u>1,070,718</u>	33.91	5.51	\$ 5,024,582
Exercisable, end of year	<u>820,165</u>	\$ 32.98	4.51	\$ 4,181,791

The aggregate intrinsic value was calculated using the market price of our stock on June 30, 2014 and the exercise price for only those options that have an exercise price that is less than the market price of our stock. This amount will change as the market price per share changes. The aggregate intrinsic value of options exercised during the fiscal years ended June 30, 2014, 2013, and 2012 was \$5.4 million, \$3.1 million, and \$5.8 million, respectively.

SCANSOURCE, INC. AND SUBSIDIARIES
Notes to Consolidated Financial Statements—(Continued)
June 30, 2014

A summary of the status of the Company's shares subject to unvested options is presented below:

	Fiscal Year Ended June 30, 2014		
	Options	Weighted Average Exercise Price	Weighted Average Grant Date Fair-Value
Unvested, beginning of year	261,280	\$ 32.28	\$ 12.40
Granted	122,856	42.57	11.91
Vested	(122,350)	33.29	13.39
Canceled or forfeited	(10,854)	29.80	11.52
Unvested, end of year	250,932	\$ 36.93	\$ 11.72

As of June 30, 2014, there was approximately \$2.0 million of total unrecognized compensation cost related to non-vested share-based compensation arrangements granted under the plans in the form of stock options. This cost is expected to be recognized over a weighted-average period of 1.08 years. The total fair value of options vested during the fiscal years ended June 30, 2014, 2013, and 2012 is \$1.6 million, \$2.6 million and \$2.9 million, respectively. The following table summarizes information about stock options outstanding and exercisable as of June 30, 2014:

Range of Exercise Prices	Options Outstanding			Options Exercisable	
	Shares Outstanding	Weighted Average Remaining Contractual Life	Weighted Average Exercise Price	Number Exercisable	Weighted Average Exercise Price
\$18.13 - \$22.27	15,758	4.43	\$ 18.14	15,758	\$ 18.14
\$22.27 - \$26.38	30,000	5.43	24.57	30,000	24.57
\$26.38 - \$30.49	230,739	4.99	28.95	152,936	28.55
\$30.49 - \$34.60	338,644	4.93	33.21	288,371	33.02
\$34.60 - \$38.71	335,600	5.11	36.44	333,100	36.44
\$38.71 - \$42.82	120,356	9.43	42.69	—	—
	1,071,097	5.51	\$ 33.91	820,165	\$ 32.98

The Company issues shares to satisfy the exercise of options.

SCANSOURCE, INC. AND SUBSIDIARIES
Notes to Consolidated Financial Statements—(Continued)
June 30, 2014

Restricted Stock

Grants of Restricted Shares

During the fiscal year ended June 30, 2014, the Company elected to grant 131,038 shares of restricted stock to employees and non-employee directors, all of which were issued in the form of RSUs:

	Fiscal Year Ended June 30, 2014			
	Shares granted	Date granted	Grant date fair value	Vesting period
<i>Employees</i>				
Certain employees based on promotions	3,172	August 27, 2013	\$ 31.54	Annually over 3 years
Certain employees	115,766	December 6, 2013	42.82	Annually over 3 years
<i>Non-Employee Directors⁽¹⁾</i>				
Certain Directors	10,800	December 6, 2013	\$ 42.82	6 months
Newly appointed Director	1,300	June 1, 2014	\$ 37.10	6 months

(1) Per the 2013 Long-Term Incentive Plan, non-employee directors will receive annual awards of restricted stock, as opposed to stock options. The number of shares of restricted stock to be granted will be established from time to time by the Board of Directors. Currently, the number of shares of restricted stock awarded annually to each non-employee director generally will be determined by dividing \$100,000 by the equity award value of the common stock on the date of grant, as defined in the 2013 Long-Term Incentive Plan. These awards will generally vest in full on the day that is six months after the date of grant or upon the earlier occurrence of (i) the director's termination of service as a director by reason of death, disability or retirement, or (ii) a change in control by the Company. The compensation expense associated with these awards will be recognized on a pro-rata basis over this period.

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

	Fiscal Year Ended June 30, 2014	
	Shares	Weighted Average Grant Date Fair Value
Outstanding, beginning of year	212,421	\$ 31.82
Granted during the period	131,038	42.49
Vested during the period	(101,452)	33.23
Cancelled, forfeited, or expired during the period	(21,899)	33.54
Outstanding, end of year	220,108	\$ 37.36

As of June 30, 2014, there was approximately \$5.8 million of unrecognized compensation cost related to unvested restricted stock awards and restricted stock units granted, which is expected to be recognized over a weighted average period of 1.08 years. The Company withheld 32,751 shares for income taxes during the fiscal year ended June 30, 2014.

SCANSOURCE, INC. AND SUBSIDIARIES
Notes to Consolidated Financial Statements—(Continued)
June 30, 2014

(10) Employee Benefit Plans

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

	Fiscal Year Ended June 30,		
	2014	2013	2012
	<i>(in thousands)</i>		
Matching contributions	\$ 553	\$ 509	\$ 473
Discretionary contributions	5,207	5,501	5,066
Total contributions	<u>\$ 5,760</u>	<u>\$ 6,010</u>	<u>\$ 5,539</u>

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

(11) Income Taxes

Income tax expense (benefit) consists of:

	Fiscal Year Ended June 30,		
	2014	2013	2012
	<i>(in thousands)</i>		
Current:			
Federal	\$ 25,895	\$ 32,387	\$ 37,736
State	2,439	993	1,376
Foreign	3,826	3,921	3,703
Total current	<u>32,160</u>	<u>37,301</u>	<u>42,815</u>
Deferred:			
Federal	7,933	(10,200)	(830)
State	725	(519)	(44)
Foreign	500	(8,218)	(5,018)
Total deferred	<u>9,158</u>	<u>(18,937)</u>	<u>(5,892)</u>
Provision for income taxes	<u>\$ 41,318</u>	<u>\$ 18,364</u>	<u>\$ 36,923</u>

SCANSOURCE, INC. AND SUBSIDIARIES
Notes to Consolidated Financial Statements—(Continued)
June 30, 2014

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

	Fiscal Year Ended June 30,		
	2014	2013	2012
	<i>(in thousands)</i>		
U.S. Federal income tax at statutory rate	\$ 43,088	\$ 18,559	\$ 38,924
Increase (decrease) in income taxes due to:			
State and local income taxes, net of Federal benefit	1,974	523	1,026
Tax credits	(1,935)	(1,629)	(1,122)
Valuation allowance	803	353	24
Effect of foreign operations, net	(1,627)	(1,342)	(2,309)
Stock compensation	(494)	(148)	86
Goodwill impairment	—	1,139	—
Other	(491)	909	294
Provision for income taxes	<u>\$ 41,318</u>	<u>\$ 18,364</u>	<u>\$ 36,923</u>

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

	June 30,	
	2014	2013
	<i>(in thousands)</i>	
Deferred tax assets derived from:		
Allowance for accounts receivable	\$ 6,987	\$ 5,958
Inventories	10,950	9,708
Nondeductible accrued expenses	—	375
Net operating loss carryforwards	4,675	4,065
Tax credits	1,873	1,021
Timing of amortization deduction from goodwill	6,101	6,403
Deferred compensation	5,300	5,205
Stock compensation	5,129	5,537
Timing of depreciation and other deductions for building and equipment	—	10,152
Total deferred tax assets	<u>41,015</u>	<u>48,424</u>
Valuation allowance	<u>(1,696)</u>	<u>(893)</u>
Total deferred tax assets, net of allowance	<u>39,319</u>	<u>47,531</u>
Deferred tax liabilities derived from:		
Nondeductible accrued expenses	(231)	—
Timing of depreciation and other deductions from building and equipment	(74)	—
Timing of amortization deduction from goodwill	(4,477)	(3,938)
Timing of amortization deduction from intangible assets	(1,886)	(2,506)
Total deferred tax liabilities	<u>(6,668)</u>	<u>(6,444)</u>
Net deferred tax assets	<u>\$ 32,651</u>	<u>\$ 41,087</u>

SCANSOURCE, INC. AND SUBSIDIARIES
Notes to Consolidated Financial Statements—(Continued)
June 30, 2014

The components of pretax earnings are as follows:

	Fiscal Year Ended June 30,		
	2014	2013	2012
	<i>(in thousands)</i>		
Domestic	\$ 104,685	\$ 64,581	\$ 103,711
Foreign	18,422	(11,555)	7,500
Worldwide pretax earnings	\$ 123,107	\$ 53,026	\$ 111,211

At June 30, 2014, the Company has (i) gross net operating loss carry forwards of less than \$0.1 million for U.S. Federal income tax purposes that will begin to expire in 2020; (ii) gross net operating loss carry forwards of approximately \$0.9 million for state income tax purposes; (iii) foreign gross net operating loss carry forwards of approximately \$13.7 million; (iv) state income tax credit carry forwards of approximately \$0.3 million that will begin to expire in 2016; (v) withholding tax credits of approximately \$1.2 million; (vi) and foreign tax credits of \$0.5 million. As of June 30, 2014, the Company recorded a \$0.4 million valuation reserve against foreign net operating loss carry-forwards, related to the notional interest deduction carry forward. In addition to the valuation allowance for the notional interest deduction, the Company maintains a \$0.1 million valuation allowance for state net operating losses, and a \$1.2 million valuation allowance for withholding tax credits, where it was determined that, in accordance with ASC 740, it is more likely than not that they cannot be utilized.

The Company has provided for U.S. income taxes for the current earnings of its Canadian subsidiary. Earnings from all other geographies will continue to be considered retained indefinitely for reinvestment. The Company has not provided U.S. income taxes for undistributed earnings of foreign subsidiaries that are considered to be retained indefinitely for reinvestment. The distribution of these earnings would result in additional foreign withholding taxes and additional U.S. federal income taxes to the extent they are not offset by foreign tax credits. It has been the practice of the Company to reinvest those earnings in the business outside the United States. These undistributed earnings amounted to approximately \$89.5 million at June 30, 2014. If these earnings were remitted to the U.S. they would be subject to income tax. The tax, after foreign tax credits, is estimated to be approximately \$14.9 million.

Recent financial results in Europe have generated pre-tax losses, primarily the result of our European Communications business. To the extent the Europe Communications business does not return to profitability, this could affect the valuation of certain deferred tax assets. Financial results in Belgium for the year ended June 30, 2014 resulted in a nominal pre-tax loss, but income on a tax basis. In the judgment of management, it is more likely than not that the deferred tax asset will be realized.

As of June 30, 2014, the Company had gross unrecognized tax benefits of \$1.2 million, \$0.7 million of which, if recognized, would affect the effective tax rate. This reflects an increase of \$0.2 million on a net basis over the prior fiscal year. The Company does not expect that the total amounts of unrecognized tax benefits will significantly increase or decrease within the next twelve months.

The Company recognizes interest and penalties related to unrecognized tax benefits within the income tax expense line in the accompanying Consolidated Income Statement. Accrued interest and penalties are included within the related tax liability line in the Consolidated Balance Sheet. The total amount of interest and penalties accrued, but excluded from the table below for the years ending 2014, 2013 and 2012 were \$1.1 million, \$0.9 million and \$1.0 million, respectively. A reconciliation of the beginning and ending amount of unrecognized tax benefits is as follows:

SCANSOURCE, INC. AND SUBSIDIARIES
Notes to Consolidated Financial Statements—(Continued)
June 30, 2014

	June 30,		
	2014	2013	2012
	<i>(in thousands)</i>		
Beginning Balance	\$ 1,034	\$ 1,257	\$ 1,181
Additions based on tax positions related to the current year	204	240	163
Additions for tax positions of prior years	—	—	—
Reduction for tax positions of prior years	(85)	(463)	(87)
Settlements	—	—	—
Ending Balance	<u>\$ 1,153</u>	<u>\$ 1,034</u>	<u>\$ 1,257</u>

The Company conducts business globally and, as a result, one or more of its subsidiaries files income tax returns in the U.S. federal, various state, local and foreign jurisdictions. In the normal course of business, the Company is subject to examination by taxing authorities in countries in which it operates. With certain exceptions, the Company is no longer subject to state and local, or non-U.S. income tax examinations by tax authorities for tax years before June 30, 2009.

(12) Commitments and Contingencies

Leases

The Company leases office and warehouse space under non-cancelable operating leases that expire through November 2020. The Company also leases certain equipment under a capital lease that expires in 2017. Lease expense and future minimum lease payments under operating leases and the single capital lease are as follows:

	Fiscal Year Ended June 30,		
	2014	2013	2012
	<i>(in thousands)</i>		
Lease expense	\$ 5,561	\$ 5,094	\$ 5,025

	Operating Lease Payments	Capital Lease Payments	Total Payments
	<i>(in thousands)</i>		
Fiscal Year Ended June 30,			
2015	\$ 4,734	\$ 250	\$ 4,984
2016	4,071	248	4,319
2017	3,439	245	3,684
2018	1,528	—	1,528
2019	889	—	889
Thereafter	1,210	—	1,210
Total future minimum lease payments	15,871	743	16,614
Less: amounts representing interest on capital lease	—	(12)	(12)
Total future minimum principal lease payments	<u>\$ 15,871</u>	<u>\$ 731</u>	<u>\$ 16,602</u>

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

SCANSOURCE, INC. AND SUBSIDIARIES
Notes to Consolidated Financial Statements—(Continued)
June 30, 2014

On June 3, 2014, the Company entered into an equipment lease transaction for certain information technology infrastructure located in the Greenville, South Carolina facility. The Company determined this lease qualifies as a capital lease and accordingly, has recorded a capital lease obligation equal to the present value of the minimum lease payments of \$0.7 million. The lease term is 3 years with an expiration date during 2017.

The components of the Company's capital lease as of June 30, 2014 are as follows:

	Capital Lease Obligations						
	Property & Equipment	Accumulated Depreciation	Net Book Value	Short-Term	Long-Term	Total	
	<i>(in thousands)</i>						
IT Infrastructure	\$ 731	\$ —	\$ 731	\$ 241	\$ 490	\$ 731	

Commitments and Contingencies

A majority of the Company's net revenues in 2014, 2013 and 2012 were received from the sale of products purchased from the Company's ten largest vendors. The Company has entered into written distribution agreements with substantially all of its major vendors. While the Company's agreements with most of its vendors contain standard provisions for periodic renewals, these agreements generally permit termination by either party without cause upon 30 to 120 days notice.

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

In January 2013, through the Company's wholly-owned subsidiary Partner Services, Inc. ("PSI"), the Company filed a lawsuit in the U.S. District Court in Atlanta, Georgia against our former ERP software systems integration partner, Avanade, Inc. ("Avanade"). In June 2014, the parties reached a Settlement Agreement where both parties agreed to mutually dismiss all claims and counterclaims against the other in exchange for Avanade's payment to the Company of \$15.0 million. The Company also reversed \$2.0 million in accrued liabilities for unpaid invoices received from Avanade and paid a contingency fee of \$1.5 million to the law firm who represented the Company in the lawsuit. The settlement, net of attorney fees and reversal of accrued liabilities is included in the impairment charges (legal recovery) line item on the Consolidated Income Statements.

The Company is in the process of designing and developing a new Enterprise Resource Planning ("ERP") system. In December 2013, the Company retained SAP for software platform and implementation consulting services on the new ERP system. The Company incurred \$13.2 million in the form of capital expenditures related to the ERP project. As of June 30, 2014, amounts in accrued expenses and other current liabilities related to capital expenditures totaled \$3.0 million. Capital expenditures for fiscal 2015 could range from \$17 million to \$22 million.

SCANSOURCE, INC. AND SUBSIDIARIES
Notes to Consolidated Financial Statements—(Continued)
June 30, 2014

(13) Segment Information

The Company is a leading distributor of specialty technology products, providing value-added distribution sales to resellers in specialty technology markets. The Company has two reportable segments, based on product and service type.

Prior to fiscal 2013 the Company's reporting units coincided with its geographic operating segments of North America and International. In the fourth quarter of 2013, the Company reorganized its management structure and reporting segments to globally leverage the Company's leadership in specific technology markets, changing from a geographic to a technology focus. As part of this new structure, the Company formed two operating segments with a global technology focus: Worldwide Barcode & Security ("Barcode/Security") and Worldwide Communications & Services ("Communications/Services"). Each operating segment is managed around its global technology focus and is supported by the Company's centralized infrastructure, including distribution centers and back office operations. Each operating segment has its own management team led by a president and includes regional presidents within the operating group who manage the various functions within each segment. Decisions and planning for the Company as a whole are made at the corporate level by analyzing results from the operating segments. These technology business segments replace the geographic segments previously used, and the Company has retrospectively reclassified the consolidated financial statements to conform to the new presentation.

Worldwide Barcode & Security Segment

The Barcode/Security distribution segment focuses on automatic identification and data capture ("AIDC"), point-of-sale ("POS"), and electronic physical security technologies. We have business units within this segment for sales and merchandising functions, including ScanSource POS and Barcode business units in North America, Latin America, and Europe and the ScanSource Security business unit in North America. We see adjacencies among these technologies in helping our resellers develop solutions, such as with networking products. AIDC and POS products interface with computer systems used to automate the collection, processing and communication of information for commercial and industrial applications, including retail sales, distribution, shipping, inventory control, materials handling, warehouse management and health care applications. Electronic physical security products include identification, access control, video surveillance, intrusion-related and wireless infrastructure products. During fiscal year 2014, the Barcode & Security distribution segment added 3D printing solutions to their product offerings that are targeted at the manufacturing, healthcare, aerospace, and automotive markets.

Worldwide Communications & Services Segment

The Communications/Services distribution segment focuses on communications technologies and services. We have business units within this segment for sales and merchandising functions, including the ScanSource Catalyst business unit in North America, ScanSource Communications business units in North America and Europe, and the ScanSource Services Group business unit in North America. ScanSource Catalyst and ScanSource Communications business units market voice, video conferencing, data networking and converged communications solutions. The ScanSource Services Group business unit delivers value-added support programs and services, including education and training, network assessments, custom configuration, implementation and marketing.

SCANSOURCE, INC. AND SUBSIDIARIES
Notes to Consolidated Financial Statements—(Continued)
June 30, 2014

Selected financial information for each business segment is presented below:

	Fiscal Year Ended June 30,		
	2014	2013	2012
	<i>(in thousands)</i>		
Sales:			
Worldwide Barcode & Security	\$ 1,873,177	\$ 1,828,219	\$ 1,837,307
Worldwide Communications & Services	1,040,457	1,048,745	1,177,989
	<u>\$ 2,913,634</u>	<u>\$ 2,876,964</u>	<u>\$ 3,015,296</u>
Depreciation and amortization:			
Worldwide Barcode & Security	\$ 4,243	\$ 5,408	\$ 6,590
Worldwide Communications & Services	3,132	3,049	2,990
	<u>\$ 7,375</u>	<u>\$ 8,457</u>	<u>\$ 9,580</u>
Operating income:			
Worldwide Barcode & Security ⁽¹⁾	\$ 51,523	\$ 34,665	\$ 56,669
Worldwide Communications & Services ⁽²⁾	54,773	44,588	56,847
Corporate ⁽³⁾	15,490	(28,210)	—
	<u>\$ 121,786</u>	<u>\$ 51,043</u>	<u>\$ 113,516</u>
Assets:			
Worldwide Barcode & Security	\$ 702,230	\$ 609,939	\$ 695,717
Worldwide Communications & Services	431,908	387,097	438,442
Corporate	200,986	167,147	67,647
	<u>\$ 1,335,124</u>	<u>\$ 1,164,183</u>	<u>\$ 1,201,806</u>
Capital expenditures:			
Worldwide Barcode & Security	\$ 784	\$ 446	\$ 4,851
Worldwide Communications & Services	316	973	2,707
Corporate	10,128	3,412	5,232
	<u>\$ 11,228</u>	<u>\$ 4,831</u>	<u>\$ 12,790</u>

⁽¹⁾ For the year ended June 30, 2013, the amount shown above includes a non-cash charge of \$15.1 million for the goodwill impairment in Brazil (see also Note 5).

⁽²⁾ For the year ended June 30, 2013, the amount shown above includes a non-cash charge of \$5.4 million for the goodwill impairment in Europe (see also Note 5).

⁽³⁾ For the year ended June 30, 2014, the amount shown includes a legal recovery, net of attorney fees of 15.5 million. For the year ended June 30, 2013, the amount shown above includes a non-cash charge of \$28.2 million for the impairment of our ERP project.

Selected financial information by geography category is presented below:

	Fiscal Year Ended June 30,		
	2014	2013	2012
	<i>(in thousands)</i>		
Sales by Geography Category:			
North America	\$ 2,225,962	\$ 2,196,986	\$ 2,285,342
International	733,744	737,241	778,837
Less intercompany sales	(46,072)	(57,263)	(48,883)
	<u>\$ 2,913,634</u>	<u>\$ 2,876,964</u>	<u>\$ 3,015,296</u>

SCANSOURCE, INC. AND SUBSIDIARIES
Notes to Consolidated Financial Statements—(Continued)
June 30, 2014

(14) Restructuring Costs

In April 2013, the Company implemented a restructuring plan for its Communications business unit in Europe to support a strategy for profitable growth. In the March 2013 quarter, the Company recorded a liability for expected restructuring costs of \$1.2 million related to the termination of employees for workforce reductions. This charge is included in selling, general and administrative expenses in the Consolidated Income Statements. The balance of the liability, which was recorded in accrued expenses and other current liabilities in the Consolidated Balance Sheets, was approximately \$0.5 million at June 30, 2013 and was utilized during fiscal 2014.

(15) Accumulated Other Comprehensive (Loss) Income

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

	Fiscal Years Ended June 30,		
	2014	2013	2012
	<i>(in thousands)</i>		
Currency translation adjustment	\$ (16,700)	\$ (22,972)	\$ (21,691)
Accumulated other comprehensive income (loss)	<u>\$ (16,700)</u>	<u>\$ (22,972)</u>	<u>\$ (21,691)</u>

The tax effect of amounts in comprehensive income reflect a tax benefit of \$0.3 million, \$0.7 million, and \$0.5 million for the years ended June 30, 2014, 2013, and 2012 respectively.

(16) Related Party Transactions

During fiscal years 2014, 2013, and 2012, the Company had sales of \$0.0 million, \$2.5 million, and \$4.2 million, respectively, to companies affiliated with a member of management and a former minority shareholder of ScanSource Latin America's Miami based operations. This individual left the Company in April 2013. At June 30, 2014 and 2013, there were no accounts receivable from these companies.

SCANSOURCE, INC. AND SUBSIDIARIES
Notes to Consolidated Financial Statements—(Continued)
June 30, 2014

(17) Subsequent Events

On August 14, 2014, the Company, entered into a binding letter of intent, pursuant to which the Company agreed to purchase, through the Company or one of the Company's affiliates, all of the shares of Intersmart Comércio Importação Exportação de Equipamentos Eletrônicos, S.A., a corporation organized under the laws of the Federative Republic of Brazil, and its related entities (collectively "Network1") from the Network1 shareholders (the "Sellers"). The Network1 Acquisition is subject to certain closing conditions, including the entrance into a definitive purchase agreement and satisfactory completion of due diligence. The letter agreement provides for an initial purchase price of R\$159.6 million (or approximately \$70.4 million), subject to certain adjustments, and additional amounts to the sellers pursuant to a four year earn-out. The estimated total purchase price pursuant to the letter agreement is approximately R\$307 million (or approximately \$135.4 million).

Further, on August 14, 2014, the Board of Directors (the "Board") of the Company authorized a program to repurchase outstanding shares of the Company's common stock, no par value per share, at any time and from time to time for a total aggregate cost to the Company not to exceed \$120.0 million. The Board authorized purchases through a trading plan adopted under Rule 10b5-1 of the Securities Exchange Act of 1934, as amended (the "Exchange Act"), open market purchases or private transactions, in accordance with the applicable federal securities laws, including Rule 10b-18 of the Exchange Act.

On August 21, 2014, the Company also announced the execution of a non-binding letter of intent to acquire the business of Imago Group plc (the "Imago Acquisition"). The purchase price for the Imago Acquisition in the letter of intent is an initial cash payment of GBP 24.5 million (approximately \$41.0 million), plus certain earnout payments over the next two years.

ITEM 9. Changes In and Disagreements with Accountants on Accounting and Financial Disclosure.

Not applicable.

ITEM 9A. Controls and Procedures.

(a) Evaluation of Disclosure Controls and Procedures

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

Based on their evaluation as of the end of the period covered by this Annual Report on Form 10-K, our Chief Executive Officer and Chief Financial Officer have concluded that our disclosure controls and procedures, as of June 30, 2014, were effective in providing reasonable assurance that the objectives of the disclosure controls and procedures are met.

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

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

We assessed the effectiveness of the Company's internal control over financial reporting as of June 30, 2014. In making this assessment, we used the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission ("COSO") in *1992 Internal Control – Integrated Framework*. Based on its assessment using those criteria, our management concluded that our internal control over financial reporting was effective as of June 30, 2014.

The effectiveness of our internal control over financial reporting as of June 30, 2014 has been audited by Grant Thornton LLP, an independent registered public accounting firm, as stated in their Report of Independent Registered Certified Public Accounting Firm on Internal Control Over Financial Reporting which is included with the Financial Statements in Part II, Item 8 of this Annual Report on Form 10-K and is incorporated herein by reference.

(c) Changes in Internal Control over Financial Reporting

There were no changes in our internal control over financial reporting that occurred during the fiscal year ended June 30, 2014 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

ITEM 9B. Other Information.

Not applicable.

PART III

Information called for by Part III (Items 10, 11, 12, 13 and 14) of this Annual Report on Form 10-K has been omitted as the Company intends to file with the SEC not later than 120 days after the end of its fiscal year ended June 30, 2014, a definitive Proxy Statement relating to the 2014 Annual Meeting of Shareholders pursuant to Regulation 14A promulgated under the Exchange Act. Such information will be set forth in such Proxy Statement and is incorporated herein by reference.

ITEM 10. Directors, Executive Officers and Corporate Governance.

Incorporated herein by reference to the information presented under the headings "*Board of Directors and Executive Officers*," "*Corporate Governance Matters – Section 16(a) Beneficial Reporting Compliance*," "*Corporate Governance Matters – Code of Ethics*," "*Corporate Governance Matters – Independent Directors*," and "*Corporate Governance Matters – Board Meetings and Committees – Audit Committee*," in the Company's 2014 Proxy Statement, which will be filed with the SEC not later than 120 days after June 30, 2014.

ITEM 11. Executive Compensation.

Incorporated herein by reference to the information presented under the headings "*Executive Compensation*," "*Corporate Governance Matters – Compensation Committee Interlocks and Insider Participation*," and "*Compensation Committee Report*" in the Company's 2014 Proxy Statement, which will be filed with the SEC not later than 120 days after June 30, 2014.

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

Incorporated herein by reference to the information presented under the headings "*Equity Compensation Plan Information*" and "*Security Ownership of Certain Beneficial Owners and Management*" in the Company's 2014 Proxy Statement, which will be filed with the SEC not later than 120 days after June 30, 2014.

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

Incorporated herein by reference to the information presented under the heading "*Certain Relationships and Related Transactions*" and "*Corporate Governance Matters – Independent Directors*" in the Company's 2014 Proxy Statement, which will be filed with the SEC not later than 120 days after June 30, 2014.

ITEM 14. Principal Accountant Fees and Services.

Incorporated herein by reference to the information presented under the headings "*Proposal Three – Ratification of Appointment of Independent Auditors – Principal Accountant Fees and Services*" and "*Proposal Three – Ratification of Appointment of Independent Auditors – Audit Committee's Pre-Approval Policies and Procedures*" in the Company's 2014 Proxy Statement, which will be filed with the SEC not later than 120 days after June 30, 2014.

PART IV

ITEM 15. Exhibits and Financial Statement Schedules.

(a)(1) *Financial Statements*. For a list of the financial statements included in this Annual Report on Form 10-K, see "Index to the Financial Statements" on page 41.

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

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

(b) *Exhibits*. See Exhibit Index.

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

SCHEDULE II

SCANSOURCE, INC. AND SUBSIDIARIES

Valuation and Qualifying Accounts

(in thousands)

Description	Balance at Beginning of Period	Amounts Charged to Expense	Reductions ⁽¹⁾	Other ⁽²⁾	Balance at End of Period
Allowance for bad debt:					
Year ended June 30, 2012	\$ 23,506	7,134	(7,137)	902	\$ 24,405
Trade and current note receivable allowance					\$ 24,405
Year ended June 30, 2013	\$ 24,405	10,333	(11,377)	2,118	\$ 25,479
Trade and current note receivable allowance					\$ 25,479
Year ended June 30, 2014	\$ 25,479	6,573	(8,100)	2,305	\$ 26,257
Trade and current note receivable allowance					\$ 26,257

(1) "Reductions" amounts represent write-offs for the years indicated.

(2) "Other" amounts include recoveries and the effect of foreign currency fluctuations.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.
August 28, 2014

SCANSOURCE , INC.

By: /s/ MICHAEL L. BAUR

Michael L. Baur
Chief Executive Officer

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

<u>Signature</u>	<u>Title</u>	<u>Date</u>
<u>/s/ STEVEN R. FISCHER</u> Steven R. Fischer	Chairman of the Board	August 28, 2014
<u>/s/ MICHAEL L. BAUR</u> Michael L. Baur	Chief Executive Officer and Director (principal executive officer)	August 28, 2014
<u>/s/ CHARLES A. MATHIS</u> Charles A. Mathis	Executive Vice President and Chief Financial Officer (principal financial officer)	August 28, 2014
<u>/s/ GERALD LYONS</u> Gerald Lyons	Senior Vice President of Finance and Principal Accounting Officer (principal accounting officer)	August 28, 2014
<u>/s/ PETER C. BROWNING</u> Peter C. Browning	Director	August 28, 2014
<u>/s/ MICHAEL J. GRAINGER</u> Michael J. Grainger	Director	August 28, 2014
<u>/s/ JOHN P. REILLY</u> John P. Reilly	Director	August 28, 2014
<u>/s/ CHARLES R. WHITCHURCH</u> Charles R. Whitchurch	Director	August 28, 2014

Exhibit Number	Description	Filed herewith	Form	Period Ending	Exhibit	Filing Date
2.1	Share Purchase and Sale Agreement by and among ScanSource DO Brasil Participacoes LTDA as Buyer, Alexandre Machado De Campos Conde, Marcelo Duarte Hirsch, Gustavo Conde, Rosania De Souza Possebom, Juliane Possebom, Daniele Possebom, Gabriela Possebom, Adolar Nardes Junior and Caio Vinicius Domingos Nardes as Sellers; and CDC Brasil S.A., formerly called CDC Brasil Distribuidora LTDA, AECO Participacoes LTDA, Rhouse Participacoes LTDA and Nardes Administracao LTDA (as Agreeing Parties) dated April 7, 2011		8-K		2.1	4/15/2011
3.1	Amended and Restated Articles of Incorporation of the Registrant and Articles of Amendment Amending the Amended and Restated Articles of Incorporation of the Registrant		10-Q	12/31/2004	3.1	2/3/2005
3.2	Amended and Restated Bylaws of the Registrant, effective May 6, 2014		10-Q	12/31/2014	3.1	2/3/2005
4.1	Form of Common Stock Certificate		SB-2		4.1	2/7/1994
Executive Compensation Plans and Arrangements						
10.1	1997 Stock Incentive Plan, as amended, of the Registrant and Form of Stock Option Agreement		10-K	6/30/1999	10.13	9/28/1999
10.2	Amended and Restated Directors Equity Compensation Plan, as amended and restated		10-Q	9/30/2012	10.4	11/2/2012
10.3	Form of Restricted Stock Award (for ScanSource, Inc. Amended and Restated Directors Equity Compensation Plan as amended and restated)		10-Q	3/31/2011	10.3	5/6/2011
10.4	Nonqualified Deferred Compensation Plan, as amended and restated		10-Q	9/30/2012	10.5	11/2/2012
10.5	Amended and Restated 2002 Long-Term Incentive Plan		8-K		10.1	12/7/2009
10.6	ScanSource, Inc. 2013 Long-Term Incentive Plan		S-8	12/2/2013	99	12/5/2013
10.7	ScanSource, Inc. Employee Stock Purchase Plan		S-8	12/4/2013	99	12/5/2013
10.8	Form of Incentive Stock Option Award Certificate under the Amended and Restated 2002 Long-Term Incentive Plan for grants on or after December 3, 2010		10-Q	12/31/2010	10.2	2/4/2011
10.9	Form of Non-Qualified Stock Option Award Certificate under the Amended and Restated 2002 Long-Term Incentive Plan for grants on or after December 3, 2010		10-Q	12/31/2010	10.3	2/4/2011
10.10	Form of Restricted Stock Unit Award Certificate under the Amended and Restated 2002 Long-Term Incentive Plan for grants on or after December 3, 2010		10-Q	12/31/2010	10.4	2/4/2011
10.11	Form of Restricted Stock Award Certificate under the Amended and Restated 2002 Long-Term Incentive Plan for grants on or after December 3, 2010		10-Q	12/31/2010	10.5	2/4/2011
10.12	Form of Restricted Stock Award Certificate (US) under the 2002 Amended and Restated Long-Term Incentive Plan		10-Q	12/31/2008	10.1	2/4/2009

10.13	Form of Restricted Stock Award Certificate (UK) under the 2002 Amended and Restated Long-Term Incentive Plan	10-Q	12/31/2008	10.2	2/4/2009
10.14	Form of Restricted Stock Award Certificate (Europe, not UK) under the 2002 Amended and Restated Long-Term Incentive Plan	10-Q	12/31/2008	10.3	2/4/2009
10.15	Form of Restricted Stock Award Certificate under the Amended and Restated 2002 Long-Term Incentive Plan for grants on or after December 3, 2009	8-K		10.2	12/7/2009
10.16	Form of Incentive Stock Option Award Certificate under the Amended and Restated 2002 Long-Term Incentive Plan for grants on or after December 3, 2009	8-K		10.3	12/7/2009
10.17	Form of Non-Qualified Stock Option Award Certificate under the Amended and Restated 2002 Long-Term Incentive Plan for grants on or after December 3, 2009	8-K		10.4	12/7/2009
10.18	Founder's Supplemental Executive Retirement Plan Agreement	10-Q	3/31/2011	10.2	5/6/2011
10.19	Amended and Restated Employment Agreement, effective as of June 25, 2014, between the Registrant and Michael L. Baur	X			
10.20	Amended and Restated Employment Agreement, effective as of June 6, 2011, between the Registrant and Andrea D. Meade	10-K	6/30/2011	10.21	8/29/2011
10.21	First Amendment to Amended and Restated Employment Agreement effective July 1, 2013, between the Registrant and Andrea D. Meade	10-K	6/30/2013	10.25	8/26/2013
10.22	Amended and Restated Employment Agreement, dated June 25, 2014, between the Registrant and John J. Ellsworth	X			
10.23	Amended and Restated Employment Agreement, dated June 25, 2014, between the Registrant and Charles A. Mathis	X			
10.24	Amended and Restated Employment Agreement, dated June 25, 2014, between the Registrant and Gerald Lyons	X			
10.25	Form of Performance and Service-Based Restricted Stock Unit Award Agreement for John J. Ellsworth dated May 14, 2012	10-K	6/30/2012	10.31	8/24/2012
10.26	Form of Restricted Stock Award Agreement for Andrea D. Meade, dated June 6, 2011	10-K	6/30/2011	10.27	8/29/2011
10.27	Form of Restricted Stock Unit Award Certificate under ScanSource, Inc. 2013 Long-Term Incentive Plan for grants on or after December 5, 2013	10-Q	12/31/2013	10.1	2/6/2014
10.28	Form of Director Stock Unit Award Certificate under ScanSource, Inc. 2013 Long-Term Incentive Plan for grants on or after December 5, 2013	10-Q	12/31/2013	10.2	2/6/2014
10.29	Form of Incentive Stock Option Award Certificate under ScanSource, Inc. 2013 Long-Term Incentive Plan for grants on or after December 5, 2013	10-Q	12/31/2013	10.3	2/6/2014
10.30	Form of Non-Qualified Stock Option Award Certificate under ScanSource, Inc. 2013 Long-Term Incentive Plan for grants on or after December 5, 2013	10-Q	12/31/2013	10.4	2/6/2014
10.31	Independent Contractor Agreement entered into on December 2, 2013 between ScanSource, Inc. and Andrea Meade on behalf of Brentwood Road Ventures, LLC	10-Q	12/31/2013	10.5	2/6/2014

10.32	Other Stock Based Award Agreement for John J. Ellsworth dated August 26, 2014	X			
10.33	Form of Other Stock Based Award Certificate under ScanSource, Inc. 2013 Long-Term Incentive Plan	X			
10.34	Form of Performance and Service - Based Restricted Stock Unit Award Certificate under ScanSource, Inc. 2013 Long-Term Incentive Plan	X			
	Bank Agreements				
10.35	Amended and Restated Credit Agreement entered into on October 11, 2011, among ScanSource, Inc., the Subsidiary Borrowers party thereto, J.P. Morgan Chase Bank, N.A., individually and as administrative agent and the other financial institutions signatory thereto		10-Q	9/30/2011	10.1 11/4/2011
10.36	Amendment No. 1 dated as of November 6, 2013, to the Amended and Restated Credit Agreement, dated October 11, 2011 among ScanSource, Inc., the subsidiary borrowers thereto, the lender parties thereto and JP Morgan Chase Bank, N.A., as Administrative Agent		8-K		10.1 11/8/2013
	Other Agreements				
10.37+	Industrial Lease Agreement dated April 27, 2007 between Registrant and Industrial Developments International, Inc.		10-K	6/30/2007	10.26 8/29/2007
10.38+	US Avaya Contract with ScanSource, Inc.		10-K	6/30/2010	10.39 8/26/2010
10.39+	Amendment to Distribution Agreement with Avaya.		10-K	6/30/2013	10.37 8/26/2013
10.40+	Addendum to Distributor Agreement with Avaya.		10-K/A	6/30/2013	10.38 1/31/2014
10.41+	US Motorola (f/k/a Symbol Technologies) Contract with ScanSource, Inc.		10-K	6/30/2010	10.40 8/26/2010
10.42+	Letter Agreement with US Motorola		10-K	6/30/2010	10.41 8/26/2010
10.43+	Distribution Agreement with US Motorola		10-Q	3/31/2014	10.1 5/7/2014
16.1	Letter from Ernst & Young LLP, dated January 6, 2014		8-K		16.1 1/7/2014
18.1	Preferability letter re change in accounting policy related to goodwill		10-Q	3/31/2014	18.1 5/7/2014
21.1	Subsidiaries of the Company	X			
23.1	Consent of Grant Thornton LLP	X			
23.2	Consent of Ernst & Young LLP	X			
31.1	Certification of the Chief Executive Officer, Pursuant to Rule 13a-14(a) or 15d-14(a) of the Exchange Act, as Adopted Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002	X			
31.2	Certification of the Chief Financial Officer, Pursuant to Rule 13a-14(a) or 15d-14(a) of the Exchange Act, as Adopted Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002	X			
32.1	Certification of the Chief Executive Officer, Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002	X			

32.2	Certification of the Chief Financial Officer, Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002	X
101++	The following materials from our Annual Report on Form 10-K for the year ended June 30, 2014, formatted in XBRL (eXtensible Business Reporting Language): (i) the Consolidated Balance Sheets as of June 30, 2014 and June 30, 2013, (ii) the Consolidated Income Statements for the years ended June 30, 2014, June 30, 2013 and June 30, 2012, (iii) the Consolidated Statements of Shareholders' Equity for the years ended June 30, 2014, June 30, 2013 and June 30, 2012, (iv) the Consolidated Statements of Cash Flows for the years ended June 30, 2014, June 30, 2013 and June 30, 2012, and (v) the Notes to the Consolidated Financial Statements, tagged as blocks of text	X

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

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

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

EXECUTION COPY**AMENDED AND RESTATED EMPLOYMENT AGREEMENT**

THIS AMENDED AND RESTATED EMPLOYMENT AGREEMENT ("Agreement") between ScanSource, Inc., a South Carolina corporation ("Company"), and Michael L. Baur ("Executive") (collectively the "Parties") is effective as of July 1, 2014 ("Effective Date").

BACKGROUND

The Company and the Executive are parties to that certain Amended and Restated Employment Agreement originally dated as of June 6, 2011, as amended effective as of July 1, 2012 (the "Existing Agreement"), which amended and restated an Employment Agreement originally dated as of June 30, 2008, which amended and restated an Employment Agreement originally dated as of October 13, 2005 between the Company and the Executive, and which Existing Agreement expires June 30, 2014.

The Company desires to continue to employ Executive as Chief Executive Officer, and Executive is willing to continue to serve in such capacity, and the parties desire to document the terms and conditions of such employment as stated in this Agreement.

In consideration of the foregoing and of the mutual commitments below, including but not limited to the grant of a performance-based restricted stock unit award and the provision of modified severance, retirement and other benefits and restrictive covenants (as further described below), and for other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the Parties agree as follows:

1. **Employment.** On the Effective Date, Executive will be employed in the capacity stated above with such commensurate responsibilities as are assigned to him by the Company's Board of Directors (the "Board").

2. **Employment Period.**

(a) Unless earlier terminated in accordance with Section 5, the Agreement shall be for a term (the "Employment Period"), beginning on the Effective Date and ending on June 30, 2017, the Employment Period End Date. *Provided, however,* that if a Change in Control, as defined in Exhibit C hereto, occurs during the Employment Period, the ending date of the Employment Period will be extended so that it expires on the later of the Employment Period End Date or the first anniversary of the date on which the Change in Control initially occurred.

(b) If the Company does not renew the Agreement, or enter into a new employment agreement with Executive with the same or similar terms as the Agreement, as of the Employment Period End Date, the Executive may choose one of the following two

options: (i) the Executive will voluntarily resign from employment with the Company as of the Employment Period End Date and the Company will pay to Executive, on the 30th day after the Employment Period End Date, an amount equal to one (1) times the highest combined annual Base Salary and Variable Compensation earned by Executive from the Company, including any such amounts earned but deferred, in the last three (3) fiscal years before the Employment Period End Date, less normal withholdings; or (ii) the Executive may elect to continue employment with the Company on an at-will basis and, for a maximum of one year following the Employment Period End Date, receive the same salary and incentive compensation opportunity as in effect in the last year of the Agreement.

The Parties agree and acknowledge that: (i) nothing in this Section 2(b) nor any action the Company may take pursuant to this Section 2(b) will give rise to a claim by Executive for termination without Cause, termination for Good Reason, or termination due to the Executive's Retirement or the normal expiration of the Executive's Employment Period or for Severance Benefits or any amounts or benefits other than those specifically enumerated in this Section 2(b); (ii) Executive will not be entitled to receive any amounts or benefits under this Section 2(b) if Executive is otherwise entitled to receive or receives benefits under Section 6(a)(iii) of this Agreement or if Executive is in violation of Section 11; and (iii) Executive must execute and provide to the Company a Release, and the period for revoking same must have expired, before the 30th day following the Employment Period End Date in order to receive any amounts or benefits under this Section 2(b). Nothing in this Section 2(b) will prohibit Executive's employment from being terminated for Cause or for any other event enumerated in this Agreement.

3. Extent of Service. During the Employment Period, Executive agrees to devote his business time, attention, skill and efforts exclusively to the faithful performance of his duties hereunder. *Provided, however,* that it shall not be a violation of this Agreement for Executive to (i) devote reasonable periods of time to charitable and community activities and, with the approval of the Board or the Compensation Committee of the Board (the "Compensation Committee"), industry or professional activities, and/or (ii) manage personal business interests and investments, so long as these activities do not interfere with the performance of Executive's responsibilities under this Agreement.

4. Compensation and Benefits; Policies.

(a) Base Salary. During the Employment Period, the Company will pay to Executive a base salary at the rate specified on Exhibit A ("Base Salary"), less normal withholdings, payable in equal monthly or more frequent installments as are customary under the Company's payroll practices from time to time. The Compensation Committee will review the Executive's Base Salary annually and in their sole discretion may increase (but not decrease) Executive's Base Salary from year to year. This annual review of Executive's Base Salary will consider, among other things, Executive's performance and the Company's performance. If Executive becomes eligible during the Employment Period to receive benefits under the Company's short-term disability policy, the Company will continue to pay Executive's Base Salary; provided, however, that Executive's Base Salary

during such period will be reduced by any amounts Executive receives under the short-term disability policy.

(b) Equity Compensation, Variable Compensation, Savings and Retirement Plans. During the Employment Period, Executive will be entitled to participate in all deferred compensation, savings and retirement plans, practices, policies and programs applicable to senior executive officers of the Company (the “Peer Executives”) pursuant to their terms. Further, the Executive will also be eligible to receive certain equity-based compensation and certain cash-based variable compensation (such cash-based compensation, the “Variable Compensation”), in each case based on the performance or other criteria established periodically by the Committee, as specified on Exhibit A. The Committee, at its discretion, may award to Executive additional bonuses or other amounts as it deems necessary or deserving based on Executive’s performance. The Executive also will be eligible to receive such additional benefits as are described on Exhibit A.

(c) Welfare Benefit Plans. During the Employment Period, Executive and Executive’s eligible dependents may participate pursuant to their terms in the welfare benefit plans, practices, policies and programs provided by the Company which may include, medical, prescription, dental, disability, employee life, group life, accidental death and travel accident insurance plans and programs (the “Welfare Plans”) to the extent applicable to Peer Executives. Contributions will be required by the Executive. The Company may, in its sole discretion, modify, or change its Welfare Plans.

(d) Expenses. During the Employment Period, Executive will be entitled to receive reimbursement for all reasonable expenses incurred by Executive in accordance with the policies, practices and procedures of the Company and such reimbursements will be made no later than the last day of the year immediately following the year in which Executive incurs the reimbursable expense. The amount of reimbursable expenses incurred in one taxable year shall not affect the expenses eligible for reimbursement in any other taxable year. No right to reimbursement is subject to liquidation or exchange for other benefits.

(e) Fringe Benefits. During the Employment Period, Executive will be entitled to fringe benefits, if any, in accordance with the plans, practices, programs and policies of the Company in effect for Peer Executives.

(f) Vacation. During each fiscal year during the Employment Period, Executive will be entitled to no less than the number of days of paid vacation specified on Exhibit A. Executive may take vacation at the times Executive reasonably requests, subject to the prior approval of the person specified on Exhibit A. Unused vacation time will not carry over to the next fiscal year and will not be paid upon termination of employment.

(g) Clawback; Stock Ownership and Retention Policy. Executive is subject to and will comply with the Company’s Compensation Recovery Policy (“Clawback Policy”) as the same may be revised or amended from time to time as applicable to Executive. In

addition, Executive agrees that he shall be subject to the Company's Stock Ownership and Retention Policy, as in effect from time to time, as applicable to Executive.

5. Termination of Employment.

(a) Death, Retirement or Disability. Executive's employment terminates automatically upon Executive's death or Retirement during the Employment Period. For purposes of this Agreement, "Retirement" means, unless the Compensation Committee determines otherwise, the occurrence of both (i) the Executive's non-Cause termination of employment with the Company at any time on or after attaining a minimum age of 55 with 10 or more years of employment with the Company, and (ii) the Compensation Committee's determination that the Executive's termination qualifies as a retirement. If the Company determines that the Executive has become disabled during the Employment Period (pursuant to the definition of Disability set forth below), it may give to Executive written notice of its intention to terminate Executive's employment. Executive's employment with the Company will terminate effective on the 30th day after receipt of such written notice by Executive (the "Disability Effective Date"), unless, within the 30 days after such receipt, Executive has returned to full-time performance of Executive's duties. For purposes of this Agreement, "Disability" means a mental or physical disability as determined by the Board in accordance with standards and procedures similar to those under the Company's long-term disability plan, if any. If the Company has no long-term disability plan, "Disability" will mean the inability of Executive, as determined by the Board, to perform the essential functions of his regular duties and responsibilities, with or without reasonable accommodation, due to a medically determinable physical or mental condition which has lasted (or can reasonably be expected to last) for twelve workweeks in any twelve-month period. At the request of Executive or his personal representative, the Board's determination that the Disability of Executive has occurred will be certified by two physicians mutually agreed upon by Executive, or his personal representative, and the Company. If the two physicians are unwilling to certify that the Executive is disabled, Executive's termination will be deemed a termination by the Company without Cause and not a termination because of his Disability.

(b) Termination by the Company. The Company may terminate Executive's employment with or without Cause. For purposes of this Agreement, "Cause" means:

(i) engaging in unethical or illegal conduct or misconduct, which includes but is not limited to violations of the Company's policies concerning employee conduct; or

(ii) the Executive's breach of any material (as determined by the Board or the Compensation Committee) term of this Agreement.

Regardless of whether Executive's employment initially is considered to be terminated for any reason other than Cause, the Executive's employment will be considered to have been terminated

for Cause for purposes of this Agreement if the Board or the Committee determines after Executive's employment ends that the Executive violated Section 5(b) above while employed.

(c) Termination by Executive. Executive's employment may be terminated by Executive for Good Reason or no reason. For purposes of this Agreement, "Good Reason" means:

(i) without the consent of Executive, the assignment to Executive of any duties materially inconsistent for a chief executive officer, excluding an isolated, insubstantial and inadvertent action taken in good faith which is remedied by the Company promptly after receipt of notice from Executive;

(ii) a material reduction, without the consent of the Executive, by the Company in Executive's Base Salary or a material reduction in Executive's Variable Compensation opportunity;

(iii) the failure by the Company (A) to continue in effect any compensation plan in which Executive participates as of the Effective Date that is material to Executive's total base compensation, unless the Company provides a substantially equivalent alternative plan, or (B) to continue Executive's participation in the alternative plan on a basis that is substantially equivalent in terms of the value of benefits provided, in each case unless the Executive so consents;

(iv) the Company's requiring Executive, without his consent, to be based at any location that increases Executive's normal work commute by fifty (50) miles or more as compared to Executive's normal work commute or otherwise is a material change in the location at which Executive is based;

(v) any failure by the Company to comply with and satisfy Section 12(c) of this Agreement, unless the Executive so consents;

(vi) the material breach of this Agreement by the Company, unless the Executive so consents; or

(vii) the termination of employment by the Executive during the 60-day period beginning on the six-month anniversary of a Change in Control, if the Company or a successor entity has not offered the Executive a new employment agreement after or in contemplation of a Change in Control with substantially the same or better compensation and terms and conditions of employment as are stated in this Agreement.

Executive must provide written notice to the Company of Executive's intent to terminate employment for Good Reason within 30 days of the initial existence of the Good Reason. The Company will have an opportunity to cure any claimed event of Good Reason within 30 days of notice from Executive. The Board's good faith determination of cure will be binding. The Company will notify Executive in writing of the timely cure of any claimed

event of Good Reason and how the cure was made. Any Notice of Termination delivered by Executive based on a claimed Good Reason which was thereafter cured by the Company will be deemed withdrawn and ineffective to terminate this Agreement. If the Company fails to cure any claimed event of Good Reason within 30 days of notice from Executive, Executive must terminate employment for such claim of Good Reason within 180 days of the initial existence of the Good Reason, and if Executive fails to do so, such claimed event of Good Reason will be deemed withdrawn and ineffective to terminate this Agreement.

(d) Notice of Termination; Basis of Termination. Any termination of Executive's employment by the Company or by Executive must be communicated by Notice of Termination to the other Party in accordance with Section 13(f) of this Agreement. For purposes of this Agreement, a "Notice of Termination" means a written notice which (i) states the specific termination provision in this Agreement relied upon, including whether such termination is for Cause or Good Reason, (ii) if such termination is for Cause or Good Reason, sets forth in reasonable detail the facts and circumstances claimed to provide a basis for termination of Executive's employment under the provisions so indicated, and (iii) specifies the termination date. The failure by Executive or the Company to set forth in the Notice of Termination any fact or circumstance which contributes to a showing of Good Reason or Cause will not waive any right of Executive or the Company, or preclude Executive or the Company from asserting applicable facts or circumstances in enforcing rights under this Agreement. The Compensation Committee or the Board shall (except as otherwise provided in Section 5(a) with respect to Disability), have discretion to determine the basis for any termination of employment of Executive.

(e) Date of Termination. The "Date of Termination" means, unless the Parties otherwise agree in writing (other than with respect to death), the date specified in the Notice of Termination or, if Executive's employment is terminated by reason of death, Retirement or Disability, the date of death or Retirement or the Disability Effective Date.

6. Obligations of the Company upon Termination.

(a) Termination by Executive for Good Reason; Termination by the Company Other Than for Cause, Death, Disability or Retirement; Effect of Expiration of Employment Period. If, during the Employment Period: (i) the Company terminates Executive's employment other than for Cause, death, Disability, or Retirement or the normal expiration of the Employment Period, or (ii) Executive terminates employment for Good Reason following the Company's failure to cure such Good Reason as set forth in Section 5(c) of this Agreement, the Company will pay Executive the following amounts and provide the following benefits:

(iii) Executive's Base Salary earned through the Date of Termination to the extent not already paid (such amount is hereinafter referred to as the "Accrued Obligations") will be paid as soon as practicable after the Date of Termination per the Company's customary payroll practices;

(iv) to the extent not previously paid or provided and only if earned as of the Date of Termination, the Company will timely pay or provide to Executive any other amounts or benefits which Executive is eligible to receive under any plan, program, policy, practice, contract or agreement of the Company (the “Other Benefits”), pursuant to the terms of such Other Benefits; and

(v) subject to Section 13(i) of this Agreement and Executive’s execution of a Release in substantially the form of Exhibit B hereto (the “Release”) within the time set forth in Section 6(g) of this Agreement, the Company will (1) pay to Executive the amount in (A) beginning with the Company’s first normal payroll cycle that occurs at least 30 days after the Date of Termination, (2) pay the amount in (B) as set forth below, and (3) provide the benefits in (C):

(A) a single year of compensation in an amount equal to one (1) times the average annual Base Salary and Variable Compensation earned by Executive from the Company, including any such amounts earned but deferred, in the last three fiscal years before the Date of Termination (the “Average Compensation Amount”), less normal withholdings, and an additional amount (the “Retention Benefit”) equal to one-twelfth (1/12) times the Average Compensation Amount times the number of full years beyond ten (10) years that the Executive was consecutively employed by the Company prior to the Date of Termination, less normal withholdings (collectively the “Severance Benefits”); *provided, however*, that the maximum amount that Executive may receive under this Section 6(a)(iii)(A) is three (3) times the Average Compensation Amount, less normal withholdings. Notwithstanding the foregoing, if the Date of Termination occurs within 12 months after or prior to and otherwise in contemplation of (as determined by the Board or the Compensation Committee) a Change in Control, as defined in Exhibit C, Executive will receive Severance Benefits in an amount equal to three (3.0) times the Average Compensation Amount, less normal withholdings, but no Retention Benefit. With respect to any amounts due Executive under this Section 6(a)(iii)(A), the payments shall be made in bi-weekly installments pursuant to the Company’s normal payroll cycle during the term of the 24-month period referenced in Sections 11(c)(i) through 11(c)(vi). If Executive is entitled to receive severance benefits under this Section 6(a)(iii)(A), then he shall not be entitled to receive severance benefits under the Company’s Severance Pay Plan for Officers, as such plan may be amended, or any successor plan. The Average Compensation Amount defined herein is to exclude any fiscal years in which the Executive was not employed by the Company, include any partial fiscal years (which shall be annualized), and not include the then current fiscal year;

(B) a bonus equal to the pro rata portion (based on the number of days elapsed in the current fiscal year through the Date of Termination) of the current fiscal year annual Variable Compensation, if any, that would

otherwise be payable if the Executive had continued employment through the end of the current fiscal year based on actual performance (the “Pro Rata Bonus”). The Pro Rata Bonus, if any, less normal withholdings, will be paid within 30 days of the Committee’s certification that the Executive has met the necessary performance criteria, which will be no later than the later of March 15 following the end of the calendar year in which Executive’s right to the bonus vests or the 15th day of the third month following the end of the Company’s fiscal year in which Executive’s right to the bonus vests; and

(C) for the period commencing on the Date of Termination and ending on the date Executive attains age 65 (the “Continuation Coverage Period”), Executive shall be entitled to participate (treating Executive as if he were an active employee of the Company for this purpose) in the Company’s medical (including prescription drug coverage) and dental plan (the “Company Health Care Plans”). Executive shall pay the entire premium charged for the coverage of Executive and, if applicable, his dependents under the Company Health Care Plans. During the first eighteen (18) months of the Continuation Coverage Period, the premium required for the continuation coverage provided pursuant to this paragraph (C) shall be equal to the premium required by the continuation of coverage requirements of Section 4980B of the Code and Part 6 of Title I of the Employee Retirement Income Security Act of 1974, as amended (“COBRA”) for such continuation coverage (the “COBRA Rate”). During the remainder of the Continuation Coverage Period, the premium required for the continuation coverage shall be the greater of the COBRA Rate or the actuarially determined cost of the continuation coverage as determined by an actuary selected by the Company (i.e., the access only rate). Upon attainment of age 65, the coverage of Executive and, if applicable, his eligible dependents under the Company Health Care Plans shall cease. For years after age 65, funding for Executive’s post-termination medical benefit shall be determined assuming the Executive is enrolled in Medicare Parts A, B and D, obtains a Medicare supplemental (MediGap) policy until age 80 and pays the full cost for such coverage. Company makes no representation to Executive regarding the tax consequences of any benefits that may be received pursuant to this Section 6(a)(iii)(C). Executive agrees to pay any federal, state, or local taxes for which he may become personally liable as a result of any such benefits received.

(D) Executive’s entitlement to receive or retain the amounts set forth in this Section 6 are conditioned on Executive’s compliance with the Restrictions on Conduct described in Section 11. Executive’s breach or threatened breach of Section 11 shall entitle the Company to immediately cease any payments hereunder, or to refuse payment in the first instance, and the Company shall further be entitled to recover any payments previously made to Executive under this Section 6.

(b) Death. If Executive's employment is terminated because of Executive's death during the Employment Period, this Agreement will terminate without further obligations to Executive or Executive's legal representatives under this Agreement other than (i) the payment of Accrued Obligations as described in Section 6(a)(i), (ii) the payment of the Pro Rata Bonus as described in Section 6(a)(iii)(B), (iii) the payment of the benefits described in Section 6(a)(iii)(C), and (iv) the timely payment or provision of Other Benefits as described in Section 6(a)(ii) of this Agreement. The Accrued Obligations and the Pro Rata Bonus will be paid to Executive's estate or beneficiary, as applicable. Other Benefits as used in this Section 6(b) will include, without limitation, and Executive's estate and/or beneficiaries will be entitled to receive, benefits under such plans, programs, practices and policies relating to death benefits, if any, as are applicable to Executive on the date of his death pursuant to the terms of such Other Benefits.

(c) Disability. If Executive's employment is terminated because of Executive's Disability during the Employment Period, this Agreement will terminate without further obligations to Executive other than (i) the payment of Accrued Obligations as described in Section 6(a)(i), (ii) the payment of the Pro Rata Bonus as described in Section 6(a)(iii)(B), (iii) the payment of the benefits described in Section 6(a)(iii)(C), and (iv) the timely payment or provision of Other Benefits as described in Section 6(a)(ii) of this Agreement. The term Other Benefits as used in this Section 6(c) includes, without limitation, and Executive will be entitled after the Disability Effective Date to receive, disability and other benefits under such plans, programs, practices and policies relating to disability, if any, as are applicable to Executive and his family on the Date of Termination pursuant to the terms of such Other Benefits.

(d) Retirement. If Executive's employment is terminated because of Executive's Retirement during the Employment Period, this Agreement will terminate without further obligations to Executive other than (i) the payment of Accrued Obligations as described in Section 6(a)(i), (ii) the payment of the Pro Rata Bonus as described in Section 6(a)(iii)(B), (iii) the benefits described in Section 6(a)(iii)(C), and (iii) the timely payment or provision of Other Benefits as described in Section 6(a)(ii) of this Agreement. The term Other Benefits as used in this Section 6(d) includes, without limitation, and Executive will be entitled after the Date of Termination to receive, retirement and other benefits under such plans, programs, practices and policies relating to retirement, if any, as applicable to Executive on the Date of Termination pursuant to the terms of such Other Benefits.

(e) Cause or Voluntary Termination without Good Reason. If Executive's employment is terminated for Cause during the Employment Period, or if Executive voluntarily terminates employment during the Employment Period without Good Reason, this Agreement will terminate without further obligations to Executive, other than for (i) the payment of Accrued Obligations as described in Section 6(a)(i), and (ii) the timely payment or provision of Other Benefits as described in Section 6(a)(ii).

(f) Expiration of Employment Period. For clarification, if Executive's employment is terminated due to the normal expiration of the Employment Period or is

terminated within 60 days after the Employment Period End Date (in each case, for reasons other than Cause, death, Disability or Retirement), this Agreement will terminate without further obligations to Executive, other than for (i) the payment of Accrued Obligations if and to the extent applicable as described in Section 6(a)(i), (ii) the payment of the Pro Rata Bonus if and to the extent applicable as described in Section 6(a)(iii)(B), (iii) the payment of the Severance Benefits (subject to the Executive's execution of the Release) if and to the extent applicable as described in Section 6(a)(iii)(A), and (iv) the timely payment or provision of Other Benefits if and to the extent applicable as described in Section 6(a)(ii). Notwithstanding anything to the contrary in this Agreement, if the Agreement is not renewed and a new employment agreement is not offered and the Executive remains an employee of the Company in any capacity, Executive's employment will not be governed by this Agreement and Executive will be an at-will employee. In that instance, Executive remains subject to the Restrictions on Conduct described in Section 11. Further, the parties agree that the benefits provided under Section 2(b) herein are intended to be in lieu of, and not in addition to, comparable benefits provided under Section 6.

(g) Execution of Release. Notwithstanding anything to the contrary in this Section 6, the Release must be executed and provided to the Company, and the period for revoking same must have expired, before the 30th day following the Date of Termination.

7. Non-exclusivity of Rights. Nothing in this Agreement prevents or limits Executive's continuing or future participation in any plan, program, policy or practice provided by the Company and for which Executive may qualify, nor, subject to Section 13(d), will anything in this Agreement limit or otherwise affect any rights Executive may have under any contract or agreement with the Company. Amounts which are vested benefits or which Executive is otherwise entitled to receive under any plan, policy, practice, program, contract or agreement with the Company at or subsequent to the Date of Termination will be payable in accordance with such plan, policy, practice, program, contract or agreement except as explicitly modified by this Agreement.

8. Mandatory Reduction of Payments in Certain Events. Any payments made to Executive under this Agreement will be made with the Executive's best interests in mind related to the excise (the "Excise Tax") imposed by Section 4999 of the Internal Revenue Code of 1986, as amended (the "Code").

(a) Anything in this Agreement to the contrary notwithstanding, if it is determined that any benefit, payment or distribution by the Company to or for the benefit of Executive (whether paid or payable or distributed or distributable pursuant to the terms of this Agreement or otherwise) (a "Payment") would be subject to the Excise Tax, then, before making the Payment to Executive, a calculation will be made comparing (i) the net benefit to Executive of all Payments after payment of the Excise Tax, to (ii) the net benefit to Executive if the Payment had been limited to the extent necessary to avoid being subject to the Excise Tax. If the amount calculated under (i) above is less than the amount calculated under (ii) above, then the Payments will be limited to the extent necessary to avoid being subject to the Excise Tax (the "Reduced Amount"). In that event, any reduction in payments

shall be made by the Company in its sole discretion, in a manner intended to be consistent with Code Section 409A.

(b) The determination of whether an Excise Tax would be imposed, the amount of such Excise Tax, and the calculation of the amounts referred to in Section 8(a)(i) and (ii) above will be made by the Company's regular independent accounting firm at the expense of the Company or, at the election and expense of Executive, another nationally recognized independent accounting firm (the "Accounting Firm") acceptable to the Company which will provide detailed supporting calculations. Any determination by the Accounting Firm will be binding upon the Company and Executive. As a result of the uncertainty in the application of Code Section 4999 at the time of the initial determination by the Accounting Firm hereunder, it is possible that Payments to which Executive was entitled, but did not receive pursuant to Section 8(a), could have been made without the imposition of the Excise Tax (an "Underpayment"). In such event, the Accounting Firm will determine the amount of the Underpayment that has occurred and any such Underpayment will be promptly paid by the Company to or for the benefit of Executive.

(c) If the provisions of Code Section 280G and Section 4999 or any successor provisions are repealed without succession, this Section 8 will be of no further force or effect.

9. Costs of Enforcement. Subject to Section 8(b), each Party will pay its own costs and expenses incurred in enforcing or establishing its rights under this Agreement, including, without limitation, attorneys' fees, whether a suit is brought or not, and whether or not incurred in trial, bankruptcy or appellate proceedings.

10. Representations and Warranties. Executive represents and warrants to the Company that Executive is not a party to, or otherwise subject to, any restrictive covenant not to compete, not to solicit or not to disclose or use confidential information, with any person or entity, and Executive's execution of this Agreement and performance of his obligations will not violate the terms or conditions of any contract or obligation, written or oral, between Executive and any other person or entity.

11. Restrictions on Conduct of Executive.

(a) General. Executive agrees that as part of the executive-level role he will have and services he will perform for the Company, he will be exposed to, and help create and maintain, unique and proprietary methods and information in each market in which the Company does business which give the Company competitive advantages over other "Competitive Businesses," as well as develop goodwill with the Company's customers, suppliers, vendors, advertisers, employees and the general public. By virtue of the position Executive will hold, Executive is receiving, will receive, or will be provided access to the Company's unique methods of doing business, including: (1) methods for locating and dealing with vendors, customers, suppliers and advertisers as well as pricing information, distribution channels, and other terms of those relationships; (2) "Confidential Information" and "Trade Secrets;" (3) established relationships and other elements that together comprise

goodwill; and/or (4) unique knowledge and training regarding product development, its engineering, product specification, material suppliers, material specifications, product suppliers, manufacturing knowledge and methods, customer feedback, surveys, design-around information, research and development information, internal quality control tests, other quality control information, and other similar proprietary information. Executive agrees that the competitive advantage and goodwill the Company has created, and which Executive will assist in furthering and maintaining, is an important and legitimate business asset of the Company. It would be unfair for Executive to use Confidential Information and Trade Secrets obtained during and as a result of his employment with the Company for the benefit of an organization other than the Company. Executive has agreed to certain restrictions in exchange for his being eligible for certain severance benefits under the conditions described in this Agreement. Executive further agrees that it would be impossible to protect against improper and unfair competitive advantages without restricting Executive's activities in each market where the Company has existing customers or prospective customers during Executive's employment. No lesser territorial restriction would protect the Company's business interests given the nature of Executive's role within the Company and access to Confidential Information and Trade Secrets. Executive agrees that these provisions do not preclude him from earning a living.

(b) Definitions. The following capitalized terms used in this Section 11 will have the meanings assigned to them below, which definitions will apply to both the singular and the plural forms of these terms:

"Competitive Business" means (A) any distributors of any goods or services in or to the point of sale, automatic identification, data capture, security, business telephony, 3D printing, and communication products if such entity distributes or provides any product or service that is the same or substantially similar to any product or service offered or in development by the Company, including reasonable alternatives, as well as (B) the Company's top ten (10) vendors (in terms of revenue) at any point within the final two (2) years of Executive's employment with the Company; provided, however, that the Compensation Committee may, in its discretion, determine that the term "Competitive Business" does not include a particular vendor or distributor. Competitive Business includes, but is not limited to, any entity formed by Executive, formally or informally, as well as work by Executive as a consultant or independent contractor.

"Confidential Information" means any and all of the Company's Trade Secrets, confidential and proprietary information, and all other information and data that is not generally known to third persons who could derive economic value from its use or disclosure, including, without limitation, any information or documents about: the Company's accounting practices; financial data; financial plans and practices; the Company's operations; its future plans (including new products, improved products, and products under development); its methods of doing business; internal forms, checklists, or quality assurance testing; programs; customer and supplier lists or other such related information as pricing or terms of business dealings; supply

chains; shipping chains and prices; packaging technology or pricing; sourcing information for components, materials, supplies, and other goods; employees; pay scales; bonus structures; contractor information and lists; marketing strategies and information; product plans; distribution plans and distribution channel relationships; business plans; manufacturing, operation, sales and distribution processes; costs; margins for products; prices, sales, orders and quotes for the Company's business that is not readily attainable by the general public; existing and future services; testing information (including methods and results) related to materials used in the development of the Company's products or materials that could be used with the Company's products; development information (including methods and results) related to computer programs that design or test products or that track information from a central database; and the computer or electronic passwords of all employees and/or firewalls of the Company. Confidential Information also includes any information defined in this subsection which the Company obtains from another party and treats as proprietary or confidential, whether or not owned or developed by the Company. Notwithstanding the definitions stated above, the term Confidential Information does not include any information which (i) at the time of disclosure to Executive, was in the public domain; (ii) after disclosure to Executive, is published or otherwise becomes part of the public domain through no fault of Executive; (iii) without a breach of duty owed to the Company, was already in Executive's possession at the time of disclosure; (iv) was received after disclosure to Executive from a third party who had a lawful right to the information other than through a relationship of trust and confidence with the Company, and without a breach of duty to the Company, disclosed the information to Executive; or (v) where Executive can show it was independently developed by Executive on non-Company time without reference to, or reliance upon, other Confidential Information or Trade Secrets.

"Restricted Territory" means any location in the United States where (1) Executive performed services for the Company or its affiliates or had contact with the Company's customers, vendors, or suppliers; and (2) where the Company or its affiliates is actively manufacturing, marketing, selling, or distributing its products within the final two (2) years of Executive's employment, or places where the Company made affirmative steps to manufacture, market, sell, or distribute its products within the final six (6) months of Executive's employment. If Executive was assigned only a portion of the territory in which the Company operates or sells, then the Restricted Territory shall be narrowly construed to include only the limited geographic area in which Executive represented and worked for the Company or was able to establish contact with the Company's customers, vendors, or suppliers.

"Trade Secrets" means information related to the business or services of the Company which (1) derives independent actual or potential commercial value from not being generally known or readily ascertainable through independent development or reasonable reverse engineering processes by persons who can obtain economic value from its disclosure or use; and (2) is the subject of efforts by the Company and affiliated third parties that are reasonable under the circumstances to maintain its

secrecy. Assuming the foregoing criteria in clauses (1) and (2) are met, Trade Secret encompasses business and technical information including, without limitation, know-how, designs, formulas, patterns, compilations, programs, devices, inventions, methods, techniques, drawings processes, finances, actual or potential customers and suppliers, and existing and future products and services of the Company. Notwithstanding the definitions stated above, the term Confidential Information does not include any information which (i) at the time of disclosure to Executive, was in the public domain; (ii) after disclosure to Executive, is published or otherwise becomes part of the public domain through no fault of Executive; (iii) without a breach of duty owed to the Company, was already in Executive's possession at the time of disclosure; (iv) was received after disclosure to Executive from a third party who had a lawful right to the information through some avenue other than through a relationship of trust and confidence with the Company, and without a breach of duty to the Company, disclosed the information to Executive; or (v) where Executive can show it was independently developed by Executive on non-Company time without reference to, or reliance upon, other Confidential Information or Trade Secrets.

(c) Restrictions. Executive understands and agrees that the compensation the Company has agreed to provide pursuant to this Agreement would not be as lucrative if the restrictions set forth in this section were not included in this Agreement. Therefore, in consideration of the compensation provided in this Agreement, and the other terms agreed to by the Company, along with the disclosure (and continued disclosure of Confidential Information and Trade Secrets) a portion of which is being paid to compensate Executive for these covenants, Executive covenants and agrees as follows:

(i) Non-Compete.

a. For the term of Executive's employment, and for a period of twenty-four (24) months following the Date of Termination, with or without Cause or Good Reason, Executive agrees he will not, directly or indirectly, alone or in association with or on behalf of any other person or entity, own, manage, operate, join, control, be employed by or with, or participate in any Competitive Business in the Restricted Territory in which he would provide the same or substantially the same services to the Competitive Business as those Executive provided to the Company during the last two (2) years of Executive's employment with the Company.

b. If for any reason, paragraph 11(c)(i)(a) is deemed unenforceable by any court or arbitrator, the parties agree that for the term of Executive's employment, and for a period of twenty-four (24) months following the Date of Termination, with or without Cause or Good Reason, Executive will not, directly or indirectly, alone or in association with or on behalf of any other person or entity, own,

manage, operate, join, control, be employed by or with, participate in, or provide the same or substantially the same services as those Executive provided to the Company during the last two (2) years of Executive's employment with the Company to any of the following entities: Ingram Micro, Tech Data, Avnet, BlueStar, Westcon, Arrow, Agilysis, Azerty, PC POS, Jarltech, Jenne, Securematics, Synnex, Alliance (NEI), NEXTUSA, ADI, Tri- Northern, Anixter, Motorola, Avaya, Polycom, Aruba Networks, Honeywell-Intermec, Zebra Technologies, Shoretel, CISCO Systems, Toshiba, Plantronics.

(ii) Non-Solicitation of Vendors, Manufacturers, Customers, or Suppliers. For the term of Executive's employment, and for a period of twenty-four (24) months following the Date of Termination, Executive agrees he will not, directly or indirectly, alone or in association with or on behalf of any other person or entity, solicit any of the Company's vendors, manufacturers, customers or suppliers with whom Executive had business contact during the course of Executive's employment with the Company for any Competitive Business for the purpose of providing the same or substantially the same products or services as those provided by the Company and will not induce or encourage any vendors, manufacturers, customers or suppliers to cease doing business with the Company or materially alter their relationship with the Company;

(iii) Non-Solicitation of Prospective Vendors, Manufacturers, Customers or Suppliers. For the term of Executive's employment, and for a period of twenty-four (24) months following the Date of Termination, Executive agrees he will not, directly or indirectly, alone or in association with or on behalf of any other person or entity, solicit any of the Company's prospective vendors, manufacturers, customers or suppliers with whom Executive had business contact during the course of Executive's employment with the Company for any Competitive Business;

(iv) Non-Solicitation of Employees. For the term of Executive's employment, and for a period of twenty-four (24) months following the Termination Date, Executive agrees he will not, directly or indirectly, alone or in association with or on behalf of any other person or entity, solicit any of the Company's employees to leave the Company to provide services for any Competitive Business;

(v) Non-Disclosure. For the term of Executive's employment, and for a period of no less than twenty-four (24) months from the Date of Termination (for Confidential Information) or for so long as the information remains protected under this Agreement or applicable statute (for Trade Secrets) thereafter, Executive agrees that he will not, either directly or indirectly, misappropriate, take, remove, publish, disseminate, provide, or otherwise disclose any Confidential Information or Trade Secrets to any third party, unless required to do so by legal process or other law, without the Company's prior written consent. Executive agrees that if he believes he is compelled to reveal Confidential Information or Trade Secrets pursuant to the

limited exception provided herein, Executive will provide the Company at least seven (7) days advance notice before doing so, will explain the specifics under which such Confidential Information or Trade Secrets are to be disclosed, and will allow the Company to take steps to prevent the disclosure or use of its Confidential Information or Trade Secrets.

(vi) No Misuse of Confidential Information or Trade Secrets. For the term of Executive's employment, and for a period of no less than twenty-four (24) months from the Date of Termination (for Confidential Information) or for so long as the information remains protected under this Agreement or applicable statute (for Trade Secrets) thereafter, Executive agrees that he will not, either directly or indirectly, for his own behalf or otherwise, use in any manner the Company's Confidential Information or Trade Secrets.

(vii) Return of Company Property. Within two (2) business days following Executive's Date of Termination, Executive shall return to the Company any and all documents, materials, tangible information, or other property reflecting or containing the Company's Confidential Information or Trade Secrets or that otherwise belong to the Company that Executive has in his possession. Executive will also permanently delete or remove any programs or data containing or reflecting such information and shall retain no copies of any kind. Executive acknowledges that all such materials are the sole exclusive property of the Company and that Executive has no right, title, or interest in such information. If requested by the Company, Executive further agrees to execute a stipulation that he has complied with this Section 11(c)(vii).

(d) Non-Disparagement. The Company and Executive agree that for the term of Employee's employment, and for a period of five (5) years thereafter, they will not disparage each other to any non-governmental third parties. Nothing in this subsection should be interpreted as any restriction on either Party's compliance with any laws requiring or compelling disclosure, or any disclosures that are considered absolutely privileged, such as legal proceedings, subject to the other terms of this Agreement.

(e) Severance and Reformation. The Company and Executive agree that the provisions of Section 11, including all subparts, are intended to strike the balance between Executive earning a livelihood and the Company protecting its legitimate business interests. The Parties have drafted the provisions of Section 11, including all subparts, to allow for enforcement. The Parties agree that should a court determine that any word, phrase, clause, sentence, paragraph, or other part of this Agreement is unreasonably broad in time, territory, or scope so as to render any remaining provisions unenforceable, the Parties desire the court to modify or strike the offending language in the narrowest way possible and enforce the remainder as if the offending language was not there, so that only reasonable restrictions are enforced.

(f) Elective Right of the Company. If Executive challenges the enforceability of the restrictive covenants contained in this Section 11 (the "Restrictive Covenants") (or

asserts an affirmative defense to an action seeking to enforce the Restrictive Covenants) based on an argument that the Restrictive Covenants are (i) not enforceable as a matter of law, (ii) unreasonable in geographical scope or duration or (iii) void as against public policy, the Company shall be entitled to (1) to cease making the payments required under Section 2(b) and/or Section 6 above, and (2) upon demand, to have Executive repay, within 10 business days of any such demand, any payments already made. Any right afforded to, or exercised by, the Company under this Agreement will not affect the enforceability of the Restrictive Covenants or any other right or remedy, equitable or otherwise, of the Company under this Agreement.

12. Assignment and Successors.

(a) This Agreement is personal to Executive and without the prior written consent of the Company will not be assignable by Executive otherwise than by will or the laws of descent and distribution. This Agreement will inure to the benefit of and be enforceable by Executive's legal representatives.

(b) This Agreement will inure to the benefit of and be binding upon the Company and its successors and assigns.

(c) The Company will require any successor (whether direct or indirect, by purchase, merger, consolidation or otherwise) to all or substantially all of the business and/or assets of the Company to assume expressly and agree to perform this Agreement in the same manner and to the same extent that the Company would be required to perform it if no such succession had taken place. As used in this Agreement, "Company" will mean the Company as herein before defined and any successor to its business and/or assets which assumes and agrees to perform this Agreement by operation of law, or otherwise.

13. Miscellaneous.

(a) Waiver. Failure of either Party to insist, in one or more instances, on performance by the other, or any other employee under a similar agreement, in strict accordance with the terms and conditions of this Agreement will not be deemed a waiver or relinquishment of any right granted in this Agreement or of the future performance of any such term or condition or of any other term or condition of this Agreement, unless the waiver is in a writing signed by the Party making the waiver.

(b) Severability. If any provision or covenant, or any part thereof, of this Agreement should be held by any court to be invalid, illegal or unenforceable, either in whole or in part, such invalidity, illegality or unenforceability will not affect the validity, legality or enforceability of the remaining provisions or covenants, or any part thereof, of this Agreement, all of which will remain in full force and effect.

(c) Other Agents. Nothing in this Agreement is to be interpreted as limiting the Company from employing other personnel on such terms and conditions as may be satisfactory to it.

(d) Entire Agreement. Except as provided herein, this Agreement contains the entire agreement between the Parties on the subject matter hereof. From and after the Effective Date, this Agreement will supersede the Existing Agreement and any other agreement between the Parties on the subject matter hereof, and, without limiting the effect of the foregoing, the Executive shall have no further rights in or to any benefits or payments under the Existing Agreement, and the Agreement shall control with respect to the subject matter hereof.

(e) Governing Law and Jurisdiction. Without regard to conflict of laws principles, the laws of the State of South Carolina will govern this Agreement in all respects, whether as to its validity, construction, capacity, performance or otherwise.

(f) Notices. All notices, requests, demands and other communications required or permitted in this Agreement must be in writing and will be deemed to have been duly given if delivered or three days after mailing if mailed, first class, certified mail, postage prepaid:

To Company: ScanSource, Inc.
 6 Logue Court
 Greenville, SC 29615
 Attn: Executive Vice President and General Counsel

To Executive: To the address specified on Exhibit A

Any Party may change the address to which notices, requests, demands and other communications will be delivered or mailed by giving notice thereof to the other Party in the same manner provided herein.

(g) Amendments and Modifications. This Agreement may be amended or modified only by a writing signed by both Parties, which makes specific reference to this Agreement.

(h) Construction. Each Party and his or its counsel have been provided the opportunity to review and revise this Agreement and accordingly, the normal rule of construction to the effect that any ambiguities are to be resolved against the drafting party will not be employed in the interpretation of this Agreement. Instead, the language of all parts of this Agreement will be construed as a whole, and according to its fair meaning, and not strictly for or against either party.

(i) Deferred Compensation Provision. Notwithstanding any other provision of this Agreement, it is intended that any payment or benefit provided under this Agreement that is considered to be “deferred compensation” subject to Code Section 409A will be provided in such manner and at such time, including without limitation in connection with a permissible payment event under Code Section 409A, as is exempt from or complies with the requirements of Code Section 409A. All rights to payments and benefits under this Agreement are to be treated as rights to receive a series of separate payments and benefits

to the fullest extent allowed by Code Section 409A. Termination of employment under this Agreement, to the extent required by Code Section 409A, will be construed to mean a “separation from service” under Code Section 409A and related regulations. The terms of this Agreement are intended to, and will be construed and administered to the fullest extent possible, to permit compensation to be paid under this Agreement to be exempt from or comply with Code Section 409A. Regardless, neither the Company nor its directors, officers or agents will be liable to Executive or anyone else if the Internal Revenue Service or any court or other authority determines that any payments or benefits to be provided under this Agreement are subject to taxes, penalties or interest as a result of failing to comply with or be exempt from Code Section 409A.

Notwithstanding anything in this Agreement to the contrary, if any payment or benefit that constitutes non-exempt “deferred compensation” under Code Section 409A would otherwise be provided under this Agreement due to Executive’s separation from service during a period in which he is a “specified employee” (as defined in Code Section 409A and the associated final regulations), then, to the extent required by Code Section 409A, such payments or benefits will be delayed, to the extent applicable, until six months after Executive’s separation from service or, if earlier, Executive’s death (the “409A Deferral Period”). If such payments are otherwise due to be made in installments during the 409A Deferral Period, the payments that would otherwise have been made in the 409A Deferral Period will be accumulated and paid in a lump sum during the seventh month following the Executive’s separation from service, and the balance of the payments will be made as otherwise scheduled. In the event benefits are required to be deferred, any such benefit may be provided during the 409A Deferral Period at Executive’s expense, with Executive having the right to reimbursement from the Company once the 409A Deferral Period ends, and the balance of the benefits will be provided as otherwise scheduled.

With respect to any reimbursement or in-kind benefit arrangements of the Company that constitute deferred compensation for purposes of Code Section 409A, except as otherwise permitted by Section 409A, the following conditions shall be applicable: (i) the amount eligible for reimbursement, or in-kind benefits provided, under any such arrangement in one calendar year may not affect the amount eligible for reimbursement, or in-kind benefits to be provided, under such arrangement in any other calendar year, (ii) any reimbursement must be made on or before the last day of the calendar year following the calendar year in which the expense was incurred, and (iii) the right to reimbursement or in-kind benefits is not subject to liquidation or exchange for another benefit. Whenever payments under this Agreement are to be made in installments, each such installment shall be deemed to be a separate payment for purposes of Code Section 409A.

14. Arbitration. Executive shall be required (in lieu of litigation) to have any and all disputes or controversies arising under or in connection with this Agreement settled by final and binding arbitration administered by the American Arbitration Association (“AAA”) under its National Rules for the Resolution of Employment Disputes and the Federal Arbitration Act, 9 U.S.C. §1, et seq. subject to the following: (a) such arbitration shall take place in Greenville, South Carolina; (b) such arbitration shall be arbitrated by one (1) neutral arbitrator with at least ten (10) years of

employment arbitration experience and chosen by both parties from the AAA Roster of Neutral Arbitrators; (c) either party may seek from any court having jurisdiction any interim or provisional relief that is necessary to protect the rights or property of that party, pending the establishment of the arbitral tribunal; (d) discovery shall consist of the exchange of non-confidential and non-privileged documents that are strictly relevant to the claims before the arbitrator, shall be concluded within forty-five (45) days following the appointment of the arbitrator, and, in case of depositions, shall consist of no more than three (3) depositions per party with a maximum duration of three (3) hours each and all depositions shall be held within thirty (30) days of the making of a request; (e) the arbitration will be based on the submission of documents and there shall be no in-person or oral hearing; (f) the award shall be issued within six (6) months of the filing of the notice of intention to arbitrate and the arbitrator shall agree to comply with this schedule before accepting appointment; (g) except as may be required by law, neither a party nor an arbitrator may disclose the existence, content, or results of any arbitration hereunder without the prior written consent of both parties; (h) the arbitrator shall not have authority to award punitive damages; (i) each party shall bear its own attorney's fees with the Company bearing the arbitrator's and administrative fees related to arbitration; and (j) judgment upon the award rendered by the arbitrator may be entered by any court having jurisdiction thereof.

15. Survival. All non-competition, non-solicitation, non-disclosure and use, and non-recruiting obligations in Section 11 of this Agreement shall survive the voluntary or involuntary termination of Executive's employment with or without cause, and no dispute regarding any other provisions of this Agreement or regarding Executive's employment or the termination of Executive's employment shall prevent the operation and enforcement of these obligations.

16. Tolling. The restricted time periods in Section 11 above shall be tolled during any time period that the Executive is in violation of such covenants, as determined by a court of competent jurisdiction, so that the Company may realize the full benefit of its bargain. This tolling shall include any time period during which litigation is pending, but during which the Executive has continued to violate such protective covenants and a court has declined to enjoin such conduct or the Executive has failed to comply with any such injunction.

17. Execution in Counterparts. This Agreement may be executed in any number of counterparts, each of which shall be considered an original, but all of which construed together shall constitute on and the same Agreement. Executive agrees that the Company may enforce this Agreement with a copy that is only signed by Executive.

[Rest of page blank; signature page follows]

[Signature page to Employment Agreement]

IN WITNESS WHEREOF, the parties hereto have duly executed and delivered this Employment Agreement as of the dates indicated below.

EXECUTIVE: **SCANSOURCE, INC.:**

/s/ Michael L. Baur By: /s/ John J. Ellsworth

Name: Michael L. Baur Name: John J. Ellsworth

Date: 6/25/14 Title: General Counsel

Date: June 25, 2014

EXHIBIT A TO EMPLOYMENT AGREEMENT

Executive: Michael L. Baur

Base Salary: \$850,000 annually

Variable Compensation (Incentive Compensation Opportunity): Annual target Variable Compensation award opportunity of a maximum amount of 150% of annual Base Salary, based upon Executive's performance and attainment of performance goals established by the Compensation Committee, as determined in the Compensation Committee's discretion and subject to terms of applicable Company plan or program.

Annual Equity Award: Consideration for inclusion in the Company's annual equity grant at a grant level of \$1,500,000, subject to Compensation Committee discretion and the terms of the Company's 2013 Long-Term Incentive Plan or other applicable plan (the "2013 Plan") and related award agreement(s).

Deferred Compensation: For each of the calendar years of the term of the Agreement that the Executive is employed (including calendar year 2017), Executive shall be eligible to participate in the Company's nonqualified deferred compensation plan by deferring up to 50% of pay, and a match of 50% of deferred amounts will be made by company up to a maximum of \$200,000 per year.

Future premiums for the "access only" post-termination coverage described in Section 6(a)(iii)(C) above will be accounted for through additional funding of the Executive's deferred compensation account by the Company. Funding will occur upon Executive's retirement, death, disability, termination without Cause, or termination for Good Reason.

In addition, the Company will, as a one-time benefit, make a \$600,000 payment to the Executive's deferred compensation account for each of the three years of the term of the Agreement (including calendar year 2017). Each contribution will be made at the end of the Company's fiscal year (June 30). These contributions will not be made by the Company and will be withheld from the Executive if (a) Executive is terminated for Cause or (b) Executive violates the Restrictive Covenants contained in the Agreement. In the event of Executive's death or disability during the term of the Agreement, the Company will make any remaining payments to him or his beneficiaries, as the case may be.

Benefits: All benefits generally available to Peer Executives as well as the following:

- Short-term disability benefits equating to salary continuation.
- Long-term disability benefits targeting approximately 75% of income replacement (up to \$125,000 per month). If disabled after year 5 will receive a lump sum payment equal to the monthly benefit amount through age 65.
- Term life insurance - \$1,000,000 policy (subject to underwriting) and a \$500,000 policy (subject to limited underwriting).
- Comprehensive physical program allowing Executive to receive an annual examination at no cost.

Days of Paid Vacation per Fiscal Year:

25 days Chairman of the Board of Directors

Executive Notice Address:

6 Logue Court
Greenville, SC 29615
Attn: Mike Baur

Initials: MLB/JJE

EXHIBIT B TO EMPLOYMENT AGREEMENT

Form of Release

THIS RELEASE ("Release") is granted effective as of the ____ day of _____, ____, by _____ ("Executive") in favor of ScanSource, Inc. ("ScanSource" or the "Company"). This is the Release referred to in that certain Employment Agreement dated effective as of July 1, 2014 by and between the Company and Executive (the "Employment Agreement"). Executive gives this Release in consideration of the Company's promises and covenants as recited in the Employment Agreement, with respect to which this Release is an integral part.

1. **Release of the Company.** Executive, for himself, his successors, assigns, executors, administrators, insureds, attorneys, and all those entitled to assert his rights, now and forever hereby releases and discharges the Company and its respective officers, directors, shareholders, stockholders, trustees, partners, joint ventures, board members, employees, agents, parent corporations, divisions, wholly or partially owned subsidiaries, affiliates, estates, predecessors, successors, heirs, executors, administrators, assigns, representatives, and attorneys (the "Released Parties"), from any and all legal, administrative, and equitable claims, actions, causes of action, sums of money due, suits, debts, liens, covenants, contracts, obligations, costs, expenses, damages, judgments, agreements, promises, demands, claims for attorneys' fees and costs, or liabilities of any nature whatsoever, in law or in equity, which Executive ever had or now has against the Released Parties, including any claims arising by reason of or in any way connected with any employment relationship which existed between the Company or any of its parents, subsidiaries, affiliates, or predecessors, and Executive. It is understood and agreed that this Release is intended to cover all actions, causes of action, claims or demands for any damage, loss or injury, which may be traced either directly or indirectly to the aforesaid employment relationship, or the termination of that relationship, that Executive has, had or purports to have, from the beginning of time to the date of this Release, whether known or unknown, that now exists, no matter how remotely they may be related to the aforesaid employment relationship including but not limited to claims for employment discrimination under federal, state or local statutes, except as provided in Paragraph 2. Without limiting the broadness of the foregoing language, Executive agrees to release Company from any and all claims under:

1. Title VII of the Civil Rights Act of 1964, as amended by the Civil Rights Act of 1991;
2. Section 1981 of the Civil Rights Act of 1866, as amended;
3. Executive Orders 11246, 13496 and 11141;
4. the Equal Pay Act of 1963;
5. the Consolidated Omnibus Budget Reconciliation Act of 1985 (COBRA);
6. the Americans with Disabilities Act of 1990 and any amendments thereto, including the ADA Amendments Act of 2008;
7. the Rehabilitation Act of 1973;
8. the Employee Retirement and Income Security Act of 1974;
9. the Sarbanes-Oxley Corporate Reform Act of 2002 and the Dodd-Frank Wall Street Reform and Consumer Protection Act (the "Dodd-Frank Act");

10. whistle-blower and/or retaliation claims or suits under the Sarbanes-Oxley Act of 2002 and/or the Dodd-Frank Act;
11. the Family and Medical Leave Act of 1993, as amended;
12. the Health Insurance Portability and Accountability Act of 1996 (HIPAA);
13. the Fair Labor Standards Act of 1938, as amended;
14. the Occupational Safety and Health Act;
15. the Uniformed Services Employment and Re-employment Act of 1994;
16. the Worker Adjustment and Retraining Notification Act;
17. the Lilly Ledbetter Fair Pay Act of 2009;
18. the Fair Credit Reporting Act;
19. state workers' compensation law;
20. Consumer Credit Protection Act;
21. Immigration Reform and Control Act of 1986;
22. National Labor Relations Act;
23. the Genetic Information Nondiscrimination Act of 2008;
24. the Age Discrimination in Employment Act;
25. the South Carolina Payment of Wages Act;
26. the South Carolina Human Affairs Law;
27. claims arising under the United States and/or South Carolina Constitutions;
28. claims for wages and overtime pay and commissions, bonuses, vacation pay or any express or implied contracts;
29. any common law claims or claims founded in tort (including negligence) for wrongful discharge, negligence, negligent hiring, negligent training or negligent supervision, assault or battery, invasion of privacy, false imprisonment, intentional infliction of emotional distress, defamation, libel, slander, promissory estoppel, detrimental reliance, quantum meruit, unjust enrichment, breach of contract (oral, written or implied), or any other equitable basis or action;
30. claims that the Company treated or dealt with me unfairly; and
31. any claims arising under any other federal, state or local law, statute, regulation, ordinance, treaty or law of any other type, or any other cause of action or theory of recovery arising by virtue of my employment relationship and/or affiliation with ScanSource or any public policy, tort or common law.

Without waiving any prospective or retrospective rights under the Fair Labor Standards Act, I admit that I have received from ScanSource all rights and benefits, if any, due or potentially due to me pursuant to the Fair Labor Standards Act. I understand and acknowledge that it is the parties' intent that I release all claims that can be legally released but no more than that.

I affirm that while I was employed with the Company, I had no known and unreported workplace injuries or occupational diseases and was not denied leave under the Family and Medical Leave Act of 1993.

I represent and agree that I have been paid and have received all paid or unpaid leave, compensation, wages, overtime, vacation or sick pay, bonuses and/or benefits to which I may be entitled and no other amounts, except as may be provided in the Employment Agreement, are due to me.

Executive specifically agrees not to attempt to institute any proceedings or pursue any action pursuant to any laws (state, local, or federal) with any agency or in any jurisdiction (state, local, or federal) based on employment with or termination from the Company except as required or protected by law. Executive covenants that he will in no way encourage or assist any person or entity (including, but not limited to, any past, present or future employee(s) of Company) to take part or participate in any legal or administrative action against Company, except as otherwise required or protected by law. Nothing in this Release shall be interpreted or applied in a manner that affects or limits Executive's otherwise lawful ability to bring an administrative charge with the Equal Employment Opportunity Commission or other appropriate state or local comparable administrative agency; however, the parties agree that Executive has released Company from all liability arising from the laws, statutes, and common law listed in paragraph 1 (except as set forth in this paragraph below, with respect to the Age Discrimination in Employment Act ("ADEA")) and, as such, Executive is not and will not be entitled to any monetary or other comparable relief on his own behalf. Nothing in this Release shall be interpreted or applied in a manner that affects or limits Executive's ability to challenge (with a lawsuit or administrative charge) the validity of Executive's release of Company in this Release for age claims under the ADEA (which release is provided for in paragraph 2 of this Release). Other than a challenge to the validity of the release of ADEA claims under this Release, Executive has released Company from all liability with respect to the laws, statutes, and common law listed in paragraph 1, including the ADEA.

2. Release of Claims Under Age Discrimination in Employment Act. Without limiting the generality of the foregoing, Executive agrees that by executing this Release, he has released and waived any and all claims he has or may have as of the date of this Release for age discrimination under the Age Discrimination in Employment Act, 29 U.S.C. § 621, *et seq.* It is understood that Executive is advised to consult with an attorney prior to executing this Release; that he in fact has consulted a knowledgeable, competent attorney regarding this Release; that he may, before executing this Release, consider this Release for a period of twenty-one (21) calendar days; and that the consideration he receives for this Release is in addition to amounts to which he was already entitled. It is further understood that this Release is not effective until seven (7) calendar days after the execution of this Release and that Executive may revoke this Release within seven (7) calendar days from the date of execution hereof.

3. Executive acknowledges and represents that as an employee of the Company he has been obligated to, and has been given the full and unfettered opportunity to, report timely to the Company any conduct that would give rise to an allegation that the Company or any affiliate of the Company has violated any laws applicable to its businesses or has engaged in conduct which could otherwise be construed as inappropriate or unethical in any way, even if such conduct is not, or does not appear to be, a violation of any law. Executive acknowledges that a condition of the payment of any consideration provided by the Company to the Executive hereunder is his truthful and complete representation to the Company regarding any such conduct, including but not limited to

conduct regarding compliance with the Company's Code of Ethics, policies, and procedures, and with all laws and standards governing the Company's business.

Executive's truthful and complete representation, based on his thorough search of his knowledge and memory, is as follows: Executive has not been directly or indirectly involved in any such conduct; no one has asked or directed him to participate in any such conduct; and Executive has no specific knowledge of any conduct by any other person(s) that would give rise to an allegation that the Company or any affiliate of the Company has violated any laws applicable to its businesses or has engaged in conduct which could otherwise be construed as inappropriate or unethical in any way.

Executive agrees that he has carefully read this Release and is signing it voluntarily. Executive acknowledges that he has had twenty one (21) days from receipt of this Release to review it prior to signing or that, if Executive is signing this Release prior to the expiration of such 21-day period, Executive is waiving his right to review the Release for such full 21-day period prior to signing it. Executive has the right to revoke this release within seven (7) days following the date of its execution by him, and must deliver written notice of revocation in person to _____ at the following address: _____, and such revocation shall not be effective unless actually received by _____, within seven (7) days following the date the release was signed by Executive. If Executive revokes this Release within such seven (7) day period, no severance benefit will be payable to him under the Employment Agreement and he shall return to the Company any such payment received prior to that date.

EXECUTIVE HAS CAREFULLY READ THIS RELEASE AND ACKNOWLEDGES THAT IT CONSTITUTES A GENERAL RELEASE OF ALL KNOWN AND UNKNOWN CLAIMS AGAINST THE COMPANY UNDER THE AGE DISCRIMINATION IN EMPLOYMENT ACT, AND ANY AND ALL OTHER STATE AND FEDERAL LAWS, WHETHER STATUTORY OR COMMON LAW. EXECUTIVE ACKNOWLEDGES THAT HE HAS HAD A FULL OPPORTUNITY TO CONSULT WITH AN ATTORNEY OR OTHER ADVISOR OF HIS CHOOSING CONCERNING HIS EXECUTION OF THIS RELEASE AND THAT HE IS SIGNING THIS RELEASE VOLUNTARILY AND WITH THE FULL INTENT OF RELEASING THE COMPANY FROM ALL SUCH CLAIMS.

Executive

Date: _____

EXHIBIT C TO EMPLOYMENT AGREEMENT

Definition of Change in Control:

For the purposes of this Agreement, a “Change in Control” shall mean the occurrence of any of the following events:

(i) individuals who, on the Effective Date, constitute the Board of Directors of the Company (the “Incumbent Directors”) cease for any reason to constitute at least a majority of such Board, provided that any person becoming a director after the Effective Date and whose election or nomination for election was approved by a vote of at least a majority of the Incumbent Directors then on the Board shall be an Incumbent Director; provided, however, that no individual initially elected or nominated as a director of the Company as a result of an actual or threatened election contest with respect to the election or removal of directors (“Election Contest”) or other actual or threatened solicitation of proxies or consents by or on behalf of any “person” (such term for purposes of this definition being as defined in Section 3(a)(9) of the Exchange Act and as used in Sections 13(d)(3) and 14(d)(2) of the Exchange Act) other than the Board (“Proxy Contest”), including by reason of any agreement intended to avoid or settle any Election Contest or Proxy Contest, shall be deemed an Incumbent Director; or

(ii) any person is or becomes a “beneficial owner” (as defined in Rule 13d-3 under the Exchange Act), directly or indirectly, of either (A) 35% or more of the then-outstanding shares of common stock of the Company (“Company Common Stock”) or (B) securities of the Company representing 35% or more of the combined voting power of the Company’s then outstanding securities eligible to vote for the election of directors (the “Company Voting Securities”); provided, however, that for purposes of this subsection (ii), the following acquisitions shall not constitute a Change in Control: (w) an acquisition directly from the Company, (x) an acquisition by the Company or a Subsidiary of the Company, (y) an acquisition by any employee benefit plan (or related trust) sponsored or maintained by the Company or any Subsidiary of the Company, or (z) an acquisition pursuant to a Non-Qualifying Transaction (as defined in subsection (iii) below); or

(iii) the consummation of a reorganization, merger, consolidation, statutory share exchange or similar form of corporate transaction involving the Company or a Subsidiary (a “Reorganization”), or the sale or other disposition of all or substantially all of the Company’s assets (a “Sale”) or the acquisition of assets or stock of another corporation (an “Acquisition”), unless immediately following such Reorganization, Sale or Acquisition: (A) all or substantially all of the individuals and entities who were the beneficial owners, respectively, of the outstanding Company Common Stock and outstanding Company Voting Securities immediately prior to such Reorganization, Sale or Acquisition beneficially own, directly or indirectly, more than 55% of, respectively, the then outstanding shares of common stock and the combined voting power of the then outstanding voting securities entitled to vote generally in the election of directors, as the case may be, of the corporation resulting from such Reorganization, Sale or Acquisition (including, without limitation, a corporation which as a result of such transaction owns the Company or all or substantially all of the Company’s assets or stock either directly or through one or more subsidiaries, the “Surviving Corporation”) in substantially the same proportions as their

ownership, immediately prior to such Reorganization, Sale or Acquisition, of the outstanding Company Common Stock and the outstanding Company Voting Securities, as the case may be, and (B) no person (other than (x) the Company or any Subsidiary of the Company, (y) the Surviving Corporation or its ultimate parent corporation, or (z) any employee benefit plan (or related trust) sponsored or maintained by any of the foregoing is the beneficial owner, directly or indirectly, of 35% or more of the total common stock or 35% or more of the total voting power of the outstanding voting securities eligible to elect directors of the Surviving Corporation, and (C) at least a majority of the members of the board of directors of the Surviving Corporation were Incumbent Directors at the time of the Board's approval of the execution of the initial agreement providing for such Reorganization, Sale or Acquisition (any Reorganization, Sale or Acquisition which satisfies all of the criteria specified in (A), (B) and (C) above shall be deemed to be a "Non-Qualifying Transaction"); or

- (iv) approval by the stockholders of the Company of a complete liquidation or dissolution of the Company.

EXECUTION COPY**AMENDED AND RESTATED EMPLOYMENT AGREEMENT**

THIS AMENDED AND RESTATED EMPLOYMENT AGREEMENT ("Agreement") between ScanSource, Inc., a South Carolina corporation ("Company"), and John J. Ellsworth ("Executive") (collectively the "Parties") is effective as of July 1, 2014 ("Effective Date").

BACKGROUND

The Company and the Executive are parties to that certain Amended and Restated Employment Agreement originally dated as of June 6, 2011, as amended effective as of July 1, 2013 (the "Existing Agreement"), which amended and restated an Employment Agreement originally dated as of May 17, 2010 between the Company and the Executive, which amended and restated an Employment Agreement originally dated as of September 2, 2008, which amended and restated an Employment Agreement originally dated as of July 1, 2008, and which Existing Agreement expires June 30, 2014.

The Company desires to continue to employ Executive as Executive Vice President, General Counsel and Corporate Secretary and Executive is willing to continue to serve in such capacity, and the parties desire to document the terms and conditions of such employment as stated in this Agreement.

In consideration of the foregoing and of the mutual commitments below, including but not limited to the grant of a performance-based restricted stock unit award and the provision of modified severance and other benefits and restrictive covenants (as further described below), and for other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the Parties agree as follows:

1. **Employment.** On the Effective Date, Executive will be employed in the capacity stated above with such commensurate responsibilities as are assigned to him by the Company's Board of Directors (the "Board"), or the Chief Executive Officer (the "CEO"). Executive will report directly to the CEO.

2. **Employment Period.**

(a) Unless earlier terminated in accordance with Section 5, the Agreement shall be for a term (the "Employment Period"), beginning on the Effective Date and ending on June 30, 2017, the Employment Period End Date. *Provided, however,* that if a Change in Control, as defined in Exhibit C hereto, occurs during the Employment Period, the ending date of the Employment Period will be extended so that it expires on the later of the Employment Period End Date or the first anniversary of the date on which the Change in Control initially occurred.

(b) If the Company does not renew the Agreement, or enter into a new employment agreement with Executive with the same or similar terms as the Agreement, as of the Employment Period End Date, the Executive may choose one of the following two options: (i) the Executive will voluntarily resign from employment with the Company as of the Employment Period End Date and the Company will pay to Executive, on the 30th day after the Employment Period End Date, an amount equal to one (1) times the highest combined annual Base Salary and Variable Compensation earned by Executive from the Company, including any such amounts earned but deferred, in the last three (3) fiscal years before the Employment Period End Date, less normal withholdings; or (ii) the Executive may elect to continue employment with the Company on an at-will basis and, for a maximum of one year following the Employment Period End Date, receive the same salary and incentive compensation opportunity as in effect in the last year of the Agreement.

The Parties agree and acknowledge that: (i) nothing in this Section 2(b) nor any action the Company may take pursuant to this Section 2(b) will give rise to a claim by Executive for termination without Cause, termination for Good Reason, or termination due to the Executive's Retirement or the normal expiration of the Executive's Employment Period or for Severance Benefits or any amounts or benefits other than those specifically enumerated in this Section 2(b); (ii) Executive will not be entitled to receive any amounts or benefits under this Section 2(b) if Executive is otherwise entitled to receive or receives benefits under Section 6(a)(iii) of this Agreement or if Executive is in violation of Section 11; and (iii) Executive must execute and provide to the Company a Release, and the period for revoking same must have expired, before the 30th day following the Employment Period End Date in order to receive any amounts or benefits under this Section 2(b). Nothing in this Section 2(b) will prohibit Executive's employment from being terminated for Cause or for any other event enumerated in this Agreement.

3. Extent of Service. During the Employment Period, Executive agrees to devote his business time, attention, skill and efforts exclusively to the faithful performance of his duties hereunder. *Provided, however,* that it shall not be a violation of this Agreement for Executive to (i) devote reasonable periods of time to charitable and community activities and, with the approval of the Chief Executive Officer, industry or professional activities, and/or (ii) manage personal business interests and investments, so long as these activities do not interfere with the performance of Executive's responsibilities under this Agreement.

4. Compensation and Benefits: Policies.

(a) Base Salary. During the Employment Period, the Company will pay to Executive a base salary at the rate specified on Exhibit A ("Base Salary"), less normal withholdings, payable in equal monthly or more frequent installments as are customary under the Company's payroll practices from time to time. The CEO will review the Executive's Base Salary annually and make recommendations to the Compensation Committee of the Board (the "Compensation Committee"), which Compensation Committee may increase (but not decrease) Executive's Base Salary from year to year. This annual review of Executive's Base Salary will consider, among other things, Executive's

performance and the Company's performance. If Executive becomes eligible during the Employment Period to receive benefits under the Company's short-term disability policy, the Company will continue to pay Executive's Base Salary; provided, however, that Executive's Base Salary during such period will be reduced by any amounts Executive receives under the short-term disability policy.

(b) Equity Compensation, Variable Compensation, Savings and Retirement Plans. During the Employment Period, Executive will be entitled to participate in all deferred compensation, savings and retirement plans, practices, policies and programs applicable to executive officer direct reports to the CEO of the Company (the "Peer Executives") pursuant to their terms. The Executive will also be eligible to receive certain equity-based compensation and certain cash-based variable compensation (such cash-based compensation, the "Variable Compensation"), in each case based on the performance or other criteria established periodically by the Committee, as specified on Exhibit A. The Committee, at its discretion, may award to Executive additional bonuses or other amounts as it deems necessary or deserving based on Executive's performance. The Executive also will be eligible to receive such additional benefits as are described on Exhibit A.

(c) Welfare Benefit Plans. During the Employment Period, Executive and Executive's eligible dependents may participate pursuant to their terms in the welfare benefit plans, practices, policies and programs provided by the Company which may include, medical, prescription, dental, disability, employee life, group life, accidental death and travel accident insurance plans and programs (the "Welfare Plans") to the extent applicable to Peer Executives. Contributions will be required by the Executive. The Company may, in its sole discretion, modify, or change its Welfare Plans.

(d) Expenses. During the Employment Period, Executive will be entitled to receive reimbursement for all reasonable expenses incurred by Executive in accordance with the policies, practices and procedures of the Company and such reimbursements will be made no later than the last day of the year immediately following the year in which Executive incurs the reimbursable expense. The amount of reimbursable expenses incurred in one taxable year shall not affect the expenses eligible for reimbursement in any other taxable year. No right to reimbursement is subject to liquidation or exchange for other benefits.

(e) Fringe Benefits. During the Employment Period, Executive will be entitled to fringe benefits, if any, in accordance with the plans, practices, programs and policies of the Company in effect for Peer Executives.

(f) Vacation. During each fiscal year during the Employment Period, Executive will be entitled to no less than the number of days of paid vacation specified on Exhibit A. Executive may take vacation at the times Executive reasonably requests, subject to the prior approval of the person specified on Exhibit A. Unused vacation time will not carry over to the next fiscal year and will not be paid upon termination of employment.

(g) Clawback. Executive is subject to and will comply with the Company's Compensation Recovery Policy ("Clawback Policy") as the same may be revised or amended from time to time as applicable to Executive. In addition, Executive agrees that he shall be subject to the Company's Stock Ownership and Retention Policy, as in effect from time to time, if and to the extent applicable to Executive.

5. Termination of Employment.

(a) Death, Retirement or Disability. Executive's employment terminates automatically upon Executive's death or Retirement during the Employment Period. For purposes of this Agreement, "Retirement" means, unless the Compensation Committee determines otherwise, the occurrence of both (i) the Executive's non-Cause termination of employment with the Company at any time on or after attaining a minimum age of 55 with 10 or more years of employment with the Company, and (ii) the Compensation Committee's determination that the Executive's termination qualifies as a retirement. If the Company determines that the Executive has become disabled during the Employment Period (pursuant to the definition of Disability set forth below), it may give to Executive written notice of its intention to terminate Executive's employment. Executive's employment with the Company will terminate effective on the 30th day after receipt of such written notice by Executive (the "Disability Effective Date"), unless, within the 30 days after such receipt, Executive has returned to full-time performance of Executive's duties. For purposes of this Agreement, "Disability" means a mental or physical disability as determined by the Board in accordance with standards and procedures similar to those under the Company's long-term disability plan, if any. If the Company has no long-term disability plan, "Disability" will mean the inability of Executive, as determined by the Board, to perform the essential functions of his regular duties and responsibilities, with or without reasonable accommodation, due to a medically determinable physical or mental condition which has lasted (or can reasonably be expected to last) for twelve workweeks in any twelve-month period. At the request of Executive or his personal representative, the Board's determination that the Disability of Executive has occurred will be certified by two physicians mutually agreed upon by Executive, or his personal representative, and the Company. If the two physicians are unwilling to certify that the Executive is disabled, Executive's termination will be deemed a termination by the Company without Cause and not a termination because of his Disability.

(b) Termination by the Company. The Company may terminate Executive's employment with or without Cause. For purposes of this Agreement, "Cause" means:

- (i) engaging in unethical or illegal conduct or misconduct, which includes but is not limited to violations of the Company's policies concerning employee conduct; or
- (ii) the Executive's breach of any material (as determined by the Board or the Compensation Committee) term of this Agreement.

Regardless of whether Executive's employment initially is considered to be terminated for any reason other than Cause, the Executive's employment will be considered to have been terminated

for Cause for purposes of this Agreement if the Board or the Committee determines after Executive's employment ends that the Executive violated Section 5(b) above while employed.

(c) Termination by Executive. Executive's employment may be terminated by Executive for Good Reason or no reason. For purposes of this Agreement, "Good Reason" means:

(i) without the consent of Executive, the assignment to Executive of any duties materially inconsistent for Peer Executives, excluding an isolated, insubstantial, and inadvertent action taken in good faith which is remedied by the Company promptly after receipt of notice from Executive;

(ii) a material reduction, without the consent of the Executive, by the Company in Executive's Base Salary or a material reduction in Executive's Variable Compensation opportunity;

(iii) the failure by the Company (A) to continue in effect any compensation plan in which Executive participates as of the Effective Date that is material to Executive's total base compensation, unless the Company provides a substantially equivalent alternative plan, or (B) to continue Executive's participation in the alternative plan on a basis that is substantially equivalent in terms of the value of benefits provided, in each case unless the Executive so consents;

(iv) the Company's requiring Executive, without his consent, to be based at any location that increases Executive's normal work commute by fifty (50) miles or more as compared to Executive's normal work commute or otherwise is a material change in the location at which Executive is based;

(v) any failure by the Company to comply with and satisfy Section 12(c) of this Agreement, unless the Executive so consents;

(vi) the material breach of this Agreement by the Company, unless the Executive so consents; or

(vii) the termination of employment by the Executive during the 60-day period beginning on the six-month anniversary of a Change in Control, if the Company or a successor entity has not offered the Executive a new employment agreement after or in contemplation of a Change in Control with substantially the same or better compensation and terms and conditions of employment as are stated in this Agreement.

Executive must provide written notice to the Company of Executive's intent to terminate employment for Good Reason within 30 days of the initial existence of the Good Reason. The Company will have an opportunity to cure any claimed event of Good Reason within 30 days of notice from Executive. The Board's good faith determination of cure will be binding. The Company will notify Executive in writing of the timely cure of any claimed

event of Good Reason and how the cure was made. Any Notice of Termination delivered by Executive based on a claimed Good Reason which was thereafter cured by the Company will be deemed withdrawn and ineffective to terminate this Agreement. If the Company fails to cure any claimed event of Good Reason within 30 days of notice from Executive, Executive must terminate employment for such claim of Good Reason within 180 days of the initial existence of the Good Reason, and if Executive fails to do so, such claimed event of Good Reason will be deemed withdrawn and ineffective to terminate this Agreement.

(d) Notice of Termination; Basis of Termination. Any termination of Executive's employment by the Company or by Executive must be communicated by Notice of Termination to the other Party in accordance with Section 13(f) of this Agreement. For purposes of this Agreement, a "Notice of Termination" means a written notice which (i) states the specific termination provision in this Agreement relied upon, including whether such termination is for Cause or Good Reason, (ii) if such termination is for Cause or Good Reason, sets forth in reasonable detail the facts and circumstances claimed to provide a basis for termination of Executive's employment under the provisions so indicated, and (iii) specifies the termination date. The failure by Executive or the Company to set forth in the Notice of Termination any fact or circumstance which contributes to a showing of Good Reason or Cause will not waive any right of Executive or the Company, or preclude Executive or the Company from asserting applicable facts or circumstances in enforcing rights under this Agreement. The Compensation Committee or the Board shall (except as otherwise provided in Section 5(a) with respect to Disability) have discretion to determine the basis for any termination of employment of Executive.

(e) Date of Termination. The "Date of Termination" means, unless the Parties agree otherwise in writing (other than with respect to death) the date specified in the Notice of Termination or, if Executive's employment is terminated by reason of death, Retirement or Disability, the date of death or Retirement or the Disability Effective Date.

6. Obligations of the Company upon Termination.

(a) Termination by Executive for Good Reason; Termination by the Company Other Than for Cause, Death, Disability or Retirement; Effect of Expiration of Employment Period. If, during the Employment Period: (i) the Company terminates Executive's employment other than for Cause, death, Disability, or Retirement or the normal expiration of the Employment Period, or (ii) Executive terminates employment for Good Reason following the Company's failure to cure such Good Reason as set forth in Section 5(c) of this Agreement, the Company will pay Executive the following amounts and provide the following benefits:

(iii) Executive's Base Salary earned through the Date of Termination to the extent not already paid (such amount is hereinafter referred to as the "Accrued Obligations") will be paid as soon as practicable after the Date of Termination per the Company's customary payroll practices;

(iv) to the extent not previously paid or provided and only if earned as of the Date of Termination, the Company will timely pay or provide to Executive any other amounts or benefits which Executive is eligible to receive under any plan, program, policy, practice, contract or agreement of the Company (the “Other Benefits”) pursuant to the terms of such Other Benefits; and

(v) subject to Section 13(i) of this Agreement and Executive’s execution of a Release in substantially the form of Exhibit B hereto (the “Release”) within the time set forth in Section 6(g) of this Agreement, the Company will (1) pay to Executive the amount in (A) beginning with the Company’s first normal payroll cycle that occurs at least 30 days after the Date of Termination, (2) pay the amount in (B) as set forth below, and (3) provide the benefits in (C):

(A) a single year of compensation in an amount equal to one (1) times the average annual Base Salary and Variable Compensation earned by Executive from the Company, including any such amounts earned but deferred, in the last three fiscal years before the Date of Termination the (“Average Compensation Amount”), less normal withholdings, and an additional amount (the “Retention Benefit”) equal to one-twelfth (1/12) times the Average Compensation Amount times the number of full years beyond ten (10) years that the Executive was consecutively employed by the Company prior to the Date of Termination, less normal withholdings (collectively the “Severance Benefits”); *provided, however*, that the maximum amount that Executive may receive under this Section 6(a)(iii)(A) is two (2) times the Average Compensation Amount, less normal withholdings. Notwithstanding the foregoing, if the Date of Termination occurs within 12 months after or prior to and otherwise in contemplation of (as determined by the Board or the Compensation Committee) a Change in Control, as defined in Exhibit C, Executive will receive Severance Benefits in an amount equal to two and a half (2.5) times the Average Compensation Amount, less normal withholdings, but no Retention Benefit. With respect to any amounts due Executive under this Section 6(a)(iii)(A), the payments shall be made in bi-weekly installments pursuant to the Company’s normal payroll cycle during the term of the 24-month period referenced in Sections 11(c)(i) through 11(c)(vi). If Executive is entitled to receive severance benefits under this Section 6(a)(iii)(A), then he shall not be entitled to receive severance benefits under the Company’s Severance Pay Plan for Officers, as such plan may be amended, or any successor plan. The Average Compensation Amount defined herein is to exclude any fiscal years in which the Executive was not employed by the Company, include any partial fiscal years (which shall be annualized), and not include the then current fiscal year;

(B) a bonus equal to the pro rata portion (based on the number of days elapsed in the current fiscal year through the Date of Termination) of

the current fiscal year annual Variable Compensation, if any, that would otherwise be payable if the Executive had continued employment through the end of the current fiscal year based on actual performance (the “Pro Rata Bonus”). The Pro Rata Bonus, if any, less normal withholdings, will be paid within 30 days of the Committee’s certification that the Executive has met the necessary performance criteria, which will be no later than the later of March 15 following the end of the calendar year in which Executive’s right to the bonus vests or the 15th day of the third month following the end of the Company’s fiscal year in which Executive’s right to the bonus vests; and

(C) for up to twenty-four (24) months following the Date of Termination (the “Continuation Coverage Period”), Executive shall be entitled to participate (treating Executive as if he were an active employee of the Company for this purpose) in the Company’s medical (including prescription drug coverage) and dental plan (the “Company Health Care Plans”). Executive shall pay the entire premium charged for the coverage of Executive and, if applicable, his dependents under the Company Health Care Plans. During the first eighteen (18) months of the Continuation Coverage Period, the premium required for the continuation coverage provided pursuant to this paragraph (C) shall be equal to the premium required by the continuation of coverage requirements of Section 4980B of the Code and Part 6 of Title I of the Employee Retirement Income Security Act of 1974, as amended (“COBRA”) for such continuation coverage (the “COBRA Rate”). During the remainder of the Continuation Coverage Period, the premium required for the continuation coverage shall be the greater of the COBRA Rate or the actuarially determined cost of the continuation coverage as determined by an actuary selected by the Company (i.e., the access only rate). The Company shall reimburse Executive for the difference between the monthly premium amount actually paid by Executive pursuant to this paragraph (C) and the monthly premium amount paid by active employees for the same level of coverage under the Company Health Care Plans. Such reimbursement shall be paid to Executive by the 20th day of the month immediately following the month in which Executive timely remits the required premium payment. The right to reimbursement and the coverage provided pursuant to this paragraph (C) shall terminate prior to the end of the Continuation Coverage Period if Executive is eligible to receive similar benefits under another employer-provided or group plan (which plan may be the plan of his new employer or his spouse’s employer). Company makes no representation to Executive regarding the tax consequences of any benefits that may be received pursuant to this Section 6(a)(iii)(C). Executive agrees to pay any federal, state, or local taxes for which he may become personally liable as a result of any such benefits received.

(D) Executive’s entitlement to receive or retain the amounts set forth in this Section 6 are conditioned on Executive’s compliance with the

Restrictions on Conduct described in Section 11. Executive's breach or threatened breach of Section 11 shall entitle the Company to immediately cease any payments hereunder, or to refuse payment in the first instance, and the Company shall further be entitled to recover any payments previously made to Executive under this Section 6.

(b) Death. If Executive's employment is terminated because of Executive's death during the Employment Period, this Agreement will terminate without further obligations to Executive or Executive's legal representatives under this Agreement other than (i) the payment of Accrued Obligations as described in Section 6(a)(i), (ii) the payment of the Pro Rata Bonus as described in Section 6(a)(iii)(B), and (iii) the timely payment or provision of Other Benefits as described in Section 6(a)(ii) of this Agreement. The Accrued Obligations and the Pro Rata Bonus will be paid to Executive's estate or beneficiary, as applicable. Other Benefits as used in this Section 6(b) will include, without limitation, and Executive's estate and/or beneficiaries will be entitled to receive, benefits under such plans, programs, practices and policies relating to death benefits, if any, as are applicable to Executive on the date of his death pursuant to the terms of such Other Benefits.

(c) Disability. If Executive's employment is terminated because of Executive's Disability during the Employment Period, this Agreement will terminate without further obligations to Executive other than (i) the payment of Accrued Obligations as described in Section 6(a)(i), (ii) the payment of the Pro Rata Bonus as described in Section 6(a)(iii)(B), and (iii) the timely payment or provision of Other Benefits as described in Section 6(a)(ii) of this Agreement. The term Other Benefits as used in this Section 6(c) includes, without limitation, and Executive will be entitled after the Disability Effective Date to receive, disability and other benefits under such plans, programs, practices and policies relating to disability, if any, as are applicable to Executive and his family on the Date of Termination pursuant to the terms of such Other Benefits.

(d) Retirement. If Executive's employment is terminated because of Executive's Retirement during the Employment Period, this Agreement will terminate without further obligations to Executive other than (i) the payment of Accrued Obligations as described in Section 6(a)(i), (ii) the payment of the Pro Rata Bonus as described in Section 6(a)(iii)(B), and (iii) the timely payment or provision of Other Benefits as described in Section 6(a)(ii) of this Agreement. The term Other Benefits as used in this Section 6(d) includes, without limitation, and Executive will be entitled after the Date of Termination to receive, retirement and other benefits under such plans, programs, practices and policies relating to retirement, if any, as applicable to Executive on the Date of Termination pursuant to the terms of such Other Benefits.

(e) Cause or Voluntary Termination without Good Reason. If Executive's employment is terminated for Cause during the Employment Period, or if Executive voluntarily terminates employment during the Employment Period without Good Reason, this Agreement will terminate without further obligations to Executive, other than for (i)

the payment of Accrued Obligations as described in Section 6(a)(i), and (ii) the timely payment or provision of Other Benefits as described in Section 6(a)(ii).

(f) Expiration of Employment Period. For clarification, if Executive's employment is terminated due to the normal expiration of the Employment Period or is terminated within 60 days after the Employment Period End Date (in each case, for reasons other than Cause, death, Disability or Retirement), this Agreement will terminate without further obligations to Executive, other than for (i) the payment of Accrued Obligations if and to the extent applicable as described in Section 6(a)(i), (ii) the payment of the Pro Rata Bonus if and to the extent applicable as described in Section 6(a)(iii)(B), (iii) the payment of the Severance Benefits (subject to the Executive's execution of the Release) if and to the extent applicable as described in Section 6(a)(iii)(A), and (iv) the timely payment or provision of Other Benefits if and to the extent applicable as described in Section 6(a)(ii). Notwithstanding anything to the contrary in this Agreement, if the Agreement is not renewed and a new employment agreement is not offered and the Executive remains an employee of the Company in any capacity, Executive's employment will not be governed by this Agreement and Executive will be an at-will employee. In that instance, Executive remains subject to the Restrictions on Conduct described in Section 11. Further, the parties agree that the benefits provided under Section 2(b) herein are intended to be in lieu of, and not in addition to, comparable benefits provided under Section 6.

(g) Execution of Release. Notwithstanding anything to the contrary in this Section 6, the Release must be executed and provided to the Company, and the period for revoking same must have expired, before the 30th day following the Date of Termination.

7. Non-exclusivity of Rights. Nothing in this Agreement prevents or limits Executive's continuing or future participation in any plan, program, policy or practice provided by the Company and for which Executive may qualify, nor, subject to Section 13(d), will anything in this Agreement limit or otherwise affect any rights Executive may have under any contract or agreement with the Company. Amounts which are vested benefits or which Executive is otherwise entitled to receive under any plan, policy, practice, program, contract or agreement with the Company at or subsequent to the Date of Termination will be payable in accordance with such plan, policy, practice, program, contract or agreement except as explicitly modified by this Agreement.

8. Mandatory Reduction of Payments in Certain Events. Any payments made to Executive under this Agreement will be made with the Executive's best interests in mind related to the excise (the "Excise Tax") imposed by Section 4999 of the Internal Revenue Code of 1986, as amended (the "Code").

(a) Anything in this Agreement to the contrary notwithstanding, if it is determined that any benefit, payment or distribution by the Company to or for the benefit of Executive (whether paid or payable or distributed or distributable pursuant to the terms of this Agreement or otherwise) (a "Payment") would be subject to the Excise Tax, then, before making the Payment to Executive, a calculation will be made comparing (i) the net benefit to Executive of all Payments after payment of the Excise Tax, to (ii) the net benefit to Executive if the Payment had been limited to the extent necessary to avoid being subject

to the Excise Tax. If the amount calculated under (i) above is less than the amount calculated under (ii) above, then the Payments will be limited to the extent necessary to avoid being subject to the Excise Tax (the "Reduced Amount"). In that event, any reduction in payments shall be made by the Company in its sole discretion, in a manner intended to be consistent with Code Section 409A.

(b) The determination of whether an Excise Tax would be imposed, the amount of such Excise Tax, and the calculation of the amounts referred to in Section 8(a)(i) and (ii) above will be made by the Company's regular independent accounting firm at the expense of the Company or, at the election and expense of Executive, another nationally recognized independent accounting firm (the "Accounting Firm") acceptable to the Company which will provide detailed supporting calculations. Any determination by the Accounting Firm will be binding upon the Company and Executive. As a result of the uncertainty in the application of Code Section 4999 at the time of the initial determination by the Accounting Firm hereunder, it is possible that Payments to which Executive was entitled, but did not receive pursuant to Section 8(a), could have been made without the imposition of the Excise Tax (an "Underpayment"). In such event, the Accounting Firm will determine the amount of the Underpayment that has occurred and any such Underpayment will be promptly paid by the Company to or for the benefit of Executive.

(c) If the provisions of Code Section 280G and Section 4999 or any successor provisions are repealed without succession, this Section 8 will be of no further force or effect.

9. Costs of Enforcement. Subject to Section 8(b), each Party will pay its own costs and expenses incurred in enforcing or establishing its rights under this Agreement, including, without limitation, attorneys' fees, whether a suit is brought or not, and whether or not incurred in trial, bankruptcy or appellate proceedings.

10. Representations and Warranties. Executive represents and warrants to the Company that Executive is not a party to, or otherwise subject to, any restrictive covenant not to compete, not to solicit or not to disclose or use confidential information, with any person or entity, and Executive's execution of this Agreement and performance of his obligations will not violate the terms or conditions of any contract or obligation, written or oral, between Executive and any other person or entity.

11. Restrictions on Conduct of Executive.

(a) General. Executive agrees that as part of the executive-level role he will have and services he will perform for the Company, he will be exposed to, and help create and maintain, unique and proprietary methods and information in each market in which the Company does business which give the Company competitive advantages over other "Competitive Businesses," as well as develop goodwill with the Company's customers, suppliers, vendors, advertisers, employees and the general public. By virtue of the position Executive will hold, Executive is receiving, will receive, or will be provided access to the Company's unique methods of doing business, including: (1) methods for locating and

dealing with vendors, customers, suppliers and advertisers as well as pricing information, distribution channels, and other terms of those relationships; (2) “Confidential Information” and “Trade Secrets;” (3) established relationships and other elements that together comprise goodwill; and/or (4) unique knowledge and training regarding product development, its engineering, product specification, material suppliers, material specifications, product suppliers, manufacturing knowledge and methods, customer feedback, surveys, design-around information, research and development information, internal quality control tests, other quality control information, and other similar proprietary information. Executive agrees that the competitive advantage and goodwill the Company has created, and which Executive will assist in furthering and maintaining, is an important and legitimate business asset of the Company. It would be unfair for Executive to use Confidential Information and Trade Secrets obtained during and as a result of his employment with the Company for the benefit of an organization other than the Company. Executive has agreed to certain restrictions in exchange for his being eligible for certain severance benefits under the conditions described in this Agreement. Executive further agrees that it would be impossible to protect against improper and unfair competitive advantages without restricting Executive’s activities in each market where the Company has existing customers or prospective customers during Executive’s employment. No lesser territorial restriction would protect the Company’s business interests given the nature of Executive’s role within the Company and access to Confidential Information and Trade Secrets. Executive agrees that these provisions do not preclude him from earning a living.

(b) Definitions. The following capitalized terms used in this Section 11 will have the meanings assigned to them below, which definitions will apply to both the singular and the plural forms of these terms:

“Competitive Business” means (A) any distributors of any goods or services in or to the point of sale, automatic identification, data capture, security, business telephony, 3D printing, and communication products if such entity distributes or provides any product or service that is the same or substantially similar to any product or service offered or in development by the Company, including reasonable alternatives, as well as (B) the Company’s top ten (10) vendors (in terms of revenue) at any point within the final two (2) years of Executive’s employment with the Company; provided, however, that the CEO may, in his discretion, determine that the term “Competitive Business” does not include a particular vendor or distributor. Competitive Business includes, but is not limited to, any entity formed by Executive, formally or informally, as well as work by Executive as a consultant or independent contractor.

“Confidential Information” means any and all of the Company’s Trade Secrets, confidential and proprietary information, and all other information and data that is not generally known to third persons who could derive economic value from its use or disclosure, including, without limitation, any information or documents about: the Company’s accounting practices; financial data; financial plans and practices; the Company’s operations; its future plans (including new products, improved

products, and products under development); its methods of doing business; internal forms, checklists, or quality assurance testing; programs; customer and supplier lists or other such related information as pricing or terms of business dealings; supply chains; shipping chains and prices; packaging technology or pricing; sourcing information for components, materials, supplies, and other goods; employees; pay scales; bonus structures; contractor information and lists; marketing strategies and information; product plans; distribution plans and distribution channel relationships; business plans; manufacturing, operation, sales and distribution processes; costs; margins for products; prices, sales, orders and quotes for the Company's business that is not readily attainable by the general public; existing and future services; testing information (including methods and results) related to materials used in the development of the Company's products or materials that could be used with the Company's products; development information (including methods and results) related to computer programs that design or test products or that track information from a central database; and the computer or electronic passwords of all employees and/or firewalls of the Company. Confidential Information also includes any information defined in this subsection which the Company obtains from another party and treats as proprietary or confidential, whether or not owned or developed by the Company. Notwithstanding the definitions stated above, the term Confidential Information does not include any information which (i) at the time of disclosure to Executive, was in the public domain; (ii) after disclosure to Executive, is published or otherwise becomes part of the public domain through no fault of Executive; (iii) without a breach of duty owed to the Company, was already in Executive's possession at the time of disclosure; (iv) was received after disclosure to Executive from a third party who had a lawful right to the information other than through a relationship of trust and confidence with the Company, and without a breach of duty to the Company, disclosed the information to Executive; or (v) where Executive can show it was independently developed by Executive on non-Company time without reference to, or reliance upon, other Confidential Information or Trade Secrets.

"Restricted Territory" means any location in the United States where (1) Executive performed services for the Company or its affiliates or had contact with the Company's customers, vendors, or suppliers; and (2) where the Company or its affiliates is actively manufacturing, marketing, selling, or distributing its products within the final two (2) years of Executive's employment, or places where the Company made affirmative steps to manufacture, market, sell, or distribute its products within the final six (6) months of Executive's employment. If Executive was assigned only a portion of the territory in which the Company operates or sells, then the Restricted Territory shall be narrowly construed to include only the limited geographic area in which Executive represented and worked for the Company or was able to establish contact with the Company's customers, vendors, or suppliers.

"Trade Secrets" means information related to the business or services of the Company which (1) derives independent actual or potential commercial value from not being generally known or readily ascertainable through independent development or

reasonable reverse engineering processes by persons who can obtain economic value from its disclosure or use; and (2) is the subject of efforts by the Company and affiliated third parties that are reasonable under the circumstances to maintain its secrecy. Assuming the foregoing criteria in clauses (1) and (2) are met, Trade Secret encompasses business and technical information including, without limitation, know-how, designs, formulas, patterns, compilations, programs, devices, inventions, methods, techniques, drawings processes, finances, actual or potential customers and suppliers, and existing and future products and services of the Company. Notwithstanding the definitions stated above, the term Confidential Information does not include any information which (i) at the time of disclosure to Executive, was in the public domain; (ii) after disclosure to Executive, is published or otherwise becomes part of the public domain through no fault of Executive; (iii) without a breach of duty owed to the Company, was already in Executive's possession at the time of disclosure; (iv) was received after disclosure to Executive from a third party who had a lawful right to the information through some avenue other than through a relationship of trust and confidence with the Company, and without a breach of duty to the Company, disclosed the information to Executive; or (v) where Executive can show it was independently developed by Executive on non-Company time without reference to, or reliance upon, other Confidential Information or Trade Secrets.

(c) Restrictions. Executive understands and agrees that the compensation the Company has agreed to provide pursuant to this Agreement would not be as lucrative if the restrictions set forth in this section were not included in this Agreement. Therefore, in consideration of the compensation provided in this Agreement, and the other terms agreed to by the Company, along with the disclosure (and continued disclosure of Confidential Information and Trade Secrets) a portion of which is being paid to compensate Executive for these covenants, Executive covenants and agrees as follows:

(i) Non-Compete.

a. For the term of Executive's employment, and for a period of twenty-four (24) months following the Date of Termination, with or without Cause or Good Reason, Executive agrees he will not, directly or indirectly, alone or in association with or on behalf of any other person or entity, own, manage, operate, join, control, be employed by or with, or participate in any Competitive Business in the Restricted Territory in which he would provide the same or substantially the same services to the Competitive Business as those Executive provided to the Company during the last two (2) years of Executive's employment with the Company.

b. If for any reason, paragraph 11(c)(i)(a) is deemed unenforceable by any court or arbitrator, the parties agree that for the term of Executive's employment, and for a period of twenty-four (24)

months following the Date of Termination, with or without Cause or Good Reason, Executive will not, directly or indirectly, alone or in association with or on behalf of any other person or entity, own, manage, operate, join, control, be employed by or with, participate in, or provide the same or substantially the same services as those Executive provided to the Company during the last two (2) years of Executive's employment with the Company to any of the following entities: Ingram Micro, Tech Data, Avnet, BlueStar, Westcon, Arrow, Agilysis, Azerty, PC POS, Jarltech, Jenne, Securematics, Synnex, Alliance (NEI), NEXTUSA, ADI, Tri- Northern, Anixter, Motorola, Avaya, Polycom, Aruba Networks, Honeywell-Intermec, Zebra Technologies, Shoretel, CISCO Systems, Toshiba, Plantronics.

(ii) Non-Solicitation of Vendors, Manufacturers, Customers, or Suppliers. For the term of Executive's employment, and for a period of twenty-four (24) months following the Date of Termination, Executive agrees he will not, directly or indirectly, alone or in association with or on behalf of any other person or entity, solicit any of the Company's vendors, manufacturers, customers or suppliers with whom Executive had business contact during the course of Executive's employment with the Company for any Competitive Business for the purpose of providing the same or substantially the same products or services as those provided by the Company and will not induce or encourage any vendors, manufacturers, customers or suppliers to cease doing business with the Company or materially alter their relationship with the Company;

(iii) Non-Solicitation of Prospective Vendors, Manufacturers, Customers or Suppliers. For the term of Executive's employment, and for a period of twenty-four (24) months following the Date of Termination, Executive agrees he will not, directly or indirectly, alone or in association with or on behalf of any other person or entity, solicit any of the Company's prospective vendors, manufacturers, customers or suppliers with whom Executive had business contact during the course of Executive's employment with the Company for any Competitive Business;

(iv) Non-Solicitation of Employees. For the term of Executive's employment, and for a period of twenty-four (24) months following the Termination Date, Executive agrees he will not, directly or indirectly, alone or in association with or on behalf of any other person or entity, solicit any of the Company's employees to leave the Company to provide services for any Competitive Business;

(v) Non-Disclosure. For the term of Executive's employment, and for a period of no less than twenty-four (24) months from the Date of Termination (for Confidential Information) or for so long as the information remains protected under this Agreement or applicable statute (for Trade Secrets) thereafter, Executive agrees that he will not, either directly or indirectly, misappropriate, take, remove, publish, disseminate, provide, or otherwise disclose any Confidential Information or Trade

Secrets to any third party, unless required to do so by legal process or other law, without the Company's prior written consent. Executive agrees that if he believes he is compelled to reveal Confidential Information or Trade Secrets pursuant to the limited exception provided herein, Executive will provide the Company at least seven (7) days advance notice before doing so, will explain the specifics under which such Confidential Information or Trade Secrets are to be disclosed, and will allow the Company to take steps to prevent the disclosure or use of its Confidential Information or Trade Secrets.

(vi) **No Misuse of Confidential Information or Trade Secrets.** For the term of Executive's employment, and for a period of no less than twenty-four (24) months from the Date of Termination (for Confidential Information) or for so long as the information remains protected under this Agreement or applicable statute (for Trade Secrets) thereafter, Executive agrees that he will not, either directly or indirectly, for his own behalf or otherwise, use in any manner the Company's Confidential Information or Trade Secrets.

(vii) **Return of Company Property.** Within two (2) business days following Executive's Date of Termination, Executive shall return to the Company any and all documents, materials, tangible information, or other property reflecting or containing the Company's Confidential Information or Trade Secrets or that otherwise belong to the Company that Executive has in his possession. Employee will also permanently delete or remove any programs or data containing or reflecting such information and shall retain no copies of any kind. Executive acknowledges that all such materials are the sole exclusive property of the Company and that Executive has no right, title, or interest in such information. If requested by the Company, Executive further agrees to execute a stipulation that he has complied with this Section 11(c)(vii).

(d) **Non-Disparagement.** The Company and Executive agree that for the term of Employee's employment, and for a period of five (5) years thereafter, they will not disparage each other to any non-governmental third parties. Nothing in this subsection should be interpreted as any restriction on either Party's compliance with any laws requiring or compelling disclosure, or any disclosures that are considered absolutely privileged, such as legal proceedings, subject to the other terms of this Agreement.

(e) **Severance and Reformation.** The Company and Executive agree that the provisions of Section 11, including all subparts, are intended to strike the balance between Executive earning a livelihood and the Company protecting its legitimate business interests. The Parties have drafted the provisions of Section 11, including all subparts, to allow for enforcement. The Parties agree that should a court determine that any word, phrase, clause, sentence, paragraph, or other part of this Agreement is unreasonably broad in time, territory, or scope so as to render any remaining provisions unenforceable, the Parties desire the court to modify or strike the offending language in the narrowest way possible and enforce the

remainder as if the offending language was not there, so that only reasonable restrictions are enforced.

(f) Elective Right of the Company. If Executive challenges the enforceability of the restrictive covenants contained in this Section 11 (the “Restrictive Covenants”) (or asserts an affirmative defense to an action seeking to enforce the Restrictive Covenants) based on an argument that the Restrictive Covenants are (i) not enforceable as a matter of law, (ii) unreasonable in geographical scope or duration or (iii) void as against public policy, the Company shall be entitled to (1) to cease making the payments required under Section 2(b) and/or Section 6 above, and (2) upon demand, to have Executive repay, within 10 business days of any such demand, any payments already made. Any right afforded to, or exercised by, the Company under this Agreement will not affect the enforceability of the Restrictive Covenants or any other right or remedy, equitable or otherwise, of the Company under this Agreement.

12. Assignment and Successors.

(a) This Agreement is personal to Executive and without the prior written consent of the Company will not be assignable by Executive otherwise than by will or the laws of descent and distribution. This Agreement will inure to the benefit of and be enforceable by Executive’s legal representatives.

(b) This Agreement will inure to the benefit of and be binding upon the Company and its successors and assigns.

(c) The Company will require any successor (whether direct or indirect, by purchase, merger, consolidation or otherwise) to all or substantially all of the business and/or assets of the Company to assume expressly and agree to perform this Agreement in the same manner and to the same extent that the Company would be required to perform it if no such succession had taken place. As used in this Agreement, “Company” will mean the Company as herein before defined and any successor to its business and/or assets which assumes and agrees to perform this Agreement by operation of law, or otherwise.

13. Miscellaneous.

(a) Waiver. Failure of either Party to insist, in one or more instances, on performance by the other, or any other employee under a similar agreement, in strict accordance with the terms and conditions of this Agreement will not be deemed a waiver or relinquishment of any right granted in this Agreement or of the future performance of any such term or condition or of any other term or condition of this Agreement, unless the waiver is in a writing signed by the Party making the waiver.

(b) Severability. If any provision or covenant, or any part thereof, of this Agreement should be held by any court to be invalid, illegal or unenforceable, either in whole or in part, such invalidity, illegality or unenforceability will not affect the validity,

legality or enforceability of the remaining provisions or covenants, or any part thereof, of this Agreement, all of which will remain in full force and effect.

(c) Other Agents. Nothing in this Agreement is to be interpreted as limiting the Company from employing other personnel on such terms and conditions as may be satisfactory to it.

(d) Entire Agreement. Except as provided herein, this Agreement contains the entire agreement between the Parties on the subject matter hereof. From and after the Effective Date, this Agreement will supersede the Existing Agreement and any other agreement between the Parties on the subject matter hereof, and, without limiting the effect of the foregoing, the Executive shall have no further rights in or to any benefits or payments under the Existing Agreement, and the Agreement shall control with respect to the subject matter hereof.

(e) Governing Law and Jurisdiction. Without regard to conflict of laws principles, the laws of the State of South Carolina will govern this Agreement in all respects, whether as to its validity, construction, capacity, performance or otherwise.

(f) Notices. All notices, requests, demands and other communications required or permitted in this Agreement must be in writing and will be deemed to have been duly given if delivered or three days after mailing if mailed, first class, certified mail, postage prepaid:

To Company: ScanSource, Inc.
 6 Logue Court
 Greenville, SC 29615
 Attn: Chief Executive Officer

To Executive: To the address specified on Exhibit A

Any Party may change the address to which notices, requests, demands and other communications will be delivered or mailed by giving notice thereof to the other Party in the same manner provided herein.

(g) Amendments and Modifications. This Agreement may be amended or modified only by a writing signed by both Parties, which makes specific reference to this Agreement.

(h) Construction. Each Party and his or its counsel have been provided the opportunity to review and revise this Agreement and accordingly, the normal rule of construction to the effect that any ambiguities are to be resolved against the drafting party will not be employed in the interpretation of this Agreement. Instead, the language of all parts of this Agreement will be construed as a whole, and according to its fair meaning, and not strictly for or against either party.

(i) Deferred Compensation Provision. Notwithstanding any other provision of this Agreement, it is intended that any payment or benefit provided under this Agreement that is considered to be “deferred compensation” subject to Code Section 409A will be provided in such manner and at such time, including without limitation in connection with a permissible payment event under Code Section 409A, as is exempt from or complies with the requirements of Code Section 409A. All rights to payments and benefits under this Agreement are to be treated as rights to receive a series of separate payments and benefits to the fullest extent allowed by Code Section 409A. Termination of employment under this Agreement, to the extent required by Code Section 409A, will be construed to mean a “separation from service” under Code Section 409A and related regulations. The terms of this Agreement are intended to, and will be construed and administered to the fullest extent possible, to permit compensation to be paid under this Agreement to be exempt from or comply with Code Section 409A. Regardless, neither the Company nor its directors, officers or agents will be liable to Executive or anyone else if the Internal Revenue Service or any court or other authority determines that any payments or benefits to be provided under this Agreement are subject to taxes, penalties or interest as a result of failing to comply with or be exempt from Code Section 409A.

Notwithstanding anything in this Agreement to the contrary, if any payment or benefit that constitutes non-exempt “deferred compensation” under Code Section 409A would otherwise be provided under this Agreement due to Executive’s separation from service during a period in which he is a “specified employee” (as defined in Code Section 409A and the associated final regulations), then, to the extent required by Code Section 409A, such payments or benefits will be delayed, to the extent applicable, until six months after Executive’s separation from service or, if earlier, Executive’s death (the “409A Deferral Period”). If such payments are otherwise due to be made in installments during the 409A Deferral Period, the payments that would otherwise have been made in the 409A Deferral Period will be accumulated and paid in a lump sum during the seventh month following the Executive’s separation from service, and the balance of the payments will be made as otherwise scheduled. In the event benefits are required to be deferred, any such benefit may be provided during the 409A Deferral Period at Executive’s expense, with Executive having the right to reimbursement from the Company once the 409A Deferral Period ends, and the balance of the benefits will be provided as otherwise scheduled.

With respect to any reimbursement or in-kind benefit arrangements of the Company that constitute deferred compensation for purposes of Code Section 409A, except as otherwise permitted by Section 409A, the following conditions shall be applicable: (i) the amount eligible for reimbursement, or in-kind benefits provided, under any such arrangement in one calendar year may not affect the amount eligible for reimbursement, or in-kind benefits to be provided, under such arrangement in any other calendar year, (ii) any reimbursement must be made on or before the last day of the calendar year following the calendar year in which the expense was incurred, and (iii) the right to reimbursement or in-kind benefits is not subject to liquidation or exchange for another benefit. Whenever payments under this Agreement are to be made in installments, each such installment shall be deemed to be a separate payment for purposes of Code Section 409A.

14. Arbitration. Executive shall be required (in lieu of litigation) to have any and all disputes or controversies arising under or in connection with this Agreement settled by final and binding arbitration administered by the American Arbitration Association (“AAA”) under its National Rules for the Resolution of Employment Disputes and the Federal Arbitration Act, 9 U.S.C. §1, et seq. subject to the following: (a) such arbitration shall take place in Greenville, South Carolina; (b) such arbitration shall be arbitrated by one (1) neutral arbitrator with at least ten (10) years of employment arbitration experience and chosen by both parties from the AAA Roster of Neutral Arbitrators; (c) either party may seek from any court having jurisdiction any interim or provisional relief that is necessary to protect the rights or property of that party, pending the establishment of the arbitral tribunal; (d) discovery shall consist of the exchange of non-confidential and non-privileged documents that are strictly relevant to the claims before the arbitrator, shall be concluded within forty-five (45) days following the appointment of the arbitrator, and, in case of depositions, shall consist of no more than three (3) depositions per party with a maximum duration of three (3) hours each and all depositions shall be held within thirty (30) days of the making of a request; (e) the arbitration will be based on the submission of documents and there shall be no in-person or oral hearing; (f) the award shall be issued within six (6) months of the filing of the notice of intention to arbitrate and the arbitrator shall agree to comply with this schedule before accepting appointment; (g) except as may be required by law, neither a party nor an arbitrator may disclose the existence, content, or results of any arbitration hereunder without the prior written consent of both parties; (h) the arbitrator shall not have authority to award punitive damages; (i) each party shall bear its own attorney’s fees with the Company bearing the arbitrator’s and administrative fees related to arbitration; and (j) judgment upon the award rendered by the arbitrator may be entered by any court having jurisdiction thereof.

15. Survival. All non-competition, non-solicitation, non-disclosure and use, and non-recruiting obligations in Section 11 of this Agreement shall survive the voluntary or involuntary termination of Executive’s employment with or without cause, and no dispute regarding any other provisions of this Agreement or regarding Executive’s employment or the termination of Executive’s employment shall prevent the operation and enforcement of these obligations.

16. Tolling. The restricted time periods in Section 11 above shall be tolled during any time period that the Executive is in violation of such covenants, as determined by a court of competent jurisdiction, so that the Company may realize the full benefit of its bargain. This tolling shall include any time period during which litigation is pending, but during which the Executive has continued to violate such protective covenants and a court has declined to enjoin such conduct or the Executive has failed to comply with any such injunction.

17. Execution in Counterparts. This Agreement may be executed in any number of counterparts, each of which shall be considered an original, but all of which construed together shall constitute on and the same Agreement. Executive agrees that the Company may enforce this Agreement with a copy that is only signed by Executive.

[Rest of page blank; signature page follows]

[Signature page to Employment Agreement]

IN WITNESS WHEREOF, the parties hereto have duly executed and delivered this Employment Agreement as of the dates indicated below.

EXECUTIVE: **SCANSOURCE, INC.:**

/s/ John J. Ellsworth By: /s/ Michael L. Baur

Name: John J. Ellsworth Name: Michael L. Baur

Date: June 25, 2014 Title: CEO

Date: 6/25/14

EXHIBIT A TO EMPLOYMENT AGREEMENT

Executive: John J. Ellsworth

Base Salary: \$350,000 annually

Variable Compensation (Incentive Compensation Opportunity): Annual target Variable Compensation award opportunity of a maximum amount of 55% of annual Base Salary, based upon Executive's performance and attainment of performance goals established by the Compensation Committee, as determined in the Compensation Committee's discretion and subject to terms of applicable Company plan or program.

Annual Equity Award: Consideration for inclusion in the Company's annual equity grant, subject to Compensation Committee discretion and the terms of the Company's 2013 Long-Term Incentive Plan or other applicable plan (the "2013 Plan") and related award agreement(s).

Performance-Based Award: Grant of performance- and service-based restricted stock unit award under the 2013 Plan with a target value of \$150,000 (\$50,000 per year), which award shall have a three-year performance period, and which shall be subject to such performance, service and other terms and conditions established by the Compensation Committee (including but not limited to discretion of the Compensation Committee as to the extent, if any, to which the award is earned), or as may apply under the 2013 Plan and related award agreement; number of shares of Common Stock subject to award to be determined by dividing award dollar value by fair market value of Common Stock, as determined by the Compensation Committee using averaging or other methodology established by the Compensation Committee.

Deferred Compensation: For each of the calendar years of the term of the Agreement (including calendar year 2017), Executive shall be eligible to participate in the Company's Nonqualified Deferred Compensation Plan by deferring up to 25% of compensation eligible for deferral under such plan, and a match of 60% of deferred amounts will be made by the Company on the first 25% of compensation, up to a maximum of \$75,000.

Benefits: All benefits generally offered to Peer Executives as well as the following:

- Short-term disability benefits equating to salary continuation.
- Long-term disability benefits targeting approximately 75% of income replacement (up to \$125,000 per month). If disabled after year 5 will receive a lump sum payment equal to the monthly benefit amount through age 65.
- Term life insurance - \$1,000,000 policy (subject to underwriting) and a \$500,000 policy (subject to limited underwriting).
- Comprehensive physical program allowing Executive to receive an annual examination at no cost.

Days of Paid Vacation per Fiscal Year: Approving Person:

20 days (per Company policy) Chief Executive Officer

Executive Notice Address:

521 Windemere Lane
Spartanburg, SC 29301

Initials: JJE/MLB

EXHIBIT B TO EMPLOYMENT AGREEMENT

Form of Release

THIS RELEASE ("Release") is granted effective as of the ____ day of _____, ____, by _____ ("Executive") in favor of ScanSource, Inc. ("ScanSource" or the "Company"). This is the Release referred to in that certain Employment Agreement dated effective as of July 1, 2014 by and between the Company and Executive (the "Employment Agreement"). Executive gives this Release in consideration of the Company's promises and covenants as recited in the Employment Agreement, with respect to which this Release is an integral part.

1. **Release of the Company.** Executive, for himself, his successors, assigns, executors, administrators, insureds, attorneys, and all those entitled to assert his rights, now and forever hereby releases and discharges the Company and its respective officers, directors, shareholders, stockholders, trustees, partners, joint ventures, board members, employees, agents, parent corporations, divisions, wholly or partially owned subsidiaries, affiliates, estates, predecessors, successors, heirs, executors, administrators, assigns, representatives, and attorneys (the "Released Parties"), from any and all legal, administrative, and equitable claims, actions, causes of action, sums of money due, suits, debts, liens, covenants, contracts, obligations, costs, expenses, damages, judgments, agreements, promises, demands, claims for attorneys' fees and costs, or liabilities of any nature whatsoever, in law or in equity, which Executive ever had or now has against the Released Parties, including any claims arising by reason of or in any way connected with any employment relationship which existed between the Company or any of its parents, subsidiaries, affiliates, or predecessors, and Executive. It is understood and agreed that this Release is intended to cover all actions, causes of action, claims or demands for any damage, loss or injury, which may be traced either directly or indirectly to the aforesaid employment relationship, or the termination of that relationship, that Executive has, had or purports to have, from the beginning of time to the date of this Release, whether known or unknown, that now exists, no matter how remotely they may be related to the aforesaid employment relationship including but not limited to claims for employment discrimination under federal, state or local statutes, except as provided in Paragraph 2. Without limiting the broadness of the foregoing language, Executive agrees to release Company from any and all claims under:

1. Title VII of the Civil Rights Act of 1964, as amended by the Civil Rights Act of 1991;
2. Section 1981 of the Civil Rights Act of 1866, as amended;
3. Executive Orders 11246, 13496 and 11141;
4. the Equal Pay Act of 1963;
5. the Consolidated Omnibus Budget Reconciliation Act of 1985 (COBRA);
6. the Americans with Disabilities Act of 1990 and any amendments thereto, including the ADA Amendments Act of 2008;
7. the Rehabilitation Act of 1973;
8. the Employee Retirement and Income Security Act of 1974;
9. the Sarbanes-Oxley Corporate Reform Act of 2002 and the Dodd-Frank Wall Street Reform and Consumer Protection Act (the "Dodd-Frank Act");

10. whistle-blower and/or retaliation claims or suits under the Sarbanes-Oxley Act of 2002 and/or the Dodd-Frank Act;
11. the Family and Medical Leave Act of 1993, as amended;
12. the Health Insurance Portability and Accountability Act of 1996 (HIPAA);
13. the Fair Labor Standards Act of 1938, as amended;
14. the Occupational Safety and Health Act;
15. the Uniformed Services Employment and Re-employment Act of 1994;
16. the Worker Adjustment and Retraining Notification Act;
17. the Lilly Ledbetter Fair Pay Act of 2009;
18. the Fair Credit Reporting Act;
19. state workers' compensation law;
20. Consumer Credit Protection Act;
21. Immigration Reform and Control Act of 1986;
22. National Labor Relations Act;
23. the Genetic Information Nondiscrimination Act of 2008;
24. the Age Discrimination in Employment Act;
25. the South Carolina Payment of Wages Act;
26. the South Carolina Human Affairs Law;
27. claims arising under the United States and/or South Carolina Constitutions;
28. claims for wages and overtime pay and commissions, bonuses, vacation pay or any express or implied contracts;
29. any common law claims or claims founded in tort (including negligence) for wrongful discharge, negligence, negligent hiring, negligent training or negligent supervision, assault or battery, invasion of privacy, false imprisonment, intentional infliction of emotional distress, defamation, libel, slander, promissory estoppel, detrimental reliance, quantum meruit, unjust enrichment, breach of contract (oral, written or implied), or any other equitable basis or action;
30. claims that the Company treated or dealt with me unfairly; and
31. any claims arising under any other federal, state or local law, statute, regulation, ordinance, treaty or law of any other type, or any other cause of action or theory of recovery arising by virtue of my employment relationship and/or affiliation with ScanSource or any public policy, tort or common law.

Without waiving any prospective or retrospective rights under the Fair Labor Standards Act, I admit that I have received from ScanSource all rights and benefits, if any, due or potentially due to me pursuant to the Fair Labor Standards Act. I understand and acknowledge that it is the parties' intent that I release all claims that can be legally released but no more than that.

I affirm that while I was employed with the Company, I had no known and unreported workplace injuries or occupational diseases and was not denied leave under the Family and Medical Leave Act of 1993.

I represent and agree that I have been paid and have received all paid or unpaid leave, compensation, wages, overtime, vacation or sick pay, bonuses and/or benefits to which I may be entitled and no other amounts, except as may be provided in the Employment Agreement, are due to me.

Executive specifically agrees not to attempt to institute any proceedings or pursue any action pursuant to any laws (state, local, or federal) with any agency or in any jurisdiction (state, local, or federal) based on employment with or termination from the Company except as required or protected by law. Executive covenants that he will in no way encourage or assist any person or entity (including, but not limited to, any past, present or future employee(s) of Company) to take part or participate in any legal or administrative action against Company, except as otherwise required or protected by law. Nothing in this Release shall be interpreted or applied in a manner that affects or limits Executive's otherwise lawful ability to bring an administrative charge with the Equal Employment Opportunity Commission or other appropriate state or local comparable administrative agency; however, the parties agree that Executive has released Company from all liability arising from the laws, statutes, and common law listed in paragraph 1 (except as set forth in this paragraph below, with respect to the Age Discrimination in Employment Act ("ADEA")) and, as such, Executive is not and will not be entitled to any monetary or other comparable relief on his own behalf. Nothing in this Release shall be interpreted or applied in a manner that affects or limits Executive's ability to challenge (with a lawsuit or administrative charge) the validity of Executive's release of Company in this Release for age claims under the ADEA (which release is provided for in paragraph 2 of this Release). Other than a challenge to the validity of the release of ADEA claims under this Release, Executive has released Company from all liability with respect to the laws, statutes, and common law listed in paragraph 1, including the ADEA.

2. Release of Claims Under Age Discrimination in Employment Act. Without limiting the generality of the foregoing, Executive agrees that by executing this Release, he has released and waived any and all claims he has or may have as of the date of this Release for age discrimination under the Age Discrimination in Employment Act, 29 U.S.C. § 621, *et seq.* It is understood that Executive is advised to consult with an attorney prior to executing this Release; that he in fact has consulted a knowledgeable, competent attorney regarding this Release; that he may, before executing this Release, consider this Release for a period of twenty-one (21) calendar days; and that the consideration he receives for this Release is in addition to amounts to which he was already entitled. It is further understood that this Release is not effective until seven (7) calendar days after the execution of this Release and that Executive may revoke this Release within seven (7) calendar days from the date of execution hereof.

3. Executive acknowledges and represents that as an employee of the Company he has been obligated to, and has been given the full and unfettered opportunity to, report timely to the Company any conduct that would give rise to an allegation that the Company or any affiliate of the Company has violated any laws applicable to its businesses or has engaged in conduct which could otherwise be construed as inappropriate or unethical in any way, even if such conduct is not, or does not appear to be, a violation of any law. Executive acknowledges that a condition of the payment of any consideration provided by the Company to the Executive hereunder is his truthful and complete representation to the Company regarding any such conduct, including but not limited to

conduct regarding compliance with the Company's Code of Ethics, policies, and procedures, and with all laws and standards governing the Company's business.

Executive's truthful and complete representation, based on his thorough search of his knowledge and memory, is as follows: Executive has not been directly or indirectly involved in any such conduct; no one has asked or directed him to participate in any such conduct; and Executive has no specific knowledge of any conduct by any other person(s) that would give rise to an allegation that the Company or any affiliate of the Company has violated any laws applicable to its businesses or has engaged in conduct which could otherwise be construed as inappropriate or unethical in any way.

Executive agrees that he has carefully read this Release and is signing it voluntarily. Executive acknowledges that he has had twenty one (21) days from receipt of this Release to review it prior to signing or that, if Executive is signing this Release prior to the expiration of such 21-day period, Executive is waiving his right to review the Release for such full 21-day period prior to signing it. Executive has the right to revoke this release within seven (7) days following the date of its execution by him, and must deliver written notice of revocation in person to _____ at the following address: _____, and such revocation shall not be effective unless actually received by _____, within seven (7) days following the date the release was signed by Executive. If Executive revokes this Release within such seven (7) day period, no severance benefit will be payable to him under the Employment Agreement and he shall return to the Company any such payment received prior to that date.

EXECUTIVE HAS CAREFULLY READ THIS RELEASE AND ACKNOWLEDGES THAT IT CONSTITUTES A GENERAL RELEASE OF ALL KNOWN AND UNKNOWN CLAIMS AGAINST THE COMPANY UNDER THE AGE DISCRIMINATION IN EMPLOYMENT ACT, AND ANY AND ALL OTHER STATE AND FEDERAL LAWS, WHETHER STATUTORY OR COMMON LAW. EXECUTIVE ACKNOWLEDGES THAT HE HAS HAD A FULL OPPORTUNITY TO CONSULT WITH AN ATTORNEY OR OTHER ADVISOR OF HIS CHOOSING CONCERNING HIS EXECUTION OF THIS RELEASE AND THAT HE IS SIGNING THIS RELEASE VOLUNTARILY AND WITH THE FULL INTENT OF RELEASING THE COMPANY FROM ALL SUCH CLAIMS.

Executive

Date: _____

EXHIBIT C TO EMPLOYMENT AGREEMENT

Definition of Change in Control:

For the purposes of this Agreement, a “Change in Control” shall mean the occurrence of any of the following events:

(i) individuals who, on the Effective Date, constitute the Board of Directors of the Company (the “Incumbent Directors”) cease for any reason to constitute at least a majority of such Board, provided that any person becoming a director after the Effective Date and whose election or nomination for election was approved by a vote of at least a majority of the Incumbent Directors then on the Board shall be an Incumbent Director; provided, however, that no individual initially elected or nominated as a director of the Company as a result of an actual or threatened election contest with respect to the election or removal of directors (“Election Contest”) or other actual or threatened solicitation of proxies or consents by or on behalf of any “person” (such term for purposes of this definition being as defined in Section 3(a)(9) of the Exchange Act and as used in Sections 13(d)(3) and 14(d)(2) of the Exchange Act) other than the Board (“Proxy Contest”), including by reason of any agreement intended to avoid or settle any Election Contest or Proxy Contest, shall be deemed an Incumbent Director; or

(ii) any person is or becomes a “beneficial owner” (as defined in Rule 13d-3 under the Exchange Act), directly or indirectly, of either (A) 35% or more of the then-outstanding shares of common stock of the Company (“Company Common Stock”) or (B) securities of the Company representing 35% or more of the combined voting power of the Company’s then outstanding securities eligible to vote for the election of directors (the “Company Voting Securities”); provided, however, that for purposes of this subsection (ii), the following acquisitions shall not constitute a Change in Control: (w) an acquisition directly from the Company, (x) an acquisition by the Company or a Subsidiary of the Company, (y) an acquisition by any employee benefit plan (or related trust) sponsored or maintained by the Company or any Subsidiary of the Company, or (z) an acquisition pursuant to a Non-Qualifying Transaction (as defined in subsection (iii) below); or

(iii) the consummation of a reorganization, merger, consolidation, statutory share exchange or similar form of corporate transaction involving the Company or a Subsidiary (a “Reorganization”), or the sale or other disposition of all or substantially all of the Company’s assets (a “Sale”) or the acquisition of assets or stock of another corporation (an “Acquisition”), unless immediately following such Reorganization, Sale or Acquisition: (A) all or substantially all of the individuals and entities who were the beneficial owners, respectively, of the outstanding Company Common Stock and outstanding Company Voting Securities immediately prior to such Reorganization, Sale or Acquisition beneficially own, directly or indirectly, more than 55% of, respectively, the then outstanding shares of common stock and the combined voting power of the then outstanding voting securities entitled to vote generally in the election of directors, as the case may be, of the corporation resulting from such Reorganization, Sale or Acquisition (including, without

limitation, a corporation which as a result of such transaction owns the Company or all or substantially all of the Company's assets or stock either directly or through one or more subsidiaries, the "Surviving Corporation") in substantially the same proportions as their ownership, immediately prior to such Reorganization, Sale or Acquisition, of the outstanding Company Common Stock and the outstanding Company Voting Securities, as the case may be, and (B) no person (other than (x) the Company or any Subsidiary of the Company, (y) the Surviving Corporation or its ultimate parent corporation, or (z) any employee benefit plan (or related trust) sponsored or maintained by any of the foregoing is the beneficial owner, directly or indirectly, of 35% or more of the total common stock or 35% or more of the total voting power of the outstanding voting securities eligible to elect directors of the Surviving Corporation, and (C) at least a majority of the members of the board of directors of the Surviving Corporation were Incumbent Directors at the time of the Board's approval of the execution of the initial agreement providing for such Reorganization, Sale or Acquisition (any Reorganization, Sale or Acquisition which satisfies all of the criteria specified in (A), (B) and (C) above shall be deemed to be a "Non-Qualifying Transaction"); or

- (iv) approval by the stockholders of the Company of a complete liquidation or dissolution of the Company.

EXECUTION COPY**AMENDED AND RESTATED EMPLOYMENT AGREEMENT**

THIS AMENDED AND RESTATED EMPLOYMENT AGREEMENT (“Agreement”) between ScanSource, Inc., a South Carolina corporation (“Company”), and Charles A. Mathis (“Executive”) (collectively the “Parties”) is effective as of July 1, 2014 (“Effective Date”).

BACKGROUND

The Company and the Executive are parties to that certain Employment Agreement originally dated as of December 17, 2012, as amended effective as of July 1, 2013 (the “Existing Agreement”), and which Existing Agreement expires June 30, 2014.

The Company desires to continue to employ Executive as Executive Vice President and Chief Financial Officer, and Executive is willing to continue to serve in such capacity, and the parties desire to document the terms and conditions of such employment as stated in this Agreement.

In consideration of the foregoing and of the mutual commitments below, including but not limited to the grant of a performance-based restricted stock unit award and the provision of modified severance and other benefits and restrictive covenants (as further described below), and for other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the Parties agree as follows:

1. Employment. On the Effective Date, Executive will be employed in the capacity stated above with such commensurate responsibilities as are assigned to him by the Company’s Board of Directors (the “Board”), or the Chief Executive Officer (the “CEO”). Executive will report directly to the CEO.

2. Employment Period.

(a) Unless earlier terminated in accordance with Section 5, the Agreement shall be for a term (the “Employment Period”), beginning on the Effective Date and ending on June 30, 2017, the Employment Period End Date. *Provided, however*, that if a Change in Control, as defined in Exhibit C hereto, occurs during the Employment Period, the ending date of the Employment Period will be extended so that it expires on the later of the Employment Period End Date or the first anniversary of the date on which the Change in Control initially occurred.

(b) If the Company does not renew the Agreement, or enter into a new employment agreement with Executive with the same or similar terms as the Agreement, as of the Employment Period End Date, the Executive may choose one of the following two options: (i) the Executive will voluntarily resign from employment with the Company as of the Employment Period End Date and the Company will pay to Executive, on the 30th day

after the Employment Period End Date, an amount equal to one (1) times the highest combined annual Base Salary and Variable Compensation earned by Executive from the Company, including any such amounts earned but deferred, in the last three (3) fiscal years before the Employment Period End Date, less normal withholdings; or (ii) the Executive may elect to continue employment with the Company on an at-will basis and, for a maximum of one year following the Employment Period End Date, receive the same salary and incentive compensation opportunity as in effect in the last year of the Agreement.

The Parties agree and acknowledge that: (i) nothing in this Section 2(b) nor any action the Company may take pursuant to this Section 2(b) will give rise to a claim by Executive for termination without Cause, termination for Good Reason, or termination due to the Executive's Retirement or the normal expiration of the Executive's Employment Period or for Severance Benefits or any amounts or benefits other than those specifically enumerated in this Section 2(b); (ii) Executive will not be entitled to receive any amounts or benefits under this Section 2(b) if Executive is otherwise entitled to receive or receives benefits under Section 6(a)(iii) of this Agreement or if Executive is in violation of Section 11; and (iii) Executive must execute and provide to the Company a Release, and the period for revoking same must have expired, before the 30th day following the Employment Period End Date in order to receive any amounts or benefits under this Section 2(b). Nothing in this Section 2(b) will prohibit Executive's employment from being terminated for Cause or for any other event enumerated in this Agreement.

3. Extent of Service. During the Employment Period, Executive agrees to devote his business time, attention, skill and efforts exclusively to the faithful performance of his duties hereunder. *Provided, however*, that it shall not be a violation of this Agreement for Executive to (i) devote reasonable periods of time to charitable and community activities and, with the approval of the Chief Executive Officer, industry or professional activities, and/or (ii) manage personal business interests and investments, so long as these activities do not interfere with the performance of Executive's responsibilities under this Agreement.

4. Compensation and Benefits; Policies.

(a) Base Salary. During the Employment Period, the Company will pay to Executive a base salary at the rate specified on Exhibit A ("Base Salary"), less normal withholdings, payable in equal monthly or more frequent installments as are customary under the Company's payroll practices from time to time. The CEO will review the Executive's Base Salary annually and make recommendations to the Compensation Committee of the Board (the "Compensation Committee"), which Compensation Committee may increase (but not decrease) Executive's Base Salary from year to year. This annual review of Executive's Base Salary will consider, among other things, Executive's performance and the Company's performance. If Executive becomes eligible during the Employment Period to receive benefits under the Company's short-term disability policy, the Company will continue to pay Executive's Base Salary; provided, however, that Executive's Base Salary during such period will be reduced by any amounts Executive receives under the short-term disability policy.

(b) Equity Compensation, Variable Compensation, Savings and Retirement Plans. During the Employment Period, Executive will be entitled to participate in all deferred compensation, savings and retirement plans, practices, policies and programs applicable to executive officer direct reports to the CEO of the Company (the “Peer Executives”) pursuant to their terms. The Executive will also be eligible to receive certain equity-based compensation and certain cash-based variable compensation (such cash-based compensation, the “Variable Compensation”), in each case based on the performance or other criteria established periodically by the Committee, as specified on Exhibit A. The Committee, at its discretion, may award to Executive additional bonuses or other amounts as it deems necessary or deserving based on Executive’s performance. The Executive also will be eligible to receive such additional benefits as are described on Exhibit A.

(c) Welfare Benefit Plans. During the Employment Period, Executive and Executive’s eligible dependents may participate pursuant to their terms in the welfare benefit plans, practices, policies and programs provided by the Company which may include, medical, prescription, dental, disability, employee life, group life, accidental death and travel accident insurance plans and programs (the “Welfare Plans”) to the extent applicable to Peer Executives. Contributions will be required by the Executive. The Company may, in its sole discretion, modify, or change its Welfare Plans.

(d) Expenses. During the Employment Period, Executive will be entitled to receive reimbursement for all reasonable expenses incurred by Executive in accordance with the policies, practices and procedures of the Company and such reimbursements will be made no later than the last day of the year immediately following the year in which Executive incurs the reimbursable expense. The amount of reimbursable expenses incurred in one taxable year shall not affect the expenses eligible for reimbursement in any other taxable year. No right to reimbursement is subject to liquidation or exchange for other benefits.

(e) Fringe Benefits. During the Employment Period, Executive will be entitled to fringe benefits, if any, in accordance with the plans, practices, programs and policies of the Company in effect for Peer Executives.

(f) Vacation. During each fiscal year during the Employment Period, Executive will be entitled to no less than the number of days of paid vacation specified on Exhibit A. Executive may take vacation at the times Executive reasonably requests, subject to the prior approval of the person specified on Exhibit A. Unused vacation time will not carry over to the next fiscal year and will not be paid upon termination of employment.

(g) Clawback. Executive is subject to and will comply with the Company’s Compensation Recovery Policy (“Clawback Policy”) as the same may be revised or amended from time to time as applicable to Executive. In addition, Executive agrees that he shall be subject to the Company’s Stock Ownership and Retention Policy, as in effect from time to time, if and to the extent applicable to Executive.

5. Termination of Employment.

(a) Death, Retirement or Disability. Executive's employment terminates automatically upon Executive's death or Retirement during the Employment Period. For purposes of this Agreement, "Retirement" means, unless the Compensation Committee determines otherwise, the occurrence of both (i) the Executive's non-Cause termination of employment with the Company at any time on or after attaining a minimum age of 55 with 10 or more years of employment with the Company, and (ii) the Compensation Committee's determination that the Executive's termination qualifies as a retirement. If the Company determines that the Executive has become disabled during the Employment Period (pursuant to the definition of Disability set forth below), it may give to Executive written notice of its intention to terminate Executive's employment. Executive's employment with the Company will terminate effective on the 30th day after receipt of such written notice by Executive (the "Disability Effective Date"), unless, within the 30 days after such receipt, Executive has returned to full-time performance of Executive's duties. For purposes of this Agreement, "Disability" means a mental or physical disability as determined by the Board in accordance with standards and procedures similar to those under the Company's long-term disability plan, if any. If the Company has no long-term disability plan, "Disability" will mean the inability of Executive, as determined by the Board, to perform the essential functions of his regular duties and responsibilities, with or without reasonable accommodation, due to a medically determinable physical or mental condition which has lasted (or can reasonably be expected to last) for twelve workweeks in any twelve-month period. At the request of Executive or his personal representative, the Board's determination that the Disability of Executive has occurred will be certified by two physicians mutually agreed upon by Executive, or his personal representative, and the Company. If the two physicians are unwilling to certify that the Executive is disabled, Executive's termination will be deemed a termination by the Company without Cause and not a termination because of his Disability.

(b) Termination by the Company. The Company may terminate Executive's employment with or without Cause. For purposes of this Agreement, "Cause" means:

(i) engaging in unethical or illegal conduct or misconduct, which includes but is not limited to violations of the Company's policies concerning employee conduct; or

(ii) the Executive's breach of any material (as determined by the Board or the Compensation Committee) term of this Agreement.

Regardless of whether Executive's employment initially is considered to be terminated for any reason other than Cause, the Executive's employment will be considered to have been terminated for Cause for purposes of this Agreement if the Board or the Committee determines after Executive's employment ends that the Executive violated Section 5(b) above while employed.

(c) Termination by Executive. Executive's employment may be terminated by Executive for Good Reason or no reason. For purposes of this Agreement, "Good Reason" means:

(i) without the consent of Executive, the assignment to Executive of any duties materially inconsistent for Peer Executives, excluding an isolated, insubstantial, and inadvertent action taken in good faith which is remedied by the Company promptly after receipt of notice from Executive;

(ii) a material reduction, without the consent of the Executive, by the Company in Executive's Base Salary or a material reduction in Executive's Variable Compensation opportunity;

(iii) the failure by the Company (A) to continue in effect any compensation plan in which Executive participates as of the Effective Date that is material to Executive's total base compensation, unless the Company provides a substantially equivalent alternative plan, or (B) to continue Executive's participation in the alternative plan on a basis that is substantially equivalent in terms of the value of benefits provided, in each case unless the Executive so consents;

(iv) the Company's requiring Executive, without his consent, to be based at any location that increases Executive's normal work commute by fifty (50) miles or more as compared to Executive's normal work commute or otherwise is a material change in the location at which Executive is based;

(v) any failure by the Company to comply with and satisfy Section 12(c) of this Agreement, unless the Executive so consents;

(vi) the material breach of this Agreement by the Company, unless the Executive so consents; or

(vii) the termination of employment by the Executive during the 60-day period beginning on the six-month anniversary of a Change in Control, if the Company or a successor entity has not offered the Executive a new employment agreement after or in contemplation of a Change in Control with substantially the same or better compensation and terms and conditions of employment as are stated in this Agreement.

Executive must provide written notice to the Company of Executive's intent to terminate employment for Good Reason within 30 days of the initial existence of the Good Reason. The Company will have an opportunity to cure any claimed event of Good Reason within 30 days of notice from Executive. The Board's good faith determination of cure will be binding. The Company will notify Executive in writing of the timely cure of any claimed event of Good Reason and how the cure was made. Any Notice of Termination delivered by Executive based on a claimed Good Reason which was thereafter cured by the Company will be deemed withdrawn and ineffective to terminate this Agreement. If the Company fails to cure any claimed event of Good Reason within 30 days of notice from Executive, Executive must terminate employment for such claim of Good Reason within 180 days of the initial existence of the Good Reason, and if Executive fails to do so, such claimed event of Good Reason will be deemed withdrawn and ineffective to terminate this Agreement.

(d) Notice of Termination; Basis of Termination. Any termination of Executive's employment by the Company or by Executive must be communicated by Notice of Termination to the other Party in accordance with Section 13(f) of this Agreement. For purposes of this Agreement, a "Notice of Termination" means a written notice which (i) states the specific termination provision in this Agreement relied upon, including whether such termination is for Cause or Good Reason, (ii) if such termination is for Cause or Good Reason, sets forth in reasonable detail the facts and circumstances claimed to provide a basis for termination of Executive's employment under the provisions so indicated, and (iii) specifies the termination date. The failure by Executive or the Company to set forth in the Notice of Termination any fact or circumstance which contributes to a showing of Good Reason or Cause will not waive any right of Executive or the Company, or preclude Executive or the Company from asserting applicable facts or circumstances in enforcing rights under this Agreement. The Compensation Committee or the Board shall (except as otherwise provided in Section 5(a) with respect to Disability) have discretion to determine the basis for any termination of employment of Executive.

(e) Date of Termination. The "Date of Termination" means, unless the Parties agree otherwise in writing (other than with respect to death), the date specified in the Notice of Termination or, if Executive's employment is terminated by reason of death, Retirement or Disability, the date of death or Retirement or the Disability Effective Date.

6. Obligations of the Company upon Termination.

(a) Termination by Executive for Good Reason; Termination by the Company Other Than for Cause, Death, Disability or Retirement; Effect of Expiration of Employment Period. If, during the Employment Period: (i) the Company terminates Executive's employment other than for Cause, death, Disability, or Retirement or the normal expiration of the Employment Period, or (ii) Executive terminates employment for Good Reason following the Company's failure to cure such Good Reason as set forth in Section 5(c) of this Agreement, the Company will pay Executive the following amounts and provide the following benefits:

(iii) Executive's Base Salary earned through the Date of Termination to the extent not already paid (such amount is hereinafter referred to as the "Accrued Obligations") will be paid as soon as practicable after the Date of Termination per the Company's customary payroll practices;

(iv) to the extent not previously paid or provided and only if earned as of the Date of Termination, the Company will timely pay or provide to Executive any other amounts or benefits which Executive is eligible to receive under any plan, program, policy, practice, contract or agreement of the Company (the "Other Benefits") pursuant to the terms of such Other Benefits; and

(v) subject to Section 13(i) of this Agreement and Executive's execution of a Release in substantially the form of Exhibit B hereto (the "Release") within the time set forth in Section 6(g) of this Agreement, the Company will (1) pay to

Executive the amount in (A) beginning with the Company's first normal payroll cycle that occurs at least 30 days after the Date of Termination, (2) pay the amount in (B) as set forth below, and (3) provide the benefits in (C):

(A) a single year of compensation in an amount equal to one (1) times the average annual Base Salary and Variable Compensation earned by Executive from the Company, including any such amounts earned but deferred, in the last three fiscal years before the Date of Termination the ("Average Compensation Amount"), less normal withholdings, and an additional amount (the "Retention Benefit") equal to one-twelfth (1/12) times the Average Compensation Amount times the number of full years beyond ten (10) years that the Executive was consecutively employed by the Company prior to the Date of Termination, less normal withholdings (collectively the "Severance Benefits"); *provided, however*, that the maximum amount that Executive may receive under this Section 6(a)(iii)(A) is two (2) times the Average Compensation Amount, less normal withholdings. Notwithstanding the foregoing, if the Date of Termination occurs within 12 months after or prior to and otherwise in contemplation of (as determined by the Board or the Compensation Committee) a Change in Control, as defined in Exhibit C, Executive will receive Severance Benefits in an amount equal to two and a half (2.5) times the Average Compensation Amount, less normal withholdings, but no Retention Benefit. With respect to any amounts due Executive under this Section 6(a)(iii)(A), the payments shall be made in bi-weekly installments pursuant to the Company's normal payroll cycle during the term of the 24-month period referenced in Sections 11(c)(i) through 11(c)(vi). If Executive is entitled to receive severance benefits under this Section 6(a)(iii)(A), then he shall not be entitled to receive severance benefits under the Company's Severance Pay Plan for Officers, as such plan may be amended, or any successor plan. The Average Compensation Amount defined herein is to exclude any fiscal years in which the Executive was not employed by the Company, include any partial fiscal years (which shall be annualized), and not include the then current fiscal year;

(B) a bonus equal to the pro rata portion (based on the number of days elapsed in the current fiscal year through the Date of Termination) of the current fiscal year annual Variable Compensation, if any, that would otherwise be payable if the Executive had continued employment through the end of the current fiscal year based on actual performance (the "Pro Rata Bonus"). The Pro Rata Bonus, if any, less normal withholdings, will be paid within 30 days of the Committee's certification that the Executive has met the necessary performance criteria, which will be no later than the later of March 15 following the end of the calendar year in which Executive's right to the bonus vests or the 15th day of the third month following the end of the Company's fiscal year in which Executive's right to the bonus vests; and

(C) for up to twenty-four (24) months following the Date of Termination (the “Continuation Coverage Period”), Executive shall be entitled to participate (treating Executive as if he were an active employee of the Company for this purpose) in the Company’s medical (including prescription drug coverage) and dental plan (the “Company Health Care Plans”). Executive shall pay the entire premium charged for the coverage of Executive and, if applicable, his dependents under the Company Health Care Plans. During the first eighteen (18) months of the Continuation Coverage Period, the premium required for the continuation coverage provided pursuant to this paragraph (C) shall be equal to the premium required by the continuation of coverage requirements of Section 4980B of the Code and Part 6 of Title I of the Employee Retirement Income Security Act of 1974, as amended (“COBRA”) for such continuation coverage (the “COBRA Rate”). During the remainder of the Continuation Coverage Period, the premium required for the continuation coverage shall be the greater of the COBRA Rate or the actuarially determined cost of the continuation coverage as determined by an actuary selected by the Company (i.e., the access only rate). The Company shall reimburse Executive for the difference between the monthly premium amount actually paid by Executive pursuant to this paragraph (C) and the monthly premium amount paid by active employees for the same level of coverage under the Company Health Care Plans. Such reimbursement shall be paid to Executive by the 20th day of the month immediately following the month in which Executive timely remits the required premium payment. The right to reimbursement and the coverage provided pursuant to this paragraph (C) shall terminate prior to the end of the Continuation Coverage Period if Executive is eligible to receive similar benefits under another employer-provided or group plan (which plan may be the plan of his new employer or his spouse’s employer). Company makes no representation to Executive regarding the tax consequences of any benefits that may be received pursuant to this Section 6(a)(iii)(C). Executive agrees to pay any federal, state, or local taxes for which he may become personally liable as a result of any such benefits received.

(D) Executive’s entitlement to receive or retain the amounts set forth in this Section 6 are conditioned on Executive’s compliance with the Restrictions on Conduct described in Section 11. Executive’s breach or threatened breach of Section 11 shall entitle the Company to immediately cease any payments hereunder, or to refuse payment in the first instance, and the Company shall further be entitled to recover any payments previously made to Executive under this Section 6.

(b) Death. If Executive’s employment is terminated because of Executive’s death during the Employment Period, this Agreement will terminate without further obligations to Executive or Executive’s legal representatives under this Agreement other than (i) the payment of Accrued Obligations as described in Section 6(a)(i), (ii) the payment of the Pro

Rata Bonus as described in Section 6(a)(iii)(B), and (iii) the timely payment or provision of Other Benefits as described in Section 6(a)(ii) of this Agreement. The Accrued Obligations and the Pro Rata Bonus will be paid to Executive's estate or beneficiary, as applicable. Other Benefits as used in this Section 6(b) will include, without limitation, and Executive's estate and/or beneficiaries will be entitled to receive, benefits under such plans, programs, practices and policies relating to death benefits, if any, as are applicable to Executive on the date of his death pursuant to the terms of such Other Benefits.

(c) Disability. If Executive's employment is terminated because of Executive's Disability during the Employment Period, this Agreement will terminate without further obligations to Executive other than (i) the payment of Accrued Obligations as described in Section 6(a)(i), (ii) the payment of the Pro Rata Bonus as described in Section 6(a)(iii)(B), and (iii) the timely payment or provision of Other Benefits as described in Section 6(a)(ii) of this Agreement. The term Other Benefits as used in this Section 6(c) includes, without limitation, and Executive will be entitled after the Disability Effective Date to receive, disability and other benefits under such plans, programs, practices and policies relating to disability, if any, as are applicable to Executive and his family on the Date of Termination pursuant to the terms of such Other Benefits.

(d) Retirement. If Executive's employment is terminated because of Executive's Retirement during the Employment Period, this Agreement will terminate without further obligations to Executive other than (i) the payment of Accrued Obligations as described in Section 6(a)(i), (ii) the payment of the Pro Rata Bonus as described in Section 6(a)(iii)(B), and (iii) the timely payment or provision of Other Benefits as described in Section 6(a)(ii) of this Agreement. The term Other Benefits as used in this Section 6(d) includes, without limitation, and Executive will be entitled after the Date of Termination to receive, retirement and other benefits under such plans, programs, practices and policies relating to retirement, if any, as applicable to Executive on the Date of Termination pursuant to the terms of such Other Benefits.

(e) Cause or Voluntary Termination without Good Reason. If Executive's employment is terminated for Cause during the Employment Period, or if Executive voluntarily terminates employment during the Employment Period without Good Reason, this Agreement will terminate without further obligations to Executive, other than for (i) the payment of Accrued Obligations as described in Section 6(a)(i), and (ii) the timely payment or provision of Other Benefits as described in Section 6(a)(ii).

(f) Expiration of Employment Period. For clarification, if Executive's employment is terminated due to the normal expiration of the Employment Period or is terminated within 60 days after the Employment Period End Date (in each case, for reasons other than Cause, death, Disability or Retirement), this Agreement will terminate without further obligations to Executive, other than for (i) the payment of Accrued Obligations if and to the extent applicable as described in Section 6(a)(i), (ii) the payment of the Pro Rata Bonus if and to the extent applicable as described in Section 6(a)(iii)(B), (iii) the payment of the Severance Benefits (subject to the Executive's execution of the Release) if and to the

extent applicable as described in Section 6(a)(iii)(A), and (iv) the timely payment or provision of Other Benefits if and to the extent applicable as described in Section 6(a)(ii). Notwithstanding anything to the contrary in this Agreement, if the Agreement is not renewed and a new employment agreement is not offered and the Executive remains an employee of the Company in any capacity, Executive's employment will not be governed by this Agreement and Executive will be an at-will employee. In that instance, Executive remains subject to the Restrictions on Conduct described in Section 11. Further, the parties agree that the benefits provided under Section 2(b) herein are intended to be in lieu of, and not in addition to, comparable benefits provided under Section 6.

(g) Execution of Release. Notwithstanding anything to the contrary in this Section 6, the Release must be executed and provided to the Company, and the period for revoking same must have expired, before the 30th day following the Date of Termination.

7. Non-exclusivity of Rights. Nothing in this Agreement prevents or limits Executive's continuing or future participation in any plan, program, policy or practice provided by the Company and for which Executive may qualify, nor, subject to Section 13(d), will anything in this Agreement limit or otherwise affect any rights Executive may have under any contract or agreement with the Company. Amounts which are vested benefits or which Executive is otherwise entitled to receive under any plan, policy, practice, program, contract or agreement with the Company at or subsequent to the Date of Termination will be payable in accordance with such plan, policy, practice, program, contract or agreement except as explicitly modified by this Agreement.

8. Mandatory Reduction of Payments in Certain Events. Any payments made to Executive under this Agreement will be made with the Executive's best interests in mind related to the excise (the "Excise Tax") imposed by Section 4999 of the Internal Revenue Code of 1986, as amended (the "Code").

(a) Anything in this Agreement to the contrary notwithstanding, if it is determined that any benefit, payment or distribution by the Company to or for the benefit of Executive (whether paid or payable or distributed or distributable pursuant to the terms of this Agreement or otherwise) (a "Payment") would be subject to the Excise Tax, then, before making the Payment to Executive, a calculation will be made comparing (i) the net benefit to Executive of all Payments after payment of the Excise Tax, to (ii) the net benefit to Executive if the Payment had been limited to the extent necessary to avoid being subject to the Excise Tax. If the amount calculated under (i) above is less than the amount calculated under (ii) above, then the Payments will be limited to the extent necessary to avoid being subject to the Excise Tax (the "Reduced Amount"). In that event, any reduction in payments shall be made by the Company in its sole discretion, in a manner intended to be consistent with Code Section 409A.

(b) The determination of whether an Excise Tax would be imposed, the amount of such Excise Tax, and the calculation of the amounts referred to in Section 8(a)(i) and (ii) above will be made by the Company's regular independent accounting firm at the expense of the Company or, at the election and expense of Executive, another nationally recognized independent accounting firm (the "Accounting Firm") acceptable to the Company which

will provide detailed supporting calculations. Any determination by the Accounting Firm will be binding upon the Company and Executive. As a result of the uncertainty in the application of Code Section 4999 at the time of the initial determination by the Accounting Firm hereunder, it is possible that Payments to which Executive was entitled, but did not receive pursuant to Section 8(a), could have been made without the imposition of the Excise Tax (an "Underpayment"). In such event, the Accounting Firm will determine the amount of the Underpayment that has occurred and any such Underpayment will be promptly paid by the Company to or for the benefit of Executive.

(c) If the provisions of Code Section 280G and Section 4999 or any successor provisions are repealed without succession, this Section 8 will be of no further force or effect.

9. Costs of Enforcement. Subject to Section 8(b), each Party will pay its own costs and expenses incurred in enforcing or establishing its rights under this Agreement, including, without limitation, attorneys' fees, whether a suit is brought or not, and whether or not incurred in trial, bankruptcy or appellate proceedings.

10. Representations and Warranties. Executive represents and warrants to the Company that Executive is not a party to, or otherwise subject to, any restrictive covenant not to compete, not to solicit or not to disclose or use confidential information, with any person or entity, and Executive's execution of this Agreement and performance of his obligations will not violate the terms or conditions of any contract or obligation, written or oral, between Executive and any other person or entity.

11. Restrictions on Conduct of Executive.

(a) General. Executive agrees that as part of the executive-level role he will have and services he will perform for the Company, he will be exposed to, and help create and maintain, unique and proprietary methods and information in each market in which the Company does business which give the Company competitive advantages over other "Competitive Businesses," as well as develop goodwill with the Company's customers, suppliers, vendors, advertisers, employees and the general public. By virtue of the position Executive will hold, Executive is receiving, will receive, or will be provided access to the Company's unique methods of doing business, including: (1) methods for locating and dealing with vendors, customers, suppliers and advertisers as well as pricing information, distribution channels, and other terms of those relationships; (2) "Confidential Information" and "Trade Secrets;" (3) established relationships and other elements that together comprise goodwill; and/or (4) unique knowledge and training regarding product development, its engineering, product specification, material suppliers, material specifications, product suppliers, manufacturing knowledge and methods, customer feedback, surveys, design-around information, research and development information, internal quality control tests, other quality control information, and other similar proprietary information. Executive agrees that the competitive advantage and goodwill the Company has created, and which Executive will assist in furthering and maintaining, is an important and legitimate business asset of the Company. It would be unfair for Executive to use Confidential Information and

Trade Secrets obtained during and as a result of his employment with the Company for the benefit of an organization other than the Company. Executive has agreed to certain restrictions in exchange for his being eligible for certain severance benefits under the conditions described in this Agreement. Executive further agrees that it would be impossible to protect against improper and unfair competitive advantages without restricting Executive's activities in each market where the Company has existing customers or prospective customers during Executive's employment. No lesser territorial restriction would protect the Company's business interests given the nature of Executive's role within the Company and access to Confidential Information and Trade Secrets. Executive agrees that these provisions do not preclude him from earning a living.

(b) Definitions. The following capitalized terms used in this Section 11 will have the meanings assigned to them below, which definitions will apply to both the singular and the plural forms of these terms:

"Competitive Business" means (A) any distributors of any goods or services in or to the point of sale, automatic identification, data capture, security, business telephony, 3D printing, and communication products if such entity distributes or provides any product or service that is the same or substantially similar to any product or service offered or in development by the Company, including reasonable alternatives, as well as (B) the Company's top ten (10) vendors (in terms of revenue) at any point within the final two (2) years of Executive's employment with the Company; provided, however, that the CEO may, in his discretion, determine that the term "Competitive Business" does not include a particular vendor or distributor. Competitive Business includes, but is not limited to, any entity formed by Executive, formally or informally, as well as work by Executive as a consultant or independent contractor.

"Confidential Information" means any and all of the Company's Trade Secrets, confidential and proprietary information, and all other information and data that is not generally known to third persons who could derive economic value from its use or disclosure, including, without limitation, any information or documents about: the Company's accounting practices; financial data; financial plans and practices; the Company's operations; its future plans (including new products, improved products, and products under development); its methods of doing business; internal forms, checklists, or quality assurance testing; programs; customer and supplier lists or other such related information as pricing or terms of business dealings; supply chains; shipping chains and prices; packaging technology or pricing; sourcing information for components, materials, supplies, and other goods; employees; pay scales; bonus structures; contractor information and lists; marketing strategies and information; product plans; distribution plans and distribution channel relationships; business plans; manufacturing, operation, sales and distribution processes; costs; margins for products; prices, sales, orders and quotes for the Company's business that is not readily attainable by the general public; existing and future services; testing information (including methods and results) related to materials used in the

development of the Company's products or materials that could be used with the Company's products; development information (including methods and results) related to computer programs that design or test products or that track information from a central database; and the computer or electronic passwords of all employees and/or firewalls of the Company. Confidential Information also includes any information defined in this subsection which the Company obtains from another party and treats as proprietary or confidential, whether or not owned or developed by the Company. Notwithstanding the definitions stated above, the term Confidential Information does not include any information which (i) at the time of disclosure to Executive, was in the public domain; (ii) after disclosure to Executive, is published or otherwise becomes part of the public domain through no fault of Executive; (iii) without a breach of duty owed to the Company, was already in Executive's possession at the time of disclosure; (iv) was received after disclosure to Executive from a third party who had a lawful right to the information other than through a relationship of trust and confidence with the Company, and without a breach of duty to the Company, disclosed the information to Executive; or (v) where Executive can show it was independently developed by Executive on non-Company time without reference to, or reliance upon, other Confidential Information or Trade Secrets.

"Restricted Territory" means any location in the United States where (1) Executive performed services for the Company or its affiliates or had contact with the Company's customers, vendors, or suppliers; and (2) where the Company or its affiliates is actively manufacturing, marketing, selling, or distributing its products within the final two (2) years of Executive's employment, or places where the Company made affirmative steps to manufacture, market, sell, or distribute its products within the final six (6) months of Executive's employment. If Executive was assigned only a portion of the territory in which the Company operates or sells, then the Restricted Territory shall be narrowly construed to include only the limited geographic area in which Executive represented and worked for the Company or was able to establish contact with the Company's customers, vendors, or suppliers.

"Trade Secrets" means information related to the business or services of the Company which (1) derives independent actual or potential commercial value from not being generally known or readily ascertainable through independent development or reasonable reverse engineering processes by persons who can obtain economic value from its disclosure or use; and (2) is the subject of efforts by the Company and affiliated third parties that are reasonable under the circumstances to maintain its secrecy. Assuming the foregoing criteria in clauses (1) and (2) are met, Trade Secret encompasses business and technical information including, without limitation, know-how, designs, formulas, patterns, compilations, programs, devices, inventions, methods, techniques, drawings processes, finances, actual or potential customers and suppliers, and existing and future products and services of the Company. Notwithstanding the definitions stated above, the term Confidential Information does not include any information which (i) at the time of disclosure to Executive, was in the public domain; (ii) after disclosure to Executive, is published or otherwise

becomes part of the public domain through no fault of Executive; (iii) without a breach of duty owed to the Company, was already in Executive's possession at the time of disclosure; (iv) was received after disclosure to Executive from a third party who had a lawful right to the information through some avenue other than through a relationship of trust and confidence with the Company, and without a breach of duty to the Company, disclosed the information to Executive; or (v) where Executive can show it was independently developed by Executive on non-Company time without reference to, or reliance upon, other Confidential Information or Trade Secrets.

(c) Restrictions. Executive understands and agrees that the compensation the Company has agreed to provide pursuant to this Agreement would not be as lucrative if the restrictions set forth in this section were not included in this Agreement. Therefore, in consideration of the compensation provided in this Agreement, and the other terms agreed to by the Company, along with the disclosure (and continued disclosure of Confidential Information and Trade Secrets) a portion of which is being paid to compensate Executive for these covenants, Executive covenants and agrees as follows:

(i) Non-Compete.

a. For the term of Executive's employment, and for a period of twenty-four (24) months following the Date of Termination, with or without Cause or Good Reason, Executive agrees he will not, directly or indirectly, alone or in association with or on behalf of any other person or entity, own, manage, operate, join, control, be employed by or with, or participate in any Competitive Business in the Restricted Territory in which he would provide the same or substantially the same services to the Competitive Business as those Executive provided to the Company during the last two (2) years of Executive's employment with the Company.

b. If for any reason, paragraph 11(c)(i)(a) is deemed unenforceable by any court or arbitrator, the parties agree that for the term of Executive's employment, and for a period of twenty-four (24) months following the Date of Termination, with or without Cause or Good Reason, Executive will not, directly or indirectly, alone or in association with or on behalf of any other person or entity, own, manage, operate, join, control, be employed by or with, participate in, or provide the same or substantially the same services as those Executive provided to the Company during the last two (2) years of Executive's employment with the Company to any of the following entities: Ingram Micro, Tech Data, Avnet, BlueStar, Westcon, Arrow, Agilysis, Azerty, PC POS, Jarltech, Jenne, Securematics, Synnex, Alliance (NEI), NEXTUSA, ADI, Tri- Northern, Anixter, Motorola,

Avaya, Polycom, Aruba Networks, Honeywell-Intermec, Zebra Technologies, ShoreTel, CISCO Systems, Toshiba, Plantronics.

(ii) Non-Solicitation of Vendors, Manufacturers, Customers, or Suppliers. For the term of Executive's employment, and for a period of twenty-four (24) months following the Date of Termination, Executive agrees he will not, directly or indirectly, alone or in association with or on behalf of any other person or entity, solicit any of the Company's vendors, manufacturers, customers or suppliers with whom Executive had business contact during the course of Executive's employment with the Company for any Competitive Business for the purpose of providing the same or substantially the same products or services as those provided by the Company and will not induce or encourage any vendors, manufacturers, customers or suppliers to cease doing business with the Company or materially alter their relationship with the Company;

(iii) Non-Solicitation of Prospective Vendors, Manufacturers, Customers or Suppliers. For the term of Executive's employment, and for a period of twenty-four (24) months following the Date of Termination, Executive agrees he will not, directly or indirectly, alone or in association with or on behalf of any other person or entity, solicit any of the Company's prospective vendors, manufacturers, customers or suppliers with whom Executive had business contact during the course of Executive's employment with the Company for any Competitive Business;

(iv) Non-Solicitation of Employees. For the term of Executive's employment, and for a period of twenty-four (24) months following the Termination Date, Executive agrees he will not, directly or indirectly, alone or in association with or on behalf of any other person or entity, solicit any of the Company's employees to leave the Company to provide services for any Competitive Business;

(v) Non-Disclosure. For the term of Executive's employment, and for a period of no less than twenty-four (24) months from the Date of Termination (for Confidential Information) or for so long as the information remains protected under this Agreement or applicable statute (for Trade Secrets) thereafter, Executive agrees that he will not, either directly or indirectly, misappropriate, take, remove, publish, disseminate, provide, or otherwise disclose any Confidential Information or Trade Secrets to any third party, unless required to do so by legal process or other law, without the Company's prior written consent. Executive agrees that if he believes he is compelled to reveal Confidential Information or Trade Secrets pursuant to the limited exception provided herein, Executive will provide the Company at least seven (7) days advance notice before doing so, will explain the specifics under which such Confidential Information or Trade Secrets are to be disclosed, and will allow the Company to take steps to prevent the disclosure or use of its Confidential Information or Trade Secrets.

(vi) No Misuse of Confidential Information or Trade Secrets. For the term of Executive's employment, and for a period of no less than twenty-four (24)

months from the Date of Termination (for Confidential Information) or for so long as the information remains protected under this Agreement or applicable statute (for Trade Secrets) thereafter, Executive agrees that he will not, either directly or indirectly, for his own behalf or otherwise, use in any manner the Company's Confidential Information or Trade Secrets.

(vii) Return of Company Property. Within two (2) business days following Executive's Date of Termination, Executive shall return to the Company any and all documents, materials, tangible information, or other property reflecting or containing the Company's Confidential Information or Trade Secrets or that otherwise belong to the Company that Executive has in his possession. Executive will also permanently delete or remove any programs or data containing or reflecting such information and shall retain no copies of any kind. Executive acknowledges that all such materials are the sole exclusive property of the Company and that Executive has no right, title, or interest in such information. If requested by the Company, Executive further agrees to execute a stipulation that he has complied with this Section 11(c)(vii).

(d) Non-Disparagement. The Company and Executive agree that for the term of Employee's employment, and for a period of five (5) years thereafter, they will not disparage each other to any non-governmental third parties. Nothing in this subsection should be interpreted as any restriction on either Party's compliance with any laws requiring or compelling disclosure, or any disclosures that are considered absolutely privileged, such as legal proceedings, subject to the other terms of this Agreement.

(e) Severance and Reformation. The Company and Executive agree that the provisions of Section 11, including all subparts, are intended to strike the balance between Executive earning a livelihood and the Company protecting its legitimate business interests. The Parties have drafted the provisions of Section 11, including all subparts, to allow for enforcement. The Parties agree that should a court determine that any word, phrase, clause, sentence, paragraph, or other part of this Agreement is unreasonably broad in time, territory, or scope so as to render any remaining provisions unenforceable, the Parties desire the court to modify or strike the offending language in the narrowest way possible and enforce the remainder as if the offending language was not there, so that only reasonable restrictions are enforced.

(f) Elective Right of the Company. If Executive challenges the enforceability of the restrictive covenants contained in this Section 11 (the "Restrictive Covenants") (or asserts an affirmative defense to an action seeking to enforce the Restrictive Covenants) based on an argument that the Restrictive Covenants are (i) not enforceable as a matter of law, (ii) unreasonable in geographical scope or duration or (iii) void as against public policy, the Company shall be entitled to (1) to cease making the payments required under Section 2(b) and/or Section 6 above, and (2) upon demand, to have Executive repay, within 10 business days of any such demand, any payments already made. Any right afforded to, or exercised by, the Company under this Agreement will not affect the enforceability of the

Restrictive Covenants or any other right or remedy, equitable or otherwise, of the Company under this Agreement.

12. Assignment and Successors.

(a) This Agreement is personal to Executive and without the prior written consent of the Company will not be assignable by Executive otherwise than by will or the laws of descent and distribution. This Agreement will inure to the benefit of and be enforceable by Executive's legal representatives.

(b) This Agreement will inure to the benefit of and be binding upon the Company and its successors and assigns.

(c) The Company will require any successor (whether direct or indirect, by purchase, merger, consolidation or otherwise) to all or substantially all of the business and/or assets of the Company to assume expressly and agree to perform this Agreement in the same manner and to the same extent that the Company would be required to perform it if no such succession had taken place. As used in this Agreement, "Company" will mean the Company as herein before defined and any successor to its business and/or assets which assumes and agrees to perform this Agreement by operation of law, or otherwise.

13. Miscellaneous.

(a) Waiver. Failure of either Party to insist, in one or more instances, on performance by the other, or any other employee under a similar agreement, in strict accordance with the terms and conditions of this Agreement will not be deemed a waiver or relinquishment of any right granted in this Agreement or of the future performance of any such term or condition or of any other term or condition of this Agreement, unless the waiver is in a writing signed by the Party making the waiver.

(b) Severability. If any provision or covenant, or any part thereof, of this Agreement should be held by any court to be invalid, illegal or unenforceable, either in whole or in part, such invalidity, illegality or unenforceability will not affect the validity, legality or enforceability of the remaining provisions or covenants, or any part thereof, of this Agreement, all of which will remain in full force and effect.

(c) Other Agents. Nothing in this Agreement is to be interpreted as limiting the Company from employing other personnel on such terms and conditions as may be satisfactory to it.

(d) Entire Agreement. Except as provided herein, this Agreement contains the entire agreement between the Parties on the subject matter hereof. From and after the Effective Date, this Agreement will supersede the Existing Agreement and any other agreement between the Parties on the subject matter hereof, and, without limiting the effect of the foregoing, the Executive shall have no further rights in or to any benefits or payments

under the Existing Agreement, and the Agreement shall control with respect to the subject matter hereof.

(e) Governing Law and Jurisdiction. Without regard to conflict of laws principles, the laws of the State of South Carolina will govern this Agreement in all respects, whether as to its validity, construction, capacity, performance or otherwise.

(f) Notices. All notices, requests, demands and other communications required or permitted in this Agreement must be in writing and will be deemed to have been duly given if delivered or three days after mailing if mailed, first class, certified mail, postage prepaid:

To Company: ScanSource, Inc.
 6 Logue Court
 Greenville, SC 29615
 Attn: Chief Executive Officer

To Executive: To the address specified on Exhibit A

Any Party may change the address to which notices, requests, demands and other communications will be delivered or mailed by giving notice thereof to the other Party in the same manner provided herein.

(g) Amendments and Modifications. This Agreement may be amended or modified only by a writing signed by both Parties, which makes specific reference to this Agreement.

(h) Construction. Each Party and his or its counsel have been provided the opportunity to review and revise this Agreement and accordingly, the normal rule of construction to the effect that any ambiguities are to be resolved against the drafting party will not be employed in the interpretation of this Agreement. Instead, the language of all parts of this Agreement will be construed as a whole, and according to its fair meaning, and not strictly for or against either party.

(i) Deferred Compensation Provision. Notwithstanding any other provision of this Agreement, it is intended that any payment or benefit provided under this Agreement that is considered to be “deferred compensation” subject to Code Section 409A will be provided in such manner and at such time, including without limitation in connection with a permissible payment event under Code Section 409A, as is exempt from or complies with the requirements of Code Section 409A. All rights to payments and benefits under this Agreement are to be treated as rights to receive a series of separate payments and benefits to the fullest extent allowed by Code Section 409A. Termination of employment under this Agreement, to the extent required by Code Section 409A, will be construed to mean a “separation from service” under Code Section 409A and related regulations. The terms of this Agreement are intended to, and will be construed and administered to the fullest extent possible, to permit compensation to be paid under this Agreement to be exempt from or

comply with Code Section 409A. Regardless, neither the Company nor its directors, officers or agents will be liable to Executive or anyone else if the Internal Revenue Service or any court or other authority determines that any payments or benefits to be provided under this Agreement are subject to taxes, penalties or interest as a result of failing to comply with or be exempt from Code Section 409A.

Notwithstanding anything in this Agreement to the contrary, if any payment or benefit that constitutes non-exempt “deferred compensation” under Code Section 409A would otherwise be provided under this Agreement due to Executive’s separation from service during a period in which he is a “specified employee” (as defined in Code Section 409A and the associated final regulations), then, to the extent required by Code Section 409A, such payments or benefits will be delayed, to the extent applicable, until six months after Executive’s separation from service or, if earlier, Executive’s death (the “409A Deferral Period”). If such payments are otherwise due to be made in installments during the 409A Deferral Period, the payments that would otherwise have been made in the 409A Deferral Period will be accumulated and paid in a lump sum during the seventh month following the Executive’s separation from service, and the balance of the payments will be made as otherwise scheduled. In the event benefits are required to be deferred, any such benefit may be provided during the 409A Deferral Period at Executive’s expense, with Executive having the right to reimbursement from the Company once the 409A Deferral Period ends, and the balance of the benefits will be provided as otherwise scheduled.

With respect to any reimbursement or in-kind benefit arrangements of the Company that constitute deferred compensation for purposes of Code Section 409A, except as otherwise permitted by Section 409A, the following conditions shall be applicable: (i) the amount eligible for reimbursement, or in-kind benefits provided, under any such arrangement in one calendar year may not affect the amount eligible for reimbursement, or in-kind benefits to be provided, under such arrangement in any other calendar year, (ii) any reimbursement must be made on or before the last day of the calendar year following the calendar year in which the expense was incurred, and (iii) the right to reimbursement or in-kind benefits is not subject to liquidation or exchange for another benefit. Whenever payments under this Agreement are to be made in installments, each such installment shall be deemed to be a separate payment for purposes of Code Section 409A.

14. Arbitration. Executive shall be required (in lieu of litigation) to have any and all disputes or controversies arising under or in connection with this Agreement settled by final and binding arbitration administered by the American Arbitration Association (“AAA”) under its National Rules for the Resolution of Employment Disputes and the Federal Arbitration Act, 9 U.S.C. §1, et seq. subject to the following: (a) such arbitration shall take place in Greenville, South Carolina; (b) such arbitration shall be arbitrated by one (1) neutral arbitrator with at least ten (10) years of employment arbitration experience and chosen by both parties from the AAA Roster of Neutral Arbitrators; (c) either party may seek from any court having jurisdiction any interim or provisional relief that is necessary to protect the rights or property of that party, pending the establishment of the arbitral tribunal; (d) discovery shall consist of the exchange of non-confidential and non-privileged documents that are strictly relevant to the claims before the arbitrator, shall be concluded

within forty-five (45) days following the appointment of the arbitrator, and, in case of depositions, shall consist of no more than three (3) depositions per party with a maximum duration of three (3) hours each and all depositions shall be held within thirty (30) days of the making of a request; (e) the arbitration will be based on the submission of documents and there shall be no in-person or oral hearing; (f) the award shall be issued within six (6) months of the filing of the notice of intention to arbitrate and the arbitrator shall agree to comply with this schedule before accepting appointment; (g) except as may be required by law, neither a party nor an arbitrator may disclose the existence, content, or results of any arbitration hereunder without the prior written consent of both parties; (h) the arbitrator shall not have authority to award punitive damages; (i) each party shall bear its own attorney's fees with the Company bearing the arbitrator's and administrative fees related to arbitration; and (j) judgment upon the award rendered by the arbitrator may be entered by any court having jurisdiction thereof.

15. Survival. All non-competition, non-solicitation, non-disclosure and use, and non-recruiting obligations in Section 11 of this Agreement shall survive the voluntary or involuntary termination of Executive's employment with or without cause, and no dispute regarding any other provisions of this Agreement or regarding Executive's employment or the termination of Executive's employment shall prevent the operation and enforcement of these obligations.

16. Tolling. The restricted time periods in Section 11 above shall be tolled during any time period that the Executive is in violation of such covenants, as determined by a court of competent jurisdiction, so that the Company may realize the full benefit of its bargain. This tolling shall include any time period during which litigation is pending, but during which the Executive has continued to violate such protective covenants and a court has declined to enjoin such conduct or the Executive has failed to comply with any such injunction.

17. Execution in Counterparts. This Agreement may be executed in any number of counterparts, each of which shall be considered an original, but all of which construed together shall constitute on and the same Agreement. Executive agrees that the Company may enforce this Agreement with a copy that is only signed by Executive.

[Rest of page blank; signature page follows]

[Signature page to Employment Agreement]

IN WITNESS WHEREOF, the parties hereto have duly executed and delivered this Employment Agreement as of the dates indicated below.

EXECUTIVE: SCANSOURCE, INC.:

/s/ Charles A. Mathis By: /s/ Michael L. Baur
Name: Charles A. Mathis

Date: 6/26/14 Name: Michael L. Baur

Title: CEO

Date: 6/25/14

EXHIBIT A TO EMPLOYMENT AGREEMENT

Executive: Charles A. Mathis

Base Salary: \$380,000 annually

Variable Compensation (Incentive Compensation Opportunity): Annual target Variable Compensation award opportunity of a maximum amount of 70% of annual Base Salary, based upon Executive's performance and attainment of performance goals established by the Compensation Committee, as determined in the Compensation Committee's discretion and subject to terms of applicable Company plan or program.

Annual Equity Award: Consideration for inclusion in the Company's annual equity grant, subject to Compensation Committee discretion and the terms of the Company's 2013 Long-Term Incentive Plan or other applicable plan (the "2013 Plan") and related award agreement(s).

Performance-Based Award: Grant of performance- and service-based restricted stock unit award under the 2013 Plan with a target value of \$300,000 (\$100,000 per year), which award shall have a three-year performance period, and which shall be subject to such performance, service and other terms and conditions established by the Compensation Committee (including but not limited to discretion of the Compensation Committee as to the extent, if any, to which the award is earned), or as may apply under the 2013 Plan and related award agreement; number of shares of Common Stock subject to award to be determined by dividing award dollar value by fair market value of Common Stock, as determined by the Compensation Committee using averaging or other methodology established by the Compensation Committee.

Deferred Compensation: For each of the calendar years of the term of the Agreement (including calendar year 2017), Executive shall be eligible to participate in the Company's Nonqualified Deferred Compensation Plan by deferring up to 25% of compensation eligible for deferral under such plan, and a match of 30% of deferred amounts will be made by the Company on the first 15% of compensation.

Benefits: All benefits generally available to Peer Executives as well as the following:

- Short-term disability benefits equating to salary continuation.
- Long-term disability benefits targeting approximately 75% of income replacement (up to \$125,000 per month). If disabled after year 5 will receive a lump sum payment equal to the monthly benefit amount through age 65.
- Term life insurance - \$1,000,000 policy (subject to underwriting) and a \$500,000 policy (subject to limited underwriting).
- Comprehensive physical program allowing Executive to receive an annual examination at no cost.

Days of Paid Vacation per Fiscal Year: Approving Person:

15 Chief Executive Officer

Executive Notice Address:

103 Golden Wings Ct.
Greer SC 29650

Initials: CAM/MLB

EXHIBIT B TO EMPLOYMENT AGREEMENT

Form of Release

THIS RELEASE ("Release") is granted effective as of the ____ day of _____, ____, by _____ ("Executive") in favor of ScanSource, Inc. ("ScanSource" or the "Company"). This is the Release referred to in that certain Employment Agreement dated effective as of July 1, 2014 by and between the Company and Executive (the "Employment Agreement"). Executive gives this Release in consideration of the Company's promises and covenants as recited in the Employment Agreement, with respect to which this Release is an integral part.

1. **Release of the Company.** Executive, for himself, his successors, assigns, executors, administrators, insureds, attorneys, and all those entitled to assert his rights, now and forever hereby releases and discharges the Company and its respective officers, directors, shareholders, stockholders, trustees, partners, joint ventures, board members, employees, agents, parent corporations, divisions, wholly or partially owned subsidiaries, affiliates, estates, predecessors, successors, heirs, executors, administrators, assigns, representatives, and attorneys (the "Released Parties"), from any and all legal, administrative, and equitable claims, actions, causes of action, sums of money due, suits, debts, liens, covenants, contracts, obligations, costs, expenses, damages, judgments, agreements, promises, demands, claims for attorneys' fees and costs, or liabilities of any nature whatsoever, in law or in equity, which Executive ever had or now has against the Released Parties, including any claims arising by reason of or in any way connected with any employment relationship which existed between the Company or any of its parents, subsidiaries, affiliates, or predecessors, and Executive. It is understood and agreed that this Release is intended to cover all actions, causes of action, claims or demands for any damage, loss or injury, which may be traced either directly or indirectly to the aforesaid employment relationship, or the termination of that relationship, that Executive has, had or purports to have, from the beginning of time to the date of this Release, whether known or unknown, that now exists, no matter how remotely they may be related to the aforesaid employment relationship including but not limited to claims for employment discrimination under federal, state or local statutes, except as provided in Paragraph 2. Without limiting the broadness of the foregoing language, Executive agrees to release Company from any and all claims under:

1. Title VII of the Civil Rights Act of 1964, as amended by the Civil Rights Act of 1991;
2. Section 1981 of the Civil Rights Act of 1866, as amended;
3. Executive Orders 11246, 13496 and 11141;
4. the Equal Pay Act of 1963;
5. the Consolidated Omnibus Budget Reconciliation Act of 1985 (COBRA);
6. the Americans with Disabilities Act of 1990 and any amendments thereto, including the ADA Amendments Act of 2008;
7. the Rehabilitation Act of 1973;
8. the Employee Retirement and Income Security Act of 1974;
9. the Sarbanes-Oxley Corporate Reform Act of 2002 and the Dodd-Frank Wall Street Reform and Consumer Protection Act (the "Dodd-Frank Act");

10. whistle-blower and/or retaliation claims or suits under the Sarbanes-Oxley Act of 2002 and/or the Dodd-Frank Act;
11. the Family and Medical Leave Act of 1993, as amended;
12. the Health Insurance Portability and Accountability Act of 1996 (HIPAA);
13. the Fair Labor Standards Act of 1938, as amended;
14. the Occupational Safety and Health Act;
15. the Uniformed Services Employment and Re-employment Act of 1994;
16. the Worker Adjustment and Retraining Notification Act;
17. the Lilly Ledbetter Fair Pay Act of 2009;
18. the Fair Credit Reporting Act;
19. state workers' compensation law;
20. Consumer Credit Protection Act;
21. Immigration Reform and Control Act of 1986;
22. National Labor Relations Act;
23. the Genetic Information Nondiscrimination Act of 2008;
24. the Age Discrimination in Employment Act;
25. the South Carolina Payment of Wages Act;
26. the South Carolina Human Affairs Law;
27. claims arising under the United States and/or South Carolina Constitutions;
28. claims for wages and overtime pay and commissions, bonuses, vacation pay or any express or implied contracts;
29. any common law claims or claims founded in tort (including negligence) for wrongful discharge, negligence, negligent hiring, negligent training or negligent supervision, assault or battery, invasion of privacy, false imprisonment, intentional infliction of emotional distress, defamation, libel, slander, promissory estoppel, detrimental reliance, quantum meruit, unjust enrichment, breach of contract (oral, written or implied), or any other equitable basis or action;
30. claims that the Company treated or dealt with me unfairly; and
31. any claims arising under any other federal, state or local law, statute, regulation, ordinance, treaty or law of any other type, or any other cause of action or theory of recovery arising by virtue of my employment relationship and/or affiliation with ScanSource or any public policy, tort or common law.

Without waiving any prospective or retrospective rights under the Fair Labor Standards Act, I admit that I have received from ScanSource all rights and benefits, if any, due or potentially due to me pursuant to the Fair Labor Standards Act. I understand and acknowledge that it is the parties' intent that I release all claims that can be legally released but no more than that.

I affirm that while I was employed with the Company, I had no known and unreported workplace injuries or occupational diseases and was not denied leave under the Family and Medical Leave Act of 1993.

I represent and agree that I have been paid and have received all paid or unpaid leave, compensation, wages, overtime, vacation or sick pay, bonuses and/or benefits to which I may be entitled and no other amounts, except as may be provided in the Employment Agreement, are due to me.

Executive specifically agrees not to attempt to institute any proceedings or pursue any action pursuant to any laws (state, local, or federal) with any agency or in any jurisdiction (state, local, or federal) based on employment with or termination from the Company except as required or protected by law. Executive covenants that he will in no way encourage or assist any person or entity (including, but not limited to, any past, present or future employee(s) of Company) to take part or participate in any legal or administrative action against Company, except as otherwise required or protected by law. Nothing in this Release shall be interpreted or applied in a manner that affects or limits Executive's otherwise lawful ability to bring an administrative charge with the Equal Employment Opportunity Commission or other appropriate state or local comparable administrative agency; however, the parties agree that Executive has released Company from all liability arising from the laws, statutes, and common law listed in paragraph 1 (except as set forth in this paragraph below, with respect to the Age Discrimination in Employment Act ("ADEA")) and, as such, Executive is not and will not be entitled to any monetary or other comparable relief on his own behalf. Nothing in this Release shall be interpreted or applied in a manner that affects or limits Executive's ability to challenge (with a lawsuit or administrative charge) the validity of Executive's release of Company in this Release for age claims under the ADEA (which release is provided for in paragraph 2 of this Release). Other than a challenge to the validity of the release of ADEA claims under this Release, Executive has released Company from all liability with respect to the laws, statutes, and common law listed in paragraph 1, including the ADEA.

2. Release of Claims Under Age Discrimination in Employment Act. Without limiting the generality of the foregoing, Executive agrees that by executing this Release, he has released and waived any and all claims he has or may have as of the date of this Release for age discrimination under the Age Discrimination in Employment Act, 29 U.S.C. § 621, *et seq.* It is understood that Executive is advised to consult with an attorney prior to executing this Release; that he in fact has consulted a knowledgeable, competent attorney regarding this Release; that he may, before executing this Release, consider this Release for a period of twenty-one (21) calendar days; and that the consideration he receives for this Release is in addition to amounts to which he was already entitled. It is further understood that this Release is not effective until seven (7) calendar days after the execution of this Release and that Executive may revoke this Release within seven (7) calendar days from the date of execution hereof.

3. Executive acknowledges and represents that as an employee of the Company he has been obligated to, and has been given the full and unfettered opportunity to, report timely to the Company any conduct that would give rise to an allegation that the Company or any affiliate of the Company has violated any laws applicable to its businesses or has engaged in conduct which could otherwise be construed as inappropriate or unethical in any way, even if such conduct is not, or does not appear to be, a violation of any law. Executive acknowledges that a condition of the payment of any consideration provided by the Company to the Executive hereunder is his truthful and complete representation to the Company regarding any such conduct, including but not limited to

conduct regarding compliance with the Company's Code of Ethics, policies, and procedures, and with all laws and standards governing the Company's business.

Executive's truthful and complete representation, based on his thorough search of his knowledge and memory, is as follows: Executive has not been directly or indirectly involved in any such conduct; no one has asked or directed him to participate in any such conduct; and Executive has no specific knowledge of any conduct by any other person(s) that would give rise to an allegation that the Company or any affiliate of the Company has violated any laws applicable to its businesses or has engaged in conduct which could otherwise be construed as inappropriate or unethical in any way.

Executive agrees that he has carefully read this Release and is signing it voluntarily. Executive acknowledges that he has had twenty one (21) days from receipt of this Release to review it prior to signing or that, if Executive is signing this Release prior to the expiration of such 21-day period, Executive is waiving his right to review the Release for such full 21-day period prior to signing it. Executive has the right to revoke this release within seven (7) days following the date of its execution by him, and must deliver written notice of revocation in person to _____ at the following address: _____, and such revocation shall not be effective unless actually received by _____, within seven (7) days following the date the release was signed by Executive. If Executive revokes this Release within such seven (7) day period, no severance benefit will be payable to him under the Employment Agreement and he shall return to the Company any such payment received prior to that date.

EXECUTIVE HAS CAREFULLY READ THIS RELEASE AND ACKNOWLEDGES THAT IT CONSTITUTES A GENERAL RELEASE OF ALL KNOWN AND UNKNOWN CLAIMS AGAINST THE COMPANY UNDER THE AGE DISCRIMINATION IN EMPLOYMENT ACT, AND ANY AND ALL OTHER STATE AND FEDERAL LAWS, WHETHER STATUTORY OR COMMON LAW. EXECUTIVE ACKNOWLEDGES THAT HE HAS HAD A FULL OPPORTUNITY TO CONSULT WITH AN ATTORNEY OR OTHER ADVISOR OF HIS CHOOSING CONCERNING HIS EXECUTION OF THIS RELEASE AND THAT HE IS SIGNING THIS RELEASE VOLUNTARILY AND WITH THE FULL INTENT OF RELEASING THE COMPANY FROM ALL SUCH CLAIMS.

Executive

Date: _____

EXHIBIT C TO EMPLOYMENT AGREEMENT

Definition of Change in Control:

For the purposes of this Agreement, a “Change in Control” shall mean the occurrence of any of the following events:

(i) individuals who, on the Effective Date, constitute the Board of Directors of the Company (the “Incumbent Directors”) cease for any reason to constitute at least a majority of such Board, provided that any person becoming a director after the Effective Date and whose election or nomination for election was approved by a vote of at least a majority of the Incumbent Directors then on the Board shall be an Incumbent Director; provided, however, that no individual initially elected or nominated as a director of the Company as a result of an actual or threatened election contest with respect to the election or removal of directors (“Election Contest”) or other actual or threatened solicitation of proxies or consents by or on behalf of any “person” (such term for purposes of this definition being as defined in Section 3(a)(9) of the Exchange Act and as used in Sections 13(d)(3) and 14(d)(2) of the Exchange Act) other than the Board (“Proxy Contest”), including by reason of any agreement intended to avoid or settle any Election Contest or Proxy Contest, shall be deemed an Incumbent Director; or

(ii) any person is or becomes a “beneficial owner” (as defined in Rule 13d-3 under the Exchange Act), directly or indirectly, of either (A) 35% or more of the then-outstanding shares of common stock of the Company (“Company Common Stock”) or (B) securities of the Company representing 35% or more of the combined voting power of the Company’s then outstanding securities eligible to vote for the election of directors (the “Company Voting Securities”); provided, however, that for purposes of this subsection (ii), the following acquisitions shall not constitute a Change in Control: (w) an acquisition directly from the Company, (x) an acquisition by the Company or a Subsidiary of the Company, (y) an acquisition by any employee benefit plan (or related trust) sponsored or maintained by the Company or any Subsidiary of the Company, or (z) an acquisition pursuant to a Non-Qualifying Transaction (as defined in subsection (iii) below); or

(iii) the consummation of a reorganization, merger, consolidation, statutory share exchange or similar form of corporate transaction involving the Company or a Subsidiary (a “Reorganization”), or the sale or other disposition of all or substantially all of the Company’s assets (a “Sale”) or the acquisition of assets or stock of another corporation (an “Acquisition”), unless immediately following such Reorganization, Sale or Acquisition: (A) all or substantially all of the individuals and entities who were the beneficial owners, respectively, of the outstanding Company Common Stock and outstanding Company Voting Securities immediately prior to such Reorganization, Sale or Acquisition beneficially own, directly or indirectly, more than 55% of, respectively, the then outstanding shares of common stock and the combined voting power of the then outstanding voting securities entitled to vote generally in the election of directors, as the case may be, of the corporation resulting from such Reorganization, Sale or Acquisition (including, without

limitation, a corporation which as a result of such transaction owns the Company or all or substantially all of the Company's assets or stock either directly or through one or more subsidiaries, the "Surviving Corporation") in substantially the same proportions as their ownership, immediately prior to such Reorganization, Sale or Acquisition, of the outstanding Company Common Stock and the outstanding Company Voting Securities, as the case may be, and (B) no person (other than (x) the Company or any Subsidiary of the Company, (y) the Surviving Corporation or its ultimate parent corporation, or (z) any employee benefit plan (or related trust) sponsored or maintained by any of the foregoing is the beneficial owner, directly or indirectly, of 35% or more of the total common stock or 35% or more of the total voting power of the outstanding voting securities eligible to elect directors of the Surviving Corporation, and (C) at least a majority of the members of the board of directors of the Surviving Corporation were Incumbent Directors at the time of the Board's approval of the execution of the initial agreement providing for such Reorganization, Sale or Acquisition (any Reorganization, Sale or Acquisition which satisfies all of the criteria specified in (A), (B) and (C) above shall be deemed to be a "Non-Qualifying Transaction"); or

- (iv) approval by the stockholders of the Company of a complete liquidation or dissolution of the Company.

EXECUTION COPY**AMENDED AND RESTATED EMPLOYMENT AGREEMENT**

THIS AMENDED AND RESTATED EMPLOYMENT AGREEMENT ("Agreement") between ScanSource, Inc., a South Carolina corporation ("Company"), and Gerald Lyons ("Executive") (collectively the "Parties") is effective as of July 1, 2014 ("Effective Date").

BACKGROUND

The Company and the Executive are parties to that certain Amended and Restated Employment Agreement originally dated as of July 25, 2012 (the "Existing Agreement"), which Existing Agreement expires June 30, 2014.

The Company desires to continue to employ Executive as Senior Vice President of Finance and Principal Accounting Officer, and Executive is willing to continue to serve in such capacity, and the parties desire to document the terms and conditions of such employment as stated in this Agreement.

In consideration of the foregoing and of the mutual commitments below, including but not limited to the grant of a performance-based restricted stock unit award and the provision of modified severance and other benefits and restrictive covenants (as further described below), and for other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the Parties agree as follows:

1. **Employment.** On the Effective Date, Executive will be employed in the capacity stated above with such commensurate responsibilities as are assigned to him by the Company's Board of Directors (the "Board"), the Compensation Committee of the Board (the "Compensation Committee") or Chief Financial Officer (the "CFO") or, in the discretion of the Board or the Compensation Committee, the Chief Executive Officer (the "CEO"). Executive will report directly to the CFO or, in the discretion of the Board or the Compensation Committee, the CEO.

2. **Employment Period.**

(a) Unless earlier terminated in accordance with Section 5, the Agreement shall be for a term (the "Employment Period"), beginning on the Effective Date and ending on June 30, 2017, the Employment Period End Date. *Provided, however,* that if a Change in Control, as defined in Exhibit C hereto, occurs during the Employment Period, the ending date of the Employment Period will be extended so that it expires on the later of the Employment Period End Date or the first anniversary of the date on which the Change in Control initially occurred.

(b) If the Company does not renew the Agreement, or enter into a new employment agreement with Executive with the same or similar terms as the Agreement,

as of the Employment Period End Date, the Executive may choose one of the following two options: (i) the Executive will voluntarily resign from employment with the Company as of the Employment Period End Date and the Company will pay to Executive, on the 30th day after the Employment Period End Date, an amount equal to one (1) times the highest combined annual Base Salary and Variable Compensation earned by Executive from the Company, including any such amounts earned but deferred, in the last three (3) fiscal years before the Employment Period End Date, less normal withholdings; or (ii) the Executive may elect to continue employment with the Company on an at-will basis and, for a maximum of one year following the Employment Period End Date, receive the same salary and incentive compensation opportunity as in effect in the last year of the Agreement.

The Parties agree and acknowledge that: (i) nothing in this Section 2(b) nor any action the Company may take pursuant to this Section 2(b) will give rise to a claim by Executive for termination without Cause, termination for Good Reason, or termination due to the Executive's Retirement or the normal expiration of the Executive's Employment Period or for Severance Benefits or any amounts or benefits other than those specifically enumerated in this Section 2(b); (ii) Executive will not be entitled to receive any amounts or benefits under this Section 2(b) if Executive is otherwise entitled to receive or receives benefits under Section 6(a)(iii) of this Agreement or if Executive is in violation of Section 11; and (iii) Executive must execute and provide to the Company a Release, and the period for revoking same must have expired, before the 30th day following the Employment Period End Date in order to receive any amounts or benefits under this Section 2(b). Nothing in this Section 2(b) will prohibit Executive's employment from being terminated for Cause or for any other event enumerated in this Agreement.

3. Extent of Service. During the Employment Period, Executive agrees to devote his business time, attention, skill and efforts exclusively to the faithful performance of his duties hereunder. *Provided, however,* that it shall not be a violation of this Agreement for Executive to (i) devote reasonable periods of time to charitable and community activities and, with the approval of the CFO, industry or professional activities, and/or (ii) manage personal business interests and investments, so long as these activities do not interfere with the performance of Executive's responsibilities under this Agreement.

4. Compensation and Benefits: Policies.

(a) Base Salary. During the Employment Period, the Company will pay to Executive a base salary at the rate specified on Exhibit A ("Base Salary"), less normal withholdings, payable in equal monthly or more frequent installments as are customary under the Company's payroll practices from time to time. The CFO will review the Executive's Base Salary annually and make recommendations to the Compensation Committee, which Compensation Committee may increase (but not decrease) Executive's Base Salary from year to year. This annual review of Executive's Base Salary will consider, among other things, Executive's performance and the Company's performance. If Executive becomes eligible during the Employment Period to receive benefits under the Company's short-term disability policy, the Company will continue to pay Executive's Base Salary;

provided, however, that Executive's Base Salary during such period will be reduced by any amounts Executive receives under the short-term disability policy.

(b) Equity Compensation, Variable Compensation, Savings and Retirement Plans. During the Employment Period, Executive will be entitled to participate in all deferred compensation, savings and retirement plans, practices, policies and programs applicable to executive officer direct reports to the CEO of the Company (the "Peer Executives") pursuant to their terms. The Executive will also be eligible to receive certain equity-based compensation and certain cash-based variable compensation (such cash-based compensation, the "Variable Compensation"), in each case based on the performance or other criteria established periodically by the Committee, as specified on Exhibit A. The Committee, at its discretion, may award to Executive additional bonuses or other amounts as it deems necessary or deserving based on Executive's performance. The Executive also will be eligible to receive such additional benefits as are described on Exhibit A.

(c) Welfare Benefit Plans. During the Employment Period, Executive and Executive's eligible dependents may participate pursuant to their terms in the welfare benefit plans, practices, policies and programs provided by the Company which may include, medical, prescription, dental, disability, employee life, group life, accidental death and travel accident insurance plans and programs (the "Welfare Plans") to the extent applicable to Peer Executives. Contributions will be required by the Executive. The Company may, in its sole discretion, modify, or change its Welfare Plans.

(d) Expenses. During the Employment Period, Executive will be entitled to receive reimbursement for all reasonable expenses incurred by Executive in accordance with the policies, practices and procedures of the Company and such reimbursements will be made no later than the last day of the year immediately following the year in which Executive incurs the reimbursable expense. The amount of reimbursable expenses incurred in one taxable year shall not affect the expenses eligible for reimbursement in any other taxable year. No right to reimbursement is subject to liquidation or exchange for other benefits.

(e) Fringe Benefits. During the Employment Period, Executive will be entitled to fringe benefits, if any, in accordance with the plans, practices, programs and policies of the Company in effect for Peer Executives.

(f) Vacation. During each fiscal year during the Employment Period, Executive will be entitled to no less than the number of days of paid vacation specified on Exhibit A. Executive may take vacation at the times Executive reasonably requests, subject to the prior approval of the person specified on Exhibit A. Unused vacation time will not carry over to the next fiscal year and will not be paid upon termination of employment.

(g) Clawback. Executive is subject to and will comply with the Company's Compensation Recovery Policy ("Clawback Policy") as the same may be revised or amended from time to time as applicable to Executive. In addition, Executive agrees that he shall be

subject to the Company's Stock Ownership and Retention Policy, as in effect from time to time, if and to the extent applicable to Executive.

5. Termination of Employment.

(a) Death, Retirement or Disability. Executive's employment terminates automatically upon Executive's death or Retirement during the Employment Period. For purposes of this Agreement, "Retirement" means, unless the Compensation Committee determines otherwise, the occurrence of both (i) the Executive's non-Cause termination of employment with the Company at any time on or after attaining a minimum age of 55 with 10 or more years of employment with the Company, and (ii) the Compensation Committee's determination that the Executive's termination qualifies as a retirement. If the Company determines that the Executive has become disabled during the Employment Period (pursuant to the definition of Disability set forth below), it may give to Executive written notice of its intention to terminate Executive's employment. Executive's employment with the Company will terminate effective on the 30th day after receipt of such written notice by Executive (the "Disability Effective Date"), unless, within the 30 days after such receipt, Executive has returned to full-time performance of Executive's duties. For purposes of this Agreement, "Disability" means a mental or physical disability as determined by the Board in accordance with standards and procedures similar to those under the Company's long-term disability plan, if any. If the Company has no long-term disability plan, "Disability" will mean the inability of Executive, as determined by the Board, to perform the essential functions of his regular duties and responsibilities, with or without reasonable accommodation, due to a medically determinable physical or mental condition which has lasted (or can reasonably be expected to last) for twelve workweeks in any twelve-month period. At the request of Executive or his personal representative, the Board's determination that the Disability of Executive has occurred will be certified by two physicians mutually agreed upon by Executive, or his personal representative, and the Company. If the two physicians are unwilling to certify that the Executive is disabled, Executive's termination will be deemed a termination by the Company without Cause and not a termination because of his Disability.

(b) Termination by the Company. The Company may terminate Executive's employment with or without Cause. For purposes of this Agreement, "Cause" means:

- (i) engaging in unethical or illegal conduct or misconduct, which includes but is not limited to violations of the Company's policies concerning employee conduct; or
- (ii) the Executive's breach of any material (as determined by the Board or the Compensation Committee) term of this Agreement.

Regardless of whether Executive's employment initially is considered to be terminated for any reason other than Cause, the Executive's employment will be considered to have been terminated for Cause for purposes of this Agreement if the Board or the Committee determines after Executive's employment ends that the Executive violated Section 5(b) above while employed.

(c) Termination by Executive. Executive's employment may be terminated by Executive for Good Reason or no reason. For purposes of this Agreement, "Good Reason" means:

(i) without the consent of Executive, the assignment to Executive of any duties materially inconsistent for Peer Executives, excluding an isolated, insubstantial, and inadvertent action taken in good faith which is remedied by the Company promptly after receipt of notice from Executive;

(ii) a material reduction, without the consent of the Executive, by the Company in Executive's Base Salary or a material reduction in Executive's Variable Compensation opportunity;

(iii) the failure by the Company (A) to continue in effect any compensation plan in which Executive participates as of the Effective Date that is material to Executive's total base compensation, unless the Company provides a substantially equivalent alternative plan, or (B) to continue Executive's participation in the alternative plan on a basis that is substantially equivalent in terms of the value of benefits provided, in each case unless the Executive so consents;

(iv) the Company's requiring Executive, without his consent, to be based at any location that increases Executive's normal work commute by fifty (50) miles or more as compared to Executive's normal work commute or otherwise is a material change in the location at which Executive is based;

(v) any failure by the Company to comply with and satisfy Section 12(c) of this Agreement, unless the Executive so consents;

(vi) the material breach of this Agreement by the Company, unless the Executive so consents; or

(vii) the termination of employment by the Executive during the 60-day period beginning on the six-month anniversary of a Change in Control, if the Company or a successor entity has not offered the Executive a new employment agreement after or in contemplation of a Change in Control with substantially the same or better compensation and terms and conditions of employment as are stated in this Agreement.

Executive must provide written notice to the Company of Executive's intent to terminate employment for Good Reason within 30 days of the initial existence of the Good Reason. The Company will have an opportunity to cure any claimed event of Good Reason within 30 days of notice from Executive. The Board's good faith determination of cure will be binding. The Company will notify Executive in writing of the timely cure of any claimed event of Good Reason and how the cure was made. Any Notice of Termination delivered by Executive based on a claimed Good Reason which was thereafter cured by the Company will be deemed withdrawn and ineffective to terminate this Agreement. If the Company

fails to cure any claimed event of Good Reason within 30 days of notice from Executive, Executive must terminate employment for such claim of Good Reason within 180 days of the initial existence of the Good Reason, and if Executive fails to do so, such claimed event of Good Reason will be deemed withdrawn and ineffective to terminate this Agreement.

(d) Notice of Termination; Basis of Termination. Any termination of Executive's employment by the Company or by Executive must be communicated by Notice of Termination to the other Party in accordance with Section 13(f) of this Agreement. For purposes of this Agreement, a "Notice of Termination" means a written notice which (i) states the specific termination provision in this Agreement relied upon, including whether such termination is for Cause or Good Reason, (ii) if such termination is for Cause or Good Reason, sets forth in reasonable detail the facts and circumstances claimed to provide a basis for termination of Executive's employment under the provisions so indicated, and (iii) specifies the termination date. The failure by Executive or the Company to set forth in the Notice of Termination any fact or circumstance which contributes to a showing of Good Reason or Cause will not waive any right of Executive or the Company, or preclude Executive or the Company from asserting applicable facts or circumstances in enforcing rights under this Agreement. The Compensation Committee or the Board shall (except as otherwise provided in Section 5(a) with respect to Disability) have discretion to determine the basis for any termination of employment of Executive.

(e) Date of Termination. The "Date of Termination" means, unless the Parties agree otherwise in writing (other than with respect to death), the date specified in the Notice of Termination or, if Executive's employment is terminated by reason of death, Retirement or Disability, the date of death or Retirement or the Disability Effective Date.

6. Obligations of the Company upon Termination.

(a) Termination by Executive for Good Reason; Termination by the Company Other Than for Cause, Death, Disability or Retirement; Effect of Expiration of Employment Period. If, during the Employment Period: (i) the Company terminates Executive's employment other than for Cause, death, Disability, or Retirement or the normal expiration of the Employment Period, or (ii) Executive terminates employment for Good Reason following the Company's failure to cure such Good Reason as set forth in Section 5(c) of this Agreement, the Company will pay Executive the following amounts and provide the following benefits:

(iii) Executive's Base Salary earned through the Date of Termination to the extent not already paid (such amount is hereinafter referred to as the "Accrued Obligations") will be paid as soon as practicable after the Date of Termination per the Company's customary payroll practices;

(iv) to the extent not previously paid or provided and only if earned as of the Date of Termination, the Company will timely pay or provide to Executive any other amounts or benefits which Executive is eligible to receive under any plan,

program, policy, practice, contract or agreement of the Company (the “Other Benefits”) pursuant to the terms of such Other Benefits; and

(v) subject to Section 13(i) of this Agreement and Executive’s execution of a Release in substantially the form of Exhibit B hereto (the “Release”) within the time set forth in Section 6(g) of this Agreement, the Company will (1) pay to Executive the amount in (A) beginning with the Company’s first normal payroll cycle that occurs at least 30 days after the Date of Termination, (2) pay the amount in (B) as set forth below, and (3) provide the benefits in (C):

(A) a single year of compensation in an amount equal to one (1) times the average annual Base Salary and Variable Compensation earned by Executive from the Company, including any such amounts earned but deferred, in the last three fiscal years before the Date of Termination the (“Average Compensation Amount”), less normal withholdings, and an additional amount (the “Retention Benefit”) equal to one-twelfth (1/12) times the Average Compensation Amount times the number of full years beyond ten (10) years that the Executive was consecutively employed by the Company prior to the Date of Termination, less normal withholdings (collectively the “Severance Benefits”); *provided, however*, that the maximum amount that Executive may receive under this Section 6(a)(iii)(A) is two (2) times the Average Compensation Amount, less normal withholdings. Notwithstanding the foregoing, if the Date of Termination occurs within 12 months after or prior to and otherwise in contemplation of (as determined by the Board or the Compensation Committee) a Change in Control, as defined in Exhibit C, Executive will receive Severance Benefits in an amount equal to two and a half (2.5) times the Average Compensation Amount, less normal withholdings, but no Retention Benefit. With respect to any amounts due Executive under this Section 6(a)(iii)(A), the payments shall be made in bi-weekly installments pursuant to the Company’s normal payroll cycle during the term of the 24-month period referenced in Sections 11(c)(i) through 11(c)(vi). If Executive is entitled to receive severance benefits under this Section 6(a)(iii)(A), then he shall not be entitled to receive severance benefits under the Company’s Severance Pay Plan for Officers, as such plan may be amended, or any successor plan. The Average Compensation Amount defined herein is to exclude any fiscal years in which the Executive was not employed by the Company, include any partial fiscal years (which shall be annualized), and not include the then current fiscal year;

(B) a bonus equal to the pro rata portion (based on the number of days elapsed in the current fiscal year through the Date of Termination) of the current fiscal year annual Variable Compensation, if any, that would otherwise be payable if the Executive had continued employment through the end of the current fiscal year based on actual performance (the “Pro Rata

Bonus”). The Pro Rata Bonus, if any, less normal withholdings, will be paid within 30 days of the Committee’s certification that the Executive has met the necessary performance criteria, which will be no later than the later of March 15 following the end of the calendar year in which Executive’s right to the bonus vests or the 15th day of the third month following the end of the Company’s fiscal year in which Executive’s right to the bonus vests; and

(C) for up to twenty-four (24) months following the Date of Termination (the “Continuation Coverage Period”), Executive shall be entitled to participate (treating Executive as if he were an active employee of the Company for this purpose) in the Company’s medical (including prescription drug coverage) and dental plan (the “Company Health Care Plans”). Executive shall pay the entire premium charged for the coverage of Executive and, if applicable, his dependents under the Company Health Care Plans. During the first eighteen (18) months of the Continuation Coverage Period, the premium required for the continuation coverage provided pursuant to this paragraph (C) shall be equal to the premium required by the continuation of coverage requirements of Section 4980B of the Code and Part 6 of Title I of the Employee Retirement Income Security Act of 1974, as amended (“COBRA”) for such continuation coverage (the “COBRA Rate”). During the remainder of the Continuation Coverage Period, the premium required for the continuation coverage shall be the greater of the COBRA Rate or the actuarially determined cost of the continuation coverage as determined by an actuary selected by the Company (i.e., the access only rate). The Company shall reimburse Executive for the difference between the monthly premium amount actually paid by Executive pursuant to this paragraph (C) and the monthly premium amount paid by active employees for the same level of coverage under the Company Health Care Plans. Such reimbursement shall be paid to Executive by the 20th day of the month immediately following the month in which Executive timely remits the required premium payment. The right to reimbursement and the coverage provided pursuant to this paragraph (C) shall terminate prior to the end of the Continuation Coverage Period if Executive is eligible to receive similar benefits under another employer-provided or group plan (which plan may be the plan of his new employer or his spouse’s employer). Company makes no representation to Executive regarding the tax consequences of any benefits that may be received pursuant to this Section 6(a)(iii)(C). Executive agrees to pay any federal, state, or local taxes for which he may become personally liable as a result of any such benefits received.

(D) Executive’s entitlement to receive or retain the amounts set forth in this Section 6 are conditioned on Executive’s compliance with the Restrictions on Conduct described in Section 11. Executive’s breach or threatened breach of Section 11 shall entitle the Company to immediately cease any payments hereunder, or to refuse payment in the first instance, and

the Company shall further be entitled to recover any payments previously made to Executive under this Section 6.

(b) Death. If Executive's employment is terminated because of Executive's death during the Employment Period, this Agreement will terminate without further obligations to Executive or Executive's legal representatives under this Agreement other than (i) the payment of Accrued Obligations as described in Section 6(a)(i), (ii) the payment of the Pro Rata Bonus as described in Section 6(a)(iii)(B), and (iii) the timely payment or provision of Other Benefits as described in Section 6(a)(ii) of this Agreement. The Accrued Obligations and the Pro Rata Bonus will be paid to Executive's estate or beneficiary, as applicable. Other Benefits as used in this Section 6(b) will include, without limitation, and Executive's estate and/or beneficiaries will be entitled to receive, benefits under such plans, programs, practices and policies relating to death benefits, if any, as are applicable to Executive on the date of his death pursuant to the terms of such Other Benefits.

(c) Disability. If Executive's employment is terminated because of Executive's Disability during the Employment Period, this Agreement will terminate without further obligations to Executive other than (i) the payment of Accrued Obligations as described in Section 6(a)(i), (ii) the payment of the Pro Rata Bonus as described in Section 6(a)(iii)(B), and (iii) the timely payment or provision of Other Benefits as described in Section 6(a)(ii) of this Agreement. The term Other Benefits as used in this Section 6(c) includes, without limitation, and Executive will be entitled after the Disability Effective Date to receive, disability and other benefits under such plans, programs, practices and policies relating to disability, if any, as are applicable to Executive and his family on the Date of Termination pursuant to the terms of such Other Benefits.

(d) Retirement. If Executive's employment is terminated because of Executive's Retirement during the Employment Period, this Agreement will terminate without further obligations to Executive other than (i) the payment of Accrued Obligations as described in Section 6(a)(i), (ii) the payment of the Pro Rata Bonus as described in Section 6(a)(iii)(B), and (iii) the timely payment or provision of Other Benefits as described in Section 6(a)(ii) of this Agreement. The term Other Benefits as used in this Section 6(d) includes, without limitation, and Executive will be entitled after the Date of Termination to receive, retirement and other benefits under such plans, programs, practices and policies relating to retirement, if any, as applicable to Executive on the Date of Termination pursuant to the terms of such Other Benefits.

(e) Cause or Voluntary Termination without Good Reason. If Executive's employment is terminated for Cause during the Employment Period, or if Executive voluntarily terminates employment during the Employment Period without Good Reason, this Agreement will terminate without further obligations to Executive, other than for (i) the payment of Accrued Obligations as described in Section 6(a)(i), and (ii) the timely payment or provision of Other Benefits as described in Section 6(a)(ii).

(f) Expiration of Employment Period. For clarification, if Executive's employment is terminated due to the normal expiration of the Employment Period or is

terminated within 60 days after the Employment Period End Date (in each case, for reasons other than Cause, death, Disability or Retirement), this Agreement will terminate without further obligations to Executive, other than for (i) the payment of Accrued Obligations if and to the extent applicable as described in Section 6(a)(i), (ii) the payment of the Pro Rata Bonus if and to the extent applicable as described in Section 6(a)(iii)(B), (iii) the payment of the Severance Benefits (subject to the Executive's execution of the Release) if and to the extent applicable as described in Section 6(a)(iii)(A), and (iv) the timely payment or provision of Other Benefits if and to the extent applicable as described in Section 6(a)(ii). Notwithstanding anything to the contrary in this Agreement, if the Agreement is not renewed and a new employment agreement is not offered and the Executive remains an employee of the Company in any capacity, Executive's employment will not be governed by this Agreement and Executive will be an at-will employee. In that instance, Executive remains subject to the Restrictions on Conduct described in Section 11. Further, the parties agree that the benefits provided under Section 2(b) herein are intended to be in lieu of, and not in addition to, comparable benefits provided under Section 6.

(g) Execution of Release. Notwithstanding anything to the contrary in this Section 6, the Release must be executed and provided to the Company, and the period for revoking same must have expired, before the 30th day following the Date of Termination.

7. Non-exclusivity of Rights. Nothing in this Agreement prevents or limits Executive's continuing or future participation in any plan, program, policy or practice provided by the Company and for which Executive may qualify, nor, subject to Section 13(d), will anything in this Agreement limit or otherwise affect any rights Executive may have under any contract or agreement with the Company. Amounts which are vested benefits or which Executive is otherwise entitled to receive under any plan, policy, practice, program, contract or agreement with the Company at or subsequent to the Date of Termination will be payable in accordance with such plan, policy, practice, program, contract or agreement except as explicitly modified by this Agreement.

8. Mandatory Reduction of Payments in Certain Events. Any payments made to Executive under this Agreement will be made with the Executive's best interests in mind related to the excise (the "Excise Tax") imposed by Section 4999 of the Internal Revenue Code of 1986, as amended (the "Code").

(a) Anything in this Agreement to the contrary notwithstanding, if it is determined that any benefit, payment or distribution by the Company to or for the benefit of Executive (whether paid or payable or distributed or distributable pursuant to the terms of this Agreement or otherwise) (a "Payment") would be subject to the Excise Tax, then, before making the Payment to Executive, a calculation will be made comparing (i) the net benefit to Executive of all Payments after payment of the Excise Tax, to (ii) the net benefit to Executive if the Payment had been limited to the extent necessary to avoid being subject to the Excise Tax. If the amount calculated under (i) above is less than the amount calculated under (ii) above, then the Payments will be limited to the extent necessary to avoid being subject to the Excise Tax (the "Reduced Amount"). In that event, any reduction in payments

shall be made by the Company in its sole discretion, in a manner intended to be consistent with Code Section 409A.

(b) The determination of whether an Excise Tax would be imposed, the amount of such Excise Tax, and the calculation of the amounts referred to in Section 8(a)(i) and (ii) above will be made by the Company's regular independent accounting firm at the expense of the Company or, at the election and expense of Executive, another nationally recognized independent accounting firm (the "Accounting Firm") acceptable to the Company which will provide detailed supporting calculations. Any determination by the Accounting Firm will be binding upon the Company and Executive. As a result of the uncertainty in the application of Code Section 4999 at the time of the initial determination by the Accounting Firm hereunder, it is possible that Payments to which Executive was entitled, but did not receive pursuant to Section 8(a), could have been made without the imposition of the Excise Tax (an "Underpayment"). In such event, the Accounting Firm will determine the amount of the Underpayment that has occurred and any such Underpayment will be promptly paid by the Company to or for the benefit of Executive.

(c) If the provisions of Code Section 280G and Section 4999 or any successor provisions are repealed without succession, this Section 8 will be of no further force or effect.

9. Costs of Enforcement. Subject to Section 8(b), each Party will pay its own costs and expenses incurred in enforcing or establishing its rights under this Agreement, including, without limitation, attorneys' fees, whether a suit is brought or not, and whether or not incurred in trial, bankruptcy or appellate proceedings.

10. Representations and Warranties. Executive represents and warrants to the Company that Executive is not a party to, or otherwise subject to, any restrictive covenant not to compete, not to solicit or not to disclose or use confidential information, with any person or entity, and Executive's execution of this Agreement and performance of his obligations will not violate the terms or conditions of any contract or obligation, written or oral, between Executive and any other person or entity.

11. Restrictions on Conduct of Executive.

(a) General. Executive agrees that as part of the executive-level role he will have and services he will perform for the Company, he will be exposed to, and help create and maintain, unique and proprietary methods and information in each market in which the Company does business which give the Company competitive advantages over other "Competitive Businesses," as well as develop goodwill with the Company's customers, suppliers, vendors, advertisers, employees and the general public. By virtue of the position Executive will hold, Executive is receiving, will receive, or will be provided access to the Company's unique methods of doing business, including: (1) methods for locating and dealing with vendors, customers, suppliers and advertisers as well as pricing information, distribution channels, and other terms of those relationships; (2) "Confidential Information" and "Trade Secrets;" (3) established relationships and other elements that together comprise

goodwill; and/or (4) unique knowledge and training regarding product development, its engineering, product specification, material suppliers, material specifications, product suppliers, manufacturing knowledge and methods, customer feedback, surveys, design-around information, research and development information, internal quality control tests, other quality control information, and other similar proprietary information. Executive agrees that the competitive advantage and goodwill the Company has created, and which Executive will assist in furthering and maintaining, is an important and legitimate business asset of the Company. It would be unfair for Executive to use Confidential Information and Trade Secrets obtained during and as a result of his employment with the Company for the benefit of an organization other than the Company. Executive has agreed to certain restrictions in exchange for his being eligible for certain severance benefits under the conditions described in this Agreement. Executive further agrees that it would be impossible to protect against improper and unfair competitive advantages without restricting Executive's activities in each market where the Company has existing customers or prospective customers during Executive's employment. No lesser territorial restriction would protect the Company's business interests given the nature of Executive's role within the Company and access to Confidential Information and Trade Secrets. Executive agrees that these provisions do not preclude him from earning a living.

(b) Definitions. The following capitalized terms used in this Section 11 will have the meanings assigned to them below, which definitions will apply to both the singular and the plural forms of these terms:

"Competitive Business" means (A) any distributors of any goods or services in or to the point of sale, automatic identification, data capture, security, business telephony, 3D printing, and communication products if such entity distributes or provides any product or service that is the same or substantially similar to any product or service offered or in development by the Company, including reasonable alternatives, as well as (B) the Company's top ten (10) vendors (in terms of revenue) at any point within the final two (2) years of Executive's employment with the Company; provided, however, that the CEO may, in his discretion, determine that the term "Competitive Business" does not include a particular vendor or distributor. Competitive Business includes, but is not limited to, any entity formed by Executive, formally or informally, as well as work by Executive as a consultant or independent contractor.

"Confidential Information" means any and all of the Company's Trade Secrets, confidential and proprietary information, and all other information and data that is not generally known to third persons who could derive economic value from its use or disclosure, including, without limitation, any information or documents about: the Company's accounting practices; financial data; financial plans and practices; the Company's operations; its future plans (including new products, improved products, and products under development); its methods of doing business; internal forms, checklists, or quality assurance testing; programs; customer and supplier lists or other such related information as pricing or terms of business dealings; supply

chains; shipping chains and prices; packaging technology or pricing; sourcing information for components, materials, supplies, and other goods; employees; pay scales; bonus structures; contractor information and lists; marketing strategies and information; product plans; distribution plans and distribution channel relationships; business plans; manufacturing, operation, sales and distribution processes; costs; margins for products; prices, sales, orders and quotes for the Company's business that is not readily attainable by the general public; existing and future services; testing information (including methods and results) related to materials used in the development of the Company's products or materials that could be used with the Company's products; development information (including methods and results) related to computer programs that design or test products or that track information from a central database; and the computer or electronic passwords of all employees and/or firewalls of the Company. Confidential Information also includes any information defined in this subsection which the Company obtains from another party and treats as proprietary or confidential, whether or not owned or developed by the Company. Notwithstanding the definitions stated above, the term Confidential Information does not include any information which (i) at the time of disclosure to Executive, was in the public domain; (ii) after disclosure to Executive, is published or otherwise becomes part of the public domain through no fault of Executive; (iii) without a breach of duty owed to the Company, was already in Executive's possession at the time of disclosure; (iv) was received after disclosure to Executive from a third party who had a lawful right to the information other than through a relationship of trust and confidence with the Company, and without a breach of duty to the Company, disclosed the information to Executive; or (v) where Executive can show it was independently developed by Executive on non-Company time without reference to, or reliance upon, other Confidential Information or Trade Secrets.

"Restricted Territory" means any location in the United States where (1) Executive performed services for the Company or its affiliates or had contact with the Company's customers, vendors, or suppliers; and (2) where the Company or its affiliates is actively manufacturing, marketing, selling, or distributing its products within the final two (2) years of Executive's employment, or places where the Company made affirmative steps to manufacture, market, sell, or distribute its products within the final six (6) months of Executive's employment. If Executive was assigned only a portion of the territory in which the Company operates or sells, then the Restricted Territory shall be narrowly construed to include only the limited geographic area in which Executive represented and worked for the Company or was able to establish contact with the Company's customers, vendors, or suppliers.

"Trade Secrets" means information related to the business or services of the Company which (1) derives independent actual or potential commercial value from not being generally known or readily ascertainable through independent development or reasonable reverse engineering processes by persons who can obtain economic value from its disclosure or use; and (2) is the subject of efforts by the Company and affiliated third parties that are reasonable under the circumstances to maintain its

secrecy. Assuming the foregoing criteria in clauses (1) and (2) are met, Trade Secret encompasses business and technical information including, without limitation, know-how, designs, formulas, patterns, compilations, programs, devices, inventions, methods, techniques, drawings processes, finances, actual or potential customers and suppliers, and existing and future products and services of the Company. Notwithstanding the definitions stated above, the term Confidential Information does not include any information which (i) at the time of disclosure to Executive, was in the public domain; (ii) after disclosure to Executive, is published or otherwise becomes part of the public domain through no fault of Executive; (iii) without a breach of duty owed to the Company, was already in Executive's possession at the time of disclosure; (iv) was received after disclosure to Executive from a third party who had a lawful right to the information through some avenue other than through a relationship of trust and confidence with the Company, and without a breach of duty to the Company, disclosed the information to Executive; or (v) where Executive can show it was independently developed by Executive on non-Company time without reference to, or reliance upon, other Confidential Information or Trade Secrets.

(c) Restrictions. Executive understands and agrees that the compensation the Company has agreed to provide pursuant to this Agreement would not be as lucrative if the restrictions set forth in this section were not included in this Agreement. Therefore, in consideration of the compensation provided in this Agreement, and the other terms agreed to by the Company, along with the disclosure (and continued disclosure of Confidential Information and Trade Secrets) a portion of which is being paid to compensate Executive for these covenants, Executive covenants and agrees as follows:

(i) Non-Compete.

a. For the term of Executive's employment, and for a period of twenty-four (24) months following the Date of Termination, with or without Cause or Good Reason, Executive agrees he will not, directly or indirectly, alone or in association with or on behalf of any other person or entity, own, manage, operate, join, control, be employed by or with, or participate in any Competitive Business in the Restricted Territory in which he would provide the same or substantially the same services to the Competitive Business as those Executive provided to the Company during the last two (2) years of Executive's employment with the Company.

b. If for any reason, paragraph 11(c)(i)(a) is deemed unenforceable by any court or arbitrator, the parties agree that for the term of Executive's employment, and for a period of twenty-four (24) months following the Date of Termination, with or without Cause or Good Reason, Executive will not, directly or indirectly, alone or in association with or on behalf of any other person or entity, own,

manage, operate, join, control, be employed by or with, participate in, or provide the same or substantially the same services as those Executive provided to the Company during the last two (2) years of Executive's employment with the Company to any of the following entities: Ingram Micro, Tech Data, Avnet, BlueStar, Westcon, Arrow, Agilysis, Azerty, PC POS, Jarltech, Jenne, Securematics, Synnex, Alliance (NEI), NEXTUSA, ADI, Tri- Northern, Anixter, Motorola, Avaya, Polycom, Aruba Networks, Honeywell-Intermec, Zebra Technologies, Shoretel, CISCO Systems, Toshiba, Plantronics.

(ii) Non-Solicitation of Vendors, Manufacturers, Customers, or Suppliers. For the term of Executive's employment, and for a period of twenty-four (24) months following the Date of Termination, Executive agrees he will not, directly or indirectly, alone or in association with or on behalf of any other person or entity, solicit any of the Company's vendors, manufacturers, customers or suppliers with whom Executive had business contact during the course of Executive's employment with the Company for any Competitive Business for the purpose of providing the same or substantially the same products or services as those provided by the Company and will not induce or encourage any vendors, manufacturers, customers or suppliers to cease doing business with the Company or materially alter their relationship with the Company;

(iii) Non-Solicitation of Prospective Vendors, Manufacturers, Customers or Suppliers. For the term of Executive's employment, and for a period of twenty-four (24) months following the Date of Termination, Executive agrees he will not, directly or indirectly, alone or in association with or on behalf of any other person or entity, solicit any of the Company's prospective vendors, manufacturers, customers or suppliers with whom Executive had business contact during the course of Executive's employment with the Company for any Competitive Business;

(iv) Non-Solicitation of Employees. For the term of Executive's employment, and for a period of twenty-four (24) months following the Termination Date, Executive agrees he will not, directly or indirectly, alone or in association with or on behalf of any other person or entity, solicit any of the Company's employees to leave the Company to provide services for any Competitive Business;

(v) Non-Disclosure. For the term of Executive's employment, and for a period of no less than twenty-four (24) months from the Date of Termination (for Confidential Information) or for so long as the information remains protected under this Agreement or applicable statute (for Trade Secrets) thereafter, Executive agrees that he will not, either directly or indirectly, misappropriate, take, remove, publish, disseminate, provide, or otherwise disclose any Confidential Information or Trade Secrets to any third party, unless required to do so by legal process or other law, without the Company's prior written consent. Executive agrees that if he believes he is compelled to reveal Confidential Information or Trade Secrets pursuant to the

limited exception provided herein, Executive will provide the Company at least seven (7) days advance notice before doing so, will explain the specifics under which such Confidential Information or Trade Secrets are to be disclosed, and will allow the Company to take steps to prevent the disclosure or use of its Confidential Information or Trade Secrets.

(vi) No Misuse of Confidential Information or Trade Secrets. For the term of Executive's employment, and for a period of no less than twenty-four (24) months from the Date of Termination (for Confidential Information) or for so long as the information remains protected under this Agreement or applicable statute (for Trade Secrets) thereafter, Executive agrees that he will not, either directly or indirectly, for his own behalf or otherwise, use in any manner the Company's Confidential Information or Trade Secrets.

(vii) Return of Company Property. Within two (2) business days following Executive's Date of Termination, Executive shall return to the Company any and all documents, materials, tangible information, or other property reflecting or containing the Company's Confidential Information or Trade Secrets or that otherwise belong to the Company that Executive has in his possession. Executive will also permanently delete or remove any programs or data containing or reflecting such information and shall retain no copies of any kind. Executive acknowledges that all such materials are the sole exclusive property of the Company and that Executive has no right, title, or interest in such information. If requested by the Company, Executive further agrees to execute a stipulation that he has complied with this Section 11(c)(vii).

(d) Non-Disparagement. The Company and Executive agree that for the term of Employee's employment, and for a period of five (5) years thereafter, they will not disparage each other to any non-governmental third parties. Nothing in this subsection should be interpreted as any restriction on either Party's compliance with any laws requiring or compelling disclosure, or any disclosures that are considered absolutely privileged, such as legal proceedings, subject to the other terms of this Agreement.

(e) Severance and Reformation. The Company and Executive agree that the provisions of Section 11, including all subparts, are intended to strike the balance between Executive earning a livelihood and the Company protecting its legitimate business interests. The Parties have drafted the provisions of Section 11, including all subparts, to allow for enforcement. The Parties agree that should a court determine that any word, phrase, clause, sentence, paragraph, or other part of this Agreement is unreasonably broad in time, territory, or scope so as to render any remaining provisions unenforceable, the Parties desire the court to modify or strike the offending language in the narrowest way possible and enforce the remainder as if the offending language was not there, so that only reasonable restrictions are enforced.

(f) Elective Right of the Company. If Executive challenges the enforceability of the restrictive covenants contained in this Section 11 (the "Restrictive Covenants") (or

asserts an affirmative defense to an action seeking to enforce the Restrictive Covenants) based on an argument that the Restrictive Covenants are (i) not enforceable as a matter of law, (ii) unreasonable in geographical scope or duration or (iii) void as against public policy, the Company shall be entitled to (1) to cease making the payments required under Section 2(b) and/or Section 6 above, and (2) upon demand, to have Executive repay, within 10 business days of any such demand, any payments already made. Any right afforded to, or exercised by, the Company under this Agreement will not affect the enforceability of the Restrictive Covenants or any other right or remedy, equitable or otherwise, of the Company under this Agreement.

12. Assignment and Successors.

(a) This Agreement is personal to Executive and without the prior written consent of the Company will not be assignable by Executive otherwise than by will or the laws of descent and distribution. This Agreement will inure to the benefit of and be enforceable by Executive's legal representatives.

(b) This Agreement will inure to the benefit of and be binding upon the Company and its successors and assigns.

(c) The Company will require any successor (whether direct or indirect, by purchase, merger, consolidation or otherwise) to all or substantially all of the business and/or assets of the Company to assume expressly and agree to perform this Agreement in the same manner and to the same extent that the Company would be required to perform it if no such succession had taken place. As used in this Agreement, "Company" will mean the Company as herein before defined and any successor to its business and/or assets which assumes and agrees to perform this Agreement by operation of law, or otherwise.

13. Miscellaneous.

(a) Waiver. Failure of either Party to insist, in one or more instances, on performance by the other, or any other employee under a similar agreement, in strict accordance with the terms and conditions of this Agreement will not be deemed a waiver or relinquishment of any right granted in this Agreement or of the future performance of any such term or condition or of any other term or condition of this Agreement, unless the waiver is in a writing signed by the Party making the waiver.

(b) Severability. If any provision or covenant, or any part thereof, of this Agreement should be held by any court to be invalid, illegal or unenforceable, either in whole or in part, such invalidity, illegality or unenforceability will not affect the validity, legality or enforceability of the remaining provisions or covenants, or any part thereof, of this Agreement, all of which will remain in full force and effect.

(c) Other Agents. Nothing in this Agreement is to be interpreted as limiting the Company from employing other personnel on such terms and conditions as may be satisfactory to it.

(d) Entire Agreement. Except as provided herein, this Agreement contains the entire agreement between the Parties on the subject matter hereof. From and after the Effective Date, this Agreement will supersede the Existing Agreement and any other agreement between the Parties on the subject matter hereof, and, without limiting the effect of the foregoing, the Executive shall have no further rights in or to any benefits or payments under the Existing Agreement, and the Agreement shall control with respect to the subject matter hereof.

(e) Governing Law and Jurisdiction. Without regard to conflict of laws principles, the laws of the State of South Carolina will govern this Agreement in all respects, whether as to its validity, construction, capacity, performance or otherwise.

(f) Notices. All notices, requests, demands and other communications required or permitted in this Agreement must be in writing and will be deemed to have been duly given if delivered or three days after mailing if mailed, first class, certified mail, postage prepaid:

To Company: ScanSource, Inc.
 6 Logue Court
 Greenville, SC 29615
 Attn: Chief Executive Officer

To Executive: To the address specified on Exhibit A

Any Party may change the address to which notices, requests, demands and other communications will be delivered or mailed by giving notice thereof to the other Party in the same manner provided herein.

(g) Amendments and Modifications. This Agreement may be amended or modified only by a writing signed by both Parties, which makes specific reference to this Agreement.

(h) Construction. Each Party and his or its counsel have been provided the opportunity to review and revise this Agreement and accordingly, the normal rule of construction to the effect that any ambiguities are to be resolved against the drafting party will not be employed in the interpretation of this Agreement. Instead, the language of all parts of this Agreement will be construed as a whole, and according to its fair meaning, and not strictly for or against either party.

(i) Deferred Compensation Provision. Notwithstanding any other provision of this Agreement, it is intended that any payment or benefit provided under this Agreement that is considered to be “deferred compensation” subject to Code Section 409A will be provided in such manner and at such time, including without limitation in connection with a permissible payment event under Code Section 409A, as is exempt from or complies with the requirements of Code Section 409A. All rights to payments and benefits under this Agreement are to be treated as rights to receive a series of separate payments and benefits

to the fullest extent allowed by Code Section 409A. Termination of employment under this Agreement, to the extent required by Code Section 409A, will be construed to mean a “separation from service” under Code Section 409A and related regulations. The terms of this Agreement are intended to, and will be construed and administered to the fullest extent possible, to permit compensation to be paid under this Agreement to be exempt from or comply with Code Section 409A. Regardless, neither the Company nor its directors, officers or agents will be liable to Executive or anyone else if the Internal Revenue Service or any court or other authority determines that any payments or benefits to be provided under this Agreement are subject to taxes, penalties or interest as a result of failing to comply with or be exempt from Code Section 409A.

Notwithstanding anything in this Agreement to the contrary, if any payment or benefit that constitutes non-exempt “deferred compensation” under Code Section 409A would otherwise be provided under this Agreement due to Executive’s separation from service during a period in which he is a “specified employee” (as defined in Code Section 409A and the associated final regulations), then, to the extent required by Code Section 409A, such payments or benefits will be delayed, to the extent applicable, until six months after Executive’s separation from service or, if earlier, Executive’s death (the “409A Deferral Period”). If such payments are otherwise due to be made in installments during the 409A Deferral Period, the payments that would otherwise have been made in the 409A Deferral Period will be accumulated and paid in a lump sum during the seventh month following the Executive’s separation from service, and the balance of the payments will be made as otherwise scheduled. In the event benefits are required to be deferred, any such benefit may be provided during the 409A Deferral Period at Executive’s expense, with Executive having the right to reimbursement from the Company once the 409A Deferral Period ends, and the balance of the benefits will be provided as otherwise scheduled.

With respect to any reimbursement or in-kind benefit arrangements of the Company that constitute deferred compensation for purposes of Code Section 409A, except as otherwise permitted by Section 409A, the following conditions shall be applicable: (i) the amount eligible for reimbursement, or in-kind benefits provided, under any such arrangement in one calendar year may not affect the amount eligible for reimbursement, or in-kind benefits to be provided, under such arrangement in any other calendar year, (ii) any reimbursement must be made on or before the last day of the calendar year following the calendar year in which the expense was incurred, and (iii) the right to reimbursement or in-kind benefits is not subject to liquidation or exchange for another benefit. Whenever payments under this Agreement are to be made in installments, each such installment shall be deemed to be a separate payment for purposes of Code Section 409A.

14. Arbitration. Executive shall be required (in lieu of litigation) to have any and all disputes or controversies arising under or in connection with this Agreement settled by final and binding arbitration administered by the American Arbitration Association (“AAA”) under its National Rules for the Resolution of Employment Disputes and the Federal Arbitration Act, 9 U.S.C. §1, et seq. subject to the following: (a) such arbitration shall take place in Greenville, South Carolina; (b) such arbitration shall be arbitrated by one (1) neutral arbitrator with at least ten (10) years of

employment arbitration experience and chosen by both parties from the AAA Roster of Neutral Arbitrators; (c) either party may seek from any court having jurisdiction any interim or provisional relief that is necessary to protect the rights or property of that party, pending the establishment of the arbitral tribunal; (d) discovery shall consist of the exchange of non-confidential and non-privileged documents that are strictly relevant to the claims before the arbitrator, shall be concluded within forty-five (45) days following the appointment of the arbitrator, and, in case of depositions, shall consist of no more than three (3) depositions per party with a maximum duration of three (3) hours each and all depositions shall be held within thirty (30) days of the making of a request; (e) the arbitration will be based on the submission of documents and there shall be no in-person or oral hearing; (f) the award shall be issued within six (6) months of the filing of the notice of intention to arbitrate and the arbitrator shall agree to comply with this schedule before accepting appointment; (g) except as may be required by law, neither a party nor an arbitrator may disclose the existence, content, or results of any arbitration hereunder without the prior written consent of both parties; (h) the arbitrator shall not have authority to award punitive damages; (i) each party shall bear its own attorney's fees with the Company bearing the arbitrator's and administrative fees related to arbitration; and (j) judgment upon the award rendered by the arbitrator may be entered by any court having jurisdiction thereof.

15. Survival. All non-competition, non-solicitation, non-disclosure and use, and non-recruiting obligations in Section 11 of this Agreement shall survive the voluntary or involuntary termination of Executive's employment with or without cause, and no dispute regarding any other provisions of this Agreement or regarding Executive's employment or the termination of Executive's employment shall prevent the operation and enforcement of these obligations.

16. Tolling. The restricted time periods in Section 11 above shall be tolled during any time period that the Executive is in violation of such covenants, as determined by a court of competent jurisdiction, so that the Company may realize the full benefit of its bargain. This tolling shall include any time period during which litigation is pending, but during which the Executive has continued to violate such protective covenants and a court has declined to enjoin such conduct or the Executive has failed to comply with any such injunction.

17. Execution in Counterparts. This Agreement may be executed in any number of counterparts, each of which shall be considered an original, but all of which construed together shall constitute on and the same Agreement. Executive agrees that the Company may enforce this Agreement with a copy that is only signed by Executive.

[Rest of page blank; signature page follows]

[Signature page to Employment Agreement]

IN WITNESS WHEREOF, the parties hereto have duly executed and delivered this Employment Agreement as of the dates indicated below.

EXECUTIVE: **SCANSOURCE, INC.:**

/s/ Gerald Lyons By: /s/ Michael L. Baur

Name: Gerald Lyons Name: Michael L. Baur

Date: 6/25/14 Title: CEO

Date: 6/25/14

EXHIBIT A TO EMPLOYMENT AGREEMENT

Executive: Gerald Lyons

Base Salary: \$250,000 annually

Variable Compensation (Incentive Compensation Opportunity): Annual target Variable Compensation award opportunity of a maximum amount of 20% of annual Base Salary, based upon Executive's performance and attainment of performance goals established by the Compensation Committee, as determined in the Compensation Committee's discretion and subject to terms of applicable Company plan or program.

Annual Equity Award: Consideration for inclusion in the Company's annual equity grant, subject to Compensation Committee discretion and the terms of the Company's 2013 Long-Term Incentive Plan or other applicable plan (the "2013 Plan") and related award agreement(s).

Performance-Based Award: Grant of performance- and service-based restricted stock unit award under the 2013 Plan with a target value of \$75,000 (\$25,000 per year), which award shall have a three-year performance period, and which shall be subject to such performance, service and other terms and conditions established by the Compensation Committee (including but not limited to discretion of the Compensation Committee as to the extent, if any, to which the award is earned), or as may apply under the 2013 Plan and related award agreement; number of shares of Common Stock subject to award to be determined by dividing award dollar value by fair market value of Common Stock, as determined by the Compensation Committee using averaging or other methodology established by the Compensation Committee.

Deferred Compensation: For each of the calendar years of the term of the Agreement (including calendar year 2017), Executive shall be eligible to participate in the Company's Nonqualified Deferred Compensation Plan by deferring up to 25% of compensation eligible for deferral under such plan, and a match of 30% of deferred amounts will be made by the Company on the first 15% of compensation.

Benefits: All benefits generally offered to Peer Executives as well as the following:

- Short-term disability benefits equating to salary continuation.
- Long-term disability benefits targeting approximately 75% of income replacement (up to \$125,000 per month).
- Term life insurance - \$1,000,000 policy (subject to underwriting) and a \$500,000 policy (subject to limited underwriting).
- Comprehensive physical program allowing Executive to receive an annual examination at no cost.

Days of Paid Vacation per Fiscal Year: Approving Person:

15 days (per Company policy) Chief Financial Officer

Executive Notice Address:

149 Reserve Drive
Piedmont, SC 29673

Initials: GL/MLB

EXHIBIT B TO EMPLOYMENT AGREEMENT

Form of Release

THIS RELEASE ("Release") is granted effective as of the ____ day of _____, ____, by _____ ("Executive") in favor of ScanSource, Inc. ("ScanSource" or the "Company"). This is the Release referred to in that certain Employment Agreement dated effective as of July 1, 2014 by and between the Company and Executive (the "Employment Agreement"). Executive gives this Release in consideration of the Company's promises and covenants as recited in the Employment Agreement, with respect to which this Release is an integral part.

1. **Release of the Company.** Executive, for himself, his successors, assigns, executors, administrators, insureds, attorneys, and all those entitled to assert his rights, now and forever hereby releases and discharges the Company and its respective officers, directors, shareholders, stockholders, trustees, partners, joint ventures, board members, employees, agents, parent corporations, divisions, wholly or partially owned subsidiaries, affiliates, estates, predecessors, successors, heirs, executors, administrators, assigns, representatives, and attorneys (the "Released Parties"), from any and all legal, administrative, and equitable claims, actions, causes of action, sums of money due, suits, debts, liens, covenants, contracts, obligations, costs, expenses, damages, judgments, agreements, promises, demands, claims for attorneys' fees and costs, or liabilities of any nature whatsoever, in law or in equity, which Executive ever had or now has against the Released Parties, including any claims arising by reason of or in any way connected with any employment relationship which existed between the Company or any of its parents, subsidiaries, affiliates, or predecessors, and Executive. It is understood and agreed that this Release is intended to cover all actions, causes of action, claims or demands for any damage, loss or injury, which may be traced either directly or indirectly to the aforesaid employment relationship, or the termination of that relationship, that Executive has, had or purports to have, from the beginning of time to the date of this Release, whether known or unknown, that now exists, no matter how remotely they may be related to the aforesaid employment relationship including but not limited to claims for employment discrimination under federal, state or local statutes, except as provided in Paragraph 2. Without limiting the broadness of the foregoing language, Executive agrees to release Company from any and all claims under:

1. Title VII of the Civil Rights Act of 1964, as amended by the Civil Rights Act of 1991;
2. Section 1981 of the Civil Rights Act of 1866, as amended;
3. Executive Orders 11246, 13496 and 11141;
4. the Equal Pay Act of 1963;
5. the Consolidated Omnibus Budget Reconciliation Act of 1985 (COBRA);
6. the Americans with Disabilities Act of 1990 and any amendments thereto, including the ADA Amendments Act of 2008;
7. the Rehabilitation Act of 1973;
8. the Employee Retirement and Income Security Act of 1974;
9. the Sarbanes-Oxley Corporate Reform Act of 2002 and the Dodd-Frank Wall Street Reform and Consumer Protection Act (the "Dodd-Frank Act");

10. whistle-blower and/or retaliation claims or suits under the Sarbanes-Oxley Act of 2002 and/or the Dodd-Frank Act;
11. the Family and Medical Leave Act of 1993, as amended;
12. the Health Insurance Portability and Accountability Act of 1996 (HIPAA);
13. the Fair Labor Standards Act of 1938, as amended;
14. the Occupational Safety and Health Act;
15. the Uniformed Services Employment and Re-employment Act of 1994;
16. the Worker Adjustment and Retraining Notification Act;
17. the Lilly Ledbetter Fair Pay Act of 2009;
18. the Fair Credit Reporting Act;
19. state workers' compensation law;
20. Consumer Credit Protection Act;
21. Immigration Reform and Control Act of 1986;
22. National Labor Relations Act;
23. the Genetic Information Nondiscrimination Act of 2008;
24. the Age Discrimination in Employment Act;
25. the South Carolina Payment of Wages Act;
26. the South Carolina Human Affairs Law;
27. claims arising under the United States and/or South Carolina Constitutions;
28. claims for wages and overtime pay and commissions, bonuses, vacation pay or any express or implied contracts;
29. any common law claims or claims founded in tort (including negligence) for wrongful discharge, negligence, negligent hiring, negligent training or negligent supervision, assault or battery, invasion of privacy, false imprisonment, intentional infliction of emotional distress, defamation, libel, slander, promissory estoppel, detrimental reliance, quantum meruit, unjust enrichment, breach of contract (oral, written or implied), or any other equitable basis or action;
30. claims that the Company treated or dealt with me unfairly; and
31. any claims arising under any other federal, state or local law, statute, regulation, ordinance, treaty or law of any other type, or any other cause of action or theory of recovery arising by virtue of my employment relationship and/or affiliation with ScanSource or any public policy, tort or common law.

Without waiving any prospective or retrospective rights under the Fair Labor Standards Act, I admit that I have received from ScanSource all rights and benefits, if any, due or potentially due to me pursuant to the Fair Labor Standards Act. I understand and acknowledge that it is the parties' intent that I release all claims that can be legally released but no more than that.

I affirm that while I was employed with the Company, I had no known and unreported workplace injuries or occupational diseases and was not denied leave under the Family and Medical Leave Act of 1993.

I represent and agree that I have been paid and have received all paid or unpaid leave, compensation, wages, overtime, vacation or sick pay, bonuses and/or benefits to which I may be entitled and no other amounts, except as may be provided in the Employment Agreement, are due to me.

Executive specifically agrees not to attempt to institute any proceedings or pursue any action pursuant to any laws (state, local, or federal) with any agency or in any jurisdiction (state, local, or federal) based on employment with or termination from the Company except as required or protected by law. Executive covenants that he will in no way encourage or assist any person or entity (including, but not limited to, any past, present or future employee(s) of Company) to take part or participate in any legal or administrative action against Company, except as otherwise required or protected by law. Nothing in this Release shall be interpreted or applied in a manner that affects or limits Executive's otherwise lawful ability to bring an administrative charge with the Equal Employment Opportunity Commission or other appropriate state or local comparable administrative agency; however, the parties agree that Executive has released Company from all liability arising from the laws, statutes, and common law listed in paragraph 1 (except as set forth in this paragraph below, with respect to the Age Discrimination in Employment Act ("ADEA")) and, as such, Executive is not and will not be entitled to any monetary or other comparable relief on his own behalf. Nothing in this Release shall be interpreted or applied in a manner that affects or limits Executive's ability to challenge (with a lawsuit or administrative charge) the validity of Executive's release of Company in this Release for age claims under the ADEA (which release is provided for in paragraph 2 of this Release). Other than a challenge to the validity of the release of ADEA claims under this Release, Executive has released Company from all liability with respect to the laws, statutes, and common law listed in paragraph 1, including the ADEA.

2. Release of Claims Under Age Discrimination in Employment Act. Without limiting the generality of the foregoing, Executive agrees that by executing this Release, he has released and waived any and all claims he has or may have as of the date of this Release for age discrimination under the Age Discrimination in Employment Act, 29 U.S.C. § 621, *et seq.* It is understood that Executive is advised to consult with an attorney prior to executing this Release; that he in fact has consulted a knowledgeable, competent attorney regarding this Release; that he may, before executing this Release, consider this Release for a period of twenty-one (21) calendar days; and that the consideration he receives for this Release is in addition to amounts to which he was already entitled. It is further understood that this Release is not effective until seven (7) calendar days after the execution of this Release and that Executive may revoke this Release within seven (7) calendar days from the date of execution hereof.

3. Executive acknowledges and represents that as an employee of the Company he has been obligated to, and has been given the full and unfettered opportunity to, report timely to the Company any conduct that would give rise to an allegation that the Company or any affiliate of the Company has violated any laws applicable to its businesses or has engaged in conduct which could otherwise be construed as inappropriate or unethical in any way, even if such conduct is not, or does not appear to be, a violation of any law. Executive acknowledges that a condition of the payment of any consideration provided by the Company to the Executive hereunder is his truthful and complete representation to the Company regarding any such conduct, including but not limited to

conduct regarding compliance with the Company's Code of Ethics, policies, and procedures, and with all laws and standards governing the Company's business.

Executive's truthful and complete representation, based on his thorough search of his knowledge and memory, is as follows: Executive has not been directly or indirectly involved in any such conduct; no one has asked or directed him to participate in any such conduct; and Executive has no specific knowledge of any conduct by any other person(s) that would give rise to an allegation that the Company or any affiliate of the Company has violated any laws applicable to its businesses or has engaged in conduct which could otherwise be construed as inappropriate or unethical in any way.

Executive agrees that he has carefully read this Release and is signing it voluntarily. Executive acknowledges that he has had twenty one (21) days from receipt of this Release to review it prior to signing or that, if Executive is signing this Release prior to the expiration of such 21-day period, Executive is waiving his right to review the Release for such full 21-day period prior to signing it. Executive has the right to revoke this release within seven (7) days following the date of its execution by him, and must deliver written notice of revocation in person to _____ at the following address: _____, and such revocation shall not be effective unless actually received by _____, within seven (7) days following the date the release was signed by Executive. If Executive revokes this Release within such seven (7) day period, no severance benefit will be payable to him under the Employment Agreement and he shall return to the Company any such payment received prior to that date.

EXECUTIVE HAS CAREFULLY READ THIS RELEASE AND ACKNOWLEDGES THAT IT CONSTITUTES A GENERAL RELEASE OF ALL KNOWN AND UNKNOWN CLAIMS AGAINST THE COMPANY UNDER THE AGE DISCRIMINATION IN EMPLOYMENT ACT, AND ANY AND ALL OTHER STATE AND FEDERAL LAWS, WHETHER STATUTORY OR COMMON LAW. EXECUTIVE ACKNOWLEDGES THAT HE HAS HAD A FULL OPPORTUNITY TO CONSULT WITH AN ATTORNEY OR OTHER ADVISOR OF HIS CHOOSING CONCERNING HIS EXECUTION OF THIS RELEASE AND THAT HE IS SIGNING THIS RELEASE VOLUNTARILY AND WITH THE FULL INTENT OF RELEASING THE COMPANY FROM ALL SUCH CLAIMS.

Executive

Date: _____

EXHIBIT C TO EMPLOYMENT AGREEMENT

Definition of Change in Control:

For the purposes of this Agreement, a “Change in Control” shall mean the occurrence of any of the following events:

(i) individuals who, on the Effective Date, constitute the Board of Directors of the Company (the “Incumbent Directors”) cease for any reason to constitute at least a majority of such Board, provided that any person becoming a director after the Effective Date and whose election or nomination for election was approved by a vote of at least a majority of the Incumbent Directors then on the Board shall be an Incumbent Director; provided, however, that no individual initially elected or nominated as a director of the Company as a result of an actual or threatened election contest with respect to the election or removal of directors (“Election Contest”) or other actual or threatened solicitation of proxies or consents by or on behalf of any “person” (such term for purposes of this definition being as defined in Section 3(a)(9) of the Exchange Act and as used in Sections 13(d)(3) and 14(d)(2) of the Exchange Act) other than the Board (“Proxy Contest”), including by reason of any agreement intended to avoid or settle any Election Contest or Proxy Contest, shall be deemed an Incumbent Director; or

(ii) any person is or becomes a “beneficial owner” (as defined in Rule 13d-3 under the Exchange Act), directly or indirectly, of either (A) 35% or more of the then-outstanding shares of common stock of the Company (“Company Common Stock”) or (B) securities of the Company representing 35% or more of the combined voting power of the Company’s then outstanding securities eligible to vote for the election of directors (the “Company Voting Securities”); provided, however, that for purposes of this subsection (ii), the following acquisitions shall not constitute a Change in Control: (w) an acquisition directly from the Company, (x) an acquisition by the Company or a Subsidiary of the Company, (y) an acquisition by any employee benefit plan (or related trust) sponsored or maintained by the Company or any Subsidiary of the Company, or (z) an acquisition pursuant to a Non-Qualifying Transaction (as defined in subsection (iii) below); or

(iii) the consummation of a reorganization, merger, consolidation, statutory share exchange or similar form of corporate transaction involving the Company or a Subsidiary (a “Reorganization”), or the sale or other disposition of all or substantially all of the Company’s assets (a “Sale”) or the acquisition of assets or stock of another corporation (an “Acquisition”), unless immediately following such Reorganization, Sale or Acquisition: (A) all or substantially all of the individuals and entities who were the beneficial owners, respectively, of the outstanding Company Common Stock and outstanding Company Voting Securities immediately prior to such Reorganization, Sale or Acquisition beneficially own, directly or indirectly, more than 55% of, respectively, the then outstanding shares of common stock and the combined voting power of the then outstanding voting securities entitled to vote generally in the election of directors, as the case may be, of the corporation resulting from such Reorganization, Sale or Acquisition (including, without

limitation, a corporation which as a result of such transaction owns the Company or all or substantially all of the Company's assets or stock either directly or through one or more subsidiaries, the "Surviving Corporation") in substantially the same proportions as their ownership, immediately prior to such Reorganization, Sale or Acquisition, of the outstanding Company Common Stock and the outstanding Company Voting Securities, as the case may be, and (B) no person (other than (x) the Company or any Subsidiary of the Company, (y) the Surviving Corporation or its ultimate parent corporation, or (z) any employee benefit plan (or related trust) sponsored or maintained by any of the foregoing is the beneficial owner, directly or indirectly, of 35% or more of the total common stock or 35% or more of the total voting power of the outstanding voting securities eligible to elect directors of the Surviving Corporation, and (C) at least a majority of the members of the board of directors of the Surviving Corporation were Incumbent Directors at the time of the Board's approval of the execution of the initial agreement providing for such Reorganization, Sale or Acquisition (any Reorganization, Sale or Acquisition which satisfies all of the criteria specified in (A), (B) and (C) above shall be deemed to be a "Non-Qualifying Transaction"); or

- (iv) approval by the stockholders of the Company of a complete liquidation or dissolution of the Company.

OTHER STOCK-BASED AWARD CERTIFICATE

Non-transferable

GRANT TO

JOHN J. ELLSWORTH

(the "Participant")

by ScanSource, Inc. (the "Company") of

2,006 shares of its common stock, no par value (the "Shares")

pursuant to and subject to the provisions of the ScanSource, Inc. 2013 Long-Term Incentive Plan, as it may be amended and/or restated (the "Plan"), and to the terms and conditions set forth in this Award Certificate (the "Award Certificate"). This Award Certificate describes terms and conditions of the Other Stock-Based Award (the "Award") granted herein and constitutes an agreement between the Participant and the Company.

IN WITNESS WHEREOF, ScanSource, Inc., acting by and through its duly authorized officers, has caused this Award Certificate to be executed as of the Grant Date.

SCANSOURCE, INC.

By: /s/ Michael L. Baur

Its: Authorized Officer

Grant Date: (the "Grant Date"): August 26, 2014

AWARD CERTIFICATE TERMS AND CONDITIONS

1. Grant of Award. ScanSource, Inc. (the “Company”) hereby grants to the Participant named on Page 1 hereof (the “Participant”), subject to the restrictions and the other terms and conditions set forth in the ScanSource, Inc. 2013 Long-Term Incentive Plan, as it may be amended and/or restated (the “Plan”), and in this Award Certificate, an Other Stock-Based Unit Award (the “Award”) for the number of Shares indicated on Page 1 hereof of the Company’s common stock. Capitalized terms used herein and not otherwise defined shall have the meanings assigned to such terms in the Plan.
2. Certain Restrictions. The Award and the underlying Shares are subject to the following restrictions. No right or interest of the Participant in the Award, if and to the extent restricted, may be pledged, encumbered or hypothecated to or in favor of any party other than the Company or an Affiliate or shall be subject to any lien, obligation or liability of the Participant to any other party other than the Company or an Affiliate. Except as otherwise provided in the Plan, the Award shall not be transferable (including by sale, assignment, pledge or hypothecation) other than by will or the laws of intestate succession. Prior to issuance, the Shares subject to the Award may not be sold, transferred, exchanged, assigned, pledged, hypothecated or otherwise encumbered. Except as may be otherwise provided in the Plan or this Award Certificate, if the Participant’s employment with the Company terminates for any reason (whether by the Company or the Participant and whether voluntary or involuntary) prior to issuance of the Shares, then the Participant shall forfeit all of the Participant’s right, title and interest in and to the Award and the Shares to the extent the Shares were not issued as of the date the Participant’s Continuous Status as a Participant terminates. The restrictions imposed under this Section 2 shall apply to all Shares or other securities issued with respect to Shares hereunder in connection with any merger, reorganization, consolidation, recapitalization, stock dividend or other change in corporate structure affecting the Stock of the Company.
3. Vesting. The Shares subject to the Award shall be vested immediately as of the Grant Date; provided, however, that notwithstanding the foregoing, the Award and the Shares shall be subject to such limitations and restrictions as may be provided under the terms of the Plan or this Award Certificate.
4. Settlement of Award; Delivery of Shares. A certificate or certificates for the Shares underlying the Award (or, in the case of uncertificated Shares, other written evidence of ownership in accordance with applicable laws) shall be issued in the name of the Participant (or his beneficiary) as soon as practicable following the Grant Date.
5. Voting and Dividend Rights. The Participant shall not be deemed to be the holder of any Shares subject to the Award and shall not have any dividend rights, voting rights or other rights as a shareholder until certificates for such Shares have been issued to him (or, in the case of uncertificated shares, other written evidence of ownership in accordance with applicable laws shall have been provided).
6. No Right of Continued Employment or to Future Awards. Nothing in this Award Certificate shall interfere with or limit in any way the right of the Company or any Affiliate to terminate the Participant’s employment or service at any time, nor confer upon the Participant any right to continue in the employ or service of the Company or any Affiliate. The grant of the Award does not create any obligation to grant further awards.
7. Tax Matters. The Participant will, no later than the date as of which any amount related to the Shares first becomes includable in the Participant’s gross income for federal income tax purposes, pay to the Company, or make other arrangements satisfactory to the Committee regarding payment of, any federal,

state, local and foreign taxes (including any Federal Insurance Contributions Act (FICA) taxes) required by law to be withheld with respect to such amount. The withholding requirement may be satisfied, in whole or in part, unless the Committee determines otherwise, by withholding from this Award Shares having a Fair Market Value on the date of withholding equal to the minimum amount (and not any greater amount) required to be withheld for tax purposes, all in accordance with such procedures as the Committee establishes. The obligations of the Company under this Award Certificate will be conditional on such payment or arrangements, and the Company, or, where applicable, its Affiliates, will, to the extent permitted by law, have the right to deduct any such taxes from any payment of any kind otherwise due to the Participant. The Participant acknowledges that the Company has made no warranties or representations to the Participant with respect to the legal, tax or investment consequences (including but not limited to income tax consequences) related to the grant of the Award or receipt or disposition of the Shares (or any other benefit), and the Participant is in no manner relying on the Company or its representatives for legal, tax or investment advice related to the Award or the Shares. The Participant acknowledges that there may be adverse tax consequences upon the grant of the Award and/or the acquisition or disposition of the Shares (or other benefit) subject to the Award and that the Participant has been advised that he should consult with his or her own attorney, accountant and/or tax advisor regarding the transactions contemplated by the Award and this Award Certificate. The Participant also acknowledges that the Company has no responsibility to take or refrain from taking any actions in order to achieve a certain tax result for the Participant.

8. Plan Controls; Entire Agreement; Amendment. The terms contained in the Plan are incorporated into and made a part of this Award Certificate and this Award Certificate shall be governed by and construed in accordance with the Plan. In the event of any actual or alleged conflict between the provisions of the Plan and the provisions of this Award Certificate, the provisions of the Plan shall be controlling and determinative (unless the Committee determines otherwise). This Award Certificate sets forth all of the promises, agreements, understandings, warranties and representations between the parties with respect to the Award. This Award Certificate may be amended as provided in the Plan.

9. Successors. This Award Certificate shall be binding upon any successor of the Company, in accordance with the terms of this Award Certificate and the Plan.

10. Severability. If any one or more of the provisions contained in this Award Certificate is held to be invalid, illegal or unenforceable, the other provisions of this Award Certificate will be construed and enforced as if the invalid, illegal or unenforceable provision had never been included.

11. Notice. Notices and communications under this Award Certificate must be in writing and either personally delivered or sent by registered or certified United States mail, return receipt requested, postage prepaid. Notices to the Company must be addressed to ScanSource, Inc., 6 Logue Court, Greenville, SC 29615, Attn: Secretary, or any other address designated by the Company in a written notice to the Participant. Notices to the Participant will be directed to the address of the Participant then currently on file with the Company, or at any other address given by the Participant in a written notice to the Company.

12. Beneficiary Designation. The Participant may, in the manner determined by the Committee, designate a beneficiary to exercise the rights of the Participant hereunder and to receive any distribution with respect to the Award upon the Participant's death. A beneficiary, legal guardian, legal representative, or other person claiming any rights hereunder is subject to all terms and conditions of this Award Certificate and the Plan and to any additional restrictions deemed necessary or appropriate by the Committee. If no beneficiary has been designated or survives the Participant, the Participant's rights with respect to the Award may be exercised by the legal representative of the Participant's estate, and payment shall be made to the Participant's estate.

Subject to the foregoing, a beneficiary designation may be changed or revoked by the Participant at any time provided the change or revocation is filed with the Company.

13. Compliance with Recoupment, Ownership and Other Policies or Agreements. As a condition to receiving the Award, the Participant agrees that he or she shall abide by all provisions of any equity retention policy, compensation recovery policy, stock ownership guidelines and/or other similar policies maintained by the Company, each as in effect from time to time and to the extent applicable to Participant from time to time. In addition, the Participant shall be subject to such compensation recovery, recoupment, forfeiture, or other similar provisions as may apply at any time to the Participant under Applicable Law.

Other Stock-Based Award (2013 Plan)

OTHER STOCK-BASED AWARD CERTIFICATE

Non-transferable

GRANT TO

(the "Participant")

by ScanSource, Inc. (the "Company") of

_____ shares of its common stock, no par value (the "Shares")

pursuant to and subject to the provisions of the ScanSource, Inc. 2013 Long-Term Incentive Plan, as it may be amended and/or restated (the "Plan"), and to the terms and conditions set forth in this Award Certificate (the "Award Certificate"). This Award Certificate describes terms and conditions of the Other Stock-Based Award (the "Award") granted herein and constitutes an agreement between the Participant and the Company.

IN WITNESS WHEREOF, ScanSource, Inc., acting by and through its duly authorized officers, has caused this Award Certificate to be executed as of the Grant Date.

SCANSOURCE, INC.

By:_____

Its: Authorized Officer

Grant Date: (the "Grant Date"):

AWARD CERTIFICATE TERMS AND CONDITIONS

1. Grant of Award. ScanSource, Inc. (the “Company”) hereby grants to the Participant named on Page 1 hereof (the “Participant”), subject to the restrictions and the other terms and conditions set forth in the ScanSource, Inc. 2013 Long-Term Incentive Plan, as it may be amended and/or restated (the “Plan”), and in this Award Certificate, an Other Stock-Based Unit Award (the “Award”) for the number of Shares indicated on Page 1 hereof of the Company’s common stock. Capitalized terms used herein and not otherwise defined shall have the meanings assigned to such terms in the Plan.
2. Certain Restrictions. The Award and the underlying Shares are subject to the following restrictions. No right or interest of the Participant in the Award, if and to the extent restricted, may be pledged, encumbered or hypothecated to or in favor of any party other than the Company or an Affiliate or shall be subject to any lien, obligation or liability of the Participant to any other party other than the Company or an Affiliate. Except as otherwise provided in the Plan, the Award shall not be transferable (including by sale, assignment, pledge or hypothecation) other than by will or the laws of intestate succession. Prior to issuance, the Shares subject to the Award may not be sold, transferred, exchanged, assigned, pledged, hypothecated or otherwise encumbered. Except as may be otherwise provided in the Plan or this Award Certificate, if the Participant’s employment with the Company terminates for any reason (whether by the Company or the Participant and whether voluntary or involuntary) prior to issuance of the Shares, then the Participant shall forfeit all of the Participant’s right, title and interest in and to the Award and the Shares to the extent the Shares were not issued as of the date the Participant’s Continuous Status as a Participant terminates. The restrictions imposed under this Section 2 shall apply to all Shares or other securities issued with respect to Shares hereunder in connection with any merger, reorganization, consolidation, recapitalization, stock dividend or other change in corporate structure affecting the Stock of the Company.
3. Vesting. The Shares subject to the Award shall be vested immediately as of the Grant Date; provided, however, that notwithstanding the foregoing, the Award and the Shares shall be subject to such limitations and restrictions as may be provided under the terms of the Plan or this Award Certificate.
4. Settlement of Award; Delivery of Shares. A certificate or certificates for the Shares underlying the Award (or, in the case of uncertificated Shares, other written evidence of ownership in accordance with applicable laws) shall be issued in the name of the Participant (or his beneficiary) as soon as practicable following the Grant Date.
5. Voting and Dividend Rights. The Participant shall not be deemed to be the holder of any Shares subject to the Award and shall not have any dividend rights, voting rights or other rights as a shareholder until certificates for such Shares have been issued to him (or, in the case of uncertificated shares, other written evidence of ownership in accordance with applicable laws shall have been provided).
6. No Right of Continued Employment or to Future Awards. Nothing in this Award Certificate shall interfere with or limit in any way the right of the Company or any Affiliate to terminate the Participant’s employment or service at any time, nor confer upon the Participant any right to continue in the employ or service of the Company or any Affiliate. The grant of the Award does not create any obligation to grant further awards.
7. Tax Matters. The Participant will, no later than the date as of which any amount related to the Shares first becomes includable in the Participant’s gross income for federal income tax purposes, pay to the Company, or make other arrangements satisfactory to the Committee regarding payment of, any federal,

state, local and foreign taxes (including any Federal Insurance Contributions Act (FICA) taxes) required by law to be withheld with respect to such amount. The withholding requirement may be satisfied, in whole or in part, unless the Committee determines otherwise, by withholding from this Award Shares having a Fair Market Value on the date of withholding equal to the minimum amount (and not any greater amount) required to be withheld for tax purposes, all in accordance with such procedures as the Committee establishes. The obligations of the Company under this Award Certificate will be conditional on such payment or arrangements, and the Company, or, where applicable, its Affiliates, will, to the extent permitted by law, have the right to deduct any such taxes from any payment of any kind otherwise due to the Participant. The Participant acknowledges that the Company has made no warranties or representations to the Participant with respect to the legal, tax or investment consequences (including but not limited to income tax consequences) related to the grant of the Award or receipt or disposition of the Shares (or any other benefit), and the Participant is in no manner relying on the Company or its representatives for legal, tax or investment advice related to the Award or the Shares. The Participant acknowledges that there may be adverse tax consequences upon the grant of the Award and/or the acquisition or disposition of the Shares (or other benefit) subject to the Award and that the Participant has been advised that he should consult with his or her own attorney, accountant and/or tax advisor regarding the transactions contemplated by the Award and this Award Certificate. The Participant also acknowledges that the Company has no responsibility to take or refrain from taking any actions in order to achieve a certain tax result for the Participant.

8. Plan Controls; Entire Agreement; Amendment. The terms contained in the Plan are incorporated into and made a part of this Award Certificate and this Award Certificate shall be governed by and construed in accordance with the Plan. In the event of any actual or alleged conflict between the provisions of the Plan and the provisions of this Award Certificate, the provisions of the Plan shall be controlling and determinative (unless the Committee determines otherwise). This Award Certificate sets forth all of the promises, agreements, understandings, warranties and representations between the parties with respect to the Award. This Award Certificate may be amended as provided in the Plan.

9. Successors. This Award Certificate shall be binding upon any successor of the Company, in accordance with the terms of this Award Certificate and the Plan.

10. Severability. If any one or more of the provisions contained in this Award Certificate is held to be invalid, illegal or unenforceable, the other provisions of this Award Certificate will be construed and enforced as if the invalid, illegal or unenforceable provision had never been included.

11. Notice. Notices and communications under this Award Certificate must be in writing and either personally delivered or sent by registered or certified United States mail, return receipt requested, postage prepaid. Notices to the Company must be addressed to ScanSource, Inc., 6 Logue Court, Greenville, SC 29615, Attn: Secretary, or any other address designated by the Company in a written notice to the Participant. Notices to the Participant will be directed to the address of the Participant then currently on file with the Company, or at any other address given by the Participant in a written notice to the Company.

12. Beneficiary Designation. The Participant may, in the manner determined by the Committee, designate a beneficiary to exercise the rights of the Participant hereunder and to receive any distribution with respect to the Award upon the Participant's death. A beneficiary, legal guardian, legal representative, or other person claiming any rights hereunder is subject to all terms and conditions of this Award Certificate and the Plan and to any additional restrictions deemed necessary or appropriate by the Committee. If no beneficiary has been designated or survives the Participant, the Participant's rights with respect to the Award may be exercised by the legal representative of the Participant's estate, and payment shall be made to the Participant's estate.

Subject to the foregoing, a beneficiary designation may be changed or revoked by the Participant at any time provided the change or revocation is filed with the Company.

13. Compliance with Recoupment, Ownership and Other Policies or Agreements. As a condition to receiving the Award, the Participant agrees that he or she shall abide by all provisions of any equity retention policy, compensation recovery policy, stock ownership guidelines and/or other similar policies maintained by the Company, each as in effect from time to time and to the extent applicable to Participant from time to time. In addition, the Participant shall be subject to such compensation recovery, recoupment, forfeiture, or other similar provisions as may apply at any time to the Participant under Applicable Law.

Other Stock-Based Award (2013 Plan)

RESTRICTED STOCK UNIT AWARD CERTIFICATE
(Performance- and Service-Based)
Non-transferable
GRANT TO

(the “Participant”)
by ScanSource, Inc. (the “Company”)

The Company hereby grants to Participant a performance-based and service-based Restricted Stock Unit (“RSU”) Award (the “Award”), which represents a contingent right to acquire shares of the Company’s common stock, no par value (the “Shares”). The Award is subject to the terms and conditions set forth in this Restricted Stock Unit Award Certificate (Performance- and Service-Based) (the “Award Certificate”), including Schedule A, which is attached hereto and expressly made a part of this Agreement, and the ScanSource, Inc. 2013 Long-Term Incentive Plan, as it may be amended and/or restated (the “Plan”), the terms of which are incorporated herein in their entirety.

Participant: [Insert Participant Name]

Award Date: [Insert Award Date]

Performance Periods: July 1, 2014 to June 30, 2015 (“Year 1 Performance Period”)

July 1, 2015 to June 30, 2016 (“Year 2 Performance Period”)

July 1, 2016 to June 30, 2017 (“Year 3 Performance Period”)

(each such period, a “Performance Period” and collectively, the “Performance Periods”)

The actual number of Shares, if any, subject to the Award that may be earned shall be determined based on the attainment of the performance goals specified in Schedule A, as determined by the Compensation Committee (“Committee”) following the end of the applicable Performance Period; provided, however, that no Shares shall vest and be distributable to the Participant unless the Participant is continuously employed by the Company from the Award Date until June 30, 2017 and the provisions of Section 1(d) of Schedule A are met, except as otherwise provided in Section 3 herein.

The aggregate target number of RSUs for all of the Year 1 Performance Period, Year 2 Performance Period and Year 3 Performance Period combined is [Insert Number] RSUs (the “Target RSUs”).

Number of Restricted Stock Units (“RSUs”):

One-third of the Target RSUs shall be eligible to be earned based on attainment of the performance goal applicable to the Year 1 Performance Period, subject to continued employment as provided herein.

One-third of the Target RSUs shall be eligible to be earned based on attainment of the performance goal applicable to the Year 2 Performance Period, subject to continued employment as provided herein.

One-third of the Target RSUs shall be eligible to be earned based on attainment of the performance goal applicable to the Year 3 Performance Period, subject to continued employment as provided herein.

IN WITNESS WHEREOF, ScanSource, Inc., acting by and through its duly authorized officers, has caused this Award Certificate to be executed effective as of the Award Date.

SCANSOURCE, INC.

By: _____
Its: Authorized Officer

Grant Date: (referred to herein as the "Award Date"): _____

AWARD CERTIFICATE TERMS AND CONDITIONS

1. Grant of Award. ScanSource, Inc. (the “Company”) hereby grants to the Participant named on Page 1 hereof (the “Participant”), subject to the restrictions and the other terms and conditions set forth in the ScanSource, Inc. 2013 Long-Term Incentive Plan, as it may be amended and/or restated (the “Plan”), and in this Award Certificate, a performance- and service-based Restricted Stock Unit Award (the “Award”) for up to the number of Shares indicated on Schedule A, which is attached hereto and expressly made a part of this Award Certificate. For the purposes herein, the Shares subject to the Award are units that will be reflected in a book account maintained by the Company and that will be settled in shares of Stock if and only to the extent permitted under the Plan and this Award Certificate. Prior to issuance of any Shares upon vesting of the Award, the Award shall represent an unsecured obligation of the Company, payable (if at all) only from the Company’s general assets. Capitalized terms used herein and not otherwise defined shall have the meanings assigned to such terms in the Plan.

2. Vesting and Earning of the Award. The number of Shares subject to the Award that may be earned during each Performance Period will be determined by the Committee following the end of each Performance Period, as provided in Schedule A; provided, however, that (except as otherwise provided in Section 3), the Award shall not vest, in whole or in part, and the Participant shall not be entitled to any of the Shares (that is, Shares subject to the Award shall remain subject to forfeiture), unless the Participant remains continuously employed by the Company from the Award Date until the completion of all Performance Periods (that is, June 30, 2017). The Committee has sole discretion to determine if and the extent to which the Award has vested. One Share of Stock will be issuable for each RSU that vests. RSUs that have vested are referred to herein as “Vested RSUs.” RSUs that have not vested and remain subject to forfeiture are referred to herein as “Unvested RSUs.” The Unvested RSUs and Vested RSUs are collectively referred to herein as the “RSUs.” The Award will terminate and the Unvested RSUs will be subject to forfeiture upon termination of the Participant’s employment as set forth in Section 3.

3. Effect of Termination; Forfeiture.

(a) If the Participant’s employment with the Company terminates for any reason other than as set forth in Section 3(b) herein, then the Participant shall forfeit all of the Participant’s right, title and interest in the Award (and the underlying Shares), to the extent not vested and earned as of the date of the Participant’s termination of employment, and such Unvested RSUs shall revert to the Company (without the payment by the Company of any consideration for such Shares) immediately following the event of forfeiture.

(b) Notwithstanding the provisions of Section 2, Schedule A and Section 3(a) herein, the Award shall be deemed earned and vested on the earliest to occur of the following:

(i) Upon the termination of the Participant’s employment due to death or Disability, as follows: (A) with respect to any Performance Period(s) that have been completed on or before the date of the Participant’s death or Disability, the Award shall be deemed earned and payable based on actual performance for such

Performance Period(s); (B) with respect to any Performance Period that has not yet commenced as of the date of the Participant's death or Disability or that has commenced but not yet been completed as of such date, the Award shall be deemed earned as if the goal(s) for such Performance Period(s) had been met at target. Any amounts payable as provided herein shall be paid as described in Section 5.

(ii) Upon the termination of the Participant's employment due to Retirement, as follows: (A) with respect to any Performance Period(s) that have been completed on or before the date of the Participant's Retirement, the Award shall be deemed earned and payable based on actual performance; (B) with respect to any Performance Period that has commenced but not been completed as of the Participant's termination due to Retirement (that is, a partial Performance Period), the Participant shall be paid a pro rata award based on the number of completed days in service during the Performance Period, based on actual performance; and (C) with respect to any Performance Period that has not yet commenced as of the date of the Participant's termination due to Retirement, no portion of the Award shall be deemed earned or payable. Any amounts payable as provided herein shall be paid as described in Section 5.

(iii) In the event of a Change in Control, as follows (with any amounts payable as provided herein being paid as described in Section 5):

(A) To the extent that the successor or surviving company in the Change in Control event does not assume or substitute for the Award (or in which the Company is the ultimate parent corporation and does not continue the Award) on substantially similar terms or with substantially equivalent economic benefits (as determined by the Committee) as Awards outstanding under the Plan immediately prior to the Change in Control event, the Award shall be deemed vested, earned and payable (X) based on actual performance with respect to any Performance Period(s) that had been completed on or prior to the date of the Change in Control and (Y) based on attainment of the performance goal(s) at target with respect to any Performance Period(s) that have commenced but not been completed as of the date of the Change in Control or that have not yet commenced as of the date of the Change in Control.

(B) Further, in the event that the Award is substituted, assumed or continued as provided in Section 3(b)(iii) herein, the Award will nonetheless become vested, earned and payable as provided herein if the employment or service of the Participant is terminated by the Company within six months before (in which case vesting shall not occur until the effective date of the Change in Control) or one year after the effective date of a Change in Control if such termination of employment or service (X) is by the Company not for Cause or (Y) is by the Participant for Good Reason. In such event, the Award shall be deemed vested, earned and payable (X) based on actual performance

with respect to any Performance Period(s) that had been completed on or prior to the date of the Change in Control and (Y) as if the performance goal(s) had been met at target with respect to any Performance Period(s) that have commenced but not been completed as of the date of the Change in Control or that have not yet commenced as of the date of the Change in Control.

(c) For clarification, for the purposes of this Section 3, “Retirement,” “Cause” and “Good Reason” shall have the meaning given such terms in the Plan, and “Disability” shall have the meaning given such term in the Plan, except that the phrase “12 months” shall be replaced by the phrase “six months”.

4. Restrictions; Forfeiture. In addition to other terms and conditions stated in the Plan or this Award Certificate, the Award and the underlying Shares are subject to the following restrictions. No right or interest of the Participant in the Award, to the extent restricted, may be pledged, encumbered or hypothecated to or in favor of any party other than the Company or an Affiliate or shall be subject to any lien, obligation or liability of the Participant to any other party other than the Company or an Affiliate. Except as otherwise provided in the Plan, the Award shall not be transferable (including by sale, assignment, pledge or hypothecation) other than by will or the laws of intestate succession. Prior to vesting, the Shares subject to the Award may not be sold, transferred, exchanged, assigned, pledged, hypothecated or otherwise encumbered. Except as may be otherwise provided in the Plan or this Award Certificate, if the Participant’s employment with the Company terminates for any reason (whether by the Company or the Participant and whether voluntary or involuntary) other than as set forth in Section 3(b) herein, then the Participant shall forfeit all of the Participant’s right, title and interest in and to the Award and the Shares to the extent the Award (and corresponding Shares) were not vested as of the date the Participant’s Continuous Status as a Participant terminated. The restrictions imposed under this Section 4 shall apply to all Shares or other securities issued with respect to Shares hereunder in connection with any merger, reorganization, consolidation, recapitalization, stock dividend or other change in corporate structure affecting the Stock of the Company.

5. Settlement of Award; Delivery of Shares. No certificate or certificates for the Shares shall be issued at the time of grant of the Award. A certificate or certificates for the Shares underlying the Award (or, in the case of uncertificated Shares, other written evidence of ownership in accordance with applicable laws) shall be issued in the name of the Participant (or his beneficiary) only in the event, and to the extent, that the Award has vested and been earned. Notwithstanding the foregoing, the following provisions shall apply: (a) except with respect to distributions following termination of employment (that is, a “separation of service” under Code Section 409A) due to death, Disability, Retirement or following a Change in Control, any Shares or other benefits payable pursuant to the Award shall, upon vesting of the Award, be distributed to the Participant (or his beneficiary) no later than the later of (i) the 15th day of the third month following the end of the Participant’s first taxable year in which the amount is no longer subject to a substantial risk of forfeiture, or (ii) the 15th day of the third month following the end of the Company’s first taxable year in which the amount is no longer subject to a substantial risk of forfeiture; and (b) any distributions due to termination of employment as a result of death, Disability, Retirement or following a Change in Control shall be paid within 90 days following the date of termination and the Participant shall not have the right to

designate the taxable year of the payment (except as otherwise provided below with respect to a delay in payments if the Participant is a “specified employee”). Further, with respect to payments made as a result of a termination of employment under subpart (b) of the preceding sentence, if calculation of the amount of the payment is not administratively practicable due to events beyond the control of the Participant (or his beneficiary), the payment will be treated as made within the 90-day time period specified herein if the payment is made during the first taxable year of the Participant in which the calculation of the amount of the payment is administratively practicable or otherwise in accordance with Code Section 409A. Notwithstanding the foregoing, if the Participant is or may be a “specified employee” (as defined under Code Section 409A), and the distribution is due to separation from service, then such distribution shall be subject to delay as provided in Section 18.22 of the Plan (or any successor provision thereto).

6. Voting and Dividend Rights. The Participant shall not be deemed to be the holder of any Shares subject to the Award and shall not have any dividend rights, voting rights or other rights as a shareholder unless and until (and only to the extent that) the Award has vested and certificates for such Shares have been issued to him (or, in the case of uncertificated shares, other written evidence of ownership in accordance with applicable laws shall have been provided).

7. No Right of Continued Employment or to Future Awards. Nothing in this Award Certificate shall interfere with or limit in any way the right of the Company or any Affiliate to terminate the Participant’s employment or service at any time, nor confer upon the Participant any right to continue in the employ or service of the Company or any Affiliate. The grant of the Award does not create any obligation to grant further awards.

8. Tax Matters. The Participant will, no later than the date as of which any amount related to the Shares first becomes includable in the Participant’s gross income for federal income tax purposes, pay to the Company, or make other arrangements satisfactory to the Committee regarding payment of, any federal, state, local and foreign taxes (including any Federal Insurance Contributions Act (FICA) taxes) required by law to be withheld with respect to such amount. The withholding requirement may be satisfied, in whole or in part, unless the Committee determines otherwise, by withholding from this Award Shares having a Fair Market Value on the date of withholding equal to the minimum amount (and not any greater amount) required to be withheld for tax purposes, all in accordance with such procedures as the Committee establishes. The obligations of the Company under this Award Certificate will be conditional on such payment or arrangements, and the Company, or, where applicable, its Affiliates, will, to the extent permitted by law, have the right to deduct any such taxes from any payment of any kind otherwise due to the Participant. The Participant acknowledges that the Company has made no warranties or representations to the Participant with respect to the legal, tax or investment consequences (including but not limited to income tax consequences) related to the grant of the Award or receipt or disposition of the Shares (or any other benefit), and the Participant is in no manner relying on the Company or its representatives for legal, tax or investment advice related to the Award or the Shares. The Participant acknowledges that there may be adverse tax consequences upon the grant of the Award and/or the acquisition or disposition of the Shares (or other benefit) subject to the Award and that the Participant has been advised that he should consult with his or her own attorney, accountant and/or tax advisor regarding the transactions contemplated by the Award and this Award Certificate. The Participant also

acknowledges that the Company has no responsibility to take or refrain from taking any actions in order to achieve a certain tax result for the Participant.

9. Plan Controls; Entire Agreement; Amendment. The terms contained in the Plan are incorporated into and made a part of this Award Certificate and this Award Certificate shall be governed by and construed in accordance with the Plan. In the event of any actual or alleged conflict between the provisions of the Plan and the provisions of this Award Certificate, the provisions of the Plan shall be controlling and determinative (unless the Committee determines otherwise). This Award Certificate, including Schedule A attached hereto, sets forth all of the promises, agreements, understandings, warranties and representations between the parties with respect to the Award. This Award Certificate may be amended as provided in the Plan.

10. Successors. This Award Certificate shall be binding upon any successor of the Company, in accordance with the terms of this Award Certificate and the Plan.

11. Severability. If any one or more of the provisions contained in this Award Certificate is held to be invalid, illegal or unenforceable, the other provisions of this Award Certificate will be construed and enforced as if the invalid, illegal or unenforceable provision had never been included.

12. Notice. Notices and communications under this Award Certificate must be in writing and either personally delivered or sent by registered or certified United States mail, return receipt requested, postage prepaid. Notices to the Company must be addressed to ScanSource, Inc., 6 Logue Court, Greenville, SC 29615, Attn: Secretary, or any other address designated by the Company in a written notice to the Participant. Notices to the Participant will be directed to the address of the Participant then currently on file with the Company, or at any other address given by the Participant in a written notice to the Company.

13. Beneficiary Designation. The Participant may, in the manner determined by the Committee, designate a beneficiary to exercise the rights of the Participant hereunder and to receive any distribution with respect to the Award upon the Participant's death. A beneficiary, legal guardian, legal representative, or other person claiming any rights hereunder is subject to all terms and conditions of this Award Certificate and the Plan and to any additional restrictions deemed necessary or appropriate by the Committee. If no beneficiary has been designated or survives the Participant, the Participant's rights with respect to the Award may be exercised by the legal representative of the Participant's estate, and payment shall be made to the Participant's estate. Subject to the foregoing, a beneficiary designation may be changed or revoked by the Participant at any time provided the change or revocation is filed with the Company.

14. Compliance with Recoupment, Ownership and Other Policies or Agreements. As a condition to receiving the Award, the Participant agrees that he or she shall abide by all provisions of the Company's Stock Ownership and Retention Policy, Compensation Recovery Policy and/or other similar policies maintained by the Company, each as in effect from time to time and to the extent applicable to Participant from time to time. In addition, the Participant shall be subject to such compensation recovery, recoupment, forfeiture, or other similar provisions as may apply at any time to the Participant under Applicable Law.

SCHEDULE A

SCANSOURCE, INC. 2013 LONG-TERM INCENTIVE PLAN Restricted Stock Unit Award Certificate (Performance-and Service-Based)

This Schedule A sets forth the performance goals for the performance-based and service-based Restricted Stock Unit Award (the “Award”) under the ScanSource, Inc. 2013 Long-Term Incentive Plan, as it may be amended and/or restated (the “Plan”), evidenced by the Restricted Stock Unit Award Certificate (Performance-and Service-Based) (the “Award Certificate”) to which it is attached. Capitalized terms not expressly defined in this Schedule A but defined in the Plan or the Award Certificate shall have the same definitions as in the Plan and/or the Award Certificate, as applicable.

1. **Target RSUs; Vesting Terms:** The aggregate target number of RSUs for the Year 1 Performance Period, Year 2 Performance Period and Year 3 Performance Period combined is: **[Insert Number]** RSUs (the “Target RSUs”). The Award is subject to both continued service and performance requirements as follows:

(a) *First tranche:* One third of the Target RSUs subject to the Award shall vest and be earned if (i) Operating Income (“OI”) meets the Target OI (as defined below) set by the Committee for the Year 1 Performance Period, and (ii) the Participant is employed by the Company on June 30, 2017 and has been an employee continuously since the Award Date. If both the performance condition described in Section 1(a)(i) and the service condition described in Section 1(a)(ii) herein are not met, then none of the Shares subject to the first tranche of the Award shall vest; that is, both conditions must be met in order for any of such Shares to vest.

(b) *Second tranche:* One third of the Target RSUs subject to the Award shall vest and be earned if (i) Operating Income meets the Target OI set by the Committee for the Year 2 Performance Period, and (ii) the Participant is employed by the Company on June 30, 2017 and has been an employee continuously since the Award Date. If both the performance condition described in Section 1(b)(i) and the service condition described in Section 1(b)(ii) are not met, then none of the Shares subject to the second tranche of the Award shall vest; that is, both conditions must be met in order for any of such Shares to vest.

(c) *Third tranche:* One third of the Target RSUs subject to the Award shall vest and be earned if (i) Operating Income meets the Target OI set by the Committee for the Year 3 Performance Period, and (ii) the Participant is employed by the Company on June 30, 2017 and has been an employee continuously since the Award Date. If both the performance condition described in Section 1(c)(i) and the service condition described in Section 1(c)(ii) are not met, then none of the Shares subject to the third tranche of the Award shall vest; that is, both conditions must be met in order for any of such Shares to vest.

(d) Notwithstanding the foregoing, the Award shall not be deemed payable, in whole or in part, until both of the following events have occurred: (A) the completion of the Company’s

audited financial statements for the fiscal year ending June 30, 2017 and (B) the Committee's written certification regarding if and to the extent the applicable performance goals have been met.

2. Applicable Performance Goal: The actual number of RSUs, if any, that shall be earned is based on the level of attainment of the following performance goal: OI, which, for the purposes herein, shall mean the amount reflected for the line item identified as Operating Income on the Company's audited consolidated financial statements for each respective fiscal year which serves as a Performance Period. For the purposes herein, "Target OI" shall mean the target Operating Income as set by the Compensation Committee, which shall be within 90 days of the beginning of each Performance Period. The Company's calculation of OI and Target OI shall be conclusive and binding absent fraud or manifest and material error.

3. Determination of Number of Shares Earned; Additional Terms: Notwithstanding the provisions of Sections 1(a)-(c), above, for each applicable Performance Period, the total number of RSUs that may be eligible to be earned under the Award is between 0% and 200% of the Target RSUs for that Performance Period based on attainment of the OI performance goal. If the OI performance goal is below the threshold, no RSUs are earned for that Performance Period. If the performance goal is at threshold (80% of Target OI), 50% of the RSUs are earned for that Performance Period; if the performance goal is at target (100% of Target OI), 100% of the RSUs are earned for that Performance Period; and if the performance goal is at or above the maximum (115% of Target OI), 200% of the RSUs are earned for that year, subject in all cases, to the Participant's continued employment from the Award Date until June 30, 2017. As further clarification, (i) the RSUs deemed earned for OI results between (A) threshold and target and (B) target and maximum will be calculated using interpolation; and (ii) any RSUs that are not earned during a Performance Period cannot be earned in another Performance Period (that is, the RSUs cannot be "made up" based on performance during other Performance Periods). Any RSUs that vest shall be settled in accordance with Section 5 of the Award Certificate.

2013 Plan RSU Agreement (Performance- and Service-Based) (2014)

ScanSource, Inc.
Schedule of Subsidiaries

Name of Subsidiary	State/Country of Incorporation	Percentage of Voting Securities Owned by Immediate Parent
4100 Quest, LLC	South Carolina	100%
ScanSource Properties, LLC	South Carolina	100%
Logue Court Properties, LLC	South Carolina	100%
8650 Commerce Drive, LLC	Mississippi	100%
Partner Services, Inc.	South Carolina	100%
ScanSource Security Distribution, Inc.	South Carolina	100%
ScanSource Communications, Inc.	South Carolina	100%
ScanSource Canada, Inc.	Canada	100%
ScanSource de Mexico S, de R.L. de C.V.	Mexico	99.9% ¹
Outsourcing Unlimited, Inc.	Georgia	100%
ScanSource Latin America, Inc.	Florida	100%
ScanSource France SARL	France	100%
ScanSource Europe Limited	United Kingdom	100%
ScanSource UK Limited	United Kingdom	100%
ScanSource Limited	United Kingdom	100%
ScanSource Europe SPRL	Belgium ²	99.9% ³
ScanSource Germany GmbH	Germany	100%
ScanSource Communications Limited	United Kingdom	100%
ScanSource Europe CV	Amsterdam/NL	100%
ScanSource Europe BV	Amsterdam/NL	100%
ScanSource Europe Italy	Italy	100%
ScanSource Europe Netherlands	Netherlands	100%
ScanSource Communications GmbH	Germany	100%
CDC Brasil Distribuidora de Tecnologias Especiais LTDA.	Brazil	99.9% ⁴

¹ Mr. Baur, the CEO of ScanSource, Inc., owns interests representing .000019%.

² ScanSource Europe SPRL has branch offices that operate under the names ScanSource Italia and ScanSource Netherlands.

³ Mr. Baur, the CEO of ScanSource, Inc., owns one share, representing .10%.

⁴ ScanSource Europe SPRL owns one share representing 0.0000037%.

CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

We have issued our reports dated August 28, 2014, with respect to the consolidated financial statements, schedule, and internal control over financial reporting included in the Annual Report of ScanSource, Inc. on Form 10-K for the year ended June 30, 2014. We hereby consent to the incorporation by reference of said reports in the Registration Statements of ScanSource, Inc. on Forms S-8 (File No. 333-78281, effective May 12, 1999; File No. 333-36766, effective May 11, 2000; File No. 333-110220, effective November 4, 2003; File No. 333-115534, effective May 14, 2004; File No. 144121, effective June 28, 2007; File No. 333-153653, effective September 24, 2008; File No. 333-169064, effective August 10, 2010; File No. 333-192664, effective December 5, 2013; and File No. 333-192665, effective December 5, 2013).

/s/ GRANT THORNTON LLP

Columbia, South Carolina
August 28, 2014

Consent of Independent Registered Public Accounting Firm

We consent to the incorporation by reference in the following Registration Statements:

- (1) Registration Statement (Form S-8 No. 333-78281) of ScanSource, Inc. dated May 12, 1999;
- (2) Registration Statement (Form S-8 No. 333-36766) of ScanSource, Inc. dated May 11, 2000;
- (3) Registration Statement (Form S-8 No. 333-110220) of ScanSource, Inc. dated November 4, 2003;
- (4) Registration Statement (Form S-8 No. 333-115534) of ScanSource, Inc. dated May 14, 2004;
- (5) Registration Statement (Form S-8 No. 333-144121) of ScanSource, Inc. dated June 28, 2007;
- (6) Registration Statement (Form S-8 No. 333-153653) of ScanSource, Inc. dated September 24, 2008;
- (7) Registration Statement (Form S-8 No. 333-169064) of ScanSource, Inc. dated August 10, 2010;
- (8) Registration Statement (Form S-8 No. 333-192664) of ScanSource, Inc. dated December 5, 2013;
- (9) Registration Statement (Form S-8 No. 333-192665) of ScanSource, Inc. dated December 5, 2013

of our report dated August 26, 2013, with respect to the consolidated financial statements and schedule of ScanSource, Inc. and subsidiaries as of June 30, 2013 and for the two years then ended included in this Annual Report (Form 10-K) of ScanSource, Inc. and subsidiaries for the year ended June 30, 2014.

/s/ Ernst & Young LLP

Greenville, SC
August 28, 2014

Certification Pursuant to Rule 13a-14(a) or 15d-14(a)
of the Exchange Act, as adopted Pursuant to Section 302 of the
Sarbanes-Oxley Act of 2002

I, Michael L. Baur, certify that:

1. I have reviewed this quarterly report on Form 10-Q of ScanSource, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, 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;
 - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing equivalent functions):
 - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

/s/ Michael L. Baur

Michael L. Baur, Chief Executive Officer (Principal Executive Officer)

Date: August 28, 2014

Certification Pursuant to Rule 13a-14(a) or 15d-14(a)
of the Exchange Act, as adopted Pursuant to Section 302 of the
Sarbanes-Oxley Act of 2002

I, Charles A. Mathis, certify that:

1. I have reviewed this quarterly report on Form 10-Q of ScanSource, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, 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;
 - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing equivalent functions):
 - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

/s/ Charles A. Mathis

Charles A. Mathis, Executive Vice President and Chief
Financial Officer (Principal Financial Officer)

Date: August 28, 2014

Certification of the Chief Executive Officer of ScanSource, Inc.
Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to § 906
of the Sarbanes-Oxley Act of 2002

In connection with the quarterly report of ScanSource, Inc. (the “Company”) on Form 10-Q for the year ended June 30, 2014 as filed with the Securities and Exchange Commission on the date hereof (the “Report”), the undersigned officer of the Company certifies, pursuant to 18 U.S.C. § 1350, as adopted pursuant to § 906 of the Sarbanes-Oxley Act of 2002, that:

- 1) The Report fully complies with the requirements of §13(a) or 15(d) of the Securities Exchange Act of 1934 (the “Exchange Act”); and
- 2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: August 28, 2014

/s/ Michael L. Baur

Michael L. Baur,

Chief Executive Officer

(Principal Executive Officer)

This certification is being furnished solely to comply with the provisions of § 906 of the Sarbanes-Oxley Act of 2002 and is not being filed as part of the accompanying Report, including for purposes of Section 18 of the Exchange Act, or as a separate disclosure document. A signed original of this written certification required by Section 906, or other document authenticating, acknowledging or otherwise adopting the signature that appears in typed form within the electronic version of this written certification required by Section 906, has been provided to the Company and will be rendered by the Company and furnished to the Securities and Exchange Commission or its staff upon request.

Certification of the Chief Financial Officer of ScanSource, Inc.
Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to § 906
of the Sarbanes-Oxley Act of 2002

In connection with the quarterly report of ScanSource, Inc. (the "Company") on Form 10-Q for the year ended June 30, 2014 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), the undersigned officer of the Company certifies, pursuant to 18 U.S.C. § 1350, as adopted pursuant to § 906 of the Sarbanes-Oxley Act of 2002, that:

- 1) The Report fully complies with the requirements of § 13(a) or 15(d) of the Securities Exchange Act of 1934 (the "Exchange Act"); and
- 2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: August 28, 2014

/s/ Charles A. Mathis

Charles A. Mathis

Executive Vice President and Chief Financial Officer
(Principal Financial Officer)

This certification is being furnished solely to comply with the provisions of § 906 of the Sarbanes-Oxley Act of 2002 and is not being filed as part of the accompanying Report, including for purposes of Section 18 of the Exchange Act, or as a separate disclosure document. A signed original of this written certification required by Section 906, or other document authenticating, acknowledging or otherwise adopting the signature that appears in typed form within the electronic version of this written certification required by Section 906, has been provided to the Company and will be rendered by the Company and furnished to the Securities and Exchange Commission or its staff upon request.

