

Morningstar[®] Document ResearchSM

FORM 10-Q

SCANSOURCE INC - SCSC

Filed: February 03, 2015 (period: December 31, 2014)

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, 2014

Commission File Number: 000-26926



ScanSource, Inc.

(Exact name of registrant as specified in its charter)

SOUTH CAROLINA
(State or other jurisdiction of
incorporation or organization)

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

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

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

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

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

Large accelerated filer 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 30, 2015
Common Stock, no par value per share	28,659,993 shares

SCANSOURCE, INC.
INDEX TO FORM 10-Q
December 31, 2014

	<u>Page #</u>
<u>PART I. FINANCIAL INFORMATION</u>	<u>4</u>
Item 1. <u>Financial Statements</u>	<u>4</u>
<u>Condensed Consolidated Balance Sheets as of December 31, 2014 and June 30, 2014</u>	<u>4</u>
<u>Condensed Consolidated Income Statements for the Quarters and Six Months Ended December 31, 2014 and 2013</u>	<u>5</u>
<u>Condensed Consolidated Statements of Comprehensive Income for the Quarters and Six Months Ended December 31, 2014 and 2013</u>	<u>6</u>
<u>Condensed Consolidated Statements of Cash Flows for the Six Months Ended December 31, 2014 and 2013</u>	<u>7</u>
<u>Notes to Condensed Consolidated Financial Statements</u>	<u>8</u>
Item 2. <u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	<u>20</u>
Item 3. <u>Quantitative and Qualitative Disclosures About Market Risk</u>	<u>32</u>
Item 4. <u>Controls and Procedures</u>	<u>34</u>
<u>PART II. OTHER INFORMATION</u>	<u>35</u>
Item 1. <u>Legal Proceedings</u>	<u>35</u>
Item 1A. <u>Risk Factors</u>	<u>35</u>
Item 6. <u>Exhibits</u>	<u>35</u>
<u>SIGNATURES</u>	<u>36</u>
<u>EXHIBIT INDEX</u>	<u>37</u>

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," "seeks," "estimates," "goals," "projects," "strategy," "future," "likely," "may," "should," and variations of such words and similar expressions are intended to identify such forward-looking statements. Any forward-looking statement made by us in this Form 10-Q is based only on information currently available to us and speaks only as of the date on which it is made. Except as may be required by law, we expressly disclaim any obligation to update these forward-looking statements to reflect events or circumstances after the date of this 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, 2014. The forward-looking information we have provided in this Quarterly Report on Form 10-Q pursuant to the safe harbor established under the Private Securities Litigation Reform Act of 1995, should be evaluated in the context of these factors.

PART I. FINANCIAL INFORMATION**Item 1. Financial Statements**

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

	December 31, 2014	June 30, 2014
Assets		
Current assets:		
Cash and cash equivalents	\$ 121,513	\$ 194,851
Accounts receivable, less allowance of \$22,125 at December 31, 2014 and \$26,257 at June 30, 2014	490,713	464,405
Inventories	518,419	504,758
Prepaid expenses and other current assets	39,872	33,558
Deferred income taxes	18,246	18,109
Total current assets	<u>1,188,763</u>	<u>1,215,681</u>
Property and equipment, net	43,232	31,823
Goodwill	48,966	32,342
Other non-current assets, including net identifiable intangible assets	69,531	55,278
Total assets	<u>\$ 1,350,492</u>	<u>\$ 1,335,124</u>
Liabilities and Shareholders' Equity		
Current liabilities:		
Accounts payable	\$ 419,614	\$ 421,721
Accrued expenses and other current liabilities	66,477	63,574
Current portion of contingent consideration	7,582	5,851
Income taxes payable	1,935	8,685
Total current liabilities	<u>495,608</u>	<u>499,831</u>
Deferred income taxes	3,931	185
Long-term debt	5,429	5,429
Long-term portion of contingent consideration	2,423	5,256
Other long-term liabilities	24,353	21,780
Total liabilities	<u>531,744</u>	<u>532,481</u>
Commitments and contingencies		
Shareholders' equity:		
Preferred stock, no par value; 3,000,000 shares authorized, none issued	—	—
Common stock, no par value; 45,000,000 shares authorized, 28,659,093 and 28,539,481 shares issued and outstanding at December 31, 2014 and June 30, 2014, respectively	171,825	168,447
Retained earnings	686,925	650,896
Accumulated other comprehensive income (loss)	(40,002)	(16,700)
Total shareholders' equity	<u>818,748</u>	<u>802,643</u>
Total liabilities and shareholders' equity	<u>\$ 1,350,492</u>	<u>\$ 1,335,124</u>

June 30, 2014 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		Six months ended	
	December 31,		December 31,	
	2014	2013	2014	2013
Net sales	\$ 807,019	\$ 740,618	\$ 1,598,738	\$ 1,472,522
Cost of goods sold	728,908	663,362	1,442,981	1,318,767
Gross profit	78,111	77,256	155,757	153,755
Selling, general and administrative expenses	51,658	49,296	99,813	96,836
Change in fair value of contingent consideration	463	499	976	1,237
Operating income	25,990	27,461	54,968	55,682
Interest expense	207	235	397	482
Interest income	(492)	(525)	(1,327)	(1,099)
Other (income) expense, net	337	(58)	724	51
Income before income taxes	25,938	27,809	55,174	56,248
Provision for income taxes	9,117	9,511	19,145	18,513
Net income	\$ 16,821	\$ 18,298	\$ 36,029	\$ 37,735
Per share data:				
Net income per common share, basic	\$ 0.59	\$ 0.65	\$ 1.26	\$ 1.34
Weighted-average shares outstanding, basic	28,579	28,293	28,562	28,164
Net income per common share, diluted	\$ 0.58	\$ 0.64	\$ 1.25	\$ 1.33
Weighted-average shares outstanding, diluted	28,831	28,597	28,813	28,434

See accompanying notes to these condensed consolidated financial statements.

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

	Quarter ended		Six months ended	
	December 31,		December 31,	
	2014	2013	2014	2013
Net income	\$ 16,821	\$ 18,298	\$ 36,029	\$ 37,735
Foreign currency translation adjustment	(10,059)	(375)	(23,302)	3,896
Comprehensive income	<u>\$ 6,762</u>	<u>\$ 17,923</u>	<u>\$ 12,727</u>	<u>\$ 41,631</u>

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,	
	2014	2013
Cash flows from operating activities:		
Net income	\$ 36,029	\$ 37,735
Adjustments to reconcile net income to net cash provided by (used in) operating activities:		
Depreciation and amortization	4,340	3,647
Amortization of debt issuance costs	148	164
Provision for doubtful accounts	(1,581)	6,416
Share-based compensation	2,921	2,170
Deferred income taxes	548	230
Excess tax benefits from share-based payment arrangements	(260)	(881)
Change in fair value of contingent consideration	976	1,237
Changes in operating assets and liabilities, net of acquisitions:		
Accounts receivable	(20,985)	(7,167)
Inventories	(14,214)	(62,353)
Prepaid expenses and other assets	1,448	(2,128)
Other non-current assets	(407)	404
Accounts payable	(11,173)	21,225
Accrued expenses and other liabilities	(1,009)	(664)
Income taxes payable	(6,444)	1,314
Net cash provided by (used in) operating activities	(9,663)	1,349
Cash flows from investing activities:		
Capital expenditures	(13,783)	(422)
Cash paid for business acquisitions, net of cash acquired	(35,516)	—
Net cash provided by (used in) investing activities	(49,299)	(422)
Cash flows from financing activities:		
Borrowings (repayments) on short-term borrowings, net	(4,609)	—
Debt issuance costs	—	(468)
Repayments on capital lease obligation	(141)	—
Contingent consideration payments	(5,529)	(3,646)
Exercise of stock options	249	11,055
Excess tax benefits from share-based payment arrangements	260	881
Net cash provided by (used in) financing activities	(9,770)	7,822
Effect of exchange rate changes on cash and cash equivalents	(4,606)	217
Increase (decrease) in cash and cash equivalents	(73,338)	8,966
Cash and cash equivalents at beginning of period	194,851	148,164
Cash and cash equivalents at end of period	\$ 121,513	\$ 157,130

See accompanying notes to these condensed consolidated financial statements.

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

(I) Business and Summary of Significant Accounting Policies

Business Description

ScanSource, Inc. is a leading international wholesale distributor of specialty technology products. ScanSource, Inc. and its subsidiaries ("the Company") provide value-added distribution services for technology manufacturers and sell to resellers in the following specialty technology markets: POS and Barcode, Security and 3D Printing through its Worldwide Barcode & Security segment and video, voice, and network solutions through its Worldwide Communications & Services segment.

The Company operates in the United States, Canada, Latin America and Europe. The Company distributes to the United States and Canada from its Southaven, Mississippi distribution center; to Latin America principally from distribution centers located in Florida, Mexico and Brazil; and to Europe from its distribution centers located in Belgium, France, Germany and the United Kingdom.

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 US GAAP 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, 2014 and June 30, 2014, the results of operations for the quarters and six months ended December 31, 2014 and 2013, the statements of comprehensive income for the quarters and six months ended December 31, 2014 and 2013 and the statements of cash flows for the six months ended December 31, 2014 and 2013. The results of operations for the quarters and six months ended December 31, 2014 and 2013 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, 2014.

Summary of Significant Accounting Policies

Except as described below, there have been no material changes to the Company's significant accounting policies for the six months ended December 31, 2014 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, 2014. 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, 2014.

Cash and Cash Equivalents

The Company considers all highly liquid investments with original maturities of three months, when purchased, or less to be cash equivalents. The Company maintains some zero-balance, disbursement accounts at various financial institutions in which the Company does not maintain significant depository relationships. Due to the nature of the Company's banking relationships with these institutions, the Company does not have the right to offset most if not all outstanding checks written from these accounts against cash on hand, and the respective institutions are not legally obligated to honor the checks until sufficient funds are transferred to fund the checks. Checks released but not yet cleared from these accounts in the amounts of \$75.2 million and \$84.1 million are included in accounts payable as of December 31, 2014 and June 30, 2014, respectively.

Recent Accounting Pronouncements

In May 2014, the FASB issued a comprehensive new revenue recognition standard for contracts with customers that will supersede most current revenue recognition guidance, including industry-specific guidance. The core principle of this standard is that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. To achieve this core principle, the standard provides a five-step analysis of transactions to determine when and how revenue is recognized. Other major provisions include the capitalization and amortization of certain contract costs, ensuring the time value of money is considered in the transaction

[Table of Contents](#)

price, and allowing estimates of variable consideration to be recognized before contingencies are resolved in certain circumstances. This guidance also requires enhanced disclosures regarding the nature, amount, timing and uncertainty of revenue and cash flows arising from an entity's contracts with customers. The new standard is effective for fiscal years, and interim periods within those years, beginning after December 15, 2016. Early application is prohibited. The standard permits the use of either the retrospective or cumulative effect transition method. This guidance will be applicable to the Company for the fiscal year beginning July 1, 2017, which is the first quarter of fiscal year 2018. The Company is currently evaluating the impact on its consolidated financial statements upon the adoption of this new standard.

(2) Earnings Per Share

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

	Quarter ended December 31,		Six months ended December 31,	
	2014	2013	2014	2013
<i>(in thousands, except per share data)</i>				
Numerator:				
Net Income	\$ 16,821	\$ 18,298	\$ 36,029	\$ 37,735
Denominator:				
Weighted-average shares, basic	28,579	28,293	28,562	28,164
Dilutive effect of share-based payments	252	304	251	270
Weighted-average shares, diluted	28,831	28,597	28,813	28,434
Net income per common share, basic	\$ 0.59	\$ 0.65	\$ 1.26	\$ 1.34
Net income per common share, diluted	\$ 0.58	\$ 0.64	\$ 1.25	\$ 1.33

For the quarter and six months ended December 31, 2014, weighted-average shares outstanding excluded from the computation of diluted earnings per share because their effect would be anti-dilutive were 319,508 and 273,549, respectively. For the quarter and six months ended December 31, 2013, there were 182,299 and 438,760 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, 2014	June 30, 2014
<i>(in thousands)</i>		
Foreign currency translation adjustment	\$ (40,002)	\$ (16,700)
Accumulated other comprehensive income (loss)	\$ (40,002)	\$ (16,700)

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

	Quarter ended December 31,		Six Months ended December 31,	
	2014	2013	2014	2013
<i>(in thousands)</i>				
Tax expense (benefit)	\$ 373	\$ 167	\$ 1,286	\$ (20)

(4) Acquisitions

On September 19, 2014, the Company acquired 100% of the shares of Imago Group plc, a European value-added distributor of video and voice communications equipment and services, through a newly-formed special purchase entity. Subsequent to the acquisition, the Company changed Imago's name to ScanSource Video Communications Ltd. (dba Imago ScanSource). Imago ScanSource joins the Company's Worldwide Communications and Services operating segment. This acquisition supports the Company's strategy to be the leading value-added distributor of video, voice, and networking solutions for resellers in Europe.

Under the Share Purchase Agreement, the Company structured the purchase transaction with an initial cash payment of \$37.4 million, plus two additional annual cash installments for the twelve month periods ending September 30, 2015 and 2016, based on the financial performance of Imago ScanSource. The Company acquired \$1.9 million of cash during the acquisition, resulting in net \$35.5 million cash paid for Imago ScanSource. Please see Note 8, *Fair Value of Financial Instruments* for further information regarding the fair value accounting for this contingent consideration.

Pro forma results of operations and a complete purchase price allocation have not been presented for this acquisition because the results of this acquisition are not material to our consolidated results. The purchase price of this acquisition was allocated to the assets acquired and liabilities assumed based on their estimated fair values on the transaction date, resulting in goodwill and identifiable intangible assets. As of the date of this report, the finalization of the valuation of certain tangible and indefinite-lived intangible assets, which includes goodwill, is incomplete, therefore, estimates provided are subject to change. An estimate of the goodwill and identifiable intangible assets as of the acquisition date is as follows:

	Goodwill	Identifiable Intangible Assets
	<i>(in thousands)</i>	
Imago ScanSource	\$ 18,753	\$ 19,606

Intangible assets acquired include trade names, customer relationships, and non-compete agreements.

For tax purposes, due to the nondeductible nature of the amortization of identifiable intangible assets acquired, the Company recorded a deferred tax liability in the amount of \$4.1 million. The deferred tax liability represents the difference between the book and tax bases in the assets and will decrease over time as the assets are amortized for book purposes.

(5) Goodwill and Other Identifiable Intangible Assets

The changes in the carrying amount of goodwill for the six months ended December 31, 2014, by reporting segment, are as follows:

	Barcode & Security Segment	Communications & Services Segment	Total
	<i>(in thousands)</i>		
Balance as of June 30, 2014	\$ 16,876	\$ 15,466	\$ 32,342
Additions	—	18,753	18,753
Foreign currency translation adjustment	(996)	(1,133)	(2,129)
Balance as of December 31, 2014	\$ 15,880	\$ 33,086	\$ 48,966

Included within other non-current assets in the Condensed Consolidated Balance Sheets are net identifiable intangible assets of \$31.1 million and \$16.0 million at December 31, 2014 and June 30, 2014, respectively. The increase in net identifiable intangible assets is due to those acquired related to the Imago ScanSource acquisition. These amounts relate to acquired intangible assets including trade names, customer relationships, non-compete agreements, and distributor agreements.

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

Imago ScanSource has multi-currency invoice discounting credit facilities secured by the subsidiary's assets for its operations based in the United Kingdom and France. The invoice discounting facilities allow for the issuance of funds up to 85% of the amount of each invoice processed, subject to limits by currency of £4.1 million, €4.1 million, and \$0.7 million. Borrowings under the invoice discounting facilities bear interest at a base rate determined by currency, plus a spread of 1.85%. The base rate is the

[Table of Contents](#)

United Kingdom base rate published by the Bank of England for GBP-based borrowings, 30-day Euro Interbank Offered Rate ("EUROLIBOR") for Euro-based borrowings, and the Lloyds Bank daily USD published rate for the USD-based borrowings. Additionally, the Company is assessed an annual commitment fee of less than £0.1 million. There were no outstanding balances at December 31, 2014.

Revolving Credit Facility

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

At the Company's option, loans denominated in U.S. dollars under the Amended Credit Agreement, other than swingline loans, bear interest at a rate equal to a spread over the London Interbank Offered Rate ("LIBOR") or alternate base rate depending upon the Company's ratio of total debt (excluding accounts payable and accrued liabilities), measured as of the end of the most recent quarter, to adjusted earnings before interest expense, taxes, depreciation and amortization ("EBITDA") for the most recently completed four quarters (the "Leverage Ratio"). The Leverage Ratio calculation excludes the Company's subsidiary in Brazil. This spread ranges from 1.00% to 2.25% for LIBOR-based loans and 0.00% to 1.25% for alternate base rate loans. The spread in effect for the period ended December 31, 2014 was 1.00% for LIBOR-based loans and 0.00% for alternate base rate loans. Additionally, the Company is assessed commitment fees ranging from 0.175% to 0.40%, depending upon the Leverage Ratio, on non-utilized borrowing availability, excluding swingline loans. The commitment fee rate in effect for the period ended December 31, 2014 was 0.175%. Borrowings are guaranteed by substantially all of the domestic assets of the Company and a pledge of up to 65% of capital stock or other equity interest in certain foreign subsidiaries determined to be either material or a subsidiary borrower as defined in the Amended Credit Agreement. The Company was in compliance with all covenants under the credit facility as of December 31, 2014. There were no outstanding balances at December 31, 2014 and June 30, 2014.

The average daily balance during the six month period ended December 31, 2014 and 2013 was \$0.0 million. There was \$300 million available for additional borrowings as of December 31, 2014 and 2013, and there were no letters of credit issued under the revolving credit facility.

Long-Term Debt

On August 1, 2007, the Company entered into an agreement with the State of Mississippi to provide financing for the acquisition and installation of certain equipment to be utilized at the Company's Southaven, Mississippi distribution facility, through the issuance of an industrial development revenue bond. The bond matures on September 1, 2032 and accrues interest at the 30-day LIBOR rate plus a spread of 0.85%. The terms of the bond allow for payment of interest only for the first 10 years of the agreement, and then, starting on September 1, 2018 through 2032, principal and interest payments are due until the maturity date or the redemption of the bond. The agreement also provides the bondholder with a put option, exercisable only within 180 days of each fifth anniversary of the agreement, requiring the Company to pay back the bonds at 100% of the principal amount outstanding. As of December 31, 2014, the Company was in compliance with all covenants under this bond. The balance on the bond was \$5.4 million as of December 31, 2014 and June 30, 2014 and is included in long-term debt. The interest rate at December 31, 2014 and June 30, 2014 was 1.01% and 1.00%, respectively.

Debt Issuance Costs

As of December 31, 2014, net debt issuance costs associated with the credit facility and bonds totaled \$1.2 million and are being amortized on a straight-line basis through the maturity date of each respective debt instrument.

(7) Derivatives and Hedging Activities

The Company's results of operations could be materially impacted by significant changes in foreign currency exchange rates and interest rates. These risks and the management of these risks are discussed in greater detail below. In an effort to manage the exposure to these risks, the Company periodically enters into various derivative instruments. The Company's accounting policies for these instruments are based on whether the instruments are designated as hedge or non-hedge instruments in accordance with 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 derivative financial instruments for speculative purposes.

The Company had contracts outstanding for purposes of managing cash flows with notional amounts of \$87.8 million and \$62.5 million for the exchange of foreign currencies as of December 31, 2014 and June 30, 2014, 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		Six months ended	
	December 31,		December 31,	
	2014	2013	2014	2013
	<i>(in thousands)</i>			
Net foreign exchange derivative contract (gains) losses	\$ (2,072)	\$ 219	\$ (3,486)	\$ 2,398
Net foreign currency transactional and re-measurement (gains) losses	2,604	(109)	4,466	(2,129)
Net foreign currency (gains) losses	\$ 532	\$ 110	\$ 980	\$ 269

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

The Company used the following derivative instruments, located on its Condensed Consolidated Balance Sheets, for the risk management purposes detailed above:

	As of December 31, 2014	
	Fair Value of Derivatives Designated as Hedge Instruments	Fair Value of Derivatives Not Designated as Hedge Instruments
	<i>(in thousands)</i>	
Derivative assets: ^(a)		
Foreign exchange contracts	\$ —	\$ 41
Derivative liabilities: ^(b)		
Foreign exchange contracts	\$ —	\$ 42

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

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

(8) Fair Value of Financial Instruments

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

- Level 1 – Unadjusted quoted prices in active markets that are accessible at the measurement date for identical, unrestricted assets or liabilities;
- Level 2 – Quoted prices in markets that are not active, or inputs which are observable, either directly or indirectly, for substantially the full term of the asset or liability; 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 or disclosed 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 Brasil Distribuidora de Tecnologias Especiais LTDA ("CDC" or "ScanSource Brasil") and to the previous owners of Imago ScanSource. The carrying value of debt is considered to approximate fair value, as the Company's debt instruments are indexed to LIBOR or the alternate base rate using the market approach (Level 2 criteria).

The following table summarizes the valuation of the Company's remaining assets and liabilities measured at fair value on a recurring basis as of December 31, 2014:

	Total	Quoted prices in active markets (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)
<i>(in thousands)</i>				
Assets:				
Deferred compensation plan investments, current and non-current portion	\$ 15,412	\$ 15,412	\$ —	\$ —
Forward foreign currency exchange contracts	41	—	41	—
Total assets at fair value	<u>\$ 15,453</u>	<u>\$ 15,412</u>	<u>\$ 41</u>	<u>\$ —</u>
Liabilities:				
Deferred compensation plan investments, current and non-current portion	\$ 15,412	\$ 15,412	\$ —	\$ —
Forward foreign currency exchange contracts	42	—	42	—
Liability for contingent consideration, current and non-current portion	10,005	—	—	10,005
Total liabilities at fair value	<u>\$ 25,459</u>	<u>\$ 15,412</u>	<u>\$ 42</u>	<u>\$ 10,005</u>

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

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

The 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 expenses and other current assets or other non-current assets depending on their corresponding, anticipated distributions to recipients, which are reported in accrued expenses and other current liabilities or other long-term non-current liabilities, respectively.

Foreign currency forward contracts are measured using the market approach on a recurring basis considering foreign currency spot rates and forward rates quoted by banks or foreign currency dealers (Level 2). See Note 7 - *Derivatives and Hedging Activities*. Foreign currency contracts are classified in the consolidated balance sheet as 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 contingent consideration liabilities at the acquisition date of CDC and Imago ScanSource representing the amounts payable to former shareholders, as outlined under the terms of the Share Purchase Agreements, based upon the achievement of projected earnings, net of specific pro forma adjustments. The current and non-current portions of these obligations are reported separately on the Condensed Consolidated Balance Sheets. The fair value of the contingent considerations (Level 3) are determined using a form of a probability weighted discounted cash flow model. Subsequent changes in the fair value of the contingent consideration liabilities are recorded to the change in fair value of contingent consideration line item in the 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 as seen in Note 3 - *Accumulated Other Comprehensive Income*.

CDC is part of the Company's Worldwide Barcode and Security Segment, and Imago ScanSource is part of the Company's Worldwide Communications and Services segment.

The table below provides a summary of the changes in fair value of the Company's contingent considerations (Level 3) for the CDC and Imago ScanSource earnouts for the quarter and six months ended December 31, 2014:

	Contingent consideration for the quarter ended			Contingent consideration for the six months ended		
	December 31, 2014			December 31, 2014		
	Barcode & Security Segment	Communications & Services Segment	Total	Barcode & Security Segment	Communications & Services Segment	Total
<i>(in thousands)</i>						
Fair value at beginning of period	\$ 5,194	\$ 4,968	\$ 10,162	\$ 11,107	\$ —	\$ 11,107
Issuance of contingent consideration	—	—	—	—	4,983	4,983
Payments	—	—	—	(5,529)	—	(5,529)
Change in fair value of contingent consideration	160	303	463	658	318	976
Foreign currency translation adjustment	(402)	(218)	(620)	(1,284)	(248)	(1,532)
Fair value at end of period	\$ 4,952	\$ 5,053	\$ 10,005	\$ 4,952	\$ 5,053	\$ 10,005

The table below provides a summary of the changes in fair value of the Company's contingent considerations (Level 3) for the CDC earnout for the quarter and six months ended December 31, 2013:

	Contingent consideration for the quarter ended			Contingent consideration for the six months ended		
	December 31, 2013			December 31, 2013		
	Barcode & Security Segment	Communications & Services Segment	Total	Barcode & Security Segment	Communications & Services Segment	Total
<i>(in thousands)</i>						
Fair value at beginning of period	\$ 9,506	\$ —	\$ 9,506	\$ 12,545	\$ —	\$ 12,545
Payments	(2)	—	(2)	(3,646)	—	(3,646)
Change in fair value of contingent consideration	499	—	499	1,237	—	1,237
Foreign currency translation adjustment	(456)	—	(456)	(589)	—	(589)
Fair value at end of period	\$ 9,547	\$ —	\$ 9,547	\$ 9,547	\$ —	\$ 9,547

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 Sheets. The U.S. dollar amounts of actual disbursements made in connection with future earnout payments are subject to change as the liability is denominated in currencies other than the U.S. dollar and subject to foreign exchange fluctuation risk. The Company will revalue the contingent consideration liabilities 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 Statements that is included in the calculation of operating income. The fair value of the contingent consideration liabilities 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 Agreements;
- the probability of achieving these results; and
- a discount rate reflective of the Company's creditworthiness and market risk premium associated with the Brazilian and European markets.

A change in any of these unobservable inputs can significantly change the fair value of the contingent consideration.

[Table of Contents](#)

Barcode and Security Segment

The fair value of the liability for the contingent consideration related to CDC recognized at December 31, 2014 was \$5.0 million, all of which is classified as current. The change in fair value of the contingent consideration recognized in the Condensed Consolidated Income Statements contributed a loss of \$0.2 million and \$0.7 million for the quarter and six months ended December 31, 2014. The change this quarter is largely driven by the recurring amortization of the unrecognized fair value discount. The change for the year to date period is largely driven by the recurring amortization of the unrecognized fair value discount and changes in actual results. 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 \$5.4 million, based on the Company's best estimate of the earnout calculated on a multiple of adjusted earnings.

Communications and Services Segment

The fair value of the liability for the contingent consideration related to Imago ScanSource recognized at December 31, 2014 was \$5.1 million of which \$2.6 million is classified as current. The change in fair value of the contingent consideration recognized in the Condensed Consolidated Income Statements contributed a loss of \$0.3 million for the quarter and six months ended December 31, 2014. The change this quarter and year to date period is largely driven by the recurring amortization of the unrecognized fair value discount and changes in the probability assumption of future achievable results. In addition, volatility in the foreign exchange between the British pound and the U.S. dollar has driven changes in the translation of this British pound denominated liability. Although there is no contractual limit, total future undiscounted contingent consideration payments are anticipated to range between \$4.6 million and \$6.2 million, based on the Company's best estimate of the earnout calculated on a multiple of adjusted earnings, before interest expense, income taxes, depreciation and amortization.

(9) Segment Information

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

Worldwide Barcode & Security Segment

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

Worldwide Communications & Services Segment

The Communications & Services distribution segment focuses on communications technologies and services. We have business units within this segment for sales and merchandising functions, and these business units offer voice, video conferencing, wireless, data networking and converged communications solutions in North America and Europe. As these solutions come together on IP networks, new opportunities are created for value-added resellers to move into adjacent solutions for all vertical markets, including education, healthcare, and government. ScanSource Services Group delivers value-added support programs and services, including education and training, network assessments, custom configuration, implementation and marketing to help resellers develop a new technology practice, or to extend their capability and reach.

[Table of Contents](#)

Selected financial information for each business segment is presented below:

	Quarter ended December 31,		Six months ended December 31,	
	2014	2013	2014	2013
<i>(in thousands)</i>				
Sales:				
Worldwide Barcode & Security	\$ 499,772	\$ 476,206	\$ 1,000,732	\$ 926,850
Worldwide Communications & Services	307,247	264,412	598,006	545,672
	<u>\$ 807,019</u>	<u>\$ 740,618</u>	<u>\$ 1,598,738</u>	<u>\$ 1,472,522</u>
Depreciation and amortization:				
Worldwide Barcode & Security	\$ 996	\$ 1,052	\$ 2,076	\$ 2,134
Worldwide Communications & Services	1,447	726	2,264	1,513
	<u>\$ 2,443</u>	<u>\$ 1,778</u>	<u>\$ 4,340</u>	<u>\$ 3,647</u>
Operating income:				
Worldwide Barcode & Security	\$ 13,576	\$ 12,955	\$ 26,117	\$ 24,914
Worldwide Communications & Services	13,888	14,506	31,675	30,768
Corporate ⁽¹⁾	(1,474)	—	(2,824)	—
	<u>\$ 25,990</u>	<u>\$ 27,461</u>	<u>\$ 54,968</u>	<u>\$ 55,682</u>
Capital expenditures:				
Worldwide Barcode & Security	\$ 91	\$ 161	\$ 177	\$ 303
Worldwide Communications & Services	299	45	302	119
Corporate	6,074	—	13,304	—
	<u>\$ 6,464</u>	<u>\$ 206</u>	<u>\$ 13,783</u>	<u>\$ 422</u>
Sales by Geography Category:				
North America	\$ 599,025	\$ 558,199	\$ 1,205,670	\$ 1,128,557
International	219,951	195,529	415,880	369,093
Less intercompany sales	(11,957)	(13,110)	(22,812)	(25,128)
	<u>\$ 807,019</u>	<u>\$ 740,618</u>	<u>\$ 1,598,738</u>	<u>\$ 1,472,522</u>

⁽¹⁾ For the quarter and six months ended December 31, 2014, the amount shown includes acquisition costs.

	December 31, 2014	June 30, 2014
	<i>(in thousands)</i>	
Assets:		
Worldwide Barcode & Security	\$ 683,720	\$ 702,230
Worldwide Communications & Services	524,416	431,908
Corporate	142,356	200,986
	<u>\$ 1,350,492</u>	<u>\$ 1,335,124</u>
Property and equipment, net by Geography Category:		
North America	\$ 39,441	\$ 28,673
International	3,791	3,150
	<u>\$ 43,232</u>	<u>\$ 31,823</u>

(10) 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.

The Company is in the process of designing and developing a new Enterprise Resource Planning ("ERP") system. In December 2013, the Company retained SAP for software platform and implementation consulting services on the new ERP system. For the quarter and six months ended December 31, 2014, the Company incurred \$5.6 million and \$11.8 million in the form of capital expenditures related to the ERP project. Amounts in accrued expenses and other current liabilities related to capital expenditures totaled \$1.5 million and \$3.0 million as of December 31, 2014 and June 30, 2014, respectively. Total capital expenditures for fiscal 2015 could range from \$16 million to \$20 million.

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, 2014		June 30, 2014	
	<i>(in thousands)</i>			
Assets				
Prepaid expenses and other current assets	\$	4,166	\$	5,023
Other non-current assets	\$	1,013	\$	1,221
Liabilities				
Accrued expenses and other current liabilities	\$	4,166	\$	5,023
Other long-term liabilities	\$	1,013	\$	1,221

Changes in these contingent liabilities and receivables from June 30, 2014, are primarily driven by foreign currency translation.

(11) Income Taxes

The Company had approximately \$1.3 million and \$1.2 million of total gross unrecognized tax benefits as of December 31, 2014 and June 30, 2014, respectively. Of this total at December 31, 2014, 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 June 30, 2010.

The Company's policy is to recognize interest and penalties related to income tax matters in income tax expense. As of December 31, 2014, the Company had approximately \$1.2 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 provision. There were no material discrete items during the period.

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, nondeductible expenses, and state income taxes.

The Company has provided for U.S. income taxes for the current earnings of its Canadian subsidiary. Earnings from all other geographies will continue to be considered retained indefinitely for reinvestment.

[Table of Contents](#)

Financial results in prior quarters have generated pre-tax losses in Europe, which were primarily the result of our European Communications business, and could affect the valuation of certain deferred tax assets. In the judgment of management, it is more likely than not that the deferred tax asset will be realized.

(12) Subsequent Events

On January 13, 2015, the Company acquired 100% of the shares of Intersmart Comércio Importação Exportação de Equipamentos Eletrônicos, S.A., a corporation organized under the laws of the Federative Republic of Brazil, and its related entities (collectively "Network1") from the Network1 shareholders. Network1 is a Brazilian value-added distributor of communications equipment and services. Network1 joins the Company's Worldwide Communications and Services operating segment. ScanSource is committed to becoming the leading value-added distributor of communications solutions for resellers in Latin America, and this acquisition represents an important step in this strategy.

Under the Share Purchase Agreement, the Company structured the purchase transaction with a cash payment and fixed amount of assumed net debt for an initial purchase price of approximately \$60 million, plus additional annual cash installments based on EBITDA over the next four years. As of the date of this report, initial purchase accounting for the business combination, which includes valuation of the pre-acquisition contingencies and related indemnification receivables, contingent consideration, intangible assets, and certain tangible assets, has not been finalized, therefore, purchase price allocation estimates have not been prepared and presented.

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

Overview

ScanSource, Inc. is a leading international wholesale distributor of specialty technology products. ScanSource, Inc. and its subsidiaries (the "Company") provide value-added distribution services for approximately 300 technology manufacturers and sell to approximately 29,000 resellers in the following specialty technology markets: POS and Barcode, Security, 3D Printing, and Communications.

The Company operates in the United States, Canada, Latin America and Europe. The Company distributes to the United States and Canada from its Southaven, Mississippi distribution center; to Latin America principally from distribution centers located in Florida, Mexico and Brazil; and to Europe principally from its distribution center in Belgium, France, Germany and the United Kingdom.

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

On September 19, 2014, the Company acquired 100% of the shares of Imago Group plc, a European value-added distributor of video and voice communications equipment and services, through a newly-formed special purchase entity. Subsequent to the acquisition, the Company formally changed the name of Imago Group plc to ScanSource Video Communications Ltd. Imago ScanSource is an addition to the Company's Worldwide Communications and Services operating segment. This acquisition supports the Company's strategy to be the leading value-added distributor of video, voice, and data solutions for resellers in Europe.

On January 13, 2015, the Company acquired 100% of the shares of Network1, a Brazilian value-added distributor of communications equipment and services. Network1 joins the Company's Worldwide Communications and Services operating segment. ScanSource is committed to becoming the leading value-added distributor of communications solutions for resellers in Latin America, and this acquisition represents an important step in this strategy.

During fiscal year 2014, the Barcode & Security distribution segment added 3D printing solutions as a product offering targeting the manufacturing, healthcare, aerospace, and automotive markets. 3D printing solutions replace and complement traditional methods and reduce the time and cost of designing new products by printing real parts directly from digital input.

[Table of Contents](#)

Zebra Technologies and Motorola Solutions represent key vendors in our barcode technologies business. On October 27, 2014, Zebra Technologies purchased Motorola Solutions' enterprise business. This business combination is not expected to impact current business arrangements with these vendors.

The Company operates under two segments: Worldwide Barcode & Security and Worldwide Communications & Services. The management structure for our reporting segments allows each worldwide segment to have its own president and globally leverages the Company's leadership in specific technology markets.

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

The Company is in the process of designing and developing a new Enterprise Resource Planning ("ERP") system. In December 2013, the Company retained SAP for software platform and implementation consulting services on the new ERP system. The Company's European operations, excluding Imago ScanSource, began utilizing the new ERP system on February 2, 2015.

Evaluating Financial Condition and Operating Performance

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

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

Non-GAAP operating income, non-GAAP net income and non-GAAP EPS

To evaluate current period performance on a clearer and more consistent basis with prior periods, the Company discloses non-GAAP operating income, non-GAAP net income and non-GAAP diluted earnings per share. The Company completed acquisitions on September 19, 2014 and January 13, 2015, both of which were structured with earnout payments. Given the size of the acquisitions and potential variability of fair value adjustments on operating results, non-GAAP results exclude amortization of intangible assets related to acquisitions, change in fair value of contingent consideration, and acquisition costs. Non-GAAP operating income, non-GAAP pre-tax income, non-GAAP net income and non-GAAP diluted EPS are useful in better assessing and understanding the Company's operating performance, especially when comparing results with previous periods or forecasting performance for future periods.

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

[Table of Contents](#)

	Quarter ended December 31, 2014				Quarter ended December 31, 2013			
	Operating Income	Pre-Tax Income	Net Income	Diluted EPS	Operating Income	Pre-Tax Income	Net Income	Diluted EPS
	<i>(in thousands)</i>							
GAAP Measures	\$ 25,990	\$ 25,938	\$ 16,821	\$ 0.58	\$ 27,461	\$ 27,809	\$ 18,298	\$ 0.64
Adjustments:								
Amortization of intangible assets	1,443	1,443	1,025	0.04	930	930	609	0.02
Change in fair value of contingent consideration	463	463	346	0.01	499	499	330	0.01
Acquisition costs	1,474	1,474	1,474	0.05	—	—	—	—
Non-GAAP measures	<u>\$ 29,370</u>	<u>\$ 29,318</u>	<u>\$ 19,666</u>	<u>\$ 0.68</u>	<u>\$ 28,890</u>	<u>\$ 29,238</u>	<u>\$ 19,237</u>	<u>\$ 0.67</u>

Return on Invested Capital

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

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

We calculate ROIC as earnings before interest expense, income taxes, depreciation and amortization, plus change in fair value of contingent consideration and other non-GAAP adjustments ("adjusted EBITDA") divided by invested capital. Invested capital is defined as average equity plus average daily funded interest-bearing debt for the period. The following table summarizes annualized return on invested capital ratio for the quarters ended December 31, 2014 and 2013, respectively:

	Quarter ended December 31,	
	2014	2013
Return on invested capital ratio, annualized ^(a)	14.8%	16.2%

(a) 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 quarter.

The components of this calculation and reconciliation to our financial statements are shown on the following schedule:

	Quarter ended December 31,	
	2014	2013
	<i>(in thousands)</i>	
Reconciliation of net income to EBITDA:		
Net income (GAAP)	\$ 16,821	\$ 18,298
Plus: interest expense	207	235
Plus: income taxes	9,117	9,511
Plus: depreciation and amortization	2,443	1,778
EBITDA (non-GAAP)	<u>28,588</u>	<u>29,822</u>
Plus: Change in fair value of contingent consideration	463	499
Plus: Acquisition costs	<u>\$ 1,474</u>	<u>\$ —</u>
Adjusted EBITDA (numerator for ROIC) (non-GAAP) ^(a)	<u>\$ 30,525</u>	<u>\$ 30,321</u>

[Table of Contents](#)

	Quarter ended December 31,	
	2014	2013
	<i>(in thousands)</i>	
Invested capital calculations:		
Equity – beginning of the quarter	\$ 810,265	\$ 723,748
Equity – end of the quarter	818,748	751,446
Add: Change in fair value of contingent consideration, net of tax	346	330
Add: Acquisition costs, net of tax ^(b)	1,474	—
Average equity	815,417	737,762
Average funded debt ^(c)	5,429	5,429
Invested capital (denominator for ROIC) (non-GAAP)	\$ 820,846	\$ 743,191

(a) Adjusted EBITDA removes the impact of change in fair value of contingent consideration for the quarters ended December 31, 2014 and 2013 and acquisition costs for the quarter ended December 31, 2014. Adjusted EBITDA and the resulting change in ROIC is shown retrospectively.

(b) Acquisition costs are nondeductible for tax purposes.

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

Results of Operations**Currency**

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. Constant currency is calculated by translating current period results from currencies other than the U.S. dollar using the comparable weighted-average foreign exchange rates from the prior year period. This information is provided to view financial results without the impact of fluctuations in foreign currency rates, thereby enhancing comparability between reporting periods.

Net Sales

The Company has two reportable segments, which are based on technologies. The following tables summarize the Company's net sales results by technology segment and by geographic location for the quarters ended December 31, 2014 and 2013, respectively:

Net Sales by Segment:	Quarter ended December 31,			
	2014	2013	\$ Change	% Change
	<i>(in thousands)</i>			
Worldwide Barcode & Security	\$ 499,772	\$ 476,206	\$ 23,566	4.9%
Worldwide Communications & Services	307,247	264,412	42,835	16.2%
Total net sales	\$ 807,019	\$ 740,618	\$ 66,401	9.0%

	Six Months ended December 31,			
	2014	2013	\$ Change	% Change
	<i>(in thousands)</i>			
Worldwide Barcode & Security	\$ 1,000,732	\$ 926,850	\$ 73,882	8.0%
Worldwide Communications & Services	598,006	545,672	52,334	9.6%
Total net sales	\$ 1,598,738	\$ 1,472,522	\$ 126,216	8.6%

Worldwide Barcode & Security

The Barcode & Security distribution segment consists of sales to technology resellers in our ScanSource POS & Barcode business units in North America, Europe, Brazil and Latin America and our ScanSource Security business unit in North America. Sales for the Barcode & Security distribution segment increased \$23.6 million and \$73.9 million, compared to the prior year quarter and six month period, respectively. On a constant currency basis, net sales for the Barcode & Security distribution segment increased \$38.3 million and \$88.5 million, which represents a 8.1% and 9.5% increase compared to the prior year quarter and six month period, respectively. The increase in Barcode & Security sales for the current quarter and six month period as compared to the prior year is primarily due to an increase in big deals for our North America and Europe POS & Barcode and Security business, partially offset by unfavorable variances in the foreign currency exchange rates for the international operations.

Worldwide Communications & Services

The Communications & Services distribution segment consists of sales to technology resellers in our ScanSource Communications business units in North America and Europe, Imago ScanSource in Europe, ScanSource Catalyst in North America, and ScanSource Services Group. Sales for the Communications & Services segment increased \$42.8 million and \$52.3 million compared to the prior year quarter and six month period, respectively. On a constant currency basis, net sales for the Communications & Services distribution segment increased \$44.1 million and \$53.8 million, which represents a 16.7% and 9.9% increase compared to the prior year quarter and six month period, respectively. The increase in Communications & Services sales for the current quarter and six month period compared to the prior year is primarily due to the inclusion of Imago ScanSource sales, which we acquired September 19, 2014, and year-over-year growth in our North America Communications and Catalyst businesses.

<i>Net Sales by Geography:</i>	Quarter ended December 31,			
	2014	2013	\$ Change	% Change
	<i>(in thousands)</i>			
North America (U.S. and Canada)	\$ 587,068	\$ 545,089	\$ 41,979	7.7%
International	219,951	195,529	24,422	12.5%
Total net sales	\$ 807,019	\$ 740,618	\$ 66,401	9.0%

	Six Months ended December 31,			
	2014	2013	\$ Change	% Change
	<i>(in thousands)</i>			
North America (U.S. and Canada)	\$ 1,182,858	\$ 1,103,429	\$ 79,429	7.2%
International	415,880	369,093	46,787	12.7%
Total net sales	\$ 1,598,738	\$ 1,472,522	\$ 126,216	8.6%

Gross Profit

The following table summarizes the Company's gross profit for the quarters ended December 31, 2014 and 2013, respectively:

	Quarter ended December 31,				% of Net Sales December 31,	
	2014	2013	\$ Change	% Change	2014	2013
	<i>(in thousands)</i>					
Worldwide Barcode & Security	\$ 41,881	\$ 42,750	\$ (869)	(2.0)%	8.4%	9.0%
Worldwide Communications & Services	36,230	34,506	1,724	5.0 %	11.8%	13.1%
Gross profit	\$ 78,111	\$ 77,256	\$ 855	1.1 %	9.7%	10.4%

	Six Months ended December 31,				% of Net Sales December 31,	
	2014	2013	\$ Change	% Change	2014	2013
	<i>(in thousands)</i>					
Worldwide Barcode & Security	\$ 84,902	\$ 83,480	\$ 1,422	1.7%	8.5%	9.0%
Worldwide Communications & Services	70,855	70,275	580	0.8%	11.8%	12.9%
Gross profit	\$ 155,757	\$ 153,755	\$ 2,002	1.3%	9.7%	10.4%

Worldwide Barcode & Security

Gross profit dollars and gross profit margin decreased for the Barcode & Security distribution segment for the quarter ended December 31, 2014 compared to the prior year quarter. The decrease in gross profit margin is primarily due to higher volume of big deals at lower gross margins, lower vendor program recognition, and a less favorable mix of international business due to foreign currency translation.

Gross profit dollars increased for the Barcode & Security distribution segment, however, gross profit margin decreased for the six months ended December 31, 2014 compared to the prior year period. The decrease in gross profit margin is primarily due to an increased volume of big deals at lower gross margins.

Worldwide Communications & Services

In the Communications & Services distribution segment, gross profit dollars increased, however, gross profit margin decreased for the quarter and six months ended December 31, 2014, compared to the prior year. The decreases in gross profit margin are primarily driven by less favorable fluctuations in product mix for North America Communications and Catalyst businesses, combined with prior year benefits from timing of vendor program recognition that did not recur in the current year.

Operating Expenses

The following table summarizes our operating expenses for the quarters and six months ended December 31, 2014 and 2013, respectively:

	Quarter ended December 31,				% of Net Sales December 31,	
	2014	2013	\$ Change	% Change	2014	2013
	<i>(in thousands)</i>					
Selling, general and administrative expenses	\$ 51,658	\$ 49,296	\$ 2,362	4.8 %	6.4%	6.7%
Change in fair value of contingent consideration	463	499	(36)	(7.2)%	0.1%	0.1%
Operating expenses	\$ 52,121	\$ 49,795	\$ 2,326	4.7 %	6.5%	6.7%

	Six Months ended December 31,				% of Net Sales December 31,	
	2014	2013	\$ Change	% Change	2014	2013
	<i>(in thousands)</i>					
Selling, general and administrative expenses	\$ 99,813	\$ 96,836	\$ 2,977	3.1 %	6.2%	6.6%
Change in fair value of contingent consideration	976	1,237	(261)	(21.1)%	0.1%	0.1%
Operating expenses	\$ 100,789	\$ 98,073	\$ 2,716	2.8 %	6.3%	6.7%

Selling, general and administrative expenses ("SG&A") increased \$2.4 million and \$3.0 million for the quarter and six months ended December 31, 2014, compared to the prior period primarily due to acquisition costs incurred during the period and increased employee-related expenses, partially offset by a reduction in bad debt expense. The Company had a credit for bad debt expense for the six month period due to improved accounts receivable collections and reduction of specific reserves.

We present changes in fair value of the contingent consideration owed to the former shareholders of CDC and Imago ScanSource as a separate line item in operating expenses. In the current quarter and six month period, we have recorded fair value adjustment losses of \$0.5 million and \$1.0 million, respectively. These losses are primarily the result of the recurring amortization of the unrecognized fair value discount, changes in actual results, and changes in the probability assumptions of future achievable results.

Operating Income

The following table summarizes our operating income for the quarters and six months ended December 31, 2014 and 2013, respectively:

	Quarter ended December 31,				% of Net Sales December 31,	
	2014	2013	\$ Change	% Change	2014	2013
	<i>(in thousands)</i>					
Worldwide Barcode & Security	\$ 13,576	\$ 12,955	\$ 621	4.8 %	2.7%	2.7%
Worldwide Communications & Services	13,888	14,506	(618)	(4.3)%	4.5%	5.5%
Corporate	(1,474)	—	(1,474)	nm*	nm*	—%
Operating income	\$ 25,990	\$ 27,461	\$ (1,471)	(5.4)%	3.2%	3.7%

*nm - percentages are not meaningful

	Six Months ended December 31,				% of Net Sales December 31,	
	2014	2013	\$ Change	% Change	2014	2013
	<i>(in thousands)</i>					
Worldwide Barcode & Security	\$ 26,117	\$ 24,914	\$ 1,203	4.8 %	2.6%	2.7%
Worldwide Communications & Services	31,675	30,768	907	2.9 %	5.3%	5.6%
Corporate	(2,824)	—	(2,824)	nm*	nm*	—%
Operating income	\$ 54,968	\$ 55,682	\$ (714)	(1.3)%	3.4%	3.8%

Worldwide Barcode & Security

For the Barcode & Security distribution segment, operating income increased for the quarter and six months ended December 31, 2014 compared to the prior year quarter and six month period. As a percentage of sales, operating margin remained relatively flat. Operating income increased primarily due to the reduction in bad debt expense.

Worldwide Communications & Services

For the Communications & Services distribution segment, operating income and operating margin decreased for the quarter ended December 31, 2014 primarily due to a decrease in gross profit margin, partially offset by the decrease in bad debt expense.

Operating income dollars increased for the six month period ended December 31, 2014, however, as a percentage of sales, operating margin decreased. Operating income increased primarily due to increased sales volume at a lower gross margin, coupled with the credit in bad debt expense, previously mentioned.

Corporate

Corporate incurred a \$1.5 million and \$2.8 million expense relating to acquisition costs incurred during the quarter and six months ended December 31, 2014.

Total Other Expense (Income)

The following table summarizes our total other (income) expense for the quarters and six months ended December 31, 2014 and 2013, respectively:

	Quarter ended December 31,				% of Net Sales December 31,	
	2014	2013	\$ Change	% Change	2014	2013
	<i>(in thousands)</i>					
Interest expense	\$ 207	\$ 235	\$ (28)	(11.9)%	0.0 %	0.0 %
Interest income	(492)	(525)	33	(6.3)%	(0.1)%	(0.1)%
Net foreign exchange (gains) losses	532	110	422	383.6 %	0.1 %	0.0 %
Other, net	(195)	(168)	(27)	16.1 %	(0.0)%	(0.0)%
Total other (income) expense, net	\$ 52	\$ (348)	\$ 400	(114.9)%	0.0 %	(0.0)%

	Six Months ended December 31,				% of Net Sales December 31,	
	2014	2013	\$ Change	% Change	2014	2013
	<i>(in thousands)</i>					
Interest expense	\$ 397	\$ 482	\$ (85)	(17.6)%	0.0 %	0.0 %
Interest income	(1,327)	(1,099)	(228)	20.7 %	(0.1)%	(0.1)%
Net foreign exchange (gains) losses	980	269	711	264.3 %	0.1 %	0.0 %
Other, net	(256)	(218)	(38)	17.4 %	(0.0)%	(0.0)%
Total other (income) expense, net	\$ (206)	\$ (566)	\$ 360	(63.6)%	(0.0)%	(0.0)%

[Table of Contents](#)

Interest expense reflects interest incurred on long-term debt, non-utilization fees from the Company's revolving credit facility, amortization of debt issuance costs, offset by capitalized interest on ERP project costs in the quarter and six months ended December 31, 2014.

Interest income for the quarter and six months ended December 31, 2014 was \$0.5 million and \$1.3 million, respectively, and includes interest income generated on longer-term interest bearing receivables and interest earned on cash and cash equivalents.

Net foreign exchange losses consist of foreign currency transactional and functional currency re-measurements, offset by net foreign currency exchange contract gains and losses. Foreign exchange gains and losses are generated from fluctuations in the value of the British pound versus the euro, the British pound versus the U.S. dollar, 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 of derivative financial instruments for speculative transactions. For the quarter and six months ended December 31, 2014, the Company's net foreign exchange losses increased over the prior year from significant changes in foreign currency exchange rates, partially offset by the use of foreign exchange forward contracts to hedge against currency exposures.

Provision for Income Taxes

For the quarter and six months ended December 31, 2014, income tax expense was \$9.1 million and \$19.1 million reflecting an effective tax rate of 35.1% and 34.7%, respectively. The effective tax rate for the quarter and six months ended December 31, 2013 was 34.2% and 32.9%, respectively. The increase in the effective tax rate from the prior year is primarily due to the recognition of a discrete item in the quarter ended September 30, 2013, the impact of non-deductible acquisition costs in the current year, and a change in the geographical mix of income. Our annual effective tax rate for the full fiscal year is estimated at approximately 34.5%.

Liquidity and Capital Resources

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

Our cash and cash equivalents balance totaled \$121.5 million at December 31, 2014, compared to \$194.9 million at June 30, 2014, including \$38.4 million and \$39.7 million held outside of the United States at December 31, 2014 and June 30, 2014, respectively. The decrease in cash and cash equivalents is primarily from cash used in the purchase of Imago ScanSource, an earnout payment made to former shareholders of CDC and an increase in inventory purchased during the second quarter. Checks released but not yet cleared in the amounts of \$75.2 million and \$84.1 million are included in accounts payable as of December 31, 2014 and June 30, 2014, respectively.

We conduct business in many locations throughout the world where we generate and use cash. The Company provides for U.S. income taxes for the earnings of its Canadian subsidiary. The Company does not provide for U.S. income taxes for undistributed earnings from all other geographies that are considered to be retained indefinitely for reinvestment. If these funds were distributed in the operations of the United States, we would be required to record and pay significant additional foreign withholding taxes and additional U.S. federal income taxes upon repatriation of these funds.

Our net investment in working capital has decreased to \$693.2 million at December 31, 2014 from \$715.9 million at June 30, 2014 and increased compared to the December 31, 2013 balance of \$669.2 million. Net working capital has decreased \$22.7 million since June 30, 2014, principally from a decrease in cash, partially offset by higher accounts receivable and inventory balances, including balances acquired from Imago ScanSource. Our net investment in working capital is affected by several factors such as fluctuations in sales volume, net income, timing of collections from customers, increases and decreases to inventory levels, payments to vendors, as well as cash generated or used by other financing and investing activities.

	Six months ended	
	December 31, 2014	December 31, 2013
Cash provided by (used in):		
Operating activities	\$ (9,663)	\$ 1,349
Investing activities	(49,299)	(422)
Financing activities	(9,770)	7,822
Effect of exchange rate change on cash and cash equivalents	(4,606)	217
Increase (decrease) in cash and cash equivalents	\$ (73,338)	\$ 8,966

Net cash used in operating activities was \$9.7 million for the six months ended December 31, 2014, compared to \$1.3 million provided by operating activities in the prior year period. The increase in cash used for operating activities for the six months ended December 31, 2014 is largely attributable to increases in accounts receivable and inventory to support increased sales volume, partially offset by net income adjusted for non-cash items for the period.

The number of days sales outstanding ("DSO") was 55 days at December 31, 2014, compared to 55 days at June 30, 2014 and 53 days at December 31, 2013. Inventory turned 5.8 times during the second quarter of fiscal year 2015 versus 5.7 and 5.9 times in the sequential and prior year quarters, respectively.

Cash used in investing activities for the six months ended December 31, 2014 was \$49.3 million, compared to \$0.4 million used in the prior year period. The increase in cash used in investing activities is due to the acquisition of the Imago ScanSource business and capital expenditures on the Company's new Enterprise Resource Planning ("ERP") system.

In December 2013, we retained SAP for the software platform and implementation consulting services for a new ERP system. The Company is currently working on the development and implementation of the new ERP platform. Management expects capital spending for fiscal 2015 to range from \$16 million to \$20 million, primarily related to the ERP system.

For the six months ended December 31, 2014, cash used in financing activities totaled to \$9.8 million compared to cash provided by financing activities of \$7.8 million in the prior year period. The increase in cash used in financing activities was primarily from

[Table of Contents](#)

the contingent consideration payment to former shareholders of CDC and repayments on short-term borrowings of Imago ScanSource.

In August 2014, our Board of Directors authorized a three-year \$120 million share repurchase program. No purchases were made during the six months ended December 31, 2014.

The Company has a \$300 million multi-currency senior secured revolving credit facility that was scheduled to mature on October 11, 2016. On November 6, 2013, the Company entered into an amendment of this credit facility ("Amended Credit Agreement") with JP Morgan Chase Bank, N.A, as administrative agent, and a syndicate of banks to extend its maturity to November 6, 2018. The Amended Credit Agreement allows for the issuance of up to \$50 million for letters of credit and has a \$150 million accordion feature that allows the Company to increase the availability to \$450 million, subject to obtaining additional credit commitments for the lenders participating in the increase.

At our option, loans denominated in U.S. dollars under the Amended Credit Agreement, other than swingline loans, bear interest at a rate equal to a spread over the London Interbank Offered Rate ("LIBOR") or alternate base rate depending upon the Company's ratio of total debt (excluding accounts payable and accrued liabilities) to EBITDA, measured as of the end of the most recent year or quarter, as applicable, for which financial statements have been delivered to the Lenders (the "Leverage Ratio"). This spread ranges from 1.00% to 2.25% for LIBOR-based loans and 0.00% to 1.25% for alternate base rate loans. Borrowings under the Amended Credit Agreement are guaranteed by substantially all of the domestic assets of the Company as well as certain foreign subsidiaries determined to be material under the Amended Credit Agreement and a pledge of up to 65% of capital stock or other equity interest in each Guarantor (as defined in the Amended Credit Agreement). We were in compliance with all covenants under the credit facility as of December 31, 2014.

There were no outstanding borrowings on our \$300 million revolving credit facility as of December 31, 2014 and June 30, 2014.

There were no borrowings or repayments on our Revolving Credit Facility in the six months ended December 31, 2014 and 2013. There were no standby letters of credits issued and outstanding as of December 31, 2014 on the revolving credit facility, leaving \$300 million available for additional borrowings.

Imago ScanSource, a new subsidiary of the Company, has multi-currency invoice discounting credit facilities secured by the subsidiary's accounts receivable for its operations based in the United Kingdom and France. The invoice discounting facilities allow for the issuance of funds up to 85% of the amount of each invoice processed, subject to limits by currency of £4.1 million, €4.1 million, and \$0.7 million. Borrowings under the invoice discounting facilities bear interest at a base rate determined by currency, plus a spread of 1.85%. The base rate is the United Kingdom base rate published by the Bank of England for GBP-based borrowings, 30-day EUROLIBOR for Euro-based borrowings, and the Lloyds Bank daily USD published rate for the USD-based borrowings. Additionally, the Company is assessed an annual commitment fee of less than £0.1 million. There were no outstanding balances at December 31, 2014.

On April 15, 2011, the Company, through its wholly-owned subsidiary, ScanSource do Brasil Participações LTDA, completed its acquisition of all of the shares of CDC, pursuant to a Share Purchase and Sale Agreement dated April 7, 2011. The purchase price was paid with an initial payment of \$36.2 million, net of cash acquired, assumption of working capital payables and debt, and variable annual payments through October 2015 based on CDC's annual financial results. The Company has made four payments to the former shareholders. As of December 31, 2014, we have \$5.0 million recorded for the continuing earnout obligation, all of which is classified as current. The future earnout payment will be funded by cash on hand and our existing revolving credit facility.

On September 19, 2014, the Company, through a wholly-owned subsidiary, completed its acquisition of 100% of the shares of Imago ScanSource, pursuant to a Share Purchase Agreement. The purchase price was structured with an initial payment of \$37.4 million, plus two additional annual cash installments for the twelve months ending September 30, 2015 and 2016, based on the financial performance of Imago ScanSource. The Company acquired \$1.9 million of cash during the acquisition, resulting in net \$35.5 million cash paid for Imago ScanSource. As of December 31, 2014, we have \$5.1 million recorded for the earnout obligation, of which \$2.6 million is classified as current. Future earnout payments will be funded by cash on hand and our existing revolving credit facility.

On January 13, 2015, through a wholly-owned subsidiary, acquired 100% of the shares of Intersmart Comércio Importação Exportação de Equipamentos Eletrônicos, S.A., a corporation organized under the laws of the Federative Republic of Brazil, and its related entities (collectively "Network1"), pursuant to a Share Purchase and Sale Agreement. The Company structured the purchase transaction with a cash payment and a fixed amount of assumed net debt for an initial purchase price of approximately \$60 million, plus additional annual cash installments based on EBITDA over the next four years.

[Table of Contents](#)

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.

Off-Balance Sheet Arrangements and Contractual Obligations

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

In addition to the contractual obligations and commitments disclosed in our Annual Report on the Form 10-K, as of August 28, 2014, the Company entered into additional contingent consideration commitments for the earnout obligations pertaining to the Imago and Network1 acquisitions. See Notes 8 and 12 of the Company's Notes to Consolidated Financial Statements herein.

Accounting Standards Recently Issued

In May 2014, the FASB issued a comprehensive new revenue recognition standard for contracts with customers that will supersede most current revenue recognition guidance, including industry-specific guidance. The core principle of this standard is that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. To achieve this core principle, the standard provides a five-step analysis of transactions to determine when and how revenue is recognized. Other major provisions include the capitalization and amortization of certain contract costs, ensuring the time value of money is considered in the transaction price, and allowing estimates of variable consideration to be recognized before contingencies are resolved in certain circumstances. This guidance also requires enhanced disclosures regarding the nature, amount, timing and uncertainty of revenue and cash flows arising from an entity's contracts with customers. The new standard is effective for fiscal years, and interim periods within those years, beginning after December 15, 2016. Early application is prohibited. The standard permits the use of either the retrospective or cumulative effect transition method. This guidance will be applicable to the Company for the fiscal year beginning July 1, 2017, which is the first quarter of fiscal year 2018. The Company is currently evaluating the impact on its consolidated financial statements upon the adoption of this new standard.

Critical Accounting Policies and Estimates

Critical accounting policies are those that are important to our financial condition and require management's most difficult, subjective or complex judgments. Different amounts would be reported under different operating conditions or under alternative assumptions. We have evaluated the accounting policies used in the preparation of the consolidated financial statements and related notes and believe those policies to be reasonable and appropriate. See Note 1 of the Notes to Consolidated Financial Statements in our Annual Report on Form 10-K for the year ended June 30, 2014 for a complete listing of our significant accounting policies.

Goodwill

Goodwill is not amortized but is tested annually for impairment at a reporting unit level. Additionally, goodwill is tested for impairment on an interim basis if at any time facts and circumstances indicate that an impairment may have occurred.

As discussed in Item 7 of the Company's 2014 Annual Report on Form 10-K under Critical Accounting Policies, we performed our annual goodwill impairment test as of April 30, 2014 and found that the estimated fair value of the Latin America reporting unit exceeded its carrying values by 10.2%, a smaller margin than the Company's other goodwill reporting units. As of December 31, 2014 the Company has goodwill associated with ScanSource Latin America of \$4.0 million.

We monitor results of these reporting units on a quarterly basis, as not meeting estimated expectations or changes to the projected future results of their operations could result in a future impairment of goodwill for these reporting entities. Based on current projected future results, we do not believe there is a more likely than not expectation that a goodwill impairment exists.

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.

[Table of Contents](#)

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 invoice discounting facilities for the quarter ended December 31, 2014 would have resulted in less than a \$0.1 million increase or decrease, respectively, in pre-tax income for the period.

The Company evaluates its interest rate risk and may use interest rate swaps to mitigate the risk of interest rate fluctuations associated with the Company's variable rate long-term debt. At December 31, 2014, the Company had \$5.4 million in variable rate long-term debt outstanding with no interest rate swaps in place. If used, derivative instruments have the potential to expose the Company to certain market risks including the possibility of (1) the Company's hedging activities not being as effective as anticipated in reducing the volatility of the Company's cash flows, (2) the counterparty not performing its obligations under the applicable hedging arrangement, (3) the hedging arrangement being imperfect or ineffective, or (4) the terms of the swap or associated debt 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, Latin America, Brazil and Europe. These risks include transactions denominated in non-functional currencies and intercompany loans with foreign subsidiaries. In the normal course of the business, foreign exchange risk is managed by balance sheet netting of exposures, as well as the use of foreign currency forward contracts to hedge these exposures. In addition, exchange rate fluctuations may cause our international results to fluctuate significantly when translated into U.S. dollars. These risks may change over time as business practices evolve and could have a material impact on the Company's financial results in the future.

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

The Company has elected not to designate its foreign currency contracts as hedging instruments, and therefore, the instruments are marked-to-market with changes in their values recorded in the consolidated income statement each period. The Company's foreign currencies are primarily British pounds, euros, Mexican pesos, Brazilian reais and Canadian dollars. At December 31, 2014, the fair value of the Company's currency forward contracts outstanding was a net payable of less than \$0.1 million. The Company does not utilize financial instruments for trading or other speculative purposes.

Item 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, 2014. 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, 2014. During the quarter and six months ended December 31, 2014, 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 1. Legal Proceedings

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

Item 1A. Risk Factors

In addition to the risk factors discussed 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, 2014, which could materially affect our business, financial condition and/or future operating results.

Item 6. Exhibits

<u>Exhibit Number</u>	<u>Description</u>
2.1	Share Purchase and Sale Agreement between and among CDC Brasil Distribuidora de Tecnologias Especiais LTDA and Global Data Network LLP, Rafael Nassar Paloni, Joao Ricardo de Toledo, and Walter Haddad Uzum as Sellers dated January 8, 2015
10.1	Nonqualified Deferred Compensation Plan, as amended and restated effective January 1, 2015.
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, 2014, formatted in XBRL (eXtensible Business Reporting Language): (i) the Condensed Consolidated Balance Sheets as of December 31, 2014 and June 30, 2014; (ii) the Condensed Consolidated Income Statement for the quarters and six months ended December 31, 2014 and 2013; (iii) the Condensed Consolidated Statements of Comprehensive Income for the quarters and six months ended December 31, 2014 and 2013; (iv) the Condensed Consolidated Statements of Cash Flows for the six months ended December 31, 2014 and 2013; and (v) the notes to the Condensed Consolidated Financial Statements.

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 3, 2015

/s/ CHARLES A. MATHIS

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

Date: February 3, 2015

/s/ GERALD LYONS

Gerald Lyons
Senior Vice President of Finance and Principal Accounting Officer
(Principal Accounting Officer)

Date: February 3, 2015

EXHIBIT INDEX TO QUARTERLY REPORT ON FORM 10-Q

<u>Exhibit Number</u>	<u>Description</u>
2.1	Share Purchase and Sale Agreement between and among CDC Brasil Distribuidora de Tecnologias Especiais LTDA and Global Data Network LLP, Rafael Nassar Paloni, Joao Ricardo de Toledo, and Walter Haddad Uzum as Sellers dated January 8, 2015.
10.1	Nonqualified Deferred Compensation Plan, as amended and restated effective January 1, 2015.
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, 2014, formatted in XBRL (eXtensible Business Reporting Language): (i) the Condensed Consolidated Balance Sheets as of December 31, 2014 and June 30, 2014; (ii) the Condensed Consolidated Income Statement for the quarters and six months ended December 31, 2014 and 2013; (iii) the Condensed Consolidated Statements of Comprehensive Income for the quarters and six months ended December 31, 2014 and 2013; (iv) the Condensed Consolidated Statements of Cash Flows for the six months ended December 31, 2014 and 2013; and (v) the notes to the Condensed Consolidated Financial Statements.

SHARE PURCHASE AND SALE AGREEMENT
(CONTRATO DE VENDA E COMPRA DE AÇÕES)

CDC BRASIL DISTRIBUIDORA DE TECNOLOGIAS ESPECIAIS LTDA.
(as Buyer)
(como Compradora)

GLOBAL DATA NETWORK LLP
RAFAEL NASSAR PALONI
JOÃO RICARDO DE TOLEDO
WALTER HADDAD UZUM
(as Sellers)
(como Vendedores)

InterSmart Comércio Importação, Exportação de Equipamentos Eletrônicos S.A.

Dated January 8, 2015
Datado de 8 de janeiro de 2015

TABLE OF CONTENTS

1. PURCHASE AND SALE	6
1.1. Acquisition and Sale of the Shares.	6
1.2. Transfer of Shares.	6
2. PURCHASE PRICE	7
2.1. Purchase Price; Payment of Purchase Price.	7
2.2. Escrow.	7
2.3. Target Company's Operating Model.	8
3. CLOSING DATE AND CLOSING DELIVERABLES	8
3.1. Closing Date.	8
3.2. Deliverables at Closing.	8
4. REPRESENTATIONS AND WARRANTIES OF SELLERS	9
4.1. Representations	9
4.1.1. Organization	9
4.1.2. Capitalization, Ownership of the Shares.	9
4.1.3. Authorizations	10
4.1.4. Restrictions.	10
4.1.5. Financial Statements and Balance Sheets.	10
4.1.6. Accounting Books; Records.	10
4.1.7. Absence of Certain Changes or Events.	11
4.1.8. Assets.	12
4.1.9. Real Property and Leases.	12
4.1.10. Inventories	12
4.1.11. Compliance with Laws	13
4.1.12. Absence of Undisclosed Liabilities.	13
4.1.13. Agreements.	13
4.1.14. Accounts Receivable.	14
4.1.15. Accounts Payable.	14
4.1.16. Indebtedness; Bank Accounts.	14
4.1.17. Insurance.	15
4.1.18. Absence of Credits.	15
4.1.19. Taxes.	15
4.1.20. Licenses and Permits.	16
4.1.21. Litigation.	16
4.1.22. Labor and Employees.	16
4.1.23. Employees; Employee Benefit Matters.	16
4.1.24. Employees' Injuries.	17
4.1.25. Labor Union Activity.	17
4.1.26. Intellectual Property	17
4.1.27. Software.	17
4.1.28. Environmental.	17
4.1.29. Brokerage and Finder's Fees	19
4.1.30. No Material Adverse Change.	19
4.1.31. Activities.	19
4.1.32. Related Party Transactions.	19
4.1.33. Target Company Sales	19
4.1.34. Customer and Suppliers.	19

4.1.35. Certain Business Practices.	19
4.1.36. Internal Controls	20
4.1.37. Conflicts of Interest.	20
4.1.38. Solvency.	21
4.1.39. Product Warranty.	21
4.1.40. Product Liability.	21
4.1.41. Customer Warranty Claims.	21
4.1.42. Powers of Attorney.	21
4.2. Disclosure.	21
5. REPRESENTATIONS AND WARRANTIES OF BUYER	22
5.1. Representations.	22
5.2. Restrictions	22
5.3. Non-compete of Buyer.	22
5.4. Corporate Authorization.	22
5.5. Governmental Authorization.	22
5.6. No Claims.	23
5.7. Purchase for Investment.	23
5.8. Corporate Reorganizations and SAP implementation during the Earn-Out Period.	23
6. ADDITIONAL COMMITMENTS	23
6.1. Public Announcements.	23
6.2. Post-Closing Obligations.	23
6.3. Brazilian Competition Authorities.	24
6.4. Conversion to June 30 Financial Year End.	24
6.5. Target Company's Potential Tax Credits.	24
7. NON-COMPETITION AND NON-SOLICITATION	24
7.1. Non-Competition Definitions	24
7.1.1. "Non-Competition Period"	24
7.1.2. "Relevant Person"	24
7.1.3. "Relevant Products or Services"	24
7.2. Non-Competition Obligations.	25
7.3. Damages for Breach of Section 7.	26
8. CONFIDENTIALITY	26
8.1. Confidentiality Obligations.	26
8.2. Term of Confidentiality Obligations.	26
9. INDEMNIFICATION	27
9.1. Survival of Representations, Warranties and Agreements.	27
9.2. Indemnification.	27
9.3. Limitations on Indemnification.	28
9.4. Procedure for Indemnification with Respect to Third Party Claims.	29
9.5. Procedure for Indemnification with Respect to Non-Third Party Claims.	31
10. MISCELLANEOUS PROVISIONS	31

TABLE OF CONTENTS

1. PURCHASE AND SALE	6
1.1. Acquisition and Sale of the Shares.	6
1.2. Transfer of Shares.	6
2. PURCHASE PRICE	7
2.1. Purchase Price; Payment of Purchase Price.	7
2.2. Escrow.	7
2.3. Target Company's Operating Model.	8
3. CLOSING DATE AND CLOSING DELIVERABLES	8
3.1. Closing Date.	8
3.2. Deliverables at Closing.	8
4. REPRESENTATIONS AND WARRANTIES OF SELLERS	9
4.1. Representations	9
4.1.1. Organization	9
4.1.2. Capitalization, Ownership of the Shares.	9
4.1.3. Authorizations	10
4.1.4. Restrictions.	10
4.1.5. Financial Statements and Balance Sheets.	10
4.1.6. Accounting Books; Records.	10
4.1.7. Absence of Certain Changes or Events.	11
4.1.8. Assets.	12
4.1.9. Real Property and Leases.	12
4.1.10. Inventories	12
4.1.11. Compliance with Laws	13
4.1.12. Absence of Undisclosed Liabilities.	13
4.1.13. Agreements.	13
4.1.14. Accounts Receivable.	14
4.1.15. Accounts Payable.	14
4.1.16. Indebtedness; Bank Accounts.	14
4.1.17. Insurance.	15
4.1.18. Absence of Credits.	15
4.1.19. Taxes.	15
4.1.20. Licenses and Permits.	16
4.1.21. Litigation.	16
4.1.22. Labor and Employees.	16
4.1.23. Employees; Employee Benefit Matters.	16
4.1.24. Employees' Injuries.	17
4.1.25. Labor Union Activity.	17
4.1.26. Intellectual Property	17
4.1.27. Software.	17
4.1.28. Environmental.	17
4.1.29. Brokerage and Finder's Fees	19
4.1.30. No Material Adverse Change.	19
4.1.31. Activities.	19
4.1.32. Related Party Transactions.	19
4.1.33. Target Company Sales	19
4.1.34. Customer and Suppliers.	19

4.1.35. Certain Business Practices.	19
4.1.36. Internal Controls	20
4.1.37. Conflicts of Interest.	20
4.1.38. Solvency.	21
4.1.39. Product Warranty.	21
4.1.40. Product Liability.	21
4.1.41. Customer Warranty Claims.	21
4.1.42. Powers of Attorney.	21
4.2. Disclosure.	21
5. REPRESENTATIONS AND WARRANTIES OF BUYER	22
5.1. Representations.	22
5.2. Restrictions	22
5.3. Non-compete of Buyer.	22
5.4. Corporate Authorization.	22
5.5. Governmental Authorization.	22
5.6. No Claims.	23
5.7. Purchase for Investment.	23
5.8. Corporate Reorganizations and SAP implementation during the Earn-Out Period.	23
6. ADDITIONAL COMMITMENTS	23
6.1. Public Announcements.	23
6.2. Post-Closing Obligations.	23
6.3. Brazilian Competition Authorities.	24
6.4. Conversion to June 30 Financial Year End.	24
6.5. Target Company's Potential Tax Credits.	24
7. NON-COMPETITION AND NON-SOLICITATION	24
7.1. Non-Competition Definitions	24
7.1.1. "Non-Competition Period"	24
7.1.2. "Relevant Person"	24
7.1.3. "Relevant Products or Services"	24
7.2. Non-Competition Obligations.	25
7.3. Damages for Breach of Section 7.	26
8. CONFIDENTIALITY	26
8.1. Confidentiality Obligations.	26
8.2. Term of Confidentiality Obligations.	26
9. INDEMNIFICATION	27
9.1. Survival of Representations, Warranties and Agreements.	27
9.2. Indemnification.	27
9.3. Limitations on Indemnification.	28
9.4. Procedure for Indemnification with Respect to Third Party Claims.	29
9.5. Procedure for Indemnification with Respect to Non-Third Party Claims.	31
10. MISCELLANEOUS PROVISIONS	31
10.1. Successors and Assigns.	31
10.2. Expenses.	31
10.3. Notices.	31
10.4. Entire Agreement.	32
10.5. Amendments.	32
10.6. Severability.	32
10.7. Language.	33
10.8. Governing Law.	33
10.9. Dispute Resolution	33
11. DEFINITIONS	34

SHARE PURCHASE AND SALE AGREEMENT

This Share Purchase and Sale Agreement (the “**Agreement**”) is entered into on January 8, 2015 by and between:

I. CDC BRASIL DISTRIBUIDORA DE TECNOLOGIAS ESPECIAIS LTDA., a corporation duly organized and existing under the laws of the Federative Republic of Brazil, with its head offices at Avenida Rui Barbosa, 2529, Galpão 12, Bairro Jardim Ipê, São José dos Pinhais, Paraná, 83055-320, enrolled with the CNPJ/MF under the No. 05.607.657/0001-35, herein represented as per its bylaws (hereinafter “**Buyer**”);

II. GLOBAL DATA NETWORK LLP, a company duly organized and existing under the laws of the United Kingdom, with head office at 5 Lloyds Avenue, 3rd floor, EC3N 3AE, enrolled with the Legal Entities’ Registry of the Ministry of Finance (“Cadastro Nacional de Pessoas Jurídicas do Ministério da Fazenda – CNPJ/MF”) under nº 07.396.848/0001-20, herein represented by its legal representative RAFAEL, duly qualified above, (hereinafter “Global Data”);

III. RAFAEL NASSAR PALONI, Brazilian, married, businessman, ID Card No. 29.277.502-7 SSP-SP and Individual Taxpayer’s Registry (CPF/MF) No. 220.618.808-27, resident and domiciled in the city of São Paulo, State of São Paulo, at Alameda dos Jurupis, 777, apto 12, Moema, CEP 04088-002, (hereinafter “Rafael”);

IV. JOÃO RICARDO DE TOLEDO, Brazilian, married, businessman, ID Card No. 920.209.400-5 and Individual Taxpayer’s Registry (CPF/MF) No. 158.623.968-61, resident and domiciled in the city of Goiânia, State of Goiás, at Rua 13, 278, ap. 14, Setor Oeste, Q B-L, CEP 74125-150, (hereinafter “João”);

V. WALTER HADDAD UZUM, Brazilian, married, businessman, ID Card No. 9.013.131-9 SSP-SP and Individual Taxpayer’s Registry (CPF/MF) No. 065.108.278-16, resident and domiciled in the city of São Paulo, State of São Paulo, at Rua Ministro Gabriel de Rezende Passos, 433, Moema, apt. 61, CEP 04521-022 (hereinafter “Walter”);

GLOBAL DATA, RAFAEL, JOÃO, and WALTER are hereinafter referred to, collectively, as the “**Sellers**” and, each individually, as a “**Seller**”;

Buyer, on the one hand, and Sellers, on the other hand, may be referred to herein, collectively, as the “**Parties**” and, each individually, as a “**Party**”; and

VII. InterSmart Comércio Importação, Exportação de Equipamentos Eletrônicos S.A., a corporation duly organized and existing under the laws of the Federative Republic of Brazil, with its head offices in the City of Goiânia, State of Goiás, at Avenida Independência, 1146, qd. 941, Lts. 20/21, Setor Leste Vila Nova, 74645-010, enrolled with the CNPJ/MF under the No. 05.996.801/0001-72, herein represented as per its bylaws (hereinafter “**Target Company**”).

WHEREAS

A. GLOBAL DATA owns 91.6870% of the shares of the Target Company;

B. RAFAEL owns 1.6565% of the shares of the Target Company;

C. JOÃO owns 1.6565% of the shares of the Target Company; and

D. WALTER owns 5.00% of the shares of the Target Company;

E. The Sellers own, in the aggregate, one hundred percent (100%) of the shares of the Target Company (the “**Shares**”), a company with the social purpose of commerce and export, import, wholesale purchase and sale, lease and maintenance of information technology products, electronic products, machinery, informatics and office equipment and peripherals, computer programs, supplies, parts and pieces;

F. The Target Company owns, directly or indirectly, 100% of (a) Network 1 Internacional Colombia S.A.S., a corporation duly organized and existing under the laws of Colombia, with its head offices in the City of Cota, at Autopista Medellín Km 3.5 Costado Norte, Tax ID no. 900148010-5 (hereinafter “**Intersmart Colombia**”), (b) Importadora Y Comercializadora Network1 Internatinal (Chile) Limitada, a corporation duly organized and existing under the laws of Chile, with its head offices in the City of Santiago, at La Concepción 81, Oficina 508, Providencia, Tax ID no. 76.013.558-5 (hereinafter “**Intersmart Chile**”), (c) Intersmart S. de R.L. de C.V., a corporation duly organized and existing under the laws of Mexico, with its head offices in the City of Mexico D.F., at Javier Barros Sierra no. 540, Torre 1 Piso 5, Tax ID no. INT131202D12 (hereinafter “**Intersmart Mexico**”), (d) Network1 Internacional Peru SAC, a corporation duly organized and existing under the laws of Peru, with its head offices in the City of Lima, at Calle Garcilaso de La Vega, 2501 – Lince, Tax ID no. 205191110165 (hereinafter “**Intersmart Peru**”) and Intersmart Technologies L.C.C., a corporation duly organized and existing under the laws of Florida, United States of America, with its head offices in Miami, at 5201 Blue Lagoon Dr., 8th floor, Tax ID no. 27-2446570 (hereinafter “**Intersmart USA**”);

G. The Sellers as direct owners of the **Target Company** desire to sell to the Buyer, and the Buyer desires to purchase from the Sellers one hundred percent (100%) of the Shares of the **Target Company**;

NOW, THEREFORE, in consideration of the foregoing and other promises and agreements contained herein, the Parties agree as follows:

1. PURCHASE AND SALE

1.1. Acquisition and Sale of the Shares. Under the terms and conditions of this Agreement, the Sellers hereby agree sell and transfer to the Buyer on the Closing Date, free and clear of all Liens, Claims, options and charges whatsoever, and the Buyer hereby agrees to purchase all right, title and interest related to the Shares, for the prices established in this Agreement (“**Transaction**”).

1.2. Transfer of Shares. The Shares shall be sold and transferred to the Buyer at the Closing Date, by each of the Sellers, as follows:

- **GLOBAL DATA** shall transfer 34.739.423 Shares of the Target Company to the Buyer, which are equivalent to 91.6870% of all of the Shares of the Target Company;
- **RAFAEL** shall transfer 627.643 Shares of the Target Company to the Buyer, which are equivalent to 1.6565% of all of the Shares of the Target Company;
- **JOÃO** shall transfer 627.643 Shares of the Target Company to the Buyer, which are equivalent to 1.6565% of all of the Shares of the Target Company;
- **WALTER** shall transfer 1.894.454 Shares of the Target Company to the Buyer, which are equivalent to 5.00% of all of the Shares of the Target Company;

As a result of such transfers, on the Closing Date Buyer will become the owner of one hundred percent (100%) of the outstanding shares of the capital of the Target Company, and indirectly the owner of one hundred percent

(100%) of the outstanding shares of the capital of the following Subsidiaries: Intersmart Colombia, Intersmart Chile, Intersmart Mexico, Intersmart Peru and Intersmart USA.

2. **PURCHASE PRICE**

2.1. Purchase Price; Payment of Purchase Price. For the sale and transfer of the Shares, the Parties agree that the Buyer shall pay to the Sellers a purchase price to be comprised of the following payments ("Purchase Price"):

(a) on the Closing Date, a portion of the Purchase Price in the aggregate amount of seventy six million, nine hundred and twenty eight thousand Reais (R\$ 76,928,000.00) (the "**Initial Purchase Price**"), calculated as per Exhibit 2.1.(a)(1), minus the Initial Escrow Amount, shall be paid by the Buyer to the Sellers (pro rata in accordance with their ownership of the Shares) by wire transfer of immediately available funds pursuant to the Sellers' wire instructions attached hereto as Exhibit 2.1.(a)(2);

(b) on the Closing Date, the amount of ten million Reais (R\$ 10,000,000.00) (the "**Initial Escrow Amount**") shall be deposited in the Escrow Account in accordance with Section 2.2;

(c) the remaining portion of the Purchase Price shall be paid by the Buyer to the Sellers as an earn-out ("**Earn-Out**"), minus the Earn-Out Escrow Amount, subject to and in accordance with the provisions set forth on Exhibit 2.1.(c)(1) (Earn-out Calculation); Exhibit 2.1.(c)(2) (Form of Annual Certification) and Exhibit 2.1.(c)(3) (Adjusted EBITDA For Earn-Out Calculations).

2.1.1. The Parties hereby agree that Buyer will deduct from each of the Earn-Out payments to be made to the Sellers, in accordance with Exhibit 2.1.(c)(1), the amount of twenty four million Reais (R\$ 24,000,000.00) and deposit it in the Escrow Account, up to the total amount of ninety six million Reais (R\$96,000,000.00) (the "**Earn-Out Escrow Amount**"). In the event that a single Earn-Out payment is not sufficient for the deduction of such twenty four million Reais (R\$ 24,000,000.00), the unpaid balance shall be deducted from all subsequent Earn-Out payments until the total Earn-Out Escrow Amount is fully deducted and deposited in the Escrow Account. Upon payment of the last Earn-Out payment, it must have been deposited in the Escrow Account the total amount of one hundred and six million Reais (R\$ 106,000,000.00), which corresponds to the sum of the Initial Escrow Amount and the Earn-Out Escrow Amount (the "**Total Escrow Amount**").

2.1.2. In the event that the amounts deposited in the Escrow Account are not sufficient to cover the amounts under dispute for Damages, in addition to the twenty four million Reais (R\$ 24,000,000.00) from each Earn-Out payment, Buyer shall be permitted to deduct from the Earn-Out payment and deposit it in the Escrow Account the balance sufficient to cover the amounts under dispute.

2.1.3. If, at any point in time, in view of payment of Indemnifiable Claims, the Escrow Account is underfunded vis-à-vis the funding schedule established in Section 2.1.1. above, Sellers shall replenish the Escrow Account as it should be after each Earn-Out payment, as follows: (i) thirty four million Reais (R\$34,000,000.00) after the first Earn-Out payment; (ii) fifty eight million Reais (R\$58,000,000.00) after the second Earn-Out payment; (iii) eighty two million Reais (R\$82,000,000.00) after the third Earn-Out payment; and (iv) one hundred and six million Reais (106,000,000.00) after the fourth Earn-Out payment.

2.2. **Escrow.**

2.2.1. On the Closing Date, the Buyer and Sellers shall have executed an Escrow Agreement ("**Escrow Agreement**") with HSBC Brazil ("**Escrow Agent**"), attached hereto as Exhibit 2.2.1.

2.2.2. According to the timetable set forth in Section 2.1. above, in due course, Buyer shall deposit in the account under the Escrow Agreement (the “**Escrow Account**”) the Total Escrow Amount.

2.2.3. The Escrow Account interest shall inure to the benefit recipient of the funds. For the sake of clarity, the recipient of the funds shall receive the interest that corresponds to the funds received. The Escrow Account fees will be deducted from the account and/or paid by the Sellers.

2.2.4. The Total Escrow Amount may be used for the indemnification of any Indemnifiable Claims giving rise to Damages. All Indemnifiable Claims must be completely and finally resolved by formal written and unappealable court order, ruling or confirmation from the applicable Brazilian government regulator or customs or taxing authority or final arbitration decision, (“**Indemnifiable Escrow Claim Settlement**”) prior to the release of any portion of the Escrow Amount for payment of any Indemnifiable Claims.

2.2.5. Exhibit 2.2.5 details the procedure for the release of any portion of the Total Escrow Amount to either Sellers or the Buyer, as applicable.

2.3. Target Company's Operating Model. In accordance with the Transaction, during the Earn-Out Period, the Target Company will operate under the terms and conditions established in Exhibit 2.3.

3. CLOSING DATE AND CLOSING DELIVERABLES

3.1. Closing Date. On the terms and conditions of this Agreement, and subject to the closing deliverables provided for in Section 3.2, the sale and purchase of the Shares and the consummation of the transactions contemplated hereby shall take place within 4 (four) Business days following the execution of this Agreement (the "Closing Date") at the offices of Demarest Advogados, at Av. Pedrosa de Moraes, 1201, Centro Cultural Ohtake, in the city of São Paulo, State of São Paulo, or at such other place agreed to in writing by the Parties.

3.2. Deliverables at Closing. At the Closing Date, the following actions shall be taken:

(a) the Sellers shall present proof of cancellation or transfer to Sellers of the two (2) shares held in trust by Mr. Mauricio Rocha Alves de Carvalho and Mr. Luiz Beira Marcatti;

(b) the Sellers shall present all of the Target Company's original corporate books duly registered before the Board of Trade of the State of Goiás, with all registers and transfers of Shares duly made in a true and correct form up to the Closing Date, as required by Brazilian Law, and the Registry of Transfer of Shares of the Target Company evidencing the transfer of Shares to the Buyer in the corporate books, with the terms of transference duly signed by the Parties;

(c) **RAFAEL, WALTER and JOÃO** shall execute the Officers' Service Agreement with the Target Company, as set forth in Exhibit 3.2 (c);

(d) the Buyer is to provide Sellers with a copy of the by-laws or articles of association of the Buyer, as well as the corporate documents appointing their legal representatives who shall sign this Agreement;

(e) the Sellers shall provide Buyer with a legal opinion from counsel to the Sellers and the Target Company, as set forth in Exhibit 3.2 (e), dated as of the date of this Agreement, addressed to the Buyer and on which the Buyer and the Buyer's lenders shall be entitled to rely;

(f) the Sellers shall deliver the CD-Rom or other media reflecting Data Room contents as of November 30, 2014;

(g) the Buyer shall deliver to the Sellers the Initial Purchase Price, in accordance with Section 2.1 and deposit the Initial Escrow Amount in the Escrow Account;

(h) the Sellers shall deliver a letter of resignation from each member of the board of directors and statutory officer of the Target Company other than **RAFAEL, WALTER and JOÃO** effective as of the Closing Date, as attached hereto as [Exhibit 3.2.\(h\)](#);

(i) the Buyer and the Sellers shall enter into superseding bank mandates for existing mandates and powers of attorney listed on [Exhibit 3.2.\(i\)](#);

(j) the Parties shall have executed the Escrow Agreement in accordance with the [Exhibit 2.2.1](#); and

(k) Buyer shall deliver to Sellers the Corporate Guarantee Agreement in the form of [Exhibit 3.2. \(k\)](#), and which shall be executed by Sellers on the Closing Date.

3.3. At its sole discretion, the Buyer may waive its right to request the fulfillment by the Sellers of any such conditions on the Closing Date. Any such waiver shall be granted in writing and duly signed by the Buyer's legal representatives.

4. REPRESENTATIONS AND WARRANTIES OF SELLERS

4.1. Representations. The Sellers jointly represent and warrant, as of the date hereof, the following:

4.1.1. Organization. The Target Company is duly organized, validly existing and in good standing under the laws of the Federative Republic of Brazil and is qualified to do business in every jurisdiction in which it is required to qualify under applicable Law. Each of its Subsidiaries is duly organized, validly existing and in good standing under the laws of their respective jurisdiction and is qualified to do business in every jurisdiction in which it is required to qualify under applicable Law. The Target Company and each of its Subsidiaries have the full corporate power and authority to own and operate its assets and properties, and to carry on their businesses. [Exhibit 4.1.1.\(a\)](#) contains a complete list of all of the Target Company's Subsidiaries and branches and the Sellers' participation in any POS/AIDC, communication, and security company. Except as set out in [Exhibit 4.1.1.\(b\)](#), the Sellers, their Affiliates or related parties (including family members) (i) have not been involved in any business arrangement or relationship with the Target Company or its Subsidiaries within the past twelve months; (ii) are not indebted to the Target Company or its Subsidiaries and are not owed any Credit by the Target Company or its Subsidiaries; and (iii) do not own any asset, tangible or intangible, which is used in the business of the Target Company or its Subsidiaries. There are no shareholders' agreements to which the Sellers and/or the Target Company and/or its Subsidiaries may be bound. A true and correct copy of the current bylaws of the Target Company and each of its Subsidiaries is attached hereto as [Exhibit 4.1.1.\(c\)](#). The Target Company does not have any other Affiliates other than the Affiliate Companies.

4.1.2. Capitalization, Ownership of the Shares. The Target Company and each of its Subsidiaries are properly capitalized and all of their respective Shares are duly authorized, validly issued and fully paid and are not subject to any preemptive rights. Attached hereto as [Exhibit 4.1.2](#) is a true and correct list setting forth the outstanding capital stock and equity interests of the Target Company and each of its Subsidiaries, the full legal name of each shareholder of record and the total number of Shares held by each. The Sellers are the direct and only record owners of the Target Company's Shares free and clear of any and all Liens, and the Target Company is the only direct or indirect record owner of its Subsidiaries shares, free and clear of any and all Liens. Upon registration of the transfer of Shares, the Buyer will have, as of and from the Closing Date, good and valid title to the Shares, free and clear of any Lien. There are no outstanding or authorized options, warrants, purchase rights, conversion rights, exchange rights, or other contracts or commitments that could require the Target Company or any Affiliate Company or any Seller to issue, repurchase, sell, transfer, or otherwise dispose

of any of the Target Company's or Affiliate Company's capital stock or equity interests. There are no voting trusts, proxies or any other agreements or understandings with respect to the voting of the capital stock or equity interests of the Target Company or of its Subsidiaries.

4.1.3. Authorizations. The Sellers have the legal right, power and authority to enter into this Agreement and to transfer, assign and deliver the Shares as provided in this Agreement, subject to the terms hereof. The execution and delivery of this Agreement and the consummation of the transactions contemplated hereby have been duly authorized by all necessary corporate or other action of Sellers and the Target Company, and this Agreement constitutes the legal, valid and binding obligation of each of the Sellers, enforceable against the Sellers in accordance with its terms. The entries in the Book of Transfer of Registered Shares and Book of Registry of Nominative Shares of the Company will convey to Buyer title to the Shares, free and clear of any and all Liens or encumbrances, security interests, agreements or Claims of any kind whatsoever.

4.1.4. Restrictions. The Sellers represent and warrant that the execution of this Agreement and the conclusion of the Transaction will not:

4.1.4.1. violate any applicable Law;

4.1.4.2. conflict with or breach any obligation, title, agreement, commitment, promise, and/or any other obligation to which Target Company or its Subsidiaries may be subject, or which it may have assumed;

4.1.4.3. violate or breach any provision of the Target Company's or Affiliate Companies' articles of association, bylaws or other governing documents;

4.1.4.4. require any filing with or notice to, or consent or approval of, any Governmental Authority or other Person; or

4.1.4.5. result in the imposition or creation of any Lien upon or with respect to the Shares or any of the assets of the Target Company or of its Subsidiaries.

4.1.5. Financial Statements and Balance Sheets. The audited financial statements for the fiscal years ended on December 31, 2012 and 2013 each of which is attached hereto as [Exhibit 4.1.5](#) and the other financial information concerning the Target Company (also consolidating its Subsidiaries) provided for analysis by the Buyer and the Buyer's legal and financial advisors during their respective due diligences (collectively, the "**Financial Statements**"): (i) were prepared in accordance with Brazilian GAAP applied on a consistent basis throughout the periods indicated therein, (ii) present fairly the financial position, results of operations and changes in cash flows of the Target Company as of such dates and for the periods then ended, and (iii) are true, accurate and complete and in accordance with the books and records of the Target Company. The books and records of the Target Company are true, accurate and complete and have been maintained in accordance with sound business practices, including the maintenance of an adequate system of internal controls.

4.1.5.1. Actual results for fiscal year ending on December 31, 2014 are in line with the projections presented, and up to the date hereof there have been no significant changes in the terms or conditions with customers, vendors, practices or accounting policies to achieve those results including, but not limited to, relaxing underwriting standards, loosening reserve guidelines, or offering special returns privileges.

4.1.6. Accounting Books; Records. (i) the accounting books and records of the Target Company are complete and exact and were drafted in accordance with Brazilian legal requirements and with Brazilian GAAP, consistent with past practices (with exceptions legally mandated); (ii) the books and records reflect the registration of the financial, operational, property and control matters of the Target Company; and (iii) all existing liabilities are properly recorded on the Financial Statements. The accounting books and records of

its Subsidiaries are complete and exact and were drafted in accordance with the legal requirements and generally accepted accounting principles of their respective jurisdictions.

4.1.7. Absence of Certain Changes or Events. Except as set forth on [Exhibit 4.1.7](#) attached hereto, from January 1, 2014 through the date hereof, neither the Target Company nor any of its Subsidiaries has entered into any agreement, transaction or arrangement outside the Ordinary Course of Business, and, without limiting the generality of the foregoing, neither the Target Company nor any of its Subsidiaries has:

4.1.7.1. taken any action to amend its by-laws, except as provided in [Exhibit 4.1.7.1](#);

4.1.7.2. sold any ownership interest in the Target Company or its Subsidiaries or granted any option to purchase or subscribe for any of such interest;

4.1.7.3. incurred any obligation or Liability, except Liabilities incurred and obligations entered into in the Ordinary Course of Business or knowingly and affirmatively waived any rights of the Target Company or of its Subsidiaries in excess of one hundred thousand Reais (R\$ 100,000.00);

4.1.7.4. mortgaged, pledged, or subjected to any Lien, charge or any other encumbrance any of the Target Company's or its Subsidiaries' assets or properties;

4.1.7.5. sold, assigned, or transferred any of the Target Company's or its Subsidiaries' material assets or entered into any material agreement to provide services, except in the Ordinary Course of Business of the Target Company or of its Subsidiaries;

4.1.7.6. cancelled any debts or Claims of the Target Company or of its Subsidiaries, except in the Ordinary Course of Business;

4.1.7.7. merged or consolidated the Target Company or its Subsidiaries with or into any other entity;

4.1.7.8. made, accrued or become liable for any bonus, profit sharing or incentive payment, except for accruals under existing plans, if any, or increased the rate of compensation payable or to become payable by it to any of the Target Company's or its Subsidiaries' officers or employees, other than increases in the Ordinary Course of Business consistent with past practice;

4.1.7.9. made, accrued or become liable for any distribution, dividend or similar payment, except as disclosed in [Exhibit 4.1.7.9](#);

4.1.7.10. modified, amended, altered or terminated any of the Target Company's or its Subsidiaries' contracts which involve an amount (per year or in aggregate) exceeding one hundred thousand Reais (R\$ 100,000.00) ("**Material Contract**"), except in the Ordinary Course of Business;

4.1.7.11. taken or permitted any act or omission constituting a breach or default under any Material Contract, indenture or agreement by which the Target Company, its Subsidiaries or the Target Company's or its Subsidiaries' properties are bound;

4.1.7.12. failed to (i) preserve the possession and control of the Target Company's or its Subsidiaries' assets and business, and (ii) preserve the goodwill of its customers, suppliers and others having business relations with the Target Company or its Subsidiaries;

4.1.7.13. failed to operate the Target Company's or its Subsidiaries' business and maintain its books, accounts and records in the customary manner and in the Ordinary Course of Business or failed to maintain in good

repair, normal wear and tear excepted, the Target Company's or its Subsidiaries' business premises, fixtures, furniture and equipment;

4.1.7.14. entered into any leases, contracts, agreements or understandings, other than: (i) those entered into in the Ordinary Course of Business; and (ii) those calling for payments which in the aggregate do not exceed one hundred thousand Reais (R\$ 100,000.00) per month;

4.1.7.15. changed the compensation of any of the Target Company's or its Subsidiaries' employees or independent contractors or entered into any employment agreement, written or oral, with any management personnel or otherwise hired any management personnel other than in the Ordinary Course of Business;

4.1.7.16. materially altered the terms, status or funding condition of any Employee Plan;

4.1.7.17. made any capital improvement or expenditure except in the Ordinary Course of Business of the Target Company or of its Subsidiaries and in accordance with the Target Company's operating plan;

4.1.7.18. altered or deviated from its past practices regarding the funding of employee benefit plans and similar plans; or

4.1.7.19. committed or agreed to do any of the foregoing in the future.

4.1.8. Assets. Except for the assets described on [Exhibit 4.1.8](#), the Target Company and its Subsidiaries are authorized to use all of their assets required for the regular performance of their business. All the assets owned by the Target Company and its Subsidiaries are free and clear of any Liens, encumbrances or other rights of third parties. All of the Target Company's and its Subsidiaries' assets are duly registered in their books, in accordance with the applicable Law and, at the date hereof, (a) are all those currently used or intended to be used in the operation of the businesses of the Target Company and of its Subsidiaries and (b) will be all of the assets needed by the Target Company and its Subsidiaries to continue to operate such businesses after the date hereof as currently operated. The buildings, machinery, equipment, personal properties, vehicles and other tangible assets owned or leased by the Target Company and by its Subsidiaries are in good condition and repair (ordinary wear and tear excepted) and are usable in the Ordinary Course of Business, and are free from patent defects with respect thereto.

4.1.9. Real Property and Leases. [Exhibit 4.1.9](#) contains a description of all real property owned, leased, utilized or intended to be utilized in the conduct of the Target Company's and its Subsidiaries' businesses ("**Real Property**"). Copies of all title records are attached to such [Exhibit 4.1.9](#), and such copies are correct and complete as of the date hereof. All leases are in full force and effect, the Target Company and its Subsidiaries are in full compliance with their obligations thereunder and the rights of the Target Company and of its Subsidiaries thereunder are not subordinate to the rights of any third party. The Target Company and its Subsidiaries have received no written notice of default under any agreement governing any such lease, nor is the Target Company or its Subsidiaries involved in any dispute with any third party thereunder. The Target Company and its Subsidiaries have all easements and rights of ingress and egress necessary for utilities and services and for all operations conducted on the Real Property. All buildings, plants, and structures owned or leased by the Target Company or its Subsidiaries lie wholly within the boundaries of the Real Property and do not encroach upon the property of, or otherwise conflict with the property rights of, any other Person.

4.1.10. Inventories. Except as set forth on [Exhibit 4.1.10](#), the Inventory is wholly-owned by the Target Company and its Subsidiaries (i.e., no consigned inventory or other inventory to which the Target Company no longer has title) and is new, unused, current and saleable as new or returnable to the vendor (including any returned or demonstration products) in the Ordinary Course of Business of the Target Company and of its Subsidiaries ("**Inventory**"). The Target Company and its Subsidiaries have inventory obsolescence reserves,

slow moving reserves and vendor-at-risk reserves as of December 31, 2014 and such amount is adequate and lower-of-cost or market adjustments are reflected therein in accordance with Brazilian GAAP consistently applied.

4.1.11. Compliance with Laws. The Sellers, the Target Company and its Subsidiaries are, and all times have been, in compliance with all applicable Laws and the Sellers, the Target Company and its Subsidiaries are not in default under any contract or arrangements with its clients or suppliers. The Parties hereby acknowledge and agree that Sellers will be liable and subject to indemnification in favor of the Buyer for breach or non-compliance with respect to this Section 4.1.11 only and exclusively to the extent that the Buyer effectively suffers Damages as defined in Section 9.2 of this Agreement and limited to the monetary amount of such Damages, except if the breach of compliance with all applicable Laws prevents the continuation of the Target Company's Ordinary Course of Business, in which case the Sellers will be liable in any respect.

4.1.12. Absence of Undisclosed Liabilities. Except as set forth on Exhibit 4.1.12, the Target Company and its Subsidiaries do not have any liabilities or obligations of any nature, absolute, accrued, contingent or otherwise, and whether due or to become due, that are not reflected in the Financial Statements.

4.1.13. Agreements. Exhibit 4.1.13 attached hereto lists all agreements entered into by the Target Company or its Subsidiaries with a value in excess of five hundred thousand Reais (R\$ 500,000.00), pointing out those that could be early terminated by the other party in view of this Transaction. Except for those set forth in Exhibit 4.1.13, the Target Company and its Subsidiaries are not a party to or bound by any written or oral:

- (a) contract not made in the Ordinary Course of Business;
- (b) employment, employment termination or severance, consulting, services, employer's organization, non-competition, or secrecy agreement unless disclosed herein;
- (c) bonus, deferred compensation, profit sharing, pension, retirement, stock option, stock purchase or ownership, hospitalization, insurance or other plan or arrangement providing employee benefits;
- (d) collective bargaining agreement or other labor agreement;
- (e) lease with respect to any real or personal property, whether as lessor or lessee as well as any ancillary agreement to terminate or amend a lease unless disclosed on Exhibit 4.1.9;
- (f) dealership, manufacturer's representative, distributor, franchise, license, or agency agreement;
- (g) contract or commitment for capital expenditures including, but not limited to, leasehold improvements;
- (h) contract for the sale of any product at a price lower than its general pricing level for such product or service in effect on the date of such contract or any rebate agreement;
- (i) partnership or joint venture agreement;
- (j) mortgages, pledges, charges, conditional sales contracts, security agreements, factoring agreements or other similar agreements with respect to any assets or indebtedness of the Target Company or its Subsidiaries unless disclosed on Exhibit 4.1.8 or Exhibit 4.1.16;
- (k) agreement or arrangement pursuant to which the conduct of business of the Target Company or of its Subsidiaries, or the use or exploitation of its assets, in any manner, is restricted in any way;

(l) agreement which may be terminated by a party thereto as a result of the transactions contemplated by this Agreement;

(m) license, including without limitation, licenses related to any of the Intellectual Property unless disclosed on [Exhibit 4.1.20](#) or [Exhibit 4.1.26](#); or

(n) agreement or arrangement between the Target Company or any of its Subsidiaries and any Seller or any spouse, child or relative of any Seller, or any other Person in which any Seller has an interest unless disclosed on [Exhibit 4.1.37](#).

With respect to each contract and agreement set forth on [Exhibit 4.1.13](#):

(i) it is legal, valid, binding, enforceable and in full force and effect;

(ii) it will continue to be legal, valid, binding, enforceable and in full force and effect on identical terms following the consummation of the transactions contemplated by this Agreement;

(iii) no party is in breach or default, and no event has occurred which with notice or lapse of time would constitute a breach or default, or permit termination, modification or acceleration, under the contract or agreement; and

(iv) no party has repudiated any provision of any such contract or agreement.

4.1.14. Accounts Receivable. The balances as set forth in the Financial Statements are true, correct and complete lists of the Accounts Receivables of the Target Company and have arisen in the Ordinary Course of Business. In addition:

(a) all such Accounts Receivable resulted from the sales of services and Inventory in the Ordinary Course of Business and are expected to be collectible, using normal collection procedures, and within normal terms with adequate reserves for bad debt;

(b) since June 30, 2014, there has been no significant deterioration in the aging or risk profile of the Target Company's or its Subsidiaries' outstanding Accounts Receivable balances;

(c) the Target Company's and its Subsidiaries' underwriting policy has not changed and has been applied consistently since June 30, 2014;

(d) except for the potential bad debts described on [Exhibit 4.1.14.\(d\)\(1\)](#), the Target Company has adequate reserves for potential bad debts as reflected on [Exhibit 4.1.14.\(d\)\(2\)](#) and there is no pending Claim or right of set-off with any obligor of the accounts receivable relating to the amount or validity of the Accounts Receivable; and

(e) except as described on [Exhibit 4.1.14.\(e\)](#), the Target Company and its Subsidiaries are not aware of any customer filing for bankruptcy or anticipating filing for bankruptcy.

4.1.15. Accounts Payable. All accounts payable balances are current and no meaningful discrepancies exist.

4.1.16. Indebtedness; Bank Accounts. [Exhibit 4.1.16](#) sets forth a list, with a description of the most significant terms, of all obligations of the Target Company for borrowed money or obligations of the Target Company and its Subsidiaries which are evidenced by bonds, debentures, notes or similar instruments or letters of credit; all obligations of the Target Company and its Subsidiaries under any conditional sales or title retention

agreements relating to property purchased by the Target Company or its Subsidiaries; all obligations of the Target Company and its Subsidiaries issued or assumed as the deferred purchase price of property or services (other than accounts payable to suppliers incurred in the Ordinary Course of Business); all obligations of the Target Company and its Subsidiaries which are required to be accounted for as a capital lease pursuant to accounting principles derived from Brazilian corporate law and applicable accounting standards; all off-balance sheet Liabilities; obligations of any third party secured by any lien or encumbrance on any assets of the Target Company or of its Subsidiaries, and all obligations of the Target Company and of its Subsidiaries guaranteeing or having the economic effect of guaranteeing any obligation of any third party. Copies of all documents evidencing such obligations (or written description thereof if such obligations are not in writing) have been delivered to the Buyer. In addition, [Exhibit 4.1.16](#) also sets forth the name, address and account number of each bank or other financial institution at which the Target Company and its Subsidiaries maintain an account, safety deposit box, deposit agreement or loan or borrowing agreements or arrangements, together with the names of all Persons who are authorized to use them and to make withdrawals, loans, borrowing or overdraft agreements.

4.1.17. Insurance. All of the insurance policies of the Target Company and its Subsidiaries are valid and in force on the date hereof and shall remain valid and in force thereafter until the expiration of the term of each insurance policy, and the insurance fees were regularly paid up to the date hereof. [Exhibit 4.1.17](#) sets forth a list of all insurance policies entered into by the Target Company and its Subsidiaries with a description of the most significant terms. All such insurance policies are in amounts and have coverage as required by any contract to which the Target Company and each of its Subsidiaries is a party. The Target Company and its Subsidiaries are not in default with respect to their obligations under any such insurance policies, and the Target Company and its Subsidiaries have not received notice of cancellation or termination in respect of any such insurance policy. The Target Company and its Subsidiaries have not received written notice from any insurers denying any Claims.

4.1.18. Absence of Credits. The Sellers do not have any Credits, of any nature, against the Target Company or any of its Subsidiaries.

4.1.19. Taxes. Except for the Tax lawsuits described on [Exhibit 4.1.19](#), neither the Target Company nor its Subsidiaries have any other Tax debts, Contingencies, Claims or proceedings of any nature. Up to the date hereof, the Target Company and each of its Subsidiaries have timely paid all the Taxes due, and complied with all Tax obligations in accordance with the applicable Law. Up to the date hereof, the Target Company and each of its Subsidiaries have complied with all its principal and accessory obligations regarding Taxes applicable to them (including, in the case of the Target Company, PIS, COFINS, IRPJ, IPI, FGTS, INSS, CSLL, State Tax ICMS and Municipal tax ISS). The Target Company and each of its Subsidiaries have correctly established sufficient reserves in the Financial Statements for each of the lawsuits, administrative proceedings, settlement agreements and injunctions, as well as for any delay, shortfall or reduction in the payment of Taxes, all in accordance with Brazilian GAAP and other GAAP, as applicable to its Subsidiaries. The Target Company and each of its Subsidiaries have filed all Tax Returns for which the due date falls prior to the date hereof. Each such Tax Return has been prepared in compliance with all applicable Law, and all such Tax Returns are complete and correct in all respects. The Target Company and each of its Subsidiaries have provided Buyer with true, complete and correct copies of all such Tax Returns for all Tax periods ending on or after December 31st, 2009 as produced during due diligence and as summarized in [Exhibit 4.1.19\(a\)](#). There are no Liens for Taxes (other than Taxes not yet due and payable) upon the Target Company, its Subsidiaries nor on the assets of the Target Company or of its Subsidiaries. No Claim has ever been made by a Governmental Authority with which the Target Company or any of its Subsidiary does not file and has not filed Tax Returns that the Target Company or any of its Subsidiaries is or may be required to file Tax Returns with or be subject to taxation by that Governmental Authority. No Tax Return of the Target Company or each of its Subsidiary has been examined by any applicable state, local or foreign Tax authority, and any deficiencies or assessments, including interest and penalties thereon, claimed or made as a result of any examinations (insofar as they affect

the Target Company have been fully and timely paid). Except for the investigation procedures listed in [Exhibit 4.1.19.\(b\)](#), there are no Claims or investigations by any Governmental Authority pending or threatened against the Target Company or any of its Subsidiaries with respect to Taxes. The Target Company and its Subsidiaries have not received any written notification that any such Claims or investigations may be commenced, there is no such Claim or investigation contemplated based upon personal contact of any agent of a Governmental Authority with any employee or representative of the Target Company or any of its Subsidiaries. The Target Company and its Subsidiaries have provided the Buyer with correct and complete copies of all examination reports, assessments, notices and statements of deficiency with respect to Taxes of the Target Company and of its Subsidiaries for all Tax periods ending on or after December 31st, 2008.

4.1.20. Licenses and Permits. To the best of Sellers' Knowledge, the Target Company and its Subsidiaries have all licenses, permits and authorizations required for the Ordinary Course of Business and for the regular course of the activities of their corporate purpose and business, and a list of such licenses, permits and authorizations is attached as [Exhibit 4.1.20](#).

4.1.21. Litigation. Except as described on [Exhibit 4.1.21](#), there are no pending lawsuits or other Claims related to the Shares or the Target Company or of its Subsidiaries, or that may directly or indirectly affect the execution and the performance of this Agreement, the compliance by the Parties with the obligations set forth herein or the performance by the Target Company or by its Subsidiaries of any activities in the Ordinary Course of Business. To the best of Sellers Knowledge, no event has occurred or circumstance exists that is reasonably likely to give rise to or serve as a basis for the commencement of any such lawsuits or Claims.

4.1.22. Labor and Employees. Except Claims on [Exhibit 4.1.22.\(a\)](#), no present or former employee or present or former independent consultant of a Seller or of the Target Company or of its Subsidiaries has a pending Claim, of which a Seller or Target Company is aware, against any of the Sellers and/or the Target Company and/or any of its Subsidiaries. In addition, [Exhibit 4.1.22.\(b\)](#) contains (i) the name, job title, current monthly gross rate of pay and date and amount of last salary increase of each of the current employees of the Target Company and of its Subsidiaries, (ii) any general increase, since January 1, 2014 up to the date hereof, in the rate of compensation paid to the Target Company's and its Subsidiaries salaried and hourly employees, and (iii) all presently outstanding loans and advances (other than routine travel advances) made by the Target Company or its Subsidiaries to any employee and the current status thereof. All employee benefits, in cash or in kind, provided to employees of the Target Company and of its Subsidiaries are also listed in [Exhibit 4.1.22.\(c\)](#), including without limitation all pension and retirement benefits beyond mandatory Brazilian statutory or regulatory obligations. The Target Company and its Subsidiaries are in full compliance with all statutory or regulatory requirements with respect to its employees, including, but not limited to, salaries, wages, bonuses, dividends, profit distribution, pay increases, payment of sales commissions, and the corresponding payment of any labor charges under applicable labor Laws. All of the salaries, social security contributions and benefits are duly and timely paid to the Target Company's and its Subsidiaries' employees. [Exhibit 4.1.22.\(d\)](#) contains a list of all written and oral consulting, distribution, sales agency, alliance or other service or outsourced contractor agreements. The Target Company and its Subsidiaries are not now, and will not in the future be, subject to a determination under applicable labor Laws to the effect that any individuals performing services to the Target Company and its Subsidiaries are entitled to benefits normally granted to employees under applicable labor Laws. The Target Company and its Subsidiaries do not have collective bargaining or other syndicate agreements, except for the collective bargaining agreement applicable to the category of its employees, and is not currently involved in any negotiations with syndicates or syndicate representatives regarding such agreements.

4.1.23. Employees; Employee Benefit Matters. Except as described on [Exhibit 4.1.23](#), the Target Company and its Subsidiaries are in compliance with all applicable Laws and collective bargaining agreements respecting employment and employment practices, terms and conditions of employment, wages and hours and occupational health and safety, and there is no individual or other proceeding pending, nor investigation

pending or threatened against it relating to any of the above; there is no labor strike, individual or collective labor dispute (other than routine individual grievances), or general slowdown or stoppage pending or threatened against it, including with respect to any matter relating to workers' profit-sharing benefits; and no grievance or any arbitration proceeding arising out of or under collective bargaining agreements is pending or threatened against it in writing, which could reasonably be expected to have a material adverse effect on the Transaction. Since January 1, 2014, the Target Company and its Subsidiaries have not changed any employment contract or profit sharing plan for employees nor increased wages, salary or pension, nor created or changed any benefits or made any bonus payments beyond those set forth in the normal course of its employee relations.

4.1.24. Employees' Injuries. Exhibit 4.1.24 describes (a) all closed, pending or threatened Claims during the last five (5) years of employees of the Target Company and its Subsidiaries related to compensation for any injury, disability or illness arising out of their employment by the Target Company and its Subsidiaries and (b) all accidents which occurred within the past three (3) years in which any employee of the Target Company or of any of its Subsidiaries was injured.

4.1.25. Labor Union Activity. There has not been during the last five (5) years, nor is there currently pending or threatened, any activity by employees of the Target Company or of its Subsidiaries or by any trade union relating to the representation of such employees by any trade union, nor has there been any strike, work stoppage or labor trouble involving the employees of the Target Company or of its Subsidiaries during said period.

4.1.26. Intellectual Property. (a) Exhibit 4.1.26 sets forth an accurate and complete list of all trademarks, trade names, material registered and unregistered copyrights and other Intellectual Property that is held by the Target Company and its Subsidiaries. The Target Company and its Subsidiaries own, on an exclusive basis, free and clear of all Liens, all of the Intellectual Property related to their businesses. (b) The Target Company and its Subsidiaries do not pay or receive any royalty from anyone with respect to any of the Intellectual Property nor have they licensed anyone to use any of the Intellectual Property. (c) The items of Intellectual Property listed on Exhibit 4.1.26 are valid, have not lapsed and are enforceable, and all pending applications are in good standing and not opposed. The Target Company and its Subsidiaries are not in default or in violation with respect to any of the Intellectual Property or the terms or conditions by which such Intellectual Property was acquired or obtained. (d) There is no suit, action, complaint, or other legal proceeding pending or threatened or otherwise noticed, claiming that the Intellectual Property or any Intellectual Property of products sold infringes on or otherwise violates any Intellectual Property rights and, no valid basis for any such suit, action, complaint, or other legal proceeding exists which would result in a successful Claim. Target Company and its Subsidiaries have not agreed to indemnify any Person against any charge of infringement or other violation with respect to such Intellectual Property or Intellectual Property of products sold. With respect to such Intellectual Property, the Target Company and its Subsidiaries have not (i) infringed, misappropriated, otherwise violated, or (ii) contributed to the infringement, misappropriation or other violation by others, or (iii) induced infringement, misappropriation or other violation by others of the Intellectual Property rights of a third Person.

4.1.27. Software. All the software used by the Target Company and its Subsidiaries is regular and valid, and the Target Company and its Subsidiaries hold all the licenses required and sufficient for the conduct of their business. The Transaction shall have no impact on software licenses used by the Target Company or its Subsidiaries.

4.1.28. Environmental. To Sellers' best knowledge, all assets and property currently or previously owned or used by the Target Company and its Subsidiaries, and products sold in connection with the Target Company's and its Subsidiaries' businesses (" **Environmental Property**"), all conditions on and uses of the Environmental Property, and all ownership and operations of the Environmental Property and of the Target Company and its Subsidiaries is, and at all times has been, in compliance with all environmental and occupational health and

safety Laws, statutes and regulations. There is no environmental contamination caused by the Target Company or any of its Subsidiaries including, but not limited to, soil or groundwater contamination, air emission or water contamination, air emission or water discharge above applicable standards. To Sellers' best knowledge, the Target Company and its Subsidiaries have not engaged in any inappropriate management, storage, transportation or final disposal of waste or by-products, hazardous and non-hazardous, except as set forth in [Exhibit 4.1.28](#). There are no (a) proceedings or governmental investigations concerning or against the Target Company or any of its Subsidiaries arising from or relating to environmental matters pending before any court, tribunal or governmental instrumentality, (b) citations, summons, directives, orders or notices of a threatened or actual violation of any Law concerning or against the Target Company or any of its Subsidiaries relating to environmental matters, or (c) Liens arising from or related to environmental matters, or any governmental actions resulting in the imposition of any such Lien on any of the Real Property. No conditions or circumstances exist and no acts or omissions have occurred on the Real Property or affecting any of the Real Property, which could be reasonably expected to result in any investigation, claim, lawsuit, arbitration or regulatory suit or action alleging harm, injury or non-compliance with any environmental Law or regulation, or requiring remedial measures or clean-up by the Target Company or its Subsidiaries of any environmental conditions.

4.1.28.1. Except as set forth on [Exhibit 4.28.1](#) there are no (i) Hazardous Materials present, stored, disposed of, generated, manufactured, refined, transported, produced, or treated at, upon, or from the Environmental Property; (ii) ceramic or asbestos fibers or materials or polychlorinated biphenyls on, in or beneath the Environmental Property, or (iii) underground storage tanks on or beneath the Environmental Property.

4.1.28.2. The Target Company and its Subsidiaries have delivered to the Buyer, prior to the execution of this Agreement, complete copies of any and all of the following in the possession of the Target Company and its Subsidiaries, or their respective agents, consultants or attorneys: (i) documents received by the Target Company from, or submitted by any of the Sellers, or the Target Company to the Brazilian Environmental Protection Agency and/or any federal, state or municipal environmental or health agency concerning the environmental condition of the Environmental Property or the effect of the operations of the Target Company on the health and safety of any Person, the environmental condition of the Environmental Property, or any adjoining, adjacent or neighboring property and (ii) reviews, audits, reports, or other analyses concerning the Environmental Property, or any adjoining, adjacent or neighboring property. All such documents, filings, reviews, audits, and reports regarding Environmental Property are listed on [Exhibit 4.1.28.2](#) attached hereto.

4.1.28.3. There never has been pending or threatened against the Target Company or any of its Subsidiaries, any civil, criminal or administrative action, suit, summons, citation, complaint, Claim, notice, demand, request, judgment, order, Lien, proceeding, hearing, study, inquiry or investigation based on or related to any environmental permits or an environmental Law.

4.1.28.4. No facts, circumstances, activities, incidents or conditions exist with respect to the Environmental Property or any property at which the Target Company or its Subsidiaries arranged for the disposal, recycling or treatment of Hazardous Materials, that could reasonably be expected to: (i) result in the Target Company or its Subsidiaries incurring any losses, liabilities or expenses under any environmental Law or environmental Permit; (ii) interfere with, prevent, or increase the costs of compliance or continued compliance with any environmental permits or any renewal or transfer thereof or any environmental Law; and (iii) make more stringent any restriction, limitation, requirement or condition under any environmental Law or any environmental permit in connection with the operations on the Environmental Property.

4.1.28.5. Set forth on [Exhibit 4.28.5](#) is a list of all sites where the Target Company's and its Subsidiaries' Hazardous Materials may have been sent in the past, or are currently being sent for disposal, treatment, recycling or storage, including the address of each such site, and a description and estimate of the amount of the Hazardous Materials disposed of, treated, recycled or stored at each such site.

4.1.28.6. There is not nor has there been exposure, or resulting consequences, to any Persons, including, without limitation, employees of the Target Company and its Subsidiaries, to any Hazardous Materials stored, treated, generated or handled at the Environmental Property or in a product manufactured, sold, distributed or disposed of by the Target Company or its Subsidiaries.

4.1.29. Brokerage and Finder's Fees. None of the Sellers, the Target Company or its Subsidiaries, or any member, shareholder, officer or employee thereof, has incurred or will incur on behalf of the Target Company, its Subsidiaries or any of their respective members or shareholders, in any brokerage, finder's or similar fee in connection with the transactions contemplated hereby. In the event any such fees are incurred, they will be exclusively borne by the Sellers.

4.1.30. No Material Adverse Change. Except for the events mentioned on [Exhibit 4.1.30](#), since August 14th, 2014 the Sellers have conducted the Target Company's and its Subsidiaries' businesses only in the Ordinary Course of Business and there has not been any material adverse change in the business, operations, prospects, assets, results of operations or condition (financial or other) of the Target Company or its Subsidiaries or the Sellers, and no event has occurred or circumstance exists that may result in a Relevant Adverse Effect.

4.1.31. Activities. The Target Company and its Subsidiaries do not perform any activity other than those described in its corporate purposes.

4.1.32. Related Party Transactions. Neither the Sellers, nor their ascendants and/or descendants, directly or indirectly, have been involved in any transaction, agreement or commercial relationship currently in force with the Target Company or its Subsidiaries in the last 12 (twelve) months, involving an amount greater than fifty thousand Reais (R\$ 50,000.00). The Sellers do not have any Credits against the Target Company or its Subsidiaries, and there are no related party loans to which the Target Company or and its Subsidiaries is a party.

4.1.33. Target Company Sales. All of the Target Company's and its Subsidiaries' sales are to resellers system integrators and service providers or, in cases where the end-user is invoiced directly by the Target Company or any of its Subsidiaries, a reseller is paid a commission (i.e. no end -user sales).

4.1.34. Customer and Suppliers. Except as described in [Exhibit 4.1.34](#), since July 31, 2014, there has not been any adverse change in the business relationship of the Target Company or of any of its Subsidiaries with any material customer or supplier, and the Target Company and its Subsidiaries have no reason to believe that there will be any such adverse change in the future as a result of the consummation of the Transaction or otherwise. [Exhibit 4.1.34.\(a\)](#) contains a complete and accurate list of the twenty (20) suppliers and twenty (20) customers of the Target Company and of its Subsidiaries that accounted for the greatest amount of its purchases and sales (measured in Reais), respectively, during the calendar years ended 2012 and 2013.

4.1.35. Certain Business Practices.

(a) The Target Company, its Subsidiaries and their managers, partners, directors, officers, agents and employees have not (i) used any corporate funds for unlawful contributions, gifts, entertainment or other unlawful expenses relating to political activity, or (ii) made any unlawful payment to foreign or domestic government officials or employees or to foreign or domestic political parties or campaigns from corporate funds or violated any provision of the Foreign Corrupt Practices Act of 1977, as amended.

(b) The Target Company, its Subsidiaries and their managers, partners, directors, officers, agents and employees or any entity controlled by any of the foregoing have not made any contribution, gift, bribe, rebate, payoff, influence payment, kickback, or other payment to any Person, private or public, regardless of form, whether in money, property, or services (i) to obtain favorable treatment in securing business, (ii) to pay for favorable

treatment for business secured, or (iii) to obtain special concessions or for special concessions already obtained, for or in respect of the Target Company and of its Subsidiaries.

(c) The Target Company and its Subsidiaries currently maintain, and have maintained for the six (6) months prior to the date hereof, a backup system for Target Company's and its Subsidiaries' data, which backup system is as described in [Exhibit 4.1.35.\(c\)\(1\)](#) attached hereto.

(d) Without limiting the generality of the foregoing, none of the computer software, computer hardware (whether general or special purpose), telecommunications capabilities (including all voice, data and video networks) and other similar or related items of automated, computerized, and/or software systems and any other networks or systems and related services that are used by or relied on by the Target Company or by its Subsidiaries in the conduct of its business have experienced bugs, failures, breakdowns, or continued substandard performance in the past twelve (12) months that has caused any substantial disruption or interruption in or to the use of any such Systems by the Target Company or by its Subsidiaries.

(e) The Target Company and its Subsidiaries are covered by business insurances that are sufficient and appropriate for their activities.

4.1.36. Internal Controls. (a) The Target Company and its Subsidiaries maintain a system of internal accounting controls sufficient to provide reasonable assurance that (i) transactions are executed in accordance with management's general or specific authorizations, (ii) transactions are recorded as necessary to permit preparation of financial statements in conformity with Brazilian GAAP (or their local GAAP, in the case of its Subsidiaries), to maintain asset accountability and to provide reasonable assurance regarding the reliability of financial reporting, (iii) access to assets is permitted only in accordance with management's general or specific authorization, and (iv) the recorded accountability for assets is compared with the existing assets at reasonable intervals and appropriate actions are taken with respect to any differences. There are no significant deficiencies or material weaknesses in the design or operation of internal controls over financial reporting that are reasonably likely to adversely affect the Target Company's and its Subsidiaries' ability to record, process, summarize and report financial information. (b) Since December 31, 2008 neither the Target Company, its Subsidiaries, nor any manager, partner director, officer, employee, auditor, accountant, attorney or representative of the Target Company or of its Subsidiaries has received or otherwise has or obtained knowledge of (i) any written complaint, allegation, assertion or Claim regarding the accounting or auditing practices, procedures, methodologies, or methods of the Target Company or its Subsidiaries or their respective internal accounting controls, including any complaint, allegation, assertion or Claim that the Target Company or any of its Subsidiaries has engaged in questionable accounting or auditing practices or (ii) any fraud, whether or not material, that involves management or other employees of the Target Company or of its Subsidiaries, who have a significant role in such internal controls.

4.1.37. Conflicts of Interest. Except as disclosed in [Exhibit 4.1.37](#), no officer, director, Seller or employee of the Target Company or of its Subsidiaries nor any Affiliate of any such Person, now has or since the Target Company's or its Subsidiaries' inception had, either directly or indirectly:

(a) an equity or debt interest in any corporation, partnership, joint venture, association, organization or other Person or entity, which furnishes or sells, or during such period furnished or sold, services or products to the Target Company or its Subsidiaries, or purchases, or during such period purchased, from the Target Company or its Subsidiaries any goods or services, or otherwise does, or during such period did, business with the Target Company or its Subsidiaries; or

(b) beneficial interest in any contract, commitment or agreement to which the Target Company or any of its Subsidiaries is or was a party, or under which any of them is or was obligated or bound or to which any of their respective properties may be or may have been subject, other than stock options and other contracts,

commitments or agreements between the Target Company or its Subsidiaries and such Persons in their capacities as employees, officers or directors of the Target Company or of its Subsidiaries.

The Sellers agree and warrant that the agreements or transactions disclosed in [Exhibit 4.1.37](#), if continued after the date hereof, shall be pre-approved by Buyer's President to ensure that such agreements or transactions are at arm's length.

4.1.38. Solvency. The Target Company and its Subsidiaries are not now Insolvent, and will not be rendered Insolvent by any of the transactions contemplated by this Agreement. In addition, immediately after giving effect to the consummation of the transactions contemplated by this Agreement, (a) the Target Company and its Subsidiaries will be able to pay their debts as they become due; and (b) taking into account all pending and threatened litigation, final judgments against the Target Company or its Subsidiaries in actions for money damages, they are not reasonably anticipated to be rendered at a time when, or in amounts such that, the Target Company or its Subsidiaries will be unable to satisfy any such judgments promptly in accordance with their terms (taking into account the maximum probable amount of such judgments in any such actions and the earliest reasonable time at which such judgments might be rendered) as well as all other obligations of the Target Company and of its Subsidiaries. As used in this Section: "**Insolvent**" means that the sum of the present fair saleable value of the Target Company's (or each of its Subsidiaries', as the case may be) assets does not and will not exceed its debts and other probable liabilities.

4.1.39. Product Warranty. Each product sold, leased, or delivered by the Target Company or by any of its Subsidiaries has been in conformity with all applicable contractual commitments and all express and implied warranties, and the Target Company and its Subsidiaries have no Liability (and there is no basis for any present action, suit, proceeding, hearing, investigation, charge, complaint, Claim, or demand against any of them giving rise to any Liability) for replacement or repair thereof or other damages in connection therewith, subject only to the reserve for product warranty Claims set forth on the face of the most recent balance sheet provided by Target Company to Buyer (rather than in any notes thereto) as adjusted for the passage of time until the date hereof in accordance with the past custom and practice of the Company. [Exhibit 4.1.39](#) includes copies of the standard terms and conditions of sale or lease for the Target Company and its Subsidiaries (containing applicable guaranty, warranty, and indemnity provisions). No product sold, leased, or delivered by the Target Company or by any of its Subsidiaries is subject to any guaranty, warranty, or other indemnity beyond the applicable standard terms and conditions of sale or lease set forth in [Exhibit 4.1.39](#).

4.1.40. Product Liability. Target Company and its Subsidiaries have no Liability (and to the best Sellers' Knowledge, there is no basis for any present action, suit, proceeding, hearing, investigation, charge, complaint, Claim, or demand against any of them giving rise to any Liability) arising out of any injury to individuals or property as a result of the ownership, possession, or use of any product sold, leased, or delivered by the Target Company or by any of its Subsidiaries.

4.1.41. Customer Warranty Claims. There are no defects in the design or manufacture of products contained in the Inventories of the Target Company or of its Subsidiaries or sold by the Target Company or by its Subsidiaries, which would result in other than normal warranty claims, require the recall of such products or provide customers with a basis to reject such products or revoke acceptance of such products. The Sellers shall remain liable for all products returned, customer warranty claims and breach of contract or related claims for products sold by the Target Company and its Subsidiaries prior to the Closing Date.

4.1.42. Powers of Attorney. Except for the ones listed in [Exhibit 4.1.42](#), no powers of attorney granted by the Target Company or its Subsidiaries are in force.

4.2. Disclosure. Sellers represent and warrant that all the information provided in this Agreement, including, but not limited to, the information related to the "Representations and Warranties" set forth in this Section 4,

are accurate and complete in all material respects and reflect the Target Company's and its Subsidiaries' reality, and that no information that should be reasonably known by the Buyer in the context of the Transaction has not been disclosed by the Sellers. **RAFAEL** is liable to fully indemnify the Buyer and/or its officers, executives, employees, agents, Subsidiaries and Affiliates for any losses or damages related to the default or inaccuracy of the information provided in this Agreement.

5. REPRESENTATIONS AND WARRANTIES OF BUYER

5.1. Representations. The Buyer hereby represents and warrants that it is a company duly organized, validly existing and in good standing under the laws of the Federative Republic of Brazil and has the power to enter into this Agreement and to carry out its obligations hereunder.

5.2. Restrictions. The Buyer represents and warrants that the execution of this Agreement will not result in:

5.2.1. the violation of any Law; the contravention of any provision of any statute, decree, rule or regulation binding upon the Buyer; or the contravention of any judgment, decree, order or permit applicable to the Buyer;

5.2.2. a conflict or breach of any obligation, title, agreement, commitment, promise, and/or any other obligation to which the Buyer may be subject, or which it may have assumed; or

5.2.3. a breach, conflict or default of any provision of the Buyer and/or its shareholders' articles of association or other governing documents.

5.3. Non-compete of Buyer. Subject to a six month transition period immediately following Closing, pursuant to Exhibit 2.3., Target Company's Operating Model, Buyer and any of its Subsidiaries and parent companies agree not to compete with Target Company or its Subsidiaries, as a wholesale distributor of communications, related software and related services as currently sold by Buyer and its Subsidiaries, directly or by means of any channel within Latin America without the written consent of **RAFAEL** and **WALTER**, which shall not be unreasonably withheld.

5.3.1. Damages for Breach of Section 5.3. Subject to the six month transition period immediately following Closing pursuant to Exhibit 2.3., Target Company's Operating Model, the Buyer shall be obliged to pay to the Sellers a contractual penalty for each case of breach of the obligations set forth in this Section 5.3. The amount of the penalty shall be twenty thousand Reais (R\$ 20,000.00) for each breach (which shall be paid pro rata to the Sellers by the Buyer). Upon receipt of a written reminder, every two weeks period of continued breach shall be considered another case of breach. Further claims of Sellers, in particular claims for damages, shall not be affected. Sellers shall not be deemed to have waived the requirement of the Buyer, and the Buyer shall not be deemed to be relieved from its obligations to comply with the obligations of Section 5.3 by any Seller accepting payment of such penalty or seeking any other remedy available to which Sellers may be entitled under this Agreement or applicable Law.

5.4. Corporate Authorization. The execution, delivery and performance by Buyer of this Agreement on the date hereof are within the corporate powers of Buyer and have been duly authorized by all necessary corporate actions by Buyer.

5.5. Governmental Authorization. In connection with the execution of this Agreement and any and all other agreements and documents in relation thereto, Buyer has obtained all necessary authorizations, consents and approvals by any governmental, judicial or public body or authority at Buyer's jurisdiction, which authorizations, consents and approvals shall be in full force and effect by the Closing Date.

5.6. No Claims. There is no Claim, action, suit or proceeding, or any governmental investigation pending or threatened against the Buyer by or before any court or governmental entity that could or would reasonably be expected to impede the ability of the Buyer to perform or complete any of the obligations contemplated in this Agreement in any respect.

5.7. Purchase for Investment. The Buyer is acquiring the Shares to continue developing the Target Company's business. The Buyer is not seeking to resell the Shares of the Target Company's business to an unrelated third party, and has no present intention of selling, granting any equity in, or otherwise distributing the Target Company's business to an unrelated third party. The Buyer does not have any contract, agreement or arrangement with any third party to sell or transfer the Shares or the Target Company's business to any such third party, with respect to the Target Company's business or any part thereof. However, in case Buyer resells or transfer the Shares to third parties during the Earn Out Period, Buyer shall properly and timely inform Sellers' and, at the exclusively request of the Sellers, accelerate the Earn Out payment (except for the portions that will be deposited in the Escrow Account. In case Sellers decide to accelerate the Earn Out receipt, Buyer shall pay the amounts due within 5 (five) Business Days counting from the date of the resell or transfer of the Shares. The Earn Out calculation will be based on the Target Company's results of the year preceding the respective resell or transfer of Shares.

5.8. Corporate Reorganizations and SAP implementation during the Earn-Out Period. During the Earn-Out Period, Buyer shall give a 60-days' notice to Sellers prior to the start of the implementation of: (i) any corporate reorganization (i.e. spin-offs and mergers); or (ii) the implementation of computer systems (such as SAP) that may directly impact the timing of receivables of the Target Company from its clients. Notwithstanding items (i) and (ii) above, the calculation of the Earn-Out shall always take into consideration solely the results generated and expenses allocated by the Target Company (BU Latin American Communications).

6. ADDITIONAL COMMITMENTS

6.1. Public Announcements. The Parties shall not issue or make any press release or other public statements or otherwise announce the transactions described herein to employees, customers or suppliers unless such release, statement or announcement has been expressly approved by the Parties. The Buyer reserves the right to make such disclosures as necessary for compliance with United States Laws and securities rules and regulations.

6.2. Post-Closing Obligations. (a) The Target Company and its Subsidiaries shall be responsible for any and all post-closing matters required by virtue of the execution of this Agreement and/or the assignment of the Shares, including, but not limited to, the communication to all public authorities, clients and suppliers, if necessary, and the update of all of the Target Company's and its Subsidiaries' public registrations. The Sellers agree that their cooperation will be necessary with respect to post-closing matters. Exhibit 6.2.(a) contains a list of post-closing measures that the Target Company and its Subsidiaries will perform with the full cooperation of the Sellers and the Buyer to the extent needed for the completion of the implementation of all of the obligations set forth in this Agreement.

(b) Within sixty (60) days after the Closing Date, the Sellers shall cause the Target Company to prepare and deliver to the Buyer a preliminary Brazilian GAAP balance sheet (consolidating its Subsidiaries) as of December 31, 2014 ("**Closing Balance Sheet**"). Such audit shall be performed by Buyer's accounting firm. Such Closing Balance Sheet shall be prepared consistent with the Financial Statements, except as adjusted to US GAAP.

Using the Closing Balance Sheet provided by the Sellers as a starting point, the Buyer shall provide the Sellers with US GAAP adjustments which are consistent with the 2013 audited Financial Statements. The Target

Company shall book the aforementioned adjustments and any other US GAAP adjustments to arrive at the US GAAP balance sheet as of the Closing Date (“**Final Closing Balance Sheet**”). The Final Closing Balance Sheet shall be delivered by the Target Company within seven (7) days of receiving the Buyer-supplied aforementioned adjustments.

(c) On the Closing Date, the Sellers shall inform its banks and lenders about the Transaction and instruct them to authorize the Buyer’s designee to have access to and control of all Cash and liquidity management of the Target Company and its Subsidiaries, including but not limited to, disbursement authorization on all bank accounts, access to all bank information, and borrowing and repayment authority on all loans.

6.3. Brazilian Competition Authorities. The Sellers and the Buyer made the necessary filings with the Brazilian Competition Authorities, receiving the proper approval for this Transaction. The Sellers and the Buyer jointly undertake the total and exclusive responsibility to comply with any obligation under this Agreement and all others agreements and contractual arrangements entered into between the Parties as a result of the Transaction before the Administrative Council for Economic Defense - CADE. Any cost or fee related to such filings will be borne in equal parts by both the Sellers (50%) and the Buyer (50%), but each Party shall bear with its own legal fees regarding such filing.

6.4. Conversion to June 30 Financial Year End. Following the Closing Date, the Parties agree that the Target Company shall convert to a June 30 financial year end.

6.5. Target Company’s Potential Tax Credits. Parties herein agree that prior to the date hereof, the Company has paid some taxes that can potentially be recovered based on claims filed against the Tax Authorities, as set forth in Exhibit 6.5 (the “Potential Tax Credits”). The Buyer hereby acknowledges and agrees that (i) Sellers shall be allowed to file future claims to attempt to recover the Tax Credits, to the extent such claims do not cause an adverse effect to the Target Company, and (ii) such Tax Credits, if confirmed by a final and unappealable decision, are recovered and effectively used by the Target Company within 10 (ten) years after Closing. The Tax Credits recovered shall become an additional part of the Purchase Price on a real by real basis, and be paid to Sellers within fifteen (15) days as of the effective use of the credit by the Target Company. Parties also agree that any and all fees, expenses and costs associated with the recovery of such Tax Credits shall be paid by the Sellers. Sellers shall have the right to verify Company’s balance sheets during any Earn-Out Period in order to check any Tax Credits referred in this section.

7. NON-COMPETITION AND NON-SOLICITATION

7.1. Non-Competition Definitions. For the purpose of this Section 7, the terms listed below shall have the following meaning:

7.1.1. “Non-Competition Period” means a period of four (4) years following the Closing Date. However, for **RAFAEL, JOÃO** and **WALTER**, the four (4) years Non-Competition Period will begin on the date such Sellers no longer render their services to the Target Company.

7.1.2. “Relevant Person” means any Person who at any time during the period of six (6) months immediately preceding Closing Date or, in the case of those Sellers working for the Target Company subsequent to the Closing Date, means any Person who at any time during the period of six (6) months immediately preceding that Seller’s separation from the Target Company was: (1) negotiating with the Sellers or the Target Company for the supply by or to the Sellers or the Target Company of goods and services; or (2) a vendor or customer of the Target Company; or (3) in the habit of dealing with the Sellers or the Target Company.

7.1.3. “Relevant Products or Services” means products or services which are competitive with or of the type supplied by the Sellers or the Target Company at any time during the period of six (6) months immediately

preceding the Closing Date or, in the case of those Sellers working for the Target Company subsequent to the Closing Date, means products or services which are competitive with or of the type supplied by the Sellers or the Target Company at any time during the period of six (6) months immediately preceding that Seller's separation from the Target Company.

7.2. Non-Competition Obligations. The Sellers undertake to the Buyer that each of them will not (whether alone or in conjunction with, or on behalf of, another Person and whether directly or indirectly), without the prior written consent of the Buyer or unless required to do so by his or her service contract with the Buyer within the Territory of Brazil, during the Non-Competition Period, compete in any business in which the Sellers' business or the Target Company's business is being conducted (or which the Sellers or the Target Company were planning to enter at the date hereof, provided that it had already invested in preparing this move). Especially and without limiting the generality of the foregoing, the Sellers shall not:

7.2.1. within the Territory of Brazil during the Non-Competition Period, canvass, solicit or approach, or cause to be canvassed, solicited or approached, any Relevant Person for the sale, supply or purchase of Relevant Products or Services;

7.2.2. except for the normal operations of the Target Company subsequent to the Closing Date, within the Territory of Brazil during the Non-Competition Period, deal or contract with any Relevant Person in relation to the sale, supply or purchase of Relevant Products or Services;

7.2.3. within the Territory of Brazil during the Non-Competition Period, interfere, or seek to interfere, with the continuance of supplies to the Buyer or the Target Company from any vendor or other supplier who has been supplying goods or services to the Sellers or the Target Company at any time during the six (6) months immediately preceding the Closing Date or, in the case of those Sellers working for the Target Company subsequent to the Closing Date, means any vendor or other supplier who has been supplying goods or services to Sellers or the Target Company at any time during the period of six (6) months immediately preceding that Seller's separation from the Target Company, if such interference causes or would cause that vendor or supplier to cease supplying, or materially reduce its supply of, those goods or services;

7.2.4. within the Territory of Brazil during the Non-Competition Period, solicit or entice away, or endeavor to solicit or entice away, from the Buyer, or the Target Company, to the extent legally possible employ, any Person employed by, or who is or was a consultant to, the Buyer or the Target Company at the Closing Date or at any time during the period of six (6) months immediately preceding the Closing Date or, in the case of those Sellers working for the Target Company subsequent to the Closing Date, any Person employed by or who is or was a consultant to the Buyer or the Target Company at any time during the period of six (6) months immediately preceding that Seller's separation from the Target Company, where the Person in question either has Confidential Information or would be in a position to exploit the Buyer's or Target Company's trade connections;

7.2.5. within the Territory of Brazil during the Non-Competition Period, be engaged, concerned, connected with or interested in (except as the owner for investment of securities in a company dealt in on a recognized stock exchange and which represent not more than three percent (3%) of the votes which could be cast at a general meeting) any other business which supplies Relevant Products or Services;

7.2.6. without prejudice to any rights to which the Buyer or the Target Company may be entitled under any applicable trademark infringement Laws or other Laws (or similar rights in any territory), within the Territory of Brazil during the Non-Competition Period, or, in the case of those Sellers working for the Target Company subsequent to the Closing Date, during four (4) years from that Seller's separation from the Target Company, use in connection with any business which is competitive with the Target Company's business any name (in

whatever form), which includes the name “Network1” or “N1” or any trading style, which is confusingly similar to that used by the Target Company;

7.2.7. without limiting the generality of the foregoing, the Sellers agree that during the Non-Competition-Period or while an officer of the Target Company, they will not, directly or indirectly, serve as a director, officer or employee of, or consultant to, or own interest in any entity that designs, creates, manufactures, markets, distributes, sells or provides any Relevant Products and Services;

7.2.8. ten percent (10%) of each Seller's individual consideration of the Initial Purchase Price, together with the remaining Purchase Price percentage paid by Buyer to Sellers, shall compensate each Seller for adhering to the undertaking pursuant to this Non Competition Section 7. Such allocation is subject to change based on the final result of the appraised value of the Target Company. The Sellers shall not be entitled to any further compensation payments;

7.2.9. should any individual provisions of this Section 7 be ruled invalid by a court of competent jurisdiction, either in part or in full, such invalidity will not affect the validity of the other provisions of this Section 7 and of this Agreement. The invalid provision shall be replaced by a provision, which comes closest in purpose to the invalid provision in a legally effective form. The same shall apply if the invalidity of a provision is based upon a measurement of performance or time, in which case the invalid provision will be deemed to apply to the fullest extent permitted by Law. In case of conflict between the terms of this Section 7 and any other non-compete obligations of Sellers, the terms of this Section 7 shall prevail.

7.3. Damages for Breach of Section 7. The Sellers shall be obliged to pay to the Buyer a contractual penalty for each case of breach of the obligations set forth in this Section 7. The amount of the penalty shall be twenty thousand Reais (R\$ 20,000.00) for each breach. Upon receipt of a written reminder, every two weeks period of continued breach shall be considered another case of breach. Further claims of Buyer, in particular claims for damages, shall not be affected. Buyer shall not be deemed to have waived the requirement of the Sellers, and the Sellers shall not be deemed to be relieved from their obligations to comply with the obligations of Section 7 by Buyer accepting payment of such penalty or seeking any other remedy available to which Buyer may be entitled under this Agreement or applicable law. The breach of this Section 7 shall also give cause to the termination of the Officers' Service Agreement.

8. CONFIDENTIALITY

8.1. Confidentiality Obligations. Any and all information delivered by one Party to another, orally or written (“**Confidential Information**”), shall be considered as confidential, and shall not be disclosed to third parties, except upon prior and written authorization of the Party disclosing such information. The Confidential Information received cannot be used for any other purpose other than those related to this Agreement. Notwithstanding the foregoing, the Parties acknowledge and agree that following the Closing Date, the Buyer and the Target Company shall be free to use and disclose any Confidential Information relating to the Target Company and its business without the consent of the Sellers even if such confidential information was disclosed to the Buyer by the Sellers. The above mentioned provisions do not apply in case of:

8.1.1. information that, at the moment of disclosure, is in the public domain;

8.1.2. information disclosed to the Parties by third parties without similar confidentiality obligations;

8.1.3. information disclosed with express authorization of the other Party; and

8.1.4. information required for disclosure pursuant to United States Laws and securities rules and regulations.

8.2. Term of Confidentiality Obligations. The provisions of this Section shall remain in force for a period of four (4) years after the Closing Date.

9. INDEMNIFICATION

9.1. Survival of Representations, Warranties and Agreements. Subject to the limitations set forth in Section 9.3, and notwithstanding any investigation conducted at any time by or on behalf of the Buyer, the Sellers or the Target Company, all representations, warranties, covenants and agreements of the Buyer, the Sellers, the Target Company and its Subsidiaries in this Agreement and in any other agreements, documents or certificates executed or delivered by the Buyer, any of the Sellers, the Target Company or its Subsidiaries pursuant to this Agreement or the Transaction Documents shall survive the execution, delivery and performance of this Agreement and any additional documents.

9.2. Indemnification.

a) Subject to the limitations and other provisions set forth in this Section 9, **RAFAEL** shall fully indemnify and hold harmless the Buyer and its Affiliates and Subsidiaries, and their respective officers, directors, successors, representatives and assigns (the “**Buyer Indemnified Party**”), from and against any and all losses, Liabilities, damages, demands, Claims, suits, actions, judgments or causes of action, assessments, costs and expenses (including reasonable interest, penalties, reasonable attorneys’ fees, any and all expenses incurred in investigating, preparing or defending against any litigation, commenced or threatened, or any Claim), and any and all amounts paid in settlement of any Claim or litigation (collectively, “**Damages**”), asserted against, resulting to, imposed upon, or incurred or suffered by a Buyer Indemnified Party as a result of or arising from any of the following (individually a “**Buyer Indemnifiable Claim**” and collectively “**Buyer Indemnifiable Claims**” when used in the context of a Buyer Indemnified Party as the Indemnified Party):

(i) any inaccuracy in or breach or nonfulfillment of any of the representations or warranties made by the Sellers in this Agreement or in the Transaction Documents;

(ii) any breach or non-performance of any covenant, agreement or obligation to be performed by any of the Sellers pursuant to this Agreement or the Transaction Documents;

(iii) any Damages related to the Target Company or its Subsidiaries arising from acts, facts, activities or omissions taking place until (and including) the Closing Date;

(iv) any Taxes payable by the Sellers for any period, and any Taxes payable by Target Company or its Subsidiaries relating to any period prior to the Closing Date, as long as they can be classified as Damages.

(v) any violation of labor Laws by the Target Company or its Subsidiaries prior to the Closing Date, as long as they can be classified as Damages;

(vi) any Damages arising out of the operation of the Target Company and its Subsidiaries prior to the Closing Date; without limiting the generality of the foregoing, the Sellers specifically indemnify the Buyer for all Damages, inclusive of costs, fees, taxes, penalties, interests, assessments, or awards arising from any Claim of or relating to the failure to create or formally establish a branch or administrative branch or representative office in any location where the Target Company has both employees and real property interests;

(vii) without limiting the generality of the foregoing, the Sellers specifically indemnify the Buyer for all Damages, inclusive of costs, fees, penalties, interests, assessments, or awards arising from any Claim of or relating to any extended warranty program liability of the Target Company or its Subsidiaries;

(viii) without limiting the generality of the foregoing, the Sellers specifically indemnify the Buyer for all Damages, inclusive of costs, fees, penalties, interests, assessments, or awards arising from any Claim of or relating to any Claim related to independent contractors.

b) Subject to the limitations and other provisions set forth in this Section 9, the Buyer hereby covenants and agrees to indemnify and hold harmless the Sellers and their respective Affiliates, and Subsidiaries or related parties, and their respective officers, directors, successors, representatives and assigns, subject to the limitations on assignment of this Agreement set forth in Section 10.1 (each a “**Seller Indemnified Party**”) from and against any and all Damages asserted against, resulting to, imposed upon, or incurred or suffered by any Seller Indemnified Party as a result of or arising from any of the following (individually a “**Seller Indemnifiable Claim**” and collectively “**Seller Indemnifiable Claims**” when used in the context of a Seller Indemnified Party as the Indemnified Party):

(i) any inaccuracy in or breach or nonfulfillment of any of the representations or warranties made by the Buyer in this Agreement or in the Transaction Documents; or

(ii) any breach or non-performance of any covenant, agreement or obligation to be performed by the Buyer pursuant to this Agreement or the Transaction Documents.

c) The Buyer and the Sellers shall be deemed to have suffered Damages arising out of or resulting from the matters referred to in Section 9.2.(a) and Section 9.2.(b), respectively, if the same shall be suffered by any Subsidiary or Affiliate of the Buyer or the Sellers, including the Target Company.

d) The remaining Sellers, without any harm to **RAFAEL**'s obligation under this Section, shall be liable to compensate **RAFAEL** for any such indemnification set for in this Section 9.2 in proportion to their respective interest ownership in the Target Company prior to the Closing Date. **RAFAEL**, hereby irrevocably and unconditionally, waives its right to claim *beneficio de ordem* under articles 366, 827, 829, 834, 835, 836, 837, 838 and 839 of Brazil's *Código Civil* and Article 595 of Brazil's *Código de Processo Civil*.

9.3. Limitations on Indemnification. The Parties' respective rights to indemnification under this Section 9 are subject to the following limitations:

a) The Parties agree that the Indemnifying Party's indemnification obligation towards any of the Indemnified Parties for Damages under this Section 9 shall be triggered only if and each time the amount of such Damages exceeds eighty thousand Reais (R\$ 80,000.00) (“**Threshold**”), *provided, however*, that each time the aggregate amount of Damages reaches such figure, then the Indemnifying Party shall be liable for the total accrued amount. Furthermore, the maximum aggregate Liability of the Sellers with respect to all Buyer Indemnifiable Claims, and the maximum aggregate Liability of the Buyer with respect to all Sellers Indemnifiable Claims, shall be equal to one hundred and one hundred and eighty nine million Reais (R\$ 189,000,000.00) (“**Cap**”); provided, however, that any Buyer Indemnifiable Claim related to Taxes shall not be limited by the Threshold, Cap or any other limitation.

b) Subject to item (c) below, the indemnification obligations of the Parties with respect to any Buyer Indemnifiable Claims or Seller Indemnifiable Claims, as applicable, shall survive for six (6) years after Closing Date for tax matters, and 5 (five) years after the Closing Date for the remainder.

c) Notwithstanding the foregoing provisions of this Section 9.3, if, prior to the termination of any obligation to indemnify, written notice of a claimed breach or other occurrence or matter giving rise to a claim of indemnification is given by the Party seeking indemnification (the “**Indemnified Party**”) to the Party from whom indemnification is sought (the “**Indemnifying Party**”), or a suit or action based upon a claimed breach is commenced against the Indemnifying Party, the Indemnified Party shall not be precluded from pursuing

such claimed breach, occurrence, other matter, or suit or action, or from recovering from the Indemnifying Party (whether through the courts or otherwise) on the Claim, suit or action, by reason of the termination otherwise provided for above.

d) The rights of the Parties for indemnification relating to this Agreement shall be limited to those contained in this Section 9, and such indemnification rights shall be the exclusive remedies of the Parties with respect to any matter arising under this Agreement other than as otherwise provided herein or for specific performance or injunctive or declaratory relief if a court of competent jurisdiction in its discretion grants the same or for claims for fraud.

e) To the extent permitted by Applicable Law, all indemnification payments made under this Agreement shall be treated by the Parties as an adjustment to the Purchase Price for Tax purposes.

9.4. Procedure for Indemnification with Respect to Third Party Claims.

a) If the Indemnified Party becomes aware of facts which give rise or threaten to give rise to obligations to indemnify such Indemnified Party pursuant to this Section, regardless of whether or not the Indemnifiable Claim involves a third party, the Indemnified Party shall send written notice ("**Notification**") to the Indemnifying Party promptly and, in no event more than ten (10) Business Days or one-third (1/3) of the legal term (if applicable to such Indemnifiable Claim according to the applicable laws), whichever is shorter, following receipt by such Indemnified Party of notice of the Indemnifiable Claim, disclosing the details thereof. In the event an Officer and Seller of the Target Company becomes aware of facts giving rise or threatening to give rise to a Buyer Indemnifiable Claim post-closing, such Officer and Seller shall immediately notify the Buyer of the same in writing. The Indemnifying Party shall respond within ten (10) Business Days or one-third (1/3) of the legal term (if applicable to such Indemnifiable Claim according to the applicable laws), whichever is shorter, from receipt of the Notification, electing one of the following options: (i) pay the Indemnifiable Claim; or (ii) perform remedial measures in connection with such Indemnifiable Claim; or (iii) dispute the Indemnifiable Claim explaining the reasons. In the event the Indemnifying Party elect either option (i) or option (ii) of this Section 9.4.(a), then the Indemnifying Party must perform such obligation(s) within forty-five (45) days or on the legal term (if applicable to solve such Indemnifiable Claim according to the applicable laws), whichever is shorter, of receipt of the Notification and obtain written release and settlement from the third party, if applicable. The Parties agree to cooperate in the resolution of an Indemnifiable Claim. If the Indemnified Party duly notifies the Indemnifying Party and the Indemnifying Party fails to respond within ten (10) Business Days or one-third (1/3) of the legal term (if applicable to such Indemnifiable Claim according to the applicable laws), whichever is shorter, as determined on this Section 9.4.(a), such failure shall be deemed as an acceptance of the Indemnifiable Claim. If the Parties do not reach an agreement within forty-five (45) days or on the legal term (if applicable to solve such Indemnifiable Claim according to the applicable laws), whichever is shorter, from the receipt of the Notification, provided, however, that no delay in delivering any Notification shall relieve the Indemnifying Party from its obligations hereunder, the Indemnifying Claim shall be considered under dispute. The dispute shall then be settled in accordance with the arbitration rules provided for in Section 10.9 of this Agreement.

b) If an Indemnifiable Claim involves any third party, the Indemnifying Party shall respond within ten (10) days or one-third (1/3) of the legal term (if applicable to such Indemnifiable Claim according to the applicable laws), whichever is shorter, of the Notification with its election to (i) pay the Indemnifiable Claim within forty-five (45) days or on the legal term (if applicable to solve such Indemnifiable Claim according to the applicable laws), whichever is shorter, from the receipt of the Notification; or (ii) dispute the Indemnifiable Claim by exclusively assuming the judicial or extrajudicial defense of such claim and its related costs including posting bonds or other guarantees required by the court. In case of a Buyer Indemnifiable Claim, both the Buyer and the Target Company shall be entitled to participate in the preparation of the defense through separate counsel chosen by it and at its sole cost and expense, but the Seller shall control such defense. In the event

that the Sellers refuse to accept the Buyer Indemnifiable Claim per this Section 9.4.(b), the Buyer shall be informed of the Sellers' decision within half of the time legally established to file a defense or, if the time legally established to file a defense is less than ten (10) days, the Buyer or the Target Company shall assume the defense of the Indemnifiable Claim at the risk and cost of the Sellers, and the Sellers may later decide to participate in or assume the defense. In the event an Officer and Seller of the Target Company becomes aware of facts giving rise or threatening to give rise to a Buyer Indemnifiable Claim, such Officer and Seller shall immediately notify Buyer of same in writing.

c) If an Indemnifiable Claim arises out of a temporary restraining order or injunction, considering the short term to present a defense to such a claim, the Party involved shall assume the defense without first notifying the other Party. The Parties shall discuss the subsequent defense action(s) of such Indemnifiable Claim which shall either be assumed by both or one of the Parties. The Parties shall follow the established procedure in Section 9.4.(b).

(d) If an Indemnifiable Claim involves the responsibility of the Buyer and the Sellers, the Target Company shall always be the Party to take all actions to defend its interests and the Parties shall pay all defense costs (including posting bonds or other guarantees required by the court) and Damages (if any) proportionally to their respective responsibilities.

e) If the Indemnifying Party disputes its Liability with respect to an Indemnifiable Claim, it shall, within five (5) Business Days or one-third (1/3) of the legal term (if applicable to such Indemnifiable Claim according to the applicable laws), whichever is shorter, after receiving the Notification, give written notice of such dispute to the Indemnified Party, in which case both Parties shall endeavor to mutually agree in good faith to resolve such dispute. If the Parties are unable to resolve the Indemnifiable Claim within thirty (30) days or on the legal term (if applicable to solve such Indemnifiable Claim according to the applicable laws), whichever is shorter, after the Indemnifying Party delivers such notice, then either Party shall be entitled to pursue all available remedies to prosecute or defend against the Indemnifiable Claim. Pending resolution of any such dispute, the Indemnified Party shall have the right to defend, compromise, or settle such Indemnifiable Claim at the risk of the Indemnifying Party.

f) Notwithstanding anything in this Section 9.4. to the contrary, if there is a reasonable probability that an Indemnifiable Claim may materially and adversely affect the Indemnified Party, its Subsidiaries or Affiliates, including the Target Company if the Buyer is the Indemnified Party, other than as a result of money damages or other monetary payments, then the Indemnified Party shall have the right, at the cost and expense of the Indemnifying Party, to defend, compromise or settle such Indemnifiable Claim provided that the Indemnifying Party give written acceptance or fail to answer and agree that such Indemnifiable Claim may give rise to indemnification obligation by the Indemnifying Party. In such case, the Indemnifying Party shall not, without the Indemnified Party's prior written consent, settle or compromise any Indemnifiable Claim or consent to entry of any judgment in respect of any Indemnifiable Claim, unless such settlement, compromise or consent (a) includes as an unconditional term the giving by the claimant or the plaintiff to the Indemnified Party (and its Subsidiaries and Affiliates, including the Target Company if the Buyer is the Indemnified Party) a release from all Liability in respect of such Indemnifiable Claim and (b) does not include a finding or admission by the Indemnified Party (and its Subsidiaries and Affiliates, including the Target Company if the Buyer is the Indemnified Party) of any violation of applicable Laws or any violation of the rights of any Person). Any settlement by an Indemnified Party, which might prevent the Target Company from maintaining its good standing and might affect the normal course of conduct of its business, shall be preceded by the express consent of the Target Company, the Buyer, and any other Party affected by such settlement.

g) For the avoidance of doubt, the failure or delay by an Indemnified Party to notify an Indemnifiable Claim to an Indemnifying Party within the period of time set forth in this Section 9.4. shall not release the Indemnifying

Party from their indemnification obligation hereunder, except if such failure or delay causes a Damage to the Indemnifying Party.

h) Sellers shall provide to Buyer quarterly updates for each Indemnifiable Claim in writing from Sellers' outside counsel. Such written updates shall include status and procedural updates, potential outcomes, probability of success assessment, next steps, any other information the outside counsel considers relevant in relation to any Indemnifiable Claim.

9.5. Procedure for Indemnification with Respect to Non-Third Party Claims.

a) In the event that the Indemnified Party asserts the existence of an Indemnifiable Claim giving rise to Damages (but excluding Indemnifiable Claims resulting from the assertion of liability by third parties), it shall give written notice to the Indemnifying Party specifying the nature and amount of the Indemnifiable Claim asserted (a "**Claim Notice**"). Where the matter giving rise to a breach of any undertaking or warranty is capable of remedy, the breach shall not entitle the Indemnified Party to indemnification hereunder unless written notice of the breach is given to the Indemnifying Party and the matter or default is not remedied within thirty (30) days after the date on which such Claim Notice is received. If the Indemnifying Party, within twenty (20) days after receiving such Claim Notice, has not given written notice to the Indemnified Party announcing its intent to contest such assertion by the Indemnified Party, such assertion shall be deemed accepted and the amount of the Indemnifiable Claim shall be deemed a valid Indemnifiable Claim.

b) If the Indemnifying Party contests the assertion of an Indemnifiable Claim by giving such written notice to the Indemnified Party within such twenty-day period, then the Parties shall endeavor in good faith to resolve the Indemnifiable Claim. If the Parties are unable to resolve the Indemnifiable Claim within sixty (60) days after the Indemnifying Party delivers such notice, then the Indemnifying Claim shall be considered under dispute. The dispute shall then be settled in accordance with the arbitration rules provided for in Section 10.9 of this Agreement.

10. MISCELLANEOUS PROVISIONS

10.1. Successors and Assigns. This Agreement shall inure to the benefit of, and be binding upon, the Parties and their respective successors and heirs. No Party shall assign this Agreement or any of the rights or obligations created hereunder without the prior written consent of the other Parties, except that the Buyer shall have the right to assign this Agreement and all or any part of its rights hereunder to any Subsidiary or Affiliate of the Buyer, but in such event the Buyer shall remain fully liable for the performance of all of such obligations in the manner prescribed in this Agreement.

10.2. Expenses. Except as otherwise provided in this Agreement, the Sellers and the Buyer to this Agreement shall bear their respective fees and expenses incurred in connection with the preparation, negotiation, execution and performance of the transactions contemplated by this Agreement and the Transaction Documents. Accordingly, Sellers shall pay from their personal accounts (and not from any account of the Target Company) their advisors' fees and expenses.

10.3. Notices. All notices, requests and other communications to any Party hereunder shall be made in writing with proof of receipt and shall be delivered to such Party at its address set forth below or at such other addresses as shall be furnished by any Party by like notice to the others. Except as otherwise expressly provided herein, each such notice, request or other communication shall be effective upon the earlier of (i) actual receipt, or (ii) receipt of confirmation of delivery, in each case at the address specified in this Section 10.3.

(a) If to the Buyer, to:

CDC BRASIL DISTRIBUIDORA DE TECNOLOGIAS ESPECIAIS LTDA.
Avenida Rui Barbosa, 2529, Galpão 12
Bairro Jardim Ipê
São José dos Pinhais, Paraná, CEP 83055-320
Attn.: Alexandre Machado de Campos Conde
E-mail: alexandre.conde@scansource.com.br

and

SCANSOURCE INC.
6 Logue Court
Greenville, SC 29615
Attn.: General Counsel
Email: john.ellsworth@scansource.com

Courtesy Copy: Demarest Advogados
Av. Pedroso de Moraes, 1.201 Centro Cultural Ohtake
São Paulo, São Paulo, CEP 05419-001
Attn.: Paulo Frank Coelho da Rocha
E-mail: procha@demarest.com.br

(b) if to the Sellers, to:

RAFAEL NASSAR PALONI
Alameda dos Jurupis, 777, apto 12, Moema,
São Paulo, São Paulo, CEP 04088-002
E-mail: rpaloni@intersmart.com.br

WALTER HADDAD UZUM
Rua Ministro Gabriel de Rezende Passos, 433, Moema, apt. 61
São Paulo, São Paulo, CEP 04521-022
E-mail: walter@intersmart.com.br

Courtesy Copy: Derraik & Menezes Associados
Rua Fidêncio Ramos, 195/141
Vila Olímpia
São Paulo, São Paulo, CEP 04551-010
Attn.: Rodrigo Menezes
E-mail: rodrigo.menezes@derraik.com.br

10.4. Entire Agreement. This Agreement, together with the Exhibits, the Schedules and the Transaction Documents, represents the entire agreement and understanding of the Parties hereto with reference to the transactions contemplated herein and therein. This Agreement supersedes all prior negotiations and agreements among the Parties relating to the subject matter of this Agreement.

10.5. Amendments. This Agreement may be amended only by a written instrument signed by the Parties.

10.6. Severability. The invalidity or unenforceability of any term or provision hereof shall not affect the validity or enforceability of this Agreement and the Parties agree to make appropriate modifications to this Agreement to cure the invalidity or unenforceability of any term or provision hereof.

10.7. Language. This Agreement is executed and shall be interpreted exclusively according to the English language.

10.8. Governing Law. This Agreement shall be governed by and construed in accordance with the laws of the state of Delaware, United States of America.

10.9. Dispute Resolution. In the event of any dispute, controversy or Claim arising out of or relating to this Agreement, the Parties hereto shall consult and negotiate with each other and, recognizing their mutual interests, attempt to reach a solution satisfactory to both Parties. If the Parties do not reach a settlement within a period of sixty (60) days, then, any unresolved dispute, controversy or Claim arising out of or relating to this Agreement shall be settled by arbitration in accordance with the Arbitration Rules of the International Chamber of Commerce.

10.9.1. The Parties shall have the right to submit the controversy to arbitration by means of a non-judicial notice to the other Parties (“**Arbitration Notification**”). The Arbitration Notification shall present the scope of the controversy as well as the name and address of the arbitrator selected by the claimant as determined in Section 10.9.2 below.

10.9.2. The Panel of Arbitrators shall consist of three arbitrators. One of them shall be appointed by the claimant in the Arbitration Notification. Another arbitrator shall be appointed by the other Party within thirty (30) days from the date of the receipt of the claimant’s Arbitration Notification.

10.9.3. The arbitrator selected by the claimant and the arbitrator selected by the respondent shall, within ten (10) days of the appointment of the second arbitrator, select a third neutral arbitrator, who shall not share the same nationality of either Party. In the event they are unable to do so, the third arbitrator shall be selected by the president of the International Chamber of Commerce. All three arbitrators shall provide a statement disclosing any relationship that might reasonably compromise his or her independence and/or impartiality.

10.9.4. The Panel of Arbitrators shall issue its ruling in order to resolve the controversy according to the provisions of this Agreement and based on New York State Substantive Law. The arbitration shall be held in the city of Miami, State of Florida, United States. The language of the arbitration shall be exclusively English. However, the Parties acknowledge and agree that documents in Portuguese may be accepted by the Panel of Arbitrators at its discretion.

10.9.5. The arbitration award shall be final and binding. It shall be in writing, accompanied by a reasoned opinion, rendered by majority vote, and issued within six (6) months of the commencement of arbitration, unless such time limit is extended by the arbitrators by majority vote. The amounts in the award shall be expressed in Reais (R\$). The arbitrators may add interest rates to the amount of the award in case of payment delay according to the current commercial interest rate.

10.9.6. The arbitral award shall consist of a report, containing the Parties’ names and a summary of the case. It shall refer to the basis for the decision, address the material and legal aspects involved and specify whether the arbitrators rendered an award in equity or in law. The award shall also mention the provision by which the arbitrators were called into the dispute and the deadline for compliance with the decision. The award shall state the date and place where the award was rendered and it shall be duly signed by all arbitrators. In order to facilitate enforcement of the arbitral award, such award shall list all damages awarded and divide them into particularized categories. Each category shall clearly state the amount of damages awarded under that category.

10.9.7. The arbitration costs and expenses shall be borne by the non-prevailing Party. Each Party shall receive a copy of the hearings minute. The costs of such copies shall be divided equally between the Parties. Witness hearings shall be allowed.

10.9.8. Either Party may, without waiving any remedy under this Agreement, seek from any court having jurisdiction any interim or provisional relief as necessary to protect the right or property of that Party, pending the establishment of the arbitral tribunal (or pending the arbitral tribunal's determination on the merits of the controversy).

10.9.9. This arbitration clause shall be deemed independent from this Agreement; therefore, should this Agreement be considered invalid, such invalidity shall not render this arbitration clause null or void.

10.9.10. Authorized Initials. The Parties hereby authorize the persons identified below to initial, on their behalf, all the pages of this Agreement as well as the Exhibits:

<u>Party</u>	<u>Name</u>	<u>Initial</u>
Buyer	Max Hashimoto	
Sellers	Ana Paula Von-Gusseck Ferreira	
Target Company	Ana Paula Von-Gusseck Ferreira	

11. DEFINITIONS

“Affiliates” of any Person means any Person that, directly or indirectly through one or more intermediaries, controls, is controlled by or is under common control with such Person. For the purposes of this paragraph, the term “control” means the possession, directly or indirectly, of the power to direct or cause the direction of the management, and policies of a Person, whether through the ownership of voting securities, by contract, or otherwise.

“Affiliate Companies” means JP4 Investments LLC, Globaldata Network LLP, Intersmart Colombia, Intersmart Chile, Intersmart Mexico, Intersmart Peru and Intersmart USA.

“Accounts Receivable” means all the accounts and notes receivable by the Target Company including vendor receivables.

“Agreement or Definitive Agreement” means this Share Purchase and Sale Agreement between the Sellers and the Buyer dated as of January 8, 2015.

“Arbitration Notification” means the definition contained in Section 10.9.1. of this Agreement.

“Brazilian GAAP” means accounting principles generally accepted in Brazil applied consistently.

“Business Day” means any other day but Saturday, Sunday, holidays in the Federative Republic of Brazil, or those days in which commercial banks of the city of São Paulo are authorized to close by law.

“Buyer Indemnifiable Claim” or **“Buyer Indemnifiable Claims”** means the definition contained in Section 9.2.(a) of this Agreement.

“Buyer Indemnified Party” means the definition contained in Section 9.2.(a) of this Agreement.

“Cap” means the definition contained in Section 9.3 of this Agreement.

“**Claim**” means any claim, demand, action or cause of action for payment or performance of any debt, account, covenant, contract, promise, loss, reimbursement, compensation, Liability or expense.

“**Claim Notice**” means the definition contained in Section 9.5 of this Agreement.

“**Confidential Information**” means the definition contained in Section 8 of this Agreement.

“**Closing Balance Sheet**” means the definition contained in Section 6.2 (b) of this Agreement.

“**Closing Date**” has the meaning provided in the definition contained in Sections 3.1 of this Agreement.

“**Contingency**” means any and all potential liability, known or hidden, primary or ancillary, unfixed, not materialized, including, without limitation, civil obligations, taxes, labor, contractual and/or corporate.

“**Credits**” means any credit of any nature, included but not limited to loan, pledge, guarantee, warranty, promissory note, instrument of credit of any kind, extrajudicial or judicial enforcement instrument or collection right.

“**Damages**” means the definition contained in Section 9.2.(a) of this Agreement.

“**Data Room**” means the Internet site with limited controlled access (using a secure log-on supplied by the Sellers which can be disabled at any time by the Sellers) to which the Buyer and its advisers are given access.

“**Earn-Out**” has the meaning provided in the definition contained in Section 2.1.(c) of this Agreement.

“**Earn-Out Escrow Amount**” has the meaning provided in the definition contained in Section 2.1.1 of this Agreement.

“**Earn-out Period**” means the definition contained in Exhibit 2.1.(a)(1) of this Agreement.

“**Employee Plan**” means any employee share scheme of the Target Company in which the employees participate or are eligible to participate.

“**Environmental Property**” means the definition contained in Section 4.1.28 of this Agreement.

“**Escrow Agent**” means the bank HSBC Brasil as custodian bank for the Escrow Amount, as per Section 2.2.1.

“**Escrow Agreement**” means the definition provided in Section 2.2.1 of this Agreement.

“**Final Closing Balance Sheet**” means the definition contained in Section 6.2.(b) of this Agreement.

“**Financial Statements**” means the definition contained in Section 4.1.5 of this Agreement.

“**Governmental Authority**” means any domestic or foreign government, including any federal, provincial, state, territorial or municipal government, and any government agency, tribunal, commission or other authority exercising executive, legislative, judicial, regulatory or administrative functions of, or pertaining to, government, and any official of any of the foregoing.

“**Guidelines**” means the definition contained in Exhibit 2.3 of this Agreement.

“Hazardous Materials” means a substance or material that a competent Governmental Authority has determined as capable of posing an unreasonable risk to health, safety, and property in specific conditions or circumstances.

“Indemnifiable Claim” or **“Indemnifiable Claims”** means any Claim indemnifiable under this Agreement, provided that the Parties hereby acknowledge and agree that Sellers shall be liable and subject to indemnification in favor of the Buyer in connection to a Buyer Indemnifiable Claim under this Agreement as set forth in Section 9.2 of this Agreement. The Parties hereby further acknowledge and agree that Buyer shall be liable and subject to indemnification in favor of a Seller in connection to a Seller Indemnifiable Claim under this Agreement as set forth in Section 9.2 of this Agreement.

“Indemnifiable Escrow Claim Settlement” means the definition contained in Section 2.2.4.

“Indemnified Party” means the definition contained in Section 9.3.(c) of this Agreement.

“Indemnifying Party” means the definition contained in Section 9.3.(c) of this Agreement.

“Initial Escrow Amount” means the amount equal to ten million Reais (R\$10,000,000.00) to be deposited in the Escrow Account, as per Section 2.1.(b).

“Initial Purchase Price” has the meaning provided in the definition contained in Section 2.1.(a) of this Agreement.

“Insolvent” means the definition contained in Section 4.1.38 of this Agreement.

“Intellectual Property” means all patent rights, copyrights, copyright registration order, systems, software and any other similar Intellectual Property right, belonging to the Target Company and/or those that shall be used in the business of the Target Company.

“Intersmart Colombia” means the definition contained in Recital F of this Agreement.

“Intersmart Chile” means the definition contained in Recital F of this Agreement.

“Intersmart Mexico” means the definition contained in Recital F of this Agreement.

“Intersmart Peru” means the definition contained in Recital F of this Agreement.

“Intersmart USA” means the definition contained in Recital F of this Agreement.

“Inventory” means the definition contained in Section 4.1.10 of this Agreement.

“Knowledge” means, with respect to a matter, the actual knowledge of such matter or the knowledge of such matter that would have been obtained by the relevant Party or any of its representatives after due inquiry as would cause a reasonably prudent person to make due inquiry in respect of such matter and such reasonably prudent person would, after such due inquiry, gain such knowledge about such matter.

“Law” means and includes any federal, state, provincial, local, municipal, international, multinational law, ordinance, regulation, rule or principle of common law, regulation, statute, or treat, and any order of Governmental Authority relating to the foregoing.

“Liability” means all and any liability, known, primary or ancillary, fixed, overdue or to be overdue, including, without limitation, civil obligations, Taxes, labor, contractual and/or corporate.

“Lien” means, in relation to any property or assets, any mortgage, security, pledge, charges, security interests, trust receipt, conditional sale, encumbrance, or any other real right or warranty of any type, in relation to any property or assets.

“Material Contract” has the meaning provided in the definition contained in Section 4.1.7.10. of this Agreement.

“Non-Competition Period” means the definition contained in Section 7.1.1 of this Agreement.

“Notification” means the definition contained in Section 9.4.(a) of this Agreement.

“Ordinary Course of Business” means the conduct of the business of the Agreeing Parties and Target Company in accordance with the applicable Law, past practice and normal custom of the business.

“Person” means the natural person, a joint-stock company, a limited liability company, a joint venture, a trust or any other entity or organization, even without corporate personality including a government or its agencies or subdivisions or other entities.

“Purchase Price” means the definition contained in Section 2.1 of this Agreement.

“Real”, “Reais” or “RS” means the currency of Brazil.

“Real Property” means the definition contained in Section 4.1.9 of this Agreement.

“Relevant Adverse Effect” means any event, fact or circumstance that occurred between August 14, 2014 and the Closing Date, which was not disclosed by the Sellers prior to the date hereof that: (i) individually or collectively result in Damages, liabilities, costs or expenses to the Target Company in an amount exceeding five million Reais (R\$5,000,000.00); or (ii) results in an annual loss in net earnings of the Target Company of more than 3% (three percent) of the Target Company’s total gross revenues from the Closing Date.

“Relevant Person” means the definition contained in Section 7.1.2 of this Agreement.

“Relevant Products or Services” means the definition contained in Section 7.1.3 of this Agreement.

“Shares” means the definition contained in Recital E of this Agreement.

“Seller Indemnified Party” means the definition contained in Section 9.2.(b) of this Agreement.

“Seller Indemnifiable Claim” or “Seller Indemnifiable Claims” means the definition contained in Section 9.2(b) of this Agreement.

“Subsidiary” means, with respect to any Person, any corporation in which a majority of the total voting power of shares of stock of which such Person is entitled (without regard to the occurrence of any contingency) to vote in the election of directors, managers or trustees thereof and is at the time owned or controlled, directly or indirectly, by that Person or one or more of the other Subsidiaries of that Person or a combination thereof, or any partnership, limited liability company, association or other business entity a majority of the partnership or other similar ownership interest of which is at the time owned or controlled, directly or indirectly, by that Person or one or more Subsidiaries of that Person or a combination thereof. For purposes of this definition, a

Person is deemed to have a majority ownership interest in a partnership, limited liability company, association or other business entity if such Person is allocated a majority of the gains or losses of such partnership, limited liability company, association or other business entity or is or controls the managing director or general partner of such partnership, limited liability company, association or other business entity.

“**Tax(es)**” mean(s) all and any federal, state and municipal taxes and any other taxes, charges, emoluments (including, but not limited to, taxes resulting from corporate operations, value added taxes, municipal tax on service, registry taxes, real estate taxes, and custom duties), as well as labor charges, social contributions including, but not limited to, social security contributions and health plan and supplementary private pension.

“**Tax Credits**” has the meaning provided in the definition contained in Section 6.5. of this Agreement.

“**Tax Escrow**” has the meaning provided in the definition contained in Section 2.2.2.(b) of this Agreement.

“**Tax Returns**” means returns, declarations, reports, Claims for refund, information returns or other documents (including any supporting exhibits, statements or information required to be attached thereto) filed or required to be filed in connection with the determination, assessment or collection of Taxes of any Party or the administration of any laws, regulations or administrative requirements relating to any Taxes.

“**Territory of Brazil**” means the territory of the Federative Republic of Brazil in accordance with international law and Brazilian law.

“**Threshold**” means the definition contained in Section 9.3 of this Agreement.

“**Total Escrow Amount**” has the meaning provided in the definition contained in Section 2.1.1. of this Agreement.

“**Transaction**” means the definition contained in Section 1.1 of this Agreement.

“**Transaction Documents**” means this Agreement and its Exhibits, and any other document related to this Agreement.

“**US GAAP**” means accounting principles generally accepted in the United States of America applied consistently

EXHIBIT LIST

Exhibit 2.1.(a)(1)

Calculation of Initial Purchase Price

Exhibit 2.1.(a)(2)

Sellers' Wiring Instructions

Exhibit 2.1.(c)(1)

Earn-Out Calculation

Exhibit 2.1.(c)(2)

Form of Annual Certification

Exhibit 2.1.(c)(3)

Adjusted EBITDA For Earn-Out Calculations

Exhibit 2.2.1.

Escrow Agreement

Exhibit 2.2.5.

Release of the Escrow Amount

Exhibit 2.3.

Target Company's Operating Model

Exhibit 3.2 (c)

Officers' Service Agreement

Exhibit 3.2.(e)

Legal Opinion from the Sellers' Counsel

Exhibit 3.2.(h)

Letters of Resignation from Directors and Officers other than Rafael, Walter and João

Exhibit 3.2.(i)

List of Bank Mandates and Existing Powers of Attorneys

Exhibit 3.2. (k)

Purchase Price Guaranty

Exhibit 4.1.1.(a)

Organization - List of Target Company's Subsidiaries and Branches and Sellers' Participations

Exhibit 4.1.1.(b)

Business Arrangements or Relationships Between Sellers and the Target Company

Exhibit 4.1.1.(c)

Target Company's and its Subsidiary Current Bylaws

Exhibit 4.1.2.

Capitalization, Ownership of the Shares

Exhibit 4.1.5.

Target Company's Audited Financial Statements and other Financial Information

Exhibit 4.1.7.

Absence of Certain Changes or Events Outside of the Ordinary Course of Business

Exhibit 4.1.7.1

Amendments to the By-laws

Exhibit 4.1.7.9.

Liability for any Distribution, Dividend or Similar Payment

Exhibit 4.1.8.

Exceptions to Assets Authorized for the use in the Regular Performance of Business

Exhibit 4.1.9.

Real Property and Leases

Exhibit 4.1.10.

Exceptions to wholly-owned Inventories

Exhibit 4.1.12.

Exceptions to the Absence of Undisclosed Liabilities

Exhibit 4.1.13.

List of Agreements

Exhibit 4.1.14.(d)(1)

Potential Bad Debts

Exhibit 4.1.14.(d)(2)

Reserves for potential Bad Debt

Exhibit 4.1.14.(e)

Bankruptcy

Exhibit 4.1.16.

List and description of Indebtedness and Bank Accounts

Exhibit 4.1.17.

List and description of Insurance Policies

Exhibit 4.1.19.

List of Tax Lawsuits

Exhibit 4.1.19 (a)

Copies of Tax Returns

Exhibit 4.1.19.(b)

List of Tax Investigation Procedures

Exhibit 4.1.20.

List of Licenses and Permits

Exhibit 4.1.21.

List of Pending Litigation

Exhibit 4.1.22 (a).

List of Pending Labor Claims

Exhibit 4.1.22.(b)

List of Employees

Exhibit 4.1.22.(c)

Employees Benefits

Exhibit 4.1.22.(d)

Service or Outsourced Contractor Agreements

Exhibit 4.1.23.

Exceptions to the Compliance with Employee Benefit Matters

Exhibit 4.1.24.

List and description of Employees' Injuries

Exhibit 4.1.26.

List of Intellectual Property

Exhibit 4.1.28

Exceptions to the Environmental Waste Disposals

Exhibit 4.1.28.1.

Exceptions to Environmental Hazardous Materials

Exhibit 4.1.28.2.

List of Documents, Filings, Reviews, Audits Regarding Environmental Property

Exhibit 4.1.28.5.

List of Sites Regarding Hazardous Materials Disposal

Exhibit 4.1.30.

Exceptions of events out of the Ordinary Course of Business and No Material Adverse Change

Exhibit 4.1.34.

Customers and Suppliers - Material Change

Exhibit 4.1.34.(a)

Customers and Suppliers - Top 20

Exhibit 4.1.35.(c)(1)

Back-Up System

Exhibit 4.1.37.

Conflicts of Interest

Exhibit 4.1.39.

Copies of the Standards Terms and Conditions of Sale or Lease of Target Company and its Subsidiaries

Exhibit 4.1.42

List of Powers of Attorney in Force

Exhibit 6.2.(a)
Post-Closing Obligations

Exhibit 6.5
Target Company's Tax credits.

In witness whereof, this Agreement was executed in 04 (four) equal counterparts by the Parties duly authorized representatives, in the presence of the 02 (two) undersigned witnesses.

[Follows to the Signature Page]

(signature pages of the Share Purchase and Sale Agreement, dated January 8, 2015, executed by and among CDC Brasil Distribuidora de Tecnologias Especiais Ltda., Global Data Network LLP, Rafael Nassar Paloni, João Ricardo De Toledo, Walter Haddad Uzum.)

São Paulo, January 8, 2015.

_____/s/ Alexandre Code_____
By CDC BRASIL DISTRIBUIDORA DE TECNOLOGIAS ESPECIAIS LTDA.
Name: Alexandre Conde
Title: President

_____/s/ Rafael Nassar Paloni_____
By GLOBAL DATA NETWORK LLP
Name: Rafael Nassar Paloni
Title: Member

_____/s/ Rafael Nassar Paloni_____
RAFAEL NASSAR PALONI

_____/s/ Joao Ricardo de Toledo_____
JOÃO RICARDO DE TOLEDO

_____/s/ Walter Haddad Uzum_____
WALTER HADDAD UZUM

_____/s/ Walter Haddad Uzum_____/s/ Rafael Nassar Paloni_____
By INTERSMART COMÉRCIO IMPORTAÇÃO, EXPORTAÇÃO DE EQUIPAMENTOS ELETRÔNICOS S.A.
Name: Walter Haddad Uzum Rafael Nassar Paloni
Title: Director President

Witnesses:

1. /s/ Silvia Yumi Kawagoe 2. /s/ Dulcemara de Oliveira
Name: Silvia Yumi Kawagoe Name: Dulcemara de Oliveira
ID No.: **** ID No.: ****

Disclosure Schedules and Exhibits are not filed herewith pursuant to Item 601(b)(2) of Regulation S-K. ScanSource, Inc. will supplementally provide a copy of such schedules to the Commission upon request.

SCANSOURCE, INC.
NONQUALIFIED DEFERRED COMPENSATION PLAN
As Amended and Restated Effective January 1, 2015

SECTION 1**Purpose and Administration**

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

1.2 Effective Date of Amended and Restated Plan. The Plan was originally established effective July 1, 2004. This document sets forth the terms of the Plan as amended and restated effective as of January 1, 2015. The terms of the Plan as in effect prior to January 1, 2015 shall govern the operation of the Plan prior to this amendment and restatement (except that the balance credited to a Participant’s Participating Employer Contribution Account shall become fully vested if the Participant remains (or has remained) continuously employed by a Participating Employer or an Affiliate until his or her Retirement Date (For Vesting Purposes Only) provided the Participant remains so employed as of January 1, 2015), and all Deferred Compensation Accounts as of December 31, 2014 shall be distributed as provided previously, except for changes otherwise permitted by Section 409A of the Code.

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

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

1.4 Administration. The Plan shall be administered by the Plan Administrative Committee appointed by the Company.

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

- (i) To make and enforce such rules and regulations as it deems necessary or proper for the administration of the Plan;
- (ii) To interpret the Plan and to decide all questions concerning the Plan;
- (iii) To designate persons eligible to participate in the Plan, subject to the approval of the Board;
- (iv) To determine the amount and the recipient of any payments to be made under the Plan;
- (v) To designate and value any investments deemed held in the Accounts;

- (vi) To appoint such agents, counsel, accountants, consultants and other persons as may be required to assist in administering the Plan; and
- (vii) To make all other determinations and to take all other steps necessary or advisable for the administration of the Plan.

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

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

SECTION 2

Definitions

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

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

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

(b) “Separation from Service Distribution Sub-Account” means the Account established under a Participant’s Account in connection with the Participant’s Separation from Service distribution pursuant to Section 6.2.

2.2 Affiliate. “Affiliate” means any corporation which is a member of a controlled group of corporations (as defined in Code Section 414(b)) which includes the Company and any trade or business (whether or not incorporated) which is under common control (as defined in Code Section 414(c)) with the Company, except in making any such determination, 50% shall be substituted for 80% under such Code Section and the related Treasury Regulations.

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

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

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

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

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

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

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

2.10 Discretionary Employer Contribution. “Discretionary Employer Contribution” means the contribution deemed credited to a Participant’s Account pursuant to Section 5.3.

2.11 Discretionary Matching Contribution. “Discretionary Matching Contribution” means the contribution deemed credited to a Participant’s Account pursuant to Section 5.1.

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

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

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

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

2.16 Participating Employer. “Participating Employer” means the Company and any of its participating Affiliates, or any of their successors.

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

2.18 Plan Year. “Plan Year” means the calendar year.

2.19 Retirement Date. “Retirement Date” means the date on which a Participant separates from service after reaching 55 and completing at least 10 years of service as an employee of a Participating Employer.

2.20 Retirement Date (For Vesting Purposes Only). “Retirement Date (For Vesting Purposes Only)” means the date on which the sum of the Participant’s age and years of service equals or exceeds sixty-five (65).

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

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

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

2.23 Totally Disabled or Total Disability. A Participant shall be considered to be “Total Disabled” if he or she meets one of the following requirements:

- (a) The Participant is unable to engage in any substantial gainful activity by reason of any medically determinable physical or mental impairment that can be expected to result in death or can be expected to last for a continuous period of not less than twelve (12) months.

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

2.24 Valuation Date. “Valuation Date” means each business day the financial markets and the vendor that administers the Plan on behalf of the Company are open, unless the underlying investment requires a less frequent valuation.

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

SECTION 3

Eligibility and Participation

3.1 Eligible Employees. Only employees of a Participating Employer who are designated by the Plan Administrative Committee and approved by the Board shall be eligible to participate in the Plan. Participation is limited to a select group of management or highly compensated employees of the ScanSource Controlled Group. See Appendix A.

3.2 Participation.

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

SECTION 4

Compensation Deferrals

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

- (i) **General Rule.** Except as otherwise provided in this Section, an election to defer receipt of Compensation for services to be performed during a calendar year must be made no later than the December 31 preceding the calendar year during which the Participant will perform the related services.
- (j) **Performance-Based Compensation.** In the case of Compensation that qualifies as “performance-based compensation” for purposes of Code Section 409A, an election to defer receipt of such compensation must

be made no later than the date that is six (6) months before the end of the performance period with respect to which such performance-based compensation relates.

- (k) **First Year of Eligibility.** Notwithstanding the foregoing, in the case of the first year in which an employee becomes eligible to participate in the Plan, an initial deferral election must be made not later than thirty (30) days after the date the employee becomes eligible to participate in the Plan. Such election shall apply only with respect to compensation paid for services to be performed subsequent to the election.

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

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

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

4.3 Election of In-Service Distribution Date. A Participant may elect to have any whole percentage of the amount of Compensation Deferrals, Discretionary Matching Contributions and Discretionary Employer Contributions credited to his or her Account for a particular Plan Year, and any earnings thereon, distributed at a designated date prior to his or her Separation from Service in accordance with Section 6. Such election shall be made at the time the Participant makes the election for the Plan Year with respect to which the Compensation Deferrals, Discretionary Matching Contributions and Discretionary Employer Contributions are to be credited to the Participant's Account.

4.4 Election of Form of Payment of Retirement Distribution. A Participant may elect whether payment of his or her Account for a particular Plan Year will be made in a lump sum or installments following his or her Separation from Service in accordance with Section 6. Such election shall be made at the time the Participant makes the election for the Plan Year with respect to which the Compensation Deferrals, Discretionary Matching Contributions and Discretionary Employer Contributions are to be credited to the Participant's Account.

4.5 Election of Distribution Upon Change In Control. A Participant may elect to have his or her Account for a particular Plan Year distributed immediately following a Change in Control. Such election shall be made at the time the Participant makes the election for the Plan Year with respect to which the Compensation Deferrals, Discretionary Matching Contributions and Discretionary Employer Contributions are to be credited to the Participant's Account.

4.6 General Rules Applicable to Elections. Elections under this Article 4 shall be made in the form, manner, and in accordance with the notice requirements, prescribed by the Plan Administrative Committee. Except as otherwise provided in this Plan, an election made by a Participant for a particular calendar year shall become irrevocable as of the last date on which such election can be made for the calendar year pursuant to this Article 4. Notwithstanding any other provision of the Plan, an election by a Participant to defer Compensation for a particular Plan Year will be prohibited for at least six months after a hardship distribution (pursuant to Treasury Regulation §1.401(k)-1(d)(3)) from a 401(k) plan sponsored by a Participating Employer to the extent required under Treasury Regulation §1.401(k)-1(d)(3).

4.7 Cancellation of Deferral Election

- (a) The Plan Administrative Committee may permit or require a Participant to cancel a Deferral Election during a calendar year if it determines either of the following circumstances has occurred:
 - (i) The Participant has an “unforeseeable emergency” as defined in Section 7.03 below or a hardship distribution (pursuant to Treasury Regulation §1.401(k)-1(d)(3)) from a 401(k) plan sponsored by a Participating Employer, to the extent permitted by Section 409A of the Code. If approved by the Plan Administrative Committee, such cancellation shall take effect as of the first payroll period next following approval by the Plan Administrative Committee.
 - (ii) The Participant incurs a disability. If approved by the Plan Administrative Committee, such cancellation shall take effect no later than the later of the end of the calendar year or the 15th day of the third month following the date Participant incurs a disability. Solely for purposes of this clause (ii), a disability refers to any medically determinable physical or mental impairment resulting in the Participant’s inability to perform the duties of his or her position or any substantially similar position, where such impairment can be expected to result in death or can be expected to last for a continuous period of not less than six (6) months.
- (b) If a Participant cancels a Deferral Election during a calendar year, he or she will not be permitted to make a new deferral election with respect to Compensation relating to services performed during the same calendar year.

4.8 Crediting of Compensation Deferrals

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

SECTION 5

Discretionary Matching or Employer Contributions

5.1 Discretionary Matching Contribution

- (c) For any Plan Year, a Participating Employer may credit to the Deferred Compensation Account of any Participant employed by that Participating Employer with a Discretionary Matching Contribution in such amount as may be determined by the Participating Employer in its sole discretion at least thirty (30) days prior to the beginning of the Plan Year. Discretionary Matching Contributions need not be uniform among Participants.
- (d) The amount of the Discretionary Matching Contribution to be credited to a Participant’s Account for a Plan Year shall be equal to such dollar amount, such percentage of a Participant’s Compensation Deferrals, or any combination thereof, as may be determined by the Participating Employer in its sole discretion.

- (e) Any Discretionary Matching Contribution will be credited to a Participant's Account as of the Valuation Date specified by the Participating Employer.

5.2 Vesting of Discretionary Matching Contribution.

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

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

A Participant will be credited with a Year of Service if:

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

5.3 Discretionary Employer Contribution.

- (a) For any Plan Year, a Participating Employer may credit to the Deferred Compensation Account of any Participant employed by that Participating Employer with a Discretionary Employer Contribution in such amount as may be determined by the Participating Employer in its sole discretion at least thirty (30) days prior to the beginning of the Plan Year. Discretionary Employer Contributions need not be uniform among Participants.

- (b) The amount of the Discretionary Employer Contribution to be credited to a Participant's Account for a Plan Year shall be equal to such dollar amount as may be determined by the Participating Employer in its sole discretion.
- (c) Any Discretionary Employer Contribution will be credited to a Participant's Account as of the Valuation Date specified by the Participating Employer.

5.4 Vesting of Discretionary Employer Contribution.

- (a) Except as otherwise provided in paragraph (b) below or otherwise specified by the Participating Employer at the time of credit to the Deferred Compensation Account of the Participant, the Discretionary Employer Contribution credited to a Participant's Account with respect to a particular Plan Year shall become vested in accordance with the following schedule:

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

A Participant will be credited with a Year of Service if:

- (i) he or she is actively employed by a Participating Employer for a continuous period of at least six (6) full months during a Plan Year and is actively employed by a Participating Employer as of the last day of the Plan Year, or
 - (ii) he or she fails to meet the active employment requirement in clause (i) above solely as a result of an approved leave of absence.
- (b) Notwithstanding the foregoing vesting schedule:
- (i) the Participating Employer may specify a different vesting schedule for a Discretionary Employer Contribution than described above or provide that the Discretionary Employer Contribution is fully vested at the time credited to the Deferred Compensation Account of the Participant.
 - (ii) the balance credited to a Participant's Participating Employer Contribution Account shall become fully vested if the Participant remains continuously employed by a Participating Employer until his or her death, Total Disability, Retirement Date (For Vesting Purposes Only) or the occurrence of a Change in Control.

5.5 Forfeiture. A Participant's unvested Account balance shall be forfeited upon the occurrence of the payment event related to the Account.

SECTION 6
Distribution Elections

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

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

- (c) The specified in-service distribution date cannot be earlier than the end of the five (5) Plan Year period following the Plan Year for which such Compensation Deferrals, Discretionary Matching Contributions and Discretionary Employer Contributions are credited to his or her Account.
- (d) The Compensation Deferrals, vested Discretionary Matching Contributions and vested Discretionary Employer Contributions credited to a Participant's Account for a particular Plan Year, and any earnings thereon, to be distributed at a specified date, shall be distributed in a single lump sum, unless the Participant elects otherwise. The Participant may elect to have such Compensation Deferrals, vested Discretionary Matching Contributions, vested Discretionary Employer Contributions for a particular Plan Year and any earnings thereon, to be distributed at a specified date, to be distributed in no more than five (5) annual installment payments beginning as of the specified distribution date and on each annual anniversary thereafter until paid in full.
- (e) If a Participant fails to make an in-service distribution election with respect to Compensation Deferrals, Discretionary Matching Contributions and Discretionary Employer Contributions for a Plan Year, then such Compensation Deferrals, Discretionary Matching Contributions and Discretionary Employer Contributions will be allocated to the Participant's Separation from Service Distribution Sub-Account.
- (f) Such election shall be made at the same time the Participant makes the Deferral Election in accordance with Section 4 for that Plan Year. Except as otherwise provided in paragraph (f) below, any such election shall be irrevocable.
- (g) A separate In-Service Distribution Sub-Account will be established and maintained as part of the Participant's Account for each In-Service Distribution Date elected by the Participant. Such Account shall be credited or charged with (i) the amounts of Compensation Deferrals, Discretionary Matching Contributions and Discretionary Employer Contributions designated by the Participant to be distributed as of the In-Service Distribution Date, (ii) a portion of the income, gains, losses, and expenses of investments deemed held in the Participant's Account as allocated based on the Compensation Deferrals, Discretionary Matching Contributions and Discretionary Employer Contributions credited to such Sub-Account and (iii) distributions from such Sub-Account.
- (h) A Participant may change his or her specified in-service distribution date and/or form of payment only in accordance with Section 409A of the Code and the following rules:
 - (i) Such election may not take effect until at least twelve (12) months after the date on which the election is made.

- (ii) The new distribution date cannot be less than five (5) years from the date such payment otherwise would have been paid but for the new election.
- (iii) Such election must be at least twelve (12) months prior to the date the first payment is scheduled to be paid.

6.2 Election of Form of Payment Upon Separation from Service.

- (d) Unless a Participant elects otherwise, the vested balance credited to his or her Separation from Service Distribution Sub-Account for a particular year will be distributed in a single lump sum payment.
- (e) A Participant may elect to have the vested balance credited to his or her Separation from Service Distribution Sub-Account for a particular Plan Year distributed in no more than sixteen (16) annual (or sixty-one (61) quarterly) installment payments, beginning as of the specified distribution date and on each annual (quarterly) anniversary thereafter until paid in full, only if the Participant Separates from Service on or after his or her Retirement Date. A Participant may elect to have the vested balance credited to his or her Separation from Service Distribution Sub-Account distributed in no more than four (4) annual installment payments, beginning as of the specified distribution date and on each annual anniversary thereafter until paid in full, only if the Participant Separates from Service before his or her Retirement Date.
- (f) Such election shall be made at the same time the Participant makes the Deferral Election in accordance with Section 4 for that Plan Year. Except as otherwise provided in paragraph (e) below, any such election shall be irrevocable.
- (g) A separate Separation from Service Distribution Sub-Account will be established and maintained as part of the Participant's Account for each Plan Year. Such Account shall be credited or charged with (i) the amount of Compensation Deferrals, Discretionary Matching Contributions and Discretionary Employer Contributions to be distributed following the Participant's Separation from Service for the particular Plan Year, (ii) a portion of the income, gains, losses, and expenses of investments deemed held in the Participant's Account as allocated based on the Compensation Deferrals, Discretionary Matching Contributions and Discretionary Employer Contributions credited to such Sub-Account and (iii) distributions from such Sub-Account.
- (h) A Participant may change his or her retirement distribution election and/or form of payment only in accordance with Section 409A of the Code and the following rules:
 - (i) Such election may not take effect until at least twelve (12) months after the date on which the election is made.
 - (ii) The new distribution date cannot be less than five (5) years from the date such payment otherwise would have been paid but for the new election.
 - (iii) Such election must be at least twelve (12) months prior to the date the first payment is scheduled to be paid.

6.3 Election of Distribution Upon Change in Control. A Participant may elect to have his or her Account for a particular Plan Year distributed immediately following a Change in Control. Such election shall be made at the time the Participant makes the Deferral Election for the particular Plan Year. Except as otherwise permitted by Section 409A of the Code, and subject to Sections 6.1(f) and 6.2(e) above, any such election shall be irrevocable.

6.4 General Rules. Elections under this Section 6 shall be made in the form, manner, and in accordance with the notice requirements prescribed by the Plan Administrative Committee. Except as otherwise provided in this Plan, if a Participant fails to make a distribution election under this Section 6, the balance credited to his or her Account for a particular Plan Year will be distributed in a single lump sum payment following his or her Separation from Service date. All payments shall be made in cash.

SECTION 7

Deferred Compensation Accounts

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

7.2 Investment of Accounts.

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

SECTION 8

Distribution Prior to Separation from Service

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

- (g) **Commencement of Payment.** Subject to paragraph (c) below and Section 6.1(f) above, payment of a Participant's In-Service Distribution Sub-Account will be paid in a lump sum distribution within the calendar month following the calendar month of the In-Service Distribution Date applicable to such Sub-Account, unless the Participant elected otherwise, in which case payment of the Participant's In-Service Distribution Sub-Account will be distributed in the number of installment payments elected by the Participant, with the first installment payment to be made within the calendar month following the calendar month of the In-Service Distribution Date applicable to such Sub-Account and each successive installment payment to be made on the succeeding annual anniversary of the In-Service Distribution Date applicable to such Sub-Account.
- (h) **Amount of Payment.** The amount of the lump sum payment will be equal to the value of the In-Service Distribution Account as of the last valuation date preceding the date of payment. The amount of any installment payment will be equal to (i) the value of the In-Service Distribution Account as of the last valuation date preceding the date of payment divided by (ii) the number of installment payments not yet distributed.
- (i) **Separation from Service Prior to In-Service Distribution Date.** If the Participant Separates from Service prior to the commencement of distribution, or full distribution, of an In-Service Distribution Sub-Account, then such In-Service Distribution Sub-Account or remaining portion thereof shall be distributed at the same time and in the same manner as the Participant's Separation from Service Distribution Sub-Account.

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

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

8.3 Distribution Upon Change in Control. Subject to Sections 6.1(f) and 6.2(e) above, if a Participant has elected to receive distribution of his or her Account for a particular Plan Year upon the occurrence of a Change in Control, the

balance credited to the Participant's Account shall be distributed to the Participant in a single lump sum payment within thirty (30) days after the Change in Control.

SECTION 9

Distribution Following Separation from Service

9.1 Distribution from Separation from Service Distribution Sub-Account.

- (c) Commencement of Payment. Subject to Section 6.2(e) above, payment of a Participant's Separation from Service Distribution Sub-Account will commence as of the first calendar month following the calendar month of the Participant's Separation from Service date.

Notwithstanding any other provision of the Plan, in no event shall payment to a Participant who is a "specified employee" within the meaning of Code Section 409A on his or her Separation from Service date, commence earlier than the first day following the earlier of (i) the end of the six (6) month period following such date or (ii) the Participant's death. In that event, any payments to be made prior to the earlier of (i) the end of the six (6) month period following such date or (ii) the Participant's death will be accumulated and paid in a lump sum as soon as administratively practicable (and no later than the calendar month) following the earlier of such dates.

- (d) Form of Payment.

- (i) Separation from Service Prior to Retirement Date. In the event that a Participant Separates from Service for any reason other than death or Total Disability prior to reaching his or her Retirement Date, then the amount credited to the Participant's Separation from Service Distribution Sub-Account will be distributed to the Participant in a single lump sum payment, unless the Participant elected otherwise, in which case the amount credited to the Participant's Separation from Service Distribution Sub-Account will be distributed in the number of installment payments elected by the Participant, with the first installment payment to be made in the first calendar month following the calendar month of the Participant's Separation from Service date applicable to such Sub-Account and each successive installment payment to be made on the succeeding annual anniversary of the Participant's Separation from Service date.
- (ii) Separation from Service at or after Retirement Date. If a Participant Separates from Service at or after reaching his or her Retirement Date, for any reason other than death or Total Disability, his or her Separation from Service Distribution Sub-Account will be distributed to the Participant in a single lump sum payment, unless the Participant elected otherwise, in which case the amount credited to the Participant's Separation from Service Distribution Sub-Account will be distributed in the number of installment payments elected by the Participant, with the first installment payment to be made in the first calendar month following the calendar month of the Participant's Separation from Service date applicable to such Sub-Account and each successive installment payment to be made on the succeeding annual (quarterly) anniversary of the Participant's Separation from Service date.

- (e) Amount of Payment.

- (iv) Lump Sum Amount. The amount of the lump sum payment will be equal to the value of the Separation from Service Distribution Sub-Account as of the last valuation date preceding the date of payment.

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

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

9.2 Separation from Service Due to Total Disability. In the event that a Participant Separates from Service at any time by reason of becoming Totally Disabled, subject to Sections 6.1(f) and 6.2(e) above, the balance credited to his or her Account will be distributed to the Participant in a single lump payment within the calendar month following the calendar month of the Participant's Separation from Service date,

9.3 Death.

- (c) In the event that a Participant Separates from Service by reason of his or her death, subject to Sections 6.1(f) and 6.2(e) above, the balance credited to his or her Account will be distributed to the Participant's designated beneficiary in a single lump payment within the calendar month following the calendar month of the Participant's death.
- (d) In the event a Participant dies after the commencement of installment payments, but prior to the completion of all such payments due and owing hereunder, subject to Sections 6.1(f) and 6.2(e) above, the remaining balance credited to his or her Account will be distributed to the Participant's designated beneficiary in a single lump payment within the calendar month following the calendar month of the Participant's death.

9.4 Designated Beneficiary.

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

- (vi) The Participant's estate.

SECTION 10
Forfeiture of Benefits

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

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

then the Plan Administrative Committee may cause the Participant's entire interest in benefits attributable to Discretionary Matching Contributions or Discretionary Employer Contributions, or any portion thereof, and any earnings thereon, to be forfeited and discontinued, or may cause the Participant's payments of benefits under the Plan to be limited or suspended for such other period the Plan Administrative Committee finds advisable under the circumstances, and may take any other action and seek any other relief the Plan Administrative Committee, in its sole discretion, deems appropriate, to the extent any such action would not result in a violation of Section 409A of the Code.

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

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

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

SECTION 10
Claims Procedures

10.1 All claims for benefits under the Plan shall be submitted, in writing, to the Plan Administrative Committee on forms prescribed by the Plan Administrative Committee and must be signed by the Participant or, in the case of a death benefit, by Participant's Beneficiary or legal representative. Any Participant or Beneficiary who disputes the amount of his or her entitlement to Plan benefits must file a claim in writing within two-hundred seventy (270) days of the event that the Participant or Beneficiary is asserting constitutes an entitlement to such Plan benefits or, if later, within ninety (90) days of the date the payment is due. Failure by the Participant or Beneficiary to submit such claim within such time periods shall bar the Participant or Beneficiary from any claim for benefits under the Plan as the result of the occurrence of such event or the failure to make such payment. In no event shall the Participant or other claimant be entitled to challenge a decision of the Plan Administrative Committee with respect to a claim unless and until the claims procedures herein have been complied with and exhausted. Each claim shall be approved or disapproved by the Plan Administrative Committee within ninety (90) days of the Plan Administrative Committee's receipt of each such claim. However, if special circumstances require an extension of time for the Plan Administrative Committee to

process the claim, the ninety (90) day period may be extended for an additional ninety (90) days. Prior to the termination of the initial ninety (90) day period, the Plan Administrative Committee shall provide the claimant with a written notice setting forth the reason for the extension. The notice shall indicate the special circumstance requiring the extension of time and the date by which the Plan Administrative Committee expects to render the benefit determination.

10.2 In the event any claim (or benefit) is denied in whole or in part, the Plan Administrative Committee shall, within the time period described in Section 11.1 above, notify the claimant in writing of such denial and of the claimant's right to a review by the Plan Administrative Committee and shall set forth, in a manner calculated to be understood by the claimant, specific reasons for such denial; including specific references to the Plan provisions on which the denial is based; descriptions of, and reasons for, any material or information necessary for the claimant to perfect his claim for review; and an explanation of the Plan's review procedure and time limits applicable to such procedures, including the claimant's right to bring civil action following an adverse benefit determination on review.

10.3 Any person whose application is denied in whole or in part may appeal to the Plan Administrative Committee for a review of such denial. Such appeal shall be made by submitting to the Plan Administrative Committee, within sixty (60) days of the receipt of initial denial, a written statement requesting a review of such denial and setting forth the grounds on which such appeal is made and any issues or comments which the claimant deems pertinent to his application. The claimant shall have the opportunity to submit written comments, documents and records relating to the claim and shall have reasonable access to and copies of documents and records relevant to the claim, upon request and free of charge. The Plan Administrative Committee shall make an independent determination of the claimant's eligibility for benefits within sixty (60) days of such appeal and shall give written notice to the claimant of its determination on review within such time period. If there are special circumstances requiring an extension of time for processing, a decision shall be rendered within one hundred twenty (120) days after receipt of the request for review. If an extension of time is required, the Plan Administrative Committee will provide the claimant with written notification of the special circumstances involved and the date by which the Plan Administrative Committee expects to render a final decision. The decision of the Plan Administrative Committee on any appeal for benefits shall be final and conclusive. If a claimant's request is wholly or partially denied on review, the Plan Administrative Committee must give written notice to the claimant that contains the specific reasons for the denial, the Plan provisions on which the denial is based, a description of the Plan's claim review procedures and the time limits applicable thereto, including the claimant's right to bring civil action.

10.4 Notwithstanding the claims procedure set forth in Sections 11.1, 11.2 and 11.3 above, the following claims procedure shall apply for any claim based on a Disability.

(c) If a Participant applies for a benefit under the Plan based on a Total Disability, and in the event a claim for benefits is wholly or partially denied by the Plan Administrative Committee, the Plan Administrative Committee shall, within a reasonable period of time, but no later than forty-five (45) days after receipt of the claim, notify the claimant in writing of the denial of the claim. This forty-five (45) day period may be extended up to thirty (30) days if such an extension is necessary due to matters beyond the control of the Plan, and the claimant is notified, prior to the expiration of the initial forty-five (45) day period, of the circumstances requiring the extension of time and the date by which the Plan Administrative Committee expects to render a decision. If, prior to the end of the first thirty (30) day extension period, the Plan Administrative Committee determines that, due to matters beyond the control of the Plan, a decision cannot be rendered within that extension period, the period for making the determination may be extended for up to an additional thirty (30) days, provided that the Plan Administrative Committee notifies the claimant, prior to the expiration of the first thirty (30) days extension period, of the circumstances requiring the extension and the date as of which the Plan Administrative Committee expects to render a decision. In the case of any extension, the notice of extension also shall specifically explain the standards on which entitlement to a benefit upon Total Disability is based, the unresolved issues that prevent a decision on the claim, and the additional information needed to resolve those issues, and the claimant shall be afforded at least forty-five (45) days within which to provide the specified information, if any.

- (d) If the Plan Administrative Committee denies the claim for a Total Disability benefit in whole or in part, the claimant shall be provided with written notice of the denial stating the specific reason for the denial; reference to the specific Plan provisions on which the denial is based; a description of any additional material or information necessary for the claimant to perfect the claim and an explanation of why such material or information is necessary; and a description of the Plan's review procedures (as set forth below) and the time limits applicable to such procedures, including the claimant's right to bring civil action following an adverse benefit determination. If an internal rule, guideline, protocol, or other similar criterion was relied upon in making the adverse determination, either the specific rule, guideline, protocol, or other similar criterion shall be provided to the claimant free of charge, or the claimant shall be informed that such rule, guideline, protocol, or other criterion shall be provided free of charge upon request.
- (e) If the claim for a Total Disability benefit is denied in full or in part, the claimant shall have the right to appeal the decision by sending a written request for review to the Plan Administrative Committee within one hundred eighty (180) days of his receipt of the claim denial notification. The claimant may submit written comments, documents, records, and other information relating to his or her claim for benefits. Upon request, the claimant shall be provided free of charge and reasonable access to, and copies of, all documents, records and other information relevant to his claim.
- (f) Upon receipt of the claimant's appeal of the denial of his claim, the Plan Administrative Committee shall conduct a review that takes into account all comments, documents, records, and other information submitted by the claimant or his authorized representative relating to the claim, without regard to whether such information was submitted or considered in the initial benefit determination. The review shall not afford deference to the initial benefit determination and shall be conducted by an individual who is neither the individual who made the adverse benefit determination that is the subject of the appeal, nor the subordinate of such individual. The Plan Administrative Committee shall consult a medical professional who has appropriate training and experience in the field of medicine relating to the claimant's disability and who is neither consulted as part of the initial denial nor is the subordinate to such individual and shall identify the medical or vocational experts whose advice is obtained with respect to the initial benefit denial, without regard to whether the advice was relied upon in making the decisions. If a claim is denied due a medical judgment, the Plan Administrative Committee will consult with a healthcare professional who has appropriate training and experience in the field of medicine involved in the medical judgment. The healthcare professional consulted will not be the same person consulted in connection with the initial benefit decision (nor be the subordinate of that person). The decision on review also will identify any medical or vocational experts who advised the Company's benefits department in connection with the original benefit decision, even if the advice was not relied upon in making the decision.
- (g) The Plan Administrative Committee shall notify the claimant of its determination on review within a reasonable period of time, but generally not later than forty-five (45) days after receipt of the request for review, unless the Plan Administrative Committee determines that special circumstances require an extension of time for processing the claim. If the Plan Administrative Committee determines that an extension of time for processing is required, written notice of the extension will be furnished to the claimant prior to the termination of the initial forty-five (45) day period. In no event shall such extension exceed a period of forty-five (45) days from the end of the initial period. The extension notice shall indicate the special circumstances requiring extension of time and the date by which the Plan Administrative Committee expects to render the determination on review.
- (h) If the Plan Administrative Committee denies the claim on appeal, it shall notify the claimant in a manner to be understood by him of the specific reason or reasons for the adverse determination; reference to the specific Plan provisions on which the adverse determination is based; a statement that the claimant is entitled to receive, upon request and free of charge, reasonable access to, and copies of, all documents, records, and other information relevant to his claim; and a statement indicating the claimant's right to file a lawsuit upon completion of the claims procedure process. If an internal rule, guideline, protocol, or other similar criterion

was relied upon in making the adverse determination, either the specific rule, guideline, protocol, or other similar criterion shall be provided free of charge, or the claimant may be informed that such rule, guideline, protocol, or other criterion shall be provided free of charge upon request.

10.5 The Participant or other claimant shall only have ninety (90) days from the date of receipt of the Plan Administrative Committee's final decision on review in which to file suit regarding a claim for benefits under the Plan. If suit is not filed within such ninety (90) days, it shall be forever barred. The Plan Administrative Committee's decisions made hereunder shall be final and binding on all interested parties.

SECTION 11

Amendment or Termination of the Plan

11.1 The Plan Administrative Committee may, in its sole discretion, terminate, suspend or amend this Plan at any time or from time to time, in whole or in part, with respect to any Participants or beneficiaries whether or not payments have commenced to such Participants or beneficiaries. Notwithstanding the foregoing, no amendment, termination, or suspension of the Plan will affect a Participant's right to receive vested amounts previously deferred under the Plan or fail to be in compliance with Section 409A of the Code.

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

SECTION 12

Unfunded Plan; Change in Control

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

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

- (i)** Such trust(s) shall be an irrevocable grantor trust containing provisions which are the same as, or are similar to, the provisions contained in the model "rabbi trust" set forth in Internal Revenue Service Revenue Procedure 92-64 (or any successor guidance issued by the IRS).
- (j)** The Participating Employers shall make contributions to the trust(s) equal to the amount of the Compensation Deferrals, Discretionary Matching Contributions and Discretionary Employer Contributions as soon as practicable, but in no event later five (5) business days, following the date on which such contributions are credited to Participants' Accounts.

- (k) The Participating Employers shall pay all costs relating to the establishment and maintenance of the trust(s) and the investment of funds held in such trust(s).

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

SECTION 13

Miscellaneous Provisions

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

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

- (m) **Delay of Payments.** The Plan Administrative Committee may, in its discretion, delay the payment of all or a portion of a Participant's Account in such circumstances as may be permitted under Code Section 409A.

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

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

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

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

13.6 Unclaimed Benefit. Each Participant shall keep the Plan Administrative Committee informed in writing of his or her current address and the current address of his or her beneficiary. The Plan Administrative Committee shall not be obligated to search for the whereabouts of any person. If the location of a Participant is not made known to the Plan Administrative Committee within three (3) years after the date on which payment of the Participant's Account may first be made, payment may be made as though the Participant had died at the end of the three (3) year period. If, within one additional year after such three (3) year period has elapsed, or, within three years after the actual death of

a Participant, the Plan Administrative Committee is unable to locate any designated beneficiary of the Participant, then the Participating Employer shall have no further obligation to pay any benefit hereunder to such Participant or beneficiary or any other person and such benefit shall be irrevocably forfeited.

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

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

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

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

13.11 Section 409A of the Code. The Company intends that the Plan comply with the requirements of Section 409A of the Code and shall be operated and interpreted consistent with that intent. Notwithstanding the foregoing, the Company makes no representation that the Plan complies with Section 409A of the Code and shall have no liability to any Participant for any failure to comply with Section 409A of the Code. This Plan shall constitute an "account balance plan" as defined in Treasury Regulation Section 31.3121(v)(2)-1(c)(1)(ii)(A). For purposes of Section 409A of the Code, all amounts deferred under this Plan shall be aggregated with amounts deferred under other account balance plans.

IN WITNESS WHEREOF, the Company has caused this amended and restated Plan to be executed by its duly authorized officer as of the 5th day of December, 2014.

SCANSOURCE, INC.
(the "Company")

By: /s/ Charles Mathis
Title: Executive Vice President and Chief Financial Officer

ATTEST:

By: /s/ John Harvey
Title: VP of Worldwide Human Resources

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 3, 2015

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

I, Charles A. Mathis, certify that:

1. I have reviewed this quarterly report on Form 10-Q of ScanSource, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing equivalent functions):
 - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

/s/ Charles A. Mathis

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

Date: February 3, 2015

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, 2014 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), the undersigned officer of the Company certifies, pursuant to 18 U.S.C. § 1350, as adopted pursuant to § 906 of the Sarbanes-Oxley Act of 2002, that:

- 1) The Report fully complies with the requirements of §13(a) or 15(d) of the Securities Exchange Act of 1934 (the "Exchange Act"); and
- 2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: February 3, 2015

/s/ Michael L. Baur

Michael L. Baur,

Chief Executive Officer

(Principal Executive Officer)

This certification is being furnished solely to comply with the provisions of § 906 of the Sarbanes-Oxley Act of 2002 and is not being filed as part of the accompanying Report, including for purposes of Section 18 of the Exchange Act, or as a separate disclosure document. A signed original of this written certification required by Section 906, or other document authenticating, acknowledging or otherwise adopting the signature that appears in typed form within the electronic version of this written certification required by Section 906, has been provided to the Company and will be rendered by the Company and furnished to the Securities and Exchange Commission or its staff upon request.

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

In connection with the quarterly report of ScanSource, Inc. (the "Company") on Form 10-Q for the quarter and six months ended December 31, 2014 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), the undersigned officer of the Company certifies, pursuant to 18 U.S.C. § 1350, as adopted pursuant to § 906 of the Sarbanes-Oxley Act of 2002, that:

- 1) The Report fully complies with the requirements of § 13(a) or 15(d) of the Securities Exchange Act of 1934 (the "Exchange Act"); and
- 2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: February 3, 2015

/s/ Charles A. Mathis

Charles A. Mathis

Executive Vice President and Chief Financial Officer
(Principal Financial Officer)

This certification is being furnished solely to comply with the provisions of § 906 of the Sarbanes-Oxley Act of 2002 and is not being filed as part of the accompanying Report, including for purposes of Section 18 of the Exchange Act, or as a separate disclosure document. A signed original of this written certification required by Section 906, or other document authenticating, acknowledging or otherwise adopting the signature that appears in typed form within the electronic version of this written certification required by Section 906, has been provided to the Company and will be rendered by the Company and furnished to the Securities and Exchange Commission or its staff upon request.

