

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

FORM 10-K

Annual Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934

For the fiscal year ended June 30, 2017

Commission File Number: 000-26926



ScanSource, Inc.
South Carolina
(State of incorporation)

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

6 Logue Court
Greenville, South Carolina 29615
(864) 288-2432

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

Title of Each Class

Name of Each Exchange on Which Registered

Common Stock, no par value

NASDAQ Global Select Market

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

None.

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

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

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).

Yes No

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

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

Large accelerated filer Accelerated filer

Non-accelerated filer Smaller reporting company
(Do not check if a smaller reporting company)

Emerging growth company

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

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

The aggregate market value of the voting common stock of the Registrant held by non-affiliates of the Registrant at December 31, 2016 was \$ 1,012,679,122 , as computed by reference to the closing price of such stock on such date.

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

Class

Outstanding at August 25, 2017

Common Stock, no par value per share

25,432,900 shares

DOCUMENTS INCORPORATED BY REFERENCE

The registrant has incorporated by reference into Part III of this report certain portions of its proxy statement for its 2017 Annual Meeting of Shareholders, which is expected to be filed pursuant to Regulation 14A within 120 days after the end of the registrant's fiscal year ended June 30, 2017 .

FORWARD-LOOKING STATEMENTS

The forward-looking statements included in the "Business," "Risk Factors," "Legal Proceedings," "Management's Discussion and Analysis of Financial Condition and Results of Operations," and "Quantitative and Qualitative Disclosures About Market Risk" sections and elsewhere herein. Words such as "expects," "anticipates," "believes," "intends," "plans," "hopes," "forecasts," "seeks," "estimates," "goals," "projects," "strategy," "future," "likely," "may," "should," and variations of such words and similar expressions generally identify such forward-looking statements. Any forward-looking statement made by us in this Form 10-K is based only on information currently available to us and speaks only as of the date on which it is made. Except as may be required by law, we expressly disclaim any obligation to update these forward-looking statements to reflect events or circumstances after the date of this Annual Report on Form 10-K, except as required by law. 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, changes in interest and exchange rates and regulatory regimes impacting our overseas operations, the failure of acquisitions to meet our expectations, the failure to manage and implement our organic growth strategy, credit risks involving our larger customers and vendors, termination of our relationship with key vendors or a significant modification of the terms under which we operate with a key vendor, the decline in demand for the products and services that we provide, reduced prices for the products and services that we provide due both to competitor and customer actions and the other factors set forth in "Risk Factors" contained herein.

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PART I

ITEM 1. Business.

ScanSource, Inc. was incorporated in South Carolina in 1992 and is a leading global provider of technology products and solutions. ScanSource, Inc. and its subsidiaries ("the Company") provide value-added solutions for technology vendors and sell to customers in the following specialty technology markets: POS and barcode, networking and security, communications, telecom and cloud services and emerging technologies.

We operate in the United States, Canada, Latin America and Europe. We sell products into the United States and Canada from our facilities located in Mississippi; into Latin America principally from facilities located in Florida, Mexico, Brazil, Colombia and Chile; and into Europe principally from facilities in Belgium, France, Germany and the United Kingdom.

Business Segments

Worldwide Barcode, Networking & Security Segment

The Worldwide Barcode, Networking & Security segment focuses on automatic identification and data capture ("AIDC"), point-of-sale ("POS"), networking, electronic physical security, 3D printing technologies and other specialty technologies. We have business units within this segment in North America, Latin America and Europe. We see adjacencies among these technologies in helping our customers develop solutions, such as with networking products. AIDC and POS products interface with computer systems used to automate the collection, processing and communication of information for commercial and industrial applications, including retail sales, distribution, shipping, inventory control, materials handling, warehouse management and health care applications. Electronic physical security products include identification, access control, video surveillance, intrusion-related and wireless and networking infrastructure products. 3D printing solutions replace and complement traditional methods and reduce the time and cost of designing new products by printing real parts directly from digital input.

Worldwide Communications & Services Segment

The Worldwide Communications & Services segment focuses on communications technologies and services. We have business units within this segment that offer voice, video conferencing, wireless, data networking, cable, collaboration, converged communications solutions, cloud and technology services. In this segment, we operate in North America, Latin America and Europe. As these solutions come together on IP networks, new opportunities are created to move into adjacent solutions for all vertical markets, such as education, healthcare and government. Our teams deliver value-added support programs and services, including education and training, network assessments, custom configuration, implementation and marketing to help customers develop a new technology practice, or to extend their capability and reach.

Products and Markets

We currently market approximately 100,000 products from over 500 hardware, software and service vendors to approximately 34,000 customers from distribution centers in Mississippi, Florida, Mexico, Brazil, Colombia, Chile, Belgium, France, Germany and the United Kingdom.

The Worldwide Barcode, Networking & Security segment focuses on AIDC, POS, networking and security.

- AIDC technology incorporates the capabilities for electronic identification and data processing without the need for manual input and consists of a wide range of products that include portable data collection terminals, wireless products, bar code label printers and scanners. As AIDC technology has become more pervasive, applications have evolved from traditional uses such as inventory control, materials handling, distribution, shipping and warehouse management to more advanced applications, such as health care.
- POS products include those computer-based systems that have replaced electronic cash registers in grocery, retail and hospitality environments. POS product lines include computer-based terminals, monitors, payment processing solutions, receipt printers, pole displays, cash drawers, keyboards, peripheral equipment and fully integrated processing units. In addition, ScanSource POS and Barcode business units sell products that attach to the POS network in the store, including kiosks, network access points, routers and digital signage.

- Electronic physical security products include identification, access control, video surveillance and intrusion-related products, and networking infrastructure. Physical security products are used every day across every vertical market to protect lives, property and information. These technology products require specialized knowledge to deploy effectively, and ScanSource Security offers in-depth training and education to its partners to enable them to maintain the appropriate skill levels.

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

- Communications technologies, such as voice and data products include private branch exchanges ("PBXs"), key systems, telephone handsets and components used in voice, fax, data, voice recognition, call center management and IP communication applications. Converged communication products combine voice, data, fax and speech technologies to deliver communications solutions that combine computers, telecommunications and the Internet. Converged communications products include telephone and IP network interfaces, Voice over Internet Protocol ("VoIP") systems, PBX integration products and carrier-class board systems-level products. Video products include video and voice conferencing and network systems; and data networking products include switches, servers and routers.
- Our service teams deliver value-added support programs, including education and training, customer configuration, marketing services, network assessments, WiFi services, and partnership programs. Service teams focus on reducing complexity, building efficiency and helping our customers to develop a new technology practice or to extend their capability and reach.
- A master agent provides telecommunications network and cloud services and focuses on empowering and educating the channel through assisting business telecom and cloud technologies customers in making informed choices about services, technology and cost savings.

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

Vendors

We provide the products of approximately 500 vendors, including Aruba/HPE, Axis, AudioCodes, Avaya, Barco, Bematech, Brocade/Ruckus Wireless, CenturyLink, Cisco, Comcast Business, Datalogic, Dell, Dialogic, Elo, Epson, Hanwha, Honeywell, HID, Ingenico, Jabra, Level 3, March Networks, Mitel, NCR, Oracle, Panasonic, Plantronics, Polycom, Samsung, ShoreTel, Sony, Spectralink, Toshiba Global Commerce Solutions, Ubiquiti, Unify, Verifone, Verizon, Windstream, XO and Zebra Technologies.

We provide products for many of our key vendors in all of our geographic markets; however, certain vendors only allow distribution to specific geographies. We typically purchase products directly from the vendor on a non-exclusive basis. Our agreements with our vendors generally do not restrict us from selling similar or comparable products manufactured by competitors. We have the flexibility to terminate or curtail sales of one product line in favor of another due to technological change, pricing considerations, product availability, customer demand or vendor distribution policies.

Three vendors, Avaya, Cisco, and Zebra, each constituted more than 10% of our net sales for the fiscal year ended June 30, 2017 .

- We have two non-exclusive agreements with Avaya. One agreement covers the distribution of Avaya products in the United States and Latin America, and the other agreement covers distribution of Avaya products in the United Kingdom and portions of continental Europe. Our Avaya agreements each have a one year term that automatically renews for additional one year terms. Either party may terminate upon 180 days' notice for the United States and Latin America agreement and upon 90 days' for the European agreement.
- We have three non-exclusive agreements with Cisco. One agreement covers the distribution of Cisco products in the United States for our KBZ business and has a three year term; one agreement covers distribution of Cisco products in the United States for the ScanSource business and has a two year term; and one agreement covers distribution of products in Brazil and has a two year term. Each of these agreements must be renewed by written agreement. Either party may terminate the agreement upon 30 days' notice to the other party.

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

In addition to the agreements mentioned above, we have written agreements with almost all of our vendors. These agreements generally provide us with non-exclusive distribution rights and often include territorial restrictions that limit the countries in which we can distribute our products. Our agreements are generally short-term, subject to periodic renewal, and provide for termination by either party without cause upon 30 to 120 days' notice. These agreements typically provide us with stock rotation and price protection provisions. Stock rotation rights give us the ability, subject to limitations, to return, for credit, or exchange a portion of the items purchased. Price protection rights enable us to take a credit for declines in inventory value resulting from the vendor's price reductions. Along with our inventory management policies and practices, these provisions are designed to reduce our risk of loss due to slow-moving inventory, vendor price reductions, product updates and obsolescence.

We participate in various rebate, cash discount and cooperative marketing programs offered by our vendors to support expenses associated with selling and marketing the vendors' products. These rebates and purchase discounts are generally influenced by sales volumes and are subject to change.

Our vendors generally warrant the products we sell and allow returns of defective products, including those returned to us by our customers. In three of our product lines, we offer a self-branded warranty program. We purchase contracts from unrelated third parties, generally the original equipment manufacturers, to fulfill any obligation to service or replace defective product claimed on these warranty programs. To maintain customer relations, we also facilitate returns of defective products from our customers by accepting for exchange, with our prior approval, most defective products within 30 days of invoicing. In addition, local laws may in some cases impose warranty obligations on the Company.

Customers

We currently have approximately 34,000 active customers located in the United States, Canada, Latin America and Europe. No single customer accounted for more than 5% of our total net sales for the fiscal year ended June 30, 2017. We generally target resellers, including specialty technology VARs, direct marketers, Information Technology ("IT") system integrators and service providers.

Specialty Technology VARs

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

Direct Marketers

These customers provide a very broad range of technology brands to business, government, education and healthcare markets. They have strong relationships with end users, and are seeking additional revenue and profit opportunities in specialty technology markets such as AIDC, POS, physical security, or communications.

IT System Integrators

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

Service Providers

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

services within various geographies. Sales agents focus on selling telecommunications and cloud services to end-users, ensuring end-users are making informed choices about various services, technologies and cost savings.

Competition

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

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

In our Worldwide Barcode, Networking & Security segment, we compete with broad-line distributors, such as Ingram Micro, Synnex and Tech Data in most geographic areas, and more specialized security distributors, such as ADI and Anixter. Additionally, we also compete against other smaller, more specialized AIDC and POS distributors, such as Azerty, BlueStar, Jarltech and Nimax. In our Worldwide Communications & Services segment, we compete against broad-line distributors, such as Ingram Micro, Synnex and Tech Data, and more specialized distributors, such as Jenne and Westcon. As we seek to expand our business into other areas closely related to our offerings, we may encounter increased competition from current competitors and/or from new competitors, some of which may be our current customers.

Sales and Electronic Commerce

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

Increasingly, customers are relying upon our electronic ordering and information systems as sources for product information, including availability and price. Through our websites, most customers can gain remote access to our information systems to check real-time product availability, see their customized pricing and place orders. Customers can also follow the status of their orders and obtain package tracking details.

Marketing

We market our products and services through a range of channels, including digital campaigns, such as search engine optimization, search engine marketing, content marketing, content automation, e-commerce, social media optimization, email direct marketing, and online product catalogs for each of the North American, European, and Latin American markets. Additional marketing activities include periodic newsletters, management of sales leads, trade shows with hardware/software companies and vendors, and sales promotions. We also organize and operate our own training and certification courses - working closely with top vendors to recruit prospective customers and introduce new applications for the specialty technology products we distribute. We frequently customize our marketing for vendors and customers.

Value-Added Services

We differentiate the Company by providing our customers and our vendors an array of pre-sale business tools and value-added services, including logistics, financial services, product configuration tools, sales expertise, and technical support. These services allow our customers to gain knowledge on marketing, to gain expertise in selling and negotiation, to improve customer service, to grow their business profitably and to be more cost effective in their business. Our business is enhanced by our ability and our willingness to provide the extra service that keeps both our vendors and our customers satisfied.

Operations

Information Systems

We are in the process of continuing to roll-out a new, global SAP information system designed to replace the current existing systems. This new system is currently operating in North America, most of Europe and Latin America, excluding Brazil. Our information systems (including the new SAP system) are scalable and capable of supporting numerous operational functions including purchasing, receiving, order processing, shipping, inventory management and accounting. Sales representatives rely on the information systems for on-line, real-time information on product pricing, inventory availability and reservation, and order status. Our warehouse operations use bar code technology for receiving and shipping, and automated systems for freight processing and shipment tracking, each of which is integrated with our multiple information systems. The customer service and technical support departments employ the systems for documentation and faster processing of customer inquiries. To ensure that adequate inventory levels are maintained, our buyers depend on the system's purchasing and receiving functions to track inventory on a continual basis.

Warehouse and Shipping Strategy

We operate a 741,000 square foot distribution center in Southaven, Mississippi, which is located near the FedEx hub facility in Memphis, Tennessee, and serves primarily all of North America. Our European operations utilize a limited number of distribution centers located in Belgium, France, Germany and the United Kingdom. Warehouses for our Latin American operations are located in Florida, Mexico, Brazil, Colombia and Chile. Our objective is to ship all orders on the same day, using technology to expedite shipments and minimize shipping errors. We offer reduced freight rates and flexible delivery options to minimize a customers's need for inventory.

Financial Services

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

Employees

As of June 30, 2017, we had over 2,000 employees located in the United States, Canada, Latin America and Europe. We have no organized labor or trade unions in the United States. We consider our employee relations to be good.

Service Marks

We conduct our business under the trade names "ScanSource POS and Barcode," "ScanSource Catalyst," "ScanSource Communications," "ScanSource Services," "ScanSource Networking and Security," "ScanSource KBZ," "ScanSource Europe," "ScanSource Europe Communications," "ScanSource Latin America," "ScanSource de Mexico," "ScanSource Brasil," "ScanSource Imago," "Network1, a ScanSource company," "Intelisys" and "POS Portal."

Certain of our trademarks and service marks are registered, or are in the process of being registered, in the United States and various other countries. We have been issued registrations for the marks including, among others, "ScanSource," "Catalyst Telecom," and "Network1" in countries in our principal markets. Even though our marks are not registered in every country where we conduct business, in many cases we have acquired rights in those marks because of our continued use of them. These marks do not have value assigned to them and have a designated indefinite life. We do not believe that our operations are dependent upon any of our marks. We also sell products and provide services under various trademarks and service marks to which reference is made in this report that are the property of owners other than the Company.

Additional Information

Our principal internet address is www.scansource.com. The information contained on, or that can be accessed through, our website is not incorporated by reference into this annual report. We provide our annual reports on Form 10-K, quarterly reports on Form 10-Q and current reports on Form 8-K, and all amendments to those reports, free of charge on www.scansource.com, as soon as reasonably practicable after they are electronically filed with, or furnished to, the Securities and Exchange Commission ("SEC").

ITEM 1A. Risk Factors.

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

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

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

Our ability to successfully manage our growth will require continued enhancement of our operational, managerial and financial resources and controls. Our failure to effectively manage our growth would have an adverse effect on our business, financial condition or results of operations.

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

We have acquired, and expect to continue to acquire, companies that complement or expand our existing business in the United States and internationally, and some of these acquisitions may be in lines of business where we have little, if any, experience. Acquisitions entail a number of risks, including that the acquired company will not perform as expected and that we will be responsible for unexpected costs or liabilities. In addition, increases in the size and complexity of our business place a significant strain on our management, operations, technical performance, financial resources and internal financial control and reporting functions, and there are no assurances that we will be able to manage the acquisition process or newly acquired companies effectively. Our personnel, systems, procedures and controls may not be adequate to effectively manage our future operations, especially as we employ personnel in multiple domestic and international locations. We may not be able to hire, train, retain and manage the personnel required to address our growth. Failure to effectively manage our growth opportunities could damage our reputation, limit our future growth, negatively affect our operating results and harm our business.

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

We currently have significant facilities outside the United States, and a significant portion of our revenue is derived from our international operations. These operations are subject to a variety of risks that are different from the risks that we face domestically or are similar risks but with potentially greater exposure. These risks include:

- Fluctuations of foreign currency and exchange rates, which can impact sales, costs of the goods we sell and the reporting of our results and assets on our financial statements;
- Difficulties in collecting accounts receivable and longer collection periods;
- Changes in, or expiration of, various foreign incentives that provide economic benefits to us;
- Labor laws that impact our ability to hire, retain and discharge employees;
- Difficulties in staffing and managing operations in foreign countries;
- Changes in international trade laws, such as the North American Free Trade Agreement, affecting our import and export activities, including export license requirements, restrictions on the export of certain technology and tariff changes;
- Changes in the interpretation and enforcement of laws (in particular related to items such as duty and taxation);
- Global economic and financial market instability related to the U.K.'s referendum withdrawal from the E.U.;
- Potential political and economic instability and changes in governments;
- Compliance with foreign and domestic import and export regulations and anti-corruption laws, including the Iran Threat Reduction and Syria Human Rights Act of 2012, U.S. Foreign Corrupt Practices Act and similar laws of other jurisdictions, governing our business activities outside the United States, the violation of which could result in severe penalties, including monetary fines, criminal proceedings and suspension of export or import privileges; and
- Terrorist or military actions that result in destruction or seizure of our assets or suspension or disruption of our operations or those of our customers.

We currently transact business in the U.K., where we also have offices and a distribution center, and in key E.U. markets. A majority of U.K. voters voted for the U.K. to exit the E.U. ("Brexit"). Negotiations are expected to commence to determine the future terms of the U.K.'s relationship with the E.U., including the terms of trade between the U.K. and the E.U. and the rest of the world. The effects of Brexit will depend on any agreements the U.K. makes to retain access to E.U. markets either during a transitional period or more permanently. The measures could potentially disrupt the markets we serve and the tax jurisdictions in which we operate and adversely change tax benefits or liabilities in these or other jurisdictions, and may cause us to lose customers, suppliers and employees.

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

We have substantial operations in Brazil and other Latin American countries and face risks related to these country's complex tax, labor, trade compliance and consumer protection laws and regulations. Additionally, developing markets such as Brazil, Chile, Colombia, Mexico and Peru have greater political volatility, greater vulnerability to infrastructure and labor disruptions, are more likely than developed economies to experience market, currency and interest rate fluctuations and may have higher inflation. In addition, doing business in these countries poses additional challenges, such as finding and retaining qualified employees, particularly management-level employees, underdeveloped infrastructure and identifying and retaining qualified suppliers and service providers, among other risks. Furthermore, in developing markets it may be common for others to engage in business practices prohibited by laws and regulations applicable to us, such as the U.S. Foreign Corrupt Practices Act or similar local anti-bribery laws. Our commitment to compliance with these laws could put us at a competitive disadvantage, and any lapses in our compliance could subject us to civil and criminal penalties that could materially and adversely affect our financial condition and results of operations.

In addition, competition in developing markets is increasing as our competitors grow their global operations. Our success in integrating our Brazilian and additional Latin American operations is critical to our growth strategy. If we cannot successfully increase our business in these countries, our product sales, financial condition and results of operations could be materially and adversely affected.

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

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

While we evaluate our customers' qualifications for credit and monitor our extensions of credit, and in some instances purchase credit insurance, these efforts cannot prevent all credit losses, and credit losses negatively impact our performance. In addition, for financial reporting purposes, we estimate future credit losses and establish reserves. To the extent that our credit losses exceed

those reserves, our financial performance will be negatively impacted beyond what is expected. If there is deterioration in the collectability of our receivables, or if we are unable to collect under credit insurance policies, or we fail to take other actions to adequately mitigate such credit risk, our earnings, cash flows and our ability to utilize receivable-based financing could deteriorate.

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

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

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

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

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

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

In addition, our dependence on a limited number of vendors leaves us vulnerable to having an inadequate supply of required products, price increases, late deliveries and poor product quality. Like other distributors in our industry, we occasionally experience shortages and are unable to purchase our desired volume of products. Increasingly, our vendors are combining and merging together, leaving us with fewer alternative sources. If we are unable to maintain an adequate supply of products, or if vendors do not regularly invest in, introduce to us, and/or make new products available to us for distribution, our revenue and gross profit could suffer considerably. Finally, we cannot provide any assurance that particular products, or product lines, will be available to us, or available in quantities sufficient to meet customer demand. Any limits to product access could materially and adversely affect our business and results of operations.

On January 19, 2017, Avaya Inc. (“Avaya”) filed for protection under Chapter 11 of the U.S. Bankruptcy Code. Avaya is one of our largest vendors, and while we expect Avaya to reorganize under the Bankruptcy Code and for our relationship with Avaya to continue consistent with past practices, the bankruptcy process entails numerous uncertainties and it is possible that Avaya will not be able to successfully reorganize, or that the bankruptcy will result in a loss of customer confidence that will negatively impact sales. Any such adverse outcome could have an adverse effect on our business, results of operations and financial condition.

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

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

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

As a result of intense price competition in our industry, our gross margins and our operating profit margins have historically been narrow, and we expect them to be narrow in the future. To remain competitive, we may be forced to offer more credit or extended payment terms to our customers. This could result in an increase in our need for capital, increase our financing costs, increase our bad debt expenses and have a negative impact on our financial results. We do not offer any assurance that we will not lose market share, or that we will not be forced in the future to reduce our prices in response to the action of our competitors and thereby experience a reduction in our gross margins. We expect continued intense competition as current competitors expand their operations and new competitors enter the market. Our inability to compete successfully against current and future competitors could cause our revenue and earnings to decline.

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

Meeting our customers' needs quickly and fairly is critical to our business success. Our transactions with our customers are generally performed on a purchase order basis rather than under long term supply agreements. Therefore, our customers can readily choose to purchase from other sources. From time to time, we experience shortages in availability of some products from vendors, and this impacts our customers' decisions regarding whether to make purchases from us. Anything that negatively impacts our customer relations also can negatively impact our operating results. Accordingly, our sales can vary as a result of fluctuations in pricing, product availability, purchasing patterns of end-users and general competitive and economic conditions.

Customer consolidation may also lead to changes in the nature and terms of relationships with our customers. The loss or deterioration of a major customer relationship would adversely affect our business, results of operations and financial condition.

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

We are highly dependent upon a variety of internal computer and telecommunication systems to operate our business, including our enterprise resource planning ("ERP") systems. In order to continue support of our growth, we are making significant technological upgrades to our information systems. This is a lengthy and expensive process that has resulted, and will continue to result in a diversion of resources from other operations.

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

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

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

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

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

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

Economic weakness - Economic weakness and geopolitical uncertainty could adversely affect our results and prospects.

Our financial results, operations and prospects depend significantly on worldwide economic and geopolitical conditions, the demand for our products and services, and the financial condition of our customers and suppliers. Economic weakness and geopolitical uncertainty have in the past resulted, and may result in the future, in reduced demand for products resulting in decreased sales, margins and earnings. Economic weakness and geopolitical uncertainty may also lead us to impair assets, including goodwill, intangible assets and other long-lived assets, take restructuring actions and reduce expenses in response to decreased sales or margins. We may not be able to adequately adjust our cost structure in a timely fashion, which may adversely impact our profitability. Uncertainty about economic conditions may increase foreign currency volatility in markets in which we transacts business, which may negatively impact our results. Economic weakness and geopolitical uncertainty also make it more difficult for us to manage inventory levels and/or collect customer receivables, which may result in provisions to create reserves, write-offs, reduced access to liquidity and higher financing costs.

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

Our operating results could be adversely affected by increased competition for employees, higher employee turnover or increased salary and benefit costs. Like most businesses, our employees are important to our success and we are dependent in part on our ability to retain the services of our key management, sales, IT, operational, finance and administrative personnel. We have built our business on a set of core values, and we attempt to hire employees who are committed to these values. We want to hire and retain employees who will fit our culture of providing exceptional service to our vendors and customers. In order to compete and to continue to grow, we must attract, retain and motivate employees, including those in executive, senior management, sales,

marketing, logistics, technical support and other operating positions. Our worldwide management structure provides improved management of our operations and improved succession planning within our organization.

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

Disruptive technology - We may not be able to respond and adapt to rapid technological changes, evolving industry standards or changing customer needs or requirements, and thus may become less competitive.

Our ability to react quickly to new technology trends and customer requirements is crucial to our overall success, financial condition and results of operations. If we fail to evolve our product offerings or engage with desirable vendors in time to respond to, and remain ahead of, new technological developments, it would adversely affect our ability to retain or increase market share and revenues. New technologies may emerge that quickly surpass the capabilities of the products we currently hold in inventory or have access to sell through our existing vendor network, and our customers may no longer view our product offerings as desirable or necessary, which could result in a reduction in our market share and ability to obtain sufficient profit margins. Some of our competitors and our vendors' competitors may be more nimble in adapting to disruptive technology or entering new markets. Our future success depends on our ability to adapt and manage our product offerings to meet customer needs at prices that our customers are willing to pay.

Foreign currency - Our international operations expose us to fluctuations in foreign currency exchange rates that could adversely affect our results of operations.

We transact sales, pay expenses, own assets and incur liabilities in countries using currencies other than the U.S. dollar. Volatility in foreign exchange rates increase our risk of loss related to products purchased in a currency other than the currency in which those products are sold. We maintain policies to reduce our net exposure to foreign currency exchange rate fluctuations through the use of derivative financial instruments, however there can be no assurance that fluctuations in foreign currency exchange rates will not materially affect our financial results. Because our consolidated financial statements are presented in U.S. dollars, we must translate our financial statements into U.S. dollars at exchange rates in effect during each reporting period. Therefore, increases or decreases in the exchanges rates between the U.S. dollar and other currencies we transact in may positively or negatively affect our results of operations. In addition, unexpected and dramatic changes in foreign currency exchange rates may negatively affect our earnings from those markets.

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

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

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

Our business, like that of other distributors, is subject to the risk that the value of our inventory will be adversely affected by price reductions by manufacturers, by technological changes affecting the usefulness or desirability of our products or by foreign currency fluctuations. Under the terms of most of our vendor agreements and the policy of most manufacturers of specialty technology products, we have some price protection and stock rotation opportunities with respect to slow-moving or obsolete inventory items. However, these protections are limited in scope and do not protect against all declines in inventory value, excess inventory, or product obsolescence, and in some instances we may not be able to fulfill all necessary conditions or successfully manage such price protection or stock rotation opportunities. In addition, these industry practices are sometimes not reflected in vendor agreements and their application in a particular situation is dependent upon negotiations between our vendors and us. As a result,

from time-to-time we are required to write down the value of excess and obsolete inventory, and should any of these write-downs occur at a significant level, they could have an adverse effect on our business, financial condition or results of operations.

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

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

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

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

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

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

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

Increased government scrutiny - We may be subject to additional costs and subject to fines and penalties because certain governmental entities are end-users of products that we sell.

Certain of our customers sell our products to United States government entities, which require us to comply with additional laws, regulations, or contractual requirements relating to how we conduct business. In complying with these laws, regulations, and other requirements, we may incur additional costs, and non-compliance may also allow for the assignment of fines and penalties, including contractual damages or the loss of certain contracts or business. We may also be subject to increased scrutiny and investigation into our business practices, which may increase operating costs and increase legal liability, as well as expose us to additional risk surrounding our reputation.

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

We have structured several of our acquisitions with upfront payments and additional earnout payments. In accordance with ASC 805, Business Combinations, a liability for the contingent consideration driven by an earn-out must be recorded at the onset of the purchase and must be revalued at every reporting period. Changes in the fair value of the liability are recorded as an adjustment to operating income. These changes can occur due to changes in estimated future financial results, the probabilities of achieving these results, the discount rate reflective of our creditworthiness and the market risk premium associated with the Brazilian market. Both gains and losses can occur due to changes in these fair value estimates, thus increasing volatility of our earnings.

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

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

We have substantial goodwill. We test our goodwill for impairment in the fourth quarter of each year for all reporting units, or more frequently if events occur or circumstances change that would warrant such a review. We were not required to record an impairment charge with respect to our goodwill within the past three years. However, in the future, the fair value of one of our reporting units may decrease below its carrying amount and future goodwill impairments that may be material could be recognized. Any declines resulting in a goodwill impairment or long-lived asset impairment may result in material non-cash charges to our earnings. Impairment charges would also reduce our consolidated shareholders' equity and increase our debt-to-total-capitalization ratio, which could negatively impact our credit rating and access to the public debt and equity markets.

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

We are subject to various federal, state, local and foreign laws and regulations addressing environmental and other impacts from product disposal, use of hazardous materials in products, recycling of products at the end of their useful life and other related matters. Compliance with these environmental laws may have a material adverse effect on our business. These laws include the Restriction of Hazardous Substances Directive, ("RoHS"), RoHS Directive 2011/65/EU ("RoHS 2") and the European Union Waste Electrical and Electronic Equipment Directive ("WEEE") as enacted by individual European Union countries and other similar legislation adopted in North America. These directives can make companies involved in the production or distribution of electrical goods, including computers and printers, responsible for collection, recycling, treatment and disposal of recovered products. In addition, these directives and similar legislation can have an impact on the types and design of products we are able to sell in jurisdictions that have adopted such restrictions. While we strive to ensure we are in compliance with all applicable regulations, certain of these regulations impose strict liability. Additionally, we may be held responsible for the prior activities of entities that we have acquired or will acquire in the future. Failure to comply with these regulations could result in substantial costs, fines and civil or criminal sanctions, as well as third party claims for property damage or personal injury. Further, environmental laws may become more stringent over time, imposing greater compliance costs and increasing risks and penalties associated with violation, which could adversely affect our business, financial position or results of operations.

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

Our net sales and operating results may fluctuate quarterly and, as a result our performance in one period may vary significantly from our performance in the preceding quarter, and may differ significantly from our forecast of performance from quarter to quarter. The impact of these variances may cause volatility in our stock price. Additionally, any past financial performance should not be considered an indicator of future performance, and investors should not use historical trends to anticipate results or trends in the future as our operating results may fluctuate significantly quarter to quarter. The results of any quarterly period are not indicative of results to be expected for a full fiscal year.

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

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

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

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

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

ITEM 1B. Unresolved Staff Comments.

Not applicable.

ITEM 2. Properties.

Our fixed assets include office space and warehouses. Our principal locations and/or properties as of June 30, 2017, were as follows:

Location	Approximate Square Footage	Type of Interest	Description of Use
<i>United States</i>			
Greenville, SC	180,000	Owned	Headquarters - Principal Executive and Sales Offices
Southaven, MS	741,000	Leased	Warehouse
Miami, FL	29,000	Leased	Sales Office and Warehouse
Petaluma, CA	17,000	Leased	Sales and Administration Offices
<i>International</i>			
Mexico City, Mexico	25,000	Leased	Sales Office and Warehouse
Coignieres, France	15,000	Leased	Sales Office and Warehouse
Mainz, Germany	16,000	Leased	Sales Office and Warehouse
Brussels, Belgium	28,000	Leased	Sales and Administration Offices
Sao Jose does Pinhais, Brazil	24,000	Leased	Sales Office and Warehouse
Serra, Espirito Santo, Brazil	26,000	Leased	Sales Office and Warehouse
Itajai, Santa Catarina, Brazil	164,000	Leased	Sales Office and Warehouse

Of the 180,000 owned square footage in Greenville, South Carolina approximately 40,000 square feet is subleased to an unrelated third party. Our primary North American distribution operations are located in Southaven, Mississippi. We utilize the logistical

services of various third party warehouses in the United States and internationally. We also lease various sales offices and warehouse spaces, each approximately 15,000 square feet or less throughout the United States and international locations.

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

ITEM 3. Legal Proceedings.

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

ITEM 4. Mine Safety Disclosures.

Not applicable.

PART II

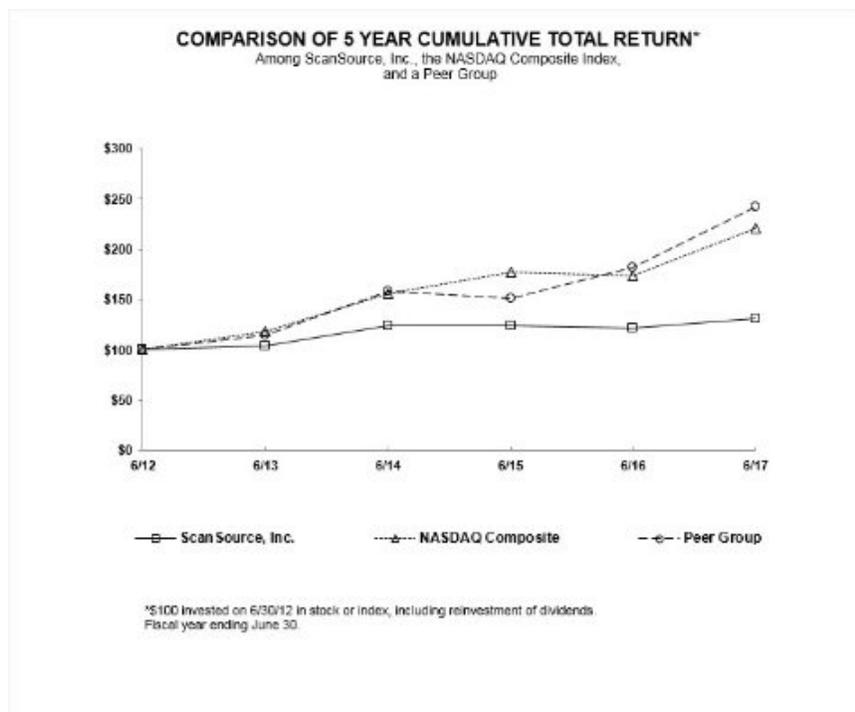
ITEM 5. Market for Registrant’s Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities.

Our common stock is quoted on the NASDAQ Global Select Market under the symbol "SCSC." We have never declared or paid a cash dividend since inception. Under the terms of our revolving credit facility, the payment of cash dividends is restricted. As of August 29, 2017, there were approximately 550 holders of record of our common stock. The following table sets forth, for the periods indicated, the high and low sales prices of our common stock on the NASDAQ Global Select Market.

	High	Low
Fiscal Year 2017		
First quarter	\$ 43.49	\$ 33.89
Second quarter	41.70	29.05
Third quarter	44.95	38.35
Fourth quarter	41.95	37.05
Fiscal Year 2016		
First quarter	\$ 39.03	\$ 29.53
Second quarter	41.18	32.17
Third quarter	40.48	27.46
Fourth quarter	42.54	35.57

Stock Performance Chart

The following stock performance graph compares cumulative total shareholder return on our common stock over a five-year period with the Nasdaq Market Index and with the Standard Industrial Classification ("SIC") Code Index (SIC Code 5045 – Wholesale Computers and Peripheral Equipment and Software) for the same period. Total shareholder return represents stock price changes and assumes the reinvestment of dividends. The graph assumes the investment of \$100 on June 30, 2012.



	2012	2013	2014	2015	2016	2017
ScanSource, Inc.	\$ 100	\$ 104	\$ 124	\$ 124	\$ 121	\$ 132
NASDAQ Composite	\$ 100	\$ 118	\$ 156	\$ 177	\$ 173	\$ 221
SIC Code 5045 – Computers & Peripheral Equipment	\$ 100	\$ 114	\$ 158	\$ 151	\$ 182	\$ 242

Unregistered Sales of Equity Securities and Use of Proceeds

On August 29, 2016, we announced our Board of Directors' authorization to repurchase shares up to \$120 million of our common stock for up to three years. During the year ended June 30, 2017, we repurchased shares of our common stock as follows:

Period	Total number of shares purchased	Average price paid per share	Total number of shares purchased as part of the publicly announced plan or program	Approximate dollar value of shares that may yet be purchased under the plan or program
September 1, 2016 through September 30, 2016	477,113	\$ 35.35	477,113	\$ 103,133,794
November 1, 2016 through November 30, 2016	100,530	\$ 34.51	100,530	\$ 99,664,707
Total	577,643	\$ 35.20	577,643	\$ 99,664,707

ITEM 6. Selected Financial Data.

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

FIVE YEAR FINANCIAL SUMMARY

	Fiscal Year Ended June 30,				
	2017	2016	2015	2014	2013
	<i>(in thousands, except per share data)</i>				
Statement of income data:					
Net sales	\$ 3,568,186	\$ 3,540,226	\$ 3,218,626	\$ 2,913,634	\$ 2,876,964
Cost of goods sold	3,184,590	3,184,786	2,891,536	2,612,535	2,584,090
Gross profit	383,596	355,440	327,090	301,099	292,874
Selling, general and administrative expenses	265,178	240,115	210,985	185,116	182,759
Depreciation expense	9,444	7,326	5,356	3,496	3,602
Intangible amortization expense	15,524	9,828	6,641	3,880	4,855
Impairment charges (legal recovery)	—	—	—	(15,490)	48,772
Change in fair value of contingent consideration	5,211	1,294	2,667	2,311	1,843
Operating income	88,239	96,877	101,441	121,786	51,043
Interest expense	3,215	2,124	1,797	731	775
Interest income	(5,329)	(3,448)	(2,638)	(2,364)	(2,238)
Other (income) expense, net	(11,142)	2,191	2,376	312	(520)
Income before income taxes	101,495	96,010	99,906	123,107	53,026
Provision for income taxes	32,249	32,391	34,487	41,318	18,364
Net income	\$ 69,246	\$ 63,619	\$ 65,419	\$ 81,789	\$ 34,662
Net income per common share, basic	\$ 2.74	\$ 2.40	\$ 2.29	\$ 2.89	\$ 1.25
Weighted-average shares outstanding, basic	25,318	26,472	28,558	28,337	27,774
Net income per common share, diluted	\$ 2.71	\$ 2.38	\$ 2.27	\$ 2.86	\$ 1.24
Weighted-average shares outstanding, diluted	25,515	26,687	28,799	28,602	27,994

	As of June 30,				
	2017	2016	2015	2014	2013
	<i>(in thousands)</i>				
Balance sheet data:					
Working capital	\$ 624,748	\$ 643,793	\$ 645,398	\$ 715,850	\$ 614,378
Total assets	1,718,303	1,491,185	1,476,941	1,335,124	1,164,183
Total long-term debt (including current debt)	97,300	76,856	8,826	5,429	5,429
Total shareholders' equity	\$ 837,145	\$ 774,496	\$ 808,985	\$ 802,643	\$ 695,956

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

Overview

ScanSource, Inc. is a leading global provider of technology products and solutions. ScanSource, Inc. and its subsidiaries (the "Company") provide value-added solutions for over 500 technology vendors and sell to approximately 34,000 customers in the following specialty technology markets: POS and barcode, networking and security, communications, telecom and cloud services, and emerging technologies.

We operate our business under a management structure that enhances our worldwide technology market focus and growth strategy. As a part of this structure, ScanSource has two technology segments, each with its own president or co-presidents: Worldwide Barcode, Networking & Security and Worldwide Communications & Services.

We operate in the United States, Canada, Latin America and Europe. We sell products into the United States and Canada from its facilities located in Mississippi; into Latin America principally from facilities located in Florida, Mexico, Brazil, Colombia and Chile; and into Europe principally from facilities in Belgium, France, Germany and the United Kingdom.

Our key vendors include Aruba/HPE, Axis, AudioCodes, Avaya, Barco, Bematech, Brocade/Ruckus Wireless, CenturyLink, Cisco, Comcast Business, Datalogic, Dell, Dialogic, Elo, Epson, Extreme, Hanwha, Honeywell, HID, HP, Ingenico, Jabra, Level 3, March Networks, Mitel, NCR, Oracle, Panasonic, Plantronics, Polycom, Samsung, ShoreTel, Sony, Spectralink, Toshiba Global Commerce Solutions, Ubiquiti, Unify, Verifone, Verizon, Windstream, XO and Zebra Technologies.

Recent Developments

On July 31, 2017 we acquired substantially all the assets of POS Portal, a leading provider of payment devices and services primarily to the SMB market segment in the United States. POS Portal joined our Worldwide Barcode, Networking & Security operating segment. With the addition of POS Portal, we intend to create the industry's leading payments channel, ensuring customers have access to the solutions, services and support that can help them be successful.

Our Strategy

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

Cost Control/Profitability

Our operating income is driven by gross profits and by a disciplined control of operating expenses. Our operations feature scalable information systems, streamlined management and centralized distribution, enabling us to achieve the economies of scale necessary for cost-effective order fulfillment. From inception, we have managed our general and administrative expenses by maintaining strong cost controls. However, in order to continue to grow in our markets, we have continued to invest in new technologies and increased marketing efforts to recruit new customers.

Results of Operations

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

	Fiscal Year Ended June 30,		
	2017	2016	2015
Statement of income data:			
Net sales	100.0 %	100.0 %	100.0 %
Cost of goods sold	89.2	90.0	89.8
Gross profit	10.8	10.0	10.2
Selling, general and administrative expenses, net of amortization expense	7.4	6.8	6.6
Depreciation expense	0.3	0.2	0.2
Intangible amortization expense	0.4	0.3	0.2
Change in fair value of contingent consideration	0.1	0.0	0.1
Operating income	2.5	2.7	3.2
Interest expense (income), net	(0.1)	0.0	0.0
Other expense (income), net	(0.3)	0.1	0.1
Income before income taxes and minority interest	2.8	2.7	3.1
Provision for income taxes	0.9	0.9	1.1
Net income	1.9 %	1.8 %	2.0 %

Comparison of Fiscal Years Ended June 30, 2017, 2016 and 2015

During the current year, we elected to transition a portion of our Latin American business from the Worldwide Barcode, Networking & Security segment to the Worldwide Communications & Services segment. We have reclassified prior period results for each business segment to provide comparable information.

Net Sales

We have two reportable segments, which are based on technologies. Prior period results have been reclassified in the current year to account for the movement of certain business operations from the Worldwide Barcode, Networking & Security segment to the Worldwide Communications & Services segment. The following tables summarize our net sales results by business segment and by geographic location for the comparable fiscal years ending June 30, 2017, 2016 and 2015.

Fiscal year 2017 compared to fiscal year 2016

	2017	2016	\$ Change	% Change	% Change Constant Currency, Excluding Acquisitions (a)
	<i>(in thousands)</i>				
Sales by Segment:					
Worldwide Barcode, Networking & Security	\$ 2,389,256	\$ 2,361,670	\$ 27,586	1.2 %	(2.0)%
Worldwide Communications & Services	1,178,930	1,178,556	374	— %	(3.2)%
Total net sales	\$ 3,568,186	\$ 3,540,226	\$ 27,960	0.8 %	(2.4)%
Sales by Geography Category:					
North American	\$ 2,685,820	\$ 2,620,184	\$ 65,636	2.5 %	(1.1)%
International	882,366	920,042	(37,676)	(4.1)%	(6.1)%
Total net sales	\$ 3,568,186	\$ 3,540,226	\$ 27,960	0.8 %	(2.4)%

(a) A reconciliation of non-GAAP net sales in constant currency, excluding acquisitions is presented at the end of *Results of Operations*, under *Non-GAAP Financial Information*.

Worldwide Barcode, Networking & Security

The Worldwide Barcode, Networking & Security segment consists of sales to technology customers in North America, Europe, and Latin America. During fiscal year 2017 net sales for this segment increased \$27.6 million or 1.2% compared to fiscal year 2016, primarily resulting from sales growth in North America. Excluding the foreign exchange positive impact of \$10.2 million and sales from the KBZ acquisition for the three months ended September 30, 2016 and 2015, adjusted net sales for fiscal year 2017 decreased \$47.3 million, or 2.0%, compared to fiscal year 2016. The decrease in adjusted net sales is primarily due to lower sales volume in our international business and a large transaction with our KBZ business in the prior year December quarter that did not recur, nor did we expect it to recur.

Worldwide Communications & Services

The Worldwide Communications & Services segment consists of sales to technology customers in North America, Europe and Latin America. During fiscal year 2017, net sales for this segment increased \$0.4 million compared to fiscal year 2016, primarily due to the Intelisys acquisition, partially offset by lower net sales in all geographies. Excluding the foreign exchange positive impact of \$8.6 million and sales from the Intelisys acquisition, adjusted net sales for fiscal year 2017 decreased \$37.6 million, or 3.2%, compared to fiscal year 2016. The decrease in adjusted net sales is due to overall lower sales volume in all geographies.

Fiscal year 2016 compared to fiscal year 2015

	2016	2015	\$ Change	% Change	% Change Constant Currency, Excluding Acquisitions (a)
	<i>(in thousands)</i>				
Sales by Segment:					
Worldwide Barcode, Networking & Security	\$ 2,361,670	\$ 2,118,739	\$ 242,931	11.5%	0.7%
Communications & Services	1,178,556	1,099,887	78,669	7.2%	(1.2)%
Total net sales	<u>\$ 3,540,226</u>	<u>\$ 3,218,626</u>	<u>\$ 321,600</u>	<u>10.0%</u>	<u>—%</u>

Sales by Geography Category:

North American	\$ 2,620,184	\$ 2,346,764	\$ 273,420	11.7%	(1.5)%
International	920,042	871,862	48,180	5.5%	4.3%
Total net sales	<u>\$ 3,540,226</u>	<u>\$ 3,218,626</u>	<u>\$ 321,600</u>	<u>10.0%</u>	<u>—%</u>

(a) A reconciliation of non-GAAP net sales in constant currency, excluding acquisitions is presented at the end of *Results of Operations*, under *Non-GAAP Financial Information*.

Worldwide Barcode, Networking & Security

During fiscal year 2016 net sales for this segment increased \$242.9 million, or 11.5%, compared to fiscal year 2015 primarily from the inclusion of sales from KBZ, acquired in September 2015. Excluding the foreign exchange negative impact of \$80.4 million and sales from acquisitions of \$309.4 million, adjusted net sales fiscal year 2016 increased \$13.9 million, or 0.7%, compared to fiscal 2015. The increase in adjusted net sales is primarily due to growth in our POS and Barcode business in North America.

Worldwide Communications & Services

During fiscal year 2016, net sales for this segment increased \$78.7 million or 7.2% compared to fiscal year 2015 primarily driven by the inclusion of a full year of sales for Network1. Excluding foreign exchange negative impact of \$22.8 million and sales from acquisitions of \$118.9 million, adjusted net sales fiscal year 2016 decreased \$12.8 million, or 1.2%, compared to fiscal 2015. The decrease in adjusted net sales is primarily due to lower sales in North America, partially offset by sales growth in Europe.

Gross Profit

The following tables summarize our gross profit for the fiscal years ended June 30, 2017, 2016 and 2015:

Fiscal year 2017 compared to fiscal year 2016

	2017	2016	\$ Change	% Change	% of Sales June 30,	
					2017	2016
	<i>(in thousands)</i>					
Worldwide Barcode, Networking & Security	\$ 195,743	\$ 196,831	\$ (1,088)	(0.6)%	8.2%	8.3%
Worldwide Communications & Services	187,853	158,609	29,244	18.4 %	15.9%	13.5%
Total gross profit	\$ 383,596	\$ 355,440	\$ 28,156	7.9 %	10.8%	10.0%

Worldwide Barcode, Networking & Security

Gross profit dollars for the Worldwide Barcode, Networking & Security segment decreased for fiscal year 2017 and gross profit margin decreased slightly to 8.2% , compared to 8.3% for fiscal year 2016 , primarily due to vendor program changes from the prior year.

Worldwide Communications & Services

Gross profit dollars and gross profit margin for the Worldwide Communications & Services segment increased \$29.2 million and 15.9% , respectively, for fiscal year 2017 as compared to fiscal year 2016 , primarily due to the inclusion of results from the Intelisys acquisition. Excluding the impact of the gross profit from the Intelisys acquisition, adjusted gross profit dollars decreased \$0.2 million from lower sales volumes. Adjusted gross profit margin, excluding Intelisys, increased to 13.8% for fiscal year 2017 , primarily due to timing of vendor program recognition.

Fiscal year 2016 compared to fiscal year 2015

	2016	2015	\$ Change	% Change	% of Sales June 30,	
					2016	2015
	<i>(in thousands)</i>					
Worldwide Barcode, Networking & Security	\$ 196,831	\$ 175,699	\$ 21,132	12.0%	8.3%	8.3%
Worldwide Communications & Services	158,609	151,391	7,218	4.8%	13.5%	13.8%
Total gross profit	\$ 355,440	\$ 327,090	\$ 28,350	8.7%	10.0%	10.2%

Worldwide Barcode, Networking & Security

Gross profit dollars for the Worldwide Barcode, Networking & Security segment increased for fiscal year 2016 as compared to fiscal year 2015 , primarily due to the inclusion of results from the KBZ acquisition. As a percentage of sales, gross profit margin remained consistent at 8.3% .

Worldwide Communications & Services

Gross profit dollars for the Worldwide Communications & Services segment increased for fiscal year 2016 as compared to fiscal year 2015 , primarily due to the inclusion of a full year of Network1 results. As a percentage of sales, gross profit margin decreased to 13.5% for fiscal year 2016 compared to 13.8% for the prior year, primarily due to lower vendor program recognition.

Operating expenses

The following tables summarize our operating expenses for the periods ended June 30, 2017 , 2016 and 2015 :

Fiscal year 2017 compared to fiscal year 2016

	2017	2016	\$ Change	% Change	% of Sales June 30,	
					2017	2016
<i>(in thousands)</i>						
Selling, general and administrative expenses	\$ 265,178	\$ 240,115	\$ 25,063	10.4%	7.4%	6.8%
Depreciation expense	9,444	7,326	2,118	28.9%	0.3%	0.2%
Intangible amortization expense	15,524	9,828	5,696	58.0%	0.4%	0.3%
Change in fair value of contingent consideration	5,211	1,294	3,917	302.7%	0.1%	—%
Operating expenses	<u>295,357</u>	<u>258,563</u>	<u>36,794</u>	<u>14.2%</u>	<u>8.3%</u>	<u>7.3%</u>

Selling, general and administrative expenses ("SG&A") increased \$25.1 million for the fiscal year ending June 30, 2017. The increase in SG&A expenses is primarily due to the addition of expenses from our Intelisys acquisition and bad debt expense.

The increase in depreciation expense and intangible amortization expense for the fiscal year ending June 30, 2017 of \$2.1 million and \$5.7 million, respectively, is largely due to assets acquired through our Intelisys acquisition completed during the current year and additional depreciation on our ERP system.

We have elected to present changes in fair value of the contingent consideration owed to former shareholders of Network1 and Intelisys separately from other selling, general and administrative expenses. Final earnout payments were paid to the former shareholders of Imago in fiscal year 2017 and to CDC in fiscal year 2016. In the current year, we have recorded a \$5.2 million loss, largely driven by recurring amortization of the unrecognized fair value discount and improved projections for Intelisys, partially offset by less-than-expected actual results for the current year and a reduction in projected results for Network1.

Fiscal year 2016 compared to fiscal year 2015

	2016	2015	\$ Change	% Change	% of Sales June 30,	
					2016	2015
<i>(in thousands)</i>						
Selling, general and administrative expense	\$ 240,115	\$ 210,985	\$ 29,130	13.8%	6.8%	6.6%
Depreciation expense	7,326	5,356	1,970	36.8%	0.2%	0.2%
Intangible amortization expense	9,828	6,641	3,187	48.0%	0.3%	0.2%
Change in fair value of contingent consideration	1,294	2,667	(1,373)	(51.5)%	—%	0.1%
Operating expenses	<u>\$ 258,563</u>	<u>\$ 225,649</u>	<u>\$ 32,914</u>	<u>14.6%</u>	<u>7.3%</u>	<u>7.1%</u>

SG&A increased \$29.1 million for the fiscal year ending June 30, 2016. The increase in SG&A expenses is primarily due to increased employee-related expenses from recent acquisitions and bad debt expense.

The increase of \$2.0 million in depreciation expense for fiscal year 2016 is largely due to depreciation on our ERP system, which we first implemented in the third quarter of fiscal year 2015.

Intangible amortization expense increased \$3.2 million in fiscal year 2016 due to a full year of amortization on assets acquired through the Imago and Network1 acquisitions compared to the prior fiscal year 2015, in addition to a partial year of amortization expense for our KBZ business.

We have elected to present changes in fair value of the contingent consideration owed to former shareholders of CDC, Imago and Network1 separately from other selling, general and administrative expenses. The final payment to former shareholders of CDC was paid during fiscal year 2016. In the current year, we have recorded a \$1.3 million loss, driven by recurring amortization of the unrecognized fair value discount and the achievement of better-than-expected actual results for Imago, partially offset by less-than-expected actual results for Network1.

Operating Income

The following tables summarize our operating income for the periods ended June 30, 2017, 2016 and 2015 :

Fiscal year 2017 compared to fiscal year 2016

	2017	2016	\$ Change	% Change	% of Sales June 30,	
					2017	2016
	<i>(in thousands)</i>					
Worldwide Barcode, Networking & Security	\$ 49,727	\$ 52,227	\$ (2,500)	(4.8)%	2.1%	2.2%
Worldwide Communications & Services	39,768	45,513	(5,745)	(12.6)%	3.4%	3.9%
Corporate	(1,256)	(863)	(393)	45.5 %	—%	—%
Total operating income	\$ 88,239	\$ 96,877	\$ (8,638)	(8.9)%	2.5%	2.7%

Worldwide Barcode, Networking & Security

For the Worldwide Barcode, Networking & Security segment, operating income decreased \$2.5 million for the fiscal year ended June 30, 2017 as compared to the prior year. Operating income as a percentage of sales remained fairly consistent year-to-year. The decrease in operating income is largely due to lower gross profit margins and increased employee-related costs, partially offset in improvements in bad debt expense recognized.

Worldwide Communications & Services

For the Worldwide Communications & Services segment, operating income decreased \$5.7 million for the fiscal year ended June 30, 2017 as compared to the prior year. Operating income as a percentage of sales decreased to 3.4% from 3.9%. The decrease in operating income and margin is largely due to increased amortization expense on intangible assets acquired through our Intelisys acquisition, a higher loss for change in fair value of contingent consideration and higher bad debt expense.

Corporate

Corporate incurred \$1.3 million and \$0.9 million in acquisition costs for the years ended June 30, 2017 and 2016, respectively.

Fiscal year 2016 compared to fiscal year 2015

	2016	2015	\$ Change	% Change	% of Sales June 30,	
					2016	2015
	<i>(in thousands)</i>					
Worldwide Barcode, Networking & Security	\$ 52,227	\$ 47,985	\$ 4,242	8.8 %	2.2%	2.3%
Worldwide Communications & Services	45,513	56,710	(11,197)	(19.7)%	3.9%	5.2%
Corporate	(863)	(3,254)	2,391	(73.5)%	—%	—%
Total operating income	\$ 96,877	\$ 101,441	\$ (4,564)	(4.5)%	2.7%	3.2%

Worldwide Barcode, Networking & Security

For the Worldwide Barcode, Networking & Security segment, operating income increased \$4.2 million for the fiscal year ended June 30, 2016 as compared to the prior year, while operating income as a percentage of sales remained fairly consistent from year-to-year. The increase in operating income is largely due to increased sales volume from KBZ, partially offset by increased employee related costs and bad debt expense. Operating income was also negatively impacted by foreign currency translation of our European and Brazilian operations.

Worldwide Communications & Services

For the Worldwide Communications & Services segment, operating income decreased \$11.2 million for the fiscal year ended June 30, 2016 as compared to the prior year. Operating income as a percentage of sales decreased to 3.9% from 5.2% . The decrease in operating income is primarily attributable to decreased gross profit margin, coupled with increased employee related costs and bad debt expense. Operating income was also negatively impacted by foreign currency translation of our European and Brazilian operations.

Corporate

Corporate incurred \$0.9 million and \$3.3 million in acquisition costs for the year ended June 30, 2016 and 2015 , respectively.

Total Other (Income) Expense

The following tables summarize our total other (income) expense for the fiscal years ended June 30, 2017 , 2016 and 2015 :

Fiscal year 2017 compared to fiscal year 2016

	2017	2016	\$ Change	% Change	% of Sales June 30,	
					2017	2016
	<i>(in thousands)</i>					
Interest expense	\$ 3,215	\$ 2,124	\$ 1,091	51.4 %	0.1 %	0.1 %
Interest income	(5,329)	(3,448)	(1,881)	54.6 %	(0.1)%	(0.1)%
Net foreign exchange losses (gains)	1,919	2,571	(652)	(25.4)%	0.1 %	0.1 %
Other, net	(13,061)	(380)	(12,681)	3,337.1 %	(0.4)%	— %
Total other (income) expense	\$ (13,256)	\$ 867	\$ (14,123)	(1,629.0)%	(0.4)%	— %

Interest expense reflects interest incurred on borrowings, non-utilization fees from our revolving credit facility, and amortization of debt issuance costs. Interest expense increased in fiscal 2017 over 2016 principally from additional borrowings on our multi-currency revolving credit facility.

Interest income for the year ended June 30, 2017 was generated on interest-bearing customer receivables and interest earned on cash and cash equivalents, principally in Brazil. The increase in interest income is primarily due to approximately \$1.4 million of interest accrued on a tax settlement in Brazil.

Net foreign exchange gains and losses consist of foreign currency transactional and functional currency re-measurements, offset by net foreign currency exchange contract gains and losses. Foreign exchange gains and losses are generated as the result of fluctuations in the value of the U.S. dollar versus the Brazilian real, the U.S. dollar versus the euro, the British pound versus the euro, the 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 derivative financial instruments for speculative transactions. We partially offset foreign currency exposure with the use of foreign exchange forward contracts to hedge against these exposures. The costs associated with foreign exchange forward contracts are included in the net foreign exchange loss.

Other income for the fiscal year ended 2017 increased \$12.7 million primarily due to the recognition of a legal settlement in the US, net of attorney fees compared to the prior year.

Fiscal year 2016 compared to fiscal year 2015

					% of Sales June 30,	
	2016	2015	\$ Change	% Change	2016	2015
	<i>(in thousands)</i>					
Interest expense	\$ 2,124	\$ 1,797	\$ 327	18.2 %	0.1 %	0.1 %
Interest income	(3,448)	(2,638)	(810)	30.7 %	(0.1)%	(0.1)%
Net foreign exchange (gains) losses	2,571	3,044	(473)	(15.5)%	0.1 %	0.1 %
Other, net	(380)	(668)	288	(43.1)%	— %	— %
Total other (income) expense	\$ 867	\$ 1,535	\$ (668)	(43.5)%	— %	— %

The interest expense increased in fiscal 2016 over 2015 , principally from additional borrowings on our multi-currency revolving credit facility.

Interest income for the year ended June 30, 2016 was generated on interest-bearing customer receivables and interest earned on cash and cash equivalents, principally in Brazil. The increase in interest income year-over-year is largely driven by a higher effective interest rate on higher deposit levels in our Brazilian entity.

We experienced foreign exchange losses as foreign currency exchange rates weakened against the U.S. dollar. Losses were partially offset by the use of foreign exchange forward contracts to hedge against currency exposures.

Provision for Income Taxes

Income tax expense was \$32.2 million , \$32.4 million , and \$34.5 million for the fiscal years ended June 30, 2017 , 2016 and 2015 respectively, reflecting an effective tax rate of 31.8% , 33.7% , and 34.5% , respectively. The decrease in the effective tax rate for fiscal year 2017 as compared to fiscal year 2016 is primarily due to a favorable tax recovery recognized by the Brazilian Supreme Court during the quarter ending June 30, 2017 . The decrease in the effective tax rate for fiscal year 2016 as compared to fiscal year 2015 is primarily due to additional tax credits generated during 2016. We expect the fiscal year 2018 effective tax rate to range between 35% and 36%.

Quarterly Results

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

	Three Months Ended							
	Fiscal 2017				Fiscal 2016			
	Jun. 30 2017	Mar. 31 2017	Dec. 31 2016	Sept. 30 2016	Jun. 30 2016	Mar. 31 2016	Dec. 31 2015	Sept. 30 2015
	<i>(in thousands, except per share data)</i>							
Net sales	\$ 917,291	\$ 813,538	\$ 904,792	\$ 932,566	\$ 877,471	\$ 798,404	\$ 993,522	\$ 870,829
Cost of goods sold	816,435	720,867	806,258	841,032	794,692	713,928	892,889	783,277
Gross profit	\$ 100,856	\$ 92,671	\$ 98,534	\$ 91,534	\$ 82,779	\$ 84,476	\$ 100,633	\$ 87,552
Net income	\$ 18,970	\$ 12,424	\$ 23,036	\$ 14,816	\$ 12,925	\$ 14,042	\$ 20,656	\$ 15,996
Net income per common share, basic	\$ 0.75	\$ 0.49	\$ 0.92	\$ 0.58	\$ 0.50	\$ 0.54	\$ 0.78	\$ 0.58
Weighted-average shares outstanding, basic	25,341	25,262	25,146	25,523	25,661	25,863	26,648	27,702
Net income per common share, diluted	\$ 0.74	\$ 0.49	\$ 0.91	\$ 0.58	\$ 0.50	\$ 0.54	\$ 0.77	\$ 0.57
Weighted-average shares outstanding, diluted	25,512	25,400	25,285	25,762	25,879	25,967	26,902	27,929

Non-GAAP Financial Information

Evaluating Financial Condition and Operating Performance

In addition to disclosing results that are determined in accordance with United States generally accepted accounting principles ("US GAAP"), we also disclose certain non-GAAP financial measures. These measures include non-GAAP operating income, non-GAAP pre-tax income, non-GAAP net income, non-GAAP EPS, return on invested capital ("ROIC") and "constant currency." Constant currency is a measure that excludes the translation exchange impact from changes in foreign currency exchange rates between reporting periods. We use non-GAAP financial measures to better understand and evaluate performance, including comparisons from period to period.

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

Net Sales in Constant Currency, Excluding Acquisitions

We make references to "constant currency," a non-GAAP performance measure that excludes the foreign exchange rate impact from fluctuations in the average foreign exchange rates between reporting periods. Constant currency is calculated by translating current period results from currencies other than the U.S. dollar into U.S. dollars using the comparable average foreign exchange rates from the prior year period. We also exclude the impact of acquisitions prior to the first full year of operations from the acquisition date in order to show net sales results on an organic basis. This information is provided to analyze underlying trends without the translation impact of fluctuations in foreign currency rates and the impact of acquisitions. Below we provide a non-GAAP reconciliation of net sales in constant currency, excluding acquisition (organic growth):

Net Sales by Segment:

	Fiscal Year Ended June 30,		\$ Change	% Change
	2017	2016		
Worldwide Barcode, Networking & Security:				
	<i>(in thousands)</i>			
Net sales, as reported	\$ 2,389,256	\$ 2,361,670	\$ 27,586	1.2 %
Foreign exchange impact ^(a)	(10,229)	—		
Net sales, constant currency	2,379,027	2,361,670	17,357	0.7 %
Less: Acquisitions	(99,332)	(34,628)		
Net sales, constant currency excluding acquisitions	\$ 2,279,695	\$ 2,327,042	\$ (47,347)	(2.0)%
Worldwide Communications & Services:				
Net sales, as reported	\$ 1,178,930	\$ 1,178,556	\$ 374	— %
Foreign exchange impact ^(a)	(8,599)	—		
Net sales, constant currency	1,170,331	1,178,556	(8,225)	(0.7)%
Less: Acquisitions	(29,421)	—		
Net sales, constant currency excluding acquisitions	\$ 1,140,910	\$ 1,178,556	\$ (37,646)	(3.2)%
Consolidated:				
Net sales, as reported	\$ 3,568,186	\$ 3,540,226	\$ 27,960	0.8 %
Foreign exchange impact ^(a)	(18,828)	—		
Net sales, constant currency	3,549,358	3,540,226	9,132	0.3 %
Less: Acquisitions	(128,753)	(34,628)		
Net sales, constant currency excluding acquisitions	\$ 3,420,605	\$ 3,505,598	\$ (84,993)	(2.4)%

(a) Year-over-year net sales growth rate excluding the translation impact of changes in foreign currency exchange rates. Calculated by translating the net sales for the year ended June 30, 2017 into U.S. dollars using the average foreign exchange rates for the year ended June 30, 2016.

	Fiscal Year Ended June 30,		\$ Change	% Change
	2016	2015		
<i>(in thousands)</i>				
Worldwide Barcode, Networking & Security:				
Net sales, as reported	\$ 2,361,670	\$ 2,118,739	\$ 242,931	11.5 %
Foreign exchange impact ^(b)	80,356			
Net sales, constant currency	2,442,026	2,118,739	323,287	15.3 %
Less: Acquisitions	(309,423)	—		
Net sales, constant currency excluding acquisitions	\$ 2,132,603	\$ 2,118,739	\$ 13,864	0.7 %

Worldwide Communications & Services:

Net sales, as reported	\$ 1,178,556	\$ 1,099,887	\$ 78,669	7.2 %
Foreign exchange impact ^(b)	22,759			
Net sales, constant currency	1,201,315	1,099,887	101,428	9.2 %
Less: Acquisitions	(118,926)	(4,686)	(114,240)	
Net sales, constant currency excluding acquisitions	\$ 1,082,389	\$ 1,095,201	\$ (12,812)	(1.2)%

Consolidated:

Net sales, as reported	\$ 3,540,226	\$ 3,218,626	\$ 321,600	10.0 %
Foreign exchange impact ^(b)	103,115	—		
Net sales, constant currency	3,643,341	3,218,626	424,715	13.2 %
Less: Acquisitions	(428,349)	(4,686)		
Net sales, constant currency excluding acquisitions	\$ 3,214,992	\$ 3,213,940	\$ 1,052	— %

(b) Year-over-year net sales growth rate excluding the translation impact of changes in foreign currency exchange rates. Calculated by translating the net sales for the year ended June 30, 2016 into U.S. dollars using the average foreign exchange rates for the year ended June 30, 2015.

Non-GAAP Operating Income, Non-GAAP Pre-Tax Income, Non-GAAP Net Income and Non-GAAP EPS

To evaluate current period performance on a more consistent basis with prior periods, we disclose non-GAAP operating income, non-GAAP pre-tax income, non-GAAP net income and non-GAAP diluted earnings per share. Non-GAAP results exclude amortization of intangible assets related to acquisitions, changes in fair value of contingent consideration, acquisition costs, and other non-GAAP adjustments. Non-GAAP operating income, non-GAAP pre-tax income, non-GAAP net income and non-GAAP diluted EPS are useful in assessing and understanding our operating performance, especially when comparing results with previous periods or forecasting performance for future periods. Below we provide a non-GAAP reconciliation of operating income, pre-tax income, net income and earnings per share adjusted for the costs and charges mentioned above:

	Year ended June 30, 2017				Year ended June 30, 2016			
	Operating Income	Pre-Tax Income	Net Income	Diluted EPS	Operating Income	Pre-Tax Income	Net Income	Diluted EPS
	<i>(in thousands, except per share data)</i>							
GAAP Measures	\$ 88,239	\$ 101,495	\$ 69,246	\$ 2.71	\$ 96,877	\$ 96,010	\$ 63,619	\$ 2.38
Adjustments:								
Amortization of intangible assets	15,524	15,524	10,247	0.40	9,828	9,828	6,790	0.25
Change in fair value of contingent considerations	5,211	5,211	2,921	0.11	1,294	1,294	977	0.04
Acquisition costs	1,256	1,256	1,256	0.06	863	863	863	0.04
Legal settlement, net of attorney fees	—	(12,777)	(8,047)	(0.32)	—	—	—	—
Tax settlement and related interest income	—	(1,382)	(5,370)	(0.21)	—	—	—	—
Non-GAAP measures	\$ 110,230	\$ 109,327	\$ 70,253	\$ 2.75	\$ 108,862	\$ 107,995	\$ 72,249	\$ 2.71

Return on Invested Capital

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

ROIC assists us in comparing our performance over various reporting periods on a consistent basis because it removes from our operating results the impact of items that do not reflect our core operating performance. We believe the calculation of ROIC provides useful information to investors and is an additional relevant comparison of our performance during the year.

We calculate ROIC as earnings before interest expense, income taxes, depreciation and amortization, plus change in fair value of contingent consideration and other non-GAAP adjustments ("adjusted EBITDA"), divided by invested capital. Invested capital is defined as average equity plus average daily funded interest-bearing debt for the period. The following table summarizes annualized return on invested capital ratio for the fiscal years ended June 30, 2017, 2016 and 2015, respectively.

	2017	2016	2015
Return on invested capital ratio	13.1%	13.3%	14.6%

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

Reconciliation of EBITDA to Net Income

	Fiscal Year Ended June 30,		
	2017	2016	2015
	<i>(in thousands)</i>		
Net income (GAAP)	\$ 69,246	\$ 63,619	\$ 65,419
Plus: income taxes	32,249	32,391	34,487
Plus: interest expense	3,215	2,124	1,797
Plus: depreciation & amortization	24,968	17,154	11,997
EBITDA	129,678	115,288	113,700
Change in fair value of contingent consideration	5,211	1,294	2,667
Acquisition costs ^(a)	1,256	863	3,254
Legal recovery, net of attorney fees	(12,777)	—	—
Interest income related to tax settlement	(1,382)	—	—
Adjusted EBITDA (numerator for ROIC) (non-GAAP)	\$ 121,986	\$ 117,445	\$ 119,621

Invested capital calculations

	Fiscal Year Ended June 30,		
	2017	2016	2015
	<i>(in thousands)</i>		
Equity – beginning of the year	\$ 774,496	\$ 808,985	\$ 802,643
Equity – end of the year	837,145	774,496	808,985
Change in fair value of contingent consideration, net of tax	2,921	977	1,842
Acquisition costs ^(a)	1,256	863	3,254
Legal recovery, net of attorney fees	(8,047)	—	—
Tax settlement and related interest income, net of tax	(5,370)	—	—
Average equity, adjusted	801,201	792,661	808,362
Average funded debt ^(b)	131,445	93,500	13,421
Invested capital (denominator)	\$ 932,646	\$ 886,161	\$ 821,783

^(a) Includes acquisition costs for the years ended June 30, 2017, 2016 and 2015. Acquisition costs are non-deductible for tax purposes.

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

Critical Accounting Policies and Estimates

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

Allowances for Trade and Notes Receivable

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

Inventory Reserves

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

Vendor Programs

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

We record unrestricted volume rebates received as a reduction of inventory and as a reduction of the cost of goods sold when the related inventory is sold. Amounts received or receivables from vendors that are not yet earned are deferred in the Consolidated Balance Sheets. Vendor receivables are generally collected through reductions to accounts payable authorized by the vendor. In addition, we may receive early payment discounts from certain vendors. We record early payment discounts received as a reduction of inventory and recognize the discount as a reduction of cost of goods sold when the related inventory is sold. ASC 605 requires management to make certain estimates of the amounts of vendor incentives that will be received. Actual recognition of the vendor consideration may vary from management estimates based on actual results.

Goodwill

We account for recorded goodwill in accordance with ASC 350, *Goodwill and Other Intangible Assets*, which requires that goodwill be reviewed annually for impairment or more frequently if impairment indicators exist. Goodwill testing utilizes an impairment

analysis, whereby we compare the carrying value of each identified reporting unit to its fair value. The carrying value of goodwill is reviewed at a reporting unit level at least annually for impairment, or more frequently if impairment indicators exist. Our goodwill reporting units align directly with its operating segments, Worldwide Barcode, Networking & Security and Worldwide Communications & Services. The fair values of the reporting units are estimated using the net present value of discounted cash flows generated by each reporting unit. Considerable judgment is necessary in estimating future cash flows, discount rates and other factors affecting the estimated fair value of the reporting units, including the operating and macroeconomic factors. Historical financial information, internal plans and projections and industry information are used in making such estimates.

We adopted ASU 2017-04 during the current year, which simplifies testing goodwill for impairment. If fair value is determined to be less than carrying value, an impairment loss is recognized for the amount of the carrying value that exceeds the amount of the reporting units' fair value, not to exceed the total amount of goodwill allocated to the reporting unit. Additionally, we would consider income tax effects from any tax deductible goodwill on the carrying amount of the reporting unit when measuring the goodwill impairment loss, if applicable. We also assesses the recoverability of goodwill if facts and circumstances indicate goodwill may be impaired. In our most recent annual test, we estimated the fair value of our reporting units primarily based on the income approach utilizing the discounted cash flow method. We also utilized fair value estimates derived from the market approach utilizing the public company market multiple method to validate the results of the discounted cash flow method, which required it to make assumptions about the applicability of those multiples to its reporting units. The discounted cash flow method requires us to estimate future cash flows and discount those amounts to present value. The key assumptions utilized in determining fair value included:

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

While we believe our assumptions are appropriate, they are subject to uncertainty and by nature include judgments and estimates regarding future events, including projected growth rates, margin percentages and operating efficiencies. Key assumptions used in determining fair value include projected growth and operating margin, working capital requirements and discount rates. During fiscal years 2017 and 2016, we completed our annual impairment test as of each April 30th and determined that a goodwill impairment charge was not necessary.

See Note 6 - *Goodwill and Other Identifiable Intangible Assets* in the Notes to Consolidated Financial Statements for further discussion on our goodwill impairment testing and results.

Liability for Contingent Consideration

In addition to the initial cash consideration paid to former shareholders of Network1 and Intelisys, we are obligated to make additional earnout payments based on future results through a specified date based on a multiple of the subsidiary's pro forma earnings as defined in the respective share purchase agreements. Future payments are to be paid in the functional currency of the acquired entity, which is the Brazilian real for Network1 and U.S. dollars for Intelisys. We paid the final earnout payment to the former shareholders of CDC during fiscal year 2016 and the final earnout payment to Imago during fiscal year 2017. Network1 has two remaining earnout payments to be paid in annual installments during fiscal years 2018 and 2019. Intelisys has four remaining earnout payments to be paid in annual installments during fiscal years 2018 through 2021. In accordance with ASC Topic 805, we determine the fair value of this liability for contingent consideration at each reporting date throughout the term of the earnout using a form of a probability weighted discounted cash flow model. Each period, we will reflect the contingent consideration liability at fair value with changes recorded in the change in fair value of contingent consideration line item on the Consolidated Income Statement. Current and noncurrent portions of the liability are presented in the current portion of contingent consideration and long-term portion of contingent consideration line items on the Consolidated Balance Sheets.

Off-Balance Sheet Arrangements

We have no off-balance sheet arrangements that have or are reasonably likely to have a current or future affect or change on our financial condition, revenues or expenses, results of operations, liquidity, capital expenditures or capital resources that are material to investors. The term "off-balance sheet arrangement" generally means any transaction, agreement or other contractual arrangement to which an entity unconsolidated with the company is a party, under which the company has (i) any obligation arising under a guarantee contract, derivative instrument or variable interest; or (ii) a retained or contingent interest in assets transferred to such entity or similar arrangement that serves as credit, liquidity or market risk support for such assets.

Accounting Standards Recently Issued

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

Liquidity and Capital Resources

Our primary sources of liquidity are cash flows from operations and borrowings under the \$400 million revolving credit facility. Our business requires significant investment in working capital, particularly accounts receivable and inventory, partially financed through our accounts payable to vendors, cash on hand and revolving line of credit. In general, as our sales volumes increase, our net investment in working capital typically increases, which typically results in decreased cash flow from operating activities. Conversely, when sales volumes decrease, our net investment in working capital typically decreases, which typically results in increased cash flow from operating activities.

Cash and cash equivalents totaled \$56.1 million at June 30, 2017, compared to \$61.4 million at June 30, 2016, and \$121.6 million at June 30, 2015, of which \$47.9 million, \$52.7 million and \$43.4 million was held outside of the United States as of June 30, 2017, 2016 and 2015, respectively. Checks released but not yet cleared from these accounts in the amounts of \$48.5 million, \$78.3 million and \$62.9 million are classified as accounts payable as of June 30, 2017, 2016 and 2015, respectively.

We conduct business in many locations throughout the world where we generate and use cash. We provide for United States income taxes for the earnings of our Canadian subsidiary. Earnings from all other geographies will continue to be considered retained indefinitely for reinvestment. If these funds were needed in the operations of the United States, we would be required to record and pay significant income taxes upon repatriation of these funds. See Note 12 - *Income Taxes* in the Notes to the Consolidated Financial Statements for further discussion.

Our net investment in working capital decreased \$19.0 million to \$ 624.7 million at June 30, 2017 from \$ 643.8 million at June 30, 2016, principally from higher accounts payable and decreased inventory, partially offset by higher accounts receivable. Our net investment in working capital totaled \$645.4 million at June 30, 2015, which represents a decrease of \$1.6 million from June 30, 2016, principally from lower cash balances, partially offset by higher accounts receivable and reduced accounts payable. Our net investment in working capital is affected by several factors such as fluctuations in sales volume, net income, timing of collections from customers, increases and decreases to inventory levels, payments to vendors, as well as cash generated or used by other financing and investing activities.

Cash provided by (used in):	Year ended		
	June 30, 2017	June 30, 2016	June 30, 2015
	<i>(in thousands)</i>		
Operating activities	\$ 94,876	\$ 52,211	\$ 75,522
Investing activities	(96,236)	(73,556)	(80,541)
Financing activities	(3,506)	(36,305)	(56,893)
Effect of exchange rate change on cash and cash equivalents	(440)	(2,596)	(11,293)
Increase (decrease) in cash and cash equivalents	<u>\$ (5,306)</u>	<u>\$ (60,246)</u>	<u>\$ (73,205)</u>

Net cash provided by operating activities was \$94.9 million for year ended June 30, 2017, compared to \$52.2 million and \$75.5 million for the years ended June 30, 2016 and 2015, respectively. Operating cash flows for the year ended June 30, 2017 is primarily attributable to net income, increases in non-cash adjustments and decreases in inventory levels, partially offset by increases in accounts receivable, excluding the impact of initial accounts balances assumed from Intelisys. Operating cash flows for the year ended June 30, 2016 is primarily attributable to net income, increases in accounts receivable and non-cash adjustments, partially offset by increases in accounts payable, excluding the impact of initial accounts balances assumed from the KBZ acquisition. Operating cash flows for the year ended June 30, 2015 is primarily attributable to net income and increases in accounts payable, partially offset by increases in accounts receivable and inventory.

The number of days sales outstanding ("DSO") was 61 at June 30, 2017, excluding Intelisys, compared to 57 at June 30, 2016 and 55 at June 30, 2015. Throughout the current fiscal year DSO ranged from 59 to 61. DSO increased over prior year due to an aging receivables portfolio, primarily in North America. Inventory turnover improved to 6.2 times during the fourth quarter of the current fiscal year, compared to 5.6 and 5.9 times in the fourth quarter of fiscal year 2016 and 2015, respectively. Throughout fiscal year 2017 inventory turnover ranged from 5.6 to 6.2 times.

Cash used in investing activities for the year ended June 30, 2017 was \$96.2 million, compared to \$73.6 million and \$80.5 million for the years ended June 30, 2016 and 2015, respectively. Investing cash flows for the year ended June 30, 2017 is primarily driven by cash used to acquire Intelisys compared with cash used to acquire KBZ for the year ended June 30, 2016. Cash used in investing activities for the year ended June 30, 2015 represents cash used to acquire Imago and Network1, as well as capital expenditures for our Enterprise Resource Planning ("ERP") system.

Cash used in financing activities for the year ended June 30, 2017 totaled to \$3.5 million, compared to \$36.3 million and \$56.9 million for the years ended June 30, 2016 and 2015, respectively. Cash used in fiscal years 2017 and 2016 is primarily attributable to repurchases of common stock and contingent consideration payments, partially offset by borrowings on the revolving credit facility. Financing cash flows for the year ended June 30, 2015 is primarily attributable to repayments on borrowings of Network1 and Imago ScanSource, repurchases of common stock and a contingent consideration payment to the former shareholders of CDC.

In August 2014, our Board of Directors authorized a three-year \$120 million share repurchase program. Through June 30, 2016, we completed the program, repurchasing 3.4 million shares totaling approximately \$119.5 million. In August 2016, the Board of Directors authorized a new three year \$120 million share repurchase program. During the year ended June 30, 2017, we repurchased 0.6 million shares totaling approximately \$20.3 million.

We have a multi-currency senior secured revolving credit facility with JPMorgan Chase Bank N.A., as administrative agent, and a syndicate of banks (the "Amended Credit Agreement") that was scheduled to mature on November 6, 2018. On April 3, 2017, we amended this credit facility to extend its maturity to April 3, 2022. On August 8, 2017, we amended the Amended Credit Agreement again to increase the maximum amount of the senior secured revolving credit facility from \$300 million to \$400 million. The Amended Credit Agreement allows for the issuance of up to \$50 million for letters of credit and has a \$200 million accordion feature that allows us to increase the availability to \$600 million, subject to obtaining additional credit commitments from the lenders participating in the increase.

At our option, loans denominated in U.S. dollars under the Amended Credit Agreement, other than swingline loans, bear interest at a rate equal to a spread over the London Interbank Offered Rate ("LIBOR") or alternate base rate depending upon 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"). This spread ranges from 1.00% to 2.125% for LIBOR-based loans and 0.00% to 1.125% for alternate base rate loans. Additionally, we are assessed commitment fees ranging from 0.175% to 0.35%, depending upon the Leverage Ratio, on non-utilized borrowing availability, excluding swingline loans. Borrowings under the Amended Credit Agreement are guaranteed by substantially all of our domestic assets and a pledge of up to 65% of capital stock or other equity interest in certain foreign subsidiaries determined to be either material or a subsidiary borrower as defined in the Amended Credit Agreement. We were in compliance with all covenants under the credit facility as of June 30, 2017. There was \$91.9 million and \$71.4 million outstanding on the revolving credit facility at June 30, 2017 and 2016.

On a gross basis, we borrowed \$1,813 million and repaid \$1,793 million on the revolving credit facility in fiscal 2017. In fiscal 2016, we borrowed \$1,377 million and repaid \$1,305 million and in fiscal 2015, we borrowed \$93.6 million and repaid \$93.6 million. The average daily balance on the revolving credit facility was \$126.5 million, \$86.6 million and \$1.6 million for the years ended June 30, 2017, 2016 and 2015, respectively. There were no letters of credit issued under the multi-currency revolving credit facility as of June 30, 2017 compared to €0.4 million and €0.0 million as of June 30, 2016 and 2015, respectively. There was \$208.1 million, \$228.2 million and \$300.0 million available for additional borrowings as of June 30, 2017, 2016 and 2015, respectively.

As of June 30, 2017, we are obligated to pay certain earnout payments to the former shareholders of Network1 and Intelisys related to their acquisitions on January 13, 2015 and August 29, 2016, respectively. See Note 9 - *Fair Value of Financial Instruments* for a discussion on the liabilities recorded. The final earnout payment owed to the former shareholders of Imago was paid during the December quarter of the current year. Future earnout payments for Intelisys are expected to be funded by cash from operations and our existing revolving credit facility. Future earnout payments for Network1 are expected to be funded by existing cash balances in Brazil and cash from operations.

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

Commitments

At June 30, 2017, we had contractual obligations in the form of non-cancelable operating leases, a capital lease (including interest payments), debt (including interest payments) and the contingent consideration for the earnouts pertaining to the Network1 and Intelisys acquisitions. See Notes 7, 9 and 13 of the Notes to the Consolidated Financial Statements. The following table summarizes our future contractual obligations:

	Payments Due by Period				
	Total	Year 1	Years 2-3	Years 4-5	Greater than 5 Years
	<i>(in thousands)</i>				
Contractual Obligations					
Non-cancelable operating leases ⁽¹⁾	\$ 39,543	\$ 7,873	\$ 10,845	\$ 7,196	\$ 13,629
Capital lease	1,737	579	1,158	—	—
Principal debt payments	5,429	—	631	657	4,141
Contingent consideration ⁽²⁾	114,036	30,675	55,783	27,578	—
Other ⁽³⁾	—	—	—	—	—
Total obligations	\$ 160,745	\$ 39,127	\$ 68,417	\$ 35,431	\$ 17,770

- (1) Amounts to be paid in future periods for real estate taxes, insurance and other operating expenses applicable to the properties pursuant to the respective operating leases have been excluded from the table above as the amounts payable in future periods are generally not specified in the lease agreements and are dependent upon amounts which are not known at this time. Such amounts were not material in the current fiscal year.
- (2) Amounts disclosed regarding future Intelisys and Network1 earnout payments are presented at their discounted fair value. Estimated future, undiscounted earnout payments could range as high as \$136.1 million and \$7.5 million, respectively, as of June 30, 2017.
- (3) Amounts totaling \$21.4 million of deferred compensation, which are included in accrued expenses and other current liabilities and other long-term liabilities in our Consolidated Balance Sheets as of June 30, 2017, have been excluded from the table above due to the uncertainty of the timing of the payment of these obligations, which are generally at the discretion of the individual employees or upon death of the former employee, respectively.

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

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

Interest Rate Risk

We are exposed to changes in interest rates primarily as a result of our borrowing activities, which include revolving credit facilities with a group of banks used to maintain liquidity and fund our business operations. The nature and amount of our 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 our revolving credit facility and variable rate long-term debt would have resulted in approximately a \$1.3 million and \$0.9 million increase or decrease in pre-tax income for the fiscal year ended June 30, 2017 and 2016, respectively.

We evaluate our interest rate risk and may use interest rate swaps to mitigate the risk of interest rate fluctuations associated with our current and long-term debt. At June 30, 2017 and 2016 we had \$97.3 million and \$76.9 million, respectively, in variable rate long term debt and borrowings under the revolving credit facility. In connection with the borrowings under the credit facility including potential future amendments or extensions of the facility, we entered into an interest rate swap maturing on April 3, 2022 with a notional amount of \$50 million to receive interest at a floating rate LIBOR and pay interest at a fixed rate. Our use of derivative instruments have the potential to expose us to certain market risks including the possibility of (1) our hedging activities not being as effective as anticipated in reducing the volatility of our 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. We seek 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 our counterparties to major financial institutions.

Foreign Currency Exchange Rate Risk

We are exposed to foreign currency risks that arise from our foreign operations in Canada, Latin America, 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 currency options and 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. A hypothetical 10% increase or decrease in foreign exchange rates would have resulted in approximately a \$1.9 million and \$1.8 million increase or decrease in pre-tax income for fiscal years ended June 30, 2017 and 2016, respectively. These risks may change over time as business practices evolve and could have a material impact on our financial results in the future.

Our senior management has approved a foreign exchange hedging policy to reduce foreign currency exposure. Our 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. We monitor our risk associated with the volatility of certain foreign currencies against our functional currencies and enter into foreign exchange derivative contracts to minimize short-term currency risks on cash flows. These positions are based upon balance sheet exposures and, in certain foreign currencies, our forecasted purchases and sales. We continually evaluate foreign exchange risk and may enter into foreign exchange transactions in accordance with our policy. Actual variances from these forecasted transactions can adversely impact foreign exchange results. Foreign currency gains and losses are included in other expense (income).

We have elected not to designate our 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. Our foreign currencies are primarily Brazilian reais, euros, British pounds, Canadian dollars, Mexican pesos, Colombian pesos, Chilean pesos and Peruvian nuevos soles. At June 30, 2017 and 2016, the fair value of our currency forward contracts outstanding was a net payable of less than \$0.1 million and \$0.5 million, respectively. We do not utilize financial instruments for trading or other speculative purposes.

ITEM 8. Financial Statements and Supplementary Data.

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

Report of Independent Registered Public Accounting Firm

Board of Directors and Shareholders
ScanSource, Inc.:

We have audited the accompanying consolidated balance sheets of ScanSource, Inc. (a South Carolina corporation) and subsidiaries (the “Company”) as of June 30, 2017 and 2016, and the related consolidated statements of comprehensive income, changes in shareholders’ equity, and cash flows for each of the three years in the period ended June 30, 2017. Our audits of the basic consolidated financial statements included the financial statement schedule listed in the index appearing under Item 15(a)(2). These financial statements and financial statement schedule are the responsibility of the Company’s management. Our responsibility is to express an opinion on these financial statements and financial statement schedule based on our audits.

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

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of ScanSource, Inc. and subsidiaries as of June 30, 2017 and 2016, and the results of their operations and their cash flows for each of the three years in the period ended June 30, 2017 in conformity with accounting principles generally accepted in the United States of America. Also in our opinion, the related financial statement schedule, when considered in relation to the basic consolidated financial statements taken as a whole, presents fairly, in all material respects, the information set forth therein.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the Company’s internal control over financial reporting as of June 30, 2017, based on criteria established in the 2013 *Internal Control-Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO), and our report dated August 29, 2017 expressed an unqualified opinion.

/s/ Grant Thornton LLP

Columbia, South Carolina
August 29, 2017

Report of Independent Registered Public Accounting Firm

Board of Directors and Shareholders
ScanSource, Inc.:

We have audited the internal control over financial reporting of ScanSource, Inc. (a South Carolina corporation) and subsidiaries (the “Company”) as of June 30, 2017, based on criteria established in the 2013 Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). The Company’s management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying “Management’s Report”. Our responsibility is to express an opinion on the Company’s internal control over financial reporting based on our audit. Our audit of, and opinion on, the Company’s internal control over financial reporting does not include the internal control over financial reporting of Intelisys, Inc. (Intelisys), a wholly-owned subsidiary, whose financial statements reflect total assets and revenues constituting 2 percent and 1 percent, respectively, of the related consolidated financial statement amounts as of and for the year ended June 30, 2017. As indicated in Management’s Report, Intelisys was acquired during the year ended June 30, 2017. Management’s assertion on the effectiveness of the Company’s internal control over financial reporting excluded internal control over financial reporting of Intelisys.

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

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

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

In our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of June 30, 2017, based on criteria established in the 2013 *Internal Control-Integrated Framework* issued by COSO.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated financial statements of the Company as of and for the year ended June 30, 2017, and our report dated August 29, 2017 expressed an unqualified opinion on those financial statements.

/s/ Grant Thornton LLP

Columbia, South Carolina
August 29, 2017

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

	June 30, 2017	June 30, 2016
Assets		
Current assets:		
Cash and cash equivalents	\$ 56,094	\$ 61,400
Accounts receivable, less allowance of \$44,434 at June 30, 2017 and \$39,032 at June 30, 2016	637,293	559,557
Inventories	531,314	558,581
Prepaid expenses and other current assets	56,322	49,367
Total current assets	<u>1,281,023</u>	<u>1,228,905</u>
Property and equipment, net	56,566	52,388
Goodwill	200,881	92,715
Identifiable intangible assets, net	101,513	51,127
Deferred income taxes	29,491	28,813
Other non-current assets	48,829	37,237
Total assets	<u>\$ 1,718,303</u>	<u>\$ 1,491,185</u>
Liabilities and Shareholders' Equity		
Current liabilities:		
Accounts payable	513,155	471,487
Accrued expenses and other current liabilities	104,715	98,975
Current portion of contingent consideration	30,675	11,594
Income taxes payable	7,730	3,056
Total current liabilities	<u>656,275</u>	<u>585,112</u>
Deferred income taxes	2,008	2,555
Long-term debt, net of current portion	5,429	5,429
Borrowings under revolving credit facility	91,871	71,427
Long-term portion of contingent consideration	83,361	13,058
Other long-term liabilities	42,214	39,108
Total liabilities	<u>881,158</u>	<u>716,689</u>
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, 25,431,845 and 25,614,673 shares issued and outstanding at June 30, 2017 and June 30, 2016, respectively	61,169	67,249
Retained earnings	849,180	779,934
Accumulated other comprehensive loss	(73,204)	(72,687)
Total shareholders' equity	<u>837,145</u>	<u>774,496</u>
Total liabilities and shareholders' equity	<u>\$ 1,718,303</u>	<u>\$ 1,491,185</u>

See accompanying notes to consolidated financial statements.

ScanSource, Inc. and Subsidiaries
Consolidated Income Statements
Years Ended June 30, 2017 , 2016 and 2015
(in thousands, except per share information)

	2017	2016	2015
Net sales	\$ 3,568,186	\$ 3,540,226	\$ 3,218,626
Cost of goods sold	3,184,590	3,184,786	2,891,536
Gross profit	383,596	355,440	327,090
Selling, general and administrative expenses	265,178	240,115	210,985
Depreciation expense	9,444	7,326	5,356
Intangible amortization expense	15,524	9,828	6,641
Change in fair value of contingent consideration	5,211	1,294	2,667
Operating income	88,239	96,877	101,441
Interest expense	3,215	2,124	1,797
Interest income	(5,329)	(3,448)	(2,638)
Other (income) expense, net	(11,142)	2,191	2,376
Income before income taxes	101,495	96,010	99,906
Provision for income taxes	32,249	32,391	34,487
Net income	\$ 69,246	\$ 63,619	\$ 65,419
Per share data:			
Net income per common share, basic	\$ 2.74	\$ 2.40	\$ 2.29
Weighted-average shares outstanding, basic	25,318	26,472	28,558
Net income per common share, diluted	\$ 2.71	\$ 2.38	\$ 2.27
Weighted-average shares outstanding, diluted	25,515	26,687	28,799

See accompanying notes to consolidated financial statements.

ScanSource, Inc. and Subsidiaries
Consolidated Statements of Comprehensive Income
Years Ended June 30, 2017, 2016 and 2015
(in thousands)

	2017	2016	2015
Net income	\$ 69,246	\$ 63,619	\$ 65,419
Unrealized gain on hedged transaction, net of tax	13	—	—
Foreign currency translation adjustment	(530)	(8,185)	(47,802)
Comprehensive income	\$ 68,729	\$ 55,434	\$ 17,617

See accompanying notes to these consolidated financial statements.

ScanSource, Inc. and Subsidiaries
Consolidated Statements of Shareholders' Equity
Years Ended June 30, 2017, 2016 and 2015
(in thousands, except share information)

	Common Stock (Shares)	Common Stock (Amount)	Retained Earnings	Accumulated Other Comprehensive Loss	Total
Balance at June 30, 2014	28,539,481	\$ 168,447	\$ 650,896	\$ (16,700)	\$ 802,643
Net income	—	—	65,419	—	65,419
Foreign currency translation adjustment	—	—	—	(47,802)	(47,802)
Exercise of stock options and shares issued under share-based compensation plans, net of shares withheld for employee taxes	154,497	760	—	—	760
Common stock repurchased	(479,825)	(18,768)	—	—	(18,768)
Share based compensation	—	6,517	—	—	6,517
Tax benefit of deductible compensation arising from exercise or vesting of share-based payment arrangements	—	216	—	—	216
Balance at June 30, 2015	28,214,153	\$ 157,172	\$ 716,315	\$ (64,502)	\$ 808,985
Net income	—	—	63,619	—	63,619
Foreign currency translation adjustment	—	—	—	(8,185)	(8,185)
Exercise of stock options and shares issued under share-based compensation plans, net of shares withheld for employee taxes	284,730	3,994	—	—	3,994
Common stock repurchased	(2,884,210)	(100,751)	—	—	(100,751)
Share based compensation	—	7,093	—	—	7,093
Tax shortfall from exercise or vesting of share-based payment arrangements	—	(259)	—	—	(259)
Balance at June 30, 2016	25,614,673	\$ 67,249	\$ 779,934	\$ (72,687)	\$ 774,496
Net income	—	—	69,246	—	69,246
Unrealized gain (loss) on hedged transaction, net of tax	—	—	—	13	13
Foreign currency translation adjustment	—	—	—	(530)	(530)
Exercise of stock options and shares issued under share-based compensation plans, net of shares withheld for employee taxes	394,815	8,208	—	—	8,208
Common stock repurchased	(577,643)	(20,335)	—	—	(20,335)
Share based compensation	—	6,578	—	—	6,578
Tax shortfall from exercise or vesting of share-based payment arrangements	—	(531)	—	—	(531)
Balance at June 30, 2017	25,431,845	\$ 61,169	\$ 849,180	\$ (73,204)	\$ 837,145

See accompanying notes to consolidated financial statements.

ScanSource, Inc. and Subsidiaries
Consolidated Statements of Cash Flows
Years Ended June 30, 2017, 2016 and 2015
(in thousands)

	2017	2016	2015
Cash flows from operating activities:			
Net income	\$ 69,246	\$ 63,619	\$ 65,419
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization	24,968	17,154	11,997
Amortization of debt issue costs	290	297	297
Provision for doubtful accounts	8,901	7,571	993
Share-based compensation	6,602	7,093	6,522
Deferred income taxes	(1,861)	1,846	3,921
Excess tax benefits from share-based payment arrangements	(89)	(101)	(260)
Change in fair value of contingent consideration	5,211	1,294	2,667
Changes in operating assets and liabilities, net of acquisitions:			
Accounts receivable	(66,129)	14,167	(14,476)
Inventories	28,449	2,999	(37,695)
Prepaid expenses and other assets	(4,300)	4,612	2,337
Other noncurrent assets	(9,540)	(2,186)	1,431
Accounts payable	19,861	(71,706)	28,280
Accrued expenses and other liabilities	8,491	6,401	7,449
Income taxes payable	4,776	(849)	(3,360)
Net cash provided by operating activities	<u>94,876</u>	<u>52,211</u>	<u>75,522</u>
Cash flows from investing activities:			
Capital expenditures	(8,849)	(12,081)	(20,762)
Cash paid for business acquisitions, net of cash acquired	(83,804)	(61,475)	(59,779)
Payments for acquisition of intangible assets	(3,583)	—	—
Net cash used in investing activities	<u>(96,236)</u>	<u>(73,556)</u>	<u>(80,541)</u>
Cash flows from financing activities:			
Borrowings (repayments) short-term borrowings, net	—	—	(24,097)
Borrowings on revolving credit, net of expenses	1,813,062	1,376,620	93,579
Repayments on revolving credit, net of expenses	(1,792,620)	(1,305,193)	(93,579)
Repayments on long-term debt	—	(2,792)	(9,146)
Repayments of capital lease obligations	(246)	(223)	(262)
Debt issuance costs	(876)	—	—
Contingent consideration payments	(10,241)	(8,606)	(5,640)
Exercise of stock options	8,208	3,994	760
Repurchase of common stock	(20,882)	(100,206)	(18,768)
Excess tax benefits from share-based payment arrangements	89	101	260
Net cash used in financing activities	<u>(3,506)</u>	<u>(36,305)</u>	<u>(56,893)</u>
Effect of exchange rate changes on cash and cash equivalents	(440)	(2,596)	(11,293)
Decrease in cash and cash equivalents	<u>(5,306)</u>	<u>(60,246)</u>	<u>(73,205)</u>
Cash and cash equivalents at beginning of period	<u>61,400</u>	<u>121,646</u>	<u>194,851</u>
Cash and cash equivalents at end of period	<u>\$ 56,094</u>	<u>\$ 61,400</u>	<u>\$ 121,646</u>

	2017	2016	2015
	<i>(continued)</i>		
Supplemental disclosure of cash flow information:			
Interest paid during the year	\$ 2,831	\$ 1,706	\$ 1,075
Income taxes paid during the year	\$ 31,126	\$ 33,859	\$ 36,272

See accompanying notes to consolidated financial statements.

SCANSOURCE, INC. AND SUBSIDIARIES
Notes to Consolidated Financial Statements
June 30, 2017

(1) Business and Summary of Significant Accounting Policies

Business Description

ScanSource, Inc. is a leading global provider of technology products and solutions. ScanSource, Inc. and its subsidiaries ("the Company") provide value-added solutions from technology vendors and sell to customers in specialty technology markets through its Worldwide Barcode, Networking & Security segment and Worldwide Communications & Services segment. The Company's two operating segments are based on product, customer and service type.

The Company operates in the United States, Canada, Latin America and Europe. The Company sells into the United States and Canada from a facility located in Mississippi; into Latin America principally from facilities located in Florida, Mexico, Brazil, Colombia and Chile; and into Europe from facilities located in Belgium, France, Germany and the United Kingdom.

Consolidation Policy

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

Related Party Transactions

A related party is generally defined as (i) any person that holds 10% or more of the Company's securities and their immediate families, (ii) the Company's management, (iii) someone that directly or indirectly controls, is controlled by or is under common control with the Company, or (iv) anyone who can significantly influence the financial and operating decisions of the Company. A transaction is considered to be a related party transaction when there is a transfer of resources or obligations between related parties. There were no material related party transactions for the fiscal years ended June 30, 2017, 2016 and 2015.

Use of Estimates

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

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

(a) Allowances for Trade and Notes Receivable

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

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

SCANSOURCE, INC. AND SUBSIDIARIES
Notes to Consolidated Financial Statements—(Continued)
June 30, 2017

(b) Inventory Reserves

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

(c) Purchase Price Allocations

For each acquisition, the Company allocates the purchase price to assets acquired, liabilities assumed and goodwill and intangibles in accordance with the FASB's Accounting Standards Codification ("ASC") 805. The Company recognizes assets and liabilities acquired at their estimated fair values. Management uses judgment to (1) identify the acquired assets and liabilities assumed, (2) estimate the fair value of these assets, (3) estimate the useful life of the assets and (4) assess the appropriate method for recognizing depreciation or amortization expense over the asset's useful life.

Cash and Cash Equivalents

The Company considers all highly liquid investments with original maturities of three months or less, when purchased, 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 terms of the agreements governing these accounts, the Company does not have the right to offset most if not all outstanding checks written from these accounts against cash on hand and the respective institutions are not legally obligated to honor the checks until sufficient funds are transferred to fund the checks. As a result, checks released but not yet cleared from these accounts in the amounts of \$48.5 million and \$78.3 million are classified as accounts payable as of June 30, 2017 and 2016, respectively.

The Company maintains its cash with various financial institutions globally that are monitored regularly for credit quality and holds amounts in excess of Federal Deposit Insurance Corporation ("FDIC") limits or other insured limits. Cash and cash equivalents held outside of the United States totaled \$47.9 million and \$52.7 million as of June 30, 2017 and 2016, respectively.

Concentration of Credit Risk

The Company sells to a large base of customers throughout the United States, Canada, Latin America and Europe. The Company performs ongoing credit evaluations of its customers' financial condition. In certain cases, the Company will accept tangible assets as collateral to increase the trade credit of its customers. In addition, the Company carries credit insurance on certain subsections of the customer portfolio. No single customer accounted for more than 5% of the Company's net sales for fiscal years 2017, 2016 or 2015.

In the event that the Company does not collect payment on accounts receivable within the established trade terms for certain customers, the Company may establish arrangements for longer-term financing. The Company accounts for these arrangements by recording them at their historical cost less specific allowances at balance sheet dates. Interest income is recognized in the period earned and is recorded as interest income in the Consolidated Income Statement.

Derivative Financial Instruments

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

SCANSOURCE, INC. AND SUBSIDIARIES
Notes to Consolidated Financial Statements—(Continued)
June 30, 2017

The Company's foreign currency exposure results from purchasing and selling internationally in several foreign currencies and from intercompany loans with foreign subsidiaries. The Company's foreign currencies are denominated primarily in Brazilian reais, euros, British pounds, Canadian dollars, Mexican pesos, Colombian pesos, Chilean pesos and Peruvian nuevos sols.

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

During the fiscal year ended June 30, 2017, the Company entered into an interest rate swap and designated this instrument as a hedge of the cash flows on certain variable rate debt. To the extent the derivative instrument was effective in offsetting the variability of the hedged cash flows, changes in the fair value of the derivative instrument were not included in current earnings, but were reported as other comprehensive income (loss). There was no ineffective portion to be recorded as an adjustment to earnings for the year ended June 30, 2017 .

Investments

The Company has investments that are held in a grantor trust formed by the Company related to the ScanSource, Inc. Nonqualified Deferred Compensation Plan and Founder's Supplemental Executive Retirement Plan ("SERP"). The Company has classified these investments as trading securities, and they are recorded at fair market value with unrealized gains and losses included in the accompanying Consolidated Income Statements. The Company's obligations under this deferred compensation plan change in concert with the performance of the investments along with contributions to and withdrawals from the plan. The fair value of these investments and the corresponding deferred compensation obligation was \$21.4 million and \$17.9 million as of June 30, 2017 and June 30, 2016 , respectively. These investments are classified as either prepaid expenses and current assets or other non-current assets in the Consolidated Balance Sheets depending on the timing of planned disbursements. The deferred compensation obligation is classified either within accrued expenses and other current liabilities or other long-term liabilities as well. The amounts of these investments classified as current assets with corresponding current liabilities were \$2.7 million and \$1.6 million at June 30, 2017 and June 30, 2016 , respectively.

Inventories

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

Vendor Programs

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

The Company records unrestricted volume rebates received as a reduction of inventory and reduces the cost of goods sold when the related inventory is sold. Amounts received or receivables from vendors that are not yet earned are deferred in the Consolidated Balance Sheets. Vendor receivables are generally collected through reductions to accounts payable authorized by the vendor. In addition, the Company may receive early payment discounts from certain vendors. The Company records early payment discounts received as a reduction of inventory, thereby resulting in a reduction of cost of goods sold when the related inventory is sold. ASC 605 requires management to make certain estimates of the amounts of vendor incentives that will be received. Actual recognition of the vendor consideration may vary from management estimates.

SCANSOURCE, INC. AND SUBSIDIARIES
Notes to Consolidated Financial Statements—(Continued)
June 30, 2017

Vendor Concentration

The Company sells products from many vendors, however, sales of products supplied by, in alphabetical order, Avaya, Cisco and Zebra each constituted more than 10% of the Company's net sales for the years ended June 30, 2017 and 2016 . Sales of products supplied by, in alphabetical order, Avaya and Zebra constituted more than 10% of the Company's net sales for the year ended June 30, 2015 .

Product Warranty

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

Property and Equipment

Property and equipment are recorded at cost. Depreciation is computed using the straight-line method over estimated useful lives of 3 to 10 years for furniture, equipment and computer software, 25 to 40 years for buildings and 15 years for building improvements. Leasehold improvements are amortized over the shorter of the lease term or the estimated useful life. The Company's depreciation expense relates to selling, general and administrative costs, not the cost of selling goods. Maintenance, repairs and minor renewals are charged to expense as incurred. Additions, major renewals and betterments to property and equipment are capitalized.

To the extent that the Company has longstanding, "in-process" projects that have not been implemented for their intended operational use, the Company capitalizes the portion of interest expense incurred during the asset's acquisition period that theoretically could have been avoided in accordance with ASC 835. The amount capitalized is determined by applying the appropriate capitalization rate to the average amount of accumulated expenditures for the asset during the reporting period. The capitalization rate used is based on the rates applicable to borrowings outstanding during the reporting period. The Company has not recorded any capitalized interest for the years ended June 30, 2017 and 2016 .

Capitalized Software

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

Goodwill

The Company accounts for recorded goodwill in accordance with ASC 350, *Goodwill and Other Intangible Assets* , which requires that goodwill be reviewed annually for impairment or more frequently if impairment indicators exist. Goodwill testing utilizes an impairment analysis, whereby the Company compares the carrying value of each identified reporting unit to its fair value. The carrying value of goodwill is reviewed at a reporting unit level at least annually for impairment, or more frequently if impairment indicators exist. The Company's goodwill reporting units align directly with its operating segments, Worldwide Barcode, Networking & Worldwide Security and Communications & Services. The fair values of the reporting units are estimated using the net present value of discounted cash flows generated by each reporting unit. Considerable judgment is necessary in estimating future cash flows, discount rates and other factors affecting the estimated fair value of the reporting units, including the operating

SCANSOURCE, INC. AND SUBSIDIARIES
Notes to Consolidated Financial Statements—(Continued)
June 30, 2017

and macroeconomic factors. Historical financial information, internal plans and projections and industry information are used in making such estimates.

The Company adopted ASU 2017-04 during the current year, which simplifies testing goodwill for impairment. If fair value is determined to be less than carrying value, an impairment loss is recognized for the amount of the carrying value that exceeds the amount of the reporting units' fair value, not to exceed the total amount of goodwill allocated to the reporting unit. Additionally, the Company would consider income tax effects from any tax deductible goodwill on the carrying amount of the reporting unit when measuring the goodwill impairment loss, if applicable. The Company also assesses the recoverability of goodwill if facts and circumstances indicate goodwill may be impaired. In its most recent annual test, the Company estimated the fair value of its reporting units primarily based on the income approach utilizing the discounted cash flow method. The Company also utilized fair value estimates derived from the market approach utilizing the public company market multiple method to validate the results of the discounted cash flow method, which required it to make assumptions about the applicability of those multiples to its reporting units. The discounted cash flow method required the Company to estimate future cash flows and discount those amounts to present value. The key assumptions utilized in determining fair value included:

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

See Note 6 - *Goodwill and Other Identifiable Intangible Assets* for more information regarding goodwill and the results of our testing.

Intangible Assets

Intangible assets consist of customer relationships, trade names, distributor agreements, supplier partner programs and non-compete agreements. Customer relationships, distributor agreements and supplier partner programs are amortized using the straight-line method over their estimated useful lives, which range from 5 to 15 years. Trade names are amortized over a period ranging from 1 to 5 years. Non-compete agreements are amortized over their contract life. The Company's amortization expense relates to selling, general and administrative costs, not the cost of selling goods.

These assets are shown in detail in Note 6 - *Goodwill and Other Identifiable Intangible Assets*.

Impairment of Long-Lived Assets

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

Fair Value of Financial Instruments

The fair value of financial instruments is the amount at which the instrument could be exchanged in a current transaction between willing parties. The carrying values of financial instruments such as accounts receivable, accounts payable, accrued liabilities, borrowings under the revolving credit facility and subsidiary lines of credit approximate fair value based upon either short maturities or variable interest rates of these instruments. For additional information related to the fair value of derivatives, please see Note 9 - *Fair Value of Financial Instruments*.

Liability for Contingent Consideration

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In addition to the initial cash consideration paid to former shareholders of Network1 and Intelisys, the Company is obligated to make additional earnout payments based on future results through a specified date based on a multiple of the subsidiary's pro forma earnings as defined in the respective purchase agreements. Future payments are to be paid in the functional currency of the acquired entity, which is the Brazilian real for Network1 and USD for Intelisys. The Company paid the final earnout payment to the former shareholders of CDC during fiscal year 2016 and the final earnout payment to Imago during fiscal year 2017. Network1 has two remaining earnout payments to be paid in annual installments during fiscal years 2018 and 2019. Intelisys has four remaining earnout payments to be paid in annual installments during fiscal years 2018 through 2021. In accordance with ASC Topic 805, the Company determines the fair value of this liability for contingent consideration at each reporting date throughout the term of the earnout using a form of a probability weighted discounted cash flow model. Each period the Company will reflect the contingent consideration liability at fair value with changes recorded in the change in fair value of contingent consideration line item on the Consolidated Income Statement. Current and noncurrent portions of the liability are presented in the current portion of contingent consideration and long-term portion of contingent consideration line items on the Consolidated Balance Sheets.

Contingencies

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

Revenue Recognition

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

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

Service revenue associated with third-party service contracts and warranty programs, as mentioned above, along with configuration and marketing services is recognized when the work is complete, and the four criteria discussed above have been met. Service revenue associated with service contracts, warranty programs, configuration, marketing and other services approximates 3% of consolidated net sales for fiscal years 2017, 2016 and 2015.

Through the Intelisys acquisition, the Company has a recurring revenue model in which the Company acts as a master agent partnering vendors with sales agents to provide telecommunications services to end users. As the Company acts as an agent on behalf of the vendors' services, commission revenue received from the vendor is recognized net of cost associated with the commissions the Company pays to sales agents, at the time of sale. Revenue associated with the recurring revenue model approximates 1.0% of consolidated net sales for fiscal year 2017.

During the fiscal years ended June 30, 2017, 2016 and 2015, the Company did not engage in sales transactions involving multiple element arrangements.

Shipping Revenue and Costs

Shipping revenue is included in net sales, and related costs are included in cost of goods sold. Shipping revenue was \$12.8 million for the year ended June 30, 2017, \$13.0 million for the year ended June 30, 2016 and \$12.2 million for the year ended June 30, 2015.

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Advertising Costs

The Company defers advertising-related costs until the advertising is first run in trade or other publications, or in the case of brochures, until the brochures are printed and available for distribution. Advertising costs, included in marketing costs, after vendor reimbursement, were not significant in any of the three fiscal years ended June 30, 2017, June 30, 2016 and June 30, 2015. Deferred advertising costs for any of these three fiscal years were also not significant.

Foreign Currency

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

Income Taxes

Income taxes are accounted for under the asset and liability method. Deferred income taxes reflect tax consequences on future years of differences between the tax bases of assets and liabilities and their financial reporting amounts. Valuation allowances are provided against deferred tax assets when it is more likely than not that an asset will not be realized in accordance with ASC 740, *Accounting for Income Taxes*. In 2016, the Company adopted Accounting Standards Update ("ASU") 2015-17, *Balance Sheet Classification of Deferred Taxes* and reclassified all current deferred taxes and the related valuation allowances to noncurrent positions on the Consolidated Balance Sheets. The Company has provided for United States income taxes for the current earnings of its Canadian subsidiary. Earnings from all other geographies are considered retained indefinitely for reinvestment. See Note 12 - *Income Taxes* for further discussion.

Additionally, the Company maintains reserves for uncertain tax provisions in accordance with ASC 740. See Note 12 - *Income Taxes* for more information.

Share-Based Payments

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

Common stock repurchases

Repurchases of common stock are accounted for at cost, which includes brokerage fees, and are included as a component of shareholder's equity on the Consolidated Balance Sheets. In August 2014, our Board of Directors authorized a three -year \$120 million share repurchase program. Through June 30, 2016, the Company completed the program, repurchasing 3.4 million shares totaling approximately \$119.5 million. In August 2016, the Board of Directors authorized a new three -year \$120 million share repurchase program. During the year ended June 30, 2017, the Company repurchased 0.6 million shares totaling approximately \$20.3 million.

Comprehensive Income

ASC 220, *Comprehensive Income*, defines comprehensive income as the change in equity (net assets) of a business enterprise during a period from transactions and other events and circumstances from non-owner sources. The components of comprehensive

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income for the Company include net income, foreign currency translation adjustments and unrealized gains or losses on hedged transactions, net of tax arising from the consolidation of the Company's foreign subsidiaries.

Business Combinations

The Company accounts for business combinations in accordance with ASC 805, *Business Combinations*. ASC 805 establishes principles and requirements for recognizing the total consideration transferred to and the assets acquired, liabilities assumed and any non-controlling interest in the acquired target in a business combination. ASC 805 also provides guidance for recognizing and measuring goodwill acquired in a business combination and requires the acquirer to disclose information that users may need to evaluate and understand the financial impact of the business combination. See Note 5 - *Acquisitions* for further discussion.

Reclassifications

Certain reclassifications have been made to prior year amounts in Note 14 - *Segment Information*, to conform with current period presentation. Depreciation expense and intangible amortization expense have been presented as individual lines on the Consolidated Income Statement in the current year and prior year balances have been reclassified to conform with current year presentation. These reclassifications had no effect on consolidated financial results.

Recent Accounting Pronouncements

In May 2014, the FASB issued a comprehensive new revenue recognition standard for contracts with customers that will supersede most current revenue recognition guidance, including industry-specific guidance. The core principle of this standard is that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. To achieve this core principle, the standard provides a five-step analysis of transactions to determine when and how revenue is recognized. Other major provisions include the capitalization and amortization of certain contract costs, ensuring the time value of money is considered in the transaction price, and allowing estimates of variable consideration to be recognized before contingencies are resolved in certain circumstances. This guidance also requires enhanced disclosures regarding the nature, amount, timing and uncertainty of revenue and cash flows arising from an entity's contracts with customers. The new standard is effective for fiscal years, and interim periods within those years, beginning after December 15, 2017. Early application is prohibited. The standard permits the use of either the retrospective or cumulative effect transition method. This guidance will be applicable to the Company for the fiscal year beginning July 1, 2018. The Company is currently in the process of evaluating the impact of this guidance on our consolidated financial results to determine the appropriate transition method for the Company. The Company has engaged a third-party consultant to assist with developing a multi-phase plan to assess the impact of adoption. The Company has also begun its initial review and analysis of business processes and current material contracts.

In February 2016, the FASB issued ASU 2016-02, *Leases (Topic 842)* requiring lessees to reflect most leases on their balance sheets and recognize expenses on their income statements in a manner similar to current guidance. Under the new guidance, lessees will be required to recognize a lease liability, which is a lessee's obligation to make lease payments arising from a lease, measured on a discounted basis, and a right-of-use asset, which is an asset that represents the lessee's right to use, or control the use of, a specified asset for the lease term. The asset will be measured at the lease liability amount, adjusted for lease prepayments, lease incentives received and the lessee's initial direct costs. For leases with a lease term of 12 months or less, as long as the lease does not include options to purchase the underlying assets, lessees can elect not to recognize a lease liability and right-of-use asset. Under the new guidance, lessor accounting is largely unchanged, and the accounting for sale and leaseback transactions is simplified. The standard is effective for fiscal years beginning after December 15, 2018, including interim periods within those fiscal years. This guidance will be applicable to the Company for the fiscal year beginning July 1, 2019. The guidance must be adopted using a modified retrospective approach for leases that exist or are entered into after the beginning of the earliest comparative period in the financial statements. The Company is currently evaluating the impact on its consolidated financial statements upon the adoption of this new guidance.

In March 2016, the FASB issued ASU 2016-09, *Compensation - Stock Compensation (Topic 718)* simplifying several aspects of the accounting for employee share-based payment transactions, including the accounting for income taxes, forfeitures and statutory withholding requirements, as well as classification in the statement of cash flows. Under the new guidance, an entity will recognize all excess tax benefits and tax deficiencies as income tax expense or benefit in the income statement. This change eliminates the current practice of recognizing excess tax benefits in additional paid-in-capital ("APIC") and tax deficiencies in APIC to the extent

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that there is a sufficient APIC pool related to previously recognized excess tax benefits. In addition, excess tax benefits and tax deficiencies are considered discrete items in the reporting period they occur and are not included in the estimate of an entity's annual effective tax rate. As for classification on the statement of cash flows, excess tax benefits will no longer represent a financing activity since they are recognized in the income statement and will appropriately be classified as an operating activity. The ASU allows an entity to elect as an accounting policy either to continue to estimate the total number of awards for which the requisite service period will not be rendered (as currently required) or to account for forfeitures when they occur. In regards to statutory withholding requirements, the new guidance stipulates that the net settlement of an award would not result, by itself, in liability classification of the award provided that the amount withheld for taxes does not exceed the maximum statutory tax rate in the employees' relevant tax jurisdictions. The standard is effective for fiscal years beginning after December 15, 2016, including interim periods within those fiscal years. If early adoption is elected, all amendments in the ASU that apply must be adopted in the same period. This guidance will be applicable to the Company for the fiscal year beginning July 1, 2017. The Company is currently evaluating the impact on its consolidated financial statements upon the adoption of this new guidance.

In August 2016, the FASB issued ASU 2016-15, *Statement of Cash Flows (Topic 230)* intended to reduce diversity in practice of how certain cash receipts and cash payments are presented and classified in the statement of cash flows. The update addresses eight specific cash flow issues, with the treatment of contingent consideration payments made after a business combination being the most directly applicable to the Company. The update requires that cash payments made approximately three months or less after an acquisition's consummation date should be classified as cash outflows for investing activities. Payment made thereafter up to the amount of the original contingent consideration liability should be classified as cash outflows from financing activities. Payments made in excess of the amount of the original contingent consideration liability should be classified as cash outflows from operating activities. The standard is effective for fiscal years beginning after December 15, 2017, including interim periods within those fiscal years. The standard will be applicable to the Company for the fiscal year beginning July 1, 2018. Early adoption is permitted, provided all eight amendments are adopted in the same period. The guidance requires adoption using a retrospective transition method. The Company is currently evaluating the impact on its consolidated financial statements upon the adoption of this new guidance.

In January 2017, the FASB issued guidance clarifying the definition of a business within ASC Topic 850 *Business Combinations*. The new standard narrows the definition of a business and therefore affects whether an acquisition represents the purchase of a business or an asset. The standard provides for an initial assessment to determine if substantially all of the fair value of the gross assets acquired is concentrated in a single identifiable asset or group of similar identifiable assets, qualifying as an asset, not a business. If the definition of the acquisition is not clear after the initial assessment, the guidance provides framework to determine if the asset(s) acquired include an input and a substantive process that together significantly contribute to the ability to create an output, which constitutes a business. The distinction between a business and an asset is important because asset acquisitions do not result in goodwill, do not require the expensing of transaction costs and do not record contingent consideration at fair value at the acquisition date, as well as other accounting concepts. The standard is effective for fiscal years beginning after December 15, 2018, including interim periods within those fiscal years. Early adoption is permitted as long as the transaction has not been reported in financial statements that have been issued or made available for issuance. The Company adopted the new standard in connection with an asset acquisition completed during the quarter ended March 31, 2017 (See Note 6- *Goodwill and Other Identifiable Intangible Assets*).

In January 2017, the FASB issued guidance to simplify the accounting for goodwill impairment. It removes Step 2 of the goodwill impairment test, which requires a hypothetical purchase price allocation. Goodwill impairment will now be calculated as the amount by which a reporting unit's carrying value exceeds its fair value, not exceeding the carrying amount of goodwill. In addition, income tax effects from any tax deductible goodwill shall also be considered in measuring goodwill impairment loss, if applicable. The guidance is effective for annual and interim periods beginning after December 15, 2019 and should be adopted prospectively. Early adoption is permitted for interim or annual goodwill impairment test performed with a measurement date after January 1, 2017. The Company adopted the guidance prospectively as of April 30, 2017, our fiscal year 2017 impairment testing date. The adoption did not have an impact on the Company's consolidated financial statements.

The Company has reviewed other newly issued accounting pronouncements and concluded that they are either not applicable to its business or that no material effect is expected on its consolidated financial statements as a result of future adoption.

(2) Earnings per Share

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

	Fiscal Year Ended June 30,		
	2017	2016	2015
	<i>(in thousands, except per share data)</i>		
Numerator:			
Net income	\$ 69,246	63,619	65,419
Denominator:			
Weighted-average shares, basic	25,318	26,472	28,558
Dilutive effect of share-based payments	197	215	241
Weighted-average shares, diluted	25,515	26,687	28,799
Net income per common share, basic	\$ 2.74	\$ 2.40	\$ 2.29
Net income per common share, diluted	\$ 2.71	\$ 2.38	\$ 2.27

For the years ended June 30, 2017, 2016 and 2015, weighted-average shares outstanding excluded from the computation of diluted earnings per share because their effect would have been antidilutive were 418,325, 461,090 and 340,697, respectively.

(3) Property and Equipment

Property and equipment is comprised of the following:

	June 30,	
	2017	2016
	<i>(in thousands)</i>	
Land	\$ 3,331	\$ 3,009
Buildings and leasehold improvements	21,101	20,473
Computer software and equipment	53,583	46,112
Furniture, fixtures and equipment	26,059	23,316
Construction in progress	4,556	4,897
	108,630	97,807
Less accumulated depreciation	(52,064)	(45,419)
	\$ 56,566	\$ 52,388

During the fiscal year ended June 30, 2017, the increase in net fixed assets from the prior year is largely due to net assets acquired during the Intelisys acquisition, including the fair value of software assessed on the acquisition date.

Depreciation expense was \$9.4 million, \$7.3 million and \$5.4 million for the fiscal years ended 2017, 2016 and 2015, respectively, all of which relates to selling, general and administrative costs, not the cost of selling goods, and has been presented as such in the accompanying Consolidated Income Statements.

(4) Accrued Expenses and Other Current Liabilities

Accrued expenses and other current liabilities is comprised of the following:

	June 30,	
	2017	2016
	<i>(in thousands)</i>	
Deferred warranty revenue	\$ 28,724	\$ 29,836
Accrued compensation	21,713	19,917
Other taxes payable	18,440	11,044
Accrued marketing expense	5,914	2,459

Brazilian pre-acquisition contingencies	4,727	2,941
Accrued freight	3,392	3,507
Other accrued liabilities	21,805	29,271
	<u>\$ 104,715</u>	<u>\$ 98,975</u>

(5) Acquisitions

Intelisys

On August 29, 2016, the Company acquired substantially all the assets of Intelisys, a technology services company with voice, data, cable, wireless and cloud services. Intelisys is part of the Company's Worldwide Communications and Services operating segment. With this acquisition, the Company broadens its capabilities in the telecom and cloud services market and generates the opportunity for high-growth recurring revenue.

Under the asset purchase agreement, the Company made an initial cash payment of approximately \$84.6 million, which consisted of an initial purchase price of \$83.6 million and \$1.0 million for additional net assets acquired at closing, and agreed to make four additional annual cash installments based on a form of adjusted EBITDA for the periods ending June 30, 2017 through June 30, 2020. The Company acquired \$0.8 million of cash as part of the acquisition, resulting in \$83.8 million net cash paid for Intelisys initially. A portion of the purchase price was placed into escrow to indemnify the Company for certain pre-acquisition damages. As of June 30, 2017, the balance available in escrow was \$8.5 million. During fiscal years 2017 and 2016, the Company recognized \$0.5 million and \$0.3 million in acquisition-related cost, respectively, included in selling, general and administrative expenses on the Consolidated Income Statements.

The purchase price of this acquisition was allocated to the assets acquired and liabilities assumed based on their estimated fair values on the transaction date. The goodwill balance is primarily attributed to entering the recurring revenue telecom and cloud services market and expanded market opportunities to grow recurring revenue streams. Goodwill and identifiable intangible assets are expected to be fully deductible for tax purposes.

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Notes to Consolidated Financial Statements—(Continued)
June 30, 2017

	Intelisys	
	<i>(in thousands)</i>	
Receivables, net	\$	21,655
Other current assets		1,547
Property and equipment, net		5,298
Goodwill		109,005
Identifiable intangible assets		63,110
Other non-current assets		1,839
	<u>\$</u>	<u>202,454</u>
Accounts payable	\$	21,063
Accrued expenses and other current liabilities		2,587
Contingent consideration		95,000
Consideration transferred, net of cash acquired		83,804
	<u>\$</u>	<u>202,454</u>

Intangible assets acquired include trade names, customer relationships and non-compete agreements. The weighted-average amortization period for these identified intangible assets after purchase accounting adjustments, other than goodwill, was 10 years.

Following the August 29, 2016 acquisition date, Intelisys contributed the following results to the Condensed Consolidated Income Statement for the fiscal year ended June 30, 2017 .

	Fiscal year ended June 30, 2017	
	<i>(in thousands)</i>	
Net Sales	\$	29,422
Amortization of intangible assets		(5,386)
Change in fair value of contingent consideration		(12,117)
Operating loss ⁽¹⁾		(4,204)
Net loss ⁽¹⁾	\$	(2,675)

⁽¹⁾ Operating loss and net loss reflect amortization expense of \$5.4 million and expense for change in fair value of contingent consideration of \$12.1 million in fiscal year June 30, 2017 .

The following tables summarize the Company's unaudited consolidated pro forma results of operations as though the acquisition happened on July 1, 2015. The pro forma consolidated financial statements do not necessarily reflect what the combined company's financial condition or results from operations would have been had the acquisition occurred on the dates indicated. They also may not be useful in predicting the future financial condition and results of operations of the combined company. The actual financial position and results of operations may differ significantly from the pro forma amounts reflected herein due to a variety of factors.

For the two months ended August 31, 2016 and the fiscal year ended June 30, 2016, the Company has not provided for a change in fair value of contingent consideration.

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June 30, 2017

	Fiscal year ended June 30, 2017		Fiscal year ended June 30, 2016	
	<i>(in thousands, except per share data)</i>		<i>(in thousands, except per share data)</i>	
	As Reported, Consolidated	Pro forma, Consolidated ⁽¹⁾	As Reported, Consolidated	Pro forma, Consolidated ⁽²⁾
Net Sales	\$ 3,568,186	\$ 3,573,402	\$ 3,540,226	\$ 3,568,567
Operating income	88,239	89,691	96,877	102,085
Net Income	69,246	70,331	63,619	66,823
Earnings per share:				
Basic	\$ 2.74	\$ 2.78	\$ 2.40	\$ 2.52
Diluted	\$ 2.71	\$ 2.76	\$ 2.38	\$ 2.50

⁽¹⁾ Pro forma results include actual results from Intelisys for the two months ended August 31, 2016. Adjustments include additional amortization and depreciation expense as if the fair value of identifiable intangible assets, including software, had been recorded on July 1, 2015. On a gross basis, operating income includes additional amortization expense of \$1.1 million and additional depreciation expense of \$0.2 million for the fiscal year ended June 30, 2017. Net income, net of tax, includes additional amortization expense of \$0.7 million and additional depreciation expense of \$0.1 million for the fiscal year ended June 30, 2017. Adjustments also include additional income tax expense of \$0.8 million and adding back acquisition costs of \$0.5 million.

⁽²⁾ Includes actual results for Intelisys for the fiscal year ended June 30, 2016. On a gross basis, operating income includes additional amortization expense of \$6.3 million and additional depreciation expense of \$1.0 million for the fiscal year ended June 30, 2016. Net income, net of tax, includes additional amortization expense of \$4.0 million and additional depreciation expense of \$0.6 million for the fiscal year ended June 30, 2016. Adjustments also include additional income tax expense of \$4.6 million and adding back acquisition costs of \$0.3 million.

KBZ

On September 4, 2015, the Company acquired substantially all the assets of KBZ Communications, Inc., a Cisco Authorized Distributor specializing in video conferencing, services and cloud. KBZ is part of the Company's Worldwide Barcode, Networking & Security operating segment. This acquisition enables the Company to enhance its focus on Cisco's solutions, combining the strengths of both companies to provide a more robust portfolio of products, solutions and services. The results of operations of KBZ have been included in the consolidated results from the date of acquisition.

Under the asset purchase agreement, the Company acquired the assets of KBZ for a cash payment of \$64.6 million. The Company acquired \$3.1 million of cash during the acquisition, resulting in \$61.5 million net cash paid for KBZ. During fiscal year 2016, the Company recorded \$0.2 million in acquisition-related costs, included in selling, general and administrative expenses on the Consolidated Income Statements.

The purchase price of this acquisition was allocated to the assets acquired and liabilities assumed based on their estimated fair values on the transaction date. Pro forma results of operations have not been presented for this acquisition because the results of this acquisition are not material to our consolidated results. The purchase price allocation is as follows:

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Notes to Consolidated Financial Statements—(Continued)
June 30, 2017

	September 4, 2015
	<i>(in thousands)</i>
Receivables, net	\$ 63,131
Inventory	11,227
Other current assets	10,303
Property and equipment, net	677
Goodwill	21,639
Identifiable intangible assets	18,400
Other non-current assets	1,399
	\$ 126,776
Accounts payable	\$ 48,271
Accrued expenses and other current liabilities	14,863
Other long-term liabilities	2,167
Consideration transferred, net of cash acquired	61,475
	\$ 126,776

Intangible assets acquired include trade names, customer relationships and non-compete agreements. The weighted-average amortization period for these identified intangible assets after purchase accounting adjustments, other than goodwill, was 8 years.

(6) Goodwill and Other Identifiable Intangible Assets

In accordance with ASC 350, *Intangibles - Goodwill and Other Intangible Assets*, the Company performs its annual goodwill impairment test during the fourth quarter of each fiscal year, or whenever indicators of impairment are present. The reporting units utilized for goodwill impairment tests align directly with our operating segments, Worldwide Barcode, Networking & Security and Worldwide Communications & Services. The testing includes the determination of each reporting unit's fair value using a discounted cash flows model compared to each reporting unit's carrying value. Key assumptions used in determining fair value include projected growth and operating margin, working capital requirements and discount rates. During fiscal years ended June 30, 2017, 2016 and 2015, no impairment charges related to goodwill were recorded.

Changes in the carrying amount of goodwill for the years ended June 30, 2017 and 2016, by reportable segment, are as follows:

	Worldwide Barcode, Networking & Security Segment	Worldwide Communications & Services Segment	Total
	<i>(in thousands)</i>		
Balance at June 30, 2015	\$ 15,535	\$ 50,974	\$ 66,509
Additions	21,639	8,496 ¹	30,135
Unrealized gain (loss) on foreign currency translation	(740)	(3,189)	(3,929)
Balance at June 30, 2016	\$ 36,434	\$ 56,281	\$ 92,715
Additions	—	109,005 ²	109,005
Unrealized gain (loss) on foreign currency translation	(174)	(665)	(839)
Balance at June 30, 2017	\$ 36,260	\$ 164,621	\$ 200,881

⁽¹⁾ The Company finalized the purchase accounting for the Network1 acquisition during the quarter ended December 31, 2015 and subsequently identified an additional correction in the quarter ended March 31, 2016, which resulted in an increased value assumed for goodwill as compared to June 30, 2015.

⁽²⁾ Additions to goodwill for fiscal year ended June 30, 2016 are due to the Intelisys acquisition.

The following table shows the Company's identifiable intangible assets as of June 30, 2017 and 2016, respectively.

SCANSOURCE, INC. AND SUBSIDIARIES
Notes to Consolidated Financial Statements—(Continued)
June 30, 2017

	June 30, 2017			June 30, 2016		
	Gross Carrying Amount	Accumulated Amortization	Net Book Value	Gross Carrying Amount	Accumulated Amortization	Net Book Value

(in thousands)

Amortized intangible assets:

Customer relationships	\$ 110,691	\$ 27,977	\$ 82,714	\$ 70,379	\$ 26,668	\$ 43,711
Trade names	23,256	8,691	14,565	11,270	4,398	6,872
Non-compete agreements	1,160	608	552	1,103	777	326
Distributor agreements	355	158	197	345	127	218
Supplier partner program	3,583	98	3,485	—	—	—
Total intangibles	\$ 139,045	\$ 37,532	\$ 101,513	\$ 83,097	\$ 31,970	\$ 51,127

During fiscal year 2017, the Company acquired end user contracts with Intelisys suppliers (classified as customer relationships above), trade names and non-compete agreements related to the acquisition of Intelisys. The Company also completed an asset acquisition through its subsidiary, Intelisys, of supplier partner program assets to enhance its high-growth recurring revenue model. The acquired assets have been recorded as intangible assets in the accompanying Consolidated Balance Sheets with a ten -year amortization period. The Company wrote-off fully amortized customer relationships for our Brazilian entity, CDC, during fiscal year 2017.

The weighted-average amortization period for all intangible assets was approximately 10 years for years ended June 30, 2017 , June 30, 2016 and June 30, 2015 , respectively. Amortization expense for the years ended June 30, 2017 , 2016 and 2015 was \$15.5 million , \$9.8 million and \$6.6 million , respectively, all of which relates to selling, general and administrative costs, not the cost of selling goods, and has been presented as such in the accompanying Consolidated Income Statements.

Estimated future amortization expense is as follows:

Year Ended June 30,	Amortization Expense <i>(in thousands)</i>
2018	\$ 14,669
2019	12,617
2020	12,011
2021	11,905
2022	10,705
Thereafter	39,606
Total	\$ 101,513

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

The following table shows the Company's long term debt as of June 30, 2017 and 2016 , respectively.

	2017	2016
	<i>(in thousands)</i>	
Revolving credit facility	\$ 91,871	\$ 71,427
Long term debt	5,429	5,429
Total debt	\$ 97,300	\$ 76,856

Revolving Credit Facility

The Company has a multi-currency senior secured revolving credit facility with JPMorgan Chase Bank N.A., as administrative agent, and a syndicate of banks (the "Amended Credit Agreement") that was scheduled to mature on November 6, 2018 . On April 3, 2017 , the Company amended this credit facility to extended its maturity to April 3, 2022 . On August 8, 2017 , the Company amended this credit facility again to increase the amount from \$300 million to \$400 million . The Amended Credit Agreement allows for the issuance of up to \$50 million for letters of credit and has a \$200 million accordion feature that allows the Company to

increase the availability to \$600 million, subject to obtaining additional credit commitments from the lenders participating in the increase. The Company incurred debt issuance costs of \$0.9 million in connection with the April 3, 2017 amendment to the Amended Credit Agreement, which were capitalized to other assets on the Condensed Consolidated Balance Sheets and added to the unamortized debt issuance costs from the previous credit facility.

At the Company's option, loans denominated in U.S. dollars under the Amended Credit Agreement, other than swingline loans, bear interest at a rate equal to a spread over the London Interbank Offered Rate ("LIBOR") or alternate base rate depending upon the Company's ratio of total debt (excluding accounts payable and accrued liabilities), 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"). This spread ranges from 1.00% to 2.125% for LIBOR-based loans and 0.00% to 1.125% for alternate base rate loans. The spread in effect as of June 30, 2017 was 1.375% for LIBOR-based loans and 0.375% for alternate base rate loans. Additionally, the Company is assessed commitment fees ranging from 0.175% to 0.35%, depending upon the Leverage Ratio, on non-utilized borrowing availability, excluding swingline loans. The commitment fee rate in effect as of June 30, 2017 was 0.20%. Borrowings under the Amended Credit Agreement are guaranteed by substantially all of the domestic assets of the Company and a pledge of up to 65% of capital stock or other equity interest in certain foreign subsidiaries determined to be either material or a subsidiary borrower as defined in the Amended Credit Agreement. The Company was in compliance with all covenants under the credit facility as of June 30, 2017.

The average daily balance on the revolving credit facility during fiscal year ended June 30, 2017 and 2016 was \$126.5 million and \$86.6 million, respectively. There was \$208.1 million and \$228.2 million available for additional borrowings as of June 30, 2017 and 2016, respectively. There were no letters of credit issued under the multi-currency revolving credit facility as of June 30, 2017 and €0.4 million as of June 30, 2016.

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 Southaven, Mississippi facility, through the issuance of an industrial development revenue bond. The bond matures on September 1, 2032 and accrues interest at a rate equal to 30-day LIBOR plus a spread of 0.85%. The terms of the bond allow for payment of interest only for the first 10 years of the agreement, and then, starting on September 1, 2018 through 2032, principal and interest payments are due until the maturity date or the redemption of the bond. The agreement also provides the bondholder with a put option, exercisable only within 180 days of each 5th anniversary of the agreement, requiring the Company to pay back the bonds at 100% of the principal amount outstanding. As of June 30, 2017, the Company was in compliance with all covenants under this bond. The interest rate at June 30, 2017 and 2016 was 1.926% and 1.32%, respectively.

Scheduled maturities of the Company's revolving credit facility and long-term debt at June 30, 2017 are as follows:

SCANSOURCE, INC. AND SUBSIDIARIES
Notes to Consolidated Financial Statements—(Continued)
June 30, 2017

	Revolving Credit Facility	Long-Term Debt
	<i>(in thousands)</i>	
Fiscal year:		
2018	\$ —	\$ —
2019	—	312
2020	—	319
2021	—	325
2022	91,871	332
Thereafter	—	4,141
Total principal payments	<u>\$ 91,871</u>	<u>\$ 5,429</u>

Debt Issuance Costs

As of June 30, 2017, net debt issuance costs associated with the credit facility and bonds totaled \$1.3 million and are being amortized on a straight-line basis through the maturity date of each respective debt instrument.

SCANSOURCE, INC. AND SUBSIDIARIES
Notes to Consolidated Financial Statements—(Continued)
June 30, 2017

(8) Derivatives and Hedging Activities

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

Foreign Currency Derivatives – 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 currency options and forward contracts or other hedging instruments with third parties. These contracts will periodically hedge the exchange of various currencies, including the U.S. dollar, Brazilian real, euro, British pound, Canadian dollar, Mexican peso, Colombian peso, Chilean peso and Peruvian nuevo sol. While the Company utilizes foreign exchange contracts to hedge foreign currency exposure, the Company's foreign exchange policy prohibits the use of derivative financial instruments for speculative purposes.

The Company had contracts outstanding with notional amounts of \$67.1 million and \$46.2 million for the exchange of foreign currencies as of June 30, 2017 and 2016, 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:

	Fiscal Year Ended June 30,		
	2017	2016	2015
	<i>(in thousands)</i>		
Net foreign exchange derivative contract (gain) loss	\$ 146	\$ (1,951)	\$ (5,364)
Net foreign currency transactional and re-measurement (gain) loss	1,773	4,522	8,408
Net foreign currency (gain) loss	<u>\$ 1,919</u>	<u>\$ 2,571</u>	<u>\$ 3,044</u>

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

Interest Rates – The Company's earnings are also affected by changes in interest rates due to the impact those changes have on interest expense from floating rate debt instruments. To manage the exposure to interest rates, on June 23, 2017, the Company entered into an interest rate swap agreement with a notional amount of \$50 million scheduled to mature on April 23, 2022. This swap agreement is designated as a cash flow hedge to hedge the variable rate interest payments on the revolving credit facility. Interest rate differentials paid or received under the swap agreement are recognized as adjustments to interest expense. To the extent the swap is effective in offsetting the variability of the hedged cash flows, changes in the fair value of the swap are not included in current earnings but are reported as other comprehensive income (loss). There was no ineffective portion to be recorded as an adjustment to earnings for fiscal year ended June 30, 2017.

SCANSOURCE, INC. AND SUBSIDIARIES
Notes to Consolidated Financial Statements—(Continued)
June 30, 2017

The components of the cash flow hedge included in accumulated other comprehensive income (loss), net of income taxes, in the Consolidated Statements of Shareholders' Equity, are as follows:

	Fiscal Year Ended June 30, 2017	
	<i>(in thousands)</i>	
Net interest expense recognized as a result of interest rate swap	\$	7
Unrealized gain (loss) in fair value of interest swap rates		14
Net increase (decrease) in accumulated other comprehensive income (loss)	\$	21
Income tax effect		8
Net increase (decrease) in accumulated other comprehensive income (loss), net of tax	\$	13

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

		June 30, 2017		
Balance Sheet Location		Fair Value of Derivatives Designated as Hedge Instruments	Fair Value of Derivatives Not Designated as Hedge Instruments	
		<i>(in thousands)</i>		
Derivative assets:				
Foreign exchange contracts	Prepaid expenses and other current assets	\$	—	\$ 35
Interest rate swap agreement	Other non-current assets	\$	21	\$ —
Derivative liabilities:				
Foreign exchange contracts	Accrued expenses and other current liabilities	\$	—	\$ 131

(9) Fair Value of Financial Instruments

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

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

The assets and liabilities maintained by the Company that are required to be measured at fair value on a recurring basis include deferred compensation plan investments, forward foreign currency exchange contracts, interest rate swap agreements and contingent consideration owed to the previous owners of Imago, Network1 and Intelisys. The carrying value of debt listed in Note 7 - *Short-Term Borrowings and Long Term Debt* is considered to approximate fair value, as the Company's debt instruments are indexed to a variable rate using the market approach (Level 2 criteria).

SCANSOURCE, INC. AND SUBSIDIARIES
Notes to Consolidated Financial Statements—(Continued)
June 30, 2017

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, 2017 :

	Total	Quoted prices in active markets (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)
<i>(in thousands)</i>				
Assets:				
Deferred compensation plan investments, current and non-current portion	\$ 21,439	\$ 21,439	\$ —	\$ —
Forward foreign currency exchange contracts	35	—	35	—
Interest rate swap agreement	21	—	21	—
Total assets at fair value	<u>\$ 21,495</u>	<u>\$ 21,439</u>	<u>\$ 56</u>	<u>\$ —</u>
Liabilities:				
Deferred compensation plan investments, current and non-current portion	\$ 21,074	\$ 21,074	\$ —	\$ —
Forward foreign currency exchange contracts	131	—	131	—
Liability for contingent consideration, current and non-current	114,036	—	—	114,036
Total liabilities at fair value	<u>\$ 135,241</u>	<u>\$ 21,074</u>	<u>\$ 131</u>	<u>\$ 114,036</u>

The following table presents assets and liabilities measured at fair value on a recurring basis as of June 30, 2016 :

	Total	Quoted prices in active markets (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)
<i>(in thousands)</i>				
Assets:				
Deferred compensation plan investments, current and non-current portion	\$ 17,893	\$ 17,893	\$ —	\$ —
Forward foreign currency exchange contracts	33	—	33	—
Interest rate swap agreement	—	—	—	—
Total assets at fair value	<u>\$ 17,926</u>	<u>\$ 17,893</u>	<u>\$ 33</u>	<u>\$ —</u>
Liabilities:				
Deferred compensation plan investments, current and non-current portion	\$ 17,893	\$ 17,893	\$ —	\$ —
Forward foreign currency exchange contracts	551	—	551	—
Liability for contingent consideration, current and non-current	24,652	—	—	24,652
Total liabilities at fair value	<u>\$ 43,096</u>	<u>\$ 17,893</u>	<u>\$ 551</u>	<u>\$ 24,652</u>

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

SCANSOURCE, INC. AND SUBSIDIARIES
Notes to Consolidated Financial Statements—(Continued)
June 30, 2017

Derivative instruments, such as 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 and interest rates quoted by banks (Level 2). See Note 8 - *Derivatives and Hedging Activities*. Foreign currency contracts are classified in the Consolidated Balance Sheet as prepaid expenses and other current assets or accrued expenses and other current liabilities, depending on the respective instruments' favorable or unfavorable positions. Fair values of interest rate swaps are measured using standard valuation models with inputs that can be derived from observable market transactions, including LIBOR spot and forward rates (Level 2). The effect of nonperformance risk on the fair value of the derivative instruments was not material as of June 30, 2017.

The Company recorded contingent consideration liabilities at the acquisition date of CDC, Imago, Network1 and Intelisys representing the amounts payable to former shareholders, as outlined under the terms of the applicable purchase agreements, based upon the achievement of a projected earnings measure, net of specific pro forma adjustments. The final payment to CDC was paid during fiscal year 2016 and the final payment to Imago was paid during the quarter ended December 31, 2016. The current and non-current portions of these obligations are reported separately on the Consolidated Balance Sheets. The fair value of the contingent considerations (Level 3) are determined using a form of a probability weighted discounted cash flow model. Subsequent changes in the fair value of the contingent consideration liabilities are recorded to the change in fair value of contingent consideration line item in the Consolidated Income Statements. Fluctuations due to foreign currency translation are captured in other comprehensive income through the changes in foreign currency translation adjustments line item as seen in Note 15 - *Accumulated Other Comprehensive (Loss) Income*.

CDC is part of the Company's Worldwide Barcode, Networking & Security Segment, and Imago, Network1 and Intelisys are part of the Company's Worldwide Communications & Services segment.

The table below provides a summary of the changes in fair value of the Company's contingent considerations for the Imago, Network1 and Intelisys earnouts, which is measured at fair value on a recurring basis using significant unobservable inputs (Level 3) for the fiscal year ended June 30, 2017:

Contingent Consideration for the Fiscal Year Ended

	June 30, 2017		
	Worldwide Barcode, Networking & Security Segment	Worldwide Communications & Services Segment	Total
	<i>(in thousands)</i>		
Fair value at beginning of period	\$ —	\$ 24,652	\$ 24,652
Issuance of contingent consideration	—	95,000	95,000
Payments	—	(10,241)	(10,241)
Change in fair value	—	5,211	5,211
Fluctuation due to foreign currency exchange	—	(586)	(586)
Fair value at end of period	\$ —	\$ 114,036	\$ 114,036

The table below provides a summary of the changes in fair value of the Company's contingent considerations for the CDC, Imago and Network1 earnouts, which is measured at fair value on a recurring basis using significant unobservable inputs (Level 3) for the fiscal year ended June 30, 2016:

SCANSOURCE, INC. AND SUBSIDIARIES
Notes to Consolidated Financial Statements—(Continued)
June 30, 2017

Contingent Consideration for the Fiscal Year Ended

	June 30, 2016		
	Worldwide Barcode, Networking & Security Segment	Worldwide Communications & Services Segment	Total
	<i>(in thousands)</i>		
Fair value at beginning of period	\$ 5,109	\$ 28,851	\$ 33,960
Payments	(4,453)	(4,153)	(8,606)
Change in fair value	181	1,113	1,294
Fluctuation due to foreign currency exchange	(837)	(1,159)	(1,996)
Fair value at end of period	<u>\$ —</u>	<u>\$ 24,652</u>	<u>\$ 24,652</u>

The fair values of amounts owed are recorded in the current portion of contingent consideration and the long-term portion of contingent consideration in the Company's Consolidated Balance Sheets. The U.S. dollar amounts of actual disbursements made in conjunction with future earnout payments are subject to change as the liability is denominated in currencies other than the U.S. dollar and subject to foreign exchange fluctuation risk. In accordance with ASC 805, the Company will revalue the contingent consideration liability at each reporting date through the last payment, with changes in the fair value of the contingent consideration reflected in the change in fair value of contingent consideration line item on the Company's Consolidated Income Statement that is included in the calculation of operating income. The fair value of the contingent consideration liability associated with future earnout payments is based on several factors, including:

- estimated future results, net of pro forma adjustments set forth in the purchase agreements;
- the probability of achieving these results; and
- a discount rate reflective of the Company's creditworthiness and market risk premium associated with the United States, Brazilian and European markets.

A change in any of these unobservable inputs can significantly change the fair value of the contingent consideration. Valuation techniques and significant observable inputs used in recurring Level 3 fair value measurements for our contingent consideration liabilities as of June 30, 2017 and 2016 were as follows.

Reporting Period	Valuation Technique	Significant Unobservable Inputs	Weighted Average Rates
June 30, 2017	Discounted cash flow	Weighted average cost of capital	14.2%
		Adjusted EBITDA growth rate	17.0%
June 30, 2016	Discounted cash flow	Weighted average cost of capital	17.1%
		Adjusted EBITDA growth rate	40.7%

Worldwide Barcode, Networking & Security Segment

CDC

The final payment of the contingent consideration related to CDC was paid during the fiscal year ended June 30, 2016. The change in fair value of the contingent consideration recognized in the Consolidated Income Statements was a loss of \$0.2 million for the fiscal year ended June 30, 2016. The loss was due to the recurring amortization of unrecognized fair value discount.

Worldwide Communications & Services Segment

Imago

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Notes to Consolidated Financial Statements—(Continued)
June 30, 2017

The final payment of the contingent consideration related to Imago was paid during the quarter ended December 31, 2016. The change in fair value of the contingent consideration recognized in the Consolidated Income Statements contributed a gain of \$1.1 million for the fiscal year ended June 30, 2017, which was largely driven by actual results that were less-than-expected, including special adjustments as determined by the stock purchase agreement and recurring amortization of the unrecognized fair value discount. In addition, volatility in the foreign exchange rate between the British pound and the U.S. dollar drove changes in the translation of this British pound-denominated liability.

As of June 30, 2016, the fair value of the contingent consideration was \$2.9 million, all of which was classified as current. The change in fair value of the contingent consideration recognized in the Consolidated Income Statements was a loss of \$0.9 million for the fiscal year ended June 30, 2016, which was largely driven by the recurring amortization of the unrecognized fair value discount and achievement of better-than-expected actual results.

Network1

The fair value of the liability for the contingent consideration related to Network1 recognized at June 30, 2017 was \$6.9 million of which \$5.4 million is classified as current. The change in fair value of the contingent consideration recognized in the Consolidated Income Statements contributed a gain of \$5.8 million for the fiscal year ended June 30, 2017, which was largely driven by a reduction in projected results and current year less-than-expected actual results, partially offset by the recurring amortization of the unrecognized fair value discount. In addition, volatility in the foreign exchange rate between the Brazilian real and the U.S. dollar drove 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 \$7.5 million, based on the Company's best estimate of the earnout calculated on a multiple of adjusted earnings.

As of June 30, 2016, the fair value of the contingent consideration was \$21.8 million, of which \$8.7 million was classified as current. The change in fair value of the contingent consideration recognized in the Consolidated Income Statements was a loss of \$0.2 million for the fiscal year ended June 30, 2016, which was largely driven by the recurring amortization of the unrecognized fair value discount, partially offset by a reduction in future projected results.

Intelisys

The fair value of the liability for the contingent consideration related to Intelisys recognized at June 30, 2017 was \$107.1 million of which \$25.3 million is classified as current. The change in fair value of the contingent consideration recognized in the Consolidated Income Statements contributed a loss of \$12.1 million for the fiscal year ended June 30, 2017, which was largely driven by the recurring amortization of the unrecognized fair value discount and improvements in projected results. Although there is no contractual limit, total future undiscounted contingent consideration payments are anticipated to range up to \$136.1 million, based on the Company's best estimate of the earnout calculated on a multiple of adjusted earnings.

SCANSOURCE, INC. AND SUBSIDIARIES
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June 30, 2017

(10) Share-Based Compensation*Share-Based Compensation Plans*

The Company has awards outstanding from two share-based compensation plans (the 2002 Long-Term Incentive Plan and the 2013 Long-Term Incentive Plan). Awards are currently only being granted under the 2013 Long-Term Incentive Plan. As of June 30, 2017, there were 2,071,216 shares available for future grant under the 2013 Long-Term Incentive Plan. All of the Company's share-based compensation plans are shareholder approved, and it is the Company's belief that such awards better align the interests of its employees and directors with those of its shareholders. Under the plans, the Company is authorized to award officers, employees, consultants and non-employee members of the Board of Directors various share-based payment awards, including options to purchase common stock and restricted stock. Restricted stock can be in the form of a restricted stock award ("RSA"), restricted stock unit ("RSU") or a performance unit ("PU"). An RSA is common stock that is subject to risk of forfeiture or other restrictions that lapse upon satisfaction of specified conditions. An RSU represents the right to receive shares of common stock in the future with the right to future delivery of the shares subject to risk of forfeiture or other restrictions that lapse upon satisfaction of specified conditions.

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

	Fiscal Year Ended June 30,		
	2017	2016	2015
	<i>(in thousands)</i>		
Share-based compensation related to:			
Equity classified stock options	\$ 1,356	\$ 1,479	\$ 1,480
Equity classified restricted stock	5,246	5,614	5,042
Total share-based compensation	\$ 6,602	\$ 7,093	\$ 6,522

Stock Options

During the fiscal year ended June 30, 2017, the Company granted stock options for 77,339 shares to one employee. These options vest annually over 3 years and have a 10 -year contractual life. These options were granted with an exercise price that is no less than 100% of the fair market value of the underlying shares on the date of the grant.

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

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Notes to Consolidated Financial Statements—(Continued)
June 30, 2017

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

	Fiscal Year Ended June 30,		
	2017	2016	2015
Expected term	5 years	4.02 years	4.02 years
Expected volatility	30.88%	28.70%	30.06%
Risk-free interest rate	1.84%	1.47%	1.22%
Dividend yield	0.00%	0.00%	0.00%
Weighted-average fair value per option	\$ 11.26	\$ 9.53	\$ 10.51

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

A summary of our stock option plans is presented below:

	Fiscal Year Ended June 30, 2017			
	Options	Weighted-Average Exercise Price	Weighted-Average Remaining Contractual Life	Aggregate Intrinsic Value
Outstanding, beginning of year	1,098,165	\$ 36.52		
Granted during the period	77,339	37.00		
Exercised during the period	(300,590)	33.40		
Canceled, forfeited, or expired during the period	(1,925)	39.12		
Outstanding, end of year	<u>872,989</u>	37.63	5.81	\$ 2,759,060
Vested and expected to vest at June 30, 2017	<u>872,187</u>	37.63	5.81	\$ 2,756,896
Exercisable, end of year	<u>657,019</u>	\$ 37.35	4.92	\$ 2,321,846

The aggregate intrinsic value was calculated using the market price of the Company's stock on June 30, 2017 and the exercise price for only those options that have an exercise price that is less than the market price of our stock. This amount will change as the market price per share changes. The aggregate intrinsic value of options exercised during the fiscal years ended June 30, 2017, 2016 and 2015 was \$1.6 million, \$1.3 million and \$0.6 million, respectively.

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Notes to Consolidated Financial Statements—(Continued)
June 30, 2017

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

	Fiscal Year Ended June 30, 2017		
	Options	Weighted Average Exercise Price	Weighted Average Grant Date Fair- Value
Unvested, beginning of year	278,495	\$ 39.96	\$ 10.27
Granted	77,339	37.00	11.26
Vested	(138,214)	40.61	10.60
Canceled or forfeited	(1,650)	39.53	12.26
Unvested, end of year	<u>215,970</u>	\$ 38.48	\$ 10.39

As of June 30, 2017, there was approximately \$1.5 million of total unrecognized compensation cost related to non-vested share-based compensation arrangements granted under the plans in the form of stock options. This cost is expected to be recognized over a weighted-average period of 1.00 years. The total fair value of options vested during the fiscal years ended June 30, 2017, 2016 and 2015 is \$1.5 million, \$1.5 million and \$1.6 million, respectively. The following table summarizes information about stock options outstanding and exercisable as of June 30, 2017:

Range of Exercise Prices	Options Outstanding			Options Exercisable		
	Shares Outstanding	Weighted Average Remaining Contractual Life	Weighted Average Exercise Price	Number Exercisable	Weighted Average Exercise Price	
\$18.13 - \$22.27	2,800	1.43	\$ 18.14	2,800	\$ 18.14	
\$22.27 - \$26.38	29,991	2.43	24.57	29,991	24.57	
\$26.38 - \$30.49	20,731	5.44	29.80	20,731	29.80	
\$30.49 - \$34.60	82,839	4.99	34.27	82,839	34.27	
\$34.60 - \$38.71	452,179	5.48	36.97	290,360	36.62	
\$38.71 - \$42.82	284,449	7.01	41.79	230,298	41.95	
	<u>872,989</u>	<u>5.81</u>	<u>\$ 37.63</u>	<u>657,019</u>	<u>\$ 37.35</u>	

The Company issues shares to satisfy the exercise of options.

Restricted Stock

Grants of Restricted Shares

During the fiscal year ended June 30, 2017, the Company granted 170,368 shares of restricted stock to employees and non-employee directors, all of which were issued in the form of RSUs or PUs:

SCANSOURCE, INC. AND SUBSIDIARIES
Notes to Consolidated Financial Statements—(Continued)
June 30, 2017

	Fiscal Year Ended June 30, 2017			
	Shares granted	Date granted	Grant date fair value	Vesting period
<i>Employees</i>				
Certain employees based on performance	207	September 2, 2016	\$ 35.79	Annually over 3 years
Certain employees based on promotion	2,884	September 7, 2016	\$ 35.73	Annually over 3 years
Certain employees based on performance	433	September 7, 2016	\$ 35.73	Annually over 3 years
Certain employees based on promotion	721	November 10, 2016	\$ 34.20	Annually over 3 years
Certain employees	151,623	December 2, 2016	\$ 37.00	Annually over 3 years
<i>Non-Employee Directors ⁽¹⁾</i>				
Certain Directors	14,500	December 2, 2016	\$ 37.00	6 months

(1) Under the 2013 Long-Term Incentive Plan, non-employee directors receive annual awards of restricted stock, as opposed to stock options. The number of shares of restricted stock to be granted is established from time to time by the Board of Directors. Currently, the number of shares of restricted stock awarded annually to each non-employee director generally is determined by dividing \$100,000 by the equity award value of the common stock on the date of grant, as defined in the 2013 Long-Term Incentive Plan. The equity award value means the value per share based on a 45 -day averaging of the fair market value of the common stock over a specified period of time, or the fair market value of the common stock on a specified date. These awards will generally vest in full on the day that is six months after the date of grant or upon the earlier occurrence of (i) the director's termination of service as a director by reason of death, disability or retirement, or (ii) a change in control by the Company. The compensation expense associated with these awards will be recognized on a pro-rata basis over this period.

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

	Fiscal Year Ended June 30, 2017	
	Shares	Weighted-Average Grant Date Fair Value
Outstanding, beginning of year	274,804	\$ 39.06
Granted during the period	170,368	36.77
Target shares adjustment during the period ⁽¹⁾	(1,008)	34.80
Vested during the period	(137,894)	40.07
Cancelled, forfeited, or expired during the period	(38,884)	38.18
Outstanding, end of year	<u>267,386</u>	<u>\$ 37.86</u>

(1) These target shares granted as RSUs during fiscal year 2015 have service based and performance based vesting conditions. The actual number of shares granted for each of the three tranches, for the period June 1, 2014 through June 30, 2017, is determined after the date of the Company's financial statements. Therefore, the adjustment recognized during fiscal year 2017 represents the variance between the shares assumed to be granted versus at June 30, 2016 the actual shares granted for the second tranche.

As of June 30, 2017, there was approximately \$7.3 million of unrecognized compensation cost related to unvested restricted stock awards and restricted stock units granted, which is expected to be recognized over a weighted-average period of 1.13 years. The Company withheld 43,669 shares for income taxes during the fiscal year ended June 30, 2017.

(11) Employee Benefit Plans

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

	Fiscal Year Ended June 30,		
	2017	2016	2015
	<i>(in thousands)</i>		
Matching contributions	\$ 875	\$ 735	\$ 626
Discretionary contributions	3,413	3,617	5,350
Total contributions	<u>\$ 4,288</u>	<u>\$ 4,352</u>	<u>\$ 5,976</u>

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

(12) Income Taxes

Income tax expense (benefit) consists of:

	Fiscal Year Ended June 30,		
	2017	2016	2015
	<i>(in thousands)</i>		
Current:			
Federal	\$ 31,149	\$ 21,855	\$ 24,658
State	2,615	1,652	1,639
Foreign	269	6,100	4,927
Total current	<u>34,033</u>	<u>29,607</u>	<u>31,224</u>
Deferred:			
Federal	(3,832)	3,990	2,165
State	(397)	365	198
Foreign	2,445	(1,571)	900
Total deferred	<u>(1,784)</u>	<u>2,784</u>	<u>3,263</u>
Provision for income taxes	<u>\$ 32,249</u>	<u>\$ 32,391</u>	<u>\$ 34,487</u>

SCANSOURCE, INC. AND SUBSIDIARIES
Notes to Consolidated Financial Statements—(Continued)
June 30, 2017

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

	Fiscal Year Ended June 30,		
	2017	2016	2015
	<i>(in thousands)</i>		
U.S. Federal income tax at statutory rate	\$ 35,524	\$ 33,603	\$ 34,967
Increase (decrease) in income taxes due to:			
State and local income taxes, net of Federal benefit	1,729	1,578	1,318
Tax credits	(1,430)	(2,517)	(1,435)
Valuation allowance	444	541	582
Effect of foreign operations, net	(1,477)	(1,150)	(1,665)
Stock compensation	(61)	(62)	(419)
Capitalized acquisition costs	231	70	839
Nontaxable income	(4,437)	—	—
Disallowed interest	2,011	571	—
Other	(285)	(243)	300
Provision for income taxes	<u>\$ 32,249</u>	<u>\$ 32,391</u>	<u>\$ 34,487</u>

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

	June 30,	
	2017	2016
	<i>(in thousands)</i>	
Deferred tax assets derived from:		
Allowance for accounts receivable	\$ 11,687	\$ 12,458
Inventories	5,235	4,799
Nondeductible accrued expenses	3,968	3,842
Net operating loss carryforwards	3,141	3,036
Tax credits	4,094	3,316
Timing of amortization deduction from goodwill	1,285	2,660
Deferred compensation	7,934	6,733
Stock compensation	5,424	6,014
Timing of amortization deduction from intangible assets	3,032	2,045
Total deferred tax assets	<u>45,800</u>	<u>44,903</u>
Valuation allowance	(3,473)	(3,029)
Total deferred tax assets, net of allowance	<u>42,327</u>	<u>41,874</u>
Deferred tax liabilities derived from:		
Timing of depreciation and other deductions from building and equipment	(7,778)	(6,827)
Timing of amortization deduction from goodwill	(5,013)	(5,815)
Timing of amortization deduction from intangible assets	(2,053)	(2,974)
Total deferred tax liabilities	<u>(14,844)</u>	<u>(15,616)</u>
Net deferred tax assets	<u>\$ 27,483</u>	<u>\$ 26,258</u>

SCANSOURCE, INC. AND SUBSIDIARIES
Notes to Consolidated Financial Statements—(Continued)
June 30, 2017

The components of pretax earnings are as follows:

	Fiscal Year Ended June 30,		
	2017	2016	2015
	<i>(in thousands)</i>		
Domestic	\$ 79,871	\$ 76,062	\$ 79,364
Foreign	21,624	19,948	20,542
Worldwide pretax earnings	\$ 101,495	\$ 96,010	\$ 99,906

As of June 30, 2017, there were (i) gross net operating loss carryforwards of approximately \$1.4 million for state income tax purposes; (ii) foreign gross net operating loss carryforwards of approximately \$9.3 million; (iii) state income tax credit carryforwards of approximately \$1.4 million that will begin to expire in 2019; and (iv) withholding tax credits of approximately \$2.9 million; and (v) foreign tax credits of less than \$0.3 million. The Company maintains a valuation allowance of \$0.4 million for foreign net operating losses, a less than \$0.1 million valuation allowance for state net operating losses, a \$2.9 million valuation allowance for withholding tax credits and a \$0.1 million valuation allowance for the notional interest deduction, where it was determined that, in accordance with ASC 740, it is more likely than not that they cannot be utilized.

The Company has provided for United States income taxes for the current earnings of its Canadian subsidiary. Earnings from all other geographies will continue to be considered retained indefinitely for reinvestment. The Company has not provided U.S. income taxes for undistributed earnings of foreign subsidiaries that are considered to be retained indefinitely for reinvestment. The distribution of these earnings would result in additional foreign withholding taxes and additional U.S. federal income taxes to the extent they are not offset by foreign tax credits. It has been the practice of the Company to reinvest those earnings in the business outside the United States. These undistributed earnings amounted to approximately \$118.1 million at June 30, 2017. If these earnings were remitted to the United States, they would be subject to income tax. The tax, after foreign tax credits, is estimated to be approximately \$20.6 million.

Financial results in Belgium for the year ended June 30, 2017 produced pre-tax loss of approximately \$4.7 million. To the extent the Belgium business does not return to profitability as expected, this could affect the valuation of certain deferred tax assets. However, the Belgium business reported taxable income in the two prior years of the three prior years. In the judgment of management, the conditions that gave rise to the fiscal 2017 and 2016 losses are temporary and that it is more likely than not that the deferred tax asset will be realized.

During quarter ended June 30, 2017, a lawsuit filed by Scansource Brazil with the Brazilian Supreme Court in 2014 regarding the tax treatment of certain Brazilian state-provided tax benefits was settled in Scansource Brazil's favor. As a result, Scansource Brazil was awarded and will recover a tax settlement. The Company has recorded, discrete to the quarter, the income tax benefit associated with that recovery equal to approximately \$4.5 million.

As of June 30, 2017, the Company had gross unrecognized tax benefits of \$2.2 million, \$1.3 million of which, if recognized, would affect the effective tax rate. This reflects an increase of \$0.1 million on a net basis over the prior fiscal year. The Company does not expect that the total amounts of unrecognized tax benefits will significantly increase or decrease within the next twelve months.

The Company recognizes interest and penalties related to unrecognized tax benefits within the income tax expense line in the accompanying Consolidated Income Statement. Accrued interest and penalties are included within the related tax liability line in the Consolidated Balance Sheet. The total amount of interest and penalties accrued, but excluded from the table below were \$1.1 million for the fiscal year ending June 30, 2017 and \$1.2 million for the fiscal years ended June 30, 2016 and June 30, 2015, respectively. A reconciliation of the beginning and ending amount of unrecognized tax benefits is as follows:

SCANSOURCE, INC. AND SUBSIDIARIES
Notes to Consolidated Financial Statements—(Continued)
June 30, 2017

	June 30,		
	2017	2016	2015
	<i>(in thousands)</i>		
Beginning Balance	\$ 2,148	\$ 1,301	\$ 1,153
Additions based on tax positions related to the current year	174	326	262
Additions for tax positions of prior years	—	658	—
Reduction for tax positions of prior years	(146)	(137)	(114)
Ending Balance	<u>\$ 2,176</u>	<u>\$ 2,148</u>	<u>\$ 1,301</u>

The Company conducts business globally and, as a result, one or more of its subsidiaries files income tax returns in the United States 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-United States income tax examinations by tax authorities for tax years before June 30, 2012.

(13) Commitments and Contingencies

Leases

The Company leases office and warehouse space under non-cancelable operating leases that expire through 2023. The Company also leases certain equipment under a capital lease that expires in 2020. Lease expense and future minimum lease payments under operating leases and the single capital lease are as follows:

	Fiscal Year Ended June 30,		
	2017	2016	2015
	<i>(in thousands)</i>		
Lease expense	\$ 8,703	\$ 7,394	\$ 6,168

	Operating Lease Payments	Capital Lease Payments	Total Payments
	<i>(in thousands)</i>		
Fiscal Year Ended June 30,			
2018	\$ 7,873	\$ 579	\$ 8,452
2019	5,939	579	6,518
2020	4,906	579	5,485
2021	3,952	—	3,952
2022	3,244	—	3,244
Thereafter	13,629	—	13,629
Total future minimum lease payments	39,543	1,737	41,280
Less: amounts representing interest on capital lease	—	50	50
Total future minimum principal lease payments	<u>\$ 39,543</u>	<u>\$ 1,687</u>	<u>\$ 41,230</u>

On July 6, 2016, the Company entered into an amended agreement to continue to lease approximately 741,000 square feet for distribution, warehousing and storage purposes in a building located in Southaven, Mississippi. The term of the lease is 135 months with 2 consecutive 5 -year extension options.

The Company's existing capital lease expired in June 2017. On February 14, 2017, the Company modified an equipment lease transaction for certain information technology infrastructure located in the Greenville, South Carolina facility. The Company determined this lease qualifies as a capital lease and accordingly, has recorded a capital lease obligation equal to the present value of the minimum lease payments of \$1.7 million scheduled to begin on July 1, 2017. The lease term is 42 months with an expiration date during 2020.

The components of the Company's capital lease as of June 30, 2017 are as follows:

	Capital Lease Obligations					
	Property & Equipment	Accumulated Depreciation	Net Book Value	Short-Term	Long-Term	Total

(in thousands)

IT Infrastructure	\$	1,687	\$	—	\$	1,687	\$	553	\$	1,134	\$	1,687
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Commitments and Contingencies

A majority of the Company's net revenues in fiscal years 2017, 2016 and 2015 were received from the sale of products purchased from the Company's ten largest vendors. The Company has entered into written agreements with substantially all of its major vendors. While the Company's agreements with most of its vendors contain standard provisions for periodic renewals, these agreements generally permit termination by either party without cause upon 30 to 120 days' notice.

The Company or its subsidiaries are, from time to time, parties to lawsuits arising out of operations. Although there can be no assurance, based upon information known to the Company, the Company believes that any liability resulting from an adverse determination of such lawsuits would not have a material adverse effect on the Company's financial condition or results of operations. During the current year, the Company recognized \$12.8 million in proceeds from a legal settlement, net of attorney fees, included in other income (expense), net on the Consolidated Income Statements.

Capital Projects

The Company expects total capital expenditures to range from \$8.0 million to \$11.0 million during fiscal year 2018 primarily for IT investments.

Pre-Acquisition Contingencies

During the Company's due diligence for the CDC acquisition, several pre-acquisition contingencies were identified regarding various Brazilian federal and state tax exposures. In connection with these contingencies, the Company recorded indemnification receivables that are reported gross of the pre-acquisition contingency liabilities as the funds were escrowed as part of the acquisition. During fiscal year 2016, the Company released \$4.1 million from the escrow account to the sellers after the final earnout payment was made. The amount available after the impact of foreign currency translation, as of June 30, 2017 and 2016 for future pre-acquisition contingency settlements or to be released to the sellers, was \$3.4 million and \$3.5 million, respectively.

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

	June 30, 2017		June 30, 2016	
	(in thousands)			
Assets				
Prepaid expenses and other assets (current)	\$	2,212	\$	2,346
Other assets (noncurrent)	\$	—	\$	—
Liabilities				
Other current liabilities	\$	2,212	\$	2,346
Other long-term liabilities	\$	—	\$	—

SCANSOURCE, INC. AND SUBSIDIARIES
Notes to Consolidated Financial Statements—(Continued)
June 30, 2017

The change in classification and amounts of the pre-acquisition contingencies is primarily due to foreign currency translation on a weaker Brazilian real against the U.S. dollar and the expiration of the statute of limitations for identified pre-acquisition contingencies. The amount of reasonably possible undiscounted pre-acquisition contingencies as of June 30, 2017 is estimated to range as high as \$3.3 million at this time, of which all exposures are indemnifiable under the share purchase and sale agreement.

During the Company's due diligence for the Network1 acquisition, several pre-acquisition contingencies were identified regarding various Brazilian federal and state tax exposures. The Company recorded indemnification receivables that are reported gross of the pre-acquisition contingency liabilities as the funds were escrowed as part of the acquisition. The sellers deposited \$8.7 million and \$1.3 million into the escrow account for the years ended June 30, 2017 and 2016. The amount available after the impact of foreign currency translation, as of June 30, 2017 and 2016 for future pre-acquisition contingency settlements or to be released to the sellers, was \$13.0 million and \$4.7 million, respectively.

The table below summarizes the balances and line item presentation of Network1's pre-acquisition contingencies and corresponding indemnification receivables in the Company's consolidated balance sheet:

	June 30, 2017	June 30, 2016
	<i>(in thousands)</i>	
Assets		
Prepaid expenses and other assets (current)	\$ 1,294	\$ 595
Other assets (noncurrent)	\$ 8,235	\$ 9,837
Liabilities		
Other current liabilities	\$ 1,294	\$ 595
Other long-term liabilities	\$ 8,235	\$ 9,837

The amount of reasonably possible undiscounted pre-acquisition contingencies as of June 30, 2017 is estimated to range from \$10.2 million to \$29.9 million at this time, of which all exposures are indemnifiable under the share purchase agreement.

SCANSOURCE, INC. AND SUBSIDIARIES
Notes to Consolidated Financial Statements—(Continued)
June 30, 2017

(14) Segment Information

The Company is a leading provider of technology products and solutions to customers in specialty technology markets. The Company has two reportable segments, based on product, customer and service type.

Worldwide Barcode, Networking & Security Segment

The Worldwide Barcode, Networking & Security segment focuses on automatic identification and data capture ("AIDC"), point-of-sale ("POS"), networking, electronic physical security, 3D printing technologies and other specialty technologies. We have business units within this segment in North America, Latin America and Europe. We see adjacencies among these technologies in helping our customers develop solutions, such as with networking products. AIDC and POS products interface with computer systems used to automate the collection, processing and communication of information for commercial and industrial applications, including retail sales, distribution, shipping, inventory control, materials handling, warehouse management and health care applications. Electronic physical security products include identification, access control, video surveillance, intrusion-related and wireless and networking infrastructure products. 3D printing solutions replace and complement traditional methods and reduce the time and cost of designing new products by printing real parts directly from digital input.

Worldwide Communications & Services Segment

The Worldwide Communications & Services segment focuses on communications technologies and services. We have business units within this segment that offer voice, video conferencing, wireless, data networking, cable, collaboration, converged communications solutions, cloud and technology services. We have business units within this segment in North America, Latin America and Europe. As these solutions come together on IP networks, new opportunities are created for customers to move into adjacent solutions for all vertical markets, such as education, healthcare and government. Our teams deliver value-added support programs and services, including education and training, network assessments, custom configuration, implementation and marketing to help customers develop a new technology practice, or to extend their capability and reach.

SCANSOURCE, INC. AND SUBSIDIARIES
Notes to Consolidated Financial Statements—(Continued)
June 30, 2017

Selected financial information for each business segment is presented below:

	Fiscal Year Ended June 30,		
	2017	2016	2015
	<i>(in thousands)</i>		
Sales:			
Worldwide Barcode, Networking & Security	\$ 2,389,256	\$ 2,361,670	\$ 2,118,739
Worldwide Communications & Services	1,178,930	1,178,556	1,099,887
	<u>\$ 3,568,186</u>	<u>\$ 3,540,226</u>	<u>\$ 3,218,626</u>
Depreciation and amortization:			
Worldwide Barcode, Networking & Security	\$ 6,496	\$ 5,651	\$ 3,813
Worldwide Communications & Services	15,099	8,543	6,912
Corporate	3,373	2,960	1,272
	<u>\$ 24,968</u>	<u>\$ 17,154</u>	<u>\$ 11,997</u>
Operating income:			
Worldwide Barcode, Networking & Security	\$ 49,727	\$ 52,227	\$ 47,985
Worldwide Communications & Services	39,768	45,513	56,710
Corporate ⁽¹⁾	(1,256)	(863)	(3,254)
	<u>\$ 88,239</u>	<u>\$ 96,877</u>	<u>\$ 101,441</u>
Capital expenditures:			
Worldwide Barcode, Networking & Security	\$ 3,796	\$ 5,298	\$ 733
Worldwide Communications & Services	3,163	3,923	1,448
Corporate	1,890	2,860	18,581
	<u>\$ 8,849</u>	<u>\$ 12,081</u>	<u>\$ 20,762</u>
Sales by Geography Category:			
United States	\$ 2,719,413	\$ 2,655,760	\$ 2,391,073
International ⁽²⁾	882,446	920,098	871,862
Less intercompany sales	(33,673)	(35,632)	(44,309)
	<u>\$ 3,568,186</u>	<u>\$ 3,540,226</u>	<u>\$ 3,218,626</u>

⁽¹⁾ For the years ended June 30, 2017, 2016 and 2015, the amounts shown above include acquisition costs.

⁽²⁾ For the years ended June 30, 2017, 2016 and 2015, there were no sales in excess of 10% of consolidated net sales to any single international country.

	June 30, 2017	June 30, 2016
	<i>(in thousands)</i>	
Assets:		
Worldwide Barcode, Networking & Security	\$ 885,786	\$ 836,674
Worldwide Communications & Services	769,342	595,781
Corporate	63,175	58,730
	<u>\$ 1,718,303</u>	<u>\$ 1,491,185</u>
Property and equipment, net by Geography Category:		
United States	\$ 51,853	\$ 46,935
International	4,713	5,453
	<u>\$ 56,566</u>	<u>\$ 52,388</u>

SCANSOURCE, INC. AND SUBSIDIARIES
Notes to Consolidated Financial Statements—(Continued)
June 30, 2017

(15) Accumulated Other Comprehensive (Loss) Income

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

	Fiscal Years Ended June 30,		
	2017	2016	2015
	<i>(in thousands)</i>		
Currency translation adjustment	\$ (73,217)	\$ (72,687)	\$ (64,502)
Unrealized gain on fair value of interest rate swap	13	—	—
Accumulated other comprehensive loss	<u>\$ (73,204)</u>	<u>\$ (72,687)</u>	<u>\$ (64,502)</u>

The tax effect of amounts in comprehensive income (loss) reflect a tax expense or benefit as follows:

	Fiscal years ended June 30,		
	2017	2016	2015
	<i>(in thousands)</i>		
Tax expense (benefit)	\$ (396)	\$ 327	\$ 2,382

(16) Subsequent Events

On July 31, 2017, the Company completed its acquisition of all of the outstanding shares of POS Portal, Inc. ("POS Portal") a leading provider of payment devices and services primarily to the SMB market segment. Under the purchase agreement, the all-cash transaction includes an initial purchase price of approximately \$144.9 million paid in cash at closing (\$13.5 million of which is being held in escrow to cover indemnity claims), subject to working capital and other customary adjustments. The purchase agreement includes a cash earnout payment up to \$13.2 million to be made on November 30, 2017 based on POS Portal's earnings before interest expense, taxes, depreciation and amortization for the trailing twelve months ending September 30, 2017. POS Portal joined the Worldwide Barcode, Networking & Security segment. Due to the timing of the acquisition relative to the annual filing, the Company is not able to present initial accounting estimates for the business combination, including purchase price allocation, valuation of tangible and intangible assets (including goodwill) and valuation of the contingent consideration.

On August 8, 2017 the Company entered into an amendment to the Amended Credit Facility to increase committed borrowing capacity to \$400 million by obtaining additional credit commitments from the lenders participating in the accordion feature. As the Company maintained the \$200 million accordion feature, the total availability was increased to \$600 million , subject to obtaining additional credit commitments from the lenders participating in the increase.

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

Not applicable.

ITEM 9A. Controls and Procedures.

(a) Evaluation of Disclosure Controls and Procedures

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

Based on their evaluation as of the end of the period covered by this Annual Report on Form 10-K, our Chief Executive Officer and Chief Financial Officer have concluded that our disclosure controls and procedures, as of June 30, 2017, were effective in providing reasonable assurance that the objectives of the disclosure controls and procedures are met.

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

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

We assessed the effectiveness of our internal control over financial reporting as of June 30, 2017. However, the Intelisys business acquired during the current fiscal year has been excluded from management's assessment of internal controls over financial reporting. In making this assessment, we used the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission ("COSO") in *2013 Internal Control – Integrated Framework*. Based on its assessment using those criteria, our management concluded that our internal control over financial reporting was effective as of June 30, 2017.

The effectiveness of our internal control over financial reporting as of June 30, 2017 has been audited by Grant Thornton LLP, an independent registered public accounting firm, as stated in their Report of Independent Registered Certified Public Accounting Firm on Internal Control Over Financial Reporting which is included with the Financial Statements in Part II, Item 8 of this Annual Report on Form 10-K and is incorporated herein by reference.

(c) Changes in Internal Control over Financial Reporting

There were no changes in our internal control over financial reporting that occurred during the fiscal year ended June 30, 2017 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

ITEM 9B. Other Information.

Not applicable.

PART III

Information called for by Part III (Items 10, 11, 12, 13 and 14) of this Annual Report on Form 10-K has been omitted as we intend to file with the SEC not later than 120 days after the end of our fiscal year ended June 30, 2017, a definitive Proxy Statement relating to the 2017 Annual Meeting of Shareholders pursuant to Regulation 14A promulgated under the Exchange Act. Such information will be set forth in such Proxy Statement and is incorporated herein by reference.

ITEM 10. Directors, Executive Officers and Corporate Governance.

The information required to be included by Item 10 of Form 10-K will be included in our 2017 Proxy Statement for the 2017 Annual Meeting of Shareholders and such information is incorporated by reference herein.

ITEM 11. Executive Compensation.

The information required to be included by Item 11 of the Form 10-K will be included in our 2017 Proxy Statement for the 2017 Annual Meeting of Shareholders and such information is incorporated by reference herein.

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

The information required to be included by Item 12 of Form 10-K will be included in our 2017 Proxy Statement for the 2017 Annual Meeting of Shareholders and such information is incorporated by reference herein.

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

The information required to be included by Item 13 of Form 10-K will be included in our 2017 Proxy Statement for the 2017 Annual Meeting of Shareholders and such information is incorporated by reference herein.

ITEM 14. Principal Accountant Fees and Services.

The information required to be included by Item 14 of Form 10-K will be included in our 2017 Proxy Statement for the 2017 Annual Meeting of Shareholders and such information is incorporated by reference herein.

PART IV

ITEM 15. Exhibits and Financial Statement Schedules.

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

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

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

(b) *Exhibits* . See Exhibit Index.

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

SCHEDULE II

SCANSOURCE, INC. AND SUBSIDIARIES

Valuation and Qualifying Accounts

(in thousands)

Description	Balance at Beginning of Period	Amounts Charged to Expense	Reductions ⁽¹⁾	Other ⁽²⁾	Balance at End of Period
Allowance for bad debt:					
Year ended June 30, 2015	\$ 26,257	993	(8,288)	13,627	\$ 32,589
Trade and current note receivable allowance					\$ 32,589
Year ended June 30, 2016	\$ 32,589	7,571	(3,829)	2,701	\$ 39,032
Trade and current note receivable allowance					\$ 39,032
Year ended June 30, 2017	\$ 39,032	8,901	(3,860)	361	\$ 44,434
Trade and current note receivable allowance					\$ 44,434

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

(2) "Other" amounts include recoveries and the effect of foreign currency fluctuations for years ended June 30, 2017, 2016 and 2015. The amount in 2017 includes \$0.6 million of recoveries and \$0.3 million of accounts receivable reserves acquired with the Intelisys acquisition on August 29, 2017. In addition, the amount in 2016 includes \$1.5 million of recoveries and \$1.2 million of accounts receivable acquired with KBZ on September 4, 2016. The amount in 2015 includes \$3.9 million of recoveries, \$1.1 million of accounts receivable reserves acquired with Imago Group plc on September 19, 2014 and \$12.8 million of accounts receivable reserves acquired with Network 1 on January 13, 2015.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.
August 29, 2017

SCAN SOURCE , INC.

By: /s/ MICHAEL L. BAUR
Michael L. Baur
Chief Executive Officer

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

<u>Signature</u>	<u>Title</u>	<u>Date</u>
<u>/s/ STEVEN R. FISCHER</u> Steven R. Fischer	Chairman of the Board	August 29, 2017
<u>/s/ MICHAEL L. BAUR</u> Michael L. Baur	Chief Executive Officer and Director (principal executive officer)	August 29, 2017
<u>/s/ GERALD LYONS</u> Gerald Lyons	Executive Vice President and Chief Financial Officer (principal financial officer)	August 29, 2017
<u>/s/ PETER C. BROWNING</u> Peter C. Browning	Director	August 29, 2017
<u>/s/ MICHAEL J. GRAINGER</u> Michael J. Grainger	Director	August 29, 2017
<u>/s/ JOHN P. REILLY</u> John P. Reilly	Director	August 29, 2017
<u>/s/ CHARLES R. WHITCHURCH</u> Charles R. Whitchurch	Director	August 29, 2017

**Exhibit
Index**

Exhibit Number	Description	Filed herewith	Form	Exhibit	Filing Date
2.1	Share Purchase and Sale Agreement for CDC Brasil S.A dated April 7, 2011		8-K	2.1	4/15/2011
2.2	Letter Agreement between Registrant and Intersmart Comércio Importação Exportação de Equipamentos Eletrônicos, S.A., dated August 14, 2014		8-K	10.1	8/15/2014
2.3	Share Purchase and Sale Agreement for Global Data Network LLP dated January 8, 2015		10-Q	2.1	2/3/2015
2.4+	Asset Purchase Agreement for Intelisys, Inc. dated August 5, 2016		10-Q	10.1	11/7/2016
2.5+	Share Purchase Agreement for POS Portal, Inc. dated June 28, 2017	X			
3.1	Amended and Restated Articles of Incorporation and Articles of Amendment		10-Q	3.1	2/3/2005
3.2	Bylaws		10-Q	3.2	5/7/2014
4.1	Form of Common Stock Certificate		SB-2	4.1	2/7/1994
Executive Compensation Plans and Arrangements					
10.1	1997 Stock Incentive Plan, as amended, and Form of Stock Option Agreement		10-K	10.13	9/28/1999
10.2	Amended and Restated Directors Equity Compensation Plan, as amended and restated		10-Q	10.4	11/2/2012
10.3	Form of Restricted Stock Award (for Amended and Restated Directors Equity Compensation Plan as amended and restated)		10-Q	10.3	5/6/2011
10.4	Nonqualified Deferred Compensation Plan, as amended and restated		10-Q	10.1	2/3/2015
10.5	Amended and Restated 2002 Long-Term Incentive Plan		8-K	10.1	12/7/2009
10.6	2013 Long-Term Incentive Plan		S-8	99	12/5/2013
10.7	Employee Stock Purchase Plan		S-8	99	12/5/2013
10.8	Founder's Supplemental Executive Retirement Plan Agreement		10-Q	10.2	5/6/2011
10.9	Executive Severance Plan		8-K	10.3	6/21/2017
10.10	Form of Incentive Stock Option Award Certificate under the Amended and Restated 2002 Long-Term Incentive Plan for grants on or after December 3, 2009		8-K	10.3	12/7/2009
10.11	Form of Incentive Stock Option Award Certificate under the Amended and Restated 2002 Long-Term Incentive Plan for grants on or after December 3, 2010		10-Q	10.2	2/4/2011
10.12	Form of Non-Qualified Stock Option Award Certificate under the Amended and Restated 2002 Long-Term Incentive Plan for grants on or after December 3, 2009		8-K	10.4	12/7/2009

10.13	Form of Non-Qualified Stock Option Award Certificate under the Amended and Restated 2002 Long-Term Incentive Plan for grants on or after December 3, 2010	10-Q	10.4	2/4/2001
10.14	Form of Restricted Stock Award Certificate under the Amended and Restated 2002 Long-Term Incentive Plan for grants on or after December 3, 2009	8-K	10.2	12/7/2009
10.15	Form of Restricted Stock Award Certificate under the Amended and Restated 2002 Long-Term Incentive Plan for grants on or after December 3, 2010	10-Q	10.5	2/4/2011
10.16	Form of Restricted Stock Award Certificate (US) under the 2002 Amended and Restated Long-Term Incentive Plan	10-Q	10.1	2/4/2009
10.17	Form of Restricted Stock Award Certificate (UK) under the 2002 Amended and Restated Long-Term Incentive Plan	10-Q	10.2	2/4/2009
10.18	Form of Restricted Stock Award Certificate (Europe, not UK) under the 2002 Amended and Restated Long-Term Incentive Plan	10-Q	10.3	2/4/2009
10.19	Form of Restricted Stock Unit Award Certificate under ScanSource, Inc. 2013 Long-Term Incentive Plan for grants on or after December 5, 2013	10-Q	10.1	2/6/2014
10.20	Form of Director Stock Unit Award Certificate under ScanSource, Inc. 2013 Long-Term Incentive Plan for grants on or after December 5, 2013	10-Q	10.2	2/6/2014
10.21	Form of Incentive Stock Option Award Certificate under ScanSource, Inc. 2013 Long-Term Incentive Plan for grants on or after December 5, 2013	10-Q	10.3	2/6/2014
10.22	Form of Non-Qualified Stock Option Award Certificate under ScanSource, Inc. 2013 Long-Term Incentive Plan for grants on or after December 5, 2013	10-Q	10.4	2/6/2014
10.23	Form of Other Stock Based Award Certificate under ScanSource, Inc. 2013 Long-Term Incentive Plan	10-K	10.33	8/28/2014
10.24	Form of Performance and Service - Based Restricted Stock Unit Award Certificate under ScanSource Inc. 2013 Long-Term Incentive Plan	10-K	10.34	8/28/2014
10.25	Amended and Restated Employment Agreement, effective as of July 1, 2017, of Michael L. Baur	8-K	10.1	6/21/2017
10.26	Amended and Restated Employment Agreement, dated June 25, 2014, of Gerald Lyons	10-K	10.24	8/28/2014
10.27	First Amendment to Amended and Restated Employment Agreement, effective June 15, 2017, of Gerald Lyons	8-K	10.2	6/21/2017
10.28	Employment Letter, dated August 23, 2017, of Gerald Lyons	8-K	10.1	8/24/2017
10.29	Amended and Restated Employment Agreement, dated June 25, 2014, of John J. Ellsworth	10-K	10.22	8/24/2014

10.30	Form of Performance and Service-Based Restricted Stock Unit Award Agreement for John J. Ellsworth dated May 14, 2012	10-K	10.31	8/24/2012
10.31	Other Stock Based Award Agreement for John J. Ellsworth dated August 26, 2014	10-K	10.32	8/28/2014
10.32	Severance Agreement and General Release by and between ScanSource, Inc. and John Ellsworth dated as of February 24, 2017	8-K	10.1	3/2/2017
	Amended and Restated Employment Agreement, dated June 25, 2014, of Charles A. Mathis	10-K	10.23	8/28/2014
10.33	Bank Agreements			
10.34	Amended and Restated Credit Agreement	10-Q	10.1	11/4/2011
10.35	Amendment No. 1 to the Amended and Restated Credit Agreement	8-K	10.1	11/8/2013
10.36	Amendment No. 2 to the Amended and Restated Credit Agreement	8-K	10.1	12/14/2015
10.37	Amendment No. 3 to the Amended and Restated Credit Agreement	8-K	10.1	4/5/2017
10.38	Amendment No. 4 to the Amended and Restated Credit Agreement	8-K	10.1	8/9/2017
	Other Agreements			
10.39+	Industrial Lease Agreement dated April 27, 2007 between Registrant and Industrial Developments International, Inc.	10-K	10.26	8/29/2007
10.40+	Third Amendment to Industrial Lease Agreement between Registrant and Industrial Developments International, Inc.	10-K	10.54	8/29/2016
10.41+	US Avaya Distribution Agreement with ScanSource, Inc.	10-K	10.39	8/26/2010
10.42+	Amendment to Distribution Agreement with Avaya.	10-K	10.37	8/26/2013
10.43+	Addendum to Distributor Agreement with Avaya.	10-K/A	10.38	1/31/2014
10.44+	Google Services Amendment to Distributor Agreement with Avaya.	10-K	10.52	8/29/2016
10.45+	Hosted Service Amendment to Distributor Agreement with Avaya.	10-K	10.53	8/29/2016
10.46+	Amendment to Distribution Agreement with Avaya.	10-Q	10.1	5/9/2017
10.47+	Partner Hosted Cloud Services Amendment to Distribution Agreement with Avaya.	10-Q	10.1	5/9/2017
10.48+	Distribution Agreement with US Motorola (f/k/a Symbol Technologies, Inc.).	10-Q/A	10.1	10/24/2014
10.49+	Amendment to PartnerEmpower Distribution Agreement with Zebra.	10-K	10.50	8/29/2016
10.50+	Participation Agreement Relating to Distribution Agreement with Zebra.	10-K	10.51	8/29/2016
10.51+	Amendment to PartnerConnect EVM Distributor Agreement	X		
21.1	Subsidiaries of the Company	X		
23.1	Consent of Grant Thornton LLP	X		
31.1	Certification of the Chief Executive Officer	X		
31.2	Certification of the Chief Financial Officer	X		
32.1	Certification of the Chief Executive Officer	X		

32.2	Certification of the Chief Financial Officer	X
101	The following materials from our Annual Report on Form 10-K for the year ended June 30, 2017, formatted in XBRL (eXtensible Business Reporting Language): (i) the Consolidated Balance Sheets as of June 30, 2017 and June 30, 2016, (ii) the Consolidated Income Statements for the years ended June 30, 2017, June 30, 2016 and June 30, 2015, (iii) the Consolidated Statements of Shareholders' Equity for the years ended June 30, 2017, June 30, 2016 and June 30, 2015, (iv) the Consolidated Statements of Cash Flows for the years ended June 30, 2017, June 30, 2016 and June 30, 2015, and (v) the Notes to the Consolidated Financial Statements, tagged as blocks of text	X
+	Confidential treatment has been requested or granted with respect to certain portions of this Exhibit, which portions have been omitted and filed separately with the Commission as part of an application for confidential treatment. Our SEC file number for documents filed with the SEC pursuant to the Securities Exchange Act of 1934, as amended, is 000-26926.	

STOCK PURCHASE AGREEMENT

by and among

PURCHASER,

THE SHAREHOLDERS AND OPTIONHOLDERS OF THE COMPANY AS SET FORTH ON SCHEDULE A,

POS PORTAL, INC., A CALIFORNIA CORPORATION,

and

KENT B. STRYKER,
AS SELLERS' REPRESENTATIVE

Dated as of June 28, 2017

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STOCK PURCHASE AGREEMENT

This STOCK PURCHASE AGREEMENT (this “Agreement”), dated as of June 28, 2017, is made and entered into by and among ScanSource Payments, Inc., a South Carolina corporation (“Purchaser”), the shareholders and optionholders of the Company as set forth on Schedule A (each, a “Seller” and, collectively, the “Sellers”), POS Portal, Inc., a California corporation (the “Company”), and Kent B. Stryker, in his capacity as Sellers’ Representative (as hereinafter defined).

RECITALS

WHEREAS, the Sellers own all of the issued and outstanding shares of capital stock of the Company;

WHEREAS, subject to the terms and conditions of this Agreement, Purchaser desires to purchase from the Sellers, and the Sellers desire to sell to Purchaser, all of the issued and outstanding shares of capital stock of the Company (the “Shares”);

WHEREAS, concurrently with the execution of this Agreement, and as a condition and inducement to the willingness of Purchaser to enter into this Agreement, the Company is entering into employment agreements, in the form attached hereto as Exhibit A, with each of Kent B. Stryker and J. Benjamin Smith (the “Employment Agreements”); and

WHEREAS, each of Purchaser and the Sellers desire to make certain representations, warranties, covenants and agreements in connection with the Transactions (as hereinafter defined).

NOW, THEREFORE, in consideration of the foregoing and the representations, warranties, covenants and agreements set forth herein, the parties, intending to be legally bound, hereby agree as follows:

ARTICLE I

DEFINITIONS

Section 1.1. Certain Definitions. As used in this Agreement, the following terms have the following meanings:

“401(k) Plan” means any Benefit Plan that is intended to be qualified under Section 401(a) of the Code which includes a cash or deferred arrangement that is intended to qualify under Section 401(k) of the Code.

“Accounting Firm” means PricewaterhouseCoopers LLP.

“Accounts Receivable” means accounts receivable, notes receivable and other receivables of the Company.

“Accrued Compensation” means (a) earned payroll, sales or other commissions or any other compensation and earned paid time off/vacation; and (b) any bonus or incentive compensation (excluding Deferred Compensation or Change of Control Payments), in each case of clauses (a) and (b), which is attributable to or in respect of any time period ending on or before the Closing Date and, in each case of clauses (a) and (b), which is payable by the Company, or will become payable by the Company, to any current or former employees, consultants, independent contractors or equity holders of the Company under any Contract, program, policy or arrangement, including the Company’s share of Taxes payable with respect to all such amounts.

“Acquisition Transaction” means any transaction or series of transactions involving: (a) the sale, lease, license, sublicense or disposition of all or a material portion of the Company’s business or assets; (b) the issuance, disposition or acquisition of: (i) any shares of Company Capital Stock or other equity interests or securities of the Company; (ii) any option, call, warrant or right (whether or not immediately exercisable) to acquire any shares of Company Capital Stock or other equity interests or securities of the Company; or (iii) any security, instrument or obligation that is or may become convertible into or exchangeable for any shares of Company Capital Stock or other equity interests or

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securities of the Company; or (c) any merger, consolidation, business combination, reorganization or similar transaction involving the Company.

“Adjustment Escrow Account” means the adjustment escrow account established by the Escrow Agent pursuant to the Escrow Agreement.

“Adjustment Escrow Amount” means an amount in cash equal to \$500,000 to be deposited at the Closing in the Adjustment Escrow Account with the Escrow Agent pursuant to the terms and conditions of the Escrow Agreement, including any interest accrued or income otherwise earned thereon.

“Affiliate” means, with respect to any Person, any other Person that directly, or indirectly through one or more intermediaries, controls, is controlled by or is under common control with the first-mentioned Person. For purposes of this definition, “control” (including the terms “controls,” “controlled by” and “under common control with”), when used with respect to any specified Person, means the power to direct or cause the direction of the management and policies of such Person, directly or indirectly, whether through ownership of voting securities, by contract or otherwise.

“Antitrust Law” means any Law that is designed or intended to prohibit, restrict or regulate actions having the purpose or effect of monopolization or restraint of trade or lessening of competition, including the HSR Act.

“Articles of Incorporation” means the articles of incorporation of the Company, as amended from time to time.

“Business Data” means all data and personal information accessed, processed, collected, stored or disseminated by the Company, including any Personally Identifiable Information.

“Business Day” means any day other than Saturday, Sunday or any other day on which banks in Los Angeles, California are required or permitted to be closed.

“Bylaws” means the bylaws of the Company, as amended from time to time.

“Change of Control Payments” means any amounts (including severance, termination, “golden parachute,” Tax gross-up, transaction bonus, Option termination payment or buyout or other similar payments, but excluding Accrued Compensation or Deferred Compensation) which become payable by the Company as a result of, based upon or in connection with the consummation of the Transactions (either alone or in connection with any other event, whether contingent or otherwise) and which are owing to any current or former employees, officers, directors, consultants, independent contractors or equity holders of the Company pursuant to employment agreements, Contracts or other arrangements, including the Company’s share of Taxes payable with respect to all such amounts.

“Closing Company Cash” means the Company Cash that is unrestricted and held within the United States immediately prior to the Closing.

“Closing Net Working Capital” means the Net Working Capital as of the Closing.

“Code” means the Internal Revenue Code of 1986, as amended.

“Company Board” means the board of directors of the Company.

“Company Capital Stock” means the capital stock of the Company.

“Company Cash” means all cash and cash equivalents of the Company (including marketable securities and short-term investments), in each case determined in accordance with GAAP.

“Company Software” means all software and programs used or held for use by the Company in connection with the conduct of its business, including all computer software, electronic delivery platforms and databases operated

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by the Company on or for its websites or used by the Company in connection with processing customer orders, storing customer information or storing or archiving data.

“Company Source Code” means any source code that is Owned Intellectual Property and any source code for any Company Software.

“Company Transaction Expenses” means all fees, costs, expenses and other similar obligations of, or amounts incurred or payable by or on behalf of the Company that have not been paid in full prior to the Closing, in each case in connection with the preparation, negotiation, execution or performance of this Agreement, the ancillary documents contemplated by this Agreement or the consummation of the Transactions, including the following: (a) the fees and disbursements of, or other similar amounts charged by, counsel retained by the Company; (b) the fees and expenses of, or other similar amounts charged by, any accountants, agents, financial advisors, consultants and experts retained by the Company; (c) any investment banking, brokerage or finder’s fees and related expenses; (d) any additional compensation necessary to obtain the Employment Agreements; (e) the costs, fees and expenses of the Sellers’ Representative; (f) the costs, fees and expenses of the Escrow Agent under the Escrow Agreement; (g) to the extent obtained, the costs, fees and expenses of obtaining any extension (or “tail”) of the directors’ and officers’ liability insurance coverage of the Company’s existing and/or former directors’ and officers’ insurance policies and the Company’s existing and/or former fiduciary liability insurance policies; and (h) the other out-of-pocket expenses, if any, of the Company.

“Confidentiality Agreement” means the confidentiality agreement dated March 1, 2017, between the Company and Parent.

“Consent” means any approval, consent, ratification, permission, waiver, Order, Permit or authorization.

“Contract” means any written or oral contract, lease, license, deed, mortgage, indenture, note or other legally binding agreement, instrument, arrangement, promise, obligation, understanding, undertaking or commitment, whether express or implied.

“Current Assets” means all current assets of the Company, determined in accordance with GAAP; provided, however, that “Current Assets” shall not include Company Cash.

“Current Liabilities” means all current liabilities of the Company, determined in accordance with GAAP, including but not limited to Accrued Compensation and Deferred Compensation; provided, however, that “Current Liabilities” shall not include any amounts included within Indebtedness, Pre-Closing Taxes, Change of Control Payments, or Company Transaction Expenses.

“Damages” includes any loss, damage, injury, Liability, claim, demand, settlement, judgment, award, fine, penalty, Tax, fee (including reasonable attorneys’ fees), charge, cost (including costs of investigation) or expense of any nature.

“Deferred Compensation” means any compensation (excluding Accrued Compensation or Change of Control Payments) which has been earned by any employees, consultants, independent contractors or equity holders of the Company under any Contract, program, policy or arrangement but the actual payment of which has been deferred to a date beyond the month or year in which it was earned, including the Company’s share of Taxes payable with respect to all such amounts.

“Domain Name Registrar” means any entity that manages, registers or performs similar or related functions related to the use, reservation or ownership of domain names.

“Earn-Out Payment” means the amount, if any, that the Company shall be required to pay to the Sellers in respect of the Earn-Out Period pursuant to Section 2.8; provided, however, that if the Earn-Out Payment is calculated to be a negative number, then the Earn-Out Payment shall be deemed to be zero.

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“Earn-Out Period” means the trailing twelve (12) month period ending September 30, 2017.

“EBITDA” means, for the Earn-Out Period, earnings before giving effect to deductions for interest, taxes, depreciation and amortization of the Company for the Earn-Out Period, in conformity with GAAP applied on a basis consistent with the Company’s past practice and, without duplication, plus any Company Transaction Expenses, plus any Change of Control Payments, plus any general corporate overhead charges allocated from Parent to the Company or charged by Parent to the Company or for additional services, not to exceed current cost structure of the Company and consistent with past practice of the Company, plus those adjustments in the amounts set forth on Section 1.1(b) of the Disclosure Schedule, and plus or minus any other adjustments as Purchaser and Seller’s Representative may mutually agree in writing.

“Effect” has the meaning set forth within the definition of Material Adverse Effect.

“Environment” means the indoor and outdoor environment and all media, including ambient air, surface water, groundwater, land surface or subsurface strata, and natural resources.

“Environmental Law” means any Law or other legal requirement pertaining to pollution, protection of health, safety or the Environment or exposure of Persons to Hazardous Materials, including the Clean Air Act, as amended, the Comprehensive Environmental Response, Compensation and Liability Act of 1980, as amended, the Federal Water Pollution Control Act, as amended, the Resource Conservation and Recovery Act of 1976, as amended, the Safe Drinking Water Act, as amended, the Toxic Substances Control Act, as amended, the Oil Pollution Act of 1990, the Superfund Amendments and Reauthorization Act of 1986, as amended, the Hazardous Materials Transportation Act, as amended, the Emergency Planning and Community Right to Know Act, as amended, the Safe Drinking Water Act, as amended, the Occupational Safety and Health Act, as amended, and any foreign, state or local Laws analogous to any of the foregoing, as amended, together with all judicial interpretations thereof.

“Environmental Permit” means any Permit required, issued, held or obtained pursuant to any Environmental Law or pertaining to any Hazardous Material.

“Environmental Release” means any spilling, leaking, pumping, emitting, emptying, discharging, injecting, escaping, leaching, migrating, dumping, or disposing of Hazardous Materials into the Environment, including the abandonment or discarding of any containers.

“ERISA” means the Employee Retirement Income Security Act of 1974, as amended.

“ERISA Affiliate” means each entity that is treated as a single employer with the Company or any of its Affiliates for purposes of Section 414 of the Code.

“Escrow Accounts” means the Adjustment Escrow Account and the Indemnity Escrow Account.

“Escrow Agent” means Wells Fargo Bank, National Association.

“Excess Target Net Working Capital” means \$2,800,000.

“Financing Document” means any Contract providing for the extension of credit to the Company or any of its Affiliates (including Purchaser from and after the Closing).

“Fundamental Representations” means the representations and warranties set forth in Sections 3.1 (Organization and Qualification), 3.2 (Capitalization; Ownership of Shares), 3.3 (Authority), 3.4 (Consents and Approvals; No Violations), 3.11 (Taxes), 3.13 (Labor Matters), 3.14 (Employee Benefits), 3.16 (Intellectual Property), 3.22 (Broker’s Fees), 4.1(a) (Authority), 4.1(b) (Capitalization and Ownership), and 4.1(c) (Consents and Approvals; No Violations) of this Agreement.

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“GAAP” means generally accepted accounting principles in the United States as in effect from time to time and applied consistently throughout the periods involved.

“Governmental Entity” means any federal, provincial, state, municipal, local or foreign court or tribunal, administrative or regulatory body, agency or commission, or any other governmental authority or instrumentality.

“Hazardous Material” means any substance, material, chemical, odor, heat, sound, vibration, radiation, or waste, or any combination of any of them that is regulated or defined by, or with respect to which Liability or standards of conduct are imposed under, any Environmental Law, including any material, substance or waste which is defined as a “hazardous waste,” “hazardous material,” “hazardous substance,” “extremely hazardous waste,” “restricted hazardous waste,” “contaminant,” “pollutant,” “toxic waste,” or “toxic substance” under any provision of applicable Environmental Law, and including petroleum, petroleum products and byproducts, asbestos, presumed asbestos-containing-material or asbestos-containing-material, toxic molds, mycotoxins, urea formaldehyde, radioactive materials and polychlorinated biphenyls.

“Holdback Amount” means \$500,000.

“HSR Act” means the Hart-Scott-Rodino Antitrust Improvements Act of 1976, as amended, and the regulations promulgated thereunder.

“Indebtedness” means, as of any time and without duplication, the following obligations of the Company (whether or not then due and payable): (a) all obligations (including the principal amount thereof or, if applicable, the accreted amount thereof and the amount of accrued and unpaid interest thereon) for the repayment of money borrowed, whether owing to banks, financial institutions, on equipment leases or otherwise; (b) all obligations (including the principal amount thereof or, if applicable, the accreted amount thereof and the amount of accrued and unpaid interest thereon) evidenced by notes, bonds, debentures or similar instruments (whether or not convertible); (c) all obligations to pay the deferred purchase price of property, assets or services purchased (including purchase price adjustments, “holdback” or similar payments, and the maximum amount of any potential earn-out payments); (d) all obligations to pay rent or other payment amounts under a lease which is required to be classified as a capital lease or a liability on the face of a balance sheet prepared in accordance with GAAP or conditional sales Contracts or similar title retention instruments; (e) all obligations relative to the maximum amount of any letter of credit or letter of guaranty, whether drawn or undrawn, bankers’ acceptance or similar instrument issued or created for the account of the Company; (f) all obligations secured by any Lien (other than Permitted Liens); (g) all guaranties, sureties, assumptions and other contingent obligations in respect of, or to purchase or to otherwise acquire, Indebtedness or indebtedness of others; (h) negative cash balances; (i) accounts payable, trade debt and trade payables that are past due in accordance with their applicable invoice or other terms governing the timing of payment; (j) all obligations to pay any amounts to a third party under any Contract pursuant to which the Company sold any of its businesses, assets or properties outside the ordinary course of business, in each case to the extent due and payable and remaining unpaid; (k) all obligations under any interest rate swap agreement, forward rate agreement, interest rate cap or collar agreement or other financial agreement or arrangement entered into for the purpose of limiting or managing interest rate risks; (l) all current and unpaid obligations under any pension, retiree medical, or non-qualified retirement plan, program or arrangement; (m) all obligations, whether interest bearing or otherwise, owed to any Seller and/or any Affiliate of any Seller, other than obligations arising under this Agreement; (n) all obligations in respect of premiums, penalties, “make whole amounts,” breakage costs, change of control payments, costs, expenses and other payment obligations that would arise if all Indebtedness referred to in the foregoing clauses (a) through (m) was prepaid (or, in the case of any interest rate swap agreement, forward rate agreement, interest rate cap or collar agreement, or other financial agreement or arrangement entered into for the purpose of limiting or managing interest rate risks, unwound and settled) in full at such time; and (o) to the extent any item of Indebtedness referred to in the foregoing clauses (a) through (m) cannot be repaid at such time (e.g. , as a result of an irrevocable advance notice requirement), all interest on and other accretion of such Indebtedness that occurs between such time and the earliest time that repayment may occur (e.g. , if notice was delivered at such time).

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“ Indemnitees ” means Purchaser and its Affiliates (including the Company following the Closing) and its and their respective equity holders, Representatives, successors and assigns; provided, however, that the Sellers shall not be deemed to be “Indemnitees.”

“ Indemnity Escrow Account ” means the indemnity escrow account established by the Escrow Agent pursuant to the Escrow Agreement.

“ Indemnity Escrow Amount ” means an amount in cash equal to \$13,044,240 to be deposited at the Closing in the Indemnity Escrow Account with the Escrow Agent pursuant to the terms and conditions of the Escrow Agreement, including any interest accrued or income otherwise earned thereon.

“ Intellectual Property ” means any and all of the following in any jurisdiction throughout the world: (a) patents and patent applications, including reissues, divisions, continuations, continuations-in-part, extensions and reexaminations thereof; (b) works of authorship and copyrights, and registrations and applications for registration thereof; (c) trademarks, service marks, trade dress, logos, trade names and other source identifiers, and registrations and applications for registration thereof; (d) trade secrets, business, technical and know-how information, including inventions, whether patentable or unpatentable, and confidential information; (e) rights of publicity and privacy; (f) computer software and firmware, including source code, object code, files, documentation and other materials related thereto; (g) proprietary databases and data compilations; (h) domain names and registrations and applications for registration thereof; (i) any other intellectual property; and (j) rights in any of the foregoing, including rights to sue or recover and retain Damages for past, present, and future infringement, dilution, misappropriation or other violation of any of the foregoing.

“ Law ” means any law (including common law), statute, code, ordinance, rule, regulation, Order or charge of any Governmental Entity.

“ Liability ” means any debt, obligation, duty or liability of any nature (including any unknown, undisclosed, unmatured, unaccrued, unasserted, unliquidated, contingent, indirect, conditional, implied, vicarious, derivative, joint, several or secondary liability), regardless of whether such debt, obligation, duty or liability would be required to be disclosed on a balance sheet prepared in accordance with GAAP and regardless of whether such debt, obligation, duty or liability is immediately due and payable.

“ LIBOR Rate ” means the one (1) month London Interbank Offered Rate per annum determined as of the date the Earn-Out Payment is due as published by Reuters Monitor Money Rate Service and displayed on the LIBOR page as the “Libor Rate” (or, if Reuters is not available, then as published by Bloomberg or Dow Jones-Telerte and displayed on page 3750 as the BBA LIBOR, as applicable) (or, in any such instance, as published by such other service or displayed on such other page as may replace such service or page for the purpose of displaying rates or prices comparable to the designated rate) for the offering of Dollar deposits by leading banks in the London interbank market for a period of one (1) month and in an amount approximately equal to amount due and not paid to which such LIBOR Rate will be applicable; provided, however, that if more than one such rate is displayed on such page or its replacement, then the LIBOR Rate will be the arithmetic mean of such displayed rates.

“ Licensed Intellectual Property ” means all Intellectual Property licensed to the Company.

“ Lien ” means any lien, pledge, mortgage, deed of trust, encumbrance, claim or security interest, hypothecation, deposit, equitable interest, option, charge, judgment, attachment, right of way, encroachment, easement, servitude, restriction on transfer, restriction on voting, preferential arrangement or preemptive right, right of first refusal or negotiation or restriction of any kind.

“ Material Adverse Effect ” means any change, effect, event, occurrence, development, matter, state of facts, series of events, or circumstance (any such item, an “ Effect ”) that, individually or in the aggregate with all other Effects, has or would reasonably be expected to have or result in: (a) a material adverse effect on the assets (including intangible assets and rights), properties, liabilities, business, condition (financial or otherwise), operations, results of operations or cash flows of the Company or (b) a material adverse effect on the Sellers’ ability to perform their obligations under

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this Agreement or to consummate the Transactions; provided, however, that in the case of clause (a) only, none of the following shall be deemed, either alone or in combination, to constitute, and none of the following shall be taken into account in determining whether there has been, or could reasonably be expected to be, a Material Adverse Effect: (i) any Effect arising out of or relating to (1) United States or global (or any region thereof) (A) economic, credit, financial or securities market conditions, including prevailing interest rates or currency rates or (B) regulatory or political conditions, or (2) acts of terrorism or sabotage, the outbreak, escalation or worsening of hostilities (whether or not pursuant to the declaration of a national emergency or war), man-made disasters, natural disasters (including hurricanes) or acts of god; (ii) any Effect arising out of or relating to factors, conditions, trends or other circumstances generally affecting any of the industries or markets in which the Company operates; (iii) any Effect arising out of or relating to any change in Law, GAAP, regulatory accounting requirements or interpretations thereof that apply to the Company (including the proposal or adoption of any new Law, or any change in the interpretation or enforcement of any existing Law); (iv) the taking of any action by Purchaser or any its Affiliates that is required or expressly contemplated to be taken pursuant to this Agreement, and (v) any failure by the Company to meet financial projections, estimates or forecasts for any period (provided, that the underlying cause of such failure may, to the extent applicable, be considered in determining whether there is, or would reasonably be expected to be, a “Material Adverse Effect”), except, in the case of clauses (i), (ii) and (iii), to the extent that such Effect has a disproportionate adverse effect on the Company as compared to the adverse impact such Effect has on other Persons operating in the industries or markets in which the Company operates, in which case such disproportionate adverse effect may be taken into account in determining whether there has been, or could reasonably be expected to be, a Material Adverse Effect.

“ Net Working Capital ” means an amount (which may be a negative or positive number) in U.S. dollars equal to (a) the Current Assets minus (b) the Current Liabilities.

“ Open Source License ” means any Contract that: (a) is substantially similar to any license identified as an “open source license” by the Open Source Initiative, including, by way of example, the GNU General Public License (GPL), GNU Lesser General Public License (LGPL), GNU Affero General Public License (AGPL), MIT License (MIT), Apache License, Artistic License and BSD Licenses; (b) substantially conforms to the “Open Source Definition” defined by the Open Source Initiative; or (c) is generally considered an “open source” or “copyleft” license.

“ Option ” means an option to purchase Company Capital Stock.

“ Optionee ” or “ Optionees ” means any Person or Persons holding any outstanding Options.

“ Order ” means any order, writ, injunction, stipulation, judgment, ruling, assessment, arbitration award, plan or decree.

“ Owned Intellectual Property ” means all Intellectual Property in which the Company has (or purports to have) an ownership interest of any nature (whether exclusively, jointly with another Person or otherwise).

“ Parent ” means ScanSource, Inc., a South Carolina corporation.

“ Permits ” means all authorizations, licenses, variances, exemptions, orders, permits and approvals granted by or obtained from any Governmental Entity.

“ Permitted Liens ” means (a) Liens for Taxes or other governmental charges not yet delinquent or the amount or validity of which is being contested in good faith by appropriate proceedings, provided an adequate reserve, determined in accordance with GAAP, has been established therefor on the Company Financial Statements; (b) mechanics’, carriers’, workers’, repairers’, and similar Liens arising or incurred in the ordinary course of business and related to amounts that are not yet delinquent, provided an adequate reserve, determined in accordance with GAAP, has been established therefor on the Company Financial Statements; (c) pledges or deposits made in the ordinary course of business to secure obligations under workers’ compensation, unemployment insurance, social security or similar programs mandated by applicable legislation; (d) with respect to real property only, zoning restrictions, building codes and other land use Laws regulating the use or occupancy of property which are not material in amount or do not, individually or in the aggregate, materially detract from the value of or materially impair the existing use of the property

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affected by such Law (to the extent there are no violations of the same); (e) transfer restrictions of general applicability under applicable federal and state securities Laws; and (f) other Liens (other than monetary Liens) arising in the ordinary course of business that are not incurred in connection with Indebtedness for borrowed money and that do not, individually or in the aggregate, impair the value of the subject asset for the purposes for which it is used in connection with the business of the Company or interfere with ownership or use of the subject asset in the business of the Company as currently conducted.

“Person” shall be construed as broadly as possible and shall include an individual or natural person, a partnership, a corporation, an association, a joint stock company, a limited liability company, a trust, a joint venture, an unincorporated organization, any other business entity and any Governmental Entity.

“Personally Identifiable Information” means any specific and unique information relating to an identified or identifiable natural person (such as name, postal address, email address, telephone number, date of birth, Social Security number (or its equivalent), driver’s license number, account number, credit or debit card number or identification number).

“Pre-Closing Tax Period” means any Tax period ending on or before the Closing Date.

“Pre-Closing Taxes” means any Liability for any Tax allocable to any Pre-Closing Tax Period and that portion of any Straddle Period ending on (and including) the Closing Date of the Company, including, for the avoidance of doubt, Taxes with respect to deferred revenue that has been received in cash by the Company, if any, in any Pre-Closing Tax Period, and the portion of any Transfer Taxes allocated to Sellers under Section 7.1.

“Pro Rata Share” means, with respect to any given Seller, the percentage set forth opposite such Seller’s name in Section 1.1(a) of the Disclosure Schedule.

“Proceeding” means any action, charge, claim, complaint, demand, grievance, arbitration, audit, assessment, hearing, legal proceeding, administrative enforcement proceeding, litigation, suit or other proceeding (whether civil, criminal, administrative, judicial or investigative, whether formal or informal, whether public or private) commenced or brought by any Person, or conducted or heard by or before, or otherwise involving, any court or other Governmental Entity or any arbitrator or arbitration panel.

“Registered Intellectual Property” means all Intellectual Property that is registered, filed or issued under the authority of, with or by any Governmental Entity or Domain Name Registrar.

“Repaid Indebtedness” means: (a) the Indebtedness identified in Section 2.5(a)(vi) of the Disclosure Schedule and (b) all other Indebtedness that is designated as “Repaid Indebtedness” at least five (5) Business Days prior to the Closing Date.

“Representatives” means, when used with respect to any Person, such Person’s officers, directors, managers, employees, agents, potential financing sources, advisors and other representatives (including any investment banker, financial advisor, attorney or accountant retained by or on behalf of such Person or any of the foregoing).

“Restricted Business” means any of the business activities or lines of business in which the Company or any of its predecessors is or has been engaged, or shall have been planning to become engaged, at any time prior to the Closing.

“Sellers’ Knowledge” or “Knowledge of the Sellers” or “Knowledge of the Company” or any other similar knowledge qualification means the actual knowledge of (a) any Seller; and (b) any officer or director of the Company; in each case of clauses (a) and (b), after reasonable inquiry and investigation.

“Separation Date” means: (a) with respect to any Seller that becomes an employee of or consultant to Purchaser or any of its Affiliates (including, from and after the Closing, the Company), the date on which such Seller ceases to be employed by or serve as a consultant to Purchaser or any of its Affiliates (including, from and after the Closing, the

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Company); and (b) with respect to any Seller that does not become an employee of or consultant to Purchaser or any of its Affiliates (including, from and after the Closing, the Company), the Closing Date.

“Straddle Period” means any Tax period beginning before or on and ending after the Closing Date.

“Subsidiary” means, when used with respect to any Person, any corporation, limited liability company, partnership or other organization, whether incorporated or unincorporated, of which at least a majority of the securities or other ownership interests, having by their terms voting power to elect a majority of the board of directors, or others performing similar functions with respect to such corporation or other organization, is beneficially owned or controlled, directly or indirectly, by such Person or by any one or more of its Subsidiaries (as defined in the preceding clause), or by such Person and one or more of its Subsidiaries.

“Target Net Working Capital” means \$2,600,000.

“Tax” means any federal, state, local or non-U.S. income, alternative or add-on minimum tax, gross income, gross receipts, net receipts, sales, use, ad valorem, value added, transfer, registration, franchise, profits, license, capital stock, social security, withholding, payroll, employment, unemployment, disability, excise, severance, stamp, occupation, premium, real property, personal property, environmental or windfall profit tax, escheat, estimated or any other tax, customs duty, governmental fee or other like assessment or charge of any kind whatsoever, imposed by any Governmental Entity, together with any interest, penalty or addition to tax imposed with respect thereto (whether disputed or not), and including any obligations to indemnify or otherwise assume or succeed to the tax liability of any other Person.

“Tax Matter” means any written notice of any inquiries, claims, assessments, audits or similar events with respect to Taxes relating to a Pre-Closing Tax Period.

“Tax Return” means any return (including any information return), report, statement, declaration, estimate, schedule, notice, notification, form, election, certificate or other document or information filed with or submitted to, or required to be filed with or submitted to, any Governmental Entity in connection with the determination, assessment, collection or payment of any Tax.

“Territory” means worldwide.

“Transactions” means, collectively, the purchase and sale of the Shares and all of the other transactions contemplated by this Agreement.

Section 1.2. Certain Other Definitions. The following terms are defined in the respective Sections of this Agreement indicated:

Affiliate Agreements Section 3.21
Agreed Amount Section 9.6(b)
Agreement Preamble
Base Purchase Price Section 2.2(a)
Benefit Plan and Benefit Plans Section 3.14(a)
California Civil Code Section 6.4(b)
Claimed Amount Section 9.6(a)
Closing Section 2.4
Closing Date Section 2.4
Closing Date Statement Section 2.3(b)
Company Recitals
Company Confidential Information Section 6.2(a)
Company Financial Statements Section 3.5(a)
Company IT Systems Section 3.16(n)
Company Returns Section 3.11(a)(i)

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Contested Amount Section 9.6(b)
Continuing Affiliate Agreements Section 5.6
Deductible Amount Section 9.3(a)(i)
Delivered Returns Section 3.11(a)(v)
Disclosure Schedule Article III
Dispute Period Section 9.6(b)
Earn-Out Covenants Section 2.8(f)
Earn-Out Dispute Notice Section 2.8(b)(ii)
Earn-Out Report Section 2.8(b)(i)
Employment Agreements Recitals
Escrow Agreement Section 2.6(a)
Estimated Closing Date Statement Section 2.3(a)
Estimated Purchase Price Section 2.3(a)
Final Earn-Out Payment Section 2.8(d)
Final Purchase Price Section 2.3(d)(i)
FIRPTA Affidavit Section 2.5(a)(viii)
Inbound IP Contract Section 3.16(b)
Indemnity Escrow Balance Section 9.10(a)
Insurance Policies Section 3.18(a)
Interim Balance Sheet Section 3.5(a)
Interim Period Section 5.1(a)
Key Seller Section 6.3(a)
Leased Real Property Section 3.10(b)
Major Customers Section 3.6(a)
Major Suppliers Section 3.6(b)
Material Contract Section 3.15(a)
Notice of Claim Section 9.6(a)
Objection Notice Section 2.3(c)(i)
Objection Period Section 2.3(c)(i)
Outbound IP Contract Section 3.16(c)
Outside Date Section 10.1(b)
Payoff Letters Section 2.5(a)(vi)
Pending Claim Amount Section 9.10(a)
Public Official Section 3.23(c)
Purchase Price Section 2.2(a)
Purchaser Preamble
Purchaser Material Adverse Effect Section 4.1
Real Property Lease Section 3.10(b)
Released Claims Section 6.4(a)
Released Parties Section 6.4(a)
Releasing Parties Section 6.4(a)
Releasing Party Section 6.4(a)
Required Consents Section 3.4(a)
Response Notice Section 9.6(b)
Restricted Period Section 6.3(a)
Seller and Sellers Preamble
Seller Payment Obligation Section 9.9(b)
Sellers' Representative Section 11.13(a)
Shares Recitals
Standard Form IP Agreement Section 3.16(e)
Stipulated Amount Section 9.6(e)
Tax Matter Section 7.3
Third Party Claim Section 9.5(a)
Transfer Taxes Section 7.1

Undisputed Earn-Out Payment Section 2.8(b)(i)
Unresolved Indemnity Escrow Claim Section 9.10(a)

ARTICLE II
PURCHASE AND SALE OF THE SHARES

Section 2.1. Purchase and Sale of the Shares. Upon the terms and subject to the conditions of this Agreement, at the Closing, Purchaser shall purchase and acquire the Shares from the Sellers, and the Sellers shall sell, assign, transfer, convey and deliver the Shares to Purchaser, free and clear of all Liens, except for transfer restrictions of general applicability imposed under federal or state securities Laws.

Section 2.2. Consideration.

(a) Purchase Price. Subject to adjustment in accordance with Section 2.3 below, the base purchase price for the Shares shall be \$144,936,000 (the "Base Purchase Price") as adjusted by the following without duplication: minus (i) the amount of any Indebtedness that remains unpaid at the Closing, minus (ii) the amount of any Change of Control Payments that remain unpaid at the Closing, minus (iii) the amount by which the Target Net Working Capital exceeds the Closing Net Working Capital (or plus the amount by which the Closing Net Working Capital exceeds the Excess Target Net Working Capital), minus (iv) the amount of any Company Transaction Expenses, minus (v) the amount of any Pre-Closing Taxes that remains unpaid at the Closing, plus (vi) the amount of any Closing Company Cash, provided, however, in the case of clauses (i), (ii), (iv), (v), and (vi) above, only to the extent such amounts are not included in the Closing Net Working Capital determination (the resulting amount, the "Purchase Price"). For the avoidance of doubt, in the event the Closing Net Working Capital is greater than the Target Net Working Capital, but less than the Excess Target Net Working Capital, there shall be no adjustment of the Purchaser Price pursuant to Section 2.2(a)(iii).

(b) Closing Payments. At the Closing, Purchaser shall pay, or cause to be paid, the following amounts by wire transfer of immediately available funds:

(i) to each holder of Repaid Indebtedness, an amount in cash set forth opposite such Person's name in the Estimated Closing Date Statement to the account or accounts designated by such Person therein;

(ii) to each Person owed a Change of Control Payment, an amount in cash set forth opposite such Person's name in the Estimated Closing Date Statement to the account or accounts designated by such Person therein;

(iii) to each Person owed Company Transaction Expenses, an amount in cash set forth opposite such Person's name in the Estimated Closing Date Statement to the account or accounts designated by such Person therein;

(iv) to the Escrow Agent: (A) an amount in cash equal to the Adjustment Escrow Amount to the Adjustment Escrow Account designated by the Escrow Agent pursuant to the Escrow Agreement, and (B) an amount in cash equal to the Indemnity Escrow Amount to the Indemnity Escrow Account designated by the Escrow Agent pursuant to the Escrow Agreement;

(v) to the Sellers' Representative (on behalf of the Sellers on a Pro Rata Share basis), an amount in cash equal to the Holdback Amount to the account designated by the Sellers' Representative in the Estimated Closing Date Statement; and

(vi) to the Sellers' Representative (on behalf of the Sellers on a Pro Rata Share basis), an amount in cash equal to (A) the Estimated Purchase Price as set forth in the Estimated Closing Date Statement minus (B) the Adjustment Escrow Amount minus (C) the Indemnity Escrow Amount minus (D) the Holdback Amount, to the account designated by the Sellers' Representative in the Estimated Closing Date Statement.

Section 2.3. Purchase Price Adjustments.

(a) Estimated Closing Adjustment. At least five (5) Business Days prior to the Closing Date, the Sellers' Representative shall deliver to Purchaser a statement (the "Estimated Closing Date Statement"), reasonably acceptable to Purchaser, setting forth a good faith calculation, together with reasonably detailed supporting documentation, of: (i) Closing Net Working Capital and the components thereof, (ii) the amount of each of (A) Indebtedness remaining unpaid immediately prior to the Closing, (B) Change of Control Payments remaining unpaid immediately prior to the Closing, (C) Company Transaction Expenses, (D) Pre-Closing Taxes remaining unpaid at the Closing, and (E) Closing Company Cash, and (iii) the resulting calculation of the Purchase Price under Section 2.2(a) (the "Estimated Purchase Price"). The Estimated Closing Date Statement and the calculations thereunder shall be prepared and calculated by the Sellers' Representative in good faith.

(b) Closing Date Statement. Within ninety (90) days after the Closing Date, Purchaser shall deliver, or cause to be prepared and delivered, to the Sellers' Representative a statement (the "Closing Date Statement") setting forth Purchaser's calculation, together with reasonably detailed supporting documentation, of (i) Closing Net Working Capital, (ii) the amount of each of (A) Indebtedness remaining unpaid immediately prior to the Closing, (B) Change of Control Payments remaining unpaid immediately prior to the Closing, (C) Company Transaction Expenses, (D) Pre-Closing Taxes remaining unpaid immediately prior to the Closing, including Transfer Taxes remaining unpaid immediately prior to the Closing, and (E) Closing Company Cash (each of clauses (A), (B), (C), (D), and (E) only to the extent not included in the Closing Net Working Capital determination), and (iii) the resulting calculation of the Purchase Price under Section 2.2(a). The Closing Date Statement and the calculations thereunder shall be prepared and calculated by Purchaser in good faith in accordance with GAAP. Notwithstanding anything to the contrary set forth in this Agreement, Purchaser shall have the right to revise the Closing Date Statement and Purchaser's calculation of Closing Net Working Capital, Indebtedness, Change of Control Payments, Company Transaction Expenses, Pre-Closing Taxes, Closing Company Cash, and the resulting amount of the Purchase Price in all respects based on fraud, willful misconduct or intentional misrepresentation discovered by Purchaser at any time prior to the determination of the Final Purchase Price in accordance with this Section 2.3.

(c) Disputes.

(i) If the Sellers' Representative objects to Purchaser's calculation of Closing Net Working Capital, Indebtedness, Change of Control Payments, Company Transaction Expenses, Pre-Closing Taxes (including Transfer Taxes), Closing Company Cash, or the resulting calculation of the Purchase Price under Section 2.2(a) as set forth in the Closing Date Statement, then, within thirty (30) days after the delivery to the Sellers' Representative of the Closing Date Statement (the "Objection Period"), the Sellers' Representative shall deliver to Purchaser a written notice (an "Objection Notice") describing in reasonable detail the Sellers' Representative's objections to Purchaser's calculation of the amounts set forth in such Closing Date Statement and containing a statement setting forth the calculation of each amount set forth in such Closing Date Statement, including the Purchase Price, in each case, determined by the Sellers' Representative to be correct. If the Sellers' Representative does not deliver an Objection Notice to Purchaser during the Objection Period, then Purchaser's calculation of the amounts set forth in the Closing Date Statement shall be binding and conclusive on the parties.

(ii) If the Sellers' Representative delivers an Objection Notice, and if the Sellers' Representative and Purchaser are unable to agree upon the calculation of the amounts set forth in the Closing Date Statement within ten (10) Business Days after such Objection Notice is delivered to Purchaser, the dispute shall be finally settled by the Accounting Firm. Within ten (10) days after the Accounting Firm is appointed, Purchaser shall forward a copy of the Closing Date Statement to the Accounting Firm, and the Sellers' Representative shall forward a copy of the Objection Notice to the Accounting Firm, together with, in each case, all relevant supporting documentation. The Accounting Firm's role shall be limited to resolving such objections and determining the correct calculations to be used on only the disputed portions of the Closing Date Statement, and the Accounting Firm shall not make any other determination, including any determination as to whether any other items on the Closing Date Statement are correct or whether the Target Net Working Capital is correct. The Accounting Firm shall not assign a value to any item greater than the greatest value for such item claimed by the Sellers' Representative or Purchaser or less than the smallest value for such item claimed by the Sellers' Representative or Purchaser and shall be limited to the selection of either the

Sellers' Representative's or Purchaser's position on a disputed item (or a position in between the positions of the Sellers' Representative or Purchaser) based solely on presentations and supporting material provided by the parties and not pursuant to any independent review. In resolving such objections, the Accounting Firm shall apply the provisions of this Agreement concerning determination of the amounts set forth in the Closing Date Statement. The Accounting Firm shall deliver to the Sellers' Representative and Purchaser a written determination (such determination to include a work sheet setting forth all material calculations used in arriving at such determination and to be based solely on information provided to the Accounting Firm by the Sellers' Representative and Purchaser) of the disputed items submitted to the Accounting Firm within thirty (30) days of receipt of such disputed items. The determination by the Accounting Firm of the disputed amounts and the Purchase Price shall be conclusive and binding on the parties, absent manifest error or fraud or willful misconduct as determined by a non-appealable and binding decision by a court of law having jurisdiction over the parties. The losing party (as defined below) in any such proceeding shall pay all costs and fees (including reasonable attorneys' fees and expenses of the prevailing party) related to such determination by the Accounting Firm, including the costs relating to any negotiations with the Accounting Firm with respect to the terms and conditions of such Accounting Firm's engagement and the costs for the Accounting Firm's services. For purposes of this Section 2.3(c), as between the Sellers' Representative and Purchaser, the "losing party" in any such determination shall mean the party whose calculation of the Purchase Price (as set forth in the Closing Date Statement, in the case of Purchaser, or in an Objection Notice, in the case of the Sellers' Representative), is farthest from the calculation of the Purchase Price as determined by the Accounting Firm; provided, however, that if the Sellers' Representative's and Purchaser's calculations are both equally far from the calculation of the Purchase Price as determined by the Accounting Firm, then the Sellers' Representative and Purchaser shall split such costs and fees, one-half to each. The parties agree that (except as otherwise provided in Section 9.2(a)(iv)) the procedure set forth in this Section 2.3 for resolving disputes with respect to Closing Net Working Capital, Indebtedness, Change of Control Payments, Company Transaction Expenses, Pre-Closing Taxes, Closing Company Cash, and the resulting calculation of the Purchase Price under Section 2.2(a) shall be the sole and exclusive remedy for resolving such disputes; provided, however, that the parties agree that judgment may be entered upon the determination of the Accounting Firm in any court having jurisdiction over the party against which such determination is to be enforced.

(d) Payment of Purchase Price Adjustment.

(i) If the Purchase Price, as finally determined in accordance with this Section 2.3 (the "Final Purchase Price"), exceeds the Estimated Purchase Price, then Purchaser shall, within five (5) Business Days following the determination of the Final Purchase Price pursuant to the provisions of this Section 2.3, pay, or cause to be paid, to the Sellers' Representative (on behalf of the Sellers on a Pro Rata Share basis) an amount equal to such excess by wire transfer of immediately available funds to an account or accounts designated in writing by the Sellers' Representative at least two (2) Business Days prior to such payment date.

(ii) If the Estimated Purchase Price exceeds the Final Purchase Price, then the Sellers' Representative and Purchaser shall, within five (5) Business Days following the determination of the Final Purchase Price pursuant to the provisions of this Section 2.3, deliver joint written instructions to the Escrow Agent instructing the Escrow Agent to release from the Adjustment Escrow Account an amount equal to such excess to Purchaser, by wire transfer of immediately available funds to an account or accounts designated by Purchaser in such joint written instructions. In the event the funds in the Adjustment Escrow Account are insufficient to cover the amount of such excess, then the Sellers' Representative shall provide written notice thereof to each Seller, and each Seller shall pay to Purchaser, within ten (10) Business Days following the receipt by such Seller of such written notice, an amount equal to such Seller's Pro Rata Share of such shortfall not covered by the funds in the Adjustment Escrow Account, by wire transfer of immediately available funds to an account or accounts designated in writing by Purchaser prior to such payment date.

(iii) Once payment is made in accordance with Section 2.3(d)(i) or (ii), the Sellers' Representative and Purchaser shall, within five (5) Business Days of such payment, deliver joint written instructions to the Escrow Agent instructing the Escrow Agent to release to the Sellers' Representative (on behalf of the Sellers on a Pro Rata Share basis) all remaining funds, if any, in the Adjustment Escrow Account, in accordance with the terms of the Escrow Agreement, by wire transfer of immediately available funds to an account or accounts designated by the Sellers' Representative in such joint written instructions.

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Section 2.4. Closing. The closing of the Transactions (the “Closing”) shall take place at the offices of Stradling Yocca Carlson & Rauth, P.C., 100 Wilshire Boulevard, 4th Floor, Santa Monica, California 90401, at 10:00 a.m., Pacific Time, on the third (3rd) Business Days following the satisfaction or, to the extent permitted hereby, waiver of each of the conditions set forth in Article VIII of this Agreement (other than those conditions that, by their nature, are to be satisfied at the Closing, but subject to the satisfaction or waiver of such conditions), or on such other date or at such other time and place as the parties may mutually agree in writing. The date on which the Closing occurs is hereinafter referred to as the “Closing Date”. At the Closing, documents and signature pages may be exchanged remotely via facsimile or other electronic exchange (with originals to be delivered to the other parties as soon as reasonably practicable after the Closing and requested by such other party).

Section 2.5. Closing Deliveries. At the Closing:

(a) The Sellers’ Representative shall deliver, or cause to be delivered, to Purchaser or any other Person designated by Purchaser (unless the delivery is waived in writing by Purchaser), the following documents, in each case duly executed or otherwise in proper form:

(i) Stock Certificates. Original stock certificates evidencing the Shares, duly endorsed in blank (or accompanied by duly executed stock powers or other forms of assignment and transfer) for transfer to Purchaser or its designee(s);

(ii) Secretary’s Certificate of the Company. A certificate, in a form satisfactory to Purchaser, signed by the secretary of the Company and dated as of the Closing Date, certifying: (x) the Articles of Incorporation; and (y) the Bylaws;

(iii) Secretary’s Certificate of Entity Sellers. A certificate, in a form satisfactory to Purchaser, signed by the secretary of each Seller that is not a natural Person and dated as of the Closing Date, certifying: (x) the organizational and governing documents of such Seller, as amended as of the Closing Date; and (y) as to the due approval and authorization (in accordance with such Seller’s organizational and governing documents) of the Transactions, and attaching copies of the board and/or equity holder resolutions that include such authorization and approval;

(iv) Good Standing Certificate. A good standing certificate with respect to the Company issued by the Secretary of State of the State of California, dated as of a date not more than three (3) Business Days prior to the Closing Date;

(v) Required Consents. The Required Consents, duly executed and in full force and effect;

(vi) Payoff Letters. Payoff letters, in form and substance reasonably satisfactory to Purchaser, evidencing the discharge or payment in full of the Repaid Indebtedness (the “Payoff Letters”), in each case duly executed by each holder of such Repaid Indebtedness, with, if applicable, an agreement to provide termination statements on Form UCC-3, or other appropriate releases following any payoff thereof, which when filed will release and satisfy any and all Liens relating to such Repaid Indebtedness, together with proper authority to file such termination statements or other releases at and following the Closing;

(vii) Resignation Letters. Resignations, in the form attached hereto as Exhibit B, of each director and each officer of the Company listed in Section 2.5(a)(vii) of the Disclosure Schedule;

(viii) FIRPTA Affidavit. A duly executed certificate of non-foreign status, in the form attached hereto as Exhibit C, from each Seller certifying that such Seller is not a foreign Person within the meaning of Section 1445(f)(3) of the Code (a “FIRPTA Affidavit”); provided, however, that if Purchaser does not receive a properly executed FIRPTA Affidavit from each Seller, then Purchaser shall be permitted to withhold from any payments to be made pursuant to this Agreement to the Sellers such amounts as may be required under applicable Law, and any such amounts withheld shall be treated for all purposes of this Agreement as having been paid to the Sellers;

(ix) Escrow Agreement. The Escrow Agreement, duly executed by the Sellers' Representative and the Escrow Agent;

(x) Affiliate Agreements. Evidence, in form and substance satisfactory to Purchaser, of the termination of each Affiliate Agreement, except for the Continuing Affiliate Agreements, without Liability of the Company, Purchaser and its Affiliates thereunder from and after the Closing;

(xi) 401(k) Plan. Written evidence, in form and substance reasonably satisfactory to Purchaser, that the Company has made all necessary payments to fund the contributions: (x) necessary or required to maintain the tax-qualified status of any such 401(k) Plan; (y) for elective deferrals made pursuant to any such 401(k) Plan for the period prior to termination; and (z) for employer matching contributions (if any) for the period prior to termination;

(xii) Spousal Consent. A spousal consent, in the form of Exhibit D, duly executed by the spouse or former spouse, as applicable, of each Seller who is married or whose former spouse has any community property interest in or to the Shares held by such Seller;

(xiii) Corporate Books and Records. All corporate books and records and other property of the Company in the possession of any Seller; and

(xiv) Other Documents. All other instruments, agreements, certificates and documents required to be delivered by the Sellers' Representative at or prior to the Closing pursuant to this Agreement and such other certificates of authority and similar instruments as Purchaser has reasonably requested at least three (3) Business Days prior to the Closing Date.

(b) Purchaser shall deliver, or cause to be delivered, the amounts set forth in the Estimated Closing Date Statement as provided in Section 2.2(b), and shall deliver, or cause to be delivered, to the Sellers' Representative or any other Person designated by the Sellers' Representative (unless the delivery is waived in writing by the Sellers' Representative), the following documents, in each case duly executed or otherwise in proper form:

(i) Good Standing Certificate. A good standing certificate with respect to Purchaser issued by the Secretary of State of the State of South Carolina, dated as of a date not more than three (3) Business Days prior to the Closing Date;

(ii) Escrow Agreement. The Escrow Agreement, duly executed by Purchaser; and

(iii) Other Documents. All other instruments, agreements, certificates and documents required to be delivered by Purchaser at or prior to the Closing pursuant to this Agreement and such other certificates of authority and similar instruments as the Sellers' Representative has reasonably requested at least three (3) Business Days prior to the Closing Date.

Section 2.6. Escrow Arrangements.

(a) At the Closing, Purchaser and the Sellers' Representative shall enter into an Escrow Agreement with the Escrow Agent in the form attached hereto as Exhibit E (the "Escrow Agreement"), pursuant to which, among other things, Purchaser shall (i) deposit an amount in cash equal to the Adjustment Escrow Amount in the Adjustment Escrow Account in order to provide Purchaser with a source of funds for satisfaction of any amounts owing to Purchaser resulting from any adjustment to the amount of the Purchase Price pursuant to Section 2.3 of this Agreement, and (ii) deposit an amount in cash equal to the Indemnity Escrow Amount in the Indemnity Escrow Account in order to provide Purchaser with a source of funds for satisfaction of any amounts owing from the Sellers to any Indemnitee resulting from Damages required to be indemnified by the Sellers under Article IX of this Agreement.

(b) The Adjustment Escrow Amount and the Indemnity Escrow Amount shall be held by the Escrow Agent in accordance with the Escrow Agreement. Distributions from each of the Escrow Accounts to the

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Sellers' Representative or Purchaser, as applicable, shall be made as provided in this Agreement and the Escrow Agreement.

Section 2.7. Required Withholdings. Notwithstanding anything to the contrary set forth in this Agreement, Purchaser will be entitled to deduct and withhold from the consideration otherwise payable pursuant to this Agreement to any Seller such amounts as are required under the Code or any provision of state, local or foreign Tax law. To the extent that amounts are so withheld by Purchaser, such withheld amounts will be treated for all purposes of this Agreement as having been paid to the Seller in respect of which such deduction and withholding were made by Purchaser. Notwithstanding the foregoing, no amount shall be withheld from any payment made hereunder to a Seller who provides Purchaser with a properly completed Internal Revenue Service Form W-9 or Substitute Form W-9, or who otherwise provides Purchaser with appropriate evidence that such Person is exempt from federal income Tax back-up withholding. Optionees acknowledge, understand and agree that, with respect to any payments of the Purchase Price for Shares subject to options exercised by such Optionee at or immediately prior to the Closing, whether paid at the Closing or subsequent thereto, Sellers' Representative and/or the Company, as appropriate, will be entitled to deduct and withhold from the consideration otherwise payable pursuant to this Agreement to any such Optionee such amounts as are required under the Code or any provision of state, local or foreign Tax law.

Section 2.8. Earn-Out.

(a) Earn-Out Payment. As additional consideration for the purchase of the Shares, at such time and in the manner as provided in Section 2.8(b)(i) or Section 2.8(e), as the case may be, the Company shall pay, or cause to be paid, to the Sellers' Representative (on behalf of the Sellers on a Pro Rata Share basis) with respect to the Earn-Out Period an amount in cash, if any, determined as follows:

(i) If, with respect to the Earn-Out Period,

(A) EBITDA for the Earn-Out Period is less than \$ [*****], the Earn-Out Payment shall be an amount equal to EBITDA *multiplied by* eleven (11) *minus* the Base Purchase Price; and

(B) EBITDA for the Earn-Out Period is equal to or greater than \$ [*****], the Earn-Out Payment shall be an amount equal to \$13,167,000.

(b) Earn-Out Report.

(i) On or prior to November 30, 2017, Purchaser shall prepare and deliver, or cause to be prepared and delivered, to the Sellers' Representative a written report (the "Earn-Out Report") setting forth, in reasonable detail: (A) a calculation of EBITDA for the Earn-Out Period, and (B) the resulting calculation of the Earn-Out Payment. If the Sellers' Representative agrees with the calculations set forth on such Earn-Out Report, then the Company shall pay or cause to be paid to the Sellers' Representative (on behalf of the Sellers on a Pro Rata Share basis) an amount equal to such Earn-Out Payment (such amount, the "Undisputed Earn-Out Payment"), if any, on or prior to November 30, 2017 by wire transfer of immediately available funds to an account or accounts designated in writing by the Sellers' Representative.

(ii) If the Sellers' Representative does not agree with the calculations set forth on the Earn-Out Report, the Earn-Out Report none the less shall become final and binding upon the parties on the day that is thirty (30) days following delivery thereof to the Sellers' Representative, unless the Sellers' Representative shall have given written notice of disagreement (the "Earn-Out Dispute Notice") to Purchaser prior to such date. The Earn-Out Dispute Notice shall specify in reasonable detail the nature of any disagreement so asserted in respect of the Earn-Out Report and shall contain a statement setting forth the calculation of each amount set forth in the Earn-Out Report, in each case determined by the Sellers' Representative to be correct.

(c) Inspection of Books and Records. During the thirty (30)-day period following delivery of the Earn-Out Report, and upon the written request of the Sellers' Representative, Purchaser shall provide the Sellers' Representative and his accountants, upon reasonable notice at a mutually agreed upon time during normal business

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hours, reasonable access to the books, records and personnel of the Company that were utilized in the preparation of the Earn-Out Report to verify the amounts included in the Earn-Out Report.

(d) Disputes. During the ten (10)-day period following the delivery of the Earn-Out Dispute Notice, Purchaser and the Sellers' Representative shall seek in good faith to resolve any differences which they may have with respect to the matters asserted in the Earn-Out Dispute Notice. If, at the end of such ten (10)-day period, Purchaser and the Sellers' Representative have not so resolved such differences, then the disputed matters shall be referred to the Accounting Firm for resolution in a manner consistent with the provisions pertaining to the Accounting Firm in Section 2.3(c)(ii) (including the procedural and cost provisions thereof), *mutatis mutandis*. The Earn-Out Payment, as finally determined pursuant to this Section 2.8(d), shall be referred to herein as the "Final Earn-Out Payment".

(e) Timing of Final Earn-Out Payment. To the extent no Undisputed Earn-Out Payment has been paid pursuant to Section 2.8(b)(i) above, then within five (5) Business Days after the determination of the Final Earn-Out Payment, the Company shall pay, or cause to be paid, to the Sellers' Representative (on behalf of the Sellers on a Pro Rata Share basis), an amount in cash equal to the Final Earn-Out Payment, by wire transfer to immediately available funds to an account or accounts designated in writing by the Sellers' Representative at least two (2) Business Days prior to such payment date.

(f) Earn-Out Covenants. During the Earn-Out Period, Purchaser shall, and shall cause the Company to, use commercially-reasonable efforts to act in good faith and in the spirit of fair dealing with respect to the provisions of this Section 2.8 and shall not, and shall cause the Company not to, intentionally take any action in bad faith which has the primary purpose of reducing the earning or payment of the Earn-Out Payment (if any) (the "Earn-Out Covenants"). Except for the express Earn-Out Covenants, none of Purchaser, any of its Affiliates, the Company or any of their respective Representatives shall have any obligation, express or implied, to operate the Company in any particular manner so as to meet the requirements for the Earn-Out Payment as set forth herein.

(g) Right of Setoff. In addition to any rights of setoff or other similar rights that Purchaser or the Company may have at common law or otherwise, the Company shall have the right to withhold and, in the case of clauses (i), (ii) and (iii) below, deduct from the Undisputed Earn-Out Payment or the Final Earn-Out Payment, as applicable, that is owed to the Sellers under this Section 2.8: (i) any amount that is payable by the Sellers to Purchaser under Section 2.3(d)(ii) but has not yet been paid; (ii) any amount that is payable by the Sellers to any Indemnitee under Article IX but has not yet been paid; and (iii) any amount for which there is a dispute as to whether such amount is payable by the Sellers to Purchaser under Section 2.3 or to any Indemnitee under Article IX pending final determination of such dispute (including any final determination under Section 2.3 or Section 9.6).

(h) No Security. The parties understand and agree that (i) the contingent right to receive the Earn-Out Payment shall not be represented by any form of certificate or other instrument, is not transferable, and does not constitute an equity or ownership interest in Purchaser or the Company, (ii) none of the Sellers shall have any rights as a securityholder of Purchaser or the Company as a result of such Seller's contingent right to receive the Earn-Out Payment hereunder, and (iii) no interest is payable with respect to the Earn-Out Payment.

(i) Restrictions on Earn-Out Payment. The Company shall not be obligated to pay, and Sellers shall not be entitled to receive, the Earn-Out Payment, by set-off or otherwise, if payment of the Earn-Out Payment (after giving pro forma effect to a hypothetical advance under any Financing Document in the amount of the Earn-Out Payment): (i) would be prohibited or blocked by or result in a default (whether with the passage of time, giving of notice or both) or an event of default under any Financing Document to which the Company or any of its Affiliates (including Purchaser from and after the Closing) is a party, if such default or event of default would result from the payment of such Earn-Out Payment; or (ii) would cause the Company or any of its Affiliates (including Purchaser from and after the Closing) not to be in pro forma compliance with any covenant contained in any Financing Document (including as a result of the failure to meet any minimum liquidity thresholds necessary to prevent the testing of any such covenant) after giving effect to the payment of the Earn-Out Payment; provided, however, that (x) the Company shall use commercially reasonable efforts to cure such default or satisfy such covenant, in each case that prohibits the payment of the Earn-Out Payment, at the earliest date reasonably practicable (it being agreed and understood that such

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efforts shall not require the Company to amend any Financing Document or to change its payment practices under any Financing Document); and (y) the Company's obligations to make the payment of the Earn-Out Payment shall be reinstated once none of the conditions described in the foregoing clauses (i) and (ii) are in existence; provided further, however, that if, as a result of any of the conditions described in the foregoing clauses (i) and (ii), the Company is unable to make the Earn-Out Payment, if any, within thirty (30) days of the Earn-Out Payment becoming due and payable, then interest shall accrue on the amount due and not paid at the LIBOR Rate plus two percent (2%) per annum, compounded annually from the date such payment is due until paid in full.

(j) Tax Treatment. The parties shall treat and report the Undisputed Earn-Out Payment or the Final Earn-Out Payment, as applicable, that the Sellers receive pursuant to this Section 2.8 as an adjustment to the Purchase Price for Tax purposes.

**ARTICLE III
REPRESENTATIONS AND WARRANTIES CONCERNING THE COMPANY**

Except as set forth in the disclosure schedule delivered by the Sellers to Purchaser simultaneously with the execution and delivery of this Agreement (the "Disclosure Schedule"), the Company represents and warrants to Purchaser as of the date of this Agreement and as of the Closing Date as follows:

Section 3.1. Organization and Qualification.

(a) The Company is a corporation duly incorporated, validly existing and in good standing under the Laws of the State of California and has the requisite corporate power and authority to own, operate or lease all of the properties and assets that it purports to own, operate or lease and to carry on its business as it is now being conducted and as currently proposed to be conducted. The Company is duly licensed or qualified to do business and is in good standing (with respect to jurisdictions that recognize such concept) in each jurisdiction in which the nature of the business conducted by it or the character or location of the properties and assets owned, operated or leased by it makes such licensing or qualification necessary. Section 3.1(a) of the Disclosure Schedule accurately sets forth each jurisdiction where the Company is qualified, licensed or admitted to do business.

(b) The copies of the Articles of Incorporation and the Bylaws provided to Purchaser are complete and correct copies of such documents as in effect as of the date of this Agreement.

(c) Section 3.1(c) of the Disclosure Schedule accurately sets forth: (i) the names of the members of the Company Board; (ii) the names of the members of each committee of the Company Board; and (iii) the names and titles of each officer of the Company.

Section 3.2. Capitalization; Ownership of Shares.

(a) Section 3.2(a)(i) of the Disclosure Schedule sets forth a complete and accurate list of the authorized, issued and outstanding shares of Company Capital Stock and any shares of Company Capital Stock that are held in the Company's treasury. Except as set forth in Section 3.2(a)(i) of the Disclosure Schedule, there are no other shares or other equity interests in the Company issued, reserved for issuance or outstanding. Schedule A sets forth a complete and accurate list of all Persons which hold any Company Capital Stock or Options. All of the issued and outstanding shares of Company Capital Stock have been duly authorized and validly issued and are fully paid, non-assessable and free of any preemptive rights. There are no outstanding subscriptions, options, warrants, calls, commitments or agreements of any character calling for the purchase or issuance of any security of the Company to which the Company is a party, including any securities representing the right to purchase or otherwise receive any shares of Company Capital Stock. There are no outstanding phantom stock rights or stock appreciation rights granted by the Company to any Person. There is no Indebtedness with voting rights (or convertible into, or exchangeable for, securities with voting rights) with respect to any matters on which any equity holder of the Company may vote. Section 3.2(a)(ii) of the Disclosure Schedule sets forth an accurate and complete list of the holders of all of the issued and outstanding shares of Company Capital Stock, the address of each such holder and the number, series and classes of shares of Company Capital Stock owned of record by each such holder.

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(b) The Company does not have and has never had any Subsidiaries. The Company: (i) does not own any equity securities or other ownership interest of any other Person; (ii) does not control any Person; (iii) does not have any investments in, or hold any interest, directly or indirectly, in, any Person; and (iv) does not have any obligation or requirement, directly or indirectly, to provide capital contributions to, or invest in, any Person.

(c) There are no outstanding contractual obligations to which the Company is a party: (i) to repurchase, redeem or otherwise acquire any shares of Company Capital Stock or other equity interests in the Company; or (ii) relating to the voting of any shares of Company Capital Stock or other equity interests in the Company.

(d) All of the shares of Company Capital Stock and all other securities that have ever been issued or granted by the Company have been issued and granted in compliance with: (i) all applicable state and federal securities Laws and all other applicable Laws; and (ii) all requirements set forth in all applicable Contracts. None of the outstanding shares of Company Capital Stock were issued in violation of any preemptive rights or other rights to subscribe for or purchase securities of the Company.

(e) Except as set forth in Section 3.2(e) of the Disclosure Schedule, no Person will be entitled to receive any payment or consideration as a result of the Transactions other than the Sellers.

Section 3.3. Authority. The Company has all necessary power and authority to execute and deliver this Agreement, to perform its obligations hereunder and to consummate the Transactions. The execution and delivery by the Company of this Agreement, the performance by the Company of its obligations hereunder, and the consummation by the Company of the Transactions, have been duly and validly authorized by all necessary corporate action on the part of the Company, and no other or further action or proceeding on the part of the Company (or its equity holders) is necessary to authorize the execution and delivery by the Company of this Agreement, the performance by the Company of its obligations hereunder, and the consummation by the Company of the Transactions. This Agreement has been duly executed and delivered by the Company and, assuming the due and valid authorization, execution and delivery of this Agreement by each other party thereto, constitute a valid and binding obligation of the Company, enforceable against the Company in accordance with its terms, except that such enforceability: (i) may be limited by bankruptcy, insolvency, moratorium or other similar Laws of general application affecting or relating to the enforcement of creditors' rights generally; and (ii) is subject to general principles of equity.

Section 3.4. Consents and Approvals; No Violations.

(a) Except for (i) any filings required to be made pursuant to the HSR Act and any other Antitrust Laws and (ii) the Consents, filings, declarations, registrations and notices set forth in Section 3.4(a) of the Disclosure Schedule (the "Required Consents"), no Consent of, or filing, declaration or registration with, or notice to any Governmental Entity or any other Person, which has not been received or made, is required to be obtained or made by the Company for the execution and delivery by the Company of this Agreement or for the consummation of the Transactions.

(b) The execution and delivery by the Company of this Agreement, the performance by the Company of its obligations hereunder, and the consummation by the Company of the Transactions to be consummated by the Company do not and will not: (i) conflict with or violate any provision of the Articles of Incorporation or the Bylaws; or (ii) assuming that the Required Consents have been received or made, as the case may be, prior to the Closing: (x) conflict with or result in a violation or breach of any Law applicable to the Company or any of their respective properties or assets; (y) conflict with, result in a violation or breach of, result in the loss of any material benefit under, constitute a default (or an event which, with notice or lapse of time, or both, would constitute a default) under, result in the termination, modification or cancellation of or a right of termination, modification or cancellation under, or accelerate the performance required under, any Material Contract, or any Permit required for the conduct of the business of the Company; or (z) result in the creation of any Lien upon any of the material properties or assets of the Company.

Section 3.5. Financial Statements.

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(a) Delivery of Financial Statements. The Company has delivered to Purchaser true, correct and complete copies of the following financial statements and notes (collectively, the “Company Financial Statements”): (i) the audited balance sheets of the Company as of December 31, 2016, December 31, 2015 and December 31, 2014, and the related audited statements of income, statements of stockholders’ equity and statements of cash flows for the fiscal years ended December 31, 2016, December 31, 2015 and December 31, 2014, together with all related notes and schedules thereto; and (ii) the unaudited balance sheet of the Company as of April 30, 2017 (the “Interim Balance Sheet”), and the related unaudited statement of income, statements of stockholders’ equity and statements of cash flows for the four (4) months ended April 30, 2017.

(b) Fair Presentation. The Company Financial Statements present fairly the financial position, results of operations, cash flows and the assets, liabilities, revenues, expenses and stockholders’ equity of the Company for the periods covered thereby. The Company Financial Statements are in accord with the corporate books and records of the Company and have been prepared in accordance with GAAP applied on a consistent basis throughout the periods covered.

(c) Indebtedness. Section 3.5(c) of the Disclosure Schedule sets forth a complete and correct list of all Indebtedness as of the date of this Agreement, identifying the creditor (including name and address), the type of instrument under which the Indebtedness is owed and the amount of the Indebtedness as of the open of business on the date of this Agreement. No Indebtedness contains any restriction upon: (i) the prepayment of any of such Indebtedness; (ii) the incurrence of Indebtedness by the Company; or (iii) the ability of the Company to grant any Lien on its properties or assets. With respect to each item of Indebtedness, the Company is not in default and no payments are past due. The Company has not received any written or, to the Knowledge of the Company, other notice of a default, alleged failure to perform or any offset or counterclaim with respect to any item of Indebtedness that has not been fully remedied and withdrawn. The consummation of the Transactions will not cause a default, breach or an acceleration, automatic or otherwise, of any conditions, covenants or any other terms of any item of Indebtedness.

Section 3.6. Customers and Suppliers.

(a) Customers. Section 3.6(a) of the Disclosure Schedule identifies the revenues received from each of the top ten (10) customers of the Company (based on revenues) for each of the following periods: (i) the four (4) months ended April 30, 2017; and (ii) the fiscal year ended December 31, 2016 (the “Major Customers”). The Company has not received any written, or to the Knowledge of the Company, other notice indicating that any Major Customer: (A) intends or expects to cease dealing with the Company; (B) will otherwise reduce the volume of business transacted with the Company below historical levels; (C) is dissatisfied in any material respect with any product or service of the Company or with its business relationship with the Company; (D) intends or expects to file for bankruptcy or cessation of business; or (E) otherwise intends to change other material terms of its business with the Company.

(b) Suppliers. Section 3.6(b) of the Disclosure Schedule sets forth a complete and correct list of the ten (10) suppliers that accounted for the largest dollar volume of purchases by the Company during each of the following periods: (i) the four (4) months ended April 30, 2017; and (ii) the fiscal year ended December 31, 2016 (the “Major Suppliers”). The Company has not received any written, or to the Knowledge of the Company, other notice or other communication (in writing or otherwise) indicating that any Major Supplier: (A) intends or expects to cease supplying goods or services to the Company; (B) will otherwise reduce the volume of business transacted with the Company below historical levels; or (C) intends to file for bankruptcy or cessation of business; or (D) otherwise intends to terminate or materially modify its relationship with the Company.

Section 3.7. Absence of Certain Changes or Events. Since December 31, 2016: (a) there have not occurred any events, series of events, occurrences, conditions, and there has not been any lack of occurrences, facts, conditions, changes, developments or effects, in each case that, individually or in the aggregate, have had or would reasonably be expected to have or result in a Material Adverse Effect; (b) the Company has carried on and operated its business in the ordinary course of business consistent with past practice; and (c) the Company has not taken or authorized any action which, if taken or authorized on or after the date hereof, would require the consent of Purchaser pursuant to Section 5.1.

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Section 3.8. No Undisclosed Liabilities. The Company does not have any Liabilities except for: (a) Liabilities adequately reflected or reserved against in the Interim Balance Sheet; (b) current Liabilities that have been incurred in the ordinary course of business since the date of the Interim Balance Sheet and that are included in the calculation of Net Working Capital; (c) contingent Liabilities that are not required by GAAP to be reflected on the face of, or described in notes to, a balance sheet of the Company; and (d) Liabilities under this Agreement.

Section 3.9. Litigation.

(a) There is no Proceeding pending or, to the Knowledge of the Company, threatened: (i) against or by the Company or against any of its properties or assets or any of its officers, directors or employees (in their capacity as such); (ii) against or by the Company that relates to the Shares; or (iii) against or by the Company or, to the Knowledge of the Company, any Seller that challenges or seeks to prevent, enjoin or otherwise delay the Transactions.

(b) There is: (i) no outstanding Order of, or settlement agreement with or subject to, any Governmental Entity; and (ii) no unsatisfied judgment, penalty or award, in each case against or affecting the Company or any of its properties or assets.

Section 3.10. Real Property; Personal Property.

(a) The Company does not own and has never owned any interest in any real property, except the Leased Real Property.

(b) Section 3.10(b) of the Disclosure Schedule sets forth a complete and accurate list of: (i) all real property leased, subleased, licensed or otherwise used, operated or occupied (whether as tenant, subtenant or pursuant to other occupancy arrangements) by the Company (collectively, including the buildings, improvements and fixtures located thereon, the “Leased Real Property”), including the street address of each Leased Real Property; and (ii) each Contract pursuant to which the Company holds any Leased Real Property as landlord, sublandlord, tenant, subtenant, occupant or otherwise (each, a “Real Property Lease”), including all currently effective amendments and modifications thereto.

(c) The Company has a valid leasehold or subleasehold interest in (or a valid right to use and occupy), and enjoys peaceful and undisturbed possession of, each Leased Real Property, in each case free and clear of all Liens other than Permitted Liens. All rent (including base rent and additional rent) due and payable under each of the Real Property Leases has been paid.

(d) Except: (i) for and as provided in the Real Property Leases; and (ii) for Permitted Liens, none of the Leased Real Properties is subject to any lease, sublease, license or other agreement granting to any Person (other than the Company) any right to the use or occupancy of such Leased Real Property or any part thereof.

(e) There is no condemnation, eminent domain or taking proceeding pending or, to the Sellers’ Knowledge, threatened that affects any Leased Real Property.

(f) The Company has good title to, or a valid leasehold interest in, or with respect to licensed assets, a valid license to use, all material tangible personal property used or held for use by it in connection with the conduct of its business, free and clear of all Liens other than Permitted Liens.

(g) The properties and assets (whether real or personal, tangible or intangible) owned by and leased to the Company constitute all of the assets and properties necessary to conduct the Company’s business in the manner in which such business has been conducted during the periods reflected in the Company Financial Statements and is conducted on the date of this Agreement.

Section 3.11. Taxes.

(a) Except as otherwise disclosed in Section 3.11(a) of the Disclosure Schedule:

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(i) all income, employment, sales, property and all other material Tax Returns required to be filed by or on behalf of the Company (the “Company Returns”) have been timely and properly filed (taking into account any extensions), and all Company Returns and are true, accurate and complete in all material respects;

(ii) all Taxes of the Company that were due and payable (whether or not shown on any Company Return) have been timely and properly paid;

(iii) the Company has withheld and collected all amounts required by Law to be withheld or collected, including sales and use Taxes and amounts required to be withheld for Taxes of employees, independent contractors, creditors, stockholders (including the Sellers) or other third parties, and, to the extent required, has timely paid over such amounts to the proper Governmental Entities, and has properly requested, received and retained all necessary exemption certificates and other documentation supporting any claimed exemption or waiver of Taxes on sales or similar transactions as to which the Company would otherwise have been obligated to collect or withhold such Taxes;

(iv) no power of attorney has been granted with respect to the Company as to any matter relating to Taxes;

(v) the Company has delivered to Purchaser true, correct and complete copies of all Company Returns with respect to Taxes filed by or with respect to it with respect to the period from January 1, 2013 through April 30, 2015 (the “Delivered Returns”), and has delivered or made available to Purchaser all work papers, records, audit and examination reports, and statements of deficiencies proposed or assessed against or agreed to by the Company;

(vi) no claim has been made in writing by any Governmental Entity in any jurisdiction where the Company does not file Tax Returns that it is or may be subject to taxation by that jurisdiction and, to the Sellers’ Knowledge, there is no reasonable basis for any such Governmental Entity to make any such claim;

(vii) the Company has not engaged in a trade or business, has not had a permanent establishment (within the meaning of an applicable Tax treaty), and has not otherwise become subject to Tax jurisdiction in a country other than the United States;

(viii) the Company has not, in the past five (5) years, (A) acquired assets from another corporation in a transaction in which the Company’s Tax basis for the acquired assets was determined, in whole or in part, by reference to the Tax basis of the acquired assets (or any other property) in the hands of the transferor or (B) acquired the stock of any corporation that is a qualified subchapter S subsidiary; and

(ix) other than methods of depreciation and amortization, there are no elections with respect to Taxes affecting the Company that were not made in the Delivered Returns.

(b) Within the past five (5) years, no Company Return has ever been examined or audited by any Governmental Entity. There is no pending audit, refund claim, litigation, proposed adjustment, matter in controversy or other Proceeding with respect to any Tax for which the Company may be liable and, to the Knowledge of the Sellers, no such audit, examination, refund claim, litigation, proposed adjustment, or other Proceeding is or has been threatened in a writing delivered to any Seller or the Company. No deficiencies for any Tax have been proposed, asserted or assessed against the Company which have not been settled and paid in full, and, to the Knowledge of the Sellers, no such proposal, assertion or assessment is pending or been threatened in a writing delivered to any Seller or the Company. No extension or waiver of the limitation period applicable to any Company Return has been granted by or requested from the Company that remains open. There are no Liens with respect to any Taxes against any of the assets of the Company, other than Permitted Liens.

(c) The Company is not a party to any Contract that has resulted or would reasonably be expected to result, separately or in the aggregate, in the payment of any “excess parachute payment” within the meaning of

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Section 280G of the Code (or any corresponding provisions of state, local or foreign Law). The Company has no indemnity obligations for any Taxes imposed under Section 4999 of the Code.

(d) The Company will not be required to include any item of income in, or exclude any item of deduction from, Taxable income for any Tax period (or portion there) ending after the Closing Date as a result of any: (i) change in method of accounting for a Tax period ending on or prior to the Closing Date; (ii) "closing agreement" as described in Code Section 7121 (or any corresponding or similar provision of state, local or foreign income Tax law) executed on or prior to the Closing Date; (iii) installment sale or open transaction disposition made on or prior to the Closing Date; or (iv) prepaid amount received or deferred revenue accrued for a Tax period ending on or prior to the Closing Date. The Company is not a party to or bound by and does not have any Liability under any Tax sharing agreement, Tax allocation agreement or Tax indemnity agreement.

(e) The Company: (i) has never been a member of any affiliated group filing a consolidated federal income Tax Return or any similar group for state, local or foreign Tax purposes; and (ii) does not have any Liability for any amount of Taxes of any Person (other than the Company) pursuant to any Law (including Treasury Regulations Section 1.1502-6 or any similar provision of state, local or foreign Law), as a transferee or successor, by Contract, indemnity or otherwise.

(f) The Company has not distributed stock of another Person, and has not had its stock distributed by another Person, in a transaction that was purported or intended to be governed, in whole or in part, by Section 355 or Section 361 of the Code.

(g) Section 3.11(g) of the Disclosure Schedule sets forth all Tax exemptions, Tax holidays or other Tax reduction agreements or arrangements applicable to the Company. The Company is in compliance with the requirements for any such Tax exemptions, Tax holidays or other Tax reduction agreements or arrangements, and none of the Tax exemptions, Tax holidays or other Tax reduction agreements or arrangements will be jeopardized by the Transactions.

(h) Other than on account of the Transactions, the Company does not have any net operating losses or other Tax attributes currently subject to limitations under Section 382, Section 383 or Section 384 of the Code (or any corresponding provisions of state, local or foreign Law).

(i) The Company is not currently, and will not for any period for which a Tax Return has not been filed be, required to include any adjustment in Taxable income for any Tax period (or portion thereof) pursuant to Section 481 or 263A of the Code (or any corresponding provisions of state, local or foreign Law) as a result of transactions, events or accounting methods employed prior to the Transactions.

(j) The Company has disclosed on its Tax Returns any Tax reporting position taken in any Tax Return which would reasonably be expected to result in the imposition of penalties under Section 6662 of the Code (or any comparable provisions of state, local or foreign Law).

(k) The Company has not consummated or participated in, and is not currently participating in, any transaction which was or is a "tax shelter" transaction as defined in Sections 6662 or 6111 of the Code or the Treasury Regulations promulgated thereunder. The Company has not participated in, and is not currently participating in, a "Listed Transaction" or a "Reportable Transaction" within the meaning of Section 6707A(c) of the Code or Treasury Regulations Section 1.6011-4(b), or any transaction requiring disclosure under a corresponding provision of state, local, or foreign Law.

Section 3.12. Compliance with Laws; Permits .

(a) The Company is in compliance with all Laws applicable to the Company, and no Proceeding has been filed or commenced and is continuing against the Company, and the Company has not received any written notice, or to the Knowledge of the Company, other communication (in writing or otherwise), alleging that the Company is not in compliance with any such Law. No event has occurred since January 1, 2016, and no circumstance exists, in

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each case that (with or without notice or lapse of time), would reasonably be expected to constitute or result in a material violation by the Company of, or a material failure on the part of the Company to comply with, any Law applicable to the Company.

(b) (i) The Company holds all Permits required for the conduct of its business; (ii) such Permits are valid, unimpaired and in full force and effect; (iii) the Company is not in default under or in material violation of any such Permit; and (iv) no Proceeding seeking the revocation, cancellation, termination, limitation or nonrenewal of any such Permit is pending before any Governmental Entity or, to the Sellers' Knowledge, threatened.

Section 3.13. Labor Matters.

(a) No employees of the Company are covered by, and the Company is not subject to, a collective bargaining agreement, labor contract or other oral or written agreement or understanding with a labor organization or labor union. No: (i) organizing activities involving the Company are pending with any labor organization or, to the Seller's Knowledge, with any group of employees of the Company; (ii) collective bargaining agreement is being or has been negotiated by the Company; and (iii) strike, lockout, slowdown, or work stoppage against the Company is currently pending or, to the Sellers' Knowledge, threatened that may interfere with the business activities of the Company.

(b) The Company and each ERISA Affiliate is in material compliance with all, and have at all times materially complied with all, and neither the Company nor any ERISA Affiliate has received any written notice or, to the Knowledge of the Company, other communication (in writing or otherwise) of any claim filed with or by any Governmental Entity alleging that any of them has violated any, Laws or applicable contractual arrangements that relate to wages, hours, compensation, meal and rest breaks, wage statements, fringe benefits, employment or termination of employment, employment policies or practices, immigration, terms and conditions of employment, child labor, labor or employee relations, classification of employees, affirmative action, equal employment opportunity and fair employment practices, disability rights or benefits, workers' compensation, unemployment compensation and insurance, health insurance continuation, whistle-blowing, harassment, discrimination, retaliation or employee safety or health and, to the Knowledge of the Sellers, no such claim is threatened.

(c) To the Knowledge of the Sellers, no executive or manager of the Company has given written notice to the Company of any present intention to terminate his or her employment.

(d) Except as set forth in Section 3.13(d) of the Disclosure Schedule, each Person who is an employee of the Company is employed at will without any penalty, Liability or severance obligation. The Company has provided to Purchaser a complete and correct list of all employees of and consultants to the Company having total annual compensation in excess of \$70,000, which sets forth the following information with respect to each: (i) name; (ii) title or position; (iii) the entity or entities by which such individual is employed; (iv) hire date; (v) current annual or hourly base compensation rate; (vi) commission, bonus, incentive compensation, or other similar compensation paid for calendar year 2016; (vii) all accruals or commitments (whether oral or written) to pay commissions, bonuses, incentive compensation, or other similar compensation for the current year; (viii) accrued but unused vacation or paid time off; (ix) active or inactive status and, if applicable, the reason for inactive status; (x) accrued but unused sick days; (xi) full-time or part-time status; (xii) exempt or non-exempt status; (xiii) employment location; and (xiv) any union affiliation.

(e) The Company has complied with all Laws regarding classification of all applicable persons as employees, independent contractors, leased employees or as persons exempt from overtime pay.

Section 3.14. Employee Benefits.

(a) Section 3.14(a) of the Disclosure Schedule sets forth a complete and correct list of each "employee benefit plan" (within the meaning of Section 3(3) of ERISA), each stock purchase, stock ownership, stock option, phantom stock, severance, retention, employment, change-in-control, bonus, incentive compensation, profit sharing, deferred compensation or supplemental retirement agreement, program, policy or arrangement, and each other plan, agreement, program, policy or arrangement providing employee benefits or compensation to any current or former

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employee of the Company (whether written or unwritten) which is maintained, contributed to or sponsored by the Company or any ERISA Affiliate or with respect to which the Company or any ERISA Affiliate is obligated to make any contributions or has any material Liability. All such plans, agreements, programs, policies and arrangements are hereinafter referred to collectively as the “Benefit Plans” and individually as a “Benefit Plan.”

(b) With respect to each Benefit Plan, the Company has delivered or made available to Purchaser: (i) a complete and correct copy of such plan or plan documents, as applicable, or a summary of such plan; (ii) the most recent Internal Revenue Service determination letter, if applicable; (iii) the current summary plan description, if applicable; (iv) the most recent actuarial valuation report, if applicable; (v) the most recent annual report (Form 5500, with all applicable attachments); and (vi) all related trust agreements that implement each Benefit Plan.

(c) Each Benefit Plan is being operated, funded and administered in all material respects in accordance with its terms and the requirements of ERISA and the Code and other applicable Law. Each Benefit Plan that is intended to be qualified within the meaning of Section 401(a) of the Code and each trust associated with any Benefit Plan that is intended to be exempt from taxation under Section 501(a) of the Code has received a favorable Internal Revenue Service determination letter as to its qualification and to the effect that each such trust is exempt from taxation under Section 501(a) of the Code, or is a prototype plan that is the subject of a favorable opinion letter from the Internal Revenue Service and, to the Sellers’ Knowledge, nothing has occurred since the date of such determination or opinion letter that would reasonably be expected to result in a loss of such plan’s qualification or tax-exempt status. No “prohibited transaction” within the meaning of Section 406 of ERISA has occurred with respect to any Benefit Plan, and no Tax has been imposed pursuant to Section 4975 of the Code in respect thereof.

(d) Neither the Company nor any ERISA Affiliate maintains, contributes to or has any Liability with respect to a “single-employer plan” within the meaning of Section 4001(a)(15) of ERISA (a defined benefit plan that is not a multiemployer/union plan) or a “multiemployer plan” within the meaning of Section 4001(a)(3) of ERISA.

(e) There are no actions, suits or claims (other than routine claims for benefits in the ordinary course) pending or, to the Knowledge of the Sellers, threatened with respect to any Benefit Plan.

(f) Except as set forth in Section 3.14(f) of the Disclosure Schedule, neither the execution and delivery of this Agreement by the Sellers nor the consummation of the Transactions (either alone or in conjunction with any other event) will: (i) increase any benefits otherwise payable under any Benefit Plan; (ii) result in any acceleration of the time of payment or vesting of any such benefits; or (iii) result in any payment (whether severance pay or otherwise) becoming due to, or with respect to, any current or former employee or director of the Company.

(g) No Benefit Plan is a “welfare benefit plan” within the meaning of Section 3(1) of ERISA that provides benefits to former employees of the Company, other than pursuant to Section 4980B of the Code or any similar Law.

(h) The Company has no Liability by reason of an individual who performs or performed services for the Company in any capacity being improperly excluded from participating in a Benefit Plan.

(i) Each Benefit Plan which is a “non-qualified deferred compensation plan” (as such term is defined in Section 409A(d)(1) of the Code) (i) has, at all times, been administered in compliance with the requirements of Section 409A of the Code and applicable guidance issued thereunder, and (ii) is in a form which complies with the requirements of Section 409A of the Code, so that its terms and provisions comply with the requirements of Section 409A of the Code; in all cases so that the additional tax described in Section 409A(a)(1)(B) of the Code will not be assessed against the individuals participating in any such non-qualified deferred compensation plan with respect to benefits due or accruing thereunder.

(j) The Company has no indemnity obligations for any Taxes imposed under Section 409A of the Code.

(k) Neither the Company nor any ERISA Affiliate has any liability with respect to any nonqualified Deferred Compensation plan or any other Deferred Compensation plan.

Section 3.15. Material Contracts.

(a) Section 3.15(a) of the Disclosure Schedule contains a true, accurate and complete list of each of the following types of Contracts to which the Company is a party or by which its assets or properties are bound (each, a “Material Contract”):

(i) any Contract (A) pursuant to which the Company received aggregate payments in excess of \$25,000 during the fiscal year ended December 31, 2016 or during the four (4) month period ended April 30, 2017 or (B) that the Company reasonably anticipates will, in accordance with its terms, involve aggregate payments to the Company in excess of \$50,000 within the twelve (12) month period from and after the date of this Agreement;

(ii) any Contract (A) pursuant to which the Company made aggregate payments in excess of \$50,000 during the fiscal year ended December 31, 2016 or during the four (4) month period ended April 30, 2017 or (B) that the Company reasonably anticipates will, in accordance with its terms, involve aggregate payments by the Company in excess of \$50,000 within the twelve (12) month period from and after the date of this Agreement;

(iii) any Contract with any Major Customer or Major Supplier;

(iv) any Contract relating to Indebtedness with aggregate Liabilities in excess of \$50,000;

(v) any Contract limiting, restricting or prohibiting the Company from: (A) conducting any business activities; (B) engaging in any line of business anywhere in the United States or elsewhere in the world; or (C) conducting any business activities with any Person;

(vi) any Contract that provides for “most favored nations” terms or establishes an exclusive or priority sale or purchase obligation with respect to any product, service or geographic location;

(vii) any Contract containing non-solicitation provisions restricting the Company’s ability to hire or retain any employees, customers, vendors, suppliers or other service providers;

(viii) any (A) joint venture, strategic alliance, partnership, franchise, manufacturer, or development agreement or (B) other Contract that involves a sharing of revenues, profits, losses, costs or Liabilities by the Company with any other Person;

(ix) any Contract that contains a standstill or similar agreement pursuant to which the Company has agreed not to acquire assets or securities of a third party;

(x) any Contract granting to any Person a right of first refusal, right of first offer or similar preferential right to purchase any equity interests or material assets of the Company;

(xi) any Contract relating to (A) the acquisition (by merger, consolidation, purchase of stock or assets, or otherwise) by the Company of any Person, a material portion of the assets of any Person, or any business, division or product line or (B) the divestiture or disposition by the Company of a material portion of its properties or assets, or any of its equity interests, in each case of clauses (A) and (B) pursuant to which any of the parties has any remaining obligations or Liabilities;

(xii) any Contract providing for capital expenditures in excess of \$50,000 individually, or in excess of \$100,000 in the aggregate;

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(xiii) any Contract under which the Company has made, or that obligates the Company to make, a loan or capital contribution to, or investment in, any Person, other than advances to employees in the ordinary course of business;

(xiv) any Contract under which: (A) the Company is the lessor of, or makes available for use by any third party, any equipment or other tangible property owned by the Company or (B) the Company is the lessee of, or is provided the use of, any equipment or other tangible property owned by any third party, in each case of clauses (A) and (B) for payments or other consideration in excess of \$50,000 individually, or in excess of \$100,000 in the aggregate, in each case during any twelve (12) month period;

(xv) any Real Property Lease;

(xvi) any Inbound IP Contract;

(xvii) any Outbound IP Contract;

(xviii) any (A) collective bargaining agreement or (B) Contract with any union, labor organization, works council or other employee representative of a group of employees;

(xix) any Contract for the employment or engagement of any Person on a full-time, part-time, consulting, independent contractor or other basis, other than (A) employment Contracts providing for at-will employment without any severance or other similar obligations owed upon termination other than compensation or other benefits earned prior to such termination, and (B) consulting and independent contractor agreements that may be terminated by the Company on not more than thirty (30) days' notice without any additional payment or penalty;

(xx) any Contract providing for: (A) Change of Control Payments; (B) Accrued Compensation; (C) Deferred Compensation; or (D) the creation, acceleration or vesting of any right or interest for the benefit of any current or former employee or equity holder of the Company or any Affiliate of the Company which become payable as a result of or in connection with the consummation of the Transactions;

(xxi) any Contract between or among the Company, on the one hand, and any Seller or any Affiliate of any Seller (other than the Company), on the other hand, other than agreements for employment or agreements pursuant to the Company's 2010 Stock Incentive Plan or the Company's 2000 Stock Option Plan;

(xxii) any Contract with any Governmental Entity;

(xxiii) any Contract under which the Company distributes or discloses any Company Source Code to any Person;

(xxiv) any power of attorney or similar grant of agency executed by the Company;

(xxv) any Contract that was otherwise not entered into in the ordinary course of business and is otherwise material to the business conducted by the Company; and

(xxvi) any Contract which commits the Company to enter into any of the foregoing.

(b) With respect to each Material Contract: (i) such Material Contract is in full force and effect, constitutes a legal, valid and binding obligation of the Company and, to the Knowledge of the Sellers, each other party thereto, and is enforceable against each of them in accordance with its terms (except that such enforceability (A) may be limited by bankruptcy, insolvency, moratorium or other similar Laws of general application affecting or relating to the enforcement of creditors' rights generally; and (B) is subject to general principles of equity); (ii) neither the Company nor, to the Knowledge of the Company, any other party to such Material Contract is in breach of or default under such Material Contract; (iii) to the Knowledge of the Company no event has occurred or circumstance exists which (with or without notice or lapse of time or both) would constitute a breach of or default under, would cause or permit the

termination or cancellation of, would cause any loss of benefit under, or would give rise to any right to accelerate the maturity or performance of any obligation under, such Material Contract; (iv) the Company has not provided to or received from any counterparty thereto any notice regarding any actual or alleged breach of or default under (or of any condition which with the passage of time or the giving of notice or both would cause a breach of or default under) such Material Contract; and (v) the Company has not provided to or received from any counterparty thereto any notice announcing, contemplating or threatening to, and the Company is not otherwise aware of any intention by any counterparty thereto to: (A) terminate (other than Material Contracts that are expiring pursuant to their terms) or not renew such Material Contract, (B) seek the renegotiation of such Material Contract in any material respect, or (C) substitute performance under such Material Contract in any material respect. The Company has delivered or made available to Purchaser true, correct and complete copies of all written Material Contracts (including all amendments thereto), and written descriptions of all material terms of all oral Material Contracts.

Section 3.16. Intellectual Property.

(a) Registered Intellectual Property. Section 3.16(a) of the Disclosure Schedule accurately identifies: (i) each item of Registered Intellectual Property in which the Company has or purports to have an ownership interest of any nature (whether exclusively, jointly with another Person or otherwise); (ii) the jurisdiction in which such item of Registered Intellectual Property has been registered or filed and the applicable registration or serial number; (iii) for each item of Registered Intellectual Property that is a domain name, information about the Domain Name Registrar with which such domain name has been registered or filed and the applicable registration or serial number; and (iv) any other Person that has an ownership interest in such item of Registered Intellectual Property and the nature of such ownership interest. The Company has delivered to Purchaser complete and accurate copies of all applications and correspondence with any Governmental Entity related to each such item of Registered Intellectual Property.

(b) Inbound Licenses. Other than non-exclusive licenses to readily available third party software licensed under a shrink-wrap, click-wrap or similar license agreement, in each case that is not included within or used to operate any Company Software and that is not necessary to be used in the conduct of the business of the Company as currently conducted, Section 3.16(b) of the Disclosure Schedule accurately identifies: (i) each Contract pursuant to which any Intellectual Property Right is or has been licensed to the Company (each, an “Inbound IP Contract”); and (ii) whether the licenses granted to the Company pursuant to such Inbound IP Contracts are exclusive or non-exclusive.

(c) Outbound Licenses. Section 3.16(c) of the Disclosure Schedule accurately identifies each Contract pursuant to which any Person has been granted any license under, or otherwise has received or acquired any right (whether or not currently exercisable and including a right to receive a license) or interest in, any Owned Intellectual Property (each, an “Outbound IP Contract”). The Company has delivered to Purchaser a complete and accurate copy of each standard form of Outbound IP Contract, and the Company has not entered into any Outbound IP Contract that materially differs from such forms. The Company has never been bound by or subject to any Contract containing any obligation on the part of the Company to deposit any Company Source Code with any Person. The Company is not bound by or subject to any Contract containing any covenant or other provision that in any way limits or restricts the ability of the Company to use, exploit, assert or enforce any Owned Intellectual Property anywhere in the world.

(d) Royalty Obligations. Section 3.16(d) of the Disclosure Schedule contains a complete and accurate list and summary of all royalties, fees, commissions and other amounts payable by the Company to any other Person (other than sales commissions paid to employees according to the Company’s standard commissions plan) upon or for the use of any Owned Intellectual Property.

(e) Standard Form IP Agreements. The Company has delivered to Purchaser a complete and accurate copy of each standard form of: (i) employee agreement containing any assignment or license of Intellectual Property or any confidentiality provision; (ii) consulting or independent contractor agreement containing any assignment or license of Intellectual Property or any confidentiality provision; and (iii) confidentiality or nondisclosure agreement (each such form, a “Standard Form IP Agreement”). Section 3.16(e) of the Disclosure Schedule accurately identifies (x) each Contract that is based upon or a variation of a Standard Form IP Agreement if such Contract deviates in any material respect from the corresponding Standard Form IP Agreement and (y) each Contract between the Company

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and one of its employees, consultants or independent contractors in which any such employee, consultant or independent contractor expressly reserved or retained any rights in Intellectual Property related to the business of the Company.

(f) Ownership and Maintenance or Establishment of Ownership. The Company exclusively owns all right, title and interest to and in the Owned Intellectual Property free and clear of any Liens. All documents and instruments necessary to establish, perfect and maintain the rights of the Company in the Owned Intellectual Property have been validly executed, delivered and filed in a timely manner with the appropriate Governmental Entity. Each current or former employee of the Company who is or was involved in the creation or development of any Owned Intellectual Property has signed a valid and enforceable agreement containing an irrevocable assignment of any Intellectual Property such employee may have had in any Owned Intellectual Property to the Company and containing confidentiality provisions protecting the Owned Intellectual Property. The Company has taken all commercially reasonable steps to maintain the confidentiality of and otherwise protect and enforce its rights in all proprietary information pertaining to the Company and all of the Company's trade secrets.

(g) Company Source Code. The Company has never disclosed or distributed any Company Source Code to anyone other than an employee or consultant of the Company who had a need to view such Company Source Code in order to perform his, her or its duties for the Company and who was bound by obligations to maintain the confidentiality of such Company Source Code and to treat such Company Source Code in a manner that would not diminish or harm any of the Company's rights in Company Source Code. To the Knowledge of the Company, no event has occurred, and no circumstance or condition exists, that (with or without notice or lapse of time) will, or would reasonably be expected to, result in the delivery, license, or disclosure of any Company Source Code to any Person who is not an employee or consultant of the Company with a need to view such Company Source Code in order to perform his, her or its duties for the Company and would be bound by valid and enforceable obligations to keep such Company Source Code confidential and take other actions that would prevent the diminishment of any of the Company's rights in Company Source Code.

(h) Sufficiency of Intellectual Property. Owned Intellectual Property and Licensed Intellectual Property include all Intellectual Property needed to conduct the business of the Company as currently conducted.

(i) Valid and Enforceable Proceedings. All Owned Intellectual Property is valid, subsisting and enforceable. No trademark or trade name owned, used or applied for by the Company conflicts or interferes with any trademark or trade name owned, used or applied for by any other Person. The Company has taken reasonable steps to police the use of its trademarks. No interference, opposition, reissue, reexamination or other Proceeding is or has been pending or, to the Sellers' Knowledge, threatened, in which the ownership, scope, validity or enforceability of any Owned Intellectual Property is being, has been, or could reasonably be expected to be contested or challenged.

(j) Effect of Transactions. The Transactions will not, with or without notice or lapse of time, result in, or give any other Person the right or option to cause or declare: (i) a loss of, or Lien on, any Owned Intellectual Property; (ii) the release, disclosure or delivery of any Owned Intellectual Property by or to any escrow agent or other Person; or (iii) the grant, assignment or transfer to any other Person of any license or other right or interest under, to or in any of the Owned Intellectual Property.

(k) No Third Party Infringement of Owned Intellectual Property. To the Knowledge of the Sellers, no Person has infringed, misappropriated or otherwise violated, and no Person is currently infringing, misappropriating or otherwise violating, any Owned Intellectual Property. Section 3.16(k) of the Disclosure Schedule accurately identifies (and the Company has delivered to Purchaser a complete and accurate copy of) each letter or other written or electronic communication or correspondence that has been sent by, to or on behalf of the Company or any Representative on behalf of the Company regarding any actual, alleged or suspected infringement or misappropriation of any Owned Intellectual Property, and provides a brief description of the current status of the matter referred to in such letter, communication or correspondence.

(l) No Infringement of Third Party IP Rights. To the Knowledge of the Company, the Company has never infringed (directly, contributorily, by inducement or otherwise), misappropriated or otherwise violated or made unlawful use of any Intellectual Property of any Person. The use of Owned Intellectual Property and, to the

Knowledge of the Company, the Licensed Intellectual Property in connection therewith do not conflict with, infringe, dilute, misappropriate or otherwise violate any Intellectual Property of any Person. No infringement, misappropriation or similar claim or Proceeding is pending or, to the Sellers' Knowledge, threatened against the Company or against any other Person who is or may be entitled to be indemnified, defended, held harmless or reimbursed by the Company with respect to such claim or Proceeding. The Company has never received any written notice or, to the Knowledge of the Company, any other communication relating to any actual, alleged or suspected infringement, misappropriation or violation by the Company, or by any current or former employee or agent of the Company, of any Intellectual Property of any Person, including any letter or other communication suggesting or offering that the Company obtain a license to any Intellectual Property. Section 3.16(l) of the Disclosure Schedule lists each Contract to indemnify, defend, hold harmless or reimburse any other Person with respect to, or otherwise assumed or agreed to discharge or otherwise take responsibility for, any existing or potential intellectual property infringement, misappropriation or similar claim.

(m) Company Software. All Company Software does not contain any bugs, errors, viruses, worms and other material known contaminants, or other problems of a material nature that disrupt its operation or have an adverse impact on the operation of other software programs or operating systems. No Company Software is licensed pursuant to or subject to an Open Source License or incorporates or is based on any computer software that is licensed pursuant to or subject to an Open Source License.

(n) Company IT Systems. The Company owns or has a valid right to access and use all computer systems, programs, networks, hardware, software, software engines, database, operating systems, websites, website content and links and equipment used to process, store, maintain and operate data, information and functions owned, used or provided by the Company (the "Company IT Systems"). The consummation of the Transactions will not impair or interrupt in any material respect: (i) the Company's access to and use of, or its right to access and use, the Company IT Systems or any third party databases or third party data used in connection with the business of the Company as currently conducted; and (ii) to the extent applicable, the Company's customers' access to and use of the Company IT Systems. The Company has taken all commercially reasonable steps in accordance with industry standards to secure the Company IT Systems from unauthorized access or use by any Person and to provide for the continued, uninterrupted and error-free operation of the Company IT Systems. All Company IT Systems have been available and operating without material interruption during the three (3) years immediately preceding the date of this Agreement. There: (x) to the Company's Knowledge, have been no unauthorized intrusions or breaches of security with respect to the Company IT Systems; (y) has not been any material malfunction of the Company IT Systems that has not been remedied or replaced in all material respects; and (z) has been no material unplanned downtime or service interruption with respect to any Company IT Systems.

(o) Data Privacy. The Company's use or handling of Business Data at all times did not and does not violate, and has not violated, any data privacy or data security related Law. The Company has not received any written or, to the Knowledge of the Company, other communication that the Company is or may be in violation of any data privacy or data security related Law. The Company has not distributed or displayed any Business Data in breach of any Contract. At all times: (i) the Company has posted privacy policies governing the Company's use and collection of personal information in accordance with applicable Law; and (ii) the Company's privacy policies completely and accurately described the Company's use, collection, display and distribution of any personal information. Copies of current policies posted by the Company have been provided to Purchaser. The Company's operation of its business at all times has been consistent with and compliant with the then current version of the Company's privacy policy posted by the Company. The Company has not entered into any Contract to provide Personally Identifiable Information to any Person. The Company has taken commercially reasonable steps in accordance with normal industry practices to secure its websites, services and Business Data from unauthorized access or unauthorized use by any Person. A copy of all internally or externally prepared reports or audits that describe or evaluate the Company's information security procedures have been provided to Purchaser. To the Knowledge of the Company, none of Business Data or the Company's websites or services have been the target of any successful or attempted unauthorized access, denial-of-service assault or other attack. The Company has not provided copies of or access to Business Data to any Person who has not entered into a Contract with the Company to use, receive or view Business Data and copies of all such Contracts have been provided to Purchaser.

Section 3.17. Environmental Matters.

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(a) There is no Proceeding pending or, to the Knowledge of the Sellers, threatened against the Company under or pursuant to any applicable Environmental Law.

(b) The Company: (i) has been at all times and is in compliance with all applicable Environmental Laws; (ii) holds all Environmental Permits required for the conduct of its business; and (iii) is in compliance with such Environmental Permits.

(c) No event has occurred, and no circumstance exists, at any location or in connection with the business or assets of the Company that (with or without notice or lapse of time) could reasonably be expected to: (i) materially prevent, hinder or limit continued compliance with Environmental Laws; (ii) give rise to any investigatory, monitoring, remedial or corrective action obligations pursuant to Environmental Laws; (iii) require a material expenditure to comply with Environmental Laws or meet applicable standards thereunder; (iv) require a material change to the operation of the business of the Company in order to comply with Environmental Laws; or (v) result in the imposition of any material Liability or costs pursuant to any Environmental Law.

(d) The Company has delivered or made available to Purchaser copies of all environmental reports (including any Phase I and Phase II environmental reports, soil and groundwater investigation reports, asbestos reports, and remediation reports), studies, results of tests, sampling data, site assessments, risk assessments (including insurance risk assessments conducted by insurance carriers in connection with the issuance of pollution insurance), inspections, audits and investigations, notices of actual or potential violation or liability, and other similar documents with respect to the business or assets of the Company or any currently or formerly owned, operated or leased real property which are in the possession, custody or control of the Company or any Seller and related to Environmental Releases or compliance with Environmental Laws.

Section 3.18. Insurance.

(a) Section 3.18(a) of the Disclosure Schedule sets forth a complete and accurate list of all policies or binders of fire, liability, product liability, umbrella liability, real and personal property, workers' compensation, vehicular, fiduciary liability and other forms of insurance covering the Company, including self-insurance, in each case held by the Company or any other Person (the "Insurance Policies"), setting forth, in respect of each such Insurance Policy: (i) the policy number; (ii) the insurer; (iii) policy limits and deductibles; (iv) the dates of premiums or payments due thereunder; and (v) the expiration date.

(b) To the Knowledge of the Company, without conducting any market surveys or investigation, the Insurance Policies are of the type and in the amounts as are customary for companies of similar size, in their geographic regions and in the respective businesses in which the Company operates and meet all contractual and statutory requirements to which the Company is subject. There have been no gaps in insurance coverage that could expose the Company to uninsured liability for events that occurred more recently than January 1, 2014.

(c) With respect to each Insurance Policy: (i) such Insurance Policy is in full force and effect; (ii) the Company and, to the Knowledge of the Company, each other party to such Insurance Policy are in compliance with the terms and provisions of such Insurance Policy in all material respects; (iii) all premiums for such Insurance Policy have been paid in full; (iv) the Company will not be liable for retroactive premiums or similar payments under such Insurance Policy; and (v) no limits of liability or coverage for such Insurance Policy have been exhausted or depleted by more than fifty percent (50%).

(d) Neither the Company nor, to the Knowledge of the Company, any other Person, has received any notice or other communication (in writing or otherwise) regarding any actual or possible cancellation or termination of, premium increase with respect to, or alteration of coverage under, any such Insurance Policy.

(e) Section 3.18(e) of the Disclosure Schedule sets forth: (i) a list of all pending claims (including any workers' compensation claim) under any Insurance Policy; and (ii) the claims history for the Company since January 1, 2015 to the extent involving claims in excess of \$25,000. All claims, incidents, wrongful acts or occurrences for which the Company reasonably expects to obtain coverage under any Insurance Policy have been reported to the

applicable underwriter in accordance with the requirements of the applicable Insurance Policy. There is no claim pending under any Insurance Policy as to which coverage has been questioned, denied or disputed or in respect of which there is an outstanding reservation of rights.

Section 3.19. Accounts Receivable; Accounts Payable; Inventory.

(a) Section 3.19(a) of the Disclosure Schedule sets forth: (i) an accurate and complete breakdown of all Accounts Receivable as of the date of this Agreement; and (ii) the agings of such Accounts Receivable from the date of invoice. Except as set forth in Section 3.19(a) of the Disclosure Schedule, all Accounts Receivable (including those Accounts Receivable reflected on the Interim Balance Sheet that have not yet been collected): (A) represent sales actually made in the ordinary course of business; (B) constitute only valid, undisputed claims of the Company not subject to claims of set-off or other defenses or counterclaims other than normal cash discounts accrued in the ordinary course of business; (C) subject to a reserve for bad debts shown on the Interim Balance Sheet or, with respect to Accounts Receivable arising after the Interim Balance Sheet Date, on the accounting records of the Company, are, to the Knowledge of the Company, collectible in full within ninety (90) days after billing, (D) do not represent obligations for goods sold on consignment; and (E) are not the subject of any formal Proceedings brought by or on behalf of the Company. Since the date of the Interim Balance Sheet, the Company has collected its Accounts Receivable in the ordinary course of business and has not accelerated any such collections.

(b) All accounts payable of the Company arose in the ordinary course of business consistent with past practice, and no such accounts payable is past due or otherwise in default in its payment. Since the date of the Interim Balance Sheet, the Company has paid its accounts payable in the ordinary course of business, except for those accounts payable the Company is contesting in good faith.

(c) Except as otherwise reserved for on the Company Financial Statements, all of the inventory of the Company consists of a quality usable and saleable in the ordinary course of business.

Section 3.20. Bank Accounts; Letters of Credit; Performance Bonds. Section 3.20 of the Disclosure Schedule sets forth: (a) the identity of each bank or financial institution in which the Company has an account, safe deposit box or lockbox, the number of each such account or box and the names of all Persons authorized to draw thereon or having signatory power or access thereto; (b) each letter of credit with respect to which the Company is an applicant or of which the Company is a beneficiary (whether drawn or undrawn); and (c) each performance bond to which the Company is a party. No such performance bonds have been called.

Section 3.21. Affiliate Transactions. Except as set forth in Section 3.21 of the Disclosure Schedule (collectively, the “Affiliate Agreements”), other than Contracts for employment by the Company or for participation in the Company’s 2010 Stock Incentive Plan or 2000 Stock Option Plan: (a) there are no agreements, arrangements or understandings between the Company, on the one hand, and any Seller or any officer or director of the Company, or, to the Knowledge of the Company, any of their respective Affiliates, on the other hand; and (b) neither any current or former member, manager, stockholder, director, officer or employee of the Company, nor, to the Knowledge of the Company, any immediate family member of any of the foregoing: (i) has any ownership interest in any property or asset used by the Company; (ii) provides material services to the Company (other than employment by the Company); (iii) has borrowed money from or loaned money to the Company that is currently outstanding; or (iv) is a party to any Contract or ongoing transaction or business relationship with, or has any claim or right against, the Company.

Section 3.22. Broker’s Fees. Except as set forth in Section 3.22 of the Disclosure Schedule, none of the Sellers, the Company or any of their respective Representatives has employed any financial advisor, broker or finder in a manner that would result in any Liability for any broker’s fees, commissions or finder’s fees in connection with any of the Transactions. There are no rights, obligations or other Liabilities under any Contract with any of the financial advisors, brokers or finders set forth in Section 3.22 of the Disclosure Schedule that will continue in effect beyond the Closing.

Section 3.23. Unlawful Payments.

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(a) Neither the Company nor any Affiliate, director, officer or employee of the Company, nor, to the Company's Knowledge, any agent, representative, sales intermediary or other third party acting on behalf of the Company, in any way relating to the business of the Company: (i) has taken any action in violation of any applicable anticorruption Law, including the U.S. Foreign Corrupt Practices Act (15 U.S.C. § 78 dd-1 et seq.); or (ii) has corruptly offered, paid, given, promised to pay or give or authorized the payment or gift of anything of value, directly or indirectly through third parties, to any "Public Official" (as hereinafter defined) or other Person, for purposes of (A) influencing any act or decision of any Public Official or other Person in his, her or its official capacity; (B) inducing such Public Official or other Person to do or omit to do any act in violation of his, her or its lawful duty; (C) securing any improper advantage; or (D) inducing such Public Official or other Person to use his, her or its influence with a government, Governmental Entity, commercial enterprise owned or controlled by any government (including state owned or controlled facilities), or any other Person in order to assist the business of the Company, or any Person related in any way to the business of the Company, in obtaining or retaining business or directing any business to any Person.

(b) There are no pending or, to the Company's Knowledge, threatened claims against the Company with respect to violations of any applicable anticorruption Law.

(c) For purposes of this Section 3.23, "Public Official" means: (i) any director, officer, employee or representative of any regional, federal, state, provincial, county or municipal government or government department, agency, or other division; (ii) any director, officer, employee or representative of any commercial enterprise that is owned or controlled by a government, including any state-owned or controlled company or organization; (iii) any director, officer, employee or representative of any public international organization, such as the United Nations or the World Bank; (iv) any person acting in an official capacity for any government or government entity, enterprise, or organization identified above; and (v) any political party, party official or candidate for political office.

ARTICLE IV
REPRESENTATIONS AND WARRANTIES CONCERNING THE SELLERS AND PURCHASER

Section 4.1. Representations and Warranties of Sellers. Except as set forth in the Disclosure Schedule, each Seller, severally and not jointly, represents and warrants to Purchaser as of the date of this Agreement and as of the Closing Date as follows:

(a) Authority. Such Seller has full power, authority and legal capacity to execute and deliver this Agreement, to perform its obligations hereunder and to consummate the Transactions. The execution and delivery by such Seller of this Agreement, the performance by such Seller of its obligations hereunder, and the consummation by such Seller of the Transactions, have been duly and validly authorized by all necessary action on the part of the Seller, and no other or further action or proceeding on the part of such Seller is necessary to authorize the execution and delivery by such Seller of this Agreement, the performance by such Seller of its obligations hereunder and the consummation by such Seller of the Transactions. This Agreement has been duly executed and delivered by the Seller and, assuming the due and valid authorization, execution and delivery of this Agreement by each other party thereto, constitutes a valid and binding obligation of the Seller, enforceable against the Seller in accordance with its terms, except that such enforceability: (i) may be limited by bankruptcy, insolvency, moratorium or other similar Laws of general application affecting or relating to the enforcement of creditors' rights generally; and (ii) is subject to general principles of equity.

(b) Capitalization and Ownership. Such Seller holds of record and owns beneficially, free and clear of any Liens or any other restrictions on transfer (except for transfer restrictions of general applicability imposed under federal or state securities Laws), that number of shares of Company Capital Stock (immediately prior to Closing, including shares of Company Capital Stock subject to outstanding options in the case of Optionees) as set forth opposite such Seller's name on Section 3.2(a)(ii) of the Disclosure Schedule. Such Seller has good, valid and marketable title to, and has the right to transfer and sell such Seller's Shares to Purchaser in accordance with the terms of this Agreement. Except for this Agreement, the Seller is not a party to any option, warrant, right, contract, call, put or other agreement or commitment providing for the disposition or acquisition of any equity interest in the Company. Such Seller is not a party to any voting trust, proxy or other agreement or understanding with respect to the voting of any of the equity securities of the Company.

(c) Consents and Approvals; No Violations.

(i) Except for (i) any filings required to be made pursuant to the HSR Act and any other Antitrust Laws and (ii) the Required Consents, no Consent of, or filing, declaration or registration with, or notice to any Governmental Entity or any other Person, which has not been received or made, is required to be obtained or made by such Seller for the execution and delivery by such Seller of this Agreement or for the consummation of the Transactions.

(ii) The execution and delivery by such Seller of this Agreement, the performance by such Seller of its obligations hereunder, and the consummation by such Seller of the Transactions to be consummated by such Seller do not and will not: (i) conflict with or violate any provision of the Articles of Incorporation or the Bylaws; or (ii) assuming that the Required Consents have been received or made, as the case may be, prior to the Closing: (x) conflict with or result in a violation or breach of any Law applicable to such Seller; (y) conflict with, result in a violation or breach of, result in the loss of any material benefit under, constitute a default (or an event which, with notice or lapse of time, or both, would constitute a default) under, result in the termination, modification or cancellation of or a right of termination, modification or cancellation under, or accelerate the performance required under, any Contract by which such Seller is bound or affected; or (z) result in the creation of any Lien upon any of the material properties or assets of such Seller.

(d) Litigation. There is no Proceeding pending or, to the Knowledge of such Seller, threatened: (i) against or by such Seller that relates to the Shares; or (ii) against or by such Seller that challenges or seeks to prevent, enjoin or otherwise delay the Transactions. To the Knowledge of such Seller, no event has occurred, and no circumstance exists, in each case that is reasonably likely to lead to such a Proceeding.

Section 4.2. Representations and Warranties of Purchaser. Purchaser hereby represents and warrants to the Sellers as follows:

(a) Organization and Qualification. Purchaser is a corporation duly incorporated, validly existing and in good standing under the Laws of the State of South Carolina and has the requisite corporate power and authority to own, operate or lease all of the properties and assets that it purports to own, operate or lease and to carry on its business as it is now being conducted. Purchaser is duly licensed or qualified to do business and is in good standing (with respect to jurisdictions that recognize such concept) in each jurisdiction in which the nature of the business conducted by it or the character or location of the properties and assets owned, operated or leased by it makes such licensing or qualification necessary, except where the failure to be so licensed or qualified or in good standing would not reasonably be expected to have, when aggregated with all other such failures, a material adverse effect on Purchaser's ability to perform its obligations under this Agreement or prevent the consummation of the Transactions (a "Purchaser Material Adverse Effect").

(b) Authority. Purchaser has all corporate power and authority to execute and deliver this Agreement, to perform its obligations hereunder and to consummate the Transactions to be consummated by it. The execution and delivery by Purchaser of this Agreement, the performance by Purchaser of its obligations hereunder, and the consummation by Purchaser of the Transactions to be consummated by it, have been duly and validly authorized by all necessary action on the part of Purchaser, and no other or further action or proceeding on the part of Purchaser or its equity holders is necessary to authorize the execution and delivery by Purchaser of this Agreement, the performance by Purchaser of its obligations hereunder, and the consummation by Purchaser of the Transactions to be consummated by it. This Agreement has been duly executed and delivered by Purchaser and, assuming the due and valid authorization, execution and delivery of this Agreement by the Sellers and the Sellers' Representative, constitutes a valid and binding obligation of Purchaser, enforceable against it in accordance with its terms, except that such enforceability: (a) may be limited by bankruptcy, insolvency, moratorium or other similar Laws affecting or relating to the enforcement of creditors' rights generally; and (b) is subject to general principles of equity.

(c) Consents and Approvals; No Violations.

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(i) No Consent of, or filing, declaration or registration with, or notice to any Governmental Entity, which has not been received or made, is required to be obtained by or made by Purchaser for the execution and delivery by Purchaser of this Agreement or for the consummation by Purchaser of the Transactions to be consummated by it, other than (i) any filings required to be made pursuant to the HSR Act and any other Antitrust Laws and (ii) such Consents, filings, declarations, registrations or notices that, if not obtained or made, would not reasonably be expected to have, individually or in the aggregate, a Purchaser Material Adverse Effect.

(ii) The execution and delivery by Purchaser of this Agreement, the performance by Purchaser of its obligations hereunder, and the consummation by Purchaser of the Transactions to be consummated by it do not and will not: (i) conflict with or violate any provision of the organizational or governing documents of Purchaser; (ii) conflict with or result in a violation or breach of any Law applicable to Purchaser or any of its properties or assets; (iii) conflict with, result in a violation or breach of, result in the loss of any material benefit under, constitute a default (or an event which, with notice or lapse of time, or both, would constitute a default) under, result in the termination, modification or cancellation of or a right of termination, modification or cancellation under, or accelerate the performance required under, any Contract to which Purchaser is a party, or by which Purchaser or any of its properties or assets may be bound or affected; or (iv) result in the creation of any Lien upon any of the properties or assets of Purchaser, except, in the case of clauses (ii), (iii) and (iv) above, for such conflicts, violations, breaches, losses of benefits, defaults, events, terminations, rights of termination or cancellation, accelerations or Lien creations as would not reasonably be expected to have, individually or in the aggregate, a Purchaser Material Adverse Effect.

(d) Broker's Fees. None of Purchaser nor any of its Affiliates, nor any of its officers or directors on behalf of Purchaser or any of its Affiliates, has employed any financial advisor, broker or finder in a manner that would result in any Liability for any Seller for any broker's fees, commissions or finder's fees in connection with any of the Transactions if the Closing does not occur.

**ARTICLE V
PRE-CLOSING COVENANTS**

Section 5.1. Conduct of Business.

(a) During the period from the date of this Agreement to the earlier of the Closing and the date this Agreement is terminated in accordance with Article X (the "Interim Period"), except: (A) as set forth in Section 5.1(a) of the Disclosure Schedule; (B) as expressly required by this Agreement; or (C) with the prior written consent of Purchaser (which consent will not be unreasonably withheld, delayed or conditioned), the Sellers shall cause the Company to:

- (i) conduct its business only in the ordinary course of business consistent with past practice and substantially in the same manner as currently conducted;
- (ii) maintain and preserve intact its business organization, assets and properties and its existing relationships with and goodwill of those having business relationships with the Company; and
- (iii) use commercially-reasonable efforts to retain the services of its present officers and employees.

(b) Without limiting the generality of Section 5.1(a), during the Interim Period, except: (A) as set forth in Section 5.1(b) of the Disclosure Schedule; (B) as expressly required by this Agreement; or (C) with the prior written consent of Purchaser (which consent (other than in connection with clause (viii) below which may be withheld in Purchaser's sole discretion) will not be unreasonably withheld, delayed or conditioned), the Sellers shall cause the Company not to:

- (i) amend the Articles of Incorporation or Bylaws;

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- (ii) sell, transfer, assign, convey, lease, license or otherwise dispose of any of the properties or assets of the Company (or any interest therein), other than inventory or supplies sold or used, and immaterial or obsolete assets disposed of, in the ordinary course of business consistent with past practice;
- (iii) mortgage, pledge or subject to any Lien any portion of the assets or properties of the Company;
- (iv) (A) acquire (by merging or consolidating with, or by purchasing a substantial portion of the properties or assets of) any business or any corporation, partnership or other business organization or any division thereof, or (B) purchase or otherwise acquire any material amount of assets from any Person;
- (v) make any capital expenditures or commitments therefor, except in the ordinary course of business consistent with past practice;
- (vi) make any loan, advance or capital contribution to, or investment in, any Person, other than advancement of expenses to employees of the Company in the ordinary course of business consistent with past practice;
- (vii) (A) create or incur, or offer, place or arrange, any Indebtedness for borrowed money or other Indebtedness outside of the ordinary course of business consistent with the Company's past practices; (B) cancel, release or assign any Indebtedness owed to the Company; or (C) assume, guarantee or endorse, or otherwise become responsible for, the Indebtedness of any other Person;
- (viii) (A) sell, issue, grant, mortgage, pledge, subject to any Lien, transfer or otherwise dispose of: (1) any shares of Company Capital Stock or other equity interests or securities of the Company; or (2) any securities or rights convertible into, exchangeable for, or evidencing the right to subscribe for, any shares of Company Capital Stock or other equity interests or securities of the Company; (B) sell, issue or grant any options, warrants, puts, calls, subscriptions, commitments or other rights of any character relating to the issuance, sale, purchase, conversion, exchange, registration, voting or transfer of any shares of Company Capital Stock or other equity interests of the Company, or any securities or rights convertible into, exchangeable for, or evidencing the right to subscribe for, any shares of Company Capital Stock or other equity interests or securities of the Company; (C) redeem, repurchase or otherwise acquire any shares of Company Capital Stock or other equity interests or securities of the Company; or (D) combine, split, subdivide or reclassify any shares of Company Capital Stock or other equity interests or securities of the Company;
- (ix) declare, set aside for payment, make or pay any dividend, distribution or other capital return, payable in stock, property or otherwise, in respect of any shares of the Company Capital Stock or other equity interests or securities of the Company;
- (x) except as required by this Agreement, applicable Law or the terms of any Benefit Plan in effect as of the date hereof: (A) increase the compensation payable or to become payable to, or change any of the benefits provided or to be provided to, any employee, director, officer, independent contractor or consultant of the Company; (B) grant, commit to pay or increase the rate or terms of any retention, severance, change of control or termination pay to any employee, director, officer, independent contractor or consultant of the Company; (C) amend or accelerate the payment, right to payment, or vesting of any compensation or benefits; (D) terminate, renew, modify or amend any existing, or adopt, establish or enter into any new, Benefit Plan or employment policy relating to vacation pay, sick pay, disability coverage or severance pay, in each case with, for or in respect of any employee, director, officer, independent contractor or consultant of the Company; or (E) hire any Person to be an officer or an employee with a designation of "Vice President" or above, or elect any director of the Company;
- (xi) implement or announce any plant closing, material reduction in labor force or mass lay-off;

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(xii) engage in any merger, consolidation, reorganization, recapitalization, complete or partial liquidation, dissolution or similar transaction or file a petition in bankruptcy under any provision of federal or state bankruptcy Law or consent to the filing of any bankruptcy petition against it under any similar Law;

(xiii) sell, abandon, permit to lapse, fail to maintain, dispose of, license or transfer to any person any right to, or permit the imposition of any Lien on, any Owned Intellectual Property (other than non-exclusive licenses granted in the ordinary course of business);

(xiv) except as required by GAAP or applicable Law: (A) make or change any Tax election; (B) change any annual Tax accounting period; (C) adopt or change any method of Tax accounting; (D) file any amended Tax Return (or similar report filed by the Company); (E) enter into any Tax closing agreement; (F) settle or compromise any Tax claim or assessment; (G) surrender any right to claim a Tax refund, offset or other reduction in liability; or (H) consent to any extension or waiver of the limitations period applicable to any Tax claim or assessment;

(xv) except as required by GAAP, make any change in its accounting methodologies, practices, estimation techniques, assumptions, principles, policies or procedures;

(xvi) except in the ordinary course of business consistent with past practice: (A) modify its cash management activities (including the extension of trade credit, the timing of, invoicing and collection of receivables and the accrual and payment of payables and other current liabilities); or (B) modify the manner in which the books and records of the Company are maintained;

(xvii) enter into any new line of business or abandon or discontinue any existing line of business;

(xviii) commence, pay, discharge, settle, release, waive or compromise any pending or threatened Proceeding;

(xix) fail to maintain in full force and effect any of the Insurance Policies;

(xx) except in the ordinary course of business consistent with past practice: (A) enter into any Contract that, if in effect on the date hereof, would constitute a Material Contract; (B) terminate or materially amend or modify any Material Contract; (C) assign or otherwise transfer any rights or claims with respect to, or waive any term of or default under, or any Liability owing to the Company under, any Material Contract; or (D) take any action or fail to act, when such action or failure to act will cause a termination of or material breach or default under any Material Contract;

(xxi) enter into any Contract which contains a change of control or similar provision that would require the Consent of, or a payment to, the other party or parties thereto in connection with the Transactions; or

(xxii) enter into any Contract, or otherwise agree or commit, to take, or authorize, recommend or propose, in writing or otherwise, any of the actions prohibited by this Section 5.1(b).

Section 5.2. Reasonable Efforts; Notices and Consents; Regulatory Filings.

(a) General. Upon the terms and subject to the conditions set forth in this Agreement, except as otherwise provided in this Agreement, and without limiting the obligations of the parties under Section 5.2(c), each of the parties agrees to cooperate with each other and to use (and to cause its Representatives to use) commercially reasonable efforts to take, or cause to be taken, all actions and to do, or cause to be done, all things necessary, proper or advisable to consummate and make effective the Transactions as promptly as practicable after the date of this Agreement.

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(b) Notices and Consents. The Sellers and the Company shall promptly prepare and file all necessary documentation, to effect all necessary applications, notices, petitions, registrations, filings and other documents, and to obtain, as promptly as practicable after the date of this Agreement, all Consents of Governmental Entities and other Persons necessary or advisable in connection with the consummation of the Transactions, including the Required Consents.

(c) Regulatory Filings.

(i) Without limiting the generality of the parties' undertakings pursuant to Section 5.2(a) and Section 5.2(b), each party hereto shall: (i) make, or cause to be made, the registrations, filings and submissions required of it or any of its Affiliates under the HSR Act in connection with this Agreement and the Transactions as promptly as practicable (but in any event no later than three (3) Business Days) following the date of this Agreement; (ii) make, or cause to be made, the registrations, filings and submissions (if any) required of it or any of its Affiliates under any other applicable Antitrust Laws in connection with this Agreement and the Transactions as promptly as practicable (but in any event no later than five (5) Business Days) following the date of this Agreement; (iii) comply at the earliest practicable date and after consultation with the Sellers' Representative or Purchaser, as applicable, with any request for additional information or documentary material received by the other or any of its Affiliates from any applicable Governmental Entity in connection with any registrations, filings or submissions required under the HSR Act or any other applicable Antitrust Laws; (iv) cooperate with the other parties (including furnishing all necessary information and reasonable assistance as any other party may reasonably request) in connection with any registrations, filings or submissions required under the HSR Act or any other applicable Antitrust Laws and in connection with resolving any investigation or other inquiry concerning the Transactions initiated by any Governmental Entity; and (v) use commercially reasonable efforts to secure the early termination of any waiting periods under the HSR Act and the receipt of any clearances, approvals, or confirmations from Governmental Entities in other countries in which any registrations, filings or submissions pursuant to any applicable Antitrust Laws have been made to the extent required in connection with the consummation of the Transactions at the earliest possible date. Each party hereto shall promptly inform the other parties of any communication (whether oral or written) made to, or received by, such party from any Governmental Entity regarding any of the Transactions, and promptly provide a copy of any such written communication, or a written summary of any such oral communication, to the other parties. Purchaser will shall timely pay any filing fees assessed under the HSR Act or any other applicable Antitrust Laws.

(ii) All analyses, appearances, meetings, discussions, presentations, memoranda, briefs, filings, arguments, and proposals made by or on behalf of any party before any Governmental Entity or the staff or regulators of any Governmental Entity, in connection with the Transactions (but, for the avoidance of doubt, not including any interactions that any party may have with Governmental Entities in the ordinary course of business and not relating to the Transactions) shall be disclosed to the other parties hereunder in advance of any filing, submission or attendance, it being the intent that the parties will consult and cooperate with one another, and consider in good faith the views of one another, in connection with any such analyses, appearances, meetings, discussions, presentations, memoranda, briefs, filings, arguments, and proposals. None of the parties shall initiate, participate in, or agree to participate in any substantive meeting, discussion, appearance or contact with any Governmental Entity or the staff or regulators of any Governmental Entity unless it shall have given advance notice to the other parties of such substantive meeting, discussion, appearance or contact, with such notice being sufficient to provide the other parties with the opportunity to attend and participate in such meeting, discussion, appearance or contact. Nothing in this Section 5.2(c) shall require any party to provide access to, or disclose any information to, any other party or any of its Affiliates if such access or disclosure, in the good faith reasonable belief of such first party: (x) would waive any attorney-client or an attorney work-product privilege; (y) would be in violation of applicable Laws (including the HSR Act or any other Antitrust Laws) or the provisions of any Contract to which such first party is a party; or (z) would contain any confidential information.

(iii) Notwithstanding anything to the contrary set forth in this Section 5.2(c), nothing in this Agreement shall require, or be construed to require, Purchaser or any of its Affiliates to propose or agree to: (w) sell, hold separate, dispose of, divest, discontinue or limit, before or after the Closing Date, any assets, products, businesses or interests of Purchaser, the Company or any of their respective Affiliates; (x) any conditions relating to, or changes or restrictions in, the operations of any such assets, products, businesses or interests which, in either case,

could reasonably be expected to result in a Material Adverse Effect or materially and adversely impact the economic or business benefits to Purchaser of the Transactions; (y) any material modification or waiver of the terms and conditions of this Agreement; or (z) take any other action that limits the freedom of action with respect to, or the ability to retain, any assets, products, businesses or interests of Purchaser, the Company or any of their respective Affiliates in order to avoid the entry of or to effect the dissolution of any Order (whether temporary, preliminary or permanent), which would otherwise have the effect of preventing or delaying the consummation of the Transactions.

Section 5.3. Access to Information.

(a) During the Interim Period, the Company shall: (i) afford Purchaser and its Representatives full and free access, during normal business hours and upon reasonable notice, to the personnel, offices, properties (including the Leased Real Property), assets, book and records, Contracts and other documents and data of or related to the Company; (ii) furnish Purchaser and its Representatives with such financial, operating and other data and information related to the Company as Purchaser or any of its Representatives may reasonably request; and (iii) instruct their respective Representatives to cooperate with Purchaser in its investigation of the Company; provided, however, that such access shall not unreasonably interfere with the ongoing business or operations of the Company and shall be conducted in a manner to preserve the confidential nature of the Transactions.

(b) Notwithstanding anything to the contrary set forth in Section 5.3(a), during the Interim Period, Purchaser and its Representatives may at any time enter into and upon all or any portion of the Company's properties in order to investigate and assess, as Purchaser deems necessary or appropriate in its sole and absolute discretion, the environmental condition of such properties or any business conducted thereat. Such investigation may include, but need not be limited to, the performance of soil and surface or ground water sampling, monitoring, borings, or testing and any other tests, investigations, audits, assessments, studies, inspections or other procedures relating to environmental conditions. The Sellers and the Company shall: (i) cooperate with Purchaser and its Representatives in conducting such investigation; (ii) allow Purchaser and its Representatives full access to the properties and business of the Company, together with full permission to conduct such investigation; and (iii) provide to Purchaser and its Representatives all plans, soil or surface or ground water tests or reports, any environmental investigation results, reports or assessments previously or contemporaneously conducted or prepared by or on behalf of, or in possession of or reasonably available to, any Seller, the Company or any of their respective Representatives, and all other information relating to environmental matters in respect of the properties and business of the Company.

(c) Any information provided to or obtained by Purchaser or its Representatives pursuant to Section 5.3(a) or Section 5.3(b) shall be subject to the terms of, and the restrictions contained in, the Confidentiality Agreement.

Section 5.4. Notice of Certain Events.

(a) During the Interim Period, to the extent that the Sellers obtain Knowledge thereof, the Seller's Representative shall promptly notify Purchaser in writing of: (i) any fact, circumstance, event or action the existence, occurrence or taking of which has had, or could reasonably be expected to have, individually or in the aggregate, a Material Adverse Effect; (ii) any breach of any representation, warranty, covenant or agreement of the Company, the Sellers or the Sellers' Representative contained in this Agreement which, if not cured, could reasonably be expected to cause any of the conditions to Closing set forth in Article VIII not to be satisfied; (iii) any notice or other communication from any Person alleging that the consent of such Person is or may be required in connection with the Transactions; (iv) any notice or other communication from any Governmental Entity in connection with the Transactions; or (v) any Proceeding commenced or, to the Knowledge of the Sellers, threatened against, relating to, involving or otherwise affecting the Company or any Seller that, if pending on the date of this Agreement, would have been required to have been disclosed pursuant to Section 3.9 of this Agreement or that relates to the consummation of the Transactions.

(b) In no event shall the delivery of any notice by the Sellers' Representative pursuant to this Section 5.4: (i) limit or otherwise affect the rights, obligations, representations, warranties, covenants or agreements of Purchaser or the conditions to the obligations of the parties under this Agreement; or (ii) be deemed to amend or supplement the Disclosure Schedule or constitute an exception to any representation, warranty, covenant or agreement.

Section 5.5. Exclusive Dealing. During the Interim Period, the Company and each of the Sellers shall not take, and shall not authorize, encourage, permit or instruct any of their Representatives or any Representatives of the Company to take, directly or indirectly, any action to: (a) solicit, initiate or encourage the making, submission or announcement of any indication of interest, inquiry, proposal or offer from any Person (other than Purchaser or its Representatives) relating to an Acquisition Transaction; (b) encourage, initiate, participate in or engage in any discussions, negotiations or other communications regarding an Acquisition Transaction; (c) execute, enter into or become bound by any letter of intent or other Contract with any Person (other than Purchaser or its Representatives) relating to or in connection with an Acquisition Transaction; (d) provide any information to any Person (other than Purchaser or its Representatives) concerning an Acquisition Transaction; or (e) accept any proposal or offer from, cooperate in any way with, or facilitate or encourage any effort or attempt by any Person (other than Purchaser or its Representatives) relating to an Acquisition Transaction. The Company and each of the Sellers shall instruct their respective Representatives and the Representatives of the Company to, immediately cease and cause to be terminated all existing discussions, conversations, negotiations and other communications with any Person (other than Purchaser and its Representatives) conducted heretofore with respect to any Acquisition Transaction. Within two (2) Business Days following the date hereof, the Sellers and the Company shall instruct any such Person to return or destroy all nonpublic information provided to such Person in connection with such Person's consideration of any Acquisition Proposal in accordance with the confidentiality agreements entered into between the Company and any such Person. The Sellers and the Company shall promptly (but in any event within twenty-four (24) hours of receipt thereof) notify Purchaser orally and in writing of any indication of interest, inquiry, proposal, offer or request for information relating to an Acquisition Transaction that is received by the Company, any Seller or the Sellers' Representative during the Interim Period, which notice shall include: (i) the identity of the Person making or submitting such indication of interest, inquiry, proposal, offer or request, and the terms and conditions thereof; and (ii) an accurate and complete copy of all written materials provided in connection with such indication of interest, inquiry, proposal, offer or request.

Section 5.6. Termination of Affiliate Agreements. At or prior to the Closing, the Company shall, and the Sellers shall cause the Company to, terminate all Affiliate Agreements, other than: (a) any Affiliate Agreement the continuation of which Purchaser has requested; and (b) any Affiliate Agreement which Purchaser has approved in writing to not be so terminated (collectively, the "Continuing Affiliate Agreements").

Section 5.7. Option Exercises. At or prior to the Closing, each of the Optionees shall fully exercise all of his or her Options to purchase shares of the Company's Capital Stock. The Company shall take all actions (including but not limited, to providing requisite notices to Optionees) to cause all outstanding Options, as well as the Company's 2000 Stock Option Plan and the Company's 2010 Equity Incentive Plan to be terminated as of the Closing. Following the Closing, Purchaser shall not assume or be liable for any Options existing prior to the Closing, all of which shall be terminated at the Closing to the extent unexercised prior to the Closing.

Section 5.8. 280G Analysis. The Company shall, prior to the Closing Date, seek the approval of the Sellers (in accordance with the requirements of Section 280G(b)(5)(B) of the Code and the regulations promulgated pursuant thereto) with respect to any acceleration of vesting or payments to be made by the Company and its Subsidiaries or Purchaser or its Affiliates with respect to arrangements that would, absent Seller approval, be excess parachute payments as a result of the transactions contemplated hereby. Prior to such approval by the Sellers, the Company shall use commercially reasonable efforts to obtain waivers from such individuals such that unless such payments are approved by the Sellers to the extent and in the manner required under Sections 280G(b)(5)(A)(ii) and 280G(b)(5)(B) of the Code, no such waived payments shall be made. The waivers, disclosure to the Sellers and any other resolutions, notices or other documents issued, distributed, adopted or executed in connection with this Section 5.8 shall be subject to Purchaser's prior review and comment, and the Company shall revise any such documentation to take into account any reasonable comments by Purchaser.

ARTICLE VI
POST-CLOSING COVENANTS

Section 6.1. Further Assurances. Subject to the terms and conditions of this Agreement, each of the parties agrees that, from time to time after the Closing, at the request of the other party or parties, they shall execute and deliver, or cause to be executed and delivered, to the other party or parties such further documents or instruments

of any kind and take, or cause to be taken, such other actions as may be necessary, proper or advisable to carry out any of the provisions of this Agreement or the Transactions. In addition, the Sellers agree, from time to time after the Closing, at Purchaser's request, to execute, acknowledge, and deliver to Purchaser such other instruments of conveyance and transfer, and take such other actions and execute and deliver such other documents, certifications, and further assurances, as Purchaser may reasonably require in order to vest more effectively in Purchaser, or to put Purchaser more fully in possession of, the Shares and any of the Company's rights or assets. Each party shall bear its own costs and expenses in compliance with this Section 6.1.

Section 6.2. Post-Closing Confidentiality.

(a) From and after the Closing, each Seller shall, and shall cause his, her or its Affiliates to, and shall instruct his, her or its and their respective Representatives to, hold in confidence any and all confidential, proprietary and non-public information and materials, whether in written, verbal, graphic or other form, concerning Purchaser, the Company or any of their respective Affiliates (collectively, "Company Confidential Information"), except that no Seller shall have any obligation under this Section 6.2 with respect to any Company Confidential Information that: (i) as of the date of this Agreement is, or after the date of this Agreement becomes, generally available to the public other than through a breach by the applicable Seller, any of his, her or its Affiliates or any of his, her or its or their respective Representatives of their respective obligations under this Section 6.2; or (ii) is provided to the applicable Seller or any of his, her or its Affiliates by a third party that was not known to the receiving party to be bound by any duty of confidentiality to Purchaser, the Company or any of their respective Affiliates.

(b) From and after the Closing, no Seller shall, and each Seller shall cause his, her or its Affiliates not to, and shall instruct his, her or its and their respective Representatives not to, use any Company Confidential Information except as expressly authorized in writing by Purchaser or the Company. Each Seller shall, and shall cause his, her or its Affiliates to, and shall instruct his, her or its and their respective Representatives to, take the same degree of care to protect the Company Confidential Information that such party uses to protect his, her or its own trade secrets and confidential information of a similar nature, which shall be no less than a reasonable degree of care.

(c) Notwithstanding the foregoing, no Seller shall be in breach of this Section 6.2 as a result of any disclosure of Company Confidential Information that is required by applicable Law or that is required by any Governmental Entity or under any subpoena, civil investigative demand or other similar process by a court of competent jurisdiction having jurisdiction over such Seller; provided, however, that the applicable Seller shall give advance written notice of such compelled disclosure to Purchaser, and shall cooperate with Purchaser in connection with any efforts to prevent or limit the scope of such disclosure; and provided further, that the applicable Seller shall disclose only that portion of such Company Confidential Information which such Seller is advised by his, her or its counsel is legally required to be disclosed.

Section 6.3. Non-Competition; Non-Solicitation; Non-Disparagement.

(a) For a period commencing on the Closing Date and ending (i) in the case of Kent B. Stryker and J. Benjamin Smith, on the later of (x) the four (4) year anniversary of the Closing Date and (y) two (2) years following any Separation Date; and (ii) in the case of Scott Agatep (each of Mr. Stryker, Mr. Smith and Mr. Agatep, a "Key Seller"), two (2) years following any Separation Date (as applicable, the "Restricted Period"), other than for or on behalf of the Company or Purchaser, no Key Seller shall, or shall permit any of his, her or its Affiliates to, directly or indirectly: (i) engage in or assist others in engaging (whether through employment, consultation, advisory services, representation on a board of directors or other similar governing body or by any financial or other investment) in the Restricted Business in the Territory; (ii) have an interest in any Person that engages directly or indirectly in the Restricted Business in the Territory in any capacity, including as a partner, stockholder, member, employee, principal, agent, trustee or consultant; or (iii) intentionally interfere in any material respect with the business relationships (whether formed prior to or after the date of this Agreement) between the Company and any customer, supplier, licensee, licensor, client or distributor of the Company. Notwithstanding the foregoing, each Key Seller may own, directly or indirectly, solely as an investment, securities of any Person traded on any national securities exchange if such Seller is not a controlling Person of, or a member of a group which controls, such Person and does not, directly or indirectly, own five percent (5%) or more of any class of securities of such Person.

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(b) During the Restricted Period, no Key Seller shall, or shall permit any of his, her or its Affiliates to, directly or indirectly, solicit (except pursuant to a general solicitation which is not directed specifically to any such employees) or hire any employee of the Company or encourage any such employee to leave such employment or hire any such employee who has left such employment.

(c) During the Restricted Period, no Key Seller shall, or shall permit any of his, her or its Affiliates to, directly or indirectly, solicit or knowingly entice, or attempt to solicit or entice, any customers, suppliers, licensees, licensors, clients or distributors of the Company or potential customers, suppliers, licensees, licensors, clients or distributors of the Company for purposes of diverting their business or services from the Company.

(d) Each Seller agrees that he, she or it will not make or publish, verbally or in writing, any statements concerning Purchaser, the Company or any of their respective Affiliates or any of their respective Representatives which statements are or are reasonably likely to be construed as being injurious or inimical to the best interests of Purchaser, the Company or any of their respective Affiliates or any of their respective Representatives, including statements alleging that Purchaser, the Company or any of their respective Affiliates or any of their respective Representatives have acted improperly, illegally or unethically or have engaged in business practices which are improper, illegal or unethical; provided, however, that such restrictions shall not apply to any confidential communications with any Governmental Entity (including communications made in the course of any government investigation).

(e) If any Seller breaches, or threatens to commit a breach of, any of the provisions of this Section 6.3, Purchaser and the Company shall have the following rights and remedies not subject to any limitations under Article IX, each of which rights and remedies shall be independent of the others and severally enforceable, and each of which is in addition to, and not in lieu of, any other rights and remedies available to Purchaser or the Company under law or in equity:

(i) the right and remedy to have such provision specifically enforced by any court having jurisdiction, it being acknowledged and agreed that any such breach or threatened breach may cause irreparable injury to each of Purchaser and the Company and that money damages may not provide an adequate remedy to Purchaser and the Company; and

(ii) the right and remedy to recover from the Seller all monetary damages suffered by Purchaser or the Company, as the case may be, as the result of any acts or omissions constituting a breach of this Section 6.3.

(f) Each Seller acknowledges that the restrictions contained in this Section 6.3 (i) are reasonable and necessary to protect the legitimate interests of Purchaser and the goodwill, customer relationships and Intellectual Property purchased by Purchaser and (ii) constitute a material inducement to Purchaser to enter into this Agreement and consummate the Transactions. In the event that any covenant contained in this Section 6.3 should ever be adjudicated to exceed the time, geographic, product or service, or other limitations permitted by applicable Law in any jurisdiction, then any court is expressly empowered to reform such covenant, and such covenant shall be deemed reformed, in such jurisdiction to the maximum time, geographic, product or service, or other limitations permitted by applicable Law. The covenants contained in this Section 6.3 and each provision hereof are severable and distinct covenants and provisions. The invalidity or unenforceability of any such covenant or provision as written shall not invalidate or render unenforceable the remaining covenants or provisions hereof, and any such invalidity or unenforceability in any jurisdiction shall not invalidate or render unenforceable such covenant or provision in any other jurisdiction.

Section 6.4. General Release.

(a) Notwithstanding anything to the contrary set forth in this Agreement, effective as of the Closing, in consideration of the mutual agreements contained herein, including the Purchase Price to be received by the Sellers, each Seller, on behalf of himself, herself or itself and each of his, her or its past, present and future Affiliates, firms, corporations, limited liability companies, partnerships, trusts, associations, organizations, Representatives, investors, stockholders, members, partners, trustees, principals, consultants, contractors, family members, heirs, executors, administrators, predecessors, successors and assigns (each, a "Releasing Party" and, collectively, the

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“Releasing Parties”), hereby absolutely, unconditionally and irrevocably releases, acquits and forever discharges the Company, its former, present and future Affiliates, parent and subsidiary companies, joint ventures, predecessors, successors and assigns (including Purchaser and its Affiliates), and their respective former, present and future Representatives, investors, stockholders, members, partners, insurers and indemnitees (collectively, the “Released Parties”) of and from any and all manner of action or inaction, cause or causes of action, Proceedings, Liens, Contracts, promises, Liabilities or Damages (whether for compensatory, special, incidental or punitive Damages, equitable relief or otherwise) of any kind or nature whatsoever, past, present or future, at law, in equity or otherwise (including with respect to conduct which is negligent, grossly negligent, willful, intentional, with or without malice, or a breach of any duty, Law or rule), whether known or unknown, whether fixed or contingent, whether concealed or hidden, whether disclosed or undisclosed, whether liquidated or unliquidated, whether foreseeable or unforeseeable, whether anticipated or unanticipated, whether suspected or unsuspected, which such Releasing Parties, or any of them, ever have had or ever in the future may have against the Released Parties, or any of them, and which are based on acts, events or omissions occurring up to and including the Closing (the “Released Claims”); provided, however, that the foregoing release shall not release, impair or diminish, and the term “Released Claims” shall not include, in any respect any rights of: (i) the Sellers under this Agreement; (ii) the Releasing Parties to indemnification, reimbursement or advancement of expenses under the provisions of the Articles of Incorporation or Bylaws (or any directors’ and officers’ liability insurance policy maintained by the Company in respect of the same) if any Releasing Party is made a party to a Proceeding as a result of such Releasing Party’s status as an officer, director or employee of the Company with respect to any act, omission, event or transaction occurring on or prior to the Closing; or (iii) the Releasing Parties to receive, if any, Accrued Compensation, Change of Control Compensation, or Deferred Compensation to the extent accounted for in the calculation of the Final Purchase Price.

(b) Without limiting the generality of Section 6.4(a), with respect to the Released Claims, each Seller, on behalf of himself, herself or itself and each Releasing Party, hereby expressly waives all rights under Section 1542 of the Civil Code of the State of California (the “California Civil Code”) and any similar Law or common law principle in any applicable jurisdiction prohibiting or restricting the waiver of unknown claims. Section 1542 of the California Civil Code reads as follows:

“A GENERAL RELEASE DOES NOT EXTEND TO CLAIMS WHICH THE CREDITOR DOES NOT KNOW OR SUSPECT TO EXIST IN HIS OR HER FAVOR AT THE TIME OF EXECUTING THE RELEASE, WHICH IF KNOWN BY HIM OR HER MUST HAVE MATERIALLY AFFECTED HIS OR HER SETTLEMENT WITH THE DEBTOR.”

Notwithstanding the provisions of Section 1542 of the California Civil Code or any similar Law or common law principle in any applicable jurisdiction, and for the purpose of implementing a full and complete release and discharge of the Released Parties, each Seller, on behalf of himself and each Releasing Party, expressly acknowledges that the foregoing release is intended to include in its effect all claims which any Seller or any Releasing Party does not know or suspect to exist in his, her or its favor against any of the Released Parties (including, without limitation, unknown and contingent claims), and that the foregoing release expressly contemplates the extinguishment of all such claims (except to the extent expressly set forth herein).

(c) Each Seller, on behalf of himself, herself or itself and each Releasing Party, acknowledges that he, she or it may hereafter discover facts in addition to or different from those which he, she or it now knows or believes to be true with respect to the subject matter of the Released Claims, but each Seller, on behalf of himself, herself or itself and each Releasing Party, intends to and, by operation of this Agreement shall have, fully, finally and forever settled and released any and all Released Claims without regard to the subsequent discovery of existence of such different or additional facts.

(d) Each Seller, on behalf of himself, herself or itself and each Releasing Party, represents, warrants, covenants and agrees that such Releasing Party has not and will not assign or transfer any Released Claim or possible Released Claim against any Released Party. Each Seller, on behalf of himself, herself or itself and each Releasing Party, agrees to indemnify and hold the Released Parties harmless from any Liabilities, Damages, costs, expenses and attorneys’ fees arising as a result of any such assignment or transfer.

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(e) Each Seller, on behalf of himself, herself or itself and each Releasing Party, covenants and agrees not to, and agrees to cause his, her or its respective Affiliates not to, whether in his, her or its own capacity, as successor, by reason of assignment or otherwise, commence, institute or join in, or assist or encourage any third party in commencing, instituting or joining in, any Proceeding of any kind whatsoever, in law or equity, or assert, or assist or encourage any third party in asserting, any claim, demand, action or cause of action, in each case against the Released Parties, or any of them, with respect to any Released Claims. Each Seller acknowledges that the foregoing release was separately bargained for and is a key element of this Agreement of which this release is a part.

Section 6.5. Use of Names. From and after the Closing Date, no Seller shall, and each Seller shall cause his, her or its Affiliates not to: (a) market or offer any products or services using any of the words or terms (in any combination) that are identical or confusingly similar to, or a colorable imitation or dilutive of any of the words and terms ever used by the Company to market or offer any of the Company's products or services; or (b) use the name "POS Portal" or any confusingly similar name, including on stationery, business cards or signage.

**ARTICLE VII
TAX MATTERS**

Section 7.1. Transfer Taxes. All transfer, stamp, documentary, sales, use, registration, value-added and other similar Taxes (including all applicable real estate transfer Taxes and real property transfer gains Taxes and including any filing and recording fees) and related amounts (including any penalties, interest and additions to Tax) and all such reasonable costs (including accounting and legal fees) associated with filing all Tax Returns related to transfer Taxes imposed on the Company in connection with this Agreement ("Transfer Taxes") shall be paid fifty percent (50%) by the Sellers and fifty percent (50%) by Purchaser. At least thirty (30) days prior to filing any such Tax Returns, the Sellers' Representative shall submit a copy of such Tax Return to Purchaser for Purchaser's review and approval.

Section 7.1. Tax Returns.

(a) By Purchaser. Except as set forth in Section 7.2(b), Purchaser shall control and be responsible for the filing of all Tax Returns filed with respect to the Company after the Closing Date. Purchaser shall prepare any Straddle Period Tax Returns of the Company in accordance with past practice to the extent permitted by applicable Law; provided, however, that Purchaser shall provide the Sellers' Representative with a copy of any such Tax Returns for his review and comment at least thirty (30) Business Days prior to its filing and Purchaser shall make any changes reasonably requested by the Sellers' Representative; provided, further, that a comment by the Sellers' Representative shall not be considered reasonable for this purpose to the extent that it is inconsistent with past practice.

(b) By Sellers. The Sellers' Representative, at Sellers' expense, shall control and be responsible for the preparation and timely filing of all income Tax Returns of the Company filed on or after the Closing Date that relate to a Pre-Closing Tax Period. All such Tax Returns shall be prepared in accordance with past practice unless otherwise required by Law; provided, however, that the Seller shall provide Purchaser with a copy of any such Tax Returns for its review and comment at least thirty (30) Business Days prior to its filing and the Sellers' Representative shall make any changes reasonably requested by Purchaser; provided, further, that a comment by Purchaser shall not be considered reasonable for this purpose to the extent that it is inconsistent with past practice.

(c) Payment of Taxes on Tax Returns. The Sellers shall pay all Taxes shown to be due on any Pre-Closing Tax Period Tax Returns and on the Straddle Period Tax Returns to the extent such Taxes are allocable to the Sellers under Section 7.6. Purchaser shall pay (or cause to be paid) all Taxes shown to be due on the Straddle Period Tax Returns to the extent such Taxes are allocable to Purchaser under Section 7.6.

Section 7.2. No Amended Returns. Except as required by Law, Purchaser shall not amend or extend the statute of limitations with respect to any Tax Returns of the Company relating to a Pre-Closing Period, without the prior written consent of the Sellers' Representative.

Section 7.3. Cooperation on Tax Matters. Purchaser, the Sellers and the Sellers' Representative shall fully cooperate, to the extent reasonably requested by the other party, with respect to the filing of Tax Returns, filing

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of Tax elections, and any audit, litigation or other Proceeding with respect to Taxes. Such cooperation shall include the retention and provision of records and information relevant to such audit, litigation or other Proceeding and making employees available on a mutually convenient basis to provide additional information. Purchaser, the Sellers and the Sellers' Representative agree to retain records with respect to Tax matters pertinent to the Company until the expiration of the relevant statute of limitations. Purchaser, the Sellers and the Sellers' Representative further agree to use their best efforts to obtain any certificate or other document from any Governmental Entity as may be necessary to mitigate, reduce or eliminate any Tax that may be imposed.

Section 7.4. Tax Contests. If any party receives notice of any Tax Matter, such party will notify, within thirty (30) days, the other party in writing of such Tax Matter, but the failure to so notify will not relieve the other party of any liability it may have, except to the extent the party has suffered actual prejudice thereby.

(a) With respect to any Tax Matter relating to a Pre-Closing Tax Period Tax Return, the Sellers' Representative may assume and control all proceedings taken in connection with such Tax Matter; provided, that to the extent that such Tax Matter relates to an issue that could reasonably be expected to materially and adversely affect the Taxes of the Company, or Purchaser in a Tax period following the Closing Date, the Sellers' Representative and Purchaser will jointly control all proceedings taken in connection with any such Tax Matters. No party will settle or compromise any such Tax Matters without the other Parties' written consent, which consent shall not be unreasonably withheld.

(b) With respect to all other Tax Matters, Purchaser shall assume and control all proceedings; provided that, to the extent that such Tax Matters relates to an issue that could reasonably be expected to adversely affect the Taxes of the Company in a Pre-Closing Tax Period where the Sellers would have an obligation to indemnify Purchaser pursuant to the terms of this Agreement, the Sellers' Representative and the Buyer will jointly control all proceedings taken in connection with any such Tax Matter.

Section 7.5. Tax Sharing Agreements. All Tax sharing agreements or similar agreements between the Company, on the one hand, and any of the Sellers and their Affiliates, on the other hand, shall be terminated prior to the Closing Date, and, after the Closing Date, the Company shall not be bound thereby or have any Liability thereunder.

Section 7.6. Allocations of Taxes in Straddle Period. For purposes of determining the amount of Taxes allocable to the portion of the Straddle Period ending on (and including) the Closing Date, in the case of any Taxes that are imposed on a periodic basis and are payable for a Tax period that includes (but does not end on) the Closing Date, the portion of such Tax which relates to the portion of the Straddle Period ending on (and including) the Closing Date shall: (a) in the case of any Taxes other than the Taxes based upon or related to income or receipts, be deemed to be the amount of such Tax for the entire Tax period multiplied by a fraction the numerator of which is the number of days in the Tax period ending on the Closing Date and the denominator of which is the number of days in the entire Tax period; and (b) in the case of any Tax based upon or related to income or receipts be deemed equal to the amount which would be payable if the relevant Tax period ended on the Closing Date.

Section 7.7. Conflict. In the event of any conflict or overlap between the provisions of this Article VII and Article IX, the provisions of this Article VII shall control.

ARTICLE VIII
CONDITIONS TO CLOSING

Section 8.1. Conditions to Obligations of Purchaser. The obligations of Purchaser to consummate the Transactions shall be subject to the satisfaction, at or prior to the Closing, of each of the following conditions, any or all of which may be waived, in whole or in part, by Purchaser:

(a) Representations and Warranties. Each of the Fundamental Representations and each of the representations and warranties made by the Company in Article III of this Agreement and by the Sellers in Article IV of this Agreement that are qualified by materiality (including by a Material Adverse Effect qualifier) shall be true and correct in all respects, and each of the other representations and warranties made by the Company in Article III of this

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Agreement and by the Sellers in Article IV of this Agreement shall be true and correct in all material respects, in each case at and as of the date of this Agreement and at and as of the Closing as though such representation or warranty was made at and as of such time, except for those representations and warranties that address matters as of a particular date (in which case such representations and warranties shall be true and correct in the manner set forth in this Section 8.1(a) as of such particular date).

(b) Performance of Covenants. The Sellers shall have duly performed and complied in all material respects with all covenants, obligations and agreements required by this Agreement to be performed or complied with by the Sellers at or prior to the Closing.

(c) No Material Adverse Effect. Since the date of this Agreement, there shall not have occurred any Material Adverse Effect.

(d) Certificate. Purchaser shall have received a certificate signed by each of the Sellers, dated the Closing Date, to the effect that the conditions set forth in Sections 8.1(a), (b), (c), and (h) have been satisfied.

(e) Absence of Illegality; No Proceedings.

(i) No Law shall have been enacted or promulgated by any Governmental Entity of competent jurisdiction and remain in effect that makes consummation of the Transactions illegal or otherwise prohibits consummation of the Transactions, and no Order shall have been issued by any Governmental Entity of competent jurisdiction and be in effect precluding, restraining, enjoining or prohibiting consummation of the Transactions.

(ii) No Proceeding shall have been filed in any court of competent jurisdiction seeking to restrain, materially delay or prohibit the consummation of any of the Transactions nor shall any such Proceeding have been overtly threatened by any Governmental Entity.

(f) Waiting Periods. The waiting period under the HSR Act applicable to the Transactions shall have expired or been terminated. The required approval under any other applicable Antitrust Laws set forth on Section 8.1(f) of the Disclosure Schedule shall have been obtained or any applicable waiting period thereunder shall have been terminated or shall have expired.

(g) Closing Deliveries. The Sellers' Representative shall have made, or stand ready at the Closing to make, the deliveries required to be made by the Sellers' Representative pursuant to Section 2.5(a).

(h) Employment Agreements. Each Employment Agreement shall be in full force and effect without modification, alteration, rescission or suspension of any kind, each employee of the Company that has entered into an Employment Agreement concurrently with the execution of this Agreement shall continue to be employed by the Company as of the Closing, and no employee of the Company that has entered into an Employment Agreement shall have given any notice or other indication that such employee is not willing or otherwise does not intend to be employed by the Company or Purchaser following the Closing.

Section 8.2. Conditions to Obligation of the Sellers. The obligations of the Sellers to consummate the Transactions shall be subject to the satisfaction, at or prior to the Closing, of each of the following conditions, any or all of which may be waived, in whole or in part, by the Sellers:

(a) Representations and Warranties. Each of the representations and warranties made by Purchaser in Sections 4.2(a) (Organization and Qualification), 4.2(b) (Authority) and 4.2(d) (Broker's Fees) of this Agreement and each of the representations and warranties made by Purchaser in Article IV of this Agreement that are qualified by materiality shall be true and correct in all respects, and each of the other representations and warranties made by Purchaser in Article IV of this Agreement shall be true and correct in all material respects, in each case at and as of the date of this Agreement and at and as of the Closing as though such representation or warranty was made at and as of such time, except for those representations and warranties that address matters as of a particular date (in which

case such representations and warranties shall be true and correct in the manner set forth in this Section 8.2(a) as of such particular date).

(b) Performance of Covenants. Purchaser shall have duly performed and complied in all material respects with all covenants, obligations and agreements required by this Agreement to be performed or complied with by Purchaser at or prior to the Closing.

(c) Certificate. The Sellers' Representative shall have received a certificate signed by an executive officer of Purchaser, dated the Closing Date, to the effect that the conditions set forth in Sections 8.2(a) and (b) have been satisfied.

(d) Absence of Illegality; No Proceedings.

(i) No Law shall have been enacted or promulgated by any Governmental Entity of competent jurisdiction and remain in effect that makes consummation of the Transactions illegal or otherwise prohibits consummation of the Transactions, and there shall not be any Order of any court of competent jurisdiction in effect precluding, restraining, enjoining or prohibiting consummation of the Transactions.

(ii) No Proceeding shall have been filed in any court of competent jurisdiction seeking to restrain, materially delay or prohibit the consummation of any of the Transactions nor shall any such Proceeding have been overtly threatened by any Governmental Entity.

(e) Waiting Periods. The waiting period under the HSR Act applicable to the Transactions shall have expired or been terminated. The required approval under any other applicable Antitrust Laws set forth on Section 8.1(f) of the Disclosure Schedule shall have been obtained or any applicable waiting period thereunder shall have been terminated or shall have expired.

(f) Closing Deliveries. Purchaser shall have made, or stand ready at the Closing to make, the deliveries required to be made by Purchaser pursuant to Section 2.5(b).

ARTICLE IX
SURVIVAL AND INDEMNIFICATION

Section 9.1. Survival of Representations and Covenants.

(a) General Survival. Subject to Section 9.1(b), and Section 9.1(e), the representations and warranties made by the Sellers in this Agreement shall survive the Closing until the date that is eighteen (18) months from the Closing Date; provided, however, that if, at any time on or prior to the date that is eighteen (18) months from the Closing Date, any Indemnitee delivers to the Sellers' Representative a written notice alleging the existence of an inaccuracy in or a breach of, or a potential inaccuracy in or a potential breach of, any such representation or warranty and asserting facts reasonably expected to establish a claim for recovery under Section 9.2 based on such alleged inaccuracy or breach or potential inaccuracy or breach, then the relevant representation and warranty and claim for recovery shall survive the date that is eighteen (18) months from the Closing Date until such time as such claim is fully and finally resolved.

(b) Fundamental Representations. Notwithstanding anything to the contrary contained in Section 9.1(a), the Fundamental Representations shall survive the Closing until the date that is ninety (90) days following the expiration of the applicable statute of limitations (including any waiver, extension or mitigation thereof); provided, however, that if, at any time on or prior to the date that is ninety (90) days following the expiration of the applicable statute of limitations (including any waiver, extension or mitigation thereof), any Indemnitee delivers to Sellers' Representative a written notice alleging the existence of an inaccuracy in or a breach of any such representation or warranty and asserting facts reasonably expected to establish a claim for recovery under Section 9.2 based on such alleged inaccuracy or breach, then the relevant representation or warranty solely to the extent related to the claim for

recovery shall survive the date that is ninety (90) days following the expiration of the applicable statute of limitations (including any waiver, extension or mitigation thereof) until such time as such claim is fully and finally resolved.

(c) Purchaser Representations. All representations and warranties made by Purchaser shall terminate and expire at the Closing, and any liability of Purchaser with respect to such representations and warranties shall thereupon cease.

(d) Survival of Covenants. All covenants and agreements of any parties contained herein which is required to be performed prior to the Closing shall survive the Closing until eighteen (18) months from the Closing Date and all other covenants and agreements of any parties contained herein shall survive the Closing until fully performed or complied with.

(e) Intentional Misrepresentation; Fraud. The limitations set forth in Section 9.1(a) shall not apply in the event of any intentional misrepresentation or fraud, each shall survive the Closing indefinitely.

Section 9.2. Indemnification by the Sellers.

(a) Indemnification. From and after the Closing (but subject to Section 9.1 and Section 9.3), each of the Sellers, severally but not jointly, shall hold harmless and indemnify each of the Indemnitees from and against, and shall compensate and reimburse each of the Indemnitees for, such Seller's Pro Rata Share of any Damages, without duplication, which are directly or indirectly suffered or incurred at any time by any of the Indemnitees or to which any of the Indemnitees may otherwise directly or indirectly become subject at any time (regardless of whether or not such Damages relate to any Third Party Claim) and which arise directly or indirectly from or as a result of, or are directly or indirectly connected with:

(i) any inaccuracy in or breach of any representation or warranty made by the Company or the Sellers in this Agreement or in any other agreement, document, certificate or instrument entered into or delivered by or on behalf of the Sellers or the Company under or pursuant to this Agreement or in connection with the Transactions;

(ii) any breach or non-fulfillment of any covenant or other obligation of or to be performed by such Seller or the Sellers' Representative (in his capacity as such) or, prior to the Closing, the Company, in each case in this Agreement or in any other agreement, document, certificate or instrument entered into or delivered by or on behalf of the Sellers under or pursuant to this Agreement or in connection with the Transactions;

(iii) (A) the determination, assessment or collection of any actual or asserted Liability for any Tax of or owed by any Seller or the Company in respect of any Pre-Closing Taxes, except to the extent such Taxes are taken into account in the calculation of the Final Purchase Price; (B) any inaccuracy in or breach of any of the representations and warranties set forth in Section 3.11 or Section 3.14; (C) the determination, assessment or collection of any actual or asserted Liability for any Tax that is a social security, Medicare, unemployment or other employment, withholding or payroll Tax or similar amount or employee insurance owed by the Company as a result of any payments made to any Seller pursuant to this Agreement; (D) the determination, assessment or collection of any actual or asserted Liability for any Tax of or owed by any Seller (including capital gains Taxes arising as a result of the Transactions) or any of his, her or its Affiliates (excluding the Company); (E) the determination, assessment or collection of any actual or asserted Liability for any Tax for which the Company (or any predecessor of the Company) is held liable under Section 1.1502-6 of the United States Treasury Regulations (or any similar provision of state, local or foreign Law) by reason of such entity being included in any consolidated, affiliated, combined or unitary group at any time on or before the Closing Date (other than a consolidated, affiliated, combined or unitary group of which Purchaser is a member); and (F) the determination, assessment or collection of any actual or asserted Liability for any Tax imposed on or payable by third parties with respect to which the Company has an obligation to indemnify such third party pursuant to a transaction consummated on or prior to the Closing;

(iv) the amount of any Change of Control Payment, any Company Transaction Expenses, any Indebtedness or any Current Liability remaining unpaid at the Closing and not directly or indirectly accounted for in the calculation of the Final Purchase Price; and

(v) any matter referred to in Section 9.2(a)(v) of the Disclosure Schedule.

(b) Damage to Purchaser. The parties acknowledge and agree that, if after the Closing the Company suffers, incurs or otherwise becomes subject to any Damages as a result of or in connection with any inaccuracy in or breach of any representation, warranty, covenant or obligation, then (without limiting any of the rights of the Company as an Indemnitee) Purchaser shall also be deemed, by virtue of its ownership of the capital stock of the Company after the Closing, to have incurred Damages as a result of and in connection with such inaccuracy or breach.

(c) Insurance. The amount of any Damages subject to indemnification under Section 9.2 shall be calculated net of any insurance proceeds or any indemnity, contribution or similar payment actually recovered by the applicable Indemnitee for such Damages, net of all reasonable and documented costs of collection, and net of any insurance premium increase that results from the assertion of such claim. Each Indemnitee shall use, and shall cause its Affiliates to use, commercially reasonable efforts (which the parties agree does not require any party to commence any litigation or other Proceedings) to seek recovery under all insurance covering such Damages to the same extent as it would if such Damages were not subject to indemnification hereunder. In the event that an insurance or other recovery is actually made by an Indemnitee with respect to any Damages for which such Indemnitee has been indemnified hereunder and such insurance or other recovery would result in duplicative recovery by such Indemnitee, then a refund equal to the aggregate amount of the insurance or other recovery shall be made promptly by such Indemnitee to the Sellers' Representative (on behalf of the Sellers on a Pro Rata Share basis), net of all reasonable and documented costs of collection.

Section 9.3. Limitations.

(a) Deductible.

(i) The Sellers shall not be required to make any indemnification payment pursuant to Section 9.2(a)(i) until such time as the total amount of all Damages that have been directly or indirectly suffered or incurred by any one or more of the Indemnitees, or to which any one or more of the Indemnitees has or have otherwise directly or indirectly become subject, exceeds \$ [****] (the "Deductible Amount") in the aggregate. Once the total amount of such Damages exceeds the Deductible Amount, then the Indemnitees shall be entitled to be indemnified against and compensated and reimbursed for the amount of any such Damages exceeding the Deductible Amount.

(ii) The limitation set forth in Section 9.3(a)(i) shall not apply (and shall not limit the indemnification or other obligations of the Sellers): (A) in the event of intentional misrepresentation or fraud; or (B) to inaccuracies in or breaches of any of the Fundamental Representations.

(b) Liability Cap for Breaches of Representations and Warranties. Recourse by the Indemnitees under Section 9.2(a)(i) shall be limited to an aggregate amount equal to [****]; provided, however, that the limitation set forth in this Section 9.3(b) shall not apply (and shall not limit the indemnification or other obligations of the Sellers): (A) in the event of intentional misrepresentation or fraud; or (B) to inaccuracies in or breaches of any of the Fundamental Representations.

(c) Overall Liability Cap. Except in the event of intentional misrepresentation or fraud, in no event will the total cumulative amount of Damages for which the Sellers may be liable to the Indemnitees under this Article IX exceed [****].

(d) Qualifications. For purposes of Section 9.2(a), with respect to each representation, warranty, covenant or agreement contained in this Agreement that is subject to a "materiality," "material," "Material Adverse Effect," "in all material respects" or similar qualification (but not including knowledge, Sellers' Knowledge or Knowledge of the Sellers), any such qualification shall be disregarded for purposes of calculating the amount of any Damages that is subject to indemnification hereunder.

(e) Representations Not Limited. The Sellers agree that the Indemnitees' rights to indemnification, compensation and reimbursement contained in this Article IX relating to the representations,

warranties, covenants and obligations of the Sellers are part of the basis of the bargain contemplated by this Agreement; and such representations, warranties, covenants and obligations, and the rights and remedies that may be exercised by the Indemnitees with respect thereto, shall not be waived, limited or otherwise affected by or as a result of (and the Indemnitees shall be deemed to have relied upon such representations, warranties, covenants or obligations notwithstanding) any knowledge on the part of any of the Indemnitees or any of their Representatives, regardless of whether obtained through any investigation by any Indemnitee or any Representative of any Indemnitee or through disclosure by any Seller or any other Person, and regardless of whether such knowledge was obtained before or after the execution and delivery of this Agreement.

Section 9.4. No Contribution. Each Seller waives, and each Seller acknowledges and agrees that such Seller shall not have and shall not exercise or assert (or attempt to exercise or assert), any right of contribution, right of indemnity or advancement of expenses or other right or remedy against Purchaser or the Company in connection with any indemnification obligation or any other Liability to which such Seller may become subject under or in connection with this Agreement or any other agreement, document, certificate or instrument delivered to Purchaser in connection with this Agreement. Effective as of the Closing, each Seller expressly waives and releases any and all rights of subrogation, contribution, advancement, indemnification or other claim against Purchaser or the Company.

Section 9.5. Defense of Third Party Claims.

(a) In the event of the assertion or commencement by any Person, other than a party hereto, of any claim or Proceeding (whether against the Company, Purchaser or any other Person) with respect to which the Sellers may become obligated to hold harmless, indemnify, compensate or reimburse any Indemnitee pursuant to this Article IX (a “Third Party Claim”), Purchaser shall have the right, at its election, to proceed with the defense of such Third Party Claim on its own with counsel reasonably satisfactory to the Sellers’ Representative. If Purchaser so proceeds with the defense of any such Third Party Claim:

(i) subject to the other provisions of this Article IX, all reasonable expenses relating to the defense of such Third Party Claim shall be borne and paid exclusively by the Sellers;

(ii) the Sellers’ Representative shall make available to Purchaser any documents and materials in his and in the Sellers’ possession or control that may be necessary to the defense of such Third Party Claim; and

(iii) Purchaser may not settle, adjust or compromise such Third Party Claim without the consent of the Sellers’ Representative (it being understood that if Purchaser requests that the Sellers’ Representative consent to a settlement, adjustment or compromise, the Sellers’ Representative shall not unreasonably withhold or delay such consent).

(b) If Purchaser does not elect to proceed with the defense of any such Third Party Claim, the Sellers’ Representative shall proceed with the defense of such Third Party Claim with counsel reasonably satisfactory to Purchaser; provided, however, that the Sellers’ Representative may not settle, adjust or compromise any such Third Party Claim without the prior written consent of Purchaser (which consent may not be unreasonably withheld or delayed). Purchaser shall give the Sellers’ Representative prompt notice of the commencement of any such Third Party Claim against any Indemnitee; provided, however, that any failure on the part of Purchaser to so notify the Sellers’ Representative shall not limit any of the obligations of the Sellers under this Article IX (except to the extent such failure materially prejudices the defense of such Third Party Claim).

Section 9.6. Indemnification Claim Procedure.

(a) If any Indemnitee has or claims in good faith to have incurred or suffered, or believes in good faith that it may incur or suffer, Damages for which it is or may be entitled to be held harmless, indemnified, compensated or reimbursed under this Article IX or for which it is or may be entitled to a monetary remedy (such as in the case of a claim based on fraud or intentional misrepresentation), such Indemnitee may deliver a notice of claim (a “Notice of Claim”) to the Sellers’ Representative and, to the extent funds remain in the Indemnity Escrow Account,

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to the Escrow Agent. Each Notice of Claim shall: (i) state that such Indemnitee believes in good faith that such Indemnitee is or may be entitled to indemnification, compensation or reimbursement under this Article IX or is or may otherwise be entitled to a monetary remedy; (ii) contain a brief description of the facts and circumstances supporting the Indemnitee's claim; and (iii) contain a good faith, non-binding, preliminary estimate of the aggregate amount of the actual and potential Damages that the Indemnitee believes have arisen and may arise as a result of such facts and circumstances (the aggregate amount of such estimate, as it may be modified by such Indemnitee in good faith from time to time, being referred to as the "Claimed Amount").

(b) During the thirty (30)-day period commencing upon delivery by an Indemnitee to the Sellers' Representative of a Notice of Claim (the "Dispute Period"), the Sellers' Representative may deliver to the Indemnitee who delivered the Notice of Claim and, to the extent funds remain in the Indemnity Escrow Account, to the Escrow Agent a written response (the "Response Notice") in which the Sellers' Representative: (i) agrees that the full Claimed Amount is owed to the Indemnitee; (ii) agrees that part, but not all, of the Claimed Amount (such agreed portion, the "Agreed Amount") is owed to the Indemnitee; or (iii) indicates that no part of the Claimed Amount is owed to the Indemnitee. If the Response Notice is delivered in accordance with clause (ii) or (iii) of the preceding sentence, the Response Notice shall also contain a brief description of the facts and circumstances supporting the Sellers' Representative's claim that only a portion or no part of the Claimed Amount is owed to the Indemnitee, as the case may be. Any part of the Claimed Amount that is not agreed to be owed to the Indemnitee pursuant to the Response Notice (or the entire Claimed Amount, if the Sellers' Representative asserts in the Response Notice that no part of the Claimed Amount is owed to the Indemnitee) is referred to in this Agreement as the "Contested Amount" (it being understood that the Contested Amount shall be modified from time to time to reflect any good faith modifications by the Indemnitee to the Claimed Amount). If no Response Notice is delivered prior to the expiration of the Dispute Period, then the Sellers shall be conclusively deemed to have agreed that the full Claimed Amount is owed to the Indemnitee.

(c) If: (i) the Sellers' Representative delivers a Response Notice agreeing that the full Claimed Amount is owed to the Indemnitee; or (ii) the Sellers' Representative does not deliver a Response Notice during the Dispute Period, then, within three (3) Business Days following the receipt of such Response Notice by the Indemnitee (or, to the extent funds remain in the Indemnity Escrow Account, by the Escrow Agent) or within three (3) Business Days after the expiration of the Dispute Period, as the case may be: (A) to the extent funds remain in the Indemnity Escrow Account, the Escrow Agent shall release to the applicable Indemnitee from the Indemnity Escrow Account an amount in cash equal to the full Claimed Amount (or such lesser amount as may remain in the Indemnity Escrow Account); provided, however, that to the extent the funds in the Indemnity Escrow Account are insufficient to cover the Claimed Amount, the Sellers' Representative shall provide written notice thereof to each Seller, and each Seller shall pay to the applicable Indemnitee, within three (3) Business Days following the receipt by such Seller of such written notice, such Seller's Pro Rata Share of the amount by which the Claimed Amount exceeds the remaining funds in the Indemnity Escrow Account; or (B) to the extent no funds remain in the Indemnity Escrow Account, each Seller shall pay to the applicable Indemnitee such Seller's Pro Rata Share of the full Claimed Amount.

(d) If the Sellers' Representative delivers a Response Notice during the Dispute Period agreeing that less than the full Claimed Amount is owed to the Indemnitee, then within three (3) Business Days following the receipt of such Response Notice by the Indemnitee (or, to the extent funds remain in the Indemnity Escrow Account, by the Escrow Agent): (i) to the extent funds remain in the Indemnity Escrow Account, the Escrow Agent shall release to the applicable Indemnitee from the Indemnity Escrow Account an amount in cash equal to the Agreed Amount (or such lesser amount as may remain in the Indemnity Escrow Account); provided, however, that to the extent the funds in the Indemnity Escrow Account are insufficient to cover the Agreed Amount, the Sellers' Representative shall provide written notice thereof to each Seller, and each Seller shall pay to the applicable Indemnitee, within three (3) Business Days following the receipt by such Seller of such written notice, such Seller's Pro Rata Share of the amount by which the Agreed Amount exceeds the remaining funds in the Indemnity Escrow Account; or (ii) to the extent no funds remain in the Indemnity Escrow Account, each Seller shall pay to the applicable Indemnitee such Seller's Pro Rata Share of the Agreed Amount.

(e) If the Sellers' Representative delivers a Response Notice during the Dispute Period indicating that there is a Contested Amount, the Sellers' Representative and the Indemnitee shall attempt in good faith to resolve

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the dispute related to the Contested Amount. If the Indemnitee and the Sellers' Representative resolve such dispute, a settlement agreement stipulating the amount owed to the Indemnitee (the "Stipulated Amount") shall be signed by the Indemnitee and the Sellers' Representative. Within three (3) Business Days following the execution of such settlement agreement (or such shorter period of time as may be set forth in the settlement agreement): (i) to the extent funds remain in the Indemnity Escrow Account, the Sellers' Representative and Purchaser shall deliver joint written instructions to the Escrow Agent instructing the Escrow Agent to release to the applicable Indemnitee from the Indemnity Escrow Account an amount in cash equal to the Stipulated Amount (or such lesser amount as may remain in the Indemnity Escrow Account); provided, however, that to the extent the funds in the Indemnity Escrow Account are insufficient to cover the Stipulated Amount, the Sellers' Representative shall provide written notice thereof to each Seller, and each Seller shall pay to the applicable Indemnitee, within three (3) Business Days following the receipt by such Seller of such written notice, such Seller's Pro Rata Share of the amount by which the Stipulated Amount exceeds the remaining funds in the Indemnity Escrow Account; or (ii) to the extent no funds remain in the Indemnity Escrow Account, each Seller shall pay to the applicable Indemnitee such Seller's Pro Rata Share of the Stipulated Amount.

(f) In the event that there is a dispute relating to any Notice of Claim or any Contested Amount (whether it is a matter between any Indemnitee, on the one hand, and the Sellers, on the other hand, or it is a matter that is subject to a Third Party Claim brought against any Indemnitee) that remains unresolved after application of the terms of this Section 9.6, such dispute shall be settled in accordance with Section 11.11 hereof.

Section 9.7. Setoff. In addition to Section 9.6 and any rights of setoff or other similar rights that Purchaser or any of the other Indemnitees may have at common law or otherwise, Purchaser shall have the right to withhold and deduct from any sum that is or may be owed to any Seller hereunder (a) any amount that is payable by the Sellers to Purchaser under Section 2.3(d)(ii) but has not yet been paid; (b) any amount that is otherwise payable by any Seller to any Indemnitee under this Article IX but has not yet been paid; and (c) any amount for which there is a dispute as to whether such amount is payable by the Sellers to Purchaser or any Indemnitee under this Agreement pending final determination of such dispute (including any final determination under Section 2.3 or Section 9.6).

Section 9.8. Exercise of Remedies Other Than by Purchaser. No Indemnitee (other than Purchaser, the Company or any successor thereto or assign thereof) shall be permitted to assert any indemnification claim or exercise any other remedy under this Agreement unless Purchaser, the Company or any successor thereto or assign thereof, as the case may be, shall have consented to the assertion of such indemnification claim or the exercise of such other remedy.

Section 9.9. Source of Payment.

(a) Notwithstanding any provision of this Agreement to the contrary, the parties hereby acknowledge and agree that the Indemnitees shall first seek reimbursement on account of Damages for any claims brought under this Article IX from the Indemnity Escrow Account until the Indemnity Escrow Amount (including any interest accrued or income otherwise earned on the Escrow Amount) has been fully exhausted or otherwise released in accordance with the terms of the Escrow Agreement prior to Purchaser exercising its rights pursuant to Section 9.7 on account of such Damages or seeking reimbursement from Sellers on account of such Damages; provided, however, that Purchaser shall not be entitled to seek reimbursement from Sellers on account of such Damages directly unless and until any Undisputed Earn-Out Payment or Final Earn-Out Payment, as applicable, that is due and payable has been fully offset against.

(b) If Sellers are determined to owe an amount pursuant to this Article IX to any Indemnitee that may be satisfied from Sellers directly (a "Seller Payment Obligation"), then each Seller shall deliver an amount equal to such Seller's Pro Rata Share of such Seller Payment Obligation to such Indemnitee by wire transfer of immediately available funds to an account designated in writing by such Indemnitee.

Section 9.10. Indemnity Escrow Release.

(a) If the funds remaining in the Indemnity Escrow Account, including any interest accrued or income otherwise earned thereon, as of the date that is eighteen (18) months from the Closing Date (the "Indemnity"),

Escrow Balance”) exceed the aggregate dollar amount, as of the date that is eighteen (18) months from the Closing Date, of Claimed Amounts and Contested Amounts associated with all indemnification claims contained in any Notice of Claim that have not been finally resolved and paid prior to the date that is eighteen (18) months from the Closing Date in accordance with Section 9.6 (each, an “Unresolved Indemnity Escrow Claim” and the aggregate dollar amount of such Claimed Amounts and Contested Amounts as of the date that is eighteen (18) months from the Closing Date being referred to as the “Pending Indemnity Claim Amount”), then the Sellers’ Representative and Purchaser shall, within three (3) Business Days following the date that is eighteen (18) months from the Closing Date, deliver joint written instructions to the Escrow Agent instructing the Escrow Agent to release from the Indemnity Escrow Account an amount equal to the Indemnity Escrow Balance minus the Pending Claim Amount to the Sellers’ Representative (on behalf of the Sellers on a Pro Rata Share basis).

(b) Following the date that is eighteen (18) months from the Closing Date, if an Unresolved Indemnity Escrow Claim is finally resolved, Purchaser and the Sellers’ Representative shall, within three (3) Business Days after the final resolution of such Unresolved Indemnity Escrow Claim, deliver joint written instructions to the Escrow Agent instructing the Escrow Agent to release from the Escrow Account: (i) to the applicable Indemnitee an amount in cash determined in accordance with Section 9.6, and (ii) to the Sellers’ Representative (on behalf of the Sellers on a Pro Rata Share basis) an amount equal to the amount (if any) by which the amount of funds remaining in the Indemnity Escrow Account, including any interest accrued or income otherwise earned thereon, as of the date of resolution of such Unresolved Indemnity Escrow Claim exceeds the aggregate amount of the remaining Pending Claim Amount.

Section 9.11. Exclusive Remedy. Except: (a) for equitable relief, to which any party hereto may be entitled pursuant to this Agreement; (b) for Damages resulting from or arising out of fraud or intentional misrepresentation; and (c) as otherwise expressly provided in this Agreement, after the Closing the indemnification provided in this Article IX shall be the sole and exclusive remedy of the parties for monetary damages for any breach of any representation, warranty or covenant contained in this Agreement.

ARTICLE X TERMINATION

Section 10.1. Termination. This Agreement may be terminated and the Transactions may be abandoned at any time prior to the Closing:

(a) by the mutual written consent of Purchaser and the Sellers’ Representative;

(b) by the Sellers’ Representative, by written notice from the Sellers’ Representative to Purchaser, if the Closing shall not have occurred on or before September 30, 2017 (the “Outside Date”); provided, however, that the right to terminate this Agreement under this Section 10.1(b) shall not be available to the Sellers’ Representative if the failure of any Seller or the Sellers’ Representative to fulfill any of its obligations under this Agreement shall have been the principal cause of, or shall have resulted in, the failure of the Closing to occur on or prior to such date;

(c) by Purchaser, by written notice from Purchaser to the Sellers’ Representative, if the Closing shall not have occurred on or before the Outside Date; provided, however, that the right to terminate this Agreement under this Section 10.1(c) shall not be available to Purchaser if the failure of Purchaser to fulfill any of its obligations under this Agreement shall have been the principal cause of, or shall have resulted in, the failure of the Closing to occur on or prior to such date;

(d) by the Sellers’ Representative, by written notice from the Sellers’ Representative to Purchaser, if: (i) there exists a breach of or inaccuracy in any representation or warranty made by Purchaser in this Agreement such that the condition set forth in Section 8.2(a) is not capable of being satisfied; or (ii) Purchaser shall have breached any of the covenants or agreements contained in this Agreement to be complied with by it such that the condition set forth in Section 8.2(b) is not capable of being satisfied and, in the case of clauses (i) and (ii), such breach

is incapable of being cured or, if capable of being cured, is not cured by Purchaser prior to the earlier of: (x) twenty (20) days after receipt of written notice thereof from the Sellers' Representative or (y) the Outside Date;

(e) by Purchaser, by written notice from Purchaser to the Sellers' Representative, if: (i) there exists a breach of or inaccuracy in any representation or warranty made by the Sellers in this Agreement such that the condition set forth in Section 8.1(a) is not capable of being satisfied; or (ii) any Seller or the Sellers' Representative shall have breached any of the covenants or agreements contained in this Agreement to be complied with by any of them such that the condition set forth in Section 8.1(b) is not capable of being satisfied and, in the case of clauses (i) and (ii), such breach is incapable of being cured or, if capable of being cured, is not cured by Sellers or the Sellers' Representative prior to the earlier of: (x) twenty (20) days after receipt of written notice thereof from Purchaser or (y) the Outside Date;

(f) by Purchaser, by written notice from Purchaser to the Sellers' Representative, if, after the date of this Agreement, there shall have occurred a Material Adverse Effect; or

(g) by Purchaser, by written notice from Purchaser to the Sellers' Representative, or the Sellers' Representative, by written notice from the Sellers' Representative to Purchaser, if: (i) any Governmental Entity shall have issued an Order or taken any other action permanently restraining, enjoining or otherwise prohibiting the Transactions and such Order or other action shall have become final and non-appealable; or (ii) any Law shall have been enacted, issued or promulgated which has the effect of making consummation of the Transaction illegal or otherwise prohibits consummation of the Transactions.

Section 10.2. Effect of Termination. If this Agreement is terminated pursuant to Section 10.1, this Agreement shall forthwith become null and void and have no further effect, and there shall be no Liability or obligation on the part of Purchaser, any of the Sellers, the Sellers' Representative, any of their respective Affiliates, or any of their respective officers, directors, equityholders, managers or partners, and all rights and obligations of the parties hereunder shall cease; provided, however, that notwithstanding the foregoing: (a) the provisions of (i) the Confidentiality Agreement and (ii) this Section 10.2 and Article XI (except for Section 11.13) shall survive the termination of this Agreement and shall continue in full force and effect in accordance with their terms; and (b) nothing herein shall relieve any party hereto from liability for Damages incurred or suffered by any other party hereto as a result of any knowing and willful breach by such party of any of its covenants or other agreements set forth in this Agreement prior to the time of such termination.

ARTICLE XI MISCELLANEOUS

Section 11.1. Publicity.

(a) None of the parties will make, issue or release (and none of the parties will cause or permit any of his, her or its Representatives, or the Company or any of its Representatives, to make, issue or release) any public or industry announcement, statement or acknowledgment with respect to this Agreement or any of the Transactions, the Purchase Price or any other material terms of this Agreement or any of the Transactions, except by mutual consent of Purchaser and the Sellers' Representative and except as required by any Law (it being understood that prior to making any such announcement, statement or acknowledgement as required by any Law, Purchaser and the Sellers' Representative will consult with each other with respect to the content thereof. The Sellers acknowledge and agree that, as a publicly traded company, it is likely that Purchaser will be required to file a Form 8-K public disclosure with the Securities and Exchange Commission outlining the material terms of this Agreement, including the Purchase Price, and other key terms.

(b) Each Seller shall, and shall cause his, her or its Affiliates to, and shall instruct his, her or its and their respective Representatives to, hold in confidence the existence of this Agreement, the ancillary documents contemplated by this Agreement, and the terms hereof and thereof, and each such Person shall not disclose any such information to any other Person; provided, however, that such Person may disclose any such information: (i) that as of the date of this Agreement is, or after the date of this Agreement becomes, generally available to the public other than

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through a breach by the applicable Seller, any of his, her or its Affiliates or any of his, her or its or their respective Representatives of their respective obligations under this Section 11.1(b); (ii) to his, her or its respective tax, accounting or legal Representatives who have a need to know such information and are informed of the confidential nature of such information; (iii) as required by applicable Law, by any Governmental Entity or under any subpoena, civil investigative demand or other similar process by a court of competent jurisdiction having jurisdiction over such Person; or (iv) with Purchaser's prior written consent.

Section 11.2. Amendment and Modification. This Agreement may not be amended, modified or supplemented except by an instrument in writing signed by Purchaser and the Sellers' Representative.

Section 11.3. Extension; Waiver. At any time prior to the Closing, the parties may: (a) extend the time for the performance of any of the obligations or other acts of any party; (b) waive any inaccuracies in the representations and warranties contained in this Agreement or in any document delivered pursuant to this Agreement; and (c) waive compliance with any of the agreements or conditions contained in this Agreement or in any document delivered pursuant to this Agreement. Any agreement on the part of a party to any such extension or waiver shall be valid only if set forth in an instrument in writing signed on behalf of such party. The failure of any party to this Agreement to assert any of its rights under this Agreement or otherwise shall not constitute a waiver of such rights, nor shall any single or partial exercise of any such rights preclude any other or further exercise thereof.

Section 11.4. Notices. Any and all notices or other communications or deliveries required or permitted to be provided hereunder shall be in writing and shall be deemed to have been duly given and effective: (a) on the date of transmission, if such notice or communication is sent via facsimile or electronic mail and receipt is confirmed, at the facsimile number or email address specified in this Section 11.4, prior to 5:00 p.m., Pacific Time, on a Business Day; (b) on the first Business Day after the date of transmission, if such notice or communication is sent via facsimile at the facsimile number specified in this Section 11.4 (i) at or after 5:00 p.m., Pacific Time, on a Business Day or (ii) on a day that is not a Business Day; (c) when received, if sent by nationally recognized overnight courier service; or (d) upon actual receipt by the party to whom such notice is required or permitted to be given. The address for such notices and communications (unless changed by the applicable party by like notice) shall be as follows:

(A) if to the Sellers or the Sellers' Representative, to:

Kent B. Stryker
3200 Rustic Woods Court
Loomis, CA 95650
Telephone: 916.993.4230
Email: bstryker@posportal.com

with a copy (which shall not constitute notice) to:

Carter & West PC
3721 Douglas Blvd., Suite 350
Roseville, CA 95661
Attention: Ian Carter
Telephone: (916) 514-5800
Facsimile: (916) 674-1415
Email: ian@carterwestlaw.com

(B) if to Purchaser, to:

ScanSource Payments, Inc.
ScanSource, Inc.
6 Logue Court
Greenville, South Carolina 29615
Attention: Chief Financial Officers and Legal Department

Telephone: (864) 286-4854
Email: gerry.lyons@scansource.com

with a copy (which shall not constitute notice) to:

Stradling Yocca Carlson & Rauth, P.C.
100 Wilshire Boulevard, 4th Floor
Santa Monica, California 90401
Attention: David M. Smith, Esq.
Telephone: (424) 214-7024
Facsimile: (424) 214-7010
Email: dsmith@sycr.com

Section 11.5. Counterparts. This Agreement may be executed in any number of counterparts, and by the different parties in separate counterparts, each of which when executed shall be deemed an original, but all of which shall be considered one and the same agreement, and shall become effective when each party has received counterparts signed by each of the other parties, it being understood and agreed that delivery of a signed counterpart signature page to this Agreement by facsimile transmission, by electronic mail in portable document format (“.pdf”) form, or by any other electronic means intended to preserve the original graphic and pictorial appearance of a document shall constitute valid and sufficient delivery thereof.

Section 11.6. Entire Agreement; Third Party Beneficiaries. This Agreement (including the documents and the instruments referred to herein): (a) constitutes the entire agreement among the parties with respect to the subject matter of this Agreement and supersedes all prior agreements and understandings, both written and oral, among the parties with respect to the subject matter of this Agreement; provided, however, that the Confidentiality Agreement is hereby amended to automatically terminate in its entirety, effective as of the Closing; and (b) except as expressly provided herein, is not intended to confer upon any Person other than the parties and their respective successors and permitted assigns any rights, benefits or remedies whatsoever.

Section 11.7. Severability. If any term, provision, covenant or restriction of this Agreement is held by a court of competent jurisdiction or other authority to be invalid, void, unenforceable or against its regulatory policy, the remainder of the terms, provisions, covenants and restrictions of this Agreement shall nevertheless remain in full force and effect and shall in no way be affected, impaired or invalidated. Upon such determination that any term, provision, covenant or restriction is invalid, illegal, void, unenforceable or against regulatory policy, the parties shall negotiate in good faith to modify this Agreement so as to effect the original intent of the parties as closely as possible in an acceptable manner in order that the Transactions are consummated as originally contemplated to the greatest extent possible.

Section 11.8. Governing Law. This Agreement shall be governed by and construed in accordance with the Laws of the State of Delaware (including in respect of the statute of limitations or other limitations period applicable to any state Law claim, controversy or dispute) that apply to agreements made and performed entirely within the State of Delaware, without regard to the conflicts of law provisions thereof or of any other jurisdiction. Each party hereto agrees and acknowledges that the application of the Laws of the State of Delaware is reasonable and appropriate based upon the parties’ respective interests and contacts with the State of Delaware. Each of the parties waives any right or interest in having the Laws of any other state, including specifically, state Law regarding the statute of limitation or other limitations period, apply to any party’s state Law claim, controversy or dispute which in any way arises out of or relates to this Agreement or the Transactions.

Section 11.9. Assignment. Neither this Agreement nor any of the rights, interests or obligations hereunder may be assigned by any of the parties, in whole or in part (whether by operation of law or otherwise), without the prior written consent of the other parties; provided, however, that without such prior written consent: (a) Purchaser may assign its rights and/or delegate its obligations under this Agreement (in whole but not in part) to any Affiliate of Purchaser; (b) any or all of the rights and interests and/or obligations of Purchaser under this Agreement: (i) may be assigned and/or delegated to any purchaser of a substantial portion of the assets of Purchaser or any of its Affiliates (whereupon Purchaser shall cease to have any further liabilities or obligations hereunder); and (ii) may be assigned as

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a matter of law to the surviving entity in any merger, consolidation, share exchange or reorganization involving Purchaser or any of its Affiliates; and (c) Purchaser and its Affiliates shall be permitted to collaterally assign, at any time and in their sole discretion, their respective rights hereunder to any lender or lenders providing financing to Purchaser or any of its Affiliates (including any agent for any such lender or lenders) or to any assignee or assignees of such lender, lenders or agent. Subject to the preceding sentence, this Agreement shall be binding upon, inure to the benefit of and be enforceable by the parties and their respective successors and permitted assigns. Any purported assignment in violation of the provisions of this Agreement shall be null and void ab initio.

Section 11.10. Expenses. Except as expressly set forth in this Agreement, all fees, costs and expenses incurred by any party to this Agreement or on its behalf in connection with this Agreement and the Transactions shall be paid by the party incurring such expenses; provided, however, that Purchaser may pay any such fees, costs and expenses incurred by Purchaser or on its behalf directly or through one of its Affiliates (including the Company following the Closing).

Section 11.11. Submission to Jurisdiction: Waiver of Jury Trial.

(a) Each party hereto, for itself and its successors and assigns, irrevocably agrees that any Proceeding arising out of or relating to this Agreement or any of the Transactions shall be brought and determined in the Court of Chancery in and for New Castle County in the State of Delaware (or, if subject matter jurisdiction in that court is not available, in any appropriate state or federal courts in New Castle County in the State of Delaware) (and each such party shall not bring any Proceeding arising out of or relating to this Agreement or any of the Transactions in any court other than the aforesaid courts), and each party hereto, for itself and its successors and assigns and in respect to its property, hereby irrevocably submits with regard to any such Proceeding, generally and unconditionally, to the exclusive jurisdiction of the aforesaid courts. Each party hereto, for itself and its successors and assigns, hereby irrevocably waives, and agrees not to assert, by way of motion, as a defense, counterclaim or otherwise, in any such Proceeding: (i) any claim that it is not personally subject to the jurisdiction of the above-named courts for any reason other than the failure to lawfully serve process; (ii) that it or its property is exempt or immune from jurisdiction of such court or from any legal process commenced in such courts (whether through service of notice, attachment prior to judgment, attachment in aid of execution of judgment, execution of judgment or otherwise); and (iii) that (A) such Proceeding in any such court is brought in an inconvenient forum; (B) the venue of such Proceeding is improper; and (C) this Agreement, the Transactions or the subject matter hereof or thereof, may not be enforced in or by such courts.

(b) EACH PARTY HERETO ACKNOWLEDGES AND AGREES THAT ANY CONTROVERSY WHICH MAY ARISE UNDER THIS AGREEMENT IS LIKELY TO INVOLVE COMPLICATED AND DIFFICULT ISSUES AND, THEREFORE, EACH PARTY HERETO IRREVOCABLY AND UNCONDITIONALLY WAIVES, TO THE FULLEST EXTENT PERMITTED BY APPLICABLE LAW, ANY RIGHT IT MAY HAVE TO A TRIAL BY JURY IN RESPECT OF ANY PROCEEDING ARISING OUT OF OR RELATING TO THIS AGREEMENT OR ANY OF THE TRANSACTIONS. EACH PARTY HERETO CERTIFIES AND ACKNOWLEDGES THAT: (I) NO REPRESENTATIVE OF ANY OTHER PARTY HAS REPRESENTED, EXPRESSLY OR OTHERWISE, THAT SUCH OTHER PARTY WOULD NOT SEEK TO ENFORCE THE FOREGOING WAIVER IN THE EVENT OF ANY SUCH PROCEEDING; (II) SUCH PARTY HAS CONSIDERED THE IMPLICATIONS OF THIS WAIVER; (III) SUCH PARTY MAKES THIS WAIVER VOLUNTARILY; AND (IV) SUCH PARTY HAS BEEN INDUCED TO ENTER INTO THIS AGREEMENT BY, AMONG OTHER THINGS, THE MUTUAL WAIVERS AND CERTIFICATIONS IN THIS SECTION 11.11(b).

Section 11.12. Construction of Agreement.

(a) The terms and provisions of this Agreement represent the results of negotiations among the parties, each of which has been represented by counsel of its own choosing, and none of which has acted under duress or compulsion, whether legal, economic or otherwise. Accordingly, the terms and provisions of this Agreement shall be interpreted and construed in accordance with their usual and customary meanings, and each of the parties hereby waives the application in connection with the interpretation and construction of this Agreement of any Law to the effect that ambiguous or conflicting terms or provisions contained in this Agreement shall be interpreted or construed against the party whose attorney prepared the executed draft or any earlier draft of this Agreement.

- (b) All references in this Agreement to Sections, Articles and Schedules without further specification are to Sections and Articles of, and Schedules to, this Agreement.
- (c) The Table of Contents and the captions in this Agreement are for convenience only and shall not in any way affect the meaning, interpretation or construction of any provisions of this Agreement.
- (d) Unless the context otherwise requires, “or” is not exclusive.
- (e) Unless the context otherwise requires, “including” means “including but not limited to”.
- (f) The definitions contained in this Agreement are applicable to the singular as well as the plural forms of such terms and to the masculine as well as the feminine and neuter genders of such terms.
- (g) Time is of the essence in the performance of the parties’ respective obligations under this Agreement.
- (h) Any item disclosed in any particular section or subsection of the Disclosure Schedule shall be deemed to be disclosed in any other section or subsection of the Disclosure Schedule if the relevance of such item to the other section or subsection is readily apparent on the face of such disclosure.

Section 11.13. Sellers’ Representative.

- (a) Appointment. Each Seller hereby irrevocably nominates, constitutes and appoints Kent B. Stryker as his, her or its agent and true lawful attorney in fact (the “Sellers’ Representative”), with full power of substitution, to act in the name, place and stead of the Sellers for purposes of executing any documents and taking any actions that the Sellers’ Representative may, in his sole discretion, determine to be necessary, desirable or appropriate in connection with such Sellers’ Representative’s duties and obligations under this Agreement or the Escrow Agreement.
- (b) Authority. Each Seller hereby grants to the Sellers’ Representative full authority to execute, deliver, acknowledge, certify and file on behalf of such Seller (in the name of any or all of the Sellers or otherwise) any and all documents that the Sellers’ Representative may, in his sole discretion, determine to be necessary, desirable or appropriate, in such forms and containing such provisions as the Sellers’ Representative may, in his sole discretion, determine to be appropriate, in performing his duties as contemplated by this Agreement or the Escrow Agreement. Notwithstanding anything to the contrary contained in this Agreement or in any other agreement executed in connection with the Transactions: (i) Purchaser, each Indemnitee and each such party’s Representatives shall be entitled to deal exclusively with the Sellers’ Representative on all matters relating to the Estimated Closing Date Statement, the Closing Date Statement and the determination of the Purchase Price under Section 2.3, on all matters relating to the Earn-Out Report and the determination of the Earn-Out Payment under Section 2.8, on all tax matters under Article VII, on all matters relating to any claim for indemnification, compensation or reimbursement under Article IX, and on all matters related to the Escrow Agreement; and (ii) Purchaser, each Indemnitee and each such party’s Representatives shall be entitled to rely conclusively (without further evidence of any kind whatsoever) on any document executed or purported to be executed on behalf of any Seller by the Sellers’ Representative, and on any other action taken or purported to be taken on behalf of any Seller by the Sellers’ Representative, as fully binding upon such Seller. The Sellers, individually and independently, hereby acknowledge and agree that (x) the Sellers’ Representative shall be solely responsible for ensuring that each Seller receives that portion of any amount(s) to which such Seller is entitled in connection with the Transactions based upon his, her or its Pro Rata Share and which is paid by Purchaser to the Seller’s Representative; and (y) Purchaser shall bear no obligation or responsibility to any Seller with regard to the obligations of the Sellers’ Representative relating to the pro-rata distribution of such payments or otherwise.
- (c) Power of Attorney. Each Seller recognizes and intends that the power of attorney granted in this Section 11.13: (i) is coupled with an interest and is irrevocable; (ii) may be delegated by the Sellers’ Representative; and (iii) shall survive the death, incapacity, dissolution, liquidation or winding up of each of the Sellers.

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(d) Holdback Amount. Each Seller hereby acknowledges and agrees that the Holdback Amount shall be withheld from the Estimated Purchase Price as set forth in the Estimated Closing Date Statement and shall be paid by Purchaser directly to an account maintained by the Sellers' Representative (or a financial institution selected by the Sellers' Representative) as a fund for the fees and expenses (including, without limitation, any legal fees and expenses) of the Sellers' Representative incurred in connection with this Agreement, with any balance of the Holdback Amount not utilized for such purposes to be returned to the Sellers in accordance with their Pro Rata Share; provided, however, that in no event shall any portion of the Holdback Amount be returned to the Sellers prior to twenty-four (24) months after the Closing. If the Holdback Amount shall be insufficient to satisfy the fees and expenses of the Sellers' Representative, and if there are any remaining funds in the Indemnity Escrow Account to be distributed to the Sellers immediately prior to the final distribution from the Indemnity Escrow Account to the Sellers, then the Sellers' Representative shall be entitled to recover any such expenses from the Indemnity Escrow Account to the extent of such funds prior to the distribution of funds to the Sellers. The Sellers' Representative shall be entitled to recover any remaining expenses directly from the Sellers.

(e) Limitation of Liability and Indemnification. The Seller's Representative, in his individual capacity, will not be liable to Purchaser for any payment obligation of the Sellers pursuant to this Agreement. The Seller's Representative will not be liable to the Sellers for any act done or omitted hereunder as the Seller's Representative while acting in good faith and not in a manner constituting gross negligence or willful misconduct, and any act done or omitted pursuant to the advice of counsel will be conclusive evidence of such good faith. The Sellers will severally indemnify the Seller's Representative and hold the Seller's Representative harmless against any Damages incurred without gross negligence or willful misconduct on the part of the Seller's Representative and arising out of or in connection with the acceptance or administration of the Seller's Representative's duties hereunder.

(f) Replacement. If the Sellers' Representative shall die, resign, become disabled, or otherwise be unable to fulfill his responsibilities hereunder, the Sellers shall (by consent of the Sellers entitled to at least a majority of the Purchase Price), within ten (10) days after such death, resignation, disability, or inability, appoint a successor to the Sellers' Representative (who shall be reasonably satisfactory to Purchaser) and immediately thereafter notify Purchaser of the identity of such successor. Any such successor shall succeed the Sellers' Representative as Sellers' Representative hereunder. If for any reason there is no Sellers' Representative at any time, all references herein to the Sellers' Representative shall be deemed to refer to the Sellers.

[Remainder of page intentionally left blank .]

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IN WITNESS WHEREOF, Purchaser, the Sellers and the Sellers' Representative have caused this Agreement to be executed on the date first set forth above.

PURCHASER:

SCANSOURCE PAYMENTS, INC.

By: /s/ Gerald Lyons

Name: Gerald Lyons

Title: VP, ScanSource Payments, Inc.

Signature Pages to Continue

[*Signature Page to Stock Purchase Agreement*]

SELLERS:

J. Benjamin Smith

/s/ J. Benjamin Smith

Thomas J. Naygrow

/s/ Thomas J. Naygrow

Acacia Partners

By: /s/ Kent D. Powell

Name: Kent D. Powell

Title: Managing Member

Anh Tran

/s/ Anh Tran

Rex Parsons

/s/ Rex Parsons

Scott Agatep

/s/ Scott Agatep

Stryker Family Trust

/s/ Kent B. Stryker

Kent B. Stryker, Trustee

/s/ Sheryl L. Stryker

Sheryl L. Stryker, Trustee

Jennifer Schon

/s/ Jennifer Schon

Ken Schon

/s/ Ken Schon

Jennifer Schon

/s/ Jennifer Schon

Scott Berger

/s/ Scott Berger

Orlando Company, L.P.

[Signature Page to Stock Purchase Agreement]

By: /s/ Steven Orlando
Name: Steven Orlando
Title: General Partner

RJN Enterprises, LLC

By: /s/ Steven Orlando
Name: Steven Orlando
Title: G.P. of Orlando Company, L.P., Manager

Orlando Family Trust, dated September 13, 2009

/s/ Steven J. Orlando
Steven J. Orlando, Trustee

/s/ Karen S. Orlando
Karen S. Orlando, Trustee

Joe Villamil

/s/ Joe Villamil

Coblentz, Patch, Duffy & Bass LLLP

By: /s/ Paul Escabosa
Name: Paul Escabosa
Title: Partner

Bay Alarm Securities, LLC

By: /s/ Tim B. Westphal
Name: Tim B. Westphal
Title: Manager

Dentino Family Trust

/s/ William Dentino
William Dentino, Trustee

/s/ Rebecca R. Dentino
Rebecca R. Dentino, Trustee

Robert Muttera

/s/ Robert Muttera

Ruth Stryker

/s/ Ruth Stryker

Graham Warman

/s/ Graham Warman

David Meagher

/s/ David Meagher

Warren Heffelfinger

/s/ Warren Heffelfinger

Jeremiah Aaron Armstrong

/s/ Jeremiah Aaron Armstrong

James R. Corbett, Trustee Spectrum Capital Corporation Profit Sharing Plan

By: /s/ James R. Corbett

Name: James R. Corbett

Title: Trustee

Corbett Family Trust Dated June 5, 1981, James Corbett and Georgia Corbett Trustees

By: /s/ James R. Corbett

Name: James R. Corbett

Title: Trustee

By: /s/ Georgia K. Corbett

Name: Georgia K. Corbett

Title: Trustee

Hans Keeler

/s/ Hans Keeler

Hans Keeler

/s/ Hans Keeler

Sara Keeler

/s/ Sara Keeler

Hans Erich Keeler

/s/ Hans Erich Keeler

Sara Miriam Keeler

/s/ Sara Miriam Keeler

Brooke Turner

/s/ Brooke Turner

[*Signature Page to Stock Purchase Agreement*]

Daryl Foreman

/s/ Daryl Foreman

Joshua Jackson

/s/ Joshua Jackson

Shobhit Kumar

/s/ Shobhit Kumar

Bryan Ouchi

/s/ Bryan Ouchi

Michell Ouchi

/s/ Michelle Ouchi

Melissa Stead

/s/ Melissa Stead

Gus Constancio

/s/ Gus Constancio

Diane G. Reed

/s/ Diane G. Reed

Jennie L. Smith

/s/ Jennie L. Smith

Pamela Pettit

/s/ Pamela Pettit

Brandon Audisio

/s/ Brandon Audisio

Jeremiah Johnson

/s/ Jeremiah Johnson

Anh Tram Tran

/s/ Anh Tram Tran

Ky H. Dong

[*Signature Page to Stock Purchase Agreement*]

/s/ Ky H. Dong _____

Joshua Johnstone

/s/ Joshua Johnstone _____

William Seward

/s/ William Seward _____

Sarah Klose

/s/ Sarah Klose _____

Russell Godt

/s/ Russell Godt _____

Kevin Kent

/s/ Kevin Kent _____

Bruce & Patricia Westphal 1992 Trust Agreement

/s/ Bruce Westphal _____

Bruce Westphal, Trustee

/s/ Patricia Westphal _____

Patricia Westphal, Trustee

Polycomp Trust Company CFBO William Barry IRA

By: /s/ Stephanie Sullivan _____

Name: Stephanie Sullivan

Title: IRA Manager

/s/ William C. Barry _____

William C. Barry

Evamarie K. Ghiggeri

/s/ Evamarie K. Ghiggeri _____

COMPANY:

POS PORTAL, INC.

/s/ Kent B. Stryker

Name: Kent B. Stryker

Title: Chief Executive Officer

SELLERS' REPRESENTATIVE:

/s/ Kent B. Stryker

Kent B. Stryker

[*Signature Page to Stock Purchase Agreement*]



ZEBRA® PARTNERCONNECT PROGRAM

AMENDMENT TO PARTNERCONNECT™ EVM DISTRIBUTION AGREEMENT

THIS AMENDMENT (" **Amendment** ") is entered between:

Symbol Technologies, LLC. (formerly known as Symbol Technologies, Inc.), a corporation formed under Delaware law with an office at One Zebra Plaza Holtsville, NY 11742 (" **Symbol** "); and

Zebra Technologies International, LLC , with an office at 3 Overlook Point, Lincolnshire IL 60069 (" **ZTI** ")

Zebra Technologies do Brasil – Comércio de Produtos de Informática Ltda. , a company incorporated and organized under the laws of Brazil, with offices at Av. Magalhães de Castro, 4800, sala 72-A, Cidade Jardim, CEP 05676-120, São Paulo, SP (" **Zebra Brazil** ")

(collectively "**Zebra** ")

And

ScanSource, Inc. , a company incorporated in South Carolina, with its registered office at 6 Logue Court, Greenville, South Carolina 29615 (" **ScanSource** ").

ScanSource Latin America, Inc. , a ScanSource Affiliate incorporated in Florida, whose registered business address is 1935 NW 87 Avenue, Miami, Florida 33172 (" **ScanSource Latin America** ")

CDC Brazil Distribuidora de Tecnologias Especiais Ltda. , a ScanSource Affiliate incorporated and organized under the laws of Brazil, with offices in the City of São José dos Pinhais, State of Paraná, at Avenida Rui Barbosa, 2529, Módulos 11 and 12, Bairro Jardim Ipê, CEP: 83055-320, enrolled with the Taxpayer Register (CNPJ/MF) under No. 05.607.657/0001-35 (" **ScanSource Brazil** ")

SCANSOURCE DE MEXICO S. DE R.L. DE C.V., a ScanSource Affiliate incorporated in Mexico, whose registered business address is Calle 4 No. 298, Colonia Franccionamiento Industrial Alce Blanco, Naucalpan de Juarez, Estado de México 53370 (" **ScanSource Mexico** ")

(Collectively "**Distributor** ")

" **Zebra** " and the "**Distributor** " are referred to collectively as "**Parties** " and individually as a "**Party** ".

WHEREAS:

- (A) The Parties entered on February 12, 2014 into an agreement that was renamed, as of April 11, 2016, to: PartnerConnect™ EVM Distribution Agreement, (as amended) ("Distribution Agreement"), which relates to Zebra Enterprise Visibility and Mobility ("EVM") products and services, and which, as acknowledged by the Parties by entering into this Amendment, is in full force and effect and valid as when this Amendment is executed;
- (B) With the integration of Zebra's existing channel programs into the Zebra PartnerConnect Program, Zebra has aligned certain core systems, tools and processes, and in order to provide a simplified, unified experience to Distributor, certain terms included in the Distribution Agreement must be amended as of May 1, 2017 or at a later date to be solely determined and communicated to Distributor by Zebra (the "**Effective Date**");

Amendment to EVM PartnerConnect™ Zebra- ScanSource Distribution Agreement
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Rev. January 2017

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- (C) Zebra's Asset Identification and Tracking ("AIT") products and services, shall continue not to be within the scope of the Distribution Agreement and shall not be within the scope of this Amendment.

THEREFORE, in consideration of the mutual covenants and promises, and subject to the terms and conditions of the Distribution Agreement and this Amendment, the Parties have agreed with the following amendments to the Distribution Agreement as of the Effective Date.

1. Unless otherwise noted herein, all terms not herein defined shall have the meanings ascribed thereto in the Distribution Agreement. Except as expressly set forth herein, the terms and conditions of the Distribution Agreement shall remain in full force and effect provided, however, that in the event of any conflict between the provisions set forth in this Amendment and those in the Distribution Agreement, the provisions in this Amendment shall prevail.
2. Effective on the Effective Date, Symbol assigns all of its rights and obligations under the Distribution Agreement to ZTI, an Affiliate thereof and ScanSource Brazil assigns all of its rights and obligations under the Distribution Agreement to ScanSource Brasil Distribuidora De Tecnologias Ltda.
3. By executing this Amendment and effective as of the Effective Date: (i) Symbol agrees to assign all of its rights and obligations under the Distribution Agreement to ZTI; (ii) ZTI agrees to become a Party to the Distribution Agreement and to this Amendment and to be bound by the obligations of Symbol thereunder; and (iii) Distributor expresses its consent to the assignment by Symbol of all of its rights and obligations under the Distribution Agreement to ZTI. Likewise, by executing this Amendment and effective as of the Effective Date: (i) ScanSource Brazil agrees to assign all of its rights and obligations under the Distribution Agreement to ScanSource Brasil Distribuidora De Tecnologias Ltda; (ii) ScanSource Brasil Distribuidora De Tecnologias Ltda agrees to become a Party to the Distribution Agreement and to this Amendment and to be bound by the obligations of ScanSource Brazil thereunder; and (iii) Symbol and ZTI express their consent to the assignment by ScanSource Brazil of all of its rights and obligations under the Distribution Agreement to ScanSource Brasil Distribuidora De Tecnologias Ltda.
4. **Transactions with Government.** Notwithstanding anything to the contrary contained in the Distribution Agreement, all transactions with any government, governmental or regulatory entity or body, department, commission, board, agency or instrumentality of the United States of America and of any state, local or regional division thereof (hereinafter a "US Governmental Authority") or any transaction in which a US Governmental Authority is the End User or is directly or indirectly providing funds for the transaction, whether through a prime contract or a subcontract thereunder or a grant or other transaction, shall be subject to the additional terms and conditions contained in the Transaction with Government, Sales to Government Attachment, posted at www.zebra.com/partnerconnect-tc or any equivalent website thereof.
5. In Schedule 2 (Terms and Conditions of Sale) Under Section 1.0 (Price and Discount), Section 1.3 will be deleted in its entirety and replaced with the following:

"1.3 **Changes to Product prices**. In the event of a: (1) *price decrease* Distributor's account shall be credited in an amount equal to the difference between the price Distributor paid for the relevant Products and the new decreased Product List Price set by Zebra, subject to verification by Zebra, for each unsold unit in Distributor inventory, in transit, or on Orders acknowledged by Zebra up until the effective date of the decrease. Units must be unused and undamaged. Such credit shall be issued to Distributor's account with Zebra within [****] days. Orders received by Zebra subsequent to the effective date of the price decrease, will be invoiced at the new, reduced price; (2) *price increase*- Zebra will provide [****] days written notice to Distributor prior to any price increase. Firm, accepted Orders in backlog, and Orders received by Zebra prior to the effective date of the increase, will be invoiced at the original price. "

-
6. In Schedule 2 (Terms and Conditions of Sale) under Section 4.0 (Shipping and Risk of Loss) Section 4.1 will be deleted in its entirety and replaced with the following:

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“4.1 Unless otherwise agreed in writing, shipment of Products will be FCA Origin, freight collect, with the Origin point being ZTI’s distribution center in the US (INCOTERMS 2010). Risk of loss shall pass from ZTI to Distributor upon delivery to a common carrier or Distributor’s representative at the shipping location. Distributor shall have the responsibility to pay for insurance; all claims for damage must be filed by Distributor directly with carrier; (b) absent specific instructions, ZTI will select the carrier for shipment, but by doing so, will not thereby assume any liability in connection with shipment nor shall the carrier in any way be construed to be the agent of ZTI; (c) ZTI shall not be liable for any damages or penalty for delay caused solely by transportation or failure to give notice of such delay. “

7. In Schedule 2 (Terms and Conditions of Sale) Section 3.3 will be deleted in its entirety and replaced with the following:

“3.3 Provided Distributor complies with all Zebra’s Product return criteria as detailed in paragraph 3.2 above, full credit will be applied to Distributor’s account as follows: (A) credit will be issued toward Product purchases from Zebra in accordance with this paragraph 3.3; and (B) such credit will be applied to Distributor’s account within [*****] days following receipt and acceptance of the Product at the Zebra designated location. “

8. The following provision will be added to the main body of the Distribution Agreement as Section 26 thereof:

“26. Personal Data.

(i) Personal data means any information relating to an identified or an identifiable natural person (“Personal Data”). An identifiable natural person is one who can be identified, directly or indirectly, in particular by reference to an identification number, or to one or more factors specific to the physical, physiological, mental, economic, cultural or social identity of that person. Distributor may provide Personal Data to Zebra about its employees, its customers, End-Users and / or any other identifiable natural persons.

(ii) Zebra may collect, use, access, store, disclose, transfer, and otherwise process (collectively, “Process”) data, including Personal Data, and disclose it to its officers, Affiliates and third party service providers, only to the extent such Processing is performed for the benefit of Distributor or for the purpose of furthering the mutual business interests of both Distributor and Zebra. The limitations of the foregoing allow Zebra to Process such data for the following purposes: (1) Conduct business under this Agreement and exercise its rights and obligations thereunder and under the Program, (2) Provide and support Products that are orderable or sellable by Distributor (including improving and personalizing such Products), and (3) send communications, including promotional communications, that further the mutual business interests of Distributor and Zebra. Personal Data shall be considered as Confidential Information disclosed by Distributor and be treated in accordance with the provisions of Schedule 6 Confidentiality, of the Agreement.

(iii) Zebra’s Processing of Personal Data will comply with applicable federal, state, local and foreign laws, rules, regulations, and directives relating in any way to the privacy, confidentiality, or security of Personal Data (collectively, “Privacy Laws”). The list of the Zebra Affiliates which will be the processors of the Personal Data is available at <https://www.zebra.com/us/en/about-zebra/contact-zebra.html>.

(iv) Zebra may engage third party service providers to provide storage and other processing services for Zebra for the purpose of conducting business under the Agreement and the Program, providing the Products and/or Services to Distributor. Zebra shall retain only third party service providers that have agreed to comply with applicable privacy and security obligations that are substantially similar to those required by this Amendment.

(v) Zebra may transfer Personal Data to its Affiliates and / or third party service providers located in other jurisdictions which may not have data protection legislation that provides “adequate” or “equivalent” protection within the meaning of laws in Distributor’s jurisdiction, although such transfers will be protected in accordance with the privacy, and security provisions of this Amendment and applicable Privacy Laws.

(vi) Pursuant to applicable regulations, Zebra maintains reasonable technical, administrative, and physical safeguards designed to protect data, including Personal Data, against accidental or unlawful destruction, loss, alteration, or unauthorized Processing, disclosure or access (hereinafter, “Information Security Incident”).

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(vii) Zebra will inform Distributor within five (5) business days of any Information Security Incident involving Distributor Personal Data. Notice will be made telephonically to Creighton Lynes at 864.286.4906 and via email to creighton.lynes@scansource.com. Zebra will promptly take all necessary and advisable corrective actions, and will cooperate fully with Distributor in all reasonable and lawful efforts to investigate and mitigate such Information Security Incident. The content of any notifications and/or publications to Distributor's customers related to any Information Security Incident regarding Distributor Personal Data must be approved by Distributor prior to distribution to allow Zebra to comply with applicable law, which approval shall not be unreasonably withheld or delayed.

(viii) Distributor acknowledges that Zebra is reliant on Distributor for direction as to the extent to which Zebra is entitled to Process Personal Data. Subject to the limitations of this Section 26 of the Agreement and applicable law, Distributor expressly agrees that Zebra is permitted to use Personal Data to perform direct marketing activities via email, telephone, text messaging, fax or postal mail ("Marketing Communications"). If Distributor or any individual wishes to: opt out of receiving Marketing Communications at any time; request access to any Personal Data held about them; have any Personal Data held about them amended; or prevent any processing of Personal Data, Distributor acknowledges that Zebra can be contacted as specified in Zebra's Privacy Statement, available at <https://www.zebra.com/gb/en/about-zebra/company-information/compliance/information-privacy/privacy-statement.html>, and Zebra agrees to comply with such legitimate requests.

(ix) By way of agreeing to the Agreement, Distributor, on its own behalf and on behalf of the persons Zebra deals with at Distributor's organization, expressly consents to receive from Zebra and its contractors, agents and representatives, written material including Program-related information and commercial and promotional marketing and sales information, via electronic messaging such as email, texting, instant messaging and any other form of electronic transmission (collectively, "Electronic Communications"). Distributor may withdraw its consent to receive the Electronic Communications at any time by contacting Zebra at http://www.zebra.com/id/zebra/na/en/index/about_zebra/our_company/compliance/privacy_statement.html, or an equivalent thereof, and Zebra agrees to comply with such requests to withdraw consent.

(x) Notwithstanding Distributor's right to opt-out from receiving Marketing Communications and Electronic Communications and to request the return or destruction of Personal Data as specified in Sub Sections (vii), (ix) and (xiii) herein, Distributor may not refuse Zebra's communications related to Program Elements' changes or modifications, whether such communications are made by utilizing Personal Data or not.

(xi) Distributor represents, warrants and undertakes to Zebra that Distributor complies with any applicable laws and has provided any and all necessary notices to, and obtained any and all requisite privacy consents from relevant individuals necessary to permit the activities referred to above.

(xii) Distributor acknowledges that Zebra is reliant on Distributor for direction as to the extent to which Zebra is entitled to Process the Personal Data. Consequently, Zebra will not be liable for any claim brought by Distributor or any third party arising from any action or omission by Zebra, to the extent that such action or omission resulted directly from Distributor's instructions.

(xiii) Upon Distributor's request, Zebra will return to Distributor, or at Distributor's request, securely destroy, any Personal Data in Zebra's possession, custody or control.

9. This Amendment and any amendments of addenda thereto may be executed in two or more of counterparts, each of which shall be an original, but all of which together shall constitute one instrument. A facsimile copy or computer image, such as a PDF or tiff image, of a signature shall be treated as and shall have the same effect as an original signature. In addition, a true and correct facsimile copy or computer image of this Amendment and any amendments or addenda thereto shall be treated as and shall have the same effect as an original signed copy of this document.

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IN WITNESS HEREOF, the Parties have executed this Amendment under hand on the date first above written.

SYMBOL TECHNOLOGIES, LLC.SCANSOURCE, INC.

By: /s/ Thomas E. Sheahen By: /s/ Brenda McCurry
Name: Thomas E. Sheahen Name: Brenda McCurry
Title: VP N.A. Channel Sales Title: VP Merchandising
Date: May 2, 2017 Date: May 1, 2017

ZEBRA TECHNOLOGIES INTERNATIONAL, LLCSCANSOURCE LATIN AMERICA, INC.

By: /s/ Thomas E. Sheahen By: /s/ Gerald Lyons
Name: Thomas E. Sheahen Name: Gerald Lyons
Title: VP N.A. Channel Sales Title: Director
Date: May 2, 2017 Date: May 1, 2017

**ZEBRA TECHNOLOGIES DO BRASIL SCANSOURCE DE MEXICO S. DE R.L. DE C.V.
– COMÉRCIO DE PRODUTOS DE
INFORMÁTICA LTDA.**

By: /s/ Roberto Mota By: /s/ Gerald Lyons
Name: Roberto Mota Name: Gerald Lyons
Title: Director Title: Board of Managers
Date: May 4, 2017 Date: May 1, 2017

SCANSOURCE BRASIL DISTRIBUIDORA CDC BRASIL DISTRIBUIDORA DE TECNOLOGIAS
DE TECNOLOGIAS LTDA.ESPECIAIS LTDA.

By: /s/ Gerald Lyons By: /s/ Gerald Lyons

Name: Gerald Lyons Name: Gerald Lyons

Title: Advisory Board Title: Advisory Board

Date: May 1, 2017 Date: May 1, 2017

Amendment to EVM PartnerConnect™ Zebra- ScanSource Distribution Agreement
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Rev. January 2017

Scan Source, Inc.
Schedule of Subsidiaries

Name of Subsidiary	State/Country of Incorporation
4100 Quest, LLC	South Carolina
Scan Source Properties, LLC	South Carolina
Logue Court Properties, LLC	South Carolina
8650 Commerce Drive, LLC	Mississippi
Partner Services, Inc.	South Carolina
Scan Source Security Distribution, Inc.	South Carolina
Scan Source Communications, Inc.	South Carolina
ScanSourceGov, Inc.	South Carolina
Scan Source Canada, Inc.	Canada
Intelisys, Inc.	South Carolina
Scan Source Payments, Inc.	South Carolina
Scan Source de Mexico S, de R.L. de C.V.	Mexico
Outsourcing Unlimited, Inc.	Georgia
Scan Source Latin America, Inc.	Florida
Scan Source France SARL	France
Scan Source Europe Limited	United Kingdom
Scan Source UK Limited	United Kingdom
Scan Source Limited	United Kingdom
Scan Source Europe SPRL	Belgium ¹
Scan Source Germany GmbH	Germany
Scan Source Communications Limited	United Kingdom
Scan Source Europe CV	Amsterdam/NL
Scan Source Europe BV	Amsterdam/NL
Scan Source Communications GmbH	Germany
Scan Source Brasil Distribuidora de Tecnologias Ltda.	Brazil
Scan Source Video Communications Limited	United Kingdom
Scan Source Video Communications Europe Limited	United Kingdom
Video Corporation Limited	United Kingdom
Scan Source Video Communications SARL	France
Video Corporation SARL	France
Scan Source Video Communications GmbH	Germany
Network 1 International Colombia S.A.S	Colombia
Importadora y Comercializadora Network 1 International (Chile) Limitada	Chile
Network 1 International Peru SAC	Peru
Intersmart S. de R.L. de C.V.	Mexico
Intersmart Technologies LLC	Florida

¹ Scan Source Europe SPRL has branch offices that operate under the names Scan Source Italia, Scan Source Netherlands and Scan Source Poland.

CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

We have issued our reports dated August 29, 2017, with respect to the consolidated financial statements, schedule, and internal control over financial reporting included in the Annual Report of ScanSource, Inc. on Form 10-K for the year ended June 30, 2017. We consent to the incorporation by reference of said reports in the Registration Statements of ScanSource, Inc. on Forms S-8 (File No. 333-78281; File No. 333-36766; File No. 333-110220; File No. 333-115534; File No. 333-144121; File No. 333-153653; File No. 333-169064; File No. 333-192664; and File No. 333-192665).

/s/ Grant Thornton LLP

Columbia, South Carolina
August 29, 2017

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 annual report on Form 10-K of ScanSource, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing equivalent functions):
 - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

/s/ Michael L. Baur

Michael L. Baur, Chief Executive Officer (Principal
Executive Officer)

Date: August 29, 2017

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, Gerald Lyons, certify that:

1. I have reviewed this annual report on Form 10-K 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/ Gerald Lyons

Gerald Lyons, Executive Vice President and Chief Financial Officer
(Principal Financial Officer)

Date: August 29, 2017

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 annual report of ScanSource, Inc. (the "Company") on Form 10-K for the year ended June 30, 2017 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), the undersigned officer of the Company certifies, pursuant to 18 U.S.C. § 1350, as adopted pursuant to § 906 of the Sarbanes-Oxley Act of 2002, that:

- 1) The Report fully complies with the requirements of §13(a) or 15(d) of the Securities Exchange Act of 1934 (the "Exchange Act"); and
- 2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: August 29, 2017

/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 annual report of ScanSource, Inc. (the “Company”) on Form 10-K for the year ended June 30, 2017 as filed with the Securities and Exchange Commission on the date hereof (the “Report”), the undersigned officer of the Company certifies, pursuant to 18 U.S.C. § 1350, as adopted pursuant to § 906 of the Sarbanes-Oxley Act of 2002, that:

- 1) The Report fully complies with the requirements of §13(a) or 15(d) of the Securities Exchange Act of 1934 (the “Exchange Act”); and
- 2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: August 29, 2017

/s/ Gerald Lyons

Gerald Lyons,
Executive Vice President and Chief Financial Officer
(Principal Financial Officer)

This certification is being furnished solely to comply with the provisions of § 906 of the Sarbanes-Oxley Act of 2002 and is not being filed as part of the accompanying Report, including for purposes of Section 18 of the Exchange Act, or as a separate disclosure document. A signed original of this written certification required by Section 906, or other document authenticating, acknowledging or otherwise adopting the signature that appears in typed form within the electronic version of this written certification required by Section 906, has been provided to the Company and will be rendered by the Company and furnished to the Securities and Exchange Commission or its staff upon request.