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FORM 10-Q

SCANSOURCE INC - SCSC

Filed: November 02, 2012 (period: September 30, 2012)

Quarterly report with a continuing view of a company's financial position

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

FORM 10-Q

**Quarterly Report Pursuant to Section 13 or 15 (d) of the Securities Exchange Act of 1934 for the
Quarter ended September 30, 2012**

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)

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

**6 Logue Court
Greenville, South Carolina, 29615**
(Address of principal executive offices)
(864) 288-2432

(Registrant's telephone number, including area code)

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 website, 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 to such files). Yes ☒ No ☐

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	<input type="checkbox"/> (Do not check if a smaller reporting company)	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 Exchange Act). Yes ☐ No ☒

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 October 31, 2012
Common Stock, no par value per share	27,650,282 shares

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FORWARD-LOOKING STATEMENTS

The forward-looking statements included in the “Management’s Discussion and Analysis of Financial Condition and Results of Operations” and “Quantitative and Qualitative Disclosures About Market Risk” and “Risk Factors” 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 Quarterly Report on Form 10-Q 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 included in “Risk Factors” contained in our Annual Report on Form 10-K for the year ended June 30, 2012. The forward-looking information we have provided in this Quarterly Report on Form 10-Q pursuant to the safe harbor established under the Private Securities Litigation Reform Act of 1995 should be evaluated in the context of these factors.

PART I. FINANCIAL INFORMATION
Item 1. Financial Statements

SCANSOURCE, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED BALANCE SHEETS (UNAUDITED)
(In thousands, except for share information)

	September 30, 2012	June 30, 2012
Assets		
Current assets:		
Cash and cash equivalents	\$ 38,731	\$ 29,173
Accounts receivable, less allowance of \$28,744 at September 30, 2012 and \$27,349 at June 30, 2012	468,718	470,808
Inventories	471,014	475,479
Prepaid expenses and other current assets	38,730	41,846
Deferred income taxes	15,138	14,624
Total current assets	1,032,331	1,031,930
Property and equipment, net	48,328	48,785
Goodwill	54,187	53,885
Other non-current assets, including identifiable intangible assets	73,244	67,206
Total assets	\$ 1,208,090	\$ 1,201,806
Liabilities and Shareholders' Equity		
Current liabilities:		
Short-term borrowings	\$ —	\$ 4,268
Current portion of contingent consideration	9,816	4,976
Accounts payable	384,111	419,683
Accrued expenses and other current liabilities	62,210	67,776
Income taxes payable	10,058	1,698
Total current liabilities	466,195	498,401
Deferred income taxes	3,318	—
Long-term debt	5,429	5,429
Borrowings under revolving credit facility	12,215	—
Long-term portion of contingent consideration	7,526	11,677
Other long-term liabilities	37,271	33,988
Total liabilities	531,954	549,495
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, 27,650,282 and 27,604,840 shares issued and outstanding at September 30, 2012 and June 30, 2012, respectively	142,604	139,557
Retained earnings	552,086	534,445
Accumulated other comprehensive income (loss)	(18,554)	(21,691)
Total shareholders' equity	676,136	652,311
Total liabilities and shareholders' equity	\$ 1,208,090	\$ 1,201,806

June 30, 2012 results are derived from audited consolidated financial statements.

See accompanying notes to these condensed consolidated financial statements.

SCANSOURCE, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED INCOME STATEMENTS (UNAUDITED)
(In thousands, except per share data)

	Quarter ended September 30,	
	2012	2011
Net sales	\$ 733,605	\$ 770,259
Cost of goods sold	659,565	691,169
Gross profit	74,040	79,090
Selling, general and administrative expenses	47,061	46,569
Change in fair value of contingent consideration	764	894
Operating income	26,215	31,627
Interest expense	124	486
Interest income	(633)	(450)
Other (income) expense, net	(15)	3,530
Income before income taxes	26,739	28,061
Provision for income taxes	9,097	9,681
Net income	\$ 17,642	\$ 18,380
Per share data:		
Weighted-average shares outstanding, basic	27,618	27,138
Net income per common share, basic	\$ 0.64	\$ 0.68
Weighted-average shares outstanding, diluted	27,901	27,551
Net income per common share, diluted	\$ 0.63	\$ 0.67

See accompanying notes to these condensed consolidated financial statements.

SCANSOURCE, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (UNAUDITED)
(In thousands)

	Quarter ended	
	September 30,	
	2012	2011
	<i>(in thousands)</i>	
Net income	\$ 17,642	\$ 18,380
Unrealized gain on hedged transaction, net of tax	—	139
Foreign currency translation adjustment	3,137	(11,981)
Comprehensive income (loss)	\$ 20,779	\$ 6,538

See accompanying notes to these condensed consolidated financial statements.

SCANSOURCE, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED)
(In thousands)

	Quarter ended September 30,	
	2012	2011
Cash flows from operating activities:		
Net income	\$ 17,642	\$ 18,380
Adjustments to reconcile net income to net cash provided by (used in) operating activities:		
Depreciation and amortization	2,314	2,582
Provision for accounts and notes receivable	2,039	1,447
Share-based compensation and restricted stock	1,716	1,772
Deferred income taxes	(1,288)	(1,483)
Excess tax benefits from share-based payment arrangements	(608)	(1,175)
Change in fair value of contingent consideration	764	894
Changes in operating assets and liabilities, net of acquisitions:		
Accounts receivable	2,236	(27,603)
Inventories	6,685	(22,575)
Prepaid expenses and other assets	2,835	(6,205)
Other non-current assets	(2,792)	3,508
Accounts payable	(36,457)	(8,668)
Accrued expenses and other liabilities	(1,636)	(2,148)
Income taxes payable	8,949	7,710
Net cash provided by (used in) operating activities	2,399	(33,564)
Cash flows from investing activities:		
Capital expenditures	(2,006)	(2,339)
Net cash provided by (used in) investing activities	(2,006)	(2,339)
Cash flows from financing activities:		
Borrowings (repayments) on short-term borrowings, net	(4,452)	1,151
Borrowings (repayments) on revolving credit, net of debt issuance costs	12,053	43,433
Exercise of stock options	759	719
Excess tax benefits from share-based payment arrangements	608	1,175
Net cash provided by (used in) financing activities	8,968	46,478
Effect of exchange rate changes on cash and cash equivalents	197	(2,070)
Increase (decrease) in cash and cash equivalents	9,558	8,505
Cash and cash equivalents at beginning of period	29,173	28,747
Cash and cash equivalents at end of period	\$ 38,731	\$ 37,252

See accompanying notes to these condensed consolidated financial statements.

SCANSOURCE, INC. AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(UNAUDITED)

(1) Business and Summary of Significant Accounting Policies

Business Description

ScanSource, Inc. and its subsidiaries (the "Company") is a leading wholesale distributor of specialty technology products, providing value-added distribution sales to resellers in specialty technology markets. The Company has two geographic distribution segments: the North American distribution segment serving the United States and Canada from the Southaven, Mississippi distribution center, and an international segment currently serving Latin America and Europe from distribution centers located in Florida, Mexico and Brazil, and in Belgium, respectively. The North American distribution segment markets automatic identification and data capture ("AIDC") and point-of-sale ("POS") products through its ScanSource POS and Barcoding sales unit; voice, data, video and converged communications equipment through its Catalyst *Telecom* sales unit; video conferencing, telephony, and communications products through its ScanSource Communications unit; and electronic security products and wireless infrastructure products through its ScanSource Security sales unit. The international distribution segment markets AIDC, POS, communications and security products through its ScanSource Latin America sales unit; AIDC and POS products through its ScanSource Europe sales unit; and communication products through its ScanSource Communications sales unit in Europe.

Basis of Presentation

The accompanying unaudited condensed consolidated financial statements of ScanSource, Inc. have been prepared by the Company's management in accordance with United States generally accepted accounting principles ("US GAAP") for interim financial information and applicable rules and regulations of the Securities Exchange Act of 1934, as amended. Accordingly, they do not include all of the information and footnotes required by U.S. generally accepted accounting principles for annual financial statements. The unaudited condensed consolidated financial statements included herein contain all adjustments (consisting of normal recurring and non-recurring adjustments) which are, in the opinion of management, necessary to present fairly the financial position as of September 30, 2012 and June 30, 2012, the results of operations for the quarters ended September 30, 2012 and 2011, and the statements of cash flows for the quarters ended September 30, 2012 and 2011. The results of operations for the quarters ended September 30, 2012 and 2011 are not necessarily indicative of the results to be expected for a full year. These financial statements should be read in conjunction with the audited consolidated financial statements and notes thereto included in the Company's Annual Report on Form 10-K for the fiscal year ended June 30, 2012.

Summary of Significant Accounting Policies

Except as described below, there have been no material changes to the Company's significant accounting policies for the quarter ended September 30, 2012 from the information included in the notes to the Company's consolidated financial statements included in the Annual Report on Form 10-K for the fiscal year ended June 30, 2012. For a discussion of the Company's significant accounting policies, please see the Company's Annual Report on Form 10-K for the fiscal year ended June 30, 2012.

Cash and Cash Equivalents

The Company considers all highly liquid investments with original maturities of three months 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. Checks released but not yet cleared from these accounts in the amounts of \$52.9 million and \$48.2 million are classified to accounts payable as of September 30, 2012 and June 30, 2012, respectively.

Recent Accounting Pronouncements

Effective for interim and annual reporting periods for fiscal 2013, the Company has implemented Accounting Standard Update ("ASU") 2011-05, *Presentation of Comprehensive Income*. The objective of this update is to improve the comparability, consistency and transparency of financial reporting and to increase the prominence of items reported in other comprehensive income. This update eliminates the option to present components of other comprehensive income as part of the statement of changes in shareholders' equity or in a separate footnote and requires companies to present all nonowner changes in shareholders' equity either in a single continuous statement of comprehensive income or in two separate but consecutive statements. The Company has elected to present a separate condensed consolidated statement of comprehensive income.

Effective for the annual goodwill impairment testing during fiscal 2013, the Company will implement ASU 2011-08, *Testing Goodwill for Impairment*. The amendments in the update permit an entity to first assess qualitative factors to determine whether it is more likely than not that the fair value of a reporting unit is less than its carrying amount as a basis for determining whether it is necessary to perform the two-step goodwill impairment test described in Accounting Standards Codification ("ASC") Topic 350. The more-likely-than-not threshold is defined as having a likelihood of more than 50 percent. The adoption of this amendment did not have an impact on the Company's condensed consolidated financial statements.

In July 2012, the Financial Accounting Standards Board ("FASB") issued ASU 2012-02, *Testing Indefinite-Lived Intangible Assets for Impairment*. This amendment allows companies to first assess qualitative factors of impairment of all indefinite-lived intangible assets, similar to the provisions in ASU 2011-08. The amendment becomes effective for annual and interim impairment tests performed for fiscal years beginning after September 15, 2012, but early adoption is permitted. The Company has elected early adoption for this amendment. The adoption of this amendment did not have an impact on the Company's condensed consolidated financial statements.

(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.

	Quarter ended September 30,	
	2012	2011
	(in thousands, except per share data)	
Numerator:		
Net Income	\$ 17,642	\$ 18,380
Denominator:		
Weighted-average shares, basic	27,618	27,138
Dilutive effect of share-based payments	283	413
Weighted-average shares, diluted	27,901	27,551
Net income per common share, basic	\$ 0.64	\$ 0.68
Net income per common share, diluted	\$ 0.63	\$ 0.67

There were 1,058,235 and 692,856 weighted average shares outstanding excluded from the computation of diluted earnings per share because their effect would be anti-dilutive for the quarters ended September 30, 2012 and 2011.

(3) Accumulated Other Comprehensive Income

Accumulated other comprehensive income (loss) consists of the following:

	September 30, 2012	June 30, 2012
	<i>(in thousands)</i>	
Foreign currency translation adjustment	\$ (18,554)	\$ (21,691)
Accumulated other comprehensive income (loss)	\$ (18,554)	\$ (21,691)

(4) Goodwill and Other Identifiable Intangible Assets

The changes in the carrying amount of goodwill for the three months ended September 30, 2012, by reporting segment, are as follows:

	North American Distribution Segment	International Distribution Segment	Total
	<i>(in thousands)</i>		
Balance as of June 30, 2012	\$ 20,081	\$ 33,804	\$ 53,885
Foreign currency translation adjustment	—	302	302
Balance as of September 30, 2012	\$ 20,081	\$ 34,106	\$ 54,187

There was no acquisition activity during the quarter ended September 30, 2012. The change in goodwill from June 30, 2012 relates solely to foreign currency translation.

Included within other long-term assets in the condensed consolidated balance sheets are net identifiable intangible assets of \$25.7 million and \$27.1 million at September 30, 2012 and June 30, 2012, respectively. These amounts relate primarily to acquired intangible assets including customer relationships, non-compete agreements, trade names and debt issue costs.

(5) 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. 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 as of September 30, 2012 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 spread and commitment fee rates related to the €6.0 million line of credit refer to the Leverage Ratio as defined by the Company's \$300 million multi-currency senior secured revolving credit facility. The outstanding balances at September 30, 2012 and June 30, 2012 are as follows:

	September 30, 2012	June 30, 2012
	<i>(in thousands)</i>	
Short-term borrowings	\$ —	\$ 4,268

Revolving Credit Facility

On October 11, 2011, the Company amended and restated its primary revolving credit facility. The Company entered into a five-year, \$300 million multi-currency senior secured revolving credit facility ("Revolving Credit Facility") pursuant to the terms of an Amended and Restated Credit Agreement with JPMorgan Chase Bank, N.A., as administrative agent and a syndicate of lenders named therein. The Revolving Credit Facility 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 commitments for the incremental capacity from existing or new lenders. In fiscal year 2012, the Company incurred \$1.4 million in debt issuance costs that were capitalized to other assets, including identifiable intangible assets, on the condensed consolidated balance sheet and are being amortized on a straight-line basis through October 11, 2016, the maturity date of the Revolving Credit Facility.

At the Company's option, loans denominated in U.S. dollars under the Revolving Credit Facility, other than swingline loans, bear interest at a rate equal to a spread over the London Interbank Offered Rate ("LIBOR") or prime 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 prime rate-based loans. The spread in effect as of September 30, 2012 was 1.00% for LIBOR-based loans and 0.00% for prime rate-based 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. Borrowings under the Revolving Credit Facility are guaranteed by substantially all of the domestic assets of the Company as well as certain foreign subsidiaries determined to be material and a pledge of up to 65% of capital stock or other equity interest in each Guarantor as defined in the Revolving Credit Facility. The Company was in compliance with all covenants under the Revolving Credit Facility as of September 30, 2012. The outstanding balances at September 30, 2012 and June 30, 2012 are as follows:

	September 30, 2012	June 30, 2012
	<i>(in thousands)</i>	
Borrowings under revolving credit facility	\$ 12,215	\$ —

During the quarter ended September 30, 2012, the Company borrowed \$169.4 million on the Revolving Credit Facility. The Company repaid \$157.3 million during the same period. The average daily balance during the quarter was \$10.5 million.

During the quarter ended September 30, 2011, the Company borrowed \$394.8 million on its previous revolving credit facility. The Company repaid \$351.3 million during the same period. The average daily balance during the quarter was \$53.6 million.

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 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. As of September 30, 2012, the Company was in compliance with all covenants under this bond.

	September 30, 2012	June 30, 2012
	<i>(in thousands)</i>	
Industrial Development Revenue Bond, monthly payments of interest only, 1.08% variable interest rate at September 30, 2012 and maturing on September 1, 2032	\$ 5,429	\$ 5,429

(6) 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 US 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 financial instruments for speculative purposes.

The Company had contracts outstanding with notional amounts of \$56.2 million and \$62.3 million to exchange foreign currencies as of September 30, 2012 and June 30, 2012, respectively. 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:

	Quarter ended September 30,	
	2012	2011
	(in thousands)	
Net foreign exchange derivative contract (gains) losses	\$ 1,223	\$ 1,212
Net foreign currency transactional and re-measurement (gains) losses	(1,150)	2,361
Net foreign currency (gains) losses	\$ 73	\$ 3,573

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 losses and gains 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 the prior year quarter, the majority of foreign currency losses were associated with exposures between the U.S. dollar and Brazilian real. In September 2011, the Company incurred a \$2.5 million loss in conjunction with an unfavorable forward exchange contract to purchase Brazilian reais. The Company decided to pre-fund a portion of the contingent earnout payments associated with the acquisition of CDC Brasil, S.A. ("CDC"). This contract was designed to preserve the currency exchange for the few weeks required to transfer the cash to Brazil. From the time the Company 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 prior year quarter foreign exchange loss, the Brazilian business incurred significant losses on the remeasurement of U.S. dollar denominated transactions that were not hedged at the time. Subsequently, the Company has been including these exposures in its ongoing hedging activities.

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The Company has the following derivative instruments located on its condensed consolidated balance sheet, utilized for the risk management purposes detailed above:

As of September 30, 2012			
	Fair Value of Derivatives Designated as Hedge Instruments		Fair Value of Derivatives Not Designated as Hedge Instruments
	(in thousands)		
Derivative assets:^(a)			
Foreign exchange contracts	\$	—	\$ 10
Derivative liabilities:^(b)			
Foreign exchange contracts	\$	—	\$ 30

(a) All derivative assets are recorded as prepaid expenses and other current assets in the condensed consolidated balance sheet.

(b) All derivative liabilities are recorded as accrued expenses and other current liabilities in the condensed consolidated balance sheet.

(7) 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; and
- 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; and
- 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 the Company's various debt instruments, deferred compensation plan investments, outstanding foreign exchange forward contracts and contingent consideration owed to the previous owners of CDC. The carrying value of debt is considered to approximate fair value, as the Company's debt instruments are indexed to LIBOR or the prime 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 September 30, 2012:

	Total	Quoted prices in active markets (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)
	(in thousands)			
Assets:				
Deferred compensation plan investments, current and non-current portion	\$ 12,737	\$ 12,737	\$ —	\$ —
Forward foreign currency exchange contracts	10	—	10	—
Total assets at fair value	\$ 12,747	\$ 12,737	\$ 10	\$ —
Liabilities:				
Deferred compensation plan investments, current and non-current portion	\$ 12,737	\$ 12,737	\$ —	\$ —
Forward foreign currency exchange contracts	30	—	30	—
Liability for contingent consideration, current and non-current portion	17,342	—	—	17,342
Total liabilities at fair value	\$ 30,109	\$ 12,737	\$ 30	\$ 17,342

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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, 2012:

	Total	Quoted prices in active markets (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)
	(in thousands)			
Assets:				
Deferred compensation plan investments, current and non-current portion	\$ 11,635	\$ 11,635	\$ —	\$ —
Forward foreign currency exchange contracts	21	—	21	—
Total assets at fair value	\$ 11,656	\$ 11,635	\$ 21	\$ —
Liabilities:				
Deferred compensation plan investments, current and non-current portion	\$ 11,635	\$ 11,635	\$ —	\$ —
Forward foreign currency exchange contracts	110	—	110	—
Liability for contingent consideration, current and non-current portion	16,653	—	—	16,653
Total liabilities at fair value	\$ 28,398	\$ 11,635	\$ 110	\$ 16,653

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 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). Foreign currency contracts are classified in the condensed 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.

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 condensed consolidated balance sheet. The fair value of contingent consideration (Level 3) is determined using a 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 condensed 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 in other comprehensive income.

The table below provides a summary of the changes in fair value of the Company's contingent consideration (Level 3) for the CDC earnout for the quarter ended September 30, 2012 and 2011:

	Contingent consideration for the quarter ended September 30,	
	2012	2011
	<i>(in thousands)</i>	
Fair value at beginning of period	\$ 16,653	\$ 23,794
Change in fair value of contingent consideration	764	894
Foreign currency translation adjustment	(75)	(3,435)
Fair value at end of period	<u>\$ 17,342</u>	<u>\$ 21,253</u>

The fair value of the liability for the contingent consideration recognized at September 30, 2012 was \$17.3 million of which \$9.8 million is 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 condensed consolidated balance sheet. 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. 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 condensed 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 condensed consolidated income statement contributed a loss of \$0.8 million for the quarter. The change this quarter is largely driven by the recurring amortization of the unrecognized fair value discount. In addition, volatility in the foreign exchange between the Brazilian real and the U.S. dollar has driven significant changes in the translation of this Brazilian real denominated liability. Although there is no contractual limit, total future undiscounted contingent consideration payments are anticipated to range up to \$23.6 million, based on the Company’s best estimate as the earnout is based on a multiple of adjusted earnings.

(8) Segment Information

The Company is a leading distributor of specialty technology products, providing value-added distribution sales to resellers. The Company has two reporting segments, based on geographic location. The measure of segment profit is operating income, and the accounting policies of the segments are the same as those described in the notes to the consolidated financial statements included in the Company’s Annual Report on Form 10-K for the fiscal year ended June 30, 2012.

North American Distribution

The North American distribution segment markets AIDC and POS products through its ScanSource POS and Barcoding sales unit; voice, data, video and converged communications equipment through its Catalyst *Telecom* sales unit; video conferencing, telephony, and communications products through its ScanSource Communications unit; and electronic security products and wireless infrastructure products through its ScanSource Security sales unit. The Company serves more than 14,500 resellers and integrators of technology products in the United States and Canada. No single account represented more than 5% of the Company’s worldwide net sales for the quarters ended September 30, 2012 or 2011.

International Distribution

The international distribution segment markets AIDC, POS, communications and security products as follows: ScanSource Latin America markets AIDC, POS, communications and security products; ScanSource Europe markets AIDC and POS products, while communication products are marketed through its ScanSource Communications sales unit in Europe. The Company serves more than 15,500 resellers and integrators of technology products in Europe and Latin America. Of this segment’s customers, no single account represented more than 1% of the Company’s worldwide net sales during the quarters ended September 30, 2012 or 2011.

Inter-segment sales consist primarily of sales by the North American distribution segment to the international distribution segment. All inter-segment revenues and profits have been eliminated in the accompanying condensed consolidated financial statements. Selected financial information of each reporting segment is presented as follows:

	Quarter ended September 30,	
	2012	2011
	<i>(In thousands)</i>	
Sales:		
North American distribution	\$ 565,298	\$ 583,582
International distribution	187,792	196,787
Less intersegment sales	(19,485)	(10,110)
	<u>\$ 733,605</u>	<u>\$ 770,259</u>
Depreciation and amortization:		
North American distribution	\$ 1,008	\$ 1,043
International distribution	1,306	1,539
	<u>\$ 2,314</u>	<u>\$ 2,582</u>
Operating income:		
North American distribution	\$ 24,983	\$ 29,274
International distribution	1,232	2,353
	<u>\$ 26,215</u>	<u>\$ 31,627</u>
Capital expenditures:		
North American distribution	\$ 1,889	\$ 2,190
International distribution	117	149
	<u>\$ 2,006</u>	<u>\$ 2,339</u>
	September 30, 2012	June 30, 2012
	<i>(in thousands)</i>	
Assets:		
North American distribution	\$ 799,858	\$ 813,889
International distribution	408,232	387,917
	<u>\$ 1,208,090</u>	<u>\$ 1,201,806</u>

In the prior year, the Company included an erroneous shared service expense allocation from the North American segment to the international segment. The effect of this allocation understated the North American segment's operating income and overstated the international segment's operating income. During the current period, the Company corrected its disclosure of operating income by segment by adjusting the prior year quarter's operating income by segment for the correct allocation. Management has concluded that the correction is immaterial and, accordingly, previous filings have not been revised. However, segment operating income related to the prior year quarter presented herein has been adjusted by the correct shared service expense allocation. The effect of this adjustment on segment operating income listed for the quarter ended September 30, 2011 was to increase the North American segment's operating income by \$0.9 million, from \$28.4 million as previously disclosed to \$29.3 million and to decrease the international segment's operating income by \$0.9 million, from \$3.2 million as previously disclosed to \$2.4 million.

(9) Commitments and Contingencies

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.

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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. However, indemnity claims can be made up to the entire purchase price, which includes the initial payment and all future earnout payments. The table below summarizes the balances and line item presentation of these pre-acquisition contingencies and corresponding indemnification receivables in the Company's condensed consolidated balance sheets:

	September 30, 2012	June 30, 2012
	<i>(in thousands)</i>	
Assets		
Prepaid expenses and other current assets	\$ 3,869	\$ 3,886
Other non-current assets	\$ 5,089	\$ 5,112
Liabilities		
Other current liabilities	\$ 3,869	\$ 3,886
Other long-term liabilities	\$ 5,089	\$ 5,112

The change in these contingent liabilities and receivables from June 30, 2012 is solely driven by foreign currency translation.

(10) Income Taxes

The Company had approximately \$1.3 million of total gross unrecognized tax benefits including interest as of September 30, 2012 and June 30, 2012. Of this total, approximately \$0.8 million represents the amount of unrecognized tax benefits that are permanent in nature and, if recognized, would affect the annual effective tax rate as of September 30, 2012 and June 30, 2012. The Company does not believe that the total amount of unrecognized tax benefits will significantly increase or decrease within twelve months of the reporting date.

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 the years before 2009.

The Company's policy is to recognize interest and penalties related to income tax matters in income tax expense. As of September 30, 2012, the Company had approximately \$1.0 million accrued for interest and penalties.

Income taxes for the interim period presented have been included in the accompanying condensed consolidated financial statements on the basis of an estimated annual effective tax rate. In addition to the amount of tax resulting from applying the estimated annual effective tax rate to pre-tax income, the Company includes certain items treated as discrete events to arrive at an estimated overall tax amount.

The Company's effective tax rate differs from the federal statutory rate of 35% primarily as a result of income derived from tax jurisdictions with varying income tax rates and state income taxes.

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

Overview

ScanSource, Inc. is a leading wholesale distributor of specialty technology products, providing value-added distribution sales to resellers in specialty technology markets. The Company distributes approximately 100,000 products worldwide. The Company has two geographic distribution segments: the North American distribution segment serving the United States and Canada from the Southaven, Mississippi distribution center and an international distribution segment serving Latin America and Europe from distribution centers located in Florida, Mexico, Brazil and Belgium. Each segment is managed around its geographic customer and vendor bases and is supported by its centralized infrastructure, such as warehousing and back office operations as appropriate. The North American distribution segment markets automatic identification and data capture ("AIDC") and point-of-sale ("POS") products through its ScanSource POS and Barcoding sales unit; voice, data, video and converged communications equipment through its Catalyst Telecom sales unit; video conferencing, telephony and communications products through its ScanSource Communications sales unit; and electronic security products and wireless infrastructure products through its ScanSource Security sales unit. The international distribution segment markets AIDC, POS, communications, and security products through its ScanSource Latin America sales unit; AIDC and POS products through its ScanSource Europe sales unit; and communication products through its ScanSource Communications sales unit in Europe.

The Company was incorporated in South Carolina in December 1992 and is headquartered in Greenville, South Carolina. The Company serves North America from a single, centrally-located distribution center located in Southaven, Mississippi, near the FedEx hub. The single warehouse and strong management information system form the cornerstone of the Company's cost-driven operational strategy. This strategy has been expanded to Latin America and Europe.

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 its worldwide POS and barcoding sales units include Bematech, Cisco, Datalogic, Datamax-O'Neil, Elo, Epson, Honeywell, Intermec, Motorola, NCR, Toshiba and Zebra Technologies. The Company's key vendors in its worldwide communications sales units, including Catalyst Telecom, include Aruba, Avaya, Audiocodes, Dialogic, Extreme Networks, Meru Networks, Plantronics, Polycom and ShoreTel. The Company's key vendors in its security sales units include Arecont, Axis, Bosch, Cisco, Datacard, Exacq Technologies, Fargo, HID, March Networks, Panasonic, Ruckus Wireless, Samsung, Sony and Zebra Card.

As of September 30, 2012, we have ended our relationship with Juniper Networks, which was primarily distributed by our Catalyst Telecom sales unit in North America and to a lesser extent by ScanSource Communications Europe. Sales of Juniper products significantly declined in the September quarter.

We are developing an Enterprise Resource Planning system ("ERP") that is intended to be used globally and standardize our processes throughout the world. We are recognizing more ERP expenses in selling, general and administrative expenses ("SG&A") as the project continues. In the current quarter, we incurred \$2.3 million of SG&A expense related to activities that are not capitalized.

Our objective is to achieve an appropriate company-wide Return on Invested Capital ("ROIC") through sales of the various technologies that we distribute. In doing so, our management team faces 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, product availability and in some cases, changes from a closed distribution sales model, in which resellers must purchase exclusively from one distributor, to an open distribution sales model, in which resellers may choose to purchase from multiple distributors. 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.

In the current quarter, our results in the international distribution segment were weaker than expected as competitive pressures continued. While certain international markets are volatile in the current macroeconomic environment, especially parts of Europe, we are continuing to invest in this business to position the Company favorably against our competitors over the long term.

Evaluating Financial Condition and Operating Performance

We place a significant emphasis on operating income and ROIC in evaluating and monitoring financial condition and operating performance. We use ROIC, a non-GAAP measure, to assess efficiency at allocating capital under our control to generate returns. ROIC is computed by the Company as net income plus interest expense, income taxes, depreciation and amortization ("EBITDA") annualized by calendar days and divided by invested capital. Invested capital is defined as average equity plus daily average funded debt for the period.

The following table summarizes annualized return on invested capital ratio for the quarters ended September 30, 2012 and September 30, 2011:

	Quarter ended September 30,	
	2012	2011
Return on invested capital ratio, annualized	17.0%	18.2%

The discussion that follows this overview explains the change in ROIC from the comparative period. Management uses ROIC as a performance measurement because we believe this metric best balances our operating results with asset and liability management, excludes the results of capitalization decisions, is easily computed and understood, and drives changes in shareholder value. The components of this calculation and reconciliation to our financial statements are shown on the following schedule:

	Quarter ended September 30,	
	2012	2011
	(in thousands)	
Reconciliation of EBITDA to net income:		
Net income	\$ 17,642	\$ 18,380
Plus: income taxes	9,097	9,681
Plus: interest expense	124	486
Plus: depreciation & amortization	2,314	2,582
EBITDA (numerator)	\$ 29,177	\$ 31,129
	Quarter ended September 30,	
	2012	2011
	(in thousands)	
Invested capital calculations:		
Equity – beginning of the quarter	\$ 652,311	\$ 587,394
Equity – end of the quarter	676,136	597,658
Average equity	664,224	592,526
Average funded debt ^(a)	16,563	86,780
Invested capital (denominator)	\$ 680,787	\$ 679,306
Return on invested capital (annualized) ^(b)	17.0%	18.2%

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

(b) The annualized EBITDA amount is divided by days in the quarter times 365 days per year (366 during leap years). There were 92 days in the current and prior year quarters.

Our return on invested capital was 17.0% for the quarter, down from 18.2% in the prior year. The decrease in EBITDA is largely the result of lower sales and gross margin percentage as well as relatively flat operating expenses.

Results of Operations**Currency**

In our Management Discussion and Analysis, we make references to "constant currency," a non-GAAP performance measure, that excludes foreign exchange rate impacts from fluctuations in the weighted average foreign exchange rates between reporting periods. Certain financial results are adjusted by a simple mathematical model that translates current period results from currencies other than the U.S. dollar with 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 following table summarizes our net sales results (net of inter-segment sales) for the quarters ended September 30, 2012 and 2011, respectively:

	Quarter ended September 30,			
	2012	2011	\$ Change	% Change
	<i>(in thousands)</i>			
North American distribution	\$ 545,813	\$ 573,472	\$ (27,659)	(4.8)%
International distribution	187,792	196,787	(8,995)	(4.6)%
Net sales	\$ 733,605	\$ 770,259	\$ (36,654)	(4.8)%

North American Distribution

The North American distribution segment consists of net sales to technology resellers in the United States and Canada. For the quarter ended September 30, 2012, net sales decreased from the prior year quarter by \$27.7 million or 4.8%.

The North American distribution segment's POS, barcoding and security product revenues remained flat in comparison to the prior year as a result of pricing and other competitive pressures in the POS and barcoding channel, offset by a record quarter for our ScanSource Security sales unit. The decrease in POS and barcoding products was driven by declining revenue from big deal transactions occurring in the quarter. However, we have continued to grow within our security lines with strong gains in business attributable to vendors such as Ruckus Wireless and Axis.

The Company has two North American sales units that sell communications products to our customers – Catalyst Telecom and ScanSource Communications. The combined net sales of these units decreased by 9.9% from the prior year. The decrease is largely attributable to fewer big deals related to Avaya resellers and the end of our distribution agreement with Juniper Networks.

International Distribution

The international distribution segment markets POS, AIDC, communications and security products in Latin America and POS, AIDC and communications products in Europe. For the quarter ended September 30, 2012, net sales for this segment decreased by \$9.0 million or 4.6%. The sales decrease over the prior year quarter is primarily driven by foreign currency exchange translation. Foreign currency translation had a \$24.4 million unfavorable impact on our net sales for the quarter ended September 30, 2012. On a constant currency basis, the net sales increase was 7.8% or \$15.4 million for the quarter. Our international segment's growth was driven by contributions from all of our sales units.

Gross Profit

The following tables summarize the Company's gross profit for the quarters ended September 30, 2012 and 2011, respectively:

	Quarter ended September 30,				% of Net Sales September 30,	
	2012	2011	\$ Change	% Change	2012	2011
	(in thousands)					
North American distribution	\$ 54,808	\$ 56,853	\$ (2,045)	(3.6)%	10.0%	9.9%
International distribution	19,232	22,237	(3,005)	(13.5)%	10.2%	11.3%
Gross profit	\$ 74,040	\$ 79,090	\$ (5,050)	(6.4)%	10.1%	10.3%

North American Distribution

Gross profit for the North American distribution segment decreased 3.6% or \$2.0 million for the quarter ended September 30, 2012. As a percentage of net sales for the North American distribution segment, our gross profit increased from 9.9% to 10.0% from the comparative quarter. The increase in margin percentage is mainly due to favorable changes in product mix and higher service business than the prior year.

International Distribution

In our international distribution segment, gross profit decreased 13.5% or \$3.0 million for the quarter ended September 30, 2012. The decrease is largely due to foreign currency translation. On a constant currency basis, gross profit for the international segment decreased 1.7%. As a percentage of net sales for the international distribution segment, our gross profit decreased from 11.3% to 10.2% from the comparative quarter, primarily due to higher inventory reserve expense in our European communications business.

Operating Expenses

The following table summarizes our operating expenses for the quarters ended September 30, 2012 and 2011, respectively:

	Quarter ended September 30,				% of Net Sales September 30,	
	2012	2011	\$ Change	% Change	2012	2011
	(in thousands)					
Selling, general and administrative expense	\$ 47,061	\$ 46,569	\$ 492	1.1 %	6.4%	6.0%
Change in fair value of contingent consideration	764	894	(130)	(14.5)%	0.1%	0.1%
Operating expense	\$ 47,825	\$ 47,463	\$ 362	0.8 %	6.5%	6.2%

Selling, general and administrative expense increased 1.1% or \$0.5 million for the quarter ended September 30, 2012. The primary driver in the increase is incremental expenses related to our ERP that have not been capitalized, higher bad debt expense and increased headcount in certain geographies, partially offset by favorable foreign currency translation from the prior year period. SG&A expense included \$2.3 million of ERP expenses that are not capitalized. At constant currency, SG&A would have increased an additional \$2.0 million to \$49.1 million.

We have elected to present changes in fair value of the contingent consideration owed to the former shareholders of CDC separately from other selling, general and administrative expenses. In the current quarter, we recorded a \$0.8 million loss on the change in fair value of the contingent consideration. The loss is primarily the result of the recurring amortization of the unrecognized fair value discount.

Operating Income

The following table summarizes our operating income for the quarters ended September 30, 2012 and 2011, respectively:

	Quarter ended September 30,				% of Net Sales September 30,	
	2012	2011	\$ Change	% Change	2012	2011
	(in thousands)					
North American distribution	\$ 24,983	\$ 29,274	\$ (4,291)	(14.7)%	4.6%	5.1%
International distribution	1,232	2,353	(1,121)	(47.6)%	0.7%	1.2%
	\$ 26,215	\$ 31,627	\$ (5,412)	(17.1)%	3.6%	4.1%

For the North American distribution segment, operating income decreased 14.7% or \$4.3 million from the prior year first quarter. The decrease is primarily due to lower sales volumes and higher operating expenses, primarily resulting from ERP spending that has not been capitalized.

For the international distribution segment, operating income decreased 47.6% or \$1.1 million from the prior year first quarter. The decrease is primarily due to lower gross margins and higher bad debt expense, partially offset by lower SG&A expenses due to favorable foreign currency translation.

Total Other Expense (Income)

The following table summarizes our total other expense (income) for the quarters ended September 30, 2012 and 2011, respectively:

	Quarter ended September 30,				% of Net Sales September 30,	
	2012	2011	\$ Change	% Change	2012	2011
	(in thousands)					
Interest expense	\$ 124	\$ 486	\$ (362)	(74.5)%	0.0 %	0.1 %
Interest income	(633)	(450)	(183)	40.7 %	(0.1)%	(0.1)%
Net foreign exchange (gains) losses	73	3,573	(3,500)	(98.0)%	0.0 %	0.5 %
Other, net	(88)	(43)	(45)	104.7 %	(0.0)%	(0.0)%
Total other (income) expense, net	\$ (524)	\$ 3,566	\$ (4,090)	(114.7)%	(0.1)%	0.5 %

Interest expense reflects interest incurred on borrowings from the Company's revolving credit facility and other long-term debt borrowings, as well as non-utilization fees. Interest expense for the quarter ended September 30, 2012 was \$0.1 million. Interest expense is down 74.5% from the prior year quarter, largely from decreased borrowings on our \$300 million revolving credit facility.

Interest income for the quarter ended September 30, 2012 was \$0.6 million and includes interest income generated on longer-term interest bearing receivables and interest earned on cash and cash-equivalents. Interest income increased 40.7% from the prior year quarter. The increase is largely the result of interest earned and cash balances maintained in Brazil, since September 2011, to pre-fund a portion of contingent earnout payments to CDC's former shareholders and finance current operations. Over the past year, the cash balances maintained in Brazil have declined with the earnout payments and financings for short-term working capital needs.

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 losses and gains 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, Canadian dollar versus the U.S. dollar and other currencies versus the 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 speculative transactions.

Net foreign exchange loss for the quarter ended September 30, 2012 totaled \$0.1 million, which was \$3.5 million lower than the prior year. In the prior year, we incurred a \$2.5 million loss in conjunction with an unfavorable forward exchange contract to purchase Brazilian reais. In August 2011, we decided to pre-fund a portion of the estimated earnout payments associated with the CDC acquisition and finance current operations as mentioned above. This contract was designed to preserve the currency exchange for the few weeks required to transfer the cash to Brazil. From the time 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 prior year quarter foreign exchange loss, our Brazilian business incurred significant losses on the remeasurement of U.S. dollar denominated transactions that were not hedged at the time. Subsequently, the Company has been including these exposures in its ongoing hedging activities.

Provision for Income Taxes

For the quarter ended September 30, 2012, income tax expense was \$9.1 million, reflecting an effective tax rate of 34.0%, which was lower than the 34.5% effective tax rate of the corresponding prior year period. The decrease in the effective tax rate from the prior year period is due primarily to a reduction in non-deductible expenses.

Liquidity and Capital Resources

Our primary sources of liquidity are cash flow from operations, borrowings under our \$300 million revolving credit facility (the "Revolving Credit Facility"), industrial development revenue bond, and borrowings under our European subsidiary's €6 million line of credit. 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 and revolving lines of credit. Overall, as our sales volume increases, our net investment in working capital typically increases, which, in general, results in decreased cash flow from operating activities. Conversely, when sales volume decreases, our net investment in working capital typically decreases, which, in general, results in increased cash flow from operating activities.

The Company's cash and cash equivalent balance totaled \$38.7 million at September 30, 2012, compared to \$29.2 million at June 30, 2012, of which \$20.5 million and \$18.7 million were held outside of the United States as of September 30, 2012 and June 30, 2012, respectively.

Cash balances are generated and used in many locations throughout the world. Management's intent is to permanently reinvest these funds in our businesses outside the United States to continue to fund growth in our international operations. Furthermore, our current plans do not require repatriation of funds from our international operations to fund operations in the United States. 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.

As mentioned above, our business model typically yields an inverse relationship between cash flows from operating activities and the change in our sales volumes. Compared to the sequential quarter, sales decreased 2.8%. As such, we have generated \$2.4 million from operating activities as opposed to using \$33.6 million in the prior year quarter when sales had increased 5.0% sequentially.

Our net investment in working capital has increased to \$566.1 million at September 30, 2012 from \$533.5 million at June 30, 2012. With declining sales, our net investment in working capital typically decreases; however, in the current quarter, net working capital increased. Our net investment in working capital is affected by several factors such as fluctuations in sales volume, net income before non-cash charges, timing of collections from customers, movement of inventory, payments to vendors as well as cash generated or used by other financing and investing activities. In the sequential quarter, we had paid off all of our outstanding borrowings on our \$300 million revolving credit facility, which lowered our cash balance on hand as of June 30, 2012 and ultimately our net working capital.

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The number of days sales in receivables (DSO) was 58 at September 30, 2012, compared to 56 days at both June 30, 2012 and September 30, 2011. Inventory turned over 5.6 times during the first quarter of the fiscal year 2013 versus 5.6 and 5.8 times in the sequential and prior year quarters, respectively.

We are in the process of designing and developing a new ERP system. We have incurred approximately \$35.8 million on the project from inception through September 30, 2012. Of the total amount incurred, \$26.9 million has been capitalized, which includes estimates for amounts incurred but not yet paid. In the last quarter, we revised our projections for the project and believe that total spend could range from \$58 million to \$72 million and extend past fiscal year 2013. Capital expenditures for fiscal 2013 could range from \$9 million to \$15 million for a total capital expenditure of up to \$41.9 million.

Cash used in investing activities for the quarter ended September 30, 2012 was \$2.0 million, compared to \$2.3 million used in the prior year quarter. Current quarter investing cash flows are primarily attributable to the investment in our new ERP system.

On October 11, 2011, we entered into a five-year, \$300 million multi-currency senior secured revolving credit facility pursuant to the terms of an Amended and Restated Credit Agreement (the "Credit Agreement") with JPMorgan Chase Bank, N.A., as administrative agent and a syndicate of lenders named therein. The 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 commitments for the incremental capacity from existing or new lenders.

At our option, loans denominated in U.S. dollars under the Revolving Credit Facility, other than swingline loans, shall bear interest at a rate equal to a spread over the London Interbank Offered Rate ("LIBOR") or prime rate depending upon the our 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 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 prime rate-based loans. The spread in effect as of September 30, 2012 was 1.00% for LIBOR-based loans and 0.00% for Prime rate-based loans. Additionally, we are assessed commitment fees ranging from 0.175% to 0.40%, depending upon the Leverage Ratio, on non-utilized borrowing availability, excluding swingline loans. Borrowings under the Revolving Credit Facility are guaranteed by substantially all of our domestic assets as well as certain foreign subsidiaries determined to be material under the Revolving Credit Facility and a pledge of up to 65% of capital stock or other equity interest in each Guarantor. We were in compliance with all covenants under the Revolving Credit Facility as of September 30, 2012.

In the current quarter, cash provided by financing activities amounted to \$9.0 million, in comparison to \$46.5 million in the prior year quarter. The change in cash provided by financing activities is primarily attributable to less borrowing activity on our Revolving Credit Facility as a result of lower sales volumes this quarter.

There was \$12.2 million outstanding on our \$300 million revolving credit facility as of September 30, 2012. There were no borrowings outstanding as of June 30, 2012. On a gross basis, we borrowed \$169.4 million and repaid \$157.3 million on our Revolving Credit Facility in the current quarter. In the prior quarter, we borrowed \$394.8 million and repaid \$351.3 million and additionally paid \$1.4 million of debt issuance costs. The average daily balance on the revolving credit facility was \$10.5 million and \$53.6 million for the quarters ended September 30, 2012 and 2011, respectively. There were no standby letters of credits issued and outstanding as of September 30, 2012, leaving \$287.8 million available for additional borrowings.

In addition to our Revolving Credit Facility, 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. Our 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 as of September 30, 2012 was 1.25%. Additionally, the we are 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 spread and commitment fee rates related to the €6.0 million line of credit refer to the Leverage Ratio as defined by the Company's \$300 million multi-currency senior secured revolving credit facility. There was no outstanding balance at September 30, 2012 and \$4.3 million at June 30, 2012.

In fiscal year 2011, we acquired all of the shares of CDC Brasil, S.A. 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. As of September 30, 2012, we have \$17.3 million recorded for the contingent earnout obligation, of which \$9.8 million is classified as current. Of the current balance, \$4.7 million was paid on October 1, 2012, with the remaining current portion due August 31, 2013. Future contingent earnout payments will be funded by cash on hand and our Revolving Credit Facility.

On August 1, 2007, we 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 our 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 outstanding balance on this bond was \$5.4 million as of September 30, 2012, and the effective interest rate was 1.08%. The Company was in compliance with all covenants associated with this agreement as of September 30, 2012.

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

Contractual Obligations

There have been no material changes in our contractual obligations and commitments as disclosed in our Annual Report on Form 10-K as of August 24, 2012.

Accounting Standards Recently Issued

Effective for interim and annual reporting periods for fiscal 2013, we have implemented ASU 2011-05, *Presentation of Comprehensive Income*. The objective of this update is to improve the comparability, consistency and transparency of financial reporting and to increase the prominence of items reported in other comprehensive income. This update eliminates the option to present components of other comprehensive income as part of the statement of changes in shareholders' equity or in a separate footnote and requires companies to present all nonowner changes in shareholders' equity either in a single continuous statement of comprehensive income or in two separate but consecutive statements. We are presenting a separate condensed consolidated statement of comprehensive income.

There are currently no new accounting standards that have been issued that are expected to have a significant impact on the Company's financial position, results of operations and cash flows upon adoption.

Item 3. Quantitative and Qualitative Disclosures About Market Risk

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

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 quarter ended September 30, 2012 would have resulted in 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 September 30, 2012, the Company had 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 changing. 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, Mexico, Brazil 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 Board of Directors 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 on 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 September 30, 2012, 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 4. Controls and Procedures

An evaluation was carried out under the supervision and with the participation of the Company's management, including its Chief Executive Officer ("CEO") and Chief Financial Officer ("CFO") of the effectiveness of the Company's disclosure controls and procedures as of September 30, 2012. Based on that evaluation, the Company's management, including the CEO and CFO, concluded that the Company's disclosure controls and procedures are effective as of September 30, 2012. During the quarter ended September 30, 2012, there was no change in the Company's internal control over financial reporting that has materially affected, or is reasonably likely to materially affect, the Company's internal control over financial reporting.

PART II. OTHER INFORMATION

Item 1A. Risk Factors

In addition to the risk factors in our other reports and statements that we file with the SEC, you should carefully consider the factors discussed in Part I, Item 1A. “Risk Factors” in our Annual Report on Form 10-K for the year-ended June 30, 2012, which could materially affect our business, financial condition and/or future operating results. The risks described in our Annual Report on Form 10-K and Quarterly Reports on Form 10-Q are not the only risks facing our Company. Additional risks and uncertainties not currently known to the Company or that the Company currently deems to be immaterial also may materially and adversely affect the Company’s business, financial condition, and/or operating results.

Item 6. Exhibits

<u>Exhibit Number</u>	<u>Description</u>
10.1	Amended and Restated Employment Agreement, effective June 6, 2011, between the Registrant and Michael L. Baur (incorporated by reference from Exhibit 10.18 to the Registrant's Form 10-K for the year ending June 30, 2011). *
10.2	First Amendment to Amended and Restated Employment Agreement, effective as of July 1, 2012, between the Registrant and Michael L. Baur. *
10.3	Employment Agreement, effective as of July 25, 2012, between the Registrant and Gerald Lyons. *
10.4	ScanSource, Inc. Amended and Restated Directors Equity Compensation Plan, as amended and restated on August 21, 2012.
10.5	ScanSource, Inc. Nonqualified Deferred Compensation Plan, as amended and restated. *
31.1	Certification Pursuant to Rule 13a-14(a)/15d-14(a) of the Securities Exchange Act of 1934, as amended, as Adopted Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.2	Certification Pursuant to Rule 13a-14(a)/15d-14(a) of the Securities Exchange Act of 1934, as amended, as Adopted Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32.1	Certification Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
32.2	Certification Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
101	The following materials from our Quarterly Report on Form 10-Q for the quarter ended September 30, 2012, formatted in XBRL (eXtensible Business Reporting Language): (i) the condensed consolidated balance sheets as of September 30, 2012 and June 30, 2012; (ii) the condensed consolidated income statements for the quarters ended September 30, 2012 and 2011; (iii) the condensed consolidated statements of comprehensive income for the quarters ended September 30, 2012 and 2011; (iv) the condensed consolidated statements of cash flows for the quarters ended September 30, 2012 and 2011; and (v) the notes to the condensed consolidated financial statements. **

* Executive compensation plan or agreement.

** Pursuant to Rule 406T of Regulation S-T the Interactive Data Files on Exhibit 101 hereto are 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, are deemed not filed for purposes of Section 18 of the Securities and Exchange Act of 1934, as amended, and otherwise are not subject to liability under those sections.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

ScanSource, INC.

/s/ MICHAEL L. BAUR

Michael L. Baur

Chief Executive Officer

(Principal Executive Officer)

Date: November 2, 2012

/s/ RICHARD P. CLEYS

Richard P. Cleys

Chief Financial Officer

(Principal Financial Officer)

Date: November 2, 2012

/s/ GERALD LYONS

Gerald Lyons

Senior Vice President of Finance and Principal Accounting Officer

(Principal Accounting Officer)

Date: November 2, 2012

EXHIBIT INDEX TO QUARTERLY REPORT ON FORM 10-Q

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**FIRST AMENDMENT
TO
AMENDED AND RESTATED EMPLOYMENT AGREEMENT**

This First Amendment to Amended and Restated Employment Agreement (this “Amendment”), effective as of July 1, 2012, amends certain provisions of that certain Amended and Restated Employment Agreement (the “Agreement”), dated June 6, 2011, between ScanSource, Inc., a South Carolina corporation (the “Company”), and Michael L. Baur (the “Executive”). Capitalized terms used but not otherwise defined herein shall have the meaning given to such terms in the Agreement.

STATEMENT OF PURPOSE:

WHEREAS, the Company and the Executive (collectively, the “Parties”) are parties to the Agreement and desire to amend the Agreement pursuant to Section 14(g) thereof in accordance with the terms set forth herein.

AGREEMENT:

NOW, THEREFORE, in consideration of the foregoing and of the mutual commitments below, and for other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the Parties agree as follows:

1. Section 4(e). The Agreement is hereby amended by deleting Section 4(e) in its entirety and replacing Section 4(e) in its entirety as follows:

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

2. Miscellaneous. Other than as set forth herein, the terms and conditions of the Agreement shall remain in full force and effect. This Amendment may be executed in one or more counterparts, each of which shall be deemed to be an original, but all of which together shall constitute one and the same instrument.

IN WITNESS WHEREOF, the Parties hereto have executed this First Amendment to Amended and Restated Employment Agreement effective as of the date and year first above written.

EXECUTIVE:

/s/ Michael L. Baur
Michael L. Baur

SCANSOURCE, INC.:

/s/ John J. Ellsworth
John J. Ellsworth
General Counsel, VP, & Corporate Secretary

EMPLOYMENT AGREEMENT

THIS EMPLOYMENT AGREEMENT ("Agreement") between ScanSource, Inc., a South Carolina corporation ("Company"), and Gerald Lyons ("Executive") (collectively, "the Parties") is effective as of July 25, 2012 ("Effective Date").

BACKGROUND

The Company desires 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, 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 Chief Financial Officer (the "CFO"). Executive will report directly to the CFO.

2. Employment Period.

(a) Unless earlier terminated in accordance with Section 5, Executive's employment will be for a term (the "Employment Period"), beginning on the Effective Date and ending on June 30, 2014, 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 of this Agreement; 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, and excluding any periods of vacation and sick leave to which Executive is entitled, 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

Company, 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.

(a) Base Salary. During the Employment Period, the Company will pay to Executive a base salary at the rate specified on Exhibit A (the "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 of the Board (the "Committee"), which 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) 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. The Executive will also be eligible to receive certain variable compensation (the "Variable Compensation") based on financial and/or performance 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.

(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, change, or eliminate 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 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 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. To the extent required by law, including the Dodd-Frank Act, the Company shall have a clawback policy 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 normal retirement as defined in the Company's retirement plan in effect when Executive retires, or if there is no retirement plan, "Retirement" will mean the Executive's voluntary termination of employment after age 55 with ten years of service. 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 during the Employment Period with or without Cause. For purposes of this Agreement, "Cause" means:

- (i) engaging in unethical or illegal conduct or misconduct that includes but is not limited to violations of the Company's policies concerning employee conduct; or
- (ii) the Executive's breach of any term of this Agreement.

(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 reduction 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;
- (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;
- (vi) the material breach of this Agreement by the Company; 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 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. 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.

(e) Date of Termination. The "Date of Termination" means 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, Retirement, or Normal 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 (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:

(i) 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;

(ii) 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

(iii) 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 pay to Executive in a lump sum in cash the amount in (A) on the 30th day after the Date of Termination, pay the amount in (B) as set forth below, and provide the benefits in (C):

(A) a single year of compensation in 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 fiscal years before the Date of Termination, less normal withholdings, and an additional amount (the "Retention Benefit") equal to one-twelfth (1/12) 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 fiscal years before the Date of Termination, less normal withholdings, 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 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 fiscal years before the Date of Termination. Notwithstanding the foregoing, if the Date of Termination occurs within 12 months after or otherwise in contemplation of a Change in Control, as defined in Exhibit C, Executive will receive Severance Benefits in an amount equal to two (2) 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 fiscal years before the Date of Termination, less normal withholdings, but no Retention Benefit. Executive's entitlement to receive and retain the amounts set forth in this Section 6 are conditioned on Executive's compliance with the Restrictions on Conduct described in Section 11. With respect to any amounts due Executive under this Section 6(a)(iii)(A), Executive may elect to receive such amounts in a single lump sum or 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);

(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 Company will reimburse Executive on a monthly basis for payments made by Executive which are in excess of the monthly rates paid by active employees, for medical and dental insurance benefits. Reimbursement may cease sooner than twenty-four (24) months if Executive becomes eligible to receive similar benefits under another employer provided or group plan (which may be the plan of the Executive's new employer or his spouse's employer) and, in such event, Executive's right to participate in the Company's medical and dental insurance plans ceases. Such cash reimbursements will be made per the Company's customary payroll practices (not less frequently than monthly) for up to the twenty-four (24) months following the Date of Termination. To receive the benefits offered under this Section 6(a)(iii)(C), Executive may be required to elect COBRA coverage under the Company's medical and dental insurance plans.

(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'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) Normal Expiration of Employment Period. 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 (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 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 Severance Benefits (subject to the Executive's execution of the Release) as described in Section 6(a)(iii)(A), and (iv) the timely payment or provision of Other Benefits 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.

(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 tax (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, Executive will direct which Payments are to be reduced and any such reduction will be made so as not to violate 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") 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 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 services he will perform for the Company he will be exposed to, and help create and maintain, competitive advantages over other "Competitive Businesses," as well as good will with the Company's customers and suppliers. By virtue of the position Executive will hold, Executive is receiving, will receive, or will be provided access to the Company's: (1) customers, suppliers, advertisers and vendors as well as pricing information, distribution channels and other terms of those relationships; (2) "Confidential Information" and "Trade Secrets;" (3) the relationships and other elements that together comprise good will; and/or (4) institutional knowledge regarding product development, its engineering, product specification, material suppliers, material specifications, product suppliers, manufacturing knowledge, customer feedback, surveys, design-around information, research and development information, internal quality control tests, other quality control information and other similar information. Executive agrees that the competitive advantage and good will in the Company has created, and which Executive will assist in furthering and maintaining, is an important and legitimate business asset of the Company. Should Executive compete against the Company, having intimate knowledge of the information that gives the Company its competitive advantage and good will would give Executive, or those "Competitive Businesses" he is assisting, an unfair advantage over the Company.

(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 any entity that distributes any goods or services in or to the point of sale, automatic identification, data capture, security, business telephony, communication products and peripherals markets if such entity distributes any product that is the same or similar to any good or service offered by the Company, including reasonable alternatives, within the final two (2) years of Executive's employment with the Company. Executive agrees that Competitive Businesses include, but are not limited to, the following entities: Ingram Micro, Tech Data, Avnet, BlueStar, Westcon, Voda One, Arrow, Agilysis, Azerty, PC POS, Jarltech, Jenne, Securematics Synnex, Alliance (NEI), NETXUSA, ADI, Tri-Northern Security Distribution and Anixter. Regarding Competitive Businesses that have distinct business units or divisions that are not competitive with the Company, the Company may make exceptions by consent of the CEO that allow Executive to work for such non-competitive business units or divisions during the "Restricted Period."

"Confidential Information" means any and all information of the Company that has value and is not generally known to the Company's competitors. This includes, but is not limited to, 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. 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.

"Prohibited Duties" means supervising, consulting, advising, coaching, providing any information related to, or directly or indirectly performing any task for a Competitive Business that is similar or related to one or more duties Executive performed or supervised for the Company. Prohibited duties include owning greater than 10% of any Competitive Business. Prohibited duties includes supervising, consulting, advising, coaching, providing any information related to, or directly or indirectly performing any task for any material, product or service provider of any Competitive Business, if Executive's work for such material, product or service provider is associated with a Competitive Business.

"Restricted Territory" means any place where the Company or its affiliates is (or is attempting to) 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 market or sell 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 territory of the Executive.

"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) 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 engage in any Prohibited Duties for a Competitive Business in the Restricted Territory;
- (ii) 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 solicit any of the Company's customers or suppliers with whom Executive had contact during the course of Executive's employment with the Company for any Competitive Business;

(iii) 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 solicit any of the Company's prospective customers or prospective suppliers with whom Executive had contact during the course of Executive's employment with the Company for any Competitive Business;

(iv) 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 solicit any of the Company's employees whom Executive supervised during the course of his employment with the Company, any employees with whom he had contact during his employment, any employees who had contacts of employment with the Company at the time solicited, or any employees who had restrictive covenants at the time solicited, to leave the Company for any purpose; for the term of Executive's employment, and for a period of no less than twenty-four (24) months (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, 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, and will explain the specifics under which such Confidential Information or Trade Secrets are to be disclosed.

(v) For the term of Executive's employment, and for a period of no less than twenty-four (24) months (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.

(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.

(e) Blue Pencil. 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 important competitive advantages and good will. 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, or paragraph is unreasonably broad in time, territory, or scope so as to render any remaining provisions unenforceable, the Parties desire the court to 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 (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 will have the right (1) to cease making the payments required under 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 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 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 any other agreement between the Parties on the subject matter hereof, including without limitation, the Existing Agreement.

(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. This Agreement may only be enforced in a court of competent jurisdiction in Greenville County, South Carolina and Executive agrees to submit to the exclusive jurisdiction of a court of competent jurisdiction in Greenville, South Carolina.

(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 where it is anticipated that no further services will be performed after such date or that the level of services Executive would perform after that date (whether as an employee or independent contractor) would permanently decrease to no more than twenty percent (20%) of the average level of services Executive performed over the prior thirty-six (36)-month period. 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 shall 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 as soon as the 409A Deferral Period ends, 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.

14. Arbitration. Any claim or dispute arising under this Agreement will be subject to arbitration, and before commencing any court action, the Parties agree that they will arbitrate all controversies and such arbitration will occur in Greenville, South Carolina according to the Employment Dispute Rules of the American Arbitration Association and the Federal Arbitration Act, 9 U.S.C. §1, *et seq.* The arbitrators will be authorized to award both liquidated and actual damages as well as injunctive relief, but no punitive damages. The arbitrator's award will be binding and conclusive upon the Parties, subject to 9 U.S.C. §10. Each party has the right to have the award made the judgment of a court of competent jurisdiction.

EXECUTIVE: **SCANSOURCE, INC.:**

Name: /s/ Gerald Lyons

By: /s/ Michael L. Baur

Name: Michael L. Baur

Title: CEO

EXHIBIT A TO EMPLOYMENT AGREEMENT

Executive: Gerald Lyons

Base Salary: \$250,000 annually

Variable Compensation: Beginning July 25, 2012 and continuing through the end of the Employment Period, Executive's compensation structure will be as follows:

Variable compensation may be paid in such amounts as determined by the Chief Financial Officer, based upon the Company's attainment of goals established in the following areas: (a) return on invested capital ("ROIC"); (b) growth in operating income; and (c) aging of accounts receivable.

The goal based on ROIC will account for 40% of the target variable compensation opportunity, and will be determined as follows: (a) if the Company's ROIC is less than 10%, the Executive will not be entitled to any payment in connection with this portion of the variable compensation opportunity; (b) if the Company achieves at least 10% ROIC and less than 18% ROIC, the Executive will be entitled to a pro-rated payment between \$15,000 and \$20,000 of this portion of the variable compensation opportunity; (c) if the Company achieves at least 18% ROIC and less than 22% ROIC, the Executive will be entitled to a pro-rated payment equal to 100% between \$20,000 and \$25,000 of this portion of the variable compensation opportunity; and (d) if the Company achieves at least 22% ROIC, the Executive will be entitled to a payment of \$25,000 of this portion of the variable compensation opportunity.

The goal based on growth in operating income will account for 40% of the target variable compensation opportunity, and will be determined as follows: (a) if the Company's Operating Income growth year to year is less than 2%, the Executive will not be entitled to any payment in connection with this portion of the variable compensation opportunity; (b) if the Company's Operating Income growth year to year is at least 2% and less than 6%, the Executive will be entitled to a pro-rated payment between \$15,000 and \$20,000 of this portion of the variable compensation opportunity; (c) if the Company's Operating Income growth year to year is at least 6% and less than 12%, the Executive will be entitled to a payment between \$20,000 and \$25,000 of this portion of the variable compensation opportunity; and (d) if the Company's Operating Income growth year to year is at least 12%, the Executive will be entitled to a payment equal to \$25,000 of this portion of the variable compensation opportunity.

The goal based on the aging of accounts receivable will account for 20% of the target variable compensation opportunity, and will be based on specific goals established by the Company's CFO. Depending upon Executive's performance, Executive may be entitled to a payment of \$0 to \$12,500 for this portion of the variable compensation opportunity.

For purposes of this Agreement, "Operating Income" means the amount reflected for the line item identified as Operating Income on the Company's audited consolidated financial statements for each respective fiscal year ending during the term of this Agreement and "Return on Invested Capital" means an amount expressed as a percentage of: the Company's annual (or annualized) EBITDA (net income plus interest, taxes, depreciation and amortization) divided by average shareholder's equity and interest bearing debt (defined as the sum of shareholder's equity at the beginning of the period added to the sum of shareholder's equity at the end of the period, divided by 2, plus the average daily interest bearing debt for the period). The Company reserves the right to make adjustments to the calculation of Return on Invested Capital and Operating Income to account for any extraordinary or unusual items that did not exist or were not in effect as of the Effective Date and to the extent permitted to qualify for the Code Section 162(m) Exemption (as defined below), including, but not limited to, newly pronounced accounting standards and similar laws and regulations and significant non-recurring events that impact the Company. The Company's calculation of Operating Income, Return on Invested Capital, and the incentive compensation amount shall be conclusive and binding absent fraud or manifest and material error. The target amount of such variable compensation will be \$50,000 per year and the maximum amount of such variable compensation will be \$62,500 per year. Any variable compensation earned during the Company's 2013 and 2014 fiscal years will be paid annually and as soon as practicable following the Company's filing of its Form 10-K with the United States Securities and Exchange Commission.

Notwithstanding any other provision of this Agreement or this Exhibit A, any variable compensation to be paid under this Agreement will be paid to Executive by the later of (i) March 15th following the end of the calendar year in which Executive right to such variable compensation vests or (ii) the 15th day of the third month following the end of the Company's fiscal year in which Executive's right to such variable compensation vests.

Given Executive may be a “covered employee” under Code Section 162(m), the foregoing variable compensation is intended to be a Performance Unit granted under the terms of the Company’s 2002 Long-Term Incentive Plan and has been designated as a “Qualified Performance-Based Award.” The variable compensation is intended to qualify for the Code Section 162(m) Exemption within the meaning of the Company’s 2002 Long-Term Incentive Plan. In no event may Executive’s variable compensation under this Agreement for any year exceed the maximum amount allowed by the terms of the 2002 Long-Term Incentive Plan currently in effect, which is \$3,000,000 as of the Effective Date. Executive’s right to receive and retain any payment of variable compensation is subject to the written certification of the Board Compensation Committee that the relevant performance goals have been achieved. To the extent appropriate, the Board Compensation Committee may provide for the payment of variable compensation under the terms of another Company variable plan that permits Qualified Performance-Based Awards, in which case the limits and terms of such other variable plan will apply.

Days of Paid Vacation per Fiscal Year:

15 (per Company policy)

Approving Person:

Chief Financial Officer

Executive Notice Address:

149 Reserve Drive
Piedmont, SC 29673

Initials: _____

Initials: _____

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. (the "Company"). This is the Release referred to that certain Employment Agreement dated as of ____, 2012 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;
10. whistle-blower and/or retaliation claims or suits under the Sarbanes-Oxley Act of 2002;
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, 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 to 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 provided in this 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 not 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 the Agreement 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 Agreement 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 Agreement for age claims under the ADEA (which release is provided for in paragraph 2 of this Agreement). Other than a challenge to the validity of the release of ADEA claims under this Agreement, Executive has released Company from all liability with respect to the laws, statutes, and common law listed in paragraph 2, 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.

SCANSOURCE, INC.
AMENDED AND RESTATED DIRECTORS EQUITY COMPENSATION PLAN

ARTICLE 1
PURPOSE

Section 1.1 *PURPOSE*. The purpose of the ScanSource, Inc. Amended and Restated Directors Equity Compensation Plan is to attract, retain and compensate highly-qualified individuals who are not employees of Scan Source, Inc. or any of its subsidiaries or affiliates for service as members of the Board by providing them with an opportunity to participate in the Company's future growth through the granting of restricted stock or options to purchase shares of Common Stock of the Company. The Company intends that the Plan will benefit the Company and its shareholders by allowing Non-Employee Directors to have a personal financial stake in the Company through an ownership interest in the Common Stock and will closely associate the interests of Non-Employee Directors with that of the Company's shareholders.

Section 1.2 *ELIGIBILITY*. All active Non-Employee Directors shall automatically be participants in the Plan.

ARTICLE 2
DEFINITIONS

Section 2.1 *DEFINITIONS*. In addition to other terms defined herein, unless the context clearly indicates otherwise, the following terms shall have the following meanings:

(a) "Award" means an award of Restricted Stock or Options granted under Section 5 of the Plan.

(b) "Board" means the Board of Directors of the Company.

(c) "Change in Control" means and includes the occurrence of any one 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 Securities Exchange Act of 1934, as amended (the "Exchange Act") and as used in Section 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 shareholders of the Company of a complete liquidation or dissolution of the Company.

(d) “Company” means ScanSource, Inc., a South Carolina corporation.

(e) “Committee” means the Compensation Committee of the Board of Directors of the Company.

(f) “Common Stock” means the common stock, no par value, of the Company.

(g) “Disability” means any illness or other physical or mental condition of a Non-Employee Director that renders him or her incapable of performing as a director of the Company, or any medically determinable illness or other physical or mental condition resulting from a bodily injury, disease or mental disorder which, in the judgment of the Board, is permanent and continuous in nature. The Board may require such medical or other evidence as it deems necessary to judge the nature and permanency of a Non-Employee Director’s condition.

(h) “Effective Date” has the meaning set forth in Section 7.2 of the Plan.

(i) “Equity Award Value” means the award value determined by the Board or the Committee based on such methodology as may be approved by the Board or the Committee, as the case may be, from time to time. The Equity Award Value may be based on an averaging of the Fair Market Value over a specified period of time, the Fair Market Value per share of the Common Stock as of a specific date or dates, or such other methodology as may be deemed appropriate by the Board or the Committee; provided, however, that, unless the Board or the Committee determines otherwise, the methodology used by the Board or the Committee

to determine Equity Award Value shall be the same methodology used to provide a basis for determining the size and amounts of employee awards under the Company's Amended and Restated 2002 Long-Term Incentive Plan or any successor plan.

(j) "Fair Market Value," on any date, means (i) if the Common Stock is listed on a securities exchange or is traded over the NASDAQ Global Market, the closing sales price on such exchange or over such system on such date or, in the absence of reported sales on such date, the closing sales price on the immediately preceding date on which sales were reported, or (ii) if the Common Stock is not listed on a securities exchange or traded over the NASDAQ Global Market, the mean between the bid and offered prices as quoted by Nasdaq for such date, provided that if it is determined that the Fair Market Value is not properly reflected by such NASDAQ quotations, Fair Market Value will be determined by such other method as the Board determines in good faith to be reasonable.

(k) "Grantee" means a Non-Employee Director of the Company to whom an award of Restricted Stock or an Option has been granted under Section 5.

(l) "Non-Employee Director" means a director of the Company who is not an employee of the Company or any of its subsidiaries or affiliates.

(m) "Option" means an option to purchase Common Stock granted under Section 5 of the Plan. Options granted under the Plan are not incentive stock options within the meaning of Section 422 of the Internal Revenue Code.

(n) "Option Grant Date" has the meaning set forth in Section 5.1(b) or Section 5.4 of the Plan.

(o) "Plan" means the ScanSource, Inc. Amended and Restated Directors Compensation Plan, as amended from time to time.

(p) "Plan Year(s)" means the approximate twelve-month periods between annual meetings of the shareholders of the Company, which, for purposes of the Plan, are the periods for which annual retainers are earned.

(q) "Restricted Stock Award" means an award of shares of Common Stock that are subject to certain restrictions and to risk of forfeiture.

(r) "Restricted Stock Grant Date" has the meaning set forth in Section 5.2(b) or Section 5.4 of the Plan.

(s) "Retirement" means retirement as a director of the Company in accordance with normal Company policies.

ARTICLE 3 ADMINISTRATION

Section 3.1 *ADMINISTRATION*. The Plan shall be administered by the Board except to the extent that the Board may delegate authority to the Committee pursuant to Section 2.1(i) herein or otherwise. Subject to the provisions of the Plan, the Board shall be authorized to interpret the Plan, to establish, amend and rescind any rules and regulations relating to the Plan, and to make all other determinations necessary or advisable for the administration of the Plan. The Board's interpretation of the Plan, and all actions taken and determinations made by the Board pursuant to the powers vested in it hereunder, shall be conclusive and binding upon all parties concerned including the Company, its shareholders and persons granted awards under the Plan. The Board may appoint a plan administrator to carry out the ministerial functions of the Plan, but the plan administrator shall have no other authority or powers of the Board.

Section 3.2 *RELIANCE*. In administering the Plan, the Board may rely upon any information furnished by the Company, its public accountants and other experts. No individual will have personal liability by reason of anything done or omitted to be done by the Company or the Board in connection with the Plan.

Section 3.3 *INDEMNIFICATION*. Each person who is or has been a member of the Board or who otherwise participates in the administration or operation of the Plan shall be indemnified by the Company against, and held harmless from, any loss, cost, liability or expense that may be imposed upon or incurred by him or her in connection with or resulting from any claim, action, suit or proceeding in which such person may be involved by reason of any action taken or failure to act under the Plan and shall be fully reimbursed by the Company for any and all amounts paid by such person in satisfaction of judgment against him or her in any such action, suit or proceeding, provided he or she will give the Company an opportunity, by written notice to the Board, to defend the same at the Company's own expense before he or she undertakes to defend it on his or her own behalf. This right of indemnification shall not be exclusive of any other rights of indemnification.

ARTICLE 4 SHARES

Section 4.1 *SHARES SUBJECT TO THE PLAN*. Subject to adjustment in accordance with the provisions of Section 5.3 of the Plan, the shares of Common Stock that may be issued pursuant to the Plan shall not exceed in the aggregate 250,000 shares. Such shares may be authorized and unissued shares or reacquired shares. The Board's adoption of this Plan shall constitute the reservation of 250,000 shares of authorized and unissued Common Stock for issuance pursuant to this Plan. To the extent that an Award is canceled, terminates, expires, is forfeited or lapses for any reason, any shares of Common Stock subject to the Award will again be available for issuance under the Plan. If the exercise price of an Option is satisfied by delivering shares of Common Stock to the Company (by either actual delivery or attestation), only the number of shares issued in excess of the delivery or attestation shall be considered for purposes of determining the maximum number of shares remaining available for issuance under the Plan.

ARTICLE 5 EQUITY AWARDS

Section 5.1 *STOCK OPTION AWARDS*

(a) *Stock Option Grants*. On the date that a new Non-Employee Director is initially elected or appointed to the Board (or as otherwise provided under Section 5.4), the Board may, but need not, grant such Non-Employee Director an Option to purchase a number of shares of the Company's Common Stock. The number of shares of Common Stock subject to the Option shall be determined by the Board in its discretion.

(b) *Exercise Price*. The exercise price for any Option granted under the Plan shall be the Fair Market Value of the shares of Common Stock subject to the Option on the date of grant (the "Option Grant Date").

(c) *Medium and Time of Payment*. The exercise price shall be payable in full upon the exercise of an Option in (i) cash, and/or (ii) through a "net" exercise arrangement, whereby the Company shall retain from the Option that number of Option shares having a Fair Market Value on the date of exercise equal to some or all of the exercise price.

(d) *Term*. Each Option granted under the Plan shall, to the extent not previously exercised, terminate and expire on the date ten (10) years after the Option Grant Date, unless earlier terminated as provided hereinafter. Upon termination of the Grantee's membership on the Board for any reason other than for cause (including without limitation by reason of death, Disability, Retirement or failure to be re-nominated or re-elected as a director), the Options held by the Grantee under the Plan, to the extent they were exercisable on the date of termination, shall remain exercisable until the earlier of (i) the original expiration date of the Option, or (ii) the first anniversary of the Grantee's termination as a director. In the event of the death of the Grantee, the Grantee's personal representatives, heirs or legatees may exercise the Options held by the Grantee on the

date of death, upon proof satisfactory to the Company of their authority. Such exercise otherwise shall be subject to the terms and conditions of the Plan. If the Grantee's membership on the Board of Directors is terminated for cause, all options granted to such Grantee shall expire upon such termination.

(e) *Vesting of Options.* Each Option granted under this Plan shall vest and become exercisable six (6) months after the Option Grant Date, or upon the earlier occurrence of (i) the Non-Employee Director's termination of service as a director by reason of his or her death, Disability or Retirement, or (ii) a Change in Control of the Company.

(f) *Method of Exercise.* All Options granted under the Plan shall be exercised by an irrevocable written notice directed to the Secretary of the Company at the Company's principal place of business or to such other person or place as the Secretary shall direct. Such written notice shall be accompanied by payment in full of the exercise price for the shares for which such Option is being exercised. The Company shall make delivery of certificates representing the shares for which an Option has been exercised within a reasonable period of time; provided, however, that if any law, regulation or agreement requires the Company to take any action with respect to the shares for which an Option has been exercised before the issuance thereof, then the date of delivery of such shares shall be extended for the period necessary to take such action. Certificates representing shares for which Options are exercised under the Plan may bear such restrictive legends as may be necessary or desirable in order to comply with applicable federal and state securities laws. Nothing contained in the Plan shall be construed to require the Company to register any shares of Common Stock underlying Options granted under this Plan.

(g) *Transferability of Options.* No Option granted hereunder shall be assignable or transferable by the Grantee except by will, by the laws of descent and distribution, or pursuant to a qualified domestic relations order that would satisfy Section 414(p)(1)(A) of the Internal Revenue Code of 1986, as amended, if such provision applied to an Option under the Plan.

(h) *Rights as Shareholder.* Neither the Grantee nor the Grantee's personal representatives, heirs, legatees or transferees shall have rights as a shareholder of the Company with respect to shares of Common Stock covered by the Grantee's Option until the Grantee or such other person becomes the holder of record of such shares.

(i) *Option Agreements.* All Options shall be evidenced by a written Option Agreement between the Company and the Non-Employee Director, which shall include such provisions, not inconsistent with the Plan, as may be specified by the Board.

Section 5.2 *RESTRICTED STOCK AWARDS.*

(a) *Annual Restricted Stock Grants.* On the day following each annual meeting of the Company's shareholders (or as otherwise provided under Section 5.4), each Non-Employee Director serving as such on that date shall be granted a Restricted Stock Award having an aggregate award value equal to an amount established from time to time by the Board (the "Current Award Value"). Until changed by the Board, the Current Award Value shall be \$80,000. The number of shares of Restricted Stock so awarded to each Non-Employee Director shall be determined by dividing the Current Award Value by the Equity Award Value per share as of the date of grant (rounded up to the nearest hundred shares). In addition, any person who first becomes a Non-Employee Director on a date other than a regularly scheduled annual meeting of the Company's shareholders shall be granted a Restricted Stock Award which shall consist of a number of shares of Restricted Stock equal to the Current Award Value divided by the Equity Award Value per share as of the date of grant, multiplied by a fraction, the numerator of which is the number of full months before the next regularly scheduled annual meeting of the Company's shareholders, and the denominator of which is 12 (rounded up to the nearest hundred shares).

(b) *Reduced Awards.* Each day that Restricted Stock Awards are to be granted under the Plan is referred to hereinafter as a "Restricted Stock Grant Date." If on any Restricted Stock Grant Date, shares of

Common Stock are not available to grant to Non-Employee Directors the full amount of a grant contemplated by the immediately preceding paragraph, then each Non-Employee Director shall receive a Restricted Stock Award (a "Reduced Grant") in an amount equal to the number of shares of Common Stock then available, divided by the number of Non-Employee Directors as of the applicable Restricted Stock Grant Date. Fractional shares shall be ignored and not granted.

If a Reduced Grant has been made and, thereafter, during the term of this Plan, additional shares of Common Stock become available for grant (e.g., by an amendment approved by the shareholders or because of the forfeiture or lapse of a Restricted Stock Award), then each person who was a Non-Employee Director both on the Restricted Stock Grant Date on which the Reduced Grant was made and on the date additional shares of Common Stock become available (a "Continuing Non-Employee Director") shall receive an additional Restricted Stock Award. The number of newly available shares shall be divided equally among the Restricted Stock Awards granted to the Continuing Non-Employee Directors; provided, however, that the aggregate number of shares of Common Stock subject to a Continuing Non-Employee Director's additional Restricted Stock Award plus any prior Reduced Grant to the Continuing Non-Employee Director on the applicable Restricted Stock Grant Date shall not exceed the number of shares of Common Stock (rounded up to the nearest hundred shares) equal to the Current Award Value. If more than one Reduced Grant has been made, available Restricted Stock Awards shall be granted beginning with the earliest such Restricted Stock Grant Date.

(c) *Additional Restricted Stock Award.* The Board may also, in its discretion, grant a new Non-Employee Director, on the date that he or he is initially elected or appointed to the Board, an additional Restricted Stock Award for such number of shares of Common Stock as shall be determined by the Board in its discretion.

(d) *Award Restrictions.* Common Stock subject to a Restricted Stock Award may not be transferred or sold by the Non-Employee Director and is subject to forfeiture until vested in accordance with Section 5.2(e).

(e) *Vesting of Restricted Stock Awards.* Each Restricted Stock Award granted under this Plan shall vest and become non-forfeitable as to 100% of the shares six (6) months after the Restricted Stock Grant Date, or upon the earlier occurrence of (i) the Non-Employee Director's termination of service as a director by reason of his or her death, Disability or Retirement, or (ii) a Change in Control of the Company. Upon the Non-Employee Director's termination of service as a director for any other reason, the Non-Employee Director shall forfeit all of his or her right, title and interest in and to the Restricted Stock as of the date of termination, and such shares of Restricted Stock shall revert to the Company immediately following the event of forfeiture.

(f) *Rights as Shareholder.* During the period in which any shares of Common Stock are subject to the restrictions on transfer imposed under Section 5.2(d), the Grantee shall have all the rights of a shareholder with respect to such shares, including, without limitation, the right to vote such shares and (unless the Board determines otherwise) to receive dividends.

(g) *Restricted Stock Award Agreements.* All Restricted Stock Awards shall be evidenced by a written Restricted Stock Award Agreement between the Company and the Non-Employee Director, which shall include such provisions, not inconsistent with the Plan, as may be specified by the Board.

Section 5.3 ADJUSTMENTS.

(a) *Mandatory Adjustments.* In the event of a nonreciprocal transaction between the Company and its shareholders that causes the per-share value of the Common Stock to change (including, without limitation, any stock dividend, stock split, spin-off, rights offering, or large nonrecurring cash dividend), the authorization limits under Article 4 shall be adjusted proportionately, and the Board shall make such adjustments to the Plan and awards as it deems necessary, in its sole discretion, to prevent dilution or enlargement of rights immediately resulting from such transaction. Action by the Board may include:

(i) adjustment of the number and kind of shares that may be delivered under the Plan; (ii) adjustment of the number and kind of shares subject to outstanding awards; (iii) adjustment of the exercise price of outstanding awards or the measure to be used to determine the amount of the benefit payable on an award; and (iv) any other adjustments that the Board determines to be equitable. Without limiting the foregoing, in the event of a subdivision of the outstanding Common Stock (stock-split), a declaration of a dividend payable in shares of Common Stock, or a combination or consolidation of the outstanding Common Stock into a lesser number of shares of Common Stock, the authorization limits under Article 4 shall automatically be adjusted proportionately, and the shares of Common Stock then subject to each award shall automatically, without the necessity for any additional action by the Board, be adjusted proportionately without any change in the aggregate purchase price therefor.

(b) *Discretionary Adjustments.* Upon the occurrence or in anticipation of any corporate event or transaction involving the Company (including, without limitation, any merger, reorganization, recapitalization, combination or exchange of shares, or any transaction described in Section 5.3(a)), the Board may, in its sole discretion, provide (i) that awards will be settled in cash rather than Common Stock, (ii) that awards will become immediately vested and exercisable and will expire after a designated period of time to the extent not then exercised, (iii) that awards will be assumed by another party to a transaction or otherwise be equitably converted or substituted in connection with such transaction, (iv) that outstanding awards may be settled by payment in cash or cash equivalents equal to the excess of the Fair Market Value of the underlying Common Stock, as of a specified date associated with the transaction, over the exercise price of the award, and (v) any combination of the foregoing. The Board's determination need not be uniform and may be different for different participants whether or not such participants are similarly situated.

(c) *General.* Any discretionary adjustments made pursuant to this Section 5.3 shall be subject to the provisions of Section 6.1.

Section 5.4 *DETERMINATION OF GRANT DATE.* Notwithstanding the provisions of Section 5.1(a) and Section 5.2 herein regarding the date of grant of Options and annual or other Restricted Stock Awards, the Board shall have authority, in its discretion, to modify, suspend or delay the grant date for any such Awards in the event that the grant date established under Section 5.1(a) and/or Section 5.2, as the case may be, would not occur during an open "window" for stock transactions under the Company's insider trading compliance program or if the Board otherwise determines that such modification, suspension or delay of the grant date is necessary or appropriate.

ARTICLE 6 AMENDMENT, MODIFICATION AND TERMINATION

Section 6.1 *AMENDMENT, MODIFICATION AND TERMINATION.* The Board may, at any time and from time to time, amend, modify or terminate the Plan without shareholder approval; provided, however, that if an amendment to the Plan would, in the reasonable opinion of the Board, (i) materially increase the benefits accruing to participants, (ii) materially increase the number of shares of Common Stock available under the Plan, (iii) materially modify the requirements for eligibility, (iv) expand the types of awards available under the Plan, (v) materially extend the term of the Plan, or (vi) otherwise constitute a material change requiring shareholder approval under applicable laws, policies or regulations or the applicable listing or other requirements of a securities exchange on which the Common Stock is listed or traded, then such amendment shall be subject to shareholder approval; and provided further, that the Board may condition any other amendment or modification on the approval of shareholders of the Company for any reason.

Section 6.2 *EFFECT ON OUTSTANDING AWARDS.* No termination, amendment, or modification of the Plan shall adversely affect any Award previously granted under the Plan, without the written consent of the Non-Employee Director. An outstanding Option shall not be deemed to be "adversely affected" by a Plan amendment if such amendment would not reduce or diminish the value of such Option determined as if the Option had been exercised, vested, cashed in or otherwise settled on the date of such amendment (with the per-share value of an Option for this purpose being calculated as the excess, if any, of the Fair Market Value as of the date of such amendment over the exercise or base price of such Option).

ARTICLE 7
GENERAL PROVISIONS

Section 7.1 *EXPENSES OF THE PLAN*. The expenses of administering the Plan shall be borne by the Company.

Section 7.2 *EFFECTIVE DATE*. The Plan was originally adopted by the Board on October 24, 2003 and was approved by the shareholders and became effective on December 4, 2003 (the “Effective Date”). The Plan was amended and restated by the Board on October 19, 2006 and approved by the shareholders on December 7, 2006, further amended by the Board on November 18, 2010, and further amended by the Board on August 21, 2012.

Section 7.3 *DURATION OF THE PLAN*. The Plan shall remain in effect until the day immediately following the 2016 annual meeting of Company’s shareholders, unless terminated earlier by the Board.

SCANSOURCE, INC.
NON-QUALIFIED DEFERRED COMPENSATION PLAN
As Amended and Restated Effective January 1, 2005
(Including Amendments through December 2010)

Section 1

Purpose and Administration

1.1. Name of Plan. ScanSource, Inc. (the “Company”) hereby adopts the ScanSource, Inc. Deferred Compensation Plan (the “Plan”), as set forth herein.

1.2. Effective Date of Amended and Restated Plan. The Plan was originally established effective July 1, 2004. This document sets forth the terms of the Plan as amended and restated effective as of January 1, 2005 to comply with the requirements of Code Section 409A.

1.3. Purpose. The Company has established the Plan primarily for the purpose of providing deferred compensation to a select group of management or highly compensated employees of the Participating Employers. The Plan is intended to be a top-hat plan as described in Sections 201(2), 301(a)(3) and 401(a)(1) of ERISA and is intended to comply with Code Section 409A. The Company intends that the Plan (and each Trust under the Plan as described in Section 13.2) shall be treated as unfunded for tax purposes and for purposes of Title I of ERISA and the Code. The Plan is not intended to qualify under Code Section 401(a).

A Participating Employer’s obligations hereunder, if any, to a Participant (or to a Participant’s beneficiary) shall be unsecured and shall be a mere promise by the Participating Employer to make payments hereunder in the future. A Participant (and, if applicable, the Participant’s beneficiary) shall be treated as a general unsecured creditor of any Participating Employer.

1.4. Administration. The Plan shall be administered by the committee appointed by the Company’s Board of Directors.

(a) Authority. The Plan Administrative Committee shall have full authority and power to administer and construe the Plan, subject to applicable requirements of law. Without limiting the generality of the foregoing, the Plan Administrative Committee shall have the following powers and duties:

- (i) To make and enforce such rules and regulations as it deems necessary or proper for the administration of the Plan;
- (ii) To interpret the Plan and to decide all questions concerning the Plan;
- (iii) To designate persons eligible to participate in the Plan, subject to the approval of the Board;
- (iv) To determine the amount and the recipient of any payments to be made under the Plan;
- (v) To designate and value any investments deemed held in the Accounts;
- (vi) To appoint such agents, counsel, accountants, consultants and other persons as may be required to assist in administering the Plan; and
- (vii) To make all other determinations and to take all other steps necessary or advisable for the administration of the Plan.

Subject to paragraph (b) below, all decisions made by the Plan Administrative Committee pursuant to the provisions of the Plan shall be made in its sole discretion and shall be final, conclusive, and binding upon all parties.

(b) Authority of Board of Directors. Notwithstanding anything in this Plan to the contrary, the Board shall have the power

- (i) to review and approve the persons who will be eligible to participate in the Plan; and
 - (ii) to make determinations with respect to the participation and benefits of to any member of the Plan Administrative Committee who is a participant in the Plan.
- (c) Delegation of Duties. The Plan Administrative Committee may delegate such of its duties and may engage such experts and other persons as it deems appropriate in connection with administering the Plan. The Plan Administrative Committee shall be entitled to rely conclusively upon, and shall be fully protected in any action taken by the Plan Administrative Committee, in good faith in reliance upon any opinions or reports furnished to it by any such experts or other persons.
- (d) Expenses. All expenses incurred prior to the termination of the Plan that shall arise in connection with the administration of the Plan, including, without limitation, administrative expenses and compensation and other expenses and charges of any actuary, counsel, accountant, specialist, or other person who shall be employed by the Plan Administrative Committee in connection with the administration of the Plan shall be paid by the Participating Employers.
- (e) Indemnification of Plan Administrative Committee. The Participating Employers agree to indemnify and to defend to the fullest extent permitted by law any person serving as a member of the Plan Administrative Committee, and each employee of a Participating Employer or any of their affiliated companies appointed by the Plan Administrative Committee to carry out duties under this Plan, against all liabilities, damages, costs and expenses (including attorneys' fees and amounts paid in settlement of any claims approved by the Company) occasioned by any act or omission to act in connection with the Plan, if such act or omission is in good faith.
- (f) Liability. To the extent permitted by law, neither the Plan Administrative Committee nor any other person shall incur any liability for any acts or for any failure to act except for liability arising out of such person's own willful misconduct or willful breach of the Plan.

SECTION 2

Definitions

For purposes of the Plan, the following words and phrases shall have the meanings set forth below, unless their context clearly requires a different meaning:

2.1. Account. “Deferred Compensation Account” means the bookkeeping account maintained for the Participant in accordance with Section 7.1 and which includes the following subaccounts:

- (a) “In-Service Distribution Sub-Account(s)” means the Account(s) established under a Participant’s Account in connection with the Participant’s election of one or more scheduled In-Service Distribution Dates pursuant to Section 6.1.
- (b) “Separation from Service Distribution Sub-Account” means the Account established under a Participant’s Account in connection with the Participant’s Separation from Service distribution pursuant to Section 6.2.

2.2. Affiliate. “Affiliate” means any corporation which is a member of a controlled group of corporations (as defined in Code Section 414(b)) which includes the Company and any trade or business (whether or not incorporated) which is under common control (as defined in Code Section 414(c)) with the Company.

2.3. Board. “Board” means the Board of Directors of ScanSource, Inc.

2.4. Change in Control. “Change in Control” means (a) a change in the ownership of the Company as determined in accordance with Treasury Regulation section 1.409A-3(i)(5)(v), (b) a change in effective control of the Company as determined in accordance with Treasury Regulation section 1.409A-3(i)(5)(vi), or (c) a change in the ownership of a substantial portion of the assets of the Company as determined in accordance with Treasury Regulation section 1.409A-3(i)(5)(vii).

2.5. Code. “Code” means the Internal Revenue Code of 1986, as amended from time to time. Any reference to a section of the Code includes any comparable section or sections of any future legislation that amends, supplements or supersedes that section.

2.6. Company. “Company” means ScanSource, Inc. or any successor company that adopts this Plan.

2.7. Compensation. “Compensation” means such forms of compensation payable in cash as may be designated by the Plan Administrative Committee, from time to time, in its sole discretion, as eligible for deferral under this Plan. Compensation may include, but shall be not limited to, base salary, and any bonus compensation, payable to the Participant.

2.8. Compensation Deferrals. “Compensation Deferrals” means the amount of Compensation that a Participant elects to defer pursuant to Section 4.

2.9. Deferral Election. “Deferral Election” means an election made by a Participant pursuant to Section 4 to defer Compensation.

2.10. Discretionary Matching Contribution. “Discretionary Matching Contribution” means the contribution deemed credited to a Participant’s Account pursuant to Section 5.

2.11. Eligible Employee. “Eligible Employee” means an employee of a Participating Employer who has been designated pursuant to Section 3 as eligible to make contributions to the Plan.

2.12. ERISA. “ERISA” means the Employee Retirement Income Security Act of 1974, as amended from time to time. Any reference to a section of ERISA includes any comparable section or sections of any future legislation that amends, supplements or supersedes that section.

2.13. In-Service Distribution Date. “In-Service Distribution Date” means the date selected by the Participant for commencement of a scheduled in-service distribution pursuant to Section 6.1.

2.14. Participant. “Participant” means an Employee who meets the eligibility criteria set forth in Section 3 and who has made a Deferral Election in accordance with the terms of the Plan.

2.15. Participating Employer. “Participating Employer” means ScanSource, Inc., and any of its participating Affiliates, or any successor companies.

2.16. Plan Administrative Committee. “Plan Administrative Committee” means the committee appointed by the Company’s Board of Directors to administer the Plan.

2.17. Plan Year. “Plan Year” means (a) with respect to the year in which the Plan first became effective, July 1, 2004 through December 31, 2004 and (b) beginning January 1, 2005, the calendar year.

2.18. Retirement Date. “Retirement Date” means

- (a) Prior to January 1, 2009, the date on which a Participant separates from service after reaching age 65; and
- (b) On and after January 1, 2009, the date on which a Participant separates from service after reaching 55 and completing at least 10 years of service as an employee of a Participating Employer.

2.19. ScanSource Controlled Group. “ScanSource Controlled Group” means the Company and its Affiliates.

2.20. Separation from Service or Separate from Service. A Participant will be considered to Separate from Service if he or she dies, retires, or otherwise has a termination of employment with the ScanSource Controlled Group, subject to the following:

- (a) For this purpose, the employment relationship is treated as continuing intact while the individual is on military leave, sick leave, or other bona fide leave of absence (such as temporary employment by the government) if the period of such leave does not exceed six (6) months, or if longer, so long as the individual’s right to reemployment with the ScanSource Controlled Group is provided either by statute or by contract. If the period of leave exceeds six (6) months and the individual’s right to reemployment is not provided either by statute or by contract, the employment relationship is deemed to terminate on the first date immediately following such six-month period.
- (b) The determination of whether a Participant has separated from service shall be determined based on the facts and circumstances in accordance with the rules set forth in Code Section 409A and the regulations thereunder.

2.21. Totally Disabled or Total Disability.

- (a) Prior to January 1, 2005, a Participant shall be considered to be “Totally Disabled” or to have a “Total Disability” if he or she becomes entitled to receive disability benefits under a Participating Employer’s long-term disability insurance plan.
- (b) On and after January 1, 2005, a Participant shall be considered to be “Total Disabled” if he or she meets one of the following requirements:

- (i) The Participant is unable to engage in any substantial gainful activity by reason of any medically determinable physical or mental impairment that can be expected to result in death or can be expected to last for a continuous period of not less than twelve (12) months.
- (ii) The Participant is, by reason of any medically determinable physical or mental impairment that can be expected to result in death or can be expected to last for a continuous period of not less than twelve (12) months, receiving income replacement benefits for a period of not less than three (3) months under an accident and health plan covering employees of a Participating Employer.
- (iii) The Participant is determined to be totally disabled by the Social Security Administration.

2.22. Valuation Date. “Valuation Date” means each business day the financial markets and Wachovia are open, unless the underlying investment requires a less frequent valuation.

2.23. Other Definitions. In addition to the terms defined in this Section 2, other terms are defined when first used in Sections of this Plan.

SECTION 3
Eligibility and Participation

3.1. Eligible Employees. Only employees who are designated by the Plan Administrative Committee and approved by the Board shall be eligible to participate in the Plan. See Appendix B.

3.2. Participation.

- (g) An Eligible Employee shall become a Participant in the Plan by (i) completing and submitting to the Company a Deferral Election in accordance with Section 4 below, and (ii) complying with such terms and conditions as the Board and/or the Plan Administrative Committee may from time to time establish for the implementation of the Plan, including, but not limited to, any condition the Board and/or the Plan Administrative Committee may deem necessary or appropriate for the Participating Employers to meet their obligations under the Plan.
- (h) An employee shall only be a Participant eligible to have compensation deferred under this Plan only while he or she is employed by a Participating Employer and is designated as an Eligible Employee. If an employee subsequently ceases to be a designated Eligible Employee after becoming a Participant, he or she shall remain a Participant for the other purposes of the Plan to the extent of any existing Account balance subject to Section 14.1.

SECTION 4
Compensation Deferrals

4.1. Election to Defer Compensation. An Eligible Employee may elect to defer receipt of Compensation as follows:

- (i) General Rule. Except as otherwise provided in this Section, an election to defer receipt of Compensation for services to be performed during a calendar year must be made no later than the December 31 preceding the calendar year during which the Participant will perform services.
- (j) Performance-Based Compensation. In the case of Compensation that qualifies as “performance-based compensation” for purposes of Code Section 409A, an election to defer receipt of such compensation must be made no later than the date that is six (6) months before the end of the performance period for such performance-based compensation.
- (k) First Year of Eligibility. In the case of the first year in which an employee becomes eligible to participate in the Plan, an initial deferral election must be made not later than thirty (30) days after the date the employee becomes eligible to participate in the Plan. Such election shall apply only with respect to compensation paid for services to be performed subsequent to the election.

This paragraph will not apply to an Eligible Employee who is a participant in any other account balance deferred compensation plans maintained by any member of the ScanSource Controlled Group which is required to be aggregated with this Plan under Code Section 409A.

4.2. Amount of Compensation Deferral. A Participant may elect to defer receipt of a percentage of his or her Compensation payable for a Plan Year subject to the following rules:

- (a) The maximum percentage Compensation that can be deferred for a Plan Year will be determined by the Plan Administrative Committee at least thirty (30) days prior to the beginning of the Plan Year.
- (b) The amount of the deferral elected for the Plan Year cannot reduce the Participant’s cash compensation below the amount the Participating Employer determines necessary to satisfy applicable federal, state and local income and employment withholding taxes and any obligations to make benefit plan contributions.

4.3. Election of In-Service Distribution Date. A Participant may elect to have the total amount of Compensation Deferrals and Discretionary Matching Contributions credited to his or her Account for a particular Plan Year, and any earnings thereon, distributed at a designated date prior to his or her Separation from Service in accordance with Section 6.

4.4. Election of Form of Payment of Retirement Distribution. A Participant may elect whether payment of his or her Account will be made in a lump sum or installments following his or her Retirement Date in accordance with Section 6. Such election shall be made at the time the Participant first elects to participate in this Plan.

4.5. Election of Distribution Upon Change In Control. A Participant may elect to have his or her Account distributed immediately following a Change in Control. Such election shall be made at the time the Participant first elects to participate in this Plan. Any such election shall be irrevocable.

4.6. General Rules Applicable to Elections. Elections under this Article 4 shall be made in the form, manner, and in accordance with the notice requirements, prescribed by the Plan Administrative Committee. Except as otherwise provided in this Plan, the elections made by a Participant with respect to Compensation Deferrals for a calendar year shall become irrevocable as of the last date on which such election can be made for the calendar year pursuant to this Article 4.

4.7. Cancellation of Deferral Election.

- (a) The Plan Administrative Committee may permit a Participant to cancel a Deferral Election during a calendar year if it determines either of the following circumstances has occurred:

 - (i) The Participant has an “unforeseeable emergency” as defined in Section 7.03 below or a hardship distribution (pursuant to Treasury Regulation §1.401(k)-1(d)(3)) from a 401(k) plan sponsored by a Participating Employer. If approved by the Plan Administrative Committee, such cancellation shall take effect as of the first payroll period next following approval by the Plan Administrative Committee.
 - (ii) The Participant incurs a disability. If approved by the Plan Administrative Committee, such cancellation shall take effect no later than the end of the calendar year or the 15th day of the third month following the date Participant incurs a disability. Solely for purposes of this clause (ii), a disability refers to any medically determinable physical or mental impairment resulting in the Participant’s inability to perform the duties of his or her position or any substantially similar position, where such impairment can be expected to result in death or can be expected to last for a continuous period of not less than six months.
- (b) If a Participant cancels a Deferral Election during a calendar year, he or she will not be permitted to make a new deferral election with respect to Compensation relating to services performed during the same calendar year.

4.8. Crediting of Compensation Deferrals.

- (a) The amount of Compensation deferred by a Participant shall be credited to the Participant’s Account as of the Valuation Date coincident with or immediately following the date such Compensation would, but for the Participant’s Deferral Election, be payable to the Participant.
- (b) The Compensation Deferrals, and the earnings thereon, credited to the Participant’s Compensation Deferral Account shall be immediately 100% vested and nonforfeitable at all times.

SECTION 5
Discretionary Matching Contributions

5.1. Discretionary Matching Contribution.

- (c) For any Plan Year, a Participating Employer may credit to the Deferred Compensation Account of any Participant employed by that Participating Employer with a Discretionary Matching Contribution in such amount as may be determined by the Participating Employer in its sole discretion at least thirty (30) days prior to the beginning of the Plan Year.
- (d) The amount of the Discretionary Matching Contribution to be credited to a Participant's Account for a Plan Year shall be equal to such dollar amount, such percentage of a Participant's Compensation Deferrals, or any combination thereof, as may be determined by the Participating Employer in its sole discretion.
- (e) Any Discretionary Matching Contribution will be credited to a Participant's Account as of the Valuation Date specified by the Participating Employer.

5.2. Vesting of Discretionary Matching Contribution.

- (a) Except as otherwise provide in paragraph (b) below and subject to Section 10, the Discretionary Matching Contribution credited to a Participant's Account with respect to a particular Plan Year shall become vested in accordance with the following schedule:

Years of Service Completed Following Plan Year for which Contribution is Credited	Vested Percentage
Less than 3 Years of Service	0%
3 Years of Service	50%
4 Years of Service	75%
5 or more Years of Service	100%

A Participant will be credited with a Year of Service if

- (i) he or she is actively employed by a Participating Employer for a continuous period of at least 6 full months during a Plan Year and is actively employed by a Participating Employer as of the last day of the Plan Year, or
 - (ii) he or she fails to meet the active employment requirement in clause (i) above solely as a result of an approved leave of absence.
- (b) Notwithstanding the foregoing vesting schedule –
- (i) Solely for purposes of determining the vesting of Discretionary Matching Contributions credited to a Participant's Account with respect to the Plan Year ended December 31, 2005, the number of Years of Service completed by such Participant will be determined during the period beginning as of July 1, 2005.
 - (ii) The balance credited to a Participant's Participating Employer Contribution Account shall be become fully vested if the Participant remains continuously employed by a Participating Employer or an Affiliate until his or her death, Total Disability, Retirement Date or the occurrence of a Change in Control.

SECTION 6
Distribution Elections

Subject to the other terms contained in this Plan, a Participant may make the following distribution elections:

6.1. Election of Designated In-Service Distribution Date(s). The Participant may elect to have the total amount of Compensation Deferrals and vested Discretionary Matching Contributions credited to his or her Account for a particular Plan Year, and any earnings thereon, distributed in a lump sum at a specified date prior to his or her Separation from Service subject to the following rules:

- (c) The specified in-service distribution date cannot be earlier than the end of the five (5) Plan Year period following the Plan Year for which such Compensation Deferrals and Discretionary Matching Contributions are credited to his or her Account.
- (d) If a Participant fails to make an in-service distribution election with respect to Compensation Deferrals and Discretionary Matching Contributions for a calendar year, then such Compensation Deferrals or Discretionary Matching Contributions will be allocated to the Participant's Separation from Service Distribution Sub-Account.
- (e) Such election shall be made at the same time the Participant makes the Deferral Election in accordance with Section 4 for that Plan Year. Except as otherwise provided in paragraph (e) below, any such election shall be irrevocable.
- (f) A separate In-Service Distribution Sub-Account will be established and maintained as part of the Participant's Account for each In-Service Distribution Date elected by the Participant. Such Account shall be credited or charged with (i) the amounts of Compensation Deferrals and Discretionary Matching Contributions designated by the Participant to be distributed as of the In-Service Distribution Date, (ii) a portion of the income, gains, losses, and expenses of investments deemed held in the Participant's Account as allocated based on the Compensation Deferrals and Discretionary Matching Contributions credited to such Sub-Account and (iii) distributions from such Sub-Account.
- (g) A Participant may change his or her specified in-service distribution date only in accordance with the following rules:
 - (i) Such election may not take effect until at least twelve (12) months after the date on which the election is made.
 - (ii) The new distribution date cannot be less than five (5) years from the date such payment otherwise would have been paid but for the new election.
 - (iii) Such election must be at least twelve (12) months prior to the date the first payment is scheduled to be paid.

6.2. Election of Form of Payment Upon Separation from Service.

- (a) Unless a Participant elects otherwise, the vested balance credited to his or her Separation from Service Distribution Sub-Account will be distributed in a single lump sum payment.
- (b) A Participant may elect to have the vested balance credited to his or her Separation from Service Distribution Sub-Account distributed in substantially equal monthly installment payments for a period of 36, 48 or 60 months. Notwithstanding the foregoing, the installment payment option will become effective only if the Participant Separates from Service after his or her Retirement Date.

- (c) Except as otherwise provided in Appendix A to this Plan, a Participant may change his or her retirement distribution election only in accordance with the following rules:
- (i) Such election may not take effect until at least twelve (12) months after the date on which the election is made.
 - (ii) The new distribution date cannot be less than five (5) years from the date such payment otherwise would have been paid but for the new election.
 - (iii) Such election must be at least twelve (12) months prior to the date the first payment is scheduled to be paid.
- (d) A separate Separation from Service Distribution Sub-Account will be established and maintained as part of the Participant's Account. Such Account shall be credited or charged with (i) the amount of Compensation Deferrals and Discretionary Matching Contributions to be distributed following the Participant's Separation from Service, (ii) a portion of the income, gains, losses, and expenses of investments deemed held in the Participant's Account as allocated based on the Compensation Deferrals and Discretionary Matching Contributions credited to such Sub-Account and (iii) distributions from such Sub-Account.
- 6.3. Election of Distribution Upon Change in Control.** A Participant may elect to have his or her Account distributed immediately following a Change in Control. Such election shall be made at the time the Participant first elects to participate in this Plan. Any such election shall be irrevocable.
- 6.4. General Rules.** Elections under this Section 6 shall be made in the form, manner, and in accordance with the notice requirements prescribed by the Plan Administrative Committee. Except as otherwise provided in this Plan, if a Participant fails to make a distribution election under this Section 6, the balance credited to his or her Account will be distributed in a single lump sum payment following his or her Separation from Service date.

SECTION 7
Deferred Compensation Accounts

7.1. Participant's Accounts. The Company shall establish and maintain a separate memorandum account in the name of each Participant. Such account shall be credited or charged with (a) the Participant's Compensation Deferrals, if any; (b) Discretionary Matching Contributions, if any; (c) income, gains, losses, and expenses of investments deemed held in such account; and (d) distributions from such account.

7.2. Investment of Accounts.

- (a) The amount credited to a Participant's Account shall be deemed to be invested and reinvested in mutual funds, stocks, bonds, securities, and any other assets or investment vehicles, as may be selected by the Plan Administrative Committee in its sole discretion; provided that in no event shall such Accounts be deemed to be invested in securities issued by the Company.
- (b) A Participant may elect the manner in which his or her Account is deemed to be invested and reinvested among the deemed investment options selected by the Plan Administrative Committee. A Participant's investment election shall remain in effect until the Participant properly files a change of election with the Plan Administrative Committee. In the event that any Participant fails to make an election with respect to the investment of all or a portion of the balance in his or her account at any time, the Participant shall be deemed to have elected that such balance be deemed to be invested in a money market (or equivalent) fund and such assets shall remain in such investment fund until such time as the Participant directs otherwise.
- (c) A Participant's investment direction (or any change in his or her investment direction) shall be made in the form, manner, and in accordance with the notice requirements, prescribed by the Plan Administrative Committee.
- (d) A Participant, by electing to participate in this Plan, agrees on behalf of himself or herself and his or her designated beneficiaries, to assume all risk in connection with any increase or decrease in value of the investments which are deemed to be held in his or her account. Each Participant further agrees that the Plan Administrative Committee and the Participating Employer shall not in any way be held liable for any investment decisions or for the failure to make any investments by the Plan Administrative Committee.

SECTION 8
Distribution Prior to Separation from Service

8.1. Distribution of In-Service Distribution Sub-Account(s).

- (e) Commencement of Payment. Subject to paragraph (c), payment of a Participant's In-Service Distribution Sub-Account will be paid in a lump sum distribution within the calendar month following the calendar month of the In-Service Distribution Date applicable to such Sub-Account.
- (f) Amount of Payment. The amount of the lump sum payment will be equal to the value of the In-Service Distribution Account as of the last valuation date preceding the date of payment.
- (g) Separation from Service Prior to In-Service Distribution Date. If the Participant Separates from Service prior to the commencement of distribution of an In-Service Distribution Sub-Account, then such In-Service Distribution Sub-Account shall be distributed at the same time and in the same manner as the Participant's Separation from Service Distribution Sub-Account.

8.2. Financial Hardship. The Plan Administrative Committee, in its sole discretion, may permit a hardship payment to be made to a Participant at any time prior to Separation from Service in the event of an "unforeseeable emergency". Withdrawals of amounts because of an unforeseeable emergency will be permitted to the extent reasonably needed to satisfy the emergency need.

- (a) For purposes of this Section, an "unforeseeable emergency" is a severe financial hardship to the Participant resulting from a sudden and unexpected illness or accident of the Participant or of a dependent (as defined in Section 152(a) of the Code) of the Participant, loss of the Participant's property due to casualty, or other similar extraordinary and unforeseeable circumstances arising as a result of events beyond the control of the Participant.
- (b) The circumstances that will constitute an unforeseeable emergency will depend upon the facts of each case, but, in any case, payment may not be made to the extent that such hardship is or may be relieved:
 - (iii) Through reimbursement or compensation by insurance or otherwise;
 - (iv) By liquidation of the Participant's assets, to the extent the liquidation of such assets would not itself cause severe financial hardship; or
 - (v) By cessation of Compensation Deferrals under the Plan.

8.3. Distribution Upon Change in Control. If a Participant has elected to receive distribution of his or her Account upon the occurrence of a Change in Control, the balance credited to the Participant's Account, shall be distributed to the Participant in a single lump sum payment within 30 days after the Change in Control.

SECTION 9
Distribution Following Separation from Service

9.1. Distribution from Separation from Service Distribution Sub-Account.

- (c) Commencement of Payment. Payment of a Participant's Separation from Service Distribution Sub-Account will commence as of the first calendar month following the calendar month of the Participant's Separation from Service date.

Notwithstanding the foregoing, in no event shall payment to a Participant who is a "specified employee" within the meaning of Code Section 409A on his or her Separation from Service date, commence earlier than the first day following the end of the six (6) month period following such date.

- (d) Form of Payment.

- (iv) Separation from Service Prior to Retirement Date. In the event that a Participant Separates from Service for any reason other than death or Total Disability prior to reaching his or her Retirement Date, then notwithstanding any election made under Section 7.02 above, the amount credited to the Participant's Separation from Service Distribution Sub-Account will be distributed to the Participant in a single lump sum payment.
- (v) Separation from Service at or after Retirement Date. If a Participant Separates from Service at or after reaching his or her Retirement Date, his or her Separation from Service Distribution Sub-Account will be distributed to the Participant in accordance with his or her election of a lump sum payment or installment payments under Section 7.02 above.

- (e) Amount of Payment.

- (i) Lump Sum Amount. The amount of the lump sum payment will be equal to the value of the Separation from Service Distribution Account as of the last valuation date preceding the date of payment.
- (ii) Installment Payments. Each annual installment payment shall be in the amount equal to (A) the value of the Separation from Service Distribution Sub-Account, as of the last valuation date preceding the date of payment, divided by (B) the number of installment payments not yet distributed.

Notwithstanding the foregoing, if the balance credited to the Participant's Account as of his or her Separation from Service date does not exceed the applicable dollar limit on elective 401(k) plan deferrals then in effect under Code Section 402(g)(1)(B), then distribution will be made in a single lump sum payment within the calendar month following the calendar month of the Participant's Separation from Service date.

9.2. Separation from Service Due to Total Disability. In the event that a Participant separates from service at any time by reason of becoming Totally Disabled, the balance credited to his or her Account will be distributed to the Participant in a single lump payment within the calendar month following the calendar month of the Participant's Separation from Service date.

9.3. Death.

- (c) In the event that a Participant's employment is terminated by reason of his or her death, the balance credited to his or her Account will be distributed to the Participant's designated beneficiary in a single lump payment within the calendar month following the calendar month of the Participant's death.

- (d) In the event a Participant dies after the commencement of installment payments, but prior to the completion of all such payments due and owing hereunder, the remaining balance credited to his or her Account will be distributed to the Participant's designated beneficiary in a single lump payment within the calendar month following the calendar month in which the Plan Administrative Committee receives satisfactory proof of the Participant's death.

9.4. Designated Beneficiary.

- (a) The Participant may name a beneficiary or beneficiaries to receive the balance of the Participant's Deferred Compensation Account in the event of the Participant's death prior to the payment of the Participant's entire Deferred Compensation Account. To be effective, any beneficiary designation must be filed in writing with the Plan Administrative Committee in accordance with rules and procedures adopted by the Plan Administrative Committee for that purpose.
- (b) A Participant may revoke an existing beneficiary designation by filing another written beneficiary designation with the Plan Administrative Committee. The latest beneficiary designation received by the Plan Administrative Committee shall be controlling; provided, however, that no designation, or change or revocation thereof, shall be effective unless received by the Plan Administrative Committee prior to the Participant's death.
- (c) If no beneficiary is named by a Participant, or if the Participant survives all of the Participant's named beneficiaries and does not designate another beneficiary, the Participant's Deferred Compensation Account shall be paid in the following order of precedence:
 - (i) The Participant's spouse;
 - (ii) The Participant's children (including adopted children) per stirpes; or
 - (iii) The Participant's estate.

SECTION 10
Forfeiture of Benefits

10.1. Notwithstanding anything in this Plan to the contrary, if the Plan Administrative Committee, in its sole discretion, determines that

- (c) the Participant's employment with the Participating Employer has been terminated for Good Cause or,
- (d) if at any time during which a Participant is entitled to receive payments under the Plan, the Participant has breached any of his or her post-employment obligations, including, but not limited to, any restrictive covenants or obligations under any agreement and general release,

then the Plan Administrative Committee may cause the Participant's entire interest in benefits attributable to his or her Employer Contribution Account to be forfeited and discontinued, or may cause the Participant's payments of benefits under the Plan to be limited or suspended for such other period the Plan Administrative Committee finds advisable under the circumstances, and may take any other action and seek any other relief the Plan Administrative Committee, in its sole discretion, deems appropriate.

10.2. "Good Cause" means the Participant's fraud, dishonesty, or willful violation of any law or significant policy of the Participating Employer that is committed in connection with the Participant's employment by or association with the Company or Affiliate. Whether a Participant has been terminated for Good Cause shall be determined by the Plan Administrative Committee.

Regardless of whether a Participant's employment initially was considered to be terminated for any reason other than Good Cause, the Participant's employment will be considered to have been terminated for Good Cause for purposes of this Plan if the Plan Administrative Committee subsequently determines that the Participant engaged in an act constituting Good Cause.

10.3. The decision of the Plan Administrative Committee shall be final. The omission or failure of the Plan Administrative Committee to exercise this right at any time shall not be deemed a waiver of its right to exercise such right in the future. The exercise of discretion will not create a precedent in any future cases.

SECTION 11
Appeals Procedure

11.1. The Plan Administrative Committee shall approve or wholly or partially deny all claims for benefits under the Plan within a reasonable period of time after all required documentation has been furnished to the Plan Administrative Committee.

11.2. If a claim is wholly or partially denied, the Plan Administrative Committee shall provide the claimant with written notice setting forth the specific reasons for the denial, making reference to the pertinent provisions of the Plan or the Plan documents on which the denial is based; describe any additional material or information that should be received before the claim may be acted upon favorably, and explain why such material or information, if any, is needed; and inform the person making the claim of his or her right pursuant to this Section to request review of the decision by the Plan Administrative Committee.

11.3. A claimant shall have the right to request a review of the decision denying the claim. Such request must be made by filing a written application for review with the Plan Administrative Committee no later than sixty (60) days after receipt by the claimant of written notice of the denial of his or her claim. The claimant may review pertinent Plan documents and shall submit such written comments and other information which he or she wishes the Plan Administrative Committee to consider in connection with his or her claim.

11.4. The Plan Administrative Committee may hold any hearing or conduct any independent investigation which it deems necessary to render its decision on review. Such decision shall be made as soon as practicable after the Plan Administrative Committee receives the request for review. Written notice of the decision on review shall be promptly furnished to the claimant and shall include specific reasons for the decision.

11.5. For all purposes under the Plan, decisions on claims (where no review is requested) and decisions on review (where review is requested) shall be final, binding and conclusive on all interested persons.

SECTION 12
Amendment or Termination of the Plan

12.1. The Plan Administrative Committee may, in its sole discretion, terminate, suspend or amend this Plan at any time or from time to time, in whole or in part, with respect to any Participants or beneficiaries whether or not payments have commenced to such Participants or beneficiaries. Notwithstanding the foregoing, no amendment, termination, or suspension of the Plan will affect a Participant's right to receive amounts previously deferred under the Plan.

12.2. In the event the Plan is terminated and liquidated in accordance with the requirements described in Treasury Regulation section 1.409A-3(j)(4)(ix), the Plan Administrative Committee shall distribute the remaining amounts in Participants' Accounts at such times and in such ways as the Plan Administrative Committee, in its sole discretion, may deem appropriate.

SECTION 13
Unfunded Plan; Change in Control

13.1. Unfunded Plan. Nothing in this Plan shall be construed as giving any Participant, or his or her legal representative or designated beneficiary, any claim against any specific assets of the Company or any of its affiliated companies or as imposing any trustee relationship upon the Company or any of its affiliated companies in respect of the Participant. The Participating Employers shall not be required to segregate any assets in order to provide for the satisfaction of the obligations hereunder. Investments deemed held in the Accounts shall continue to be a part of the general funds of the applicable Participating Employers, and no individual or entity other than the Participating Employer shall have any interest whatsoever in such funds. If and to the extent that the Participant or his or her legal representative or designated beneficiary acquires a right to receive any payment pursuant to this Plan, such right shall be no greater than the right of an unsecured general creditor of the applicable Participating Employer.

13.2. Rabbi Trust. The Participating Employers shall establish a trust (or trusts) for the purpose of providing funds for the payment of the amounts credited to Participants under the Plan subject to the following rules:

- (a) Such trust(s) shall be an irrevocable grantor trust containing provisions which are the same as, or are similar to, the provisions contained in the model “rabbi trust” set forth in Internal Revenue Service Revenue Procedure 92-64 (or any successor guidance issued by the IRS).
- (b) The Participating Employers shall make contributions to the trust(s) equal to the amount of the Compensation Deferrals and Discretionary Matching Contributions as soon as practicable, but in no event later five (5) business days, following the date on which such contributions are credited to Participants’ Accounts.
- (c) The Participating Employers shall pay all costs relating to the establishment and maintenance of the trust(s) and the investment of funds held in such trust(s).

13.3. Change in Control. In the event of a Change in Control, the Participating Employers shall, as soon as possible, but in no event later than five (5) business days following a Change in Control, make an irrevocable contribution to the trust(s) established pursuant to Section 13.2 in an amount that is sufficient to pay the total amount credited to all Accounts under the Plan as of the date of the Change in Control.

SECTION 14
Miscellaneous Provisions

14.1. Acceleration or Delay of Payments Permitted Under Code Section 409a.

- (d) Acceleration of Payments. The Plan Administrative Committee may, in its discretion, accelerate the payment of all or a portion of a Participant's vested Account prior to the time specified in this Plan to the extent such acceleration is permitted by Treasury Regulation Section 1.409A-3(j)(4). Such permitted accelerations shall include payments to comply with domestic relations orders, payments to comply with conflicts of interest laws, payment of employment taxes, payment upon income inclusion under Code Section 409A, and/or such other circumstances as are permitted by the regulations.
- (e) Delay of Payments. The Plan Administrative Committee may, in its discretion, delay the payment of all or a portion of a Participant's Account in such circumstances as may be permitted under Code Section 409A.

14.2. Benefits Non-Assignable. Benefits under the Plan may not be anticipated, assigned or alienated, and will not be subject to claims of a Participant's creditors by any process whatsoever, except as specifically provided in this Plan or by the Plan Administrative Committee in its sole discretion.

14.3. Right to Withhold Taxes. The Participating Employers shall have the right to withhold such amounts from any payment under this Plan as it determines necessary to fulfill any federal, state, or local wage or compensation withholding requirements.

14.4. No Right to Continued Employment. Neither the Plan, nor any action taken under the Plan, shall confer upon any Participant any right to continuance of employment by the Company or any of its affiliated companies nor shall it interfere in any way with the right of the Company or any of its affiliated companies to terminate any Participant's employment at any time.

14.5. Mental or Physical Incompetency. If the Plan Administrative Committee determines that any person entitled to payments under the Plan is incompetent by reason of physical or mental disability, as established by a court of competent jurisdiction, the Plan Administrative Committee may cause all payments thereafter becoming due to such person to be made to any other person for his or her benefit, without responsibility to follow the application of amounts so paid. Payments made pursuant to this Section shall completely discharge the Plan Administrative Committee and the Participating Employer.

14.6. Unclaimed Benefit. Each Participant shall keep the Plan Administrative Committee informed in writing of his or her current address and the current address of his or her beneficiary. The Plan Administrative Committee shall not be obligated to search for the whereabouts of any person. If the location of a Participant is not made known to the Plan Administrative Committee within three (3) years after the date on which payment of the Participant's Account may first be made, payment may be made as though the Participant had died at the end of the three (3) year period. If, within one additional year after such three (3) year period has elapsed, or, within three years after the actual death of a Participant, the Plan Administrative Committee is unable to locate any designated beneficiary of the Participant, then the Participating Employer shall have no further obligation to pay any benefit hereunder to such Participant or beneficiary or any other person and such benefit shall be irrevocably forfeited.

14.7. Suspension of Payments. If any controversy, doubt or disagreement should arise as to the person to whom any distribution or payment should be made, the Plan Administrative Committee, in its discretion, may, without any liability whatsoever, retain the funds involved or the sum in question pending settlement or resolution to the Plan Administrative Committee's satisfaction of the matter, or pending a final adjudication by a court of competent jurisdiction.

14.8. Governing Laws. The provisions of the Plan shall be construed, administered and enforced according to applicable Federal law and the laws of State of South Carolina.

14.9. Severability. The provisions of the Plan are severable. If any provision of the Plan is deemed legally or factually invalid or unenforceable to any extent or in any application, then the remainder of the provision and the Plan, except to such extent or in such application, shall not be affected, and each and every provision of the Plan shall be valid and enforceable to the fullest extent and in the broadest application permitted by law.

14.10. No Other Agreements or Understandings. This Plan represents the sole agreement between the Participating Employers and Participants concerning its subject matter, and it supersedes all prior agreements, arrangements, understandings, warranties, representations, and statements between or among the parties concerning its subject matter.

IN WITNESS WHEREOF, the Company has caused this Plan to be executed by it's duly authorized officer on this 22nd day of December, 2010.

SCANSOURCE, INC.
(the "Company")

By: Richard P. Cleys

Title: VP & CFO

ATTEST:

By: Amy Pharr

Title: Director, Compensation

APPENDIX A
Code Section 409A Transition Rules

1. Notwithstanding anything in the Plan to the contrary, a Participant who has made a deferral election with respect to Compensation earned or payable on or after January 1, 2005, may reduce or revoke any current deferral election prior to December 31, 2005 or such earlier date as may be specified by the Plan Administrative Committee.
2. Notwithstanding anything in the Plan to the contrary, a Participant may choose a new distribution date for the payment of his or her In-Service Distribution Sub-Account(s) and/or may make a new election with respect to the form of payment of the Account portion of his or her Separation from Service Sub-Account in accordance with the following rules:
 - (a) An election to change a time and form of payment of payment made on or after January 1, 2005 and on or before December 31, 2005 may apply only to amounts that would not otherwise be payable in 2005 and may not cause an amount to be paid in 2005 that would not otherwise be payable in 2005;
 - (b) An election to change a time and form of payment of payment made on or after January 1, 2006 and on or before December 31, 2006 may apply only to amounts that would not otherwise be payable in 2006 and may not cause an amount to be paid in 2006 that would not otherwise be payable in 2006;
 - (c) An election to change a time and form of payment of payment made on or after January 1, 2007 and on or before December 31, 2007 may apply only to amounts that would not otherwise be payable in 2007 and may not cause an amount to be paid in 2007 that would not otherwise be payable in 2007; and
 - (d) An election to change a time and form of payment of payment made on or after January 1, 2008 and on or before December 31, 2008 may apply only to amounts that would not otherwise be payable in 2008 and may not cause an amount to be paid in 2008 that would not otherwise be payable in 2008.
3. Any election pursuant to this Appendix shall be made in such form and manner as may be required by the Plan Administrative Committee.

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: November 2, 2012

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, Richard P. Cleys, 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/ Richard P. Cleys

Richard P. Cleys, Vice President and Chief Financial
Officer(Principal Financial Officer)

Date: November 2, 2012

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 quarter and nine months ended March 31, 2012 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: November 2, 2012

/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 quarter and nine months ended March 31, 2012 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: November 2, 2012

/s/ Richard P. Cleys

Richard P. Cleys,

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.

