FORM 10-Q

SCANSOURCE INC - SCSC

Filed: February 01, 2013 (period: December 31, 2012)

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

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

FORM 10-Q

Quarterly Report Pursuant to Section 13 or 15 (d) of the Securities Exchange Act of 1934 for the Quarterly period ended December 31, 2012

Commission File Number: 000-26926

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

SOUTH CAROLINA	**57-0965380**
(State or other jurisdiction of incorporation or organization)	**(I.R.S. Employer Identification No.)**

6 Logue Court
Greenville, South Carolina, 29615
(Address of principal executive offices)
(864) 288-2432
(Registrant's telephone number, including area code)

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

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

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

Large accelerated filer	☒		Accelerated filer	☐
Non-accelerated filer	☐	(Do not check if a smaller reporting company)	Smaller reporting company	☐

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

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

Class	Outstanding at January 29, 2013
Common Stock, no par value per share	**27,827,381 shares**

SCANSOURCE, INC.
INDEX TO FORM 10-Q
December 31, 2012

Table of Contents

FORWARD-LOOKING STATEMENTS

The forward-looking statements included in the “Management’s Discussion and Analysis of Financial Condition and Results of Operations” and “Quantitative and Qualitative Disclosures About Market Risk” and “Risk Factors” sections and elsewhere herein, which reflect our best judgment based on factors currently known, involve risks and uncertainties. Words such as “expects,” “anticipates,” “believes,” “intends,” “plans,” “hopes,” "forecasts" and variations of such words and similar expressions are intended to identify such forward-looking statements. Except as may be required by law, we expressly disclaim any obligation to update these forward-looking statements to reflect events or circumstances after the date of this Quarterly Report on Form 10-Q or to reflect the occurrence of unanticipated events. Actual results could differ materially from those anticipated in these forward-looking statements as a result of a number of factors including, but not limited to, the factors discussed in such sections and, in particular, those set forth in the cautionary statements included in “Risk Factors” contained in our Annual Report on Form 10-K for the year ended June 30, 2012. The forward-looking information we have provided in this Quarterly Report on Form 10-Q pursuant to the safe harbor established under the Private Securities Litigation Reform Act of 1995 should be evaluated in the context of these factors.

Table of Contents

PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

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

	December 31, 2012	June 30, 2012
Assets		
Current assets:		
Cash and cash equivalents	$ 31,455	$ 29,173
Accounts receivable, less allowance of $29,840 at December 31, 2012 and $27,349 at June 30, 2012	464,286	470,808
Inventories	474,713	475,479
Prepaid expenses and other current assets	42,540	41,846
Deferred income taxes	15,278	14,624
Total current assets	1,028,272	1,031,930
Property and equipment, net	48,685	48,785
Goodwill	54,080	53,885
Other non-current assets, including identifiable intangible assets	72,486	67,206
Total assets	$ 1,203,523	$ 1,201,806
Liabilities and Shareholders' Equity		
Current liabilities:		
Short-term borrowings	$ 544	$ 4,268
Accounts payable	353,108	419,683
Accrued expenses and other current liabilities	69,700	67,776
Current portion of contingent consideration	4,952	4,976
Income taxes payable	2,267	1,698
Total current liabilities	430,571	498,401
Deferred income taxes	2,787	—
Long-term debt	5,429	5,429
Borrowings under revolving credit facility	21,808	—
Long-term portion of contingent consideration	8,138	11,677
Other long-term liabilities	37,830	33,988
Total liabilities	506,563	549,495
Commitments and contingencies		
Shareholders' equity:		
Preferred stock, no par value; 3,000,000 shares authorized, none issued	—	—
Common stock, no par value; 45,000,000 shares authorized, 27,827,381 and 27,604,840 shares issued and outstanding at December 31, 2012 and June 30, 2012, respectively	144,894	139,557
Retained earnings	568,443	534,445
Accumulated other comprehensive income (loss)	(16,377)	(21,691)
Total shareholders' equity	696,960	652,311
Total liabilities and shareholders' equity	$ 1,203,523	$ 1,201,806

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

See accompanying notes to these condensed consolidated financial statements.

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

	Quarter ended December 31, 2012	Quarter ended December 31, 2011	Six months ended December 31, 2012	Six months ended December 31, 2011
Net sales	**$ 747,716**	$ 782,684	**$ 1,481,320**	$ 1,552,943
Cost of goods sold	**673,365**	702,845	**1,332,930**	1,394,013
Gross profit	**74,351**	79,839	**148,390**	158,930
Selling, general and administrative expenses	**49,393**	48,474	**96,454**	95,043
Change in fair value of contingent consideration	**533**	(722)	**1,296**	172
Operating income	**24,425**	32,087	**50,640**	63,715
Interest expense	**130**	749	**254**	1,236
Interest income	**(532)**	(1,002)	**(1,166)**	(1,452)
Other (income) expense, net	**53**	(374)	**39**	3,157
Income before income taxes	**24,774**	32,714	**51,513**	60,774
Provision for income taxes	**8,417**	11,347	**17,514**	21,028
Net income	**$ 16,357**	$ 21,367	**$ 33,999**	$ 39,746
Per share data:				
Weighted-average shares outstanding, basic	**27,713**	27,244	**27,665**	27,191
Net income per common share, basic	**$ 0.59**	$ 0.78	**$ 1.23**	$ 1.46
Weighted-average shares outstanding, diluted	**27,958**	27,674	**27,928**	27,604
Net income per common share, diluted	**$ 0.59**	$ 0.77	**$ 1.22**	$ 1.44

See accompanying notes to these condensed consolidated financial statements.

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

	Quarter ended December 31,		Six months ended December 31,	
	2012	2011	2012	2011
Net income	**$ 16,357**	$ 21,367	**$ 33,999**	$ 39,746
Unrealized gain on hedged transaction, net of tax	**—**	—	**—**	139
Foreign currency translation adjustment	**2,177**	(6,309)	**5,314**	(18,290)
Comprehensive income (loss)	**$ 18,534**	$ 15,058	**$ 39,313**	$ 21,595

See accompanying notes to these condensed consolidated financial statements.

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

	Six months ended December 31, 2012	Six months ended December 31, 2011
Cash flows from operating activities:		
Net income	$ 33,999	$ 39,746
Adjustments to reconcile net income to net cash provided by (used in) operating activities:		
Depreciation and amortization	4,589	4,840
Provision for accounts and notes receivable	5,333	2,884
Share-based compensation and restricted stock	3,153	3,557
Deferred income taxes	(1,957)	(731)
Excess tax benefits from share-based payment arrangements	(849)	(156)
Change in fair value of contingent consideration	1,296	172
Changes in operating assets and liabilities, net of acquisitions:		
Accounts receivable	5,788	(48,352)
Inventories	4,797	(63,078)
Prepaid expenses and other assets	(1,741)	(4,630)
Other non-current assets	(2,973)	3,218
Accounts payable	(68,414)	38,300
Accrued expenses and other liabilities	5,616	4,373
Income taxes payable	1,375	(2,855)
Net cash provided by (used in) operating activities	(9,988)	(22,712)
Cash flows from investing activities:		
Capital expenditures	(3,204)	(5,513)
Net cash provided by (used in) investing activities	(3,204)	(5,513)
Cash flows from financing activities:		
Borrowings (repayments) on short-term borrowings, net	(3,912)	(2,214)
Borrowings (repayments) on revolving credit, net of debt issuance costs	21,342	68,965
Borrowings (repayments) on long-term debt	—	(25,000)
Contingent consideration payments	(4,716)	—
Exercise of stock options	1,458	3,367
Excess tax benefits from share-based payment arrangements	849	156
Net cash provided by (used in) financing activities	15,021	45,274
Effect of exchange rate changes on cash and cash equivalents	453	(3,203)
Increase (decrease) in cash and cash equivalents	2,282	13,846
Cash and cash equivalents at beginning of period	29,173	28,747
Cash and cash equivalents at end of period	$ 31,455	$ 42,593

See accompanying notes to these condensed consolidated financial statements.

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

(1) Business and Summary of Significant Accounting Policies

Business Description

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

Basis of Presentation

The accompanying unaudited condensed consolidated financial statements of ScanSource, Inc. have been prepared by the Company's management in accordance with United States generally accepted accounting principles ("US GAAP") for interim financial information and applicable rules and regulations of the Securities Exchange Act of 1934, as amended. Accordingly, they do not include all of the information and footnotes required by U.S. generally accepted accounting principles for annual financial statements. The unaudited condensed consolidated financial statements included herein contain all adjustments (consisting of normal recurring and non-recurring adjustments) which are, in the opinion of management, necessary to present fairly the financial position as of December 31, 2012 and June 30, 2012, the results of operations for the quarters and six months ended December 31, 2012 and 2011, the statements of comprehensive income for the quarters and six months ended December 31, 2012 and 2011 and the statements of cash flows for the six months ended December 31, 2012 and 2011. The results of operations for the quarters and six months ended December 31, 2012 and 2011 are not necessarily indicative of the results to be expected for a full year. These financial statements should be read in conjunction with the audited consolidated financial statements and notes thereto included in the Company's Annual Report on Form 10-K for the fiscal year ended June 30, 2012.

Summary of Significant Accounting Policies

Except as described below, there have been no material changes to the Company's significant accounting policies for the quarter and six months ended December 31, 2012 from the information included in the notes to the Company's consolidated financial statements included in the Annual Report on Form 10-K for the fiscal year ended June 30, 2012. For a discussion of the Company's significant accounting policies, please see the Company's Annual Report on Form 10-K for the fiscal year ended June 30, 2012.

Cash and Cash Equivalents

The Company considers all highly liquid investments with original maturities of three months or less to be cash equivalents. The Company maintains some zero-balance, disbursement accounts at various financial institutions in which the Company does not maintain significant depository relationships. Due to the nature of the Company's banking relationships with these institutions, the Company does not have the right to offset most if not all outstanding checks written from these accounts against cash on hand. Checks released but not yet cleared from these accounts in the amounts of $34.2 million and $48.2 million are included in accounts payable as of December 31, 2012 and June 30, 2012, respectively.

Recent Accounting Pronouncements

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

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

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

(2) Earnings Per Share

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

	Quarter ended December 31,		Six months ended December 31,	
	2012	**2011**	**2012**	**2011**
	(in thousands, except per share data)			
Numerator:				
Net Income	**$ 16,357**	$ 21,367	**$ 33,999**	$ 39,746
Denominator:				
Weighted-average shares, basic	**27,713**	27,244	**27,665**	27,191
Dilutive effect of share-based payments	**245**	430	**263**	413
Weighted-average shares, diluted	**27,958**	27,674	**27,928**	27,604
Net income per common share, basic	**$ 0.59**	$ 0.78	**$ 1.23**	$ 1.46
Net income per common share, diluted	**$ 0.59**	$ 0.77	**$ 1.22**	$ 1.44

For the quarter and six months ended December 31, 2012, there were 1,159,357 and 1,112,076 weighted average shares outstanding excluded from the computation of diluted earnings per share because their effect would be anti-dilutive. For the quarter and six months ended December 31, 2011, there were 622,247 and 722,315 weighted average shares outstanding excluded from the computation of diluted earnings per share because their effect would be anti-dilutive.

(3) Accumulated Other Comprehensive Income (Loss)

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

	December 31, 2012	June 30, 2012
	(in thousands)	
Foreign currency translation adjustment	**$ (16,377)**	$ (21,691)
Accumulated other comprehensive income (loss)	**$ (16,377)**	$ (21,691)

(4) Goodwill and Other Identifiable Intangible Assets

The changes in the carrying amount of goodwill for the six months ended December 31, 2012, by reporting segment, are as follows:

	North American Distribution Segment	International Distribution Segment	Total
		(in thousands)	
Balance as of June 30, 2012	$ 20,081	$ 33,804	$ 53,885
Foreign currency translation adjustment	—	195	195
Balance as of December 31, 2012	**$ 20,081**	**$ 33,999**	**$ 54,080**

Included within other non-current assets in the condensed consolidated balance sheets are net identifiable intangible assets of $24.3 million and $27.1 million at December 31, 2012 and June 30, 2012, respectively. These amounts relate primarily to acquired intangible assets including customer relationships, non-compete agreements, trade names, distributor agreements and debt issue costs.

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

Short-Term Borrowings

A subsidiary of the Company has a €6.0 million line of credit, which is secured by the assets of our European operations and is guaranteed by ScanSource, Inc. The subsidiary line of credit bears interest at the 30-day Euro Interbank Offered Rate ("EURIBOR") plus a spread ranging from 1.25% to 2.00% per a n n u m non-utilized borrowing availability if outstanding balances are below €3.0 million. The interest rate spread and commitment fee rates related to the €6.0 million line of credit refer to the Leverage Ratio as defined by the Company's $300 million multi-currency senior secured revolving credit facility. The outstanding balances at December 31, 2012 and June 30, 2012 are as follows:

	December 31, 2012	June 30, 2012
	(in thousands)	
Short-term borrowings	$ 544	$ 4,268

Revolving Credit Facility

On October 11, 2011, the Company amended and restated its primary revolving credit facility. The Company entered into a five-year, $300 million multi-currency senior secured revolving credit facility ("Revolving Credit Facility") pursuant to the terms of an Amended and Restated Credit Agreement with JPMorgan Chase Bank, N.A., as administrative agent and a syndicate of lenders named therein. The Revolving Credit Facility allows for the issuance of up to $50 million for letters of credit and has a $150 million accordion feature that allows the Company to increase the availability to $450 million subject to obtaining commitments for the incremental capacity from existing or new lenders. In fiscal year 2012, the Company incurred $1.4 million in debt issuance costs that were capitalized to other non-current assets, including identifiable intangible assets, on the condensed consolidated balance sheet and are being amortized on a straight-line basis through October 11, 2016, the maturity date of the Revolving Credit Facility.

At the Company's option, loans denominated in U.S. dollars under the Revolving Credit Facility, other than swingline loans, bear interest at a rate equal to a spread over the London Interbank Offered Rate (“LIBOR”) or prime rate depending upon the Company's ratio of total debt (excluding accounts payable and accrued liabilities), measured as of the end of the most recent quarter, to adjusted earnings before interest expense, taxes, depreciation and amortization (“EBITDA”) for the most recently completed four quarters (the “Leverage Ratio”). The Leverage Ratio calculation excludes the Company's subsidiary in Brazil. This spread ranges from 1.00% to 2.25% for LIBOR-based loans and 0.00% to 1.25% for prime rate-based loans. The spread in effect as of December 31, 2012 was 1.00% for LIBOR-based loans and 0.00% for prime rate-based loans. Additionally, the Company is assessed commitment fees ranging from 0.175% to 0.40%, depending upon the Leverage Ratio, on non-utilized borrowing availability, excluding swingline loans. Borrowings under the Revolving Credit Facility are guaranteed by substantially all of the domestic assets of the Company as well as certain foreign subsidiaries determined to be material and a pledge of up to 65% of capital stock or other equity interest in each Guarantor as defined in the Revolving Credit Facility. The Company was in compliance with all covenants under the Revolving Credit Facility as of December 31, 2012. The outstanding balances at December 31, 2012 and June 30, 2012 are as follows:

	December 31, 2012	**June 30, 2012**
	(in thousands)	
Borrowings under revolving credit facility	**$ 21,808**	$ —

During the six months ended December 31, 2012, the Company borrowed $435.1 million on the Revolving Credit Facility. The Company repaid $413.8 million during the same period. The average daily balance during the six month period was $14.1 million.

During the six months ended December 31, 2011, the Company borrowed $824.9 million on the Revolving Credit Facility. The Company repaid $754.5 million during the same period. The average daily balance during the six month period was $86.4 million.

Long-Term Debt

On August 1, 2007, the Company entered into an agreement with the State of Mississippi in order to provide financing for the acquisition and installation of certain equipment to be utilized at the Company’s current Southaven, Mississippi distribution facility, through the issuance of an industrial development revenue bond. The bond matures on September 1, 2032 and accrues interest at the 30-day LIBOR rate plus a spread of 0.85%. The terms of the bond allow for payment of interest only for the first 10 years of the agreement, and then, starting on September 1, 2018 through 2032, principal and interest payments are due until the maturity date or the redemption of the bond. As of December 31, 2012, the Company was in compliance with all covenants under this bond.

	December 31, 2012	**June 30, 2012**
	(in thousands)	
Industrial Development Revenue Bond, monthly payments of interest only, 1.06% variable interest rate at December 31, 2012	**$ 5,429**	$ 5,429

(6) Derivatives and Hedging Activities

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

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

The Company had contracts outstanding with notional amounts of $84.9 million and $62.3 million to exchange foreign currencies as of December 31, 2012 and June 30, 2012, respectively. To date, the Company has chosen not to designate these derivatives as hedging instruments, and accordingly, these instruments are adjusted to fair value through earnings in other income and expense. Summarized financial information related to these derivative contracts and changes in the underlying value of the foreign currency exposures are as follows:

	Quarter ended December 31,		Six months ended December 31,	
	2012	**2011**	**2012**	**2011**
	(in thousands)			
Net foreign exchange derivative contract (gains) losses	**$ 105**	$ (15)	**$ 1,333**	$ 1,197
Net foreign currency transactional and re-measurement (gains) losses	**6**	(267)	**(1,150)**	2,094
Net foreign currency (gains) losses	**$ 111**	$ (282)	**$ 183**	$ 3,291

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

In the prior year, the majority of foreign currency losses were associated with exposures between the U.S. dollar and Brazilian real. In September 2011, the Company incurred a $2.5 million loss in conjunction with an unfavorable forward exchange contract to purchase Brazilian reais. The Company decided to pre-fund a portion of the contingent earnout payments associated with the acquisition of CDC Brasil, S.A. ("CDC"). This contract was designed to preserve the currency exchange for the few weeks required to transfer the cash to Brazil. From the time the Company entered into the contract through settlement, the real devalued from the contractual rate by 11.8%, ultimately resulting in a $2.5 million loss. Further contributing to the prior year quarter foreign exchange loss, the Brazilian business incurred significant losses on the remeasurement of U.S. dollar denominated transactions that were not hedged at the time. Subsequently, the Company has been including these exposures in its ongoing hedging activities.

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

	As of December 31, 2012	
	Fair Value of Derivatives Designated as Hedge Instruments	Fair Value of Derivatives Not Designated as Hedge Instruments
	(in thousands)	
Derivative assets:[(a)]		
Foreign exchange contracts	$ —	$ 142
Derivative liabilities:[(b)]		
Foreign exchange contracts	$ —	$ 161

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

(7) Fair Value of Financial Instruments

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

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

The assets and liabilities maintained by the Company that are required to be measured at fair value on a recurring basis include the Company's various debt instruments, deferred compensation plan investments, outstanding foreign exchange forward contracts and contingent consideration owed to the previous owners of CDC. The carrying value of debt is considered to approximate fair value, as the Company's debt instruments are indexed to LIBOR or the prime rate using the market approach (Level 2 criteria). The following table summarizes the valuation of the Company's remaining assets and liabilities measured at fair value on a recurring basis as of December 31, 2012:

	Total	Quoted prices in active markets (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)
	(in thousands)			
Assets:				
Deferred compensation plan investments, current and non-current portion	$ 13,051	$ 13,051	$ —	$ —
Forward foreign currency exchange contracts	142	—	142	—
Total assets at fair value	$ 13,193	$ 13,051	$ 142	$ —
Liabilities:				
Deferred compensation plan investments, current and non-current portion	$ 13,051	$ 13,051	$ —	$ —
Forward foreign currency exchange contracts	161	—	161	—
Liability for contingent consideration, current and non-current portion	13,090	—	—	13,090
Total liabilities at fair value	$ 26,302	$ 13,051	$ 161	$ 13,090

The following table summarizes the valuation of the Company's remaining assets and liabilities measured at fair value on a recurring basis as of June 30, 2012:

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

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

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

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

The table below provides a summary of the changes in fair value of the Company's contingent consideration (Level 3) for the CDC earnout for the quarters and six months ended December 31, 2012 and 2011:

	Contingent consideration for the quarter ended December 31,		Contingent consideration for the six months ended December 31,	
	2012	**2011**	**2012**	**2011**
		(in thousands)		
Fair value at beginning of period	**$ 17,342**	$ 21,253	**$ 16,653**	$ 23,794
Payments	**(4,716)**	—	**(4,716)**	—
Change in fair value of contingent consideration	**533**	(722)	**1,297**	172
Foreign currency translation adjustment	**(69)**	(529)	**(144)**	(3,964)
Fair value at end of period	**$ 13,090**	$ 20,002	**$ 13,090**	$ 20,002

The fair value of the liability for the contingent consideration recognized at December 31, 2012 was $13.1 million of which $5.0 million is classified as current. The fair values of amounts owed are recorded in “current portion of contingent consideration” and “long-term portion of contingent consideration” in the Company’s condensed consolidated balance sheet. The U.S. dollar amounts of actual disbursements made in conjunction with future earnout payments are subject to change as the liability is denominated in Brazilian reais and subject to foreign exchange fluctuation risk. The Company will revalue the contingent consideration liability at each reporting date through the last payment, with changes in the fair value of the contingent consideration reflected in the “change in fair value of contingent consideration” line item on the Company’s condensed consolidated income statement that is included in the calculation of operating income. The fair value of the contingent consideration liability associated with future earnout payments is based on several factors, including:

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

A change in any of these unobservable inputs can significantly change the fair value of the contingent consideration. The change in fair value of the contingent consideration recognized in the condensed consolidated income statement contributed losses of $0.5 million and $1.3 million for the quarter and six months ended December 31, 2012, respectively. The change in the three and six month periods is largely driven by the recurring amortization of the unrecognized fair value discount. In addition, volatility in the foreign exchange between the Brazilian real and the U.S. dollar has driven 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 $18.7 million, based on the Company’s best estimate as the earnout is based on a multiple of adjusted earnings.

(8) Segment Information

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

North American Distribution

The North American distribution segment markets AIDC and POS products through its ScanSource POS and Barcode sales unit; voice, data, video and converged communications equipment through its Catalyst Telecom sales unit; video conferencing, telephony and communications products through its ScanSource Communications sales unit; and electronic security products and wireless infrastructure products through its ScanSource Security sales unit. The Company serves more than 14,000 resellers and integrators of technology products in the United States and Canada. No single account represented more than 6% of the Company’s worldwide net sales for the quarters and six months ended December 31, 2012 or 2011.

International Distribution

The international distribution segment markets AIDC, POS, communications and security products as follows: ScanSource Latin America markets AIDC, POS, communications and security products; ScanSource Europe markets AIDC and POS products, while communication products are marketed through its ScanSource Communications sales unit in Europe. The Company serves more than 15,000 resellers and integrators of technology products in Europe and Latin America. Of this segment’s customers, no single account represented more than 1% of the Company’s worldwide net sales during the quarters and six months ended December 31, 2012 or 2011.

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

	Quarter ended December 31, 2012	Quarter ended December 31, 2011	Six months ended December 31, 2012	Six months ended December 31, 2011
	(In thousands)			
Sales:				
North American distribution	**$ 562,317**	$ 574,475	**$ 1,127,615**	$ 1,158,058
International distribution	**199,729**	219,761	**387,521**	416,548
Less intersegment sales	**(14,330)**	(11,552)	**(33,816)**	(21,663)
	$ 747,716	$ 782,684	**$ 1,481,320**	$ 1,552,943
Depreciation and amortization:				
North American distribution	**$ 961**	$ 999	**$ 1,970**	$ 2,042
International distribution	**1,314**	1,259	**2,619**	2,798
	$ 2,275	$ 2,258	**$ 4,589**	$ 4,840
Operating income:				
North American distribution	**$ 23,259**	$ 26,756	**$ 48,243**	$ 56,030
International distribution	**1,166**	5,331	**2,397**	7,685
	$ 24,425	$ 32,087	**$ 50,640**	$ 63,715
Capital expenditures:				
North American distribution	**$ 833**	$ 2,137	**$ 2,722**	$ 4,328
International distribution	**365**	1,037	**482**	1,185
	$ 1,198	$ 3,174	**$ 3,204**	$ 5,513

	December 31, 2012	June 30, 2012
	(in thousands)	
Assets:		
North American distribution	**$ 806,614**	$ 813,889
International distribution	**396,909**	387,917
	$ 1,203,523	$ 1,201,806

(9) Commitments and Contingencies

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

During the Company's due diligence for the CDC acquisition, several pre-acquisition contingencies were identified regarding various Brazilian federal and state tax exposures. The Company is able to record indemnification receivables that are reported gross of the pre-acquisition contingency liabilities as they were escrowed in the Share Purchase and Sale Agreement. However, indemnity claims can be made up to the entire purchase price, which includes the initial payment and all future earnout payments. The table below summarizes the balances and line item presentation of these pre-acquisition contingencies and corresponding indemnification receivables in the Company's condensed consolidated balance sheets:

		December 31, 2012	June 30, 2012
		(in thousands)	
Assets			
Prepaid expenses and other current assets	$	3,845 $	3,886
Other non-current assets	$	5,057 $	5,112
Liabilities			
Other current liabilities	$	3,845 $	3,886
Other long-term liabilities	$	5,057 $	5,112

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

(10) Income Taxes

The Company had approximately $1.3 million of total gross unrecognized tax benefits as of December 31, 2012 and June 30, 2012. Of this total, approximately $0.8 million represents the amount of unrecognized tax benefits that are permanent in nature and, if recognized, would affect the annual effective tax rate. The Company does not believe that the total amount of unrecognized tax benefits will significantly increase or decrease within twelve months of the reporting date.

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

The Company's policy is to recognize interest and penalties related to income tax matters in income tax expense. As of December 31, 2012, the Company had approximately $1.1 million accrued for interest and penalties.

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

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

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

Overview

ScanSource, Inc., together with its subsidiaries (the "Company"), is a leading wholesale distributor of specialty technology products, providing value-added distribution services to resellers in specialty technology markets. The Company distributes approximately 95,000 products worldwide. The Company has two geographic distribution segments: the North American distribution segment serving the United States and Canada from the Southaven, Mississippi distribution center, and an international segment currently serving Latin America and Europe from distribution centers located in Florida, Mexico and Brazil, and in Belgium, respectively. Each segment is managed around its geographic customer and vendor bases and is supported by its centralized infrastructure, such as warehousing and back office operations as appropriate. The North American distribution segment markets automatic identification and data capture ("AIDC") and point-of-sale ("POS") products through its ScanSource POS and Barcode sales unit; voice, data, video and converged communications equipment through its Catalyst Telecom sales unit; video conferencing, telephony and communications products through its ScanSource Communications sales unit; and electronic security products and wireless infrastructure products through its ScanSource Security sales unit. The international distribution segment markets AIDC, POS, communications and security products through its ScanSource Latin America sales unit; AIDC and POS products through its ScanSource Europe sales unit; and communication products through its ScanSource Communications sales unit in Europe.

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

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

Our distribution agreement with Juniper Networks ended in the first quarter of this fiscal year. Accordingly, sales of Juniper products, which were primarily distributed by our Catalyst Telecom sales unit in North America and to a lesser extent by ScanSource Communications Europe, have significantly declined in the the six months ended December 31, 2012 compared to prior periods.

We continue to develop an Enterprise Resource Planning system ("ERP") that is intended to be used globally and standardize our processes throughout the world. Through our wholly-owned subsidiary Partner Services, Inc. ("PSI"), we filed a lawsuit in the U.S. District Court in Atlanta, Georgia on January 2, 2013 against our former ERP software systems integration partner, Avanade, Inc. ("Avanade"). The lawsuit alleges, among other things, fraud, tortious misrepresentation and breach of contract on the part of Avanade in connection with its performance on the ERP project. PSI is seeking recovery of damages that it has incurred and will continue to incur, as a result of Avanade's misconduct. Recently, we have also engaged a new implementation partner to replace Avanade. ScanSource, Inc. and Tata America International Corporation, the U.S. arm of Tata Consultancy Services ("TCS"), have entered into an agreement to complete the implementation of the Company's Microsoft Dynamics AX ERP project. The initial phase of the TCS engagement is underway. As the project continues, we expect to recognize more ERP expenses in selling, general and administrative expenses ("SG&A"). In the current quarter, we have incurred $1.3 million of SG&A expense related to activities that are not capitalized.

One of management's key focuses is generating Return on Invested Capital ("ROIC") through the sales of the various technologies that we distribute. In doing so, our management team faces numerous challenges that require attention and resources. Certain business units and geographies are experiencing increased competition for the products we distribute. This competition may come in the form of pricing, credit terms, service levels, product availability and in some cases, changes from a closed distribution sales model, in which resellers must purchase exclusively from one distributor, to an open distribution sales model, in which resellers may choose to purchase from multiple distributors. As this competition could affect both our market share and pricing of our products, we may change our strategy in order to effectively compete in the marketplace.

Evaluating Financial Condition and Operating Performance

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

The following table summarizes annualized return on invested capital ratio for the quarters ended December 31, 2012 and 2011, respectively:

	Quarter ended December 31,	
	2012	**2011**
Return on invested capital ratio, annualized	**15.2%**	19.3%

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

	Quarter ended December 31,	
	2012	**2011**
	(in thousands)	
Reconciliation of EBITDA to net income:		
Net income	**$ 16,357**	$ 21,367
Plus: income taxes	**8,417**	11,347
Plus: interest expense	**130**	749
Plus: depreciation & amortization	**2,275**	2,258
EBITDA (numerator)	**$ 27,179**	$ 35,721

	Quarter ended December 31,	
	2012	**2011**
	(in thousands)	
Invested capital calculations:		
Equity – beginning of the quarter	**$ 676,136**	$ 597,658
Equity – end of the quarter	**696,960**	616,103
Average equity	**686,548**	606,881
Average funded debt (a)	**23,850**	128,805
Invested capital (denominator)	**$ 710,398**	$ 735,686
Return on invested capital (annualized) (b)	**15.2%**	19.3%

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

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

Our annualized return on invested capital was 15.2% for the quarter, down from 19.3% in the same quarter of the prior year. The decrease in EBITDA is largely the result of lower sales volumes, gross margin percentage and the costs associated with Belgian tax compliance and personnel replacement costs discussed below.

In assessing and evaluating our performance, we consider the impact of unusual or infrequent events. During the current quarter, we incurred $2.1 million in one-time costs associated with Belgian tax compliance and costs related to the replacement of certain personnel in our Belgian office. These costs include severance benefits, as well as tax accruals and professional fees. We are providing a non-GAAP reconciliation of net income and earnings per share adjusted for these costs below:

	Quarter ended December 31, 2012		
	Pre-Tax	After-Tax	Diluted EPS
Net income (GAAP)	$ 24,774	$ 16,357	$ 0.59
Adjustments:			
Costs associated with Belgian tax compliance and personnel replacement costs, including related professional fees	2,121	1,400	0.05
Adjusted net income (non-GAAP)	$ 26,895	$ 17,757	$ 0.64

Results of Operations

Currency

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

Net Sales

The following table summarizes our net sales results (net of inter-segment sales) for the quarters and six months ended December 31, 2012 and 2011, respectively:

	Quarter ended December 31,			
	2012	2011	$ Change	% Change
	(in thousands)			
North American distribution	**$ 547,987**	$ 562,923	$ (14,936)	(2.7)%
International distribution	**199,729**	219,761	(20,032)	(9.1)%
Net sales	**$ 747,716**	$ 782,684	$ (34,968)	(4.5)%

	Six months ended December 31,			
	2012	2011	$ Change	% Change
	(in thousands)			
North American distribution	**$ 1,093,799**	$ 1,136,395	$ (42,596)	(3.7)%
International distribution	**387,521**	416,548	(29,027)	(7.0)%
Net sales	**$ 1,481,320**	$ 1,552,943	$ (71,623)	(4.6)%

North American Distribution

The North American distribution segment consists of net sales to technology resellers in the United States and Canada. For the quarter ended December 31, 2012, net sales decreased $14.9 million or 2.7%. For the six months ended December 31, 2012, net sales decreased $42.6 million or 3.7%.

We experienced modest growth in the North American distribution segment's POS, barcoding and security product lines in both the current three and six month periods compared to the prior year. Our ScanSource Security sales unit had another quarter of double-digit sales growth. ScanSource Security experienced strong gains attributable to vendors such as Ruckus Wireless, Cisco Systems and Axis Communications.

The Company has two North American sales units that sell communications products to our customers – Catalyst Telecom and ScanSource Communications. The combined net sales of these units decreased by 13.0% from the prior year quarter and 11.4% from the prior year six month period. These decreases are largely attributable to fewer deals related to Avaya resellers and the end of our distribution agreement with Juniper Networks at the end of the quarter ended September 30, 2012; however, these declines were partially offset by increased volumes with Polycom and Plantronics resellers.

International Distribution

The international distribution segment markets POS, AIDC, communications and security products in Latin America and POS, AIDC and communications products in Europe. For the quarter ended December 31, 2012, net sales for this segment decreased by $20.0 million or 9.1%. On a constant currency basis, net sales decreased by $9.6 million or 4.4%. Net sales were down in Europe for the quarter primarily due to weaker demand and fewer big deals.

For the six months ended December 31, 2012, net sales decreased by $29.0 million or 7.0%. On a constant currency basis, net sales increased $5.1 million or 1.2% over the prior year six month period, due to increases in Latin America and Brazil, partially offset by lower sales in Europe.

Gross Profit

The following tables summarize the Company's gross profit for the quarters and six months ended December 31, 2012 and 2011, respectively:

	Quarter ended December 31,				% of Net Sales December 31,	
	2012	2011	$ Change	% Change	2012	2011
		(in thousands)				
North American distribution	**$ 52,031**	$ 57,136	$ (5,105)	(8.9)%	**9.5%**	10.1%
International distribution	**22,320**	22,703	(383)	(1.7)%	**11.2%**	10.3%
Gross profit	**$ 74,351**	$ 79,839	$ (5,488)	(6.9)%	**9.9%**	10.2%

	Six months ended December 31,				% of Net Sales December 31,	
	2012	2011	$ Change	% Change	2012	2011
		(in thousands)				
North American distribution	**$ 106,839**	$ 113,990	$ (7,151)	(6.3)%	**9.8%**	10.0%
International distribution	**41,551**	44,940	(3,389)	(7.5)%	**10.7%**	10.8%
Gross profit	**$ 148,390**	$ 158,930	$ (10,540)	(6.6)%	**10.0%**	10.2%

North American Distribution

Gross profit for the North American distribution segment decreased 8.9% or $5.1 million and 6.3% or $7.2 million for the quarter and six months ended December 31, 2012, respectively. As a percentage of net sales for the North American distribution segment, our gross profit decreased to 9.5% from 10.1% in the prior quarter and to 9.8% from 10.0% in the prior six month period. The decrease in margin percentage is mainly due to changes in product and customer mix as well as lower vendor programs than the prior year quarter.

International Distribution

In our international distribution segment, gross profit decreased 1.7% or $0.4 million and 7.5% or $3.4 million for the quarter and six months ended December 31, 2012, respectively. As a percentage of net sales for the international distribution segment, our gross profit increased to 11.2% from 10.3% in the prior quarter and decreased slightly to 10.7% from 10.8% in the prior six month period. The increase in the current quarter is primarily due to timing of vendor rebates that were earned during the current quarter. The slight decline in the prior year-to-date period is due to higher inventory reserve expense incurred in the quarter ended September 30, 2012, partially offset by vendor rebates recognized during the current quarter.

Operating Expenses

The following table summarizes our operating expenses for the quarters and six months ended December 31, 2012 and 2011, respectively:

	Quarter ended December 31,				% of Net Sales December 31,	
	2012	2011	$ Change	% Change	2012	2011
		(in thousands)				
Selling, general and administrative expense	**$ 49,393**	$ 48,474	$ 919	1.9 %	**6.6%**	6.2%
Change in fair value of contingent consideration	**533**	(722)	1,255	(173.8)%	**0.1%**	-0.0%
Operating expense	**$ 49,926**	$ 47,752	$ 2,174	4.6 %	**6.7%**	6.1%

	Six months ended December 31,				% of Net Sales December 31,	
	2012	2011	$ Change	% Change	2012	2011
		(in thousands)				
Selling, general and administrative expense	**$ 96,454**	$ 95,043	$ 1,411	1.5%	**6.5%**	6.1%
Change in fair value of contingent consideration	**1,296**	172	1,124	653.5%	**0.1%**	0.0%
Operating expense	**$ 97,750**	$ 95,215	$ 2,535	2.7%	**6.6%**	6.1%

Selling, general and administrative expense ("SG&A") increased 1.9% or $0.9 million and 1.5% or $1.4 million for the quarter and six months ended December 31, 2012, respectively. As a percentage of net sales, SG&A totaled 6.6% and 6.5% for the quarter and six months ended December 31, 2012, respectively, up from the prior year periods. The SG&A percentage increase is primarily the result of $2.1 million in costs associated with the tax compliance and personnel replacement costs in our Belgian office. These costs include severance benefits, as well as tax accruals and professional fees. Additionally, higher bad debt expense, principally in Europe, has contributed to the increase in SG&A percentage, partially offset by decreased employee costs.

We have elected to present changes in fair value of the contingent consideration owed to the former shareholders of CDC separately from other selling, general and administrative expenses. In the current quarter and six month periods, we have recorded fair value adjustment losses of $0.5 million and $1.3 million, respectively. These losses are primarily the result of the recurring amortization of the unrecognized fair value discount.

Operating Income

The following table summarizes our operating income for the quarters and six months ended December 31, 2012 and 2011, respectively:

	Quarter ended December 31,				% of Net Sales December 31,	
	2012	2011	$ Change	% Change	2012	2011
		(in thousands)				
North American distribution	**$ 23,259**	$ 26,756	$ (3,497)	(13.1)%	**4.2%**	4.8%
International distribution	**1,166**	5,331	(4,165)	(78.1)%	**0.6%**	2.4%
	$ 24,425	$ 32,087	$ (7,662)	(23.9)%	**3.3%**	4.1%

	Six months ended December 31,				% of Net Sales December 31,	
	2012	2011	$ Change	% Change	2012	2011
		(in thousands)				
North American distribution	**$ 48,243**	$ 56,030	$ (7,787)	(13.9)%	**4.4%**	4.9%
International distribution	**2,397**	7,685	(5,288)	(68.8)%	**0.6%**	1.8%
	$ 50,640	$ 63,715	$ (13,075)	(20.5)%	**3.4%**	4.1%

For the North American distribution segment, operating income decreased 13.1% or $3.5 million and 13.9% or $7.8 million from the prior year quarter and six months, respectively. Operating income as a percentage of net sales decreased to 4.2% and 4.4% for the quarter and six months ended December 31, 2012, respectively. The decrease in operating income percentage in North America is primarily due to lower sales volumes, in addition to lower gross margins from changes in product and customer mix.

For the international distribution segment, operating income decreased 78.1% or $4.2 million and 68.8% or $5.3 million from the prior year quarter and six months, respectively. Operating income as a percentage of net sales decreased to 0.6% for both the quarter and six months ended December 31, 2012. The decrease internationally is primarily due to a significant portion of the aforementioned $2.1 million associated with Belgian tax compliance and personnel replacement costs and higher bad debt expense in Europe.

Total Other Expense (Income)

The following table summarizes our total other expense (income) for the quarters and six months ended December 31, 2012 and 2011, respectively:

	Quarter ended December 31,				% of Net Sales December 31,	
	2012	2011	$ Change	% Change	2012	2011
		(in thousands)				
Interest expense	**$ 130**	$ 749	$ (619)	(82.6)%	**0.0 %**	0.1 %
Interest income	**(532)**	(1,002)	470	(46.9)%	**(0.1)%**	(0.1)%
Net foreign exchange (gains) losses	**111**	(282)	393	(139.4)%	**0.0 %**	(0.0)%
Other, net	**(58)**	(92)	34	(37.0)%	**(0.0)%**	(0.0)%
Total other (income) expense, net	**$ (349)**	$ (627)	$ 278	(44.3)%	**(0.0)%**	(0.1)%

	Six months ended December 31,				% of Net Sales December 31,	
	2012	2011	$ Change	% Change	2012	2011
	(in thousands)					
Interest expense	**$ 254**	$ 1,236	$ (982)	(79.4)%	**0.0 %**	0.1 %
Interest income	**(1,166)**	(1,452)	286	(19.7)%	**(0.1)%**	(0.1)%
Net foreign exchange (gains) losses	**183**	3,291	(3,108)	(94.4)%	**0.0 %**	0.2 %
Other, net	**(144)**	(134)	(10)	7.5 %	**(0.0)%**	(0.0)%
Total other (income) expense, net	**$ (873)**	$ 2,941	$ (3,814)	(129.7)%	**(0.1)%**	0.2 %

Interest expense reflects interest incurred on borrowings from the Company's revolving credit facility and other long-term debt borrowings, as well as non-utilization fees. Interest expense for the quarter and six months ended December 31, 2012 was $0.1 million and $0.3 million, respectively. Interest expense is down 82.6% and 79.4% from the prior year quarter and six months, respectively, largely from decreased borrowings on our $300 million revolving credit facility.

Interest income for the quarter and six months ended December 31, 2012 was $0.5 million and $1.2 million, respectively, and includes interest income generated on longer-term interest bearing receivables and interest earned on cash and cash-equivalents. Interest income decreased 46.9% and 19.7% from the prior year quarter and six months, respectively. In September 2011, we transferred $22 million to our Brazilian subsidiary to prefund a portion of the future earn-out payments and finance current operations. With the use of this cash for our annual earn-out payments for the purchase of CDC and short-term working capital needs in Brazil, interest income has declined.

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

Net foreign exchange losses for the quarter and six months ended December 31, 2012 totaled $0.1 million and $0.2 million, respectively. Compared to the prior year six months, net foreign exchange loss decreased $3.1 million. In the prior year, we incurred a $2.5 million loss in conjunction with an unfavorable forward exchange contract to purchase Brazilian reais. In August 2011, we decided to pre-fund a portion of the estimated earnout payments associated with the CDC acquisition and finance current operations as mentioned above. This contract was designed to preserve the currency exchange for the few weeks required to transfer the cash to Brazil. From the time we entered into the contract through settlement, the real devalued from the contractual rate by 11.8%, ultimately resulting in a $2.5 million loss. Further contributing to the prior year quarter foreign exchange loss, our Brazilian business incurred significant losses on the remeasurement of U.S. dollar denominated transactions that were not hedged at the time. Subsequently, the Company has been including these exposures in its ongoing hedging activities.

Provision for Income Taxes

For the quarter and six months ended December 31, 2012, income tax expense was $8.4 million and $17.5 million, respectively. The effective tax rate for the same two periods was 34.0%. The effective tax rates in the quarter and six months ended December 31, 2011 were 34.7% and 34.6%, respectively. The decrease in the effective tax rate from the prior year periods is due primarily to a reduction in non-deductible expenses, an increase in non-taxable income as a percentage of total income, and lower expenses from uncertain tax positions.

Liquidity and Capital Resources

Our primary sources of liquidity are cash flow from operations, borrowings under our $300 million revolving credit facility (the "Revolving Credit Facility"), borrowings under our industrial development revenue bond, and borrowings under our European subsidiary's €6 million line of credit. As a distribution company, our business requires significant investment in working capital, particularly accounts receivable and inventory, partially financed through our accounts payable to vendors and revolving lines of credit. Overall, as our sales volume increases, our working capital needs typically increase, which, in general, results in decreased cash flow from operating activities. Conversely, when sales volume decreases, our working capital needs typically decrease, which, in general, results in increased cash flow from operating activities.

The Company's cash and cash equivalent balance totaled $31.5 million at December 31, 2012, compared to $29.2 million at June 30, 2012, of which $17.7 million and $18.7 million were held outside of the United States as of December 31, 2012 and June 30, 2012, respectively.

Cash balances are generated and used in many locations throughout the world. Management's intent is to permanently reinvest these funds in our businesses outside the United States to continue to fund growth in our international operations. Furthermore, our current plans do not require repatriation of funds from our international operations to fund operations in the United States. If these funds were needed in the operations of the United States, we would be required to record and pay significant income taxes upon repatriation of these funds.

As mentioned above, our business model typically yields an inverse relationship between cash flows from operating activities and our sales volumes. Net sales are down $71.6 million from the prior year six month period. On a constant currency basis, net sales are down $37.5 million. As such, cash used in operating activities decreased to an outflow of $10.0 million versus an outflow of $22.7 million in the prior year six months.

Our net investment in working capital has increased to $597.7 million at December 31, 2012 from $533.5 million at June 30, 2012 and remained flat compared to December 31, 2011 at $599.8 million. Net working capital has increased $64.2 million since the prior year end. The increase is largely attributable to decreased accounts payable from the timing of vendor payments funded by our Revolving Credit Facility. Our net investment in working capital is affected by several factors such as fluctuations in sales volume, net income before non-cash charges, timing of collections from customers, movement of inventory, payments to vendors as well as cash generated or used by other financing and investing activities.

The number of days sales in receivables (DSO) was 56 at December 31, 2012, compared to 56 and 57 days at June 30, 2012 and December 31, 2011, respectively. Inventory turned 5.7 times during the second quarter of fiscal year 2013 versus 5.6 times in the sequential and prior year quarters.

We are in the process of designing and developing a new ERP system with a new global implementation partner. We have incurred approximately $38.0 million on the project from inception through December 31, 2012. Of the total amount incurred, $27.8 million has been capitalized. We believe that the total spend will range from $58 million to $72 million inclusive of litigation costs and expenses. We expect to incur costs and expenses in connection with the implementation beyond 2013. Capital expenditures for this project for the remainder of fiscal 2013 are expected to range from $4 million to $6 million.

Through our wholly-owned subsidiary Partner Services, Inc. ("PSI") we filed a lawsuit in the U.S. District Court in Atlanta, Georgia on January 2, 2013 against our former ERP software systems integration partner, Avanade, Inc. ("Avanade"). The lawsuit alleges, among other things, fraud, tortious misrepresentation and breach of contract on the part of Avanade in connection with its performance on the ERP project, and PSI is seeking recovery of damages that it has incurred and will continue to incur, as a result of Avanade's misconduct. Recently, the Company has also engaged a new implementation partner, TCS, to replace Avanade, and the initial phase of the TCS engagement is underway.

Cash used in investing activities for the six months ended December 31, 2012 was $3.2 million, compared to $5.5 million used in the prior year period. Current and prior year investing cash flows are primarily attributable to the investment in our new ERP system.

On October 11, 2011, we entered into a five-year, $300 million multi-currency senior secured revolving credit facility pursuant to the terms of an Amended and Restated Credit Agreement (the "Credit Agreement") with JPMorgan Chase Bank, N.A., as administrative agent and a syndicate of lenders named therein. The Credit Agreement allows for the issuance of up to $50 million for letters of credit and has a $150 million accordion feature that allows the Company to increase the availability to $450 million subject to obtaining commitments for the incremental capacity from existing or new lenders.

At our option, loans denominated in U.S. dollars under the Revolving Credit Facility, other than swingline loans, shall bear interest at a rate equal to a spread over the London Interbank Offered Rate ("LIBOR") or prime rate depending upon our ratio of total debt (excluding accounts payable and accrued liabilities), measured as of the end of the most recent quarter, to adjusted earnings before interest expense, taxes, depreciation and amortization ("EBITDA"), for the most recently completed four quarters (the "Leverage Ratio"). The Leverage Ratio excludes the Company's subsidiary in Brazil. This spread ranges from 1.00% to 2.25% for LIBOR-based loans and 0.00% to 1.25% for prime rate-based loans. The spread in effect as of December 31, 2012 was 1.00% for LIBOR-based loans and 0.00% for Prime rate-based loans. Additionally, we are assessed commitment fees ranging from 0.175% to 0.40%, depending upon the Leverage Ratio, on non-utilized borrowing availability, excluding swingline loans. Borrowings under the Revolving Credit Facility are guaranteed by substantially all of our domestic assets as well as certain foreign subsidiaries determined to be material under the Revolving Credit Facility and a pledge of up to 65% of capital stock or other equity interest in each Guarantor. We were in compliance with all covenants under the Revolving Credit Facility as of December 31, 2012.

For the six months ended December 31, 2012, cash provided by financing activities amounted to $15.0 million, in comparison to $45.3 million in the prior year period. The change in cash provided by financing activities is primarily attributable to less borrowing activity on our Revolving Credit Facility as a result of lower sales volumes.

There was $21.8 million outstanding on our $300 million revolving credit facility as of December 31, 2012. There were no borrowings outstanding as of June 30, 2012. On a gross basis, we borrowed $435.1 million and repaid $413.8 million on our Revolving Credit Facility in the current year-to-date period. In the prior year-to-date period, we borrowed $824.9 million and repaid $754.5 million and additionally paid $1.4 million of debt issuance costs. The average daily balance on the revolving credit facility was $14.1 million and $86.4 million for the six months ended December 31, 2012 and 2011, respectively. There were no standby letters of credits issued and outstanding as of December 31, 2012, leaving $278.2 million available for additional borrowings.

In addition to our Revolving Credit Facility, a subsidiary of the Company has a €6.0 million line of credit, which is secured by the assets of our European operations and is guaranteed by ScanSource, Inc. Our subsidiary line of credit bears interest at the 30-day Euro Interbank Offered Rate ("EURIBOR") plus a spread ranging from 1.25% to 2.00% per annum. The spread in effect as of December 31, 2012 was 1.25%. Additionally, we are assessed commitment fees ranging from 0.10% to 0.275% on non-utilized borrowing availability if outstanding balances are below €3.0 million. The interest rate spread and commitment fee rates related to the €6.0 million line of credit refer to the Leverage Ratio as defined by our $300 million multi-currency senior secured revolving credit facility. There was $0.5 million outstanding balance at December 31, 2012 and $4.3 million at June 30, 2012.

In fiscal year 2011, we acquired all of the shares of CDC Brasil, S.A. The purchase price was paid with an initial payment of $36.2 million, net of cash acquired, assumption of working capital payables and debt, and variable annual payments through October 2015, based on CDC's annual financial results. As of December 31, 2012, we have $13.1 million recorded for the contingent earnout obligation, of which $5.0 million is classified as current. Future contingent earnout payments will be funded by cash on hand and our Revolving Credit Facility.

On August 1, 2007, we entered into an agreement with the State of Mississippi in order to provide financing for the acquisition and installation of certain equipment to be utilized at our Southaven, Mississippi distribution facility, through the issuance of an industrial development revenue bond. The bond matures on September 1, 2032 and accrues interest at the 30-day LIBOR rate plus a spread of 0.85%. The terms of the bond allow for payment of interest only for the first 10 years of the agreement, and then, starting on September 1, 2018 through 2032, principal and interest payments are due until the maturity date or the redemption of the bond. The outstanding balance on this bond was $5.4 million as of December 31, 2012, and the effective interest rate was 1.06%. The Company was in compliance with all covenants associated with this agreement as of December 31, 2012.

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 the present and future working capital and cash requirements for at least the next twelve months.

Contractual Obligations

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

Accounting Standards Recently Issued

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

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

Item 3. Quantitative and Qualitative Disclosures About Market Risk

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

Interest Rate Risk

The Company is exposed to changes in interest rates primarily as a result of its borrowing activities, which include revolving credit facilities with a group of banks used to maintain liquidity and fund the Company’s business operations. The nature and amount of the Company’s debt may vary as a result of future business requirements, market conditions and other factors. A hypothetical 100 basis point increase or decrease in interest rates on borrowings on the Company’s revolving credit facility, variable rate long-term debt and subsidiary line of credit for the quarter ended December 31, 2012 would have resulted in a $0.1 million increase or decrease, respectively, in pre-tax income for the period.

The Company evaluates its interest rate risk and may use interest rate swaps to mitigate the risk of interest rate fluctuations associated with the Company's variable rate long-term debt. At December 31, 2012, the Company had no interest rate swaps in place. If used, derivative instruments have the potential to expose the Company to certain market risks including the possibility of (1) the Company’s hedging activities not being as effective as anticipated in reducing the volatility of the Company’s cash flows, (2) the counterparty not performing its obligations under the applicable hedging arrangement, (3) the hedging arrangement being imperfect or ineffective, or (4) the terms of the swap or associated debt changing. The Company seeks to lessen such risks by having established a policy to identify, control, and manage market risks which may arise from changes in interest rates, as well as limiting its counterparties to major financial institutions.

Foreign Currency Exchange Rate Risk

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

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

The Company has elected not to designate its foreign currency contracts as hedging instruments, and therefore, the instruments are marked-to-market with changes in their values recorded in the consolidated income statement each period. The Company's foreign currencies are primarily British pounds, euros, Mexican pesos, Brazilian real and Canadian dollars. At December 31, 2012, the fair value of the Company’s currency forward contracts outstanding was a net payable of less than $0.1 million. The Company does not utilize financial instruments for trading or other speculative purposes.

Item 4. Controls and Procedures

An evaluation was carried out under the supervision and with the participation of the Company’s management, including its Chief Executive Officer (“CEO”), Chief Financial Officer (“CFO”) and Principal Accounting Officer ("PAO") of the effectiveness of the Company’s disclosure controls and procedures as of December 31, 2012. Based on that evaluation, the Company’s management, including the CEO, CFO and PAO, concluded that the Company’s disclosure controls and procedures are effective as of December 31, 2012. During the quarter and six months ended December 31, 2012, there was no change in the Company’s internal control over financial reporting that has materially affected, or is reasonably likely to materially affect, the Company’s internal control over financial reporting.

PART II. OTHER INFORMATION

Item 1A. Risk Factors

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

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

We are highly dependent upon a variety of internal computer and telecommunication systems to operate our business, including our enterprise resource planning ("ERP") systems. In order to continue support of our growth, we are making significant technological upgrades to our information systems. We are in the process of implementing a company-wide, single ERP software system and related processes to perform various functions and improve on the efficiency of our global business. This is a lengthy and expensive process that has and will continue to result in a diversion of resources from other operations. Recently, we engaged a new implementation partner. The initial phase of the engagement with the new implementation partner is underway. Execution of a new project plan, or a divergence from it once it is finalized, may result in additional cost overruns, project delays or business interruptions. In addition, divergence from the new project plan could impact the timing and/or extent of benefits we expect to achieve from the system and process efficiencies.

Any continued disruptions, delays or deficiencies in the design and/or implementation of the new ERP system, or in the performance of our legacy systems, particularly any disruptions, delays or deficiencies that impact our operations, could adversely affect our ability to effectively run and manage our business and potentially for our customers to access our price and product availability information. 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 affect on our financial results and operations.

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

Additional costs, cost overruns and delays with implementation of new ERP system - Significant additional costs, cost overruns and delays in connection with a new implementation partner or the new implementation project plan may adversely affect our business and results of operations.

The implementation of our new ERP system has and will continue to involve substantial expenditures on system hardware and software, as well as design, development and implementation activities. We have experienced cost overruns and project delays in connection with the implementation process. Through our wholly-owned subsidiary Partner Services, Inc. ("PSI") we filed a lawsuit in the U.S. District Court in Atlanta, Georgia on January 2, 2013 against our former ERP software systems integration partner, Avanade, Inc. ("Avanade"). The lawsuit alleges, among other things, fraud, tortious misrepresentation and breach of contract on the part of Avanade in connection with its performance on the ERP project, and PSI is seeking recovery of damages that it has incurred and will continue to incur, as a result of Avanade's misconduct. Recently, we also engaged a new implementation partner to replace Avanade. The initial phase of the engagement with our new implementation partner is underway. Until the new ERP system is fully implemented, we expect to incur additional selling, general and administrative expenses and capital expenditures to implement and test the system, and there can be no assurance that other issues relating to the ERP system will not occur or be identified. Our business and results of operations have been and will continue to be adversely affected if we experience operating problems, additional costs, unanticipated litigation costs and expenses, or cost overruns during the ERP implementation process, or if the ERP system and the associated process change significantly.

Item 6. Exhibits

Exhibit Number	Description
10.1	Letter Agreement, effective as of December 13, 2012, between the Registrant and Richard P. Cleys. *
10.2	Employment Agreement, effective as of December 17, 2012, between the Registrant and Charles A. Mathis. *
31.1	Certification Pursuant to Rule 13a-14(a)/15d-14(a) of the Securities Exchange Act of 1934, as amended, as Adopted Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.2	Certification Pursuant to Rule 13a-14(a)/15d-14(a) of the Securities Exchange Act of 1934, as amended, as Adopted Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32.1	Certification Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
32.2	Certification Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
101	The following materials from our Quarterly Report on Form 10-Q for the quarter and six months ended December 31, 2012, formatted in XBRL (eXtensible Business Reporting Language): (i) the condensed consolidated balance sheets as of December 31, 2012 and June 30, 2012; (ii) the condensed consolidated income statements for the quarters and six months ended December 31, 2012 and 2011; (iii) the condensed consolidated statements of comprehensive income for the quarters and six months ended December 31, 2012 and 2011; (iv) the condensed consolidated statements of cash flows for the six months ended December 31, 2012 and 2011; and (v) the notes to the condensed consolidated financial statements.**

* Executive compensation plan or agreement.

** Pursuant to Rule 406T of Regulation S-T the Interactive Data Files on Exhibit 101 hereto are deemed not filed or part of a registration statement or prospectus for purposes of Sections 11 or 12 of the Securities Act of 1933, as amended, are deemed not filed for purposes of Section 18 of the Securities and Exchange Act of 1934, as amended, and otherwise are not subject to liability under those sections.

Table of Contents

SIGNATURES

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

ScanSource, Inc.

/s/ MICHAEL L. BAUR
Michael L. Baur
Chief Executive Officer
(Principal Executive Officer)

Date: February 1, 2013

/s/ CHARLES A. MATHIS
Charles A. Mathis
Chief Financial Officer
(Principal Financial Officer)

Date: February 1, 2013

/s/ GERALD LYONS
Gerald Lyons
Senior Vice President of Finance and Principal Accounting Officer
(Principal Accounting Officer)

Date: February 1, 2013

EXHIBIT INDEX TO QUARTERLY REPORT ON FORM 10-Q

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December 13, 2012

VIA HAND DELIVERY
Richard P. Cleys
2 Peters Creek Court
Simpsonville, SC 29681

Dear Rich:

Please accept our thanks for your long and dedicated service to ScanSource, Inc. (“ScanSource” or “Company”). Your employment with ScanSource will end effective December 31, 2012 (“Separation Date”). This letter agreement (“Agreement”) will confirm our conversations regarding compensation to be paid and other items.

1. Consideration. In recognition of your service to the Company, and in return for your agreement to execute the release attached hereto as Exhibit A (the “Release,” which is substantially the same form of release as attached to your Employment Agreement dated June 6, 2011), ScanSource will, following your Separation Date:

    a. Pay you total cash compensation of Two Hundred Eight Thousand and 00/100 Dollars ($208,000.00), which is approximately equivalent to one half (six months) of the amount of your annualized cash compensation under your Employment Agreement.

    b. Once your active health insurance coverage terminates on December 31, 2012, you may continue to participate in the Company’s health insurance plan via COBRA, but you must affirmatively elect COBRA coverage to do so. If you elect COBRA coverage, through June 30, 2014 you will only be required to pay the amounts paid by active Company employees for health insurance coverage, with the remainder of the amounts to be paid toward COBRA being subsidized by the Company. From July 1, 2014 through December 31, 2014 you will no longer be eligible for COBRA but the Company will allow you to continue to participate in the Company’s health insurance plan and you will only be required to pay amounts that you would otherwise be paying were you still eligible for COBRA, with the Company subsidizing the remainder.

       Notwithstanding the foregoing, you will be required to pay 100% of any amounts to be paid for COBRA coverage upon the date you obtain other health insurance benefits or group coverage.

       You and your spouse will be allowed to have access to the Company’s health insurance plan after December 31, 2014 until you turn 65 (on July 9, 2016) but you will be required to pay 100% of any amounts to be paid for any coverage you elect through the Company’s medical plans.

       The maximum amount to be paid to you or on your behalf under this section 1(b) is Twenty Six Thousand Four Hundred and 00/100 Dollars ($26,400.00).

    c. The Company will pay up to Ten Thousand and 00/100 Dollars ($10,000.00) for retirement and professional transition services. To obtain amounts under this subsection you must submit invoices from such service providers and the Company will pay these invoices directly.

2. Prior Agreement. With regard to that certain prior agreement (the "Prior Agreement") entered into between you and the Company on November 6, 2007, you agree to forfeit any stock options which are subject to the Prior Agreement and which have not been exercised as of the date of this Agreement, and the Company agrees not to attempt to obtain reimbursement from you for the Thirteen Thousand Four Hundred Forty Three and 00/100 Dollars ($13,443.00) paid by the Company on your behalf under the Prior Agreement.

3. No Representation on Taxes. You agree and acknowledge that ScanSource has made no representation to you regarding the tax consequences of any funds received pursuant to this Agreement. You agree to pay any federal, state, or local taxes for which you may become personally liable as a result of any such funds received by you.

4. Excess Benefits. This Agreement provides benefits in excess of benefits to which you would be entitled under the Employment Agreement, or any Company policies or severance plans, and these benefits are provided in lieu of any other payments to you, not in addition to them. Except for the actual time worked up through the Separation Date, the benefits set forth in this Agreement are all the benefits you will receive as a result of your employment with and separation from ScanSource.

5. Non-Admission. You agree and acknowledge that Company does not admit, but expressly denies, any violation of any statute, regulation or common law doctrine concerning your relationship with Company and that the Release does not constitute an admission or indication of any violation.

6. Remedies for Breach. You agree that should you breach any of the release and discharge provisions of this Agreement or the Release you will forfeit and repay Company for any payment made or consideration offered pursuant to Section 1 of this Agreement, and Company's obligation to make such payments or provide such consideration will be forever extinguished. In the event a challenge is made to the enforceability of some or all of the language in the Release and a suit, demand or claim is brought by you against any party released, the released party will be entitled to a set-off in the full amount of all payments made under this Agreement in any action brought.

7. Continuing Obligations Under Employment Agreement. By signing this Agreement and accepting the benefits provided herein, you acknowledge and confirm the continuing obligations under your Employment Agreement, including the non-compete and other restrictions on your conduct post-employment as set forth in Section 11 of the Employment Agreement. The Company acknowledges its obligation to compensate you for your pro-rata annual bonus incentive attainment through your Separation Date pursuant to your Employment Agreement.

8. Continuing Cooperation. Until the expiration of the applicable statutes of limitations, you agree to provide continuing cooperation to Company in the defense of any asserted or unasserted claims, charges or lawsuits pending against Company or any of its affiliates or subsidiaries. Such cooperation shall include, but not be limited to, providing information, affidavits, deposition testimony or testimony as a witness in any forum. Provided, however, that compliance with this Section 8 will not be enforced in such a way as to impose an undue burden upon you. You also agree to participate in joint messages to financial institutions and oversight agencies.

9. Transition of Responsibilities. You agree to provide good faith participation in the transition of your duties. You agree to prepare a written summary of outstanding projects/issues on which you are currently working by December 31, 2012, for the purpose of transitioning your responsibilities. Further, you agree

to provide reasonable assistance to your successor by explaining the methodologies used to perform your duties.

10. Severability and Reformation. You and Company agree that if any particular terms, paragraphs, subparagraphs, sections, subsections, or portions of this Agreement are determined by an appropriate court to be invalid or unenforceable as written, they shall be modified as necessary, and as permitted under the law to be made valid or enforceable, and such modification shall not affect the remaining provisions of this Agreement, or if they cannot be modified to be made valid or enforceable, then they shall be severed from this Agreement, and all remaining terms and provisions shall remain enforceable.

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

12. Voluntary Agreement and Release. You represent and warrant that you were not coerced, threatened or otherwise forced to sign this Agreement, and that your signature appearing hereinafter is genuine. You understand that this Agreement, including the Release, contains a full release of ALL claims now existing by you against the Released Parties and that you are waiving only past and existing claims, but not claims which may arise after the date this Agreement is executed. You understand that you are receiving valuable consideration under this Agreement that you would not otherwise be entitled to.

13. Waiver of Claims. You understand that by signing this Agreement, and the Release, you are waiving all claims, or potential claims, including, but not limited to, claims or potential claims under the Federal Age Discrimination in Employment Act of 1967, as amended.

14. Entire Agreement. This Agreement, including the Release, and the Employment Agreement constitute the entire understanding of the parties on the subject hereof and supersedes all prior understandings and instruments on the subjects treated herein. This Agreement may not be modified, other than by a written instrument executed by duly authorized representatives of the parties.

We appreciate your services to ScanSource and wish you the best for the future. If you have any questions concerning your Separation of benefits please call me. Also, if you agree to the terms of this letter, please sign the acknowledgment below and return it to me.

Sincerely,

By: /s/ Michael L. Baur
Name: Michael L. Baur
Title: Chief Executive Officer

ACKNOWLEDGMENT

I agree to and accept the terms of this Agreement relating to the Separation of my employment.

12/18/2012 /s/ Richard P. Cleys
Date Richard P. Cleys

EXHIBIT A TO LETTER AGREEMENT BETWEEN SCANSOURCE, INC. AND RICHARD P. CLEYS DATED DECEMBER 13, 2012

RELEASE

THIS RELEASE ("Release") is granted effective as of the 13 day of December, 2012, by Richard P. Cleys ("Executive") in favor of ScanSource, Inc. (the "Company"). Executive gives this Release in consideration of the Company's promises and covenants as recited in the letter agreement dated December 13, 2012 ("Agreement") to which it is attached, with respect to which this Release is an integral part.

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

1. Title VII of the Civil Rights Act of 1964, as amended by the Civil Rights Act of 1991;
2. Section 1981 of the Civil Rights Act of 1866, as amended;
3. Executive Orders 11246, 13496 and 11141;
4. the Equal Pay Act of 1963;
5. the Consolidated Omnibus Budget Reconciliation Act of 1985 (COBRA);
6. the Americans with Disabilities Act of 1990 and any amendments thereto, including the ADA Amendments Act of 2008;
7. the Rehabilitation Act of 1973;
8. the Employee Retirement and Income Security Act of 1974;
9. the Sarbanes-Oxley Corporate Reform Act of 2002;
10. whistle-blower and/or retaliation claims or suits under the Sarbanes-Oxley Act of 2002;
11. the Family and Medical Leave Act of 1993, as amended;
12. the Health Insurance Portability and Accountability Act of 1996 (HIPAA);
13. the Fair Labor Standards Act of 1938, as amended;
14. the Occupational Safety and Health Act;
15. the Uniformed Services Employment and Re-employment Act of 1994;
16. the Worker Adjustment and Retraining Notification Act;
17. the Lilly Ledbetter Fair Pay Act of 2009;
18. the Fair Credit Reporting Act;
19. state workers' compensation law;
20. Consumer Credit Protection Act
21. Immigration Reform and Control Act of 1986;
22. National Labor Relations Act;

23. the Genetic Information Nondiscrimination Act of 2008;
24. the Age Discrimination in Employment Act;
25. the South Carolina Payment of Wages Act;
26. the South Carolina Human Affairs Law;
27. claims arising under the United States and/or South Carolina Constitutions;
28. claims for wages and overtime pay and commissions, bonuses, vacation pay or any express or implied contracts;
29. any common law claims or claims founded in tort (including negligence) for wrongful discharge, negligence, negligent hiring, negligent training or negligent supervision, assault or battery, invasion of privacy, false imprisonment, intentional infliction of emotional distress, defamation, libel, slander, breach of contract (oral, written or implied), or any other equitable basis or action;
30. claims that the Company treated or dealt with me unfairly; and
31. any claims arising under any other federal, state or local law, statute, regulation, ordinance, treaty or law of any other type, or any other cause of action or theory of recovery arising by virtue of my employment relationship and/or affiliation with ScanSource or any public policy, tort or common law.

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

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

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

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

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

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

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

Executive agrees that he has carefully read this Release and is signing it voluntarily. Executive acknowledges that he has had twenty one (21) days from receipt of this Release to review it prior to signing or that, if Executive is signing this Release prior to the expiration of such 21-day period, Executive is waiving his right to review the Release for such full 21-day period prior to signing it. Executive has the right to revoke this release within seven (7) days following the date of its execution by him, and must deliver written notice of revocation in person to John J. Ellsworth at the following address: 6 Logue Court, Greenville, South Carolina 29615, and such revocation shall not be effective unless actually received by John Ellsworth within seven (7) days following the date the release was signed by Executive. If Executive revokes this Release within such seven (7) day period, no severance benefit will be payable to him under the Employment Agreement and he shall return to the Company any such payment received prior to that date.

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

/s/ Richard P. Cleys

Executive: Richard P. Cleys

Date: 12/18/2012

EMPLOYMENT AGREEMENT

THIS EMPLOYMENT AGREEMENT ("Agreement") between ScanSource, Inc., a South Carolina corporation ("Company"), and Charles A. Mathis ("Executive") (collectively, "the Parties") is effective as of December 17, 2012 ("Effective Date").

BACKGROUND

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

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

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

2. Employment Period.

(a) Unless earlier terminated in accordance with Section 5, Executive's employment will be for a term (the "Employment Period"), beginning on the Effective Date and ending on June 30, 2014, the Employment Period End Date. *Provided, however,* that if a Change in Control, as defined in Exhibit C hereto, occurs during the Employment Period, the ending date of the Employment Period will be extended so that it expires on the later of the Employment Period End Date or the first anniversary of the date on which the Change in Control initially occurred.

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

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

3. Extent of Service. During the Employment Period, and excluding any periods of vacation and sick leave to which Executive is entitled, Executive agrees to devote his business time, attention, skill and efforts exclusively to the faithful performance of his duties hereunder. *Provided, however,* that it shall not be a violation of this Agreement

for Executive to (i) devote reasonable periods of time to charitable and community activities and, with the approval of the Company, industry or professional activities, and/or (ii) manage personal business interests and investments, so long as these activities do not interfere with the performance of Executive's responsibilities under this Agreement.

4. Compensation and Benefits.

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

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

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

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

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

(d) Vacation. During each fiscal year during the Employment Period, Executive will be entitled to the number of days of paid vacation specified on Exhibit A. Executive may take vacation at the times Executive reasonably requests, subject to the prior approval of the person specified on Exhibit A. Unused vacation time will not carry over to the next fiscal year and will not be paid upon termination of employment.

(g) Clawback. To the extent required by law, including the Dodd-Frank Act, the Company shall have a clawback policy applicable to Executive.

5. Termination of Employment.

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

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

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

(ii) the Executive's breach of any term of this Agreement.

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

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

(ii) a reduction by the Company in Executive's Base Salary or a material reduction in Executive's Variable Compensation opportunity;

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

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

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

(vi) the material breach of this Agreement by the Company; or

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

Executive must provide written notice to the Company of Executive's intent to terminate employment for Good Reason within 30 days of the initial existence of the Good Reason. The Company will have an opportunity to cure any claimed event of Good Reason within 30 days of notice from Executive. The Board's good faith determination of cure will be binding. The Company will notify Executive in writing of the timely cure of any claimed event of Good Reason and how the cure was made. Any Notice of Termination delivered by Executive based on a claimed Good Reason which was thereafter cured by the Company will be deemed withdrawn and ineffective to terminate this Agreement. If the Company fails to cure any claimed event of Good Reason within 30 days of notice from Executive, Executive must terminate employment for such claim of Good Reason within 180 days of the initial existence of the Good Reason, and if Executive fails to do so, such claimed event of Good Reason will be deemed withdrawn and ineffective to terminate this Agreement.

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

(e) Date of Termination. The "Date of Termination" means the date specified in the Notice of Termination or, if Executive's employment is terminated by reason of death, Retirement or Disability, the date of death or Retirement or the Disability Effective Date.

6. Obligations of the Company upon Termination.

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

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

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

(iii) subject to Section 13(i) of this Agreement and Executive’s execution of a Release in substantially the form of Exhibit B hereto (the “Release”) within the time set forth in Section 6(g) of this Agreement, the Company will pay to Executive in a lump sum in cash the amount in (A) on the 30th day after the Date of Termination, pay the amount in (B) as set forth below, and provide the benefits in (C):

(A) a single year of compensation in an amount equal to one (1) times the highest combined annual Base Salary and Variable Compensation earned by Executive from the Company, including any such amounts earned but deferred, in the last three fiscal years before the Date of Termination, less normal withholdings, and an additional amount (the “Retention Benefit”) equal to one-twelfth (1/12) times the highest combined annual Base Salary and Variable Compensation earned by Executive from the Company, including any such amounts earned but deferred, in the last three fiscal years before the Date of Termination, less normal withholdings, times the number of full years beyond ten (10) years that the Executive was consecutively employed by the Company prior to the Date of Termination, less normal withholdings (collectively the “Severance Benefits”); *provided*, *however*, that the maximum amount that Executive may receive under this Section 6(a)(iii)(A) is two (2) times the highest combined annual Base Salary and Variable Compensation earned by Executive from the Company, including any such amounts earned but deferred, in the last three fiscal years before the Date of Termination. Notwithstanding the foregoing, if the Date of Termination occurs within 12 months after or otherwise in contemplation of a Change in Control, as defined in Exhibit C, Executive will receive Severance Benefits in an amount equal to two (2) times the highest combined annual Base Salary and Variable Compensation earned by Executive from the Company, including any such amounts earned but deferred, in the last three fiscal years before the Date of Termination, less normal withholdings, but no Retention Benefit. Executive’s entitlement to receive and retain the amounts set forth in this Section 6 are conditioned on Executive’s compliance with the Restrictions on Conduct described in Section 11. With respect to any amounts due Executive under this Section 6(a)(iii)(A), Executive may elect to receive such amounts in a single lump sum or in bi-weekly installments pursuant to the Company’s normal payroll cycle during the term of the 24-month period referenced in Sections 11(c)(i) through 11(c)(vi);

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

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

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

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

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

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

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

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

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

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

(a) Anything in this Agreement to the contrary notwithstanding, if it is determined that any benefit, payment or distribution by the Company to or for the benefit of Executive (whether paid or payable or distributed or distributable pursuant to the terms of this Agreement or otherwise) (a "Payment") would be subject to the Excise Tax, then, before making the Payment to Executive, a calculation will be made comparing (i) the net benefit to Executive of all Payments after payment of the Excise Tax, to (ii) the net benefit to Executive if the Payment had been limited to the extent necessary to avoid being subject to the Excise Tax. If the amount calculated under (i) above is less than the amount calculated under (ii) above, then the Payments will be limited to the extent necessary to avoid being subject to the Excise Tax (the "Reduced Amount"). In that event, Executive will direct which Payments are to be reduced and any such reduction will be made so as not to violate Code Section 409A.

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

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

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

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

11. Restrictions on Conduct of Executive.

(a) General. Executive agrees that as part of the services he will perform for the Company he will be exposed to, and help create and maintain, competitive advantages over other "Competitive Businesses," as well as good will with the Company's customers and suppliers. By virtue of the position Executive will hold, Executive is receiving, will receive, or will be provided access to the Company's: (1) customers, suppliers, advertisers and vendors as well as pricing information, distribution channels and other terms of those relationships; (2) "Confidential Information" and "Trade Secrets;" (3) the relationships and other elements that together comprise good will; and/or (4) institutional knowledge regarding product development, its engineering, product specification, material suppliers, material specifications, product suppliers, manufacturing knowledge, customer feedback, surveys, design-around information, research and development information, internal quality control tests, other quality control information and other similar information. Executive agrees that the competitive advantage and good will in the Company has created, and which Executive will assist in furthering and maintaining, is an important and legitimate business asset of the Company. Should Executive compete against the Company, having intimate knowledge of the information that gives the Company its competitive advantage and good will would give Executive, or those "Competitive Businesses" he is assisting, an unfair advantage over the Company.

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

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

"Confidential Information" means any and all information of the Company that has value and is not generally known to the Company's competitors. This includes, but is not limited to, any information or documents about: the Company's accounting practices; financial data; financial plans and practices; the Company's operations; its future plans (including new products, improved products, and products under development); its methods of doing business; internal forms, checklists, or quality assurance testing; programs; customer and supplier lists or other such related information as pricing or terms of business dealings; supply chains; shipping chains and prices; packaging technology or pricing; sourcing information for components, materials, supplies, and other goods; employees; pay scales; bonus structures; contractor information and lists; marketing strategies and information; product plans; distribution plans and distribution channel relationships; business plans; manufacturing, operation, sales and distribution processes; costs; margins for products; prices, sales, orders and quotes for the Company's business that is not readily attainable by the general public; existing and future services; testing information (including methods and results) related to materials used in the development of the Company's products or materials that could be used with the Company's products; development information (including methods and results) related to computer programs that design or test products or that track information from a central database; and the computer or electronic passwords of all employees and/or firewalls of the Company. Notwithstanding the definitions stated above, the term Confidential Information does not include any information which (i) at the time of disclosure to Executive, was in the public domain; (ii) after disclosure to Executive, is published or otherwise becomes part of the public domain through no fault of Executive; (iii) without a breach of duty owed to the Company, was already in Executive's possession at the time of disclosure; (iv) was received after disclosure to Executive from a third party who had a lawful right to the information other than through a relationship of trust and confidence with the Company, and without a breach of duty to the Company, disclosed the information to Executive; or (v) where Executive can show it was independently developed by Executive on non-Company time without reference to, or reliance upon, other Confidential Information or Trade Secrets.

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

"Restricted Territory" means any place where the Company or its affiliates is (or is attempting to) actively manufacturing, marketing, selling or distributing its products within the final two (2) years of Executive's employment, or places where the Company made affirmative steps to market or sell its products within the final six (6) months of Executive's employment. If Executive was assigned only a portion of the territory in which the Company operates or sells, then the Restricted Territory shall be narrowly construed to include only the limited territory of the Executive.

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

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

(i) for the term of Executive's employment, and for a period of twenty-four (24) months following the Date of Termination, Executive agrees he will not engage in any Prohibited Duties for a Competitive Business in the Restricted Territory;

(ii) for the term of Executive's employment, and for a period of twenty-four (24) months following the Date of Termination, Executive agrees he will not solicit any of the Company's customers or suppliers with whom Executive had contact during the course of Executive's employment with the Company for any Competitive Business;

(iii) for the term of Executive's employment, and for a period of twenty-four (24) months following the Date of Termination, Executive agrees he will not solicit any of the Company's prospective customers or prospective suppliers with whom Executive had contact during the course of Executive's employment with the Company for any Competitive Business;

(iv) for the term of Executive's employment, and for a period of twenty-four (24) months following the Termination Date, Executive agrees he will not solicit any of the Company's employees whom Executive supervised during the course of his employment with the Company, any employees with whom he had contact during his employment, any employees who had contacts of employment with the Company at the time solicited, or any employees who had restrictive covenants at the time solicited, to leave the Company for any purpose;

(v) for the term of Executive's employment, and for a period of no less than twenty-four (24) months (for Confidential Information) or for so long as the information remains protected under this Agreement or applicable statute (for Trade Secrets) thereafter, Executive agrees that he will not, either directly or indirectly, publish, disseminate, provide or otherwise disclose any Confidential Information or Trade Secrets to any third party, unless required to do so by legal process or other law, without the Company's prior written consent. Executive agrees that if he believes he is compelled to reveal Confidential Information or Trade Secrets pursuant to the limited exception provided herein, Executive will provide the Company at least seven (7) days advance notice before doing so, and will explain the specifics under which such Confidential Information or Trade Secrets are to be disclosed.

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

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

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

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

12. Assignment and Successors.

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

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

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

13. Miscellaneous.

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

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

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

(d) Entire Agreement. Except as provided herein, this Agreement contains the entire agreement between the Parties on the subject matter hereof. From and after the Effective Date, this Agreement will supersede any other agreement between the Parties on the subject matter hereof.

(e) Governing Law and Jurisdiction. Without regard to conflict of laws principles, the laws of the State of South Carolina will govern this Agreement in all respects, whether as to its validity, construction, capacity, performance or otherwise. This Agreement may only be enforced in a court of competent jurisdiction in Greenville County, South Carolina and Executive agrees to submit to the exclusive jurisdiction of a court of competent jurisdiction in Greenville, South Carolina.

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

To Company:	ScanSource, Inc. 6 Logue Court Greenville, SC 29615 Attn: Chief Executive Officer
To Executive:	To the address specified on Exhibit A

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

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

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

(i) Deferred Compensation Provision. Notwithstanding any other provision of this Agreement, it is intended that any payment or benefit provided under this Agreement that is considered to be "deferred compensation" subject to Code Section 409A will be provided in such manner and at such time, including without limitation in connection with a permissible payment event under Code Section 409A, as is exempt from or complies with the requirements of Code Section 409A. All rights to payments and benefits under this Agreement are to be treated as rights to receive a series of separate payments and benefits to the fullest extent allowed by Code Section 409A. Termination of employment under this Agreement, to the extent required by Code Section 409A, will be construed to mean a "separation from service" under Code Section 409A where it is anticipated that no further services will be performed after such date or that the level of services Executive would perform after that date (whether as an employee or independent contractor) would permanently decrease to no more than twenty percent (20%) of the average level of services Executive performed over the prior thirty-six (36)-month period. The terms of this Agreement are intended to, and will be construed and administered to the fullest extent possible, to permit compensation to be paid under this Agreement to be exempt from or comply with Code Section 409A. Regardless, neither the Company nor its directors, officers or agents shall be liable to Executive or anyone else if the Internal Revenue Service or any court or other authority determines that any payments or benefits to be provided under this Agreement are subject to taxes, penalties or interest as a result of failing to comply with or be exempt from Code Section 409A.

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

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

EXECUTIVE: **SCANSOURCE, INC.:**

Name:	Charles A. Mathis	By:	/s/ Michael L. Baur
		Name:	Michael L. Baur
		Title:	Chief Executive Officer

EXHIBIT A TO EMPLOYMENT AGREEMENT

Executive: Charles A. Mathis

Base Salary: $325,000 annually

Variable Compensation: Beginning on the effective date of the Employment Agreement and continuing through the end of the Employment Period, Executive's compensation structure will be as follows:

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

The goal based on ROIC will account for 40% of the target variable compensation opportunity, and will be determined as follows: (a) if the Company's ROIC is less than 10%, the Executive will not be entitled to any payment in connection with this portion of the variable compensation opportunity; (b) if the Company achieves at least 10% ROIC and less than 20% ROIC, the Executive will be entitled to a pro-rated payment between $40,000 and $50,000 of this portion of the variable compensation opportunity; (c) if the Company achieves at least 20% ROIC and less than 25% ROIC, the Executive will be entitled to a pro-rated payment between $50,000 and $60,000 of this portion of the variable compensation opportunity; and (d) if the Company achieves at least 25% ROIC, the Executive will be entitled to a payment of $60,000 of this portion of the variable compensation opportunity.

The goal based on growth in operating income will account for 40% of the target variable compensation opportunity, and will be determined as follows: (a) if the Company's Operating Income growth year to year is less than 4%, the Executive will not be entitled to any payment in connection with this portion of the variable compensation opportunity; (b) if the Company's Operating Income growth year to year is at least 4% and less than 8%, the Executive will be entitled to a pro-rated payment between $40,000 and $50,000 of this portion of the variable compensation opportunity; (c) if the Company's Operating Income growth year to year is at least 8% and less than 12%, the Executive will be entitled to a payment between $50,000 and $60,000 of this portion of the variable compensation opportunity; and (d) if the Company's Operating Income growth year to year is at least 12%, the Executive will be entitled to a payment equal to $60,000 of this portion of the variable compensation opportunity.

The goal based on the aging of accounts receivable will account for 20% of the target variable compensation opportunity, and will be based on specific goals established by the Company's CEO. Depending upon Executive's performance, Executive may be entitled to a payment of $0 to $30,000 for this portion of the variable compensation opportunity.

For purposes of this Agreement, "Operating Income" means the amount reflected for the line item identified as Operating Income on the Company's audited consolidated financial statements for each respective fiscal year ending during the term of this Agreement and "Return on Invested Capital" means an amount expressed as a percentage of: the Company's annual (or annualized) EBITDA (net income plus interest, taxes, depreciation and amortization) divided by average shareholders' equity and interest bearing debt (defined as the sum of shareholders' equity at the beginning of the period added to the sum of shareholders' equity at the end of the period, divided by 2, plus the average daily interest bearing debt for the period). The Company reserves the right to make adjustments to the calculation of Return on Invested Capital to account for any extraordinary or unusual items that did not exist or were not in effect as of the Effective Date and to the extent permitted to qualify for the Code Section 162(m) Exemption (as defined below), including, but not limited to, newly pronounced accounting standards and similar laws and regulations and significant non-recurring events that impact the Company. The Company's calculation of Operating Income, Return on Invested Capital, and the incentive compensation amount shall be conclusive and binding absent fraud or manifest and material error. The target amount of such variable compensation will be $125,000 per year and the maximum amount of such variable compensation will be $150,000 per year. Any variable compensation earned during the Company's fiscal year will be paid to Executive annually and as soon as practicable following the Company's filing of its Form 10-K with the United States Securities and Exchange Commission for the immediately preceding fiscal year.

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

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

Days of Paid Vacation per Fiscal Year:	Approving Person:
15 (per Company policy)	Chief Executive Officer

Executive Notice Address:
627 Island Park Drive
Daniel Island, SC 29492

Initials: /s/ CAM

Initials: /s/ MLB

EXHIBIT B TO EMPLOYMENT AGREEMENT

Form of Release

THIS RELEASE (“Release”) is granted effective as of the 17 day of December, 2012, by Charlie A. Mathis (“Executive”) in favor of ScanSource, Inc. (the “Company”). This is the Release referred to that certain Employment Agreement dated as of December 31, 2012 by and between the Company and Executive (the “Employment Agreement”). Executive gives this Release in consideration of the Company’s promises and covenants as recited in the Employment Agreement, with respect to which this Release is an integral part.

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

1. Title VII of the Civil Rights Act of 1964, as amended by the Civil Rights Act of 1991;
2. Section 1981 of the Civil Rights Act of 1866, as amended;
3. Executive Orders 11246, 13496 and 11141;
4. the Equal Pay Act of 1963;
5. the Consolidated Omnibus Budget Reconciliation Act of 1985 (COBRA);
6. the Americans with Disabilities Act of 1990 and any amendments thereto, including the ADA Amendments Act of 2008;
7. the Rehabilitation Act of 1973;
8. the Employee Retirement and Income Security Act of 1974;
9. the Sarbanes-Oxley Corporate Reform Act of 2002;
10. whistle-blower and/or retaliation claims or suits under the Sarbanes-Oxley Act of 2002;
11. the Family and Medical Leave Act of 1993, as amended;
12. the Health Insurance Portability and Accountability Act of 1996 (HIPAA);
13. the Fair Labor Standards Act of 1938, as amended;
14. the Occupational Safety and Health Act;
15. the Uniformed Services Employment and Re-employment Act of 1994;
16. the Worker Adjustment and Retraining Notification Act;
17. the Lilly Ledbetter Fair Pay Act of 2009;
18. the Fair Credit Reporting Act;
19. state workers’ compensation law;
20. Consumer Credit Protection Act
21. Immigration Reform and Control Act of 1986;
22. National Labor Relations Act;
23. the Genetic Information Nondiscrimination Act of 2008;
24. the Age Discrimination in Employment Act;
25. the South Carolina Payment of Wages Act;

26. the South Carolina Human Affairs Law;
27. claims arising under the United States and/or South Carolina Constitutions;
28. claims for wages and overtime pay and commissions, bonuses, vacation pay or any express or implied contracts;
29. any common law claims or claims founded in tort (including negligence) for wrongful discharge, negligence, negligent hiring, negligent training or negligent supervision, assault or battery, invasion of privacy, false imprisonment, intentional infliction of emotional distress, defamation, libel, slander, breach of contract (oral, written or implied), or any other equitable basis or action;
30. claims that the Company treated or dealt with me unfairly; and
31. any claims arising under any other federal, state or local law, statute, regulation, ordinance, treaty or law of any other type, or any other cause of action or theory of recovery arising by virtue of my employment relationship and/or affiliation with ScanSource or any public policy, tort or common law.

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

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

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

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

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

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

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

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

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

____

Executive:	______________________
Date:	______________________

EXHIBIT C TO EMPLOYMENT AGREEMENT

Definition of Change in Control:

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

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

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

(iii) the consummation of a reorganization, merger, consolidation, statutory share exchange or similar form of corporate transaction involving the Company or a Subsidiary (a “Reorganization”), or the sale or other disposition of all or substantially all of the Company’s assets (a “Sale”) or the acquisition of assets or stock of another corporation (an “Acquisition”), unless immediately following such Reorganization, Sale or Acquisition: (A) all or substantially all of the individuals and entities who were the beneficial owners, respectively, of the outstanding Company Common Stock and outstanding Company Voting Securities immediately prior to such Reorganization, Sale or Acquisition beneficially own, directly or indirectly, more than 55% of, respectively, the then outstanding shares of common stock and the combined voting power of the then outstanding voting securities entitled to vote generally in the election of directors, as the case may be, of the corporation resulting from such Reorganization, Sale or Acquisition (including, without limitation, a corporation which as a result of such transaction owns the Company or all or substantially all of the Company’s assets or stock either directly or through one or more subsidiaries, the “Surviving Corporation”) in substantially the same proportions as their ownership, immediately prior to such Reorganization, Sale or Acquisition, of the outstanding Company Common Stock and the outstanding Company Voting Securities, as the case may be, and (B) no person (other than (x) the Company or any Subsidiary of the Company, (y) the Surviving Corporation or its ultimate parent corporation, or (z) any employee benefit plan (or related trust) sponsored or maintained by any of the foregoing is the beneficial owner, directly or indirectly, of 35% or more of the total common stock or 35% or more of the total voting power of the outstanding voting securities eligible to elect directors of the Surviving Corporation, and (C) at least a majority of the members of the board of directors of the Surviving Corporation were Incumbent Directors at the time of the Board’s approval of the execution of the initial agreement providing for such Reorganization, Sale or Acquisition (any Reorganization, Sale or Acquisition which satisfies all of the criteria specified in (A), (B) and (C) above shall be deemed to be a “Non-Qualifying Transaction”); or

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

Exhibit 31.1

Certification Pursuant to Rule 13a-14(a) or 15d-14(a)
of the Exchange Act, as adopted Pursuant to Section 302 of the
Sarbanes-Oxley Act of 2002

I, Michael L. Baur, certify that:

1. I have reviewed this quarterly report on Form 10-Q of ScanSource, Inc.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

   (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

   (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing equivalent functions):

   (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

   (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

/s/ Michael L. Baur

Michael L. Baur, Chief Executive Officer (Principal Executive Officer)

Date: February 1, 2013

Exhibit 31.2

Certification Pursuant to Rule 13a-14(a) or 15d-14(a)
of the Exchange Act, as adopted Pursuant to Section 302 of the
Sarbanes-Oxley Act of 2002

I, Charles A. Mathis, certify that:

1. I have reviewed this quarterly report on Form 10-Q of ScanSource, Inc.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

   (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

   (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing equivalent functions):

   (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

   (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

/s/ Charles A. Mathis

Charles A. Mathis, Vice President and Chief Financial Officer (Principal Financial Officer)

Date: February 1, 2013

Exhibit 32.1

Certification of the Chief Executive Officer of ScanSource, Inc.
Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to § 906
of the Sarbanes-Oxley Act of 2002

In connection with the quarterly report of ScanSource, Inc. (the "Company") on Form 10-Q for the quarter and six months ended December 31, 2012 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), the undersigned officer of the Company certifies, pursuant to 18 U.S.C. § 1350, as adopted pursuant to § 906 of the Sarbanes-Oxley Act of 2002, that:

1) The Report fully complies with the requirements of §13(a) or 15(d) of the Securities Exchange Act of 1934 (the "Exchange Act"); and

2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: February 1, 2013

/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.

Exhibit 32.2

Certification of the Chief Financial Officer of ScanSource, Inc.
Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to § 906
of the Sarbanes-Oxley Act of 2002

In connection with the quarterly report of ScanSource, Inc. (the "Company") on Form 10-Q for the quarter and six months ended December 31, 2012 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), the undersigned officer of the Company certifies, pursuant to 18 U.S.C. § 1350, as adopted pursuant to § 906 of the Sarbanes-Oxley Act of 2002, that:

1) The Report fully complies with the requirements of §13(a) or 15(d) of the Securities Exchange Act of 1934 (the "Exchange Act"); and

2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: February 1, 2013

/s/ Charles A. Mathis
Charles A. Mathis
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.