



2016 ANNUAL REPORT



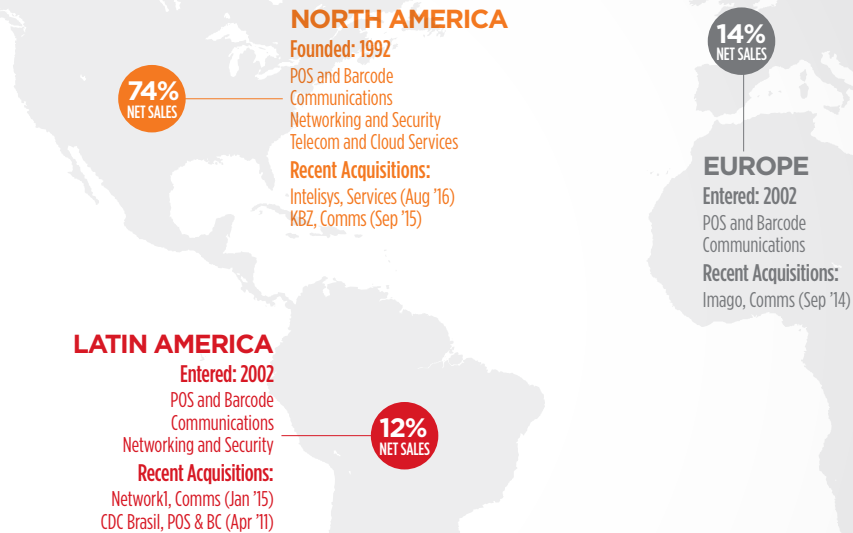


ScanSource, Inc. (NASDAQ: SCSC) is a leading global provider of technology products and solutions, focusing on point-of-sale, barcode, physical security, video, voice, data networking, and technology services. ScanSource's teams provide value-added solutions and operate from two segments:

- Worldwide Barcode, Networking and Security
- Worldwide Communications and Services

ScanSource is committed to helping its resellers and sales partners choose, configure, and deliver the industry's best solutions across almost every vertical market in North America, Latin America, and Europe. In August 2016, ScanSource entered the recurring revenue telecom and cloud services market through its acquisition of Intelisys, the industry's leading technology services distributor.

Founded in 1992, ScanSource is headquartered in Greenville, South Carolina and ranks #685 on the Fortune 1000.



Sales in geographic region as a % of consolidated net sales (based on FY16 sales).





TO OUR SHAREHOLDERS:

In fiscal 2016, we made important decisions that will continue to move ScanSource forward as a leading global provider of technology solutions. We remain committed to serving as a trusted advisor to our resellers and helping them drive growth with products and services that meet the evolving needs of their end-user customers. We continue to solidify our supplier partnerships by providing them with access to a broad range of customer channels. This approach gives us a strong competitive advantage as we operate our business in specialty technology markets around the world.



During the past 15 months, we continued to execute our strategic plan, including the implementation of our enterprise resource planning (ERP) system in North America, two strategic acquisitions, and a first step in developing a recurring revenue services strategy for our partners and ScanSource.

Global Platform for Growth. We began the fiscal year with the successful implementation of our SAP ERP system in North America in July 2015. Our scalable, flexible, robust system has the capacity to support organic growth and future acquisitions. Now, more than 80% of our business flows through our globally designed SAP ERP system. Additionally, the platform allows us to develop innovative digital tools for our partners' business growth.



Enhanced Profitable Growth Opportunities from Strategic Acquisitions. In evaluating M&A opportunities, we are excited to find target companies that will increase our capabilities in higher margin, higher growth areas.

been in enterprise wireless and security products. KBZ brought video conferencing expertise, new services capabilities, and a specialized public sector team. The ScanSource and KBZ teams coordinated their strengths to ensure a smooth integration for Cisco and our resellers. This combination and a strong balance sheet have led to accelerated growth and profitability in these markets.



In October 2015, we assembled an internal team to develop a services strategy to help our resellers and ScanSource build high margin, recurring revenues from services offerings. After the fiscal year end, on August 29, 2016, we completed the acquisition of Intelisys, the leading telecom and cloud services distributor whose services-based distribution model complements our products-based distribution model. The acquisition is another important step in our strategic plan, as it provides opportunities for resellers to generate new monthly recurring revenue streams with fully vetted, carefully selected, telecom and cloud services offerings. ScanSource resellers will have opportunities to sell connectivity along with products, and Intelisys sales partners will be able to sell products and solutions from the ScanSource vendor community. We are excited about these prospects for new business and recurring revenue for ScanSource.

Financial Strength and Flexibility. Our balance sheet remains very strong. It provides us with considerable flexibility to execute our capital allocation plan, which includes organic growth, strategic acquisitions, and share repurchases. For fiscal 2016, we generated operating cash of \$52 million, invested \$70 million in acquisitions, and



Mike Baur
CEO, ScanSource, Inc.



In September 2015, we completed our acquisition of KBZ, Cisco's leading collaboration growth distributor in the United States. The addition of KBZ complemented our existing Cisco business and added incremental resellers and markets, such as state, local, and federal government. ScanSource's Cisco business had primarily

returned \$100 million to shareholders through share repurchases. As of June 30, 2016, our leverage totaled approximately 0.13 times trailing 12-month EBITDA.

We consider leverage of at least one times EBITDA to be a target for a more optimal capital structure. On August 29, 2016, we paid the \$83.6 million

initial purchase price (representing 52% of the total purchase price) for our acquisition of Intelisys, which was funded with additional borrowings.

For fiscal 2016, we earned a return on invested capital (ROIC) of 13.3%.¹ We measure our performance using ROIC, and earning a mid-teens ROIC remains a key financial goal. Our financial objectives for fiscal 2017 include organic sales growth, margin expansion from services offerings including the Intelisys acquisition, and a significant improvement in ROIC from the prior year.

I want to thank our talented employees, whose passion, energy, and commitment to the Company make a difference every day, enabling ScanSource to remain a leader in the markets we serve. Our employees are critical to making us trusted advisors to our resellers and suppliers – which is the key to our success.

Thank you to our shareholders for your support and your investment in ScanSource. We look forward to the opportunities ahead as we strive to deliver value to all of our constituents.

Sincerely,



Michael L. Baur
CEO, ScanSource, Inc.

September 30, 2016

What is the strategic rationale for the acquisition?

Intelisys is the industry's leading technology services distributor of telecommunications and cloud services. Like ScanSource, Intelisys exclusively uses a two-tier model. By acquiring the market leader, ScanSource adds services capabilities and enters the high-growth, recurring revenue telecom and cloud services market. Today almost every device ScanSource delivers has a connectivity requirement. We see opportunities for resellers and sales partners to sell the total solution of hardware and software products along with the connectivity.

What is the market for telecom services?

In the United States, small- and medium-sized businesses spend an estimated \$150 billion on telecom services. Approximately 10% of this market is currently served by the indirect channel. This is a large and growing addressable channel market for Intelisys and its sales partners. In addition, the market dynamics favor Intelisys' two-tier, services-based business model with an expected growth of business opportunities for the indirect channel.

Many vendors and distributors, including ScanSource, have been providing support for resellers to build a recurring revenue stream, but the acquisition of a master agent by a distributor is unprecedented. How was that decision made?

At ScanSource, we have been looking at ways for the reseller channel to benefit from the power of recurring revenues. During our research, it became clear that Intelisys, a master agent, provides an excellent entry point into the recurring revenue telecom and cloud services market. In addition, the Intelisys sales partner channel will benefit from having access to products and solutions from ScanSource vendors. We are creating a unique model with the convergence of a value-added distributor and a master agent – a win-win for both channels.



Intelisys acquisition explained.

What will ensure the success of ScanSource and Intelisys partners?

We share a remarkable combination of strategies, views, and culture. We both use a two-tier business model and believe that we are only successful if our customers are successful. ScanSource and Intelisys partners will have access to training, sales, and marketing enablement programs, as well as the tools and platforms that help partners build recurring revenue streams.

¹ See pages 24 and 25 for additional information on this non-GAAP measure, including a reconciliation and our reasons for providing this measure and limitations on its use.

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

FORM 10-K

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

For the fiscal year ended June 30, 2016

Commission File Number: 000-26926



ScanSource, Inc.
South Carolina
(State of incorporation)

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

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

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

| Title of Each Class | Name of Each Exchange on Which Registered |
|-----------------------------------|--|
| Common Stock, no par value | NASDAQ Global Select Market |

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

None.

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

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

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

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

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

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

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

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

The aggregate market value of the voting common stock of the Registrant held by non-affiliates of the Registrant at December 31, 2015 was \$845,986,524, as computed by reference to the closing price of such stock on such date.

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

| Class | Outstanding at August 25, 2016 |
|---|---------------------------------------|
| Common Stock, no par value per share | 25,625,806 shares |

DOCUMENTS INCORPORATED BY REFERENCE

The registrant has incorporated by reference into Part III of this report certain portions of its proxy statement for its 2016 Annual Meeting of Shareholders, which is expected to be filed pursuant to Regulation 14A within 120 days after the end of the registrant's fiscal year ended June 30, 2016.

FORWARD-LOOKING STATEMENTS

The forward-looking statements included in the "Business," "Risk Factors," "Legal Proceedings," "Management's Discussion and Analysis of Financial Condition and Results of Operations," and "Quantitative and Qualitative Disclosures About Market Risk" sections and elsewhere herein, which reflect our best judgment based on factors currently known, involve risks and uncertainties. Words such as "expects," "anticipates," "believes," "intends," "plans," "hopes," "forecasts," "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-K is based only on information currently available to us and speaks only as of the date on which it is made. Except as may be required by law, we expressly disclaim any obligation to update these forward-looking statements to reflect events or circumstances after the date of this Annual Report on Form 10-K, except as required by law. Actual results could differ materially from those anticipated in these forward-looking statements as a result of a number of factors including, but not limited to, the factors discussed in such sections and, in particular, those set forth in the cautionary statements contained in "Risk Factors."

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PART I

ITEM 1. Business.

ScanSource, Inc. was incorporated in South Carolina in 1992 and is a leading global provider of technology products and solutions. ScanSource, Inc. and its subsidiaries ("the Company") provide value-added solutions for technology manufacturers and sell to resellers in the following specialty technology markets: POS and Barcode, Networking and Security, Communications and Emerging Technologies.

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

Business Segments

Worldwide Barcode & Security Segment

The Barcode & Security segment focuses on automatic identification and data capture ("AIDC"), point-of-sale ("POS"), networking, electronic physical security, 3D printing technologies, and other specialty technologies. We have business units within this segment for sales and merchandising functions in North America, Latin America, and Europe. 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 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, Latin 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. Our teams deliver 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.

Products and Markets

The Company currently markets over 100,000 products from approximately 400 hardware and software vendors to approximately 34,000 reseller customers from distribution centers in Mississippi, Virginia, Florida, Mexico, Colombia, Brazil, Belgium, France, Germany, and the United Kingdom.

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

- AIDC technology incorporates the capabilities for electronic identification and data processing without the need for manual input and consists of a wide range of products that include portable data collection terminals, wireless products,

bar code label printers and scanners. As AIDC technology has become more pervasive, applications have evolved from traditional uses such as inventory control, materials handling, distribution, shipping and warehouse management to more advanced applications, such as health care.

- POS products include those computer-based systems that have replaced electronic cash registers in grocery, retail and hospitality environments. POS product lines include computer-based terminals, monitors, payment processing solutions, receipt printers, pole displays, cash drawers, keyboards, peripheral equipment and fully integrated processing units. In addition, ScanSource POS and Barcode business units sell products that attach to the POS network in the store, including kiosks, network access points, routers and digital signage.
- Electronic physical security products include identification, access control, video surveillance and intrusion-related products, and networking. Physical security products are used every day across every vertical market to protect lives, property and information, there is a heavy penetration into schools, municipalities, correctional institutions and retail environments. Physical security products are deployed across both wired and wireless infrastructures and often serve as the backbone of the solution. These technology products require specialized knowledge to deploy effectively, and ScanSource Security offers in-depth training and education to its partners to enable them to maintain the appropriate skill levels.

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

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

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

Industry Overview

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

Competition among an expanding number of manufacturers typically causes product prices to decrease and product applications to expand, which has resulted in an increasing number of resellers entering the market in order to support a broader base of potential end users. As the number of resellers and end-users has grown, competition among manufacturers and within the reseller channel has intensified. Because many specialty technology manufacturers develop products that represent only one part of a total solution, most products eventually are developed to provide interoperability among products from multiple manufacturers. As a result of interoperability, a variety of manufacturers' products typically are configured together to create a system solution. Therefore, both manufacturers and resellers have become more dependent upon value-added wholesale distributors, such as ScanSource, for the aggregation of products and reseller support services, as well as the organization and maintenance of an efficient market structure.

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

Vendors

The Company distributes the products of approximately 400 vendors, including Aruba/HPE, Axis, AudioCodes, Avaya, Barco, Bematech, Brocade/ Ruckus Wireless, Cisco, Datalogic, Dell, Dialogic, Elo, Epson, Honeywell, HID, Ingenico, Jabra, March Networks, Mitel, NCR, Oracle, Panasonic, Plantronics, Polycom, Samsung, ShoreTel, Sony, Spectralink, Toshiba Global Commerce Solutions, Ubiquiti, Unify, Verifone and Zebra Technologies.

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

Three vendors, Avaya, Cisco, and Zebra, each constituted more than 10% of the Company's net sales for the fiscal year ended June 30, 2016, representing a vendor concentration.

- The Company has two non-exclusive distribution agreements with Avaya. One agreement covers the distribution of Avaya products in the United States and Latin America, and the other agreement covers distribution of Avaya products in the United Kingdom and portions of continental Europe. The Company's Avaya agreements each have a one year term that automatically renews for additional one year terms. Either party may terminate upon 180 days' for the U.S. and Latin America agreement and upon 90 days' for the European agreement.
- The Company has two non-exclusive distribution agreements with Cisco. One agreement covers the distribution of Cisco products in the United States for the newly acquired KBZ business and has a three year term, the other agreement covers distribution of Cisco products in the United States for the ScanSource business and has a two year term; each must be renewed by written agreement. Either party may terminate the agreement upon 30 days' notice to the other party.
- The Company has two non-exclusive distribution agreements with Zebra. One agreement covers sales of Zebra hardware and software products in North and South America, and another agreement covers sales of Zebra hardware and software

products in Europe, the Middle East and Africa ("EMEA"). The Zebra agreements each have a one year term that automatically renews for additional one year terms, and either party may terminate the agreement upon 30 days' notice to the other party.

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

The Company participates in various rebate, cash discount and cooperative marketing programs offered by its vendors to support expenses associated with distributing and marketing the vendor's products. These rebates and purchase discounts are generally influenced by sales volumes and are subject to change.

The Company's vendors generally warrant the products the Company distributes and allow returns of defective products, including those returned to the Company by its customers. The Company generally does not independently warrant the products it distributes; however, local laws may in some cases impose warranty obligations on the Company.

Customers

The Company's reseller customers currently include approximately 34,000 active value-added resellers ("VAR") located in the United States, Canada, Latin America and Europe. No single customer accounted for more than 5% of the Company's total net sales for the fiscal year ended June 30, 2016. The Company generally targets resellers, including specialty technology VARs and Information Technology ("IT") system integrators and service providers.

Specialty Technology VARs

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

Direct Marketers

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

IT System Integrators

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

Service Providers

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

Competition

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

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

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

Sales and Electronic Commerce

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

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

Marketing

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

Value-Added Services

We differentiate ourselves by providing our resellers and our vendors an array of pre-sale business tools and value-added services, including logistics, financial services, product configuration tools, sales expertise, and technical support. These services allow our customers to gain knowledge on marketing, to gain expertise in selling and negotiation, to grow their business profitably, and to be more cost effective in their business. Our business is enhanced by our ability and our willingness to provide the extra service that keeps both our vendors and our customers satisfied. In addition, we offer services to assist resellers in providing more complete solutions and improving customer service. Our mission is to provide our partners with the best and most cost-effective tools that will help accelerate business growth. Through our professional services, integration, custom configuration, marketing, education and training programs, we offer services to improve efficiency, productivity, quality control, and profitability of our business partners. Partners can leverage our expertise to complement or expand their reach, as well as create opportunities, extend resources and increase profit.

Operations

Information Systems

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

Warehouse and Shipping Strategy

We operate a 593,000 square foot distribution center in Southaven, Mississippi, which is located near the FedEx hub facility in Memphis, Tennessee, and serves primarily all of North America. Our European operations utilize a limited number of distribution centers located in Belgium, France, Germany and the United Kingdom. Warehouses for our Latin American operations are located in Florida, Mexico, Brazil, and Colombia. Our objective is to ship all orders on the same day, using technology to expedite shipments and minimize shipping errors. The Company offers reduced freight rates and flexible delivery options to minimize a reseller's need for inventory.

Financial Services

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

Employees

As of June 30, 2016, we had approximately 2,000 employees located in the United States, Canada, Latin America and Europe. The Company has no organized labor or trade unions in the United States. The Company considers its employee relations to be good.

Service Marks

The Company conducts its business under the trade names and service marks "ScanSource POS and Barcode," "ScanSource Catalyst," "ScanSource Communications," "ScanSource Services," "ScanSource Networking and Security," "KBZ Communications, a ScanSource Company," "ScanSource Europe," "ScanSource Europe Communications," "ScanSource Latin America," "ScanSource Mexico," "ScanSource Brasil," "Imago ScanSource," and "Network1, a ScanSource company."

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

Additional Information

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

ITEM 1A. Risk Factors.

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

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

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

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

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

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

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

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

we are unable to increase our sales and earnings by expanding our product offerings in a cost effective manner, then our revenues may not grow.

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

Brexit - The U.K.'s vote to leave the E.U. will have uncertain effects and could adversely affect our business.

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

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

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

While we evaluate our customers' qualifications for credit and monitor our extensions of credit, and in some instances purchase credit insurance, these efforts cannot prevent all credit losses, and credit losses negatively impact our performance. In addition, for financial reporting purposes, we estimate future credit losses and establish reserves. To the extent that our credit losses exceed those reserves, our financial performance will be negatively impacted beyond what is expected. If there is deterioration in the collectability of our receivables, or if we are unable to collect under credit insurance policies, or we fail to take other actions to adequately mitigate such credit risk, our earnings, cash flows and our ability to utilize receivable-based financing could deteriorate.

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

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

We have substantial operations in Brazil and other Latin American countries and face risks related to these country's complex tax, labor, trade compliance and consumer protection laws and regulations. Additionally, developing markets such as Brazil, Chile, Colombia, Mexico, and Peru have greater political volatility, greater vulnerability to infrastructure and labor disruptions, are more likely than developed economies to experience market, currency and interest rate fluctuations and may have higher inflation. In addition, doing business in these countries poses additional challenges, such as finding and retaining qualified employees, particularly management-level employees, underdeveloped infrastructure, and identifying and retaining qualified suppliers and service providers, among other risks. Furthermore, in developing markets it may be common for others to engage in business

practices prohibited by laws and regulations applicable to us, such as the U.S. Foreign Corrupt Practices Act or similar local anti-bribery laws. Our commitment to compliance with these laws could put us at a competitive disadvantage, and any lapses in our compliance could subject us to civil and criminal penalties that could materially and adversely affect our financial condition and results of operations.

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

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

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

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

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

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

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

available to us, or available in quantities sufficient to meet customer demand. Any limits to product access could materially and adversely affect our business and results of operations.

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

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

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

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

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

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

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

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

in general could impair our order processing or prevent our vendors and customers from accessing information and cause us to lose business.

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

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

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

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

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

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

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

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

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

We maintain a system of internal controls over financial reporting designated to insure that we record transactions, assets and liabilities in our financial records in an accurate and timely manner may be identified in the future. Any failure in these controls could cause us to fail to meet our periodic reporting obligation, or result in errors in our financial statements. The existence of errors in our financial statements could result in liability under the securities laws, significant costs relating to correcting the errors and the loss of investor confidence. We do not expect our internal control over financial reporting to detect all errors or fraudulent conduct.

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

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

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

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

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

Our business requires significant levels of capital to finance accounts receivable and product inventory that is not financed by trade creditors. We have an increased demand for capital when our business is expanding, including through acquisitions. Changes

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

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

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

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

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

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

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

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

Additionally, if our carriers were to increase our shipping costs, it may adversely affect our financial results if we are unable to pass on these higher costs to our customers.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

In the ordinary course of our business, we are involved in a wide range of disputes, some of which result in litigation. In addition, as a public company with a large shareholder base, we are susceptible to class-action and other litigation resulting from disclosures that we make (or do not make) and our other activities. Litigation is expensive to bring and defend, and the outcome of litigation can be adverse and significant. Not all adverse outcomes can be anticipated, and applicable accounting rules do not always require or permit the establishment of a reserve until a final result has occurred or becomes probable and estimable. In some instances

we are insured for the potential losses; in other instances we are not. An uninsured or underinsured adverse outcome in significant litigation could have an adverse effect on our business, financial condition and results of operations. We can make no assurances that we will ultimately be successful in our defense of any of these disputes. See Item 3. "Legal Proceedings" for further discussion of our material legal matters.

ITEM 1B. Unresolved Staff Comments.

Not applicable.

ITEM 2. Properties.

The Company owns a 70,000 square foot building in Greenville, South Carolina, which is the site of its principal executive and sales offices, and a 103,000 square foot building on adjacent property, of which approximately 40,000 square feet is subleased to an unrelated third party.

North American Distribution Facilities

The Company's primary North American distribution operations are located in Southaven, Mississippi. In 2016, a subsidiary of the Company amended its lease associated with the facility, which extended the square footage leased by approximately 148,000 scheduled to be delivered for use on October 1, 2017, for a total occupied space of approximately 741,000 square feet. The new lease term provides for 135 months, with options to extend the lease for two consecutive five-year periods. The Company utilizes the logistical services of a third party warehouse in Dulles, Virginia.

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

International Distribution Facilities

The Company or its subsidiaries lease 29,000 square feet of office and distribution center space in Miami, Florida, 25,000 square feet of office and distribution center space in Mexico City, Mexico, 17,000 square feet of office space in Cologne, Germany and 30,000 square feet of office space in Brussels, Belgium. The Company utilizes the logistical services of a third party warehouse in Liège, Belgium. The Company leases 16,000 square feet of office space and distribution center in Mainz, Germany. The Company leases approximately 24,000 square feet of office and distribution center space in São José dos Pinhais, Brazil, leases 10,000 square feet of office and distribution center space in Barueri, Brazil, and utilizes the logistical services of a third party warehouse in Jaboatão dos Guararapes, Brazil. The Company leases 164,000 square feet of office and distribution center space in Itajai, Brazil, 168,000 square feet of distribution center space in Barueri, Brazil and additional office and distribution center space in Espírito Santo, Brazil.

The Company or its subsidiaries have additional sales offices and warehouse spaces, each of approximately 10,000 square feet or less, in leased facilities in Bad Homburg, Germany; Hull, England; Crawley, England; Egham, England; Thatcham, England; Bury, England; Plaisir, France; Olivet, France; Eindhoven, Netherlands; Martos, Poland; Curitiba, Brazil; Blumenau, Brazil; Fortaleza, Brazil; Goias, Brazil; São Paulo, Brazil; Barueri, Brazil; Santiago, Chile; Bogota, Colombia; Cota, Colombia; Mexico City, Mexico; Lima, Peru; and Miami, Florida.

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

ITEM 3. Legal Proceedings.

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

ITEM 4. Mine Safety Disclosures.

Not applicable.

PART II

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

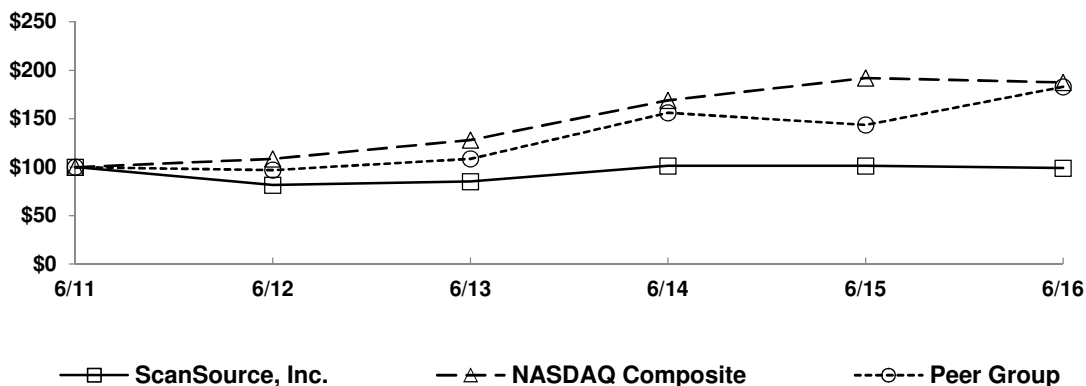
The Company's common stock is quoted on the NASDAQ Global Select Market under the symbol "SCSC." The Company has never declared or paid a cash dividend since inception. Under the terms of the Company's revolving credit facility, the payment of cash dividends is restricted. As of August 29, 2016, there were approximately 535 holders of record of our common stock. The following table sets forth, for the periods indicated, the high and low sales prices of the Company's common stock on the NASDAQ Global Select Market.

| | <u>High</u> | <u>Low</u> |
|--------------------------------|-------------|------------|
| <i>Fiscal Year 2016</i> | | |
| First quarter | \$ 39.03 | \$ 29.53 |
| Second quarter | 41.18 | 32.17 |
| Third quarter | 40.48 | 27.46 |
| Fourth quarter | 42.54 | 35.57 |
| <i>Fiscal Year 2015</i> | | |
| First quarter | \$ 39.98 | \$ 34.49 |
| Second quarter | 42.52 | 31.32 |
| Third quarter | 41.10 | 32.99 |
| Fourth quarter | 41.95 | 37.52 |

Stock Performance Chart

The following stock performance graph compares cumulative total shareholder return on the Company's common stock over a five-year period with the Nasdaq Market Index and with the Standard Industrial Classification ("SIC") Code Index (SIC Code 5045 – Wholesale Computers and Peripheral Equipment and Software) for the same period. Total shareholder return represents stock price changes and assumes the reinvestment of dividends. The graph assumes the investment of \$100 on June 30, 2011.

COMPARISON OF 5 YEAR CUMULATIVE TOTAL RETURN*
Among ScanSource, Inc., the NASDAQ Composite Index, and a Peer Group



*\$100 invested on 6/30/11 in stock or index, including reinvestment of dividends.
Fiscal year ending June 30.

| | <u>2011</u> | <u>2012</u> | <u>2013</u> | <u>2014</u> | <u>2015</u> | <u>2016</u> |
|--|-------------|-------------|-------------|-------------|-------------|-------------|
| ScanSource, Inc. | \$ 100 | \$ 82 | \$ 85 | \$ 102 | \$ 102 | \$ 99 |
| NASDAQ Composite | \$ 100 | \$ 109 | \$ 128 | \$ 169 | \$ 192 | \$ 188 |
| SIC Code 5045 – Computers & Peripheral Equipment | \$ 100 | \$ 97 | \$ 109 | \$ 156 | \$ 144 | \$ 183 |

Unregistered Sales of Equity Securities and Use of Proceeds

On August 21, 2014, the Company announced a Board of Directors authorization to repurchase shares up to \$120 million of the Company's common stock for up to three years. During the year ended June 30, 2016, the Company repurchased shares of its common stock as follows:

| Period | Total number of shares purchased | Average price paid per share | Total number of shares purchased as part of the publicly announced plan or program | Approximate dollar value of shares that may yet be purchased under the plan or program |
|--|----------------------------------|------------------------------|--|--|
| July 1, 2015 through July 31, 2015 | 316,738 | \$ 37.50 | 316,738 | \$ 89,354,059 |
| August 1, 2015 through August 31, 2015 | 394,944 | \$ 36.37 | 394,944 | \$ 74,989,947 |
| September 1, 2015 through September 30, 2015 | 437,421 | \$ 35.91 | 437,421 | \$ 59,283,524 |
| October 1, 2015 through October 31, 2015 | 313,799 | \$ 37.28 | 313,799 | \$ 47,585,237 |
| November 1, 2015 through November 30, 2015 | 266,120 | \$ 37.82 | 266,120 | \$ 37,520,574 |
| December 1, 2015 through December 31, 2015 | 221,121 | \$ 35.62 | 221,121 | \$ 29,645,281 |
| January 1, 2016 through January 31, 2016 | 522,880 | \$ 29.44 | 522,880 | \$ 14,254,276 |
| February 1, 2016 through February 29, 2016 | 341,487 | \$ 32.82 | 341,487 | \$ 3,048,328 |
| March 1, 2016 through March 31, 2016 | 6,049 | \$ 37.98 | 6,049 | \$ 2,818,608 |
| April 1, 2016 through April 30, 2016 | — | \$ — | — | \$ 2,818,608 |
| May 1, 2016 through May 31, 2016 | 6,251 | \$ 37.96 | 6,251 | \$ 2,581,308 |
| June 1, 2016 through June 30, 2016 | 57,400 | \$ 33.01 | 57,400 | \$ 480,185 |
| Total | 2,884,210 | \$ 34.93 | 2,884,210 | \$ 480,185 |

ITEM 6. Selected Financial Data.

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

FIVE YEAR FINANCIAL SUMMARY

| | Fiscal Year Ended June 30, | | | | |
|--|--|--------------|--------------|--------------|--------------|
| | 2016 | 2015 | 2014 | 2013 | 2012 |
| | <i>(in thousands, except per share data)</i> | | | | |
| Statement of income data: | | | | | |
| Net sales | \$ 3,540,226 | \$ 3,218,626 | \$ 2,913,634 | \$ 2,876,964 | \$ 3,015,296 |
| Cost of goods sold | 3,184,786 | 2,891,536 | 2,612,535 | 2,584,090 | 2,713,272 |
| Gross profit | 355,440 | 327,090 | 301,099 | 292,874 | 302,024 |
| Selling, general and administrative expenses | 257,269 | 222,982 | 192,492 | 191,216 | 188,388 |
| Impairment charges (legal recovery) | — | — | (15,490) | 48,772 | — |
| Change in fair value of contingent consideration | 1,294 | 2,667 | 2,311 | 1,843 | 120 |
| Operating income | 96,877 | 101,441 | 121,786 | 51,043 | 113,516 |
| Interest expense | 2,124 | 1,797 | 731 | 775 | 1,639 |
| Interest income | (3,448) | (2,638) | (2,364) | (2,238) | (2,886) |
| Other (income) expense, net | 2,191 | 2,376 | 312 | (520) | 3,552 |
| Income before income taxes | 96,010 | 99,906 | 123,107 | 53,026 | 111,211 |
| Provision for income taxes | 32,391 | 34,487 | 41,318 | 18,364 | 36,923 |
| Net income | \$ 63,619 | \$ 65,419 | \$ 81,789 | \$ 34,662 | \$ 74,288 |
| Net income per common share, basic | \$ 2.40 | \$ 2.29 | \$ 2.89 | \$ 1.25 | \$ 2.72 |
| Weighted-average shares outstanding, basic | 26,472 | 28,558 | 28,337 | 27,774 | 27,362 |
| Net income per common share, diluted | \$ 2.38 | \$ 2.27 | \$ 2.86 | \$ 1.24 | \$ 2.68 |
| Weighted-average shares outstanding, diluted | 26,687 | 28,799 | 28,602 | 27,994 | 27,751 |

| | As of June 30, | | | | |
|---|-----------------------|-------------|-------------|-------------|-------------|
| | 2016 | 2015 | 2014 | 2013 | 2012 |
| | <i>(in thousands)</i> | | | | |
| Balance sheet data: | | | | | |
| Working capital | \$ 643,793 | \$ 645,398 | \$ 715,850 | \$ 614,378 | \$ 533,529 |
| Total assets | 1,491,185 | 1,476,941 | 1,335,124 | 1,164,183 | 1,201,806 |
| Total long-term debt (including current debt) | 76,856 | 8,826 | 5,429 | 5,429 | 9,697 |
| Total shareholders' equity | \$ 774,496 | \$ 808,985 | \$ 802,643 | \$ 695,956 | \$ 652,311 |

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

Overview

ScanSource, Inc. is a leading global provider of technology products and solutions. ScanSource, Inc. and its subsidiaries (the "Company") provide value-added solutions for approximately 400 technology manufacturers and sell to approximately 34,000 resellers in the following specialty technology markets: POS and barcode, networking and security, communications, and emerging technologies.

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

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

The Company distributes products for many of its key vendors, including Aruba/HPE, Axis, AudioCodes, Avaya, Barco, Bematech, Brocade/ Ruckus Wireless, Cisco, Datalogic, Dell, Dialogic, Elo, Epson, Honeywell, HID, Ingenico, Jabra, March Networks, Mitel, NCR, Oracle, Panasonic, Plantronics, Polycom, Samsung, ShoreTel, Sony, Spectralink, Toshiba Global Commerce Solutions, Ubiquiti, Unify, Verifone and Zebra Technologies.

Recent Developments

On August 8, 2016 the Company announced a definitive agreement to acquire Intelisys Communications, Inc., the industry-leading technology services distributor of business telecommunications and cloud services. Upon completion of the transaction, Intelisys will join the Worldwide Communications and Services segment of ScanSource. The acquisition is expected to close in the quarter ending September 30, 2016, subject to the satisfaction of customary closing conditions and receipt of regulatory approvals.

On October 1, 2015, we branded ScanSource Security as ScanSource Networking and Security to build on the growing demand for networking solutions. With these changes and the acquisition of KBZ, we moved some business operations from our Communications & Services segment to our Barcode & Security segment. We have reclassified prior period results to provide comparable information.

On September 4, 2015, the Company acquired substantially all the assets of KBZ Communications, Inc., a Cisco Authorized Distributor specializing in video conferencing, services and cloud. KBZ joined the Company's Worldwide Barcode and Security operating segment. This acquisition supports the Company's strategy to be the leading value-added provider of technology products and solutions.

On January 13, 2015, the Company acquired Brazilian Intersmart Comércio Importação Exportação de Equipamentos Eletrônicos, S.A. ("Network1"). Network1 joins the Company's Worldwide Communications and Services operating segment. ScanSource is committed to becoming the leading value-added provider of communications solutions for resellers in Latin America, and this acquisition represents an important step in this strategy.

On September 19, 2014, the Company acquired Imago Group plc, a European value-added provider of video and voice communications equipment and services. Imago 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 provider of video, voice, and data solutions for resellers in Europe.

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

Cost Control/Profitability

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

Evaluating Financial Condition and Operating Performance

In addition to disclosing results that are determined in accordance with United States Generally Accepted Accounting Principles ("GAAP"), we also disclose certain non-GAAP financial measures. 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 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, we disclose non-GAAP operating income, non-GAAP net income and non-GAAP diluted earnings per share. We 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 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 net income and earnings per share adjusted for the costs and charges mentioned above:

| | Year ended June 30, 2016 | | | | Year ended June 30, 2015 | | | |
|---|--|-------------------|------------------|----------------|--------------------------|-------------------|------------------|----------------|
| | Operating Income | Pre-Tax Income | Net Income | Diluted EPS | Operating Income | Pre-Tax Income | Net Income | Diluted EPS |
| | <i>(in thousands, except per share data)</i> | | | | | | | |
| GAAP Measures | \$ 96,877 | \$ 96,010 | \$ 63,619 | \$ 2.38 | \$ 101,441 | \$ 99,906 | \$ 65,419 | \$ 2.27 |
| Adjustments: | | | | | | | | |
| Amortization of intangible assets | 9,828 | 9,828 | 6,790 | 0.25 | 6,641 | 6,641 | 4,599 | 0.16 |
| Change in fair value of contingent considerations | 1,294 | 1,294 | 977 | 0.04 | 2,667 | 2,667 | 1,842 | 0.06 |
| Acquisition costs | 863 | 863 | 863 | 0.04 | 3,254 | 3,254 | 3,254 | 0.12 |
| Non-GAAP measures | <u>\$ 108,862</u> | <u>\$ 107,995</u> | <u>\$ 72,249</u> | <u>\$ 2.71</u> | <u>\$ 114,003</u> | <u>\$ 112,468</u> | <u>\$ 75,114</u> | <u>\$ 2.61</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 correlates with shareholder value creation. In addition, it is easily computed, communicated and understood. ROIC also provides management a measure of the Company's profitability on a basis more comparable to historical or future periods.

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

We calculate ROIC as earnings before interest expense, income taxes, depreciation and amortization, plus change in fair value of contingent consideration and other non-GAAP adjustments ("adjusted EBITDA"), divided by invested capital. Invested capital is defined as average equity plus average daily funded interest-bearing debt for the period. The following table summarizes annualized return on invested capital ratio for the fiscal years ended June 30, 2016, 2015, and 2014, respectively.

| | 2016 | 2015 | 2014 |
|----------------------------------|--------------|--------------|--------------|
| Return on invested capital ratio | <u>13.3%</u> | <u>14.6%</u> | <u>15.7%</u> |

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

Reconciliation of EBITDA to Net Income

| | Fiscal Year Ended June 30, | | |
|--|----------------------------|-------------------|-------------------|
| | 2016 | 2015 | 2014 |
| | <i>(in thousands)</i> | | |
| Net income (GAAP) | \$ 63,619 | \$ 65,419 | \$ 81,789 |
| Plus: income taxes | 32,391 | 34,487 | 41,318 |
| Plus: interest expense | 2,124 | 1,797 | 731 |
| Plus: depreciation & amortization | 17,154 | 11,997 | 7,375 |
| EBITDA | <u>115,288</u> | <u>113,700</u> | <u>131,213</u> |
| Change in fair value of contingent consideration | 1,294 | 2,667 | 2,311 |
| Adjustments ^(a) | 863 | 3,254 | (15,490) |
| Adjusted EBITDA (numerator for ROIC) (non-GAAP) | <u>\$ 117,445</u> | <u>\$ 119,621</u> | <u>\$ 118,034</u> |

Invested capital calculations

| | Fiscal Year Ended June 30, | | |
|--|----------------------------|------------|------------|
| | 2016 | 2015 | 2014 |
| | <i>(in thousands)</i> | | |
| Equity – beginning of the year | \$ 808,985 | \$ 802,643 | \$ 695,956 |
| Equity – end of the year | 774,496 | 808,985 | 802,643 |
| Change in fair value of contingent consideration, net of tax | 977 | 1,842 | 1,525 |
| Adjustments, net of tax ^(a) | 863 | 3,254 | (9,756) |
| Average equity, adjusted | 792,661 | 808,362 | 745,184 |
| Average funded debt ^(b) | 93,500 | 13,421 | 5,429 |
| Invested capital (denominator) | \$ 886,161 | \$ 821,783 | \$ 750,613 |
| Return on invested capital | 13.3% | 14.6% | 15.7% |

^(a) Includes acquisition costs for the years ended June 30, 2016 and 2015 and a legal recovery, net of attorney fees for the year ended June 30, 2014. Acquisition costs are non-deductible for tax purposes.

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

The decrease in our return on invested capital from the prior year is largely due to increased average funded debt to fund acquisitions.

Results of Operations

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

| | Fiscal Year Ended June 30, | | |
|---|----------------------------|--------|--------|
| | 2016 | 2015 | 2014 |
| Statement of income data: | | | |
| Net sales | 100.0% | 100.0% | 100.0% |
| Cost of goods sold | 90.0 | 89.8 | 89.7 |
| Gross profit | 10.0 | 10.2 | 10.3 |
| Selling, general and administrative expenses, net of amortization expense | 7.0 | 6.7 | 6.5 |
| Intangible amortization expense | 0.3 | 0.2 | 0.1 |
| Legal recovery | 0.0 | 0.0 | (0.5) |
| Change in fair value of contingent consideration | 0.0 | 0.1 | 0.1 |
| Operating income | 2.7 | 3.2 | 4.2 |
| Interest expense (income), net | 0.0 | 0.0 | (0.1) |
| Other expense (income), net | 0.1 | 0.1 | 0.0 |
| Income before income taxes and minority interest | 2.7 | 3.1 | 4.2 |
| Provision for income taxes | 0.9 | 1.1 | 1.4 |
| Net income | 1.8% | 2.0% | 2.8% |

Comparison of Fiscal Years Ended June 30, 2016, 2015, and 2014

Currency

In this Management Discussion and Analysis, we make references to "constant currency," a non-GAAP performance measure, that excludes the foreign exchange rate impact from fluctuations in the weighted average foreign exchange rates between reporting periods. Certain financial results are adjusted by translating current period results from currencies other than the U.S. dollar using

the comparable weighted average foreign exchange rates from the prior year period. This information is provided to view financial results without the impact of fluctuations in foreign currency rates, thereby facilitating comparability between reporting periods.

Net Sales

The Company has two reportable segments, which are based on technologies. Prior period results have been reclassified in the current year to account for the movement of certain business operations from the Worldwide Communications & Services segment to the Worldwide Barcode & Security segment. The following tables summarize the Company's net sales results by business segment and by geographic location for the comparable fiscal years ending June 30, 2016, 2015, and 2014.

Segments - 2016 compared to 2015

| | 2016 | 2015 | \$ Change | % Change |
|-------------------------------------|-----------------------|---------------------|-------------------|-----------------|
| | <i>(in thousands)</i> | | | |
| Worldwide Barcode & Security | \$ 2,381,331 | \$ 2,134,124 | \$ 247,207 | 11.6% |
| Worldwide Communications & Services | <u>1,158,895</u> | <u>1,084,502</u> | <u>74,393</u> | <u>6.9%</u> |
| Total net sales | <u>\$ 3,540,226</u> | <u>\$ 3,218,626</u> | <u>\$ 321,600</u> | <u>10.0%</u> |

On a constant currency basis and excluding acquisitions, consolidated net sales for the Company increased \$1.1 million, less than 0.1%, compared with the prior year.

Worldwide Barcode & Security

The Barcode & Security segment consists of sales to technology resellers in North America, Europe, and Latin America. During fiscal year 2016 net sales for this segment increased \$247.2 million or 11.6% compared to the prior fiscal year primarily from the inclusion of sales from KBZ, acquired in September 2015. Excluding the foreign exchange negative impact of \$80.4 million and sales from acquisitions of \$309.4 million, adjusted net sales increased \$18.1 million or 0.8%. The increase in adjusted net sales is primarily due to growth in our POS and Barcode business in North America.

Worldwide Communications & Services

The Communications & Services segment consists of sales to technology resellers in North America, Europe and Latin America. During fiscal year 2016, net sales for this segment increased \$74.4 million or 6.9% compared to the prior fiscal year primarily driven by the inclusion of a full year of sales for Network1. Excluding the foreign exchange negative impact of \$22.8 million and sales from acquisitions of \$118.9 million, adjusted net sales decreased \$17.1 million or 1.6%. The decrease in adjusted net sales is primarily due to lower sales in North America, partially offset by sales growth in Europe.

Geographic Sales - 2016 compared to 2015

| | 2016 | 2015 | \$ Change | % Change |
|-----------------|-----------------------|---------------------|-------------------|-----------------|
| | <i>(in thousands)</i> | | | |
| North American | \$ 2,620,184 | \$ 2,346,764 | \$ 273,420 | 11.7% |
| International | <u>920,042</u> | <u>871,862</u> | <u>48,180</u> | <u>5.5%</u> |
| Total net sales | <u>\$ 3,540,226</u> | <u>\$ 3,218,626</u> | <u>\$ 321,600</u> | <u>10.0%</u> |

Segments - 2015 compared to 2014

| | <u>2015</u> | <u>2014</u> | <u>\$ Change</u> | <u>% Change</u> |
|-------------------------------------|-----------------------|---------------------|-------------------|-----------------|
| | <i>(in thousands)</i> | | | |
| Worldwide Barcode & Security | \$ 2,134,124 | \$ 2,003,911 | \$ 130,213 | 6.5% |
| Worldwide Communications & Services | <u>1,084,502</u> | <u>909,723</u> | <u>174,779</u> | <u>19.2%</u> |
| Total net sales | <u>\$ 3,218,626</u> | <u>\$ 2,913,634</u> | <u>\$ 304,992</u> | <u>10.5%</u> |

Worldwide Barcode & Security

During fiscal year 2015 net sales for this segment increased \$130 million or 6.5% compared to the prior fiscal year. The increase in sales is primarily due to increased big deals for our North America and Europe POS & Barcode, Security and Networking businesses, partially offset by the unfavorable exchange rate variances. Excluding the negative impact of foreign exchange in the amount of \$74.7 million, adjusted net sales increased \$204.9 million or 10.2% compared to prior year.

Worldwide Communications & Services

During fiscal year 2015, net sales for this segment increased \$174.8 million or 19.2% compared to the prior fiscal year. Sales for fiscal year 2015 include Imago ScanSource and Network1 sales, which we acquired in September 2014 and January 2015, respectively. Excluding the negative impact of foreign exchange in the amount of \$7.4 million and sales from acquisitions of \$181.1 million, adjusted net sales increased \$1.0 million or 0.1% compared to prior year. The increase in adjusted net sales is primarily due to growth in our North America Communications and Catalyst businesses.

Geographic Sales - 2015 compared to 2014

| | <u>2015</u> | <u>2014</u> | <u>\$ Change</u> | <u>% Change</u> |
|-----------------|-----------------------|---------------------|-------------------|-----------------|
| | <i>(in thousands)</i> | | | |
| North American | \$ 2,346,764 | \$ 2,179,890 | \$ 166,874 | 7.7% |
| International | <u>871,862</u> | <u>733,744</u> | <u>138,118</u> | <u>18.8%</u> |
| Total net sales | <u>\$ 3,218,626</u> | <u>\$ 2,913,634</u> | <u>\$ 304,992</u> | <u>10.5%</u> |

The following tables summarize the Company's gross profit for the fiscal years ended June 30, 2016, 2015, and 2014:

Gross Profit - 2016 compared to 2015

| | <u>2016</u> | <u>2015</u> | <u>\$ Change</u> | <u>% Change</u> | <u>% of Sales June 30,</u> | |
|-------------------------------------|-----------------------|-------------------|------------------|-----------------|--------------------------------|--------------|
| | <i>(in thousands)</i> | | | | <u>2016</u> | <u>2015</u> |
| Worldwide Barcode & Security | \$ 199,728 | \$ 177,835 | \$ 21,893 | 12.3% | 8.4% | 8.3% |
| Worldwide Communications & Services | <u>155,712</u> | <u>149,255</u> | <u>6,457</u> | <u>4.3%</u> | <u>13.4%</u> | <u>13.8%</u> |
| Total gross profit | <u>\$ 355,440</u> | <u>\$ 327,090</u> | <u>\$ 28,350</u> | <u>8.7%</u> | <u>10.0%</u> | <u>10.2%</u> |

Worldwide Barcode & Security

Gross profit dollars for the Barcode & Security segment increased \$21.9 million for fiscal year ended 2016 as compared to prior year primarily due to the inclusion of results from the KBZ acquisition. As a percentage of sales, gross profit margin increased

slightly to 8.4% as compared to 8.3% for fiscal year 2015. The slight increase gross profit margin is largely due to a more favorable sales mix.

Worldwide Communications & Services

Gross profit dollars for the Communications & Services segment increased \$6.5 million for fiscal year ended 2016 as compared to prior year primarily due to the inclusion of a full year of Network1 results. As a percentage of sales, gross profit margin decreased to 13.4% for fiscal year 2016 compared to 13.8% for fiscal year 2015, primarily due to lower vendor program recognition.

Gross Profit - 2015 compared to 2014

| | <u>2015</u> | <u>2014</u> | <u>\$ Change</u> | <u>% Change</u> | <u>% of Sales</u> | |
|-------------------------------------|-----------------------|-------------|------------------|-----------------|-------------------|-------------|
| | | | | | <u>2015</u> | <u>2014</u> |
| | <i>(in thousands)</i> | | | | | |
| Worldwide Barcode & Security | \$ 177,835 | \$ 174,932 | \$ 2,903 | 1.7% | 8.3% | 8.7% |
| Worldwide Communications & Services | 149,255 | 126,167 | 23,088 | 18.3% | 13.8% | 13.9% |
| Total gross profit | \$ 327,090 | \$ 301,099 | \$ 25,991 | 8.6% | 10.2% | 10.3% |

Worldwide Barcode & Security

Gross profit dollars for the Barcode & Security segment increased \$2.9 million for fiscal year 2015 as compared to prior year. However, as a percentage of sales, gross profit margin decreased slightly to 8.3% for fiscal year 2015 as compared to 8.7% for fiscal year 2014. This reduction is largely the result of sales mix, principally higher sales volume of lower margin products.

Worldwide Communications & Services

Gross profit dollars and gross profit margin for the Communications & Services segment increased \$23.1 million for fiscal year 2015 as compared to fiscal year 2014. However, as a percentage of sales, gross profit margin decreased slightly to 13.8% compared to 13.9% for fiscal year 2014, primarily due to a less favorable sales mix and lower vendor program recognition as a percentage of sales.

The following tables summarize the Company's operating expenses for the periods ended June 30, 2016, 2015 and 2014:

Operating expenses - 2016 compared to 2015

| | <u>2016</u> | <u>2015</u> | <u>\$ Change</u> | <u>% Change</u> | <u>% of Sales</u> | |
|--|-----------------------|----------------|------------------|-----------------|-------------------|-------------|
| | | | | | <u>2016</u> | <u>2015</u> |
| | <i>(in thousands)</i> | | | | | |
| Selling, general and administrative expenses | \$ 257,269 | \$ 222,982 | \$ 34,287 | 15.4 % | 7.3% | 6.9% |
| Change in fair value of contingent consideration | 1,294 | 2,667 | (1,373) | (51.5)% | —% | 0.1% |
| Operating expenses | <u>258,563</u> | <u>225,649</u> | <u>32,914</u> | <u>14.6 %</u> | <u>7.3%</u> | <u>7.0%</u> |

Selling, general and administrative expenses ("SG&A") increased \$34.3 million for the fiscal year ending June 30, 2016. The increase in SG&A expenses is primarily due to increased employee-related expenses from recent acquisitions, bad debt expense and amortization expense of intangibles generated through acquisitions.

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

Operating expenses - 2015 compared to 2014

| | <u>2015</u> | <u>2014</u> | <u>\$ Change</u> | <u>% Change</u> | <u>% of Sales</u> | |
|--|-----------------------|-------------------|------------------|-----------------|-------------------|--------------|
| | | | | | <u>June 30,</u> | |
| | | | | | <u>2015</u> | <u>2014</u> |
| | <i>(in thousands)</i> | | | | | |
| Selling, general and administrative expense | \$ 222,982 | \$ 192,492 | \$ 30,490 | 15.8 % | 6.9% | 6.6 % |
| Impairment charges (legal recovery) | — | (15,490) | 15,490 | (100.0)% | —% | (0.5)% |
| Change in fair value of contingent consideration | 2,667 | 2,311 | 356 | 15.4 % | 0.1 % | 0.1 % |
| Operating expenses | <u>\$ 225,649</u> | <u>\$ 179,313</u> | <u>\$ 46,336</u> | <u>25.8 %</u> | <u>7.0%</u> | <u>6.2 %</u> |

SG&A increased \$30.5 million for the fiscal year ending June 30, 2015. The increase in SG&A expenses is primarily due to increased employee-related expenses and additional SG&A for the newly acquired Imago ScanSource and Network1, partially offset by lower bad debt expense.

In the fourth quarter of 2014, we recorded a \$15.5 million legal recovery, net of attorney fees, related to our previously-disclosed ERP litigation.

We have elected to present changes in fair value of the contingent consideration owed to former shareholders of CDC, Imago ScanSource, and Network1 separately from other selling, general and administrative expenses. In the current year, we have recorded a \$2.7 million loss, driven by recurring amortization of the unrecognized fair value discount, and the achievement of better-than-expected actual results for CDC and Imago ScanSource, partially offset by less than expected actual results for Network1.

The following tables summarize the Company's operating income for the fiscal years ended June 30, 2016, 2015, and 2014:

Operating Income - 2016 compared to 2015

| | <u>2016</u> | <u>2015</u> | <u>\$ Change</u> | <u>% Change</u> | <u>% of Sales</u> | |
|-------------------------------------|-----------------------|-------------------|-------------------|-----------------|-------------------|-------------|
| | | | | | <u>June 30,</u> | |
| | | | | | <u>2016</u> | <u>2015</u> |
| | <i>(in thousands)</i> | | | | | |
| Worldwide Barcode & Security | \$ 53,015 | \$ 49,045 | \$ 3,970 | 8.1 % | 2.2% | 2.3% |
| Worldwide Communications & Services | 44,725 | 55,650 | (10,925) | (19.6)% | 3.9% | 5.1% |
| Corporate | (863) | (3,254) | 2,391 | (73.5)% | —% | —% |
| Total operating income | <u>\$ 96,877</u> | <u>\$ 101,441</u> | <u>\$ (4,564)</u> | <u>(4.5)%</u> | <u>2.7%</u> | <u>3.2%</u> |

Worldwide Barcode & Security

For the Barcode & Security segment, operating income increased \$4.0 million for the fiscal year ended June 30, 2016 as compared to the prior year. Operating income as a percentage of sales remained flat period to period. The increase in operating income is largely due to increased sales volume due to KBZ, partially offset by increased employee related costs and bad debt expense. Operating income was also negatively impacted by foreign currency translation of our European and Brazilian operations.

Worldwide Communications & Services

For the Communications & Services segment, operating income decreased \$10.9 million for the fiscal year ended June 30, 2016 as compared to the prior year. Operating income as a percentage of sales decreased to 3.9% from 5.1%. The decrease in operating income is primarily attributable to decreased gross profit margin, coupled with increased employee related costs and bad debt expense. Operating income was also negatively impacted by foreign currency translation of our European and Brazilian operations.

Corporate

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

Operating Income - 2015 compared to 2014

| | | | | | <u>% of Sales June 30,</u> | |
|-------------------------------------|-----------------------|-------------------|--------------------|-----------------|--------------------------------|-------------|
| | <u>2015</u> | <u>2014</u> | <u>\$ Change</u> | <u>% Change</u> | <u>2015</u> | <u>2014</u> |
| | <i>(in thousands)</i> | | | | | |
| Worldwide Barcode & Security | \$ 49,045 | \$ 49,544 | \$ (499) | (1.0)% | 2.3% | 2.5% |
| Worldwide Communications & Services | 55,650 | 56,752 | (1,102) | (1.9)% | 5.1% | 6.2% |
| Corporate | (3,254) | 15,490 | (18,744) | (121.0)% | —% | —% |
| Total operating income | <u>\$ 101,441</u> | <u>\$ 121,786</u> | <u>\$ (20,345)</u> | <u>(16.7)%</u> | <u>3.2%</u> | <u>4.2%</u> |

Worldwide Barcode & Security

For the Barcode & Security segment, operating income decreased \$0.5 million for the fiscal year ended June 30, 2015 as compared to the prior year. The decrease in operating income is largely due to increased employee-related costs, partially offset by a reduction in bad debt expense. Operating income was also negatively impacted by foreign currency translation of our European and Brazilian operations.

Worldwide Communications & Services

For the Communications & Services segment, operating income decreased \$1.1 million for the fiscal year ended June 30, 2015 as compared to the prior year. The decrease in operating income is primarily attributable to increased employee-related costs and amortization expense, both generated from acquisitions, partially offset by the increase in sales volume due to the same acquisitions.

Corporate

Corporate incurred \$3.3 million in acquisition costs for the year ended June 30, 2015. For the year ended June 30, 2014, Corporate received a legal recovery, net of attorney fees, of \$15.5 million, related to our previously-disclosed ERP litigation.

The following tables summarize the Company's total other (income) expense for the fiscal years ended June 30, 2016, 2015, and 2014:

Total Other (Income) Expense - 2016 compared to 2015

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

Interest expense reflects interest incurred on borrowings, non-utilization fees from the Company's revolving credit facility, and amortization of debt issuance costs. The interest expense increased principally from the borrowings on the Company's multi-currency revolving credit facility.

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

Net foreign exchange gains and losses consist of foreign currency transactional and functional currency re-measurements, offset by net foreign currency exchange contract gains and losses. Foreign exchange gains and losses are generated as the result of fluctuations in the value of the U.S. dollar versus the Brazilian real, the U.S. dollar versus the euro, the British pound versus the euro, the Canadian dollar versus the U.S. dollar and other currencies versus 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. The Company experienced foreign exchange losses as foreign currency exchange rates weakened against the U.S. dollar. Losses were partially offset by the use of foreign exchange forward contracts to hedge against currency exposures.

Total Other (Income) Expense - 2015 compared to 2014

| | 2015 | 2014 | \$ Change | % Change | % of Sales June 30, | |
|-------------------------------------|-----------------------|------------|-----------|----------|------------------------|--------|
| | | | | | 2015 | 2014 |
| | <i>(in thousands)</i> | | | | | |
| Interest expense | \$ 1,797 | \$ 731 | \$ 1,066 | 145.8 % | 0.1 % | — % |
| Interest income | (2,638) | (2,364) | (274) | 11.6 % | (0.1)% | (0.1)% |
| Net foreign exchange (gains) losses | 3,044 | 616 | 2,428 | nm* | 0.1 % | — % |
| Other, net | (668) | (304) | (364) | 119.7 % | — % | — % |
| Total other (income) expense | \$ 1,535 | \$ (1,321) | \$ 2,856 | (216.2)% | — % | — % |

Interest expense reflects interest incurred on borrowings and cross currency swap agreements, non-utilization fees from the Company's revolving credit facility and amortization of debt issuance costs. The interest expense increased principally from the addition of Network1 borrowings held during the year after the business was acquired in January 2015.

Interest income for the year ended June 30, 2015 was generated on interest-bearing customer receivables and interest earned on cash and cash equivalents.

The Company experienced higher foreign exchange losses as compared to prior year primarily from significant changes in foreign currency exchange rates, partially offset by the use of foreign exchange forward contracts to hedge against currency exposures. In addition, the increase includes the higher costs of foreign exchange hedging for Network1, primarily related to the hedging of the U.S. dollar-denominated accounts payable.

Provision for Income Taxes

Income tax expense was \$32.4 million, \$34.5 million, and \$41.3 million for the fiscal years ended June 30, 2016, 2015, and 2014 respectively, reflecting an effective tax rate of 33.7%, 34.5%, and 33.6%, respectively. The decrease in the effective tax rate for fiscal year 2016 as compared to fiscal year 2015, is primarily due to additional tax credits generated. The increase in the effective tax rate for fiscal year 2015 as compared fiscal year 2014, is primarily due to the impact of non-deductible acquisition costs incurred during 2015. The Company expects the fiscal year 2017 effective tax rate to range between 34% and 35%.

Quarterly Results

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

| | Three Months Ended | | | | | | | |
|--|--|-------------------------|-------------------------|--------------------------|-------------------------|-------------------------|-------------------------|--------------------------|
| | Fiscal 2016 | | | | Fiscal 2015 | | | |
| | Jun. 30 2016 | Mar. 31 2016 | Dec. 31 2015 | Sept. 30 2015 | Jun. 30 2015 | Mar. 31 2015 | Dec. 31 2014 | Sept. 30 2014 |
| | <i>(in thousands, except per share data)</i> | | | | | | | |
| Net sales | \$ 877,471 | \$ 798,404 | \$ 993,522 | \$ 870,829 | \$ 856,685 | \$ 763,203 | \$ 807,019 | \$ 791,720 |
| Cost of goods sold | 794,692 | 713,928 | 892,889 | 783,277 | 765,367 | 683,187 | 728,908 | 714,075 |
| Gross profit | <u>\$ 82,779</u> | <u>\$ 84,476</u> | <u>\$ 100,633</u> | <u>\$ 87,552</u> | <u>\$ 91,318</u> | <u>\$ 80,016</u> | <u>\$ 78,111</u> | <u>\$ 77,645</u> |
| Net income | <u>\$ 12,925</u> | <u>\$ 14,042</u> | <u>\$ 20,656</u> | <u>\$ 15,996</u> | <u>\$ 16,447</u> | <u>\$ 12,943</u> | <u>\$ 16,821</u> | <u>\$ 19,208</u> |
| Weighted-average shares outstanding, basic | <u>25,661</u> | <u>25,863</u> | <u>26,648</u> | <u>27,702</u> | <u>28,461</u> | <u>28,646</u> | <u>28,579</u> | <u>28,544</u> |
| Weighted-average shares outstanding, diluted | <u>25,879</u> | <u>25,967</u> | <u>26,902</u> | <u>27,929</u> | <u>28,722</u> | <u>28,855</u> | <u>28,831</u> | <u>28,794</u> |
| Net income per common share, basic | <u>\$ 0.50</u> | <u>\$ 0.54</u> | <u>\$ 0.78</u> | <u>\$ 0.58</u> | <u>\$ 0.58</u> | <u>\$ 0.45</u> | <u>\$ 0.59</u> | <u>\$ 0.67</u> |
| Net income per common share, diluted | <u>\$ 0.50</u> | <u>\$ 0.54</u> | <u>\$ 0.77</u> | <u>\$ 0.57</u> | <u>\$ 0.57</u> | <u>\$ 0.45</u> | <u>\$ 0.58</u> | <u>\$ 0.67</u> |

Critical Accounting Policies and Estimates

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

Allowances for Trade and Notes Receivable

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

Inventory Reserves

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

Vendor Programs

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

The Company records unrestricted volume rebates received as a reduction of inventory and as a reduction of the cost of goods sold when the related inventory is sold. Amounts received or receivables from vendors that are not yet earned are deferred in the consolidated balance sheets. In addition, the Company may receive early payment discounts from certain vendors. The Company records early payment discounts received as a reduction of inventory and recognizes the discount as a reduction of cost of goods

sold when the related inventory is sold. ASC 605 requires management to make certain estimates of the amounts of vendor incentives that will be received. Actual recognition of the vendor consideration may vary from management estimates based on actual results.

Goodwill

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

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

The assumptions utilized in determining fair value included:

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

While we believe our assumptions are appropriate, they are subject to uncertainty and by nature include judgments and estimates regarding future events, including projected growth rates, margin percentages and operating efficiencies. Key assumptions used in determining fair value include projected growth and operating margin, working capital requirements and discount rates. During fiscal years 2016 and 2015, the Company completed its annual impairment test as of April 30 and determined that no goodwill impairment charge was necessary.

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

Liability for Contingent Consideration

In addition to the initial cash consideration paid to former shareholders of CDC, Imago, and Network1, the Company is obligated to make additional earnout payments based on future results through a specified date based on a multiple of the subsidiary's pro forma earnings as defined in the respective share purchase agreements. Future payments are to be paid in the functional currency of the acquired entity, which is the Brazilian real for CDC and Network and the British pound for Imago. The Company paid the

final earnout payment to the former shareholders of CDC during fiscal year 2016. Imago has one remaining earnout payment to be paid during fiscal year 2017 and Network1 has three remaining earnout payments to be paid in annual installments during fiscal years 2017 through 2019. In accordance with ASC Topic 805, the Company determines the fair value of this liability for contingent consideration at each reporting date throughout the term of the earnout using a form of a probability weighted discounted cash flow model. Each period the Company will reflect the contingent consideration liability at fair value with changes recorded in the change in fair value of contingent consideration line item on the Consolidated Income Statement. Current and noncurrent portions of the liability are presented in the current portion of contingent consideration and long-term portion of contingent consideration line items on the Consolidated Balance Sheets.

Off-Balance Sheet Arrangements

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.

Accounting Standards Recently Issued

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

Liquidity and Capital Resources

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

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

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

Our net investment in working capital decreased \$1.6 million to \$643.8 million at June 30, 2016 from \$645.4 million at June 30, 2015, principally from higher accounts receivable and reduced accounts payable, partially offset by lower cash. 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.

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

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

The number of days sales outstanding ("DSO") was 57 at June 30, 2016 and 55 at June 30, 2015. Throughout the fiscal year DSO ranged from 53 to 59. Inventory turnover decreased to 5.6 times during the fourth quarter of the current fiscal year, compared to 5.9 times in the prior year quarter. Throughout fiscal year 2016 inventory turnover ranged from 4.9 to 6.0 times.

Cash used in investing activities for the year ended June 30, 2016 was \$73.6 million, compared to \$80.5 million used in the prior year. Investing cash flows for the year ended June 30, 2016 is primarily driven by cash used to acquire KBZ in September 2015.

Cash used in financing activities for the year ended June 30, 2016 totaled to \$36.3 million, compared to \$56.9 million in the prior year. Cash used in the current year is primarily attributable to common stock repurchases, partially offset by proceeds from borrowing on the revolving credit facility.

In August 2014, our Board of Directors authorized a three-year \$120 million share repurchase program. Since the inception of the program through June 30, 2016, the Company repurchased 3.4 million shares totaling approximately \$119.5 million, of which \$100.8 million was repurchased during the year ended June 30, 2016.

The Company has a \$300 million multi-currency senior secured revolving credit facility with JPMorgan Chase Bank N.A., as administrative agent, and a syndicate of banks (the "Amended Credit Agreement") that matures on November 6, 2018. The Amended Credit Agreement allows for the issuance of up to \$50 million for letters of credit and has a \$150 million accordion feature that allows the Company to increase the availability to \$450 million, subject to obtaining additional credit commitments for the lenders participating in the increase.

At our option, loans denominated in U.S. dollars under the Amended Credit Agreement, other than swingline loans, bear interest at a rate equal to a spread over the London Interbank Offered Rate ("LIBOR") or alternate base rate depending upon the Company's ratio of total debt (excluding accounts payable and accrued liabilities) to EBITDA, measured as of the end of the most recent year or quarter, as applicable, for which financial statements have been delivered to the Lenders (the "Leverage Ratio"). The Leverage Ratio calculation excludes the Company's subsidiary in Brazil. This spread ranges from 1.00% to 2.25% for LIBOR-based loans and 0.00% to 1.25% for alternate base rate loans. Additionally, the Company is assessed commitment fees ranging from 0.175% to 0.40% depending on the Leverage Ratio, on non-utilized borrowings availability, excluding swingline loans. Borrowings under the Amended Credit Agreement are guaranteed by substantially all of the domestic assets of the Company and a pledge of up to 65% of capital stock or other equity interest in certain foreign subsidiaries determined to be either material or a subsidiary borrower as defined in the Amended Credit Agreement. We were in compliance with all covenants under the credit facility as of June 30, 2016. There was \$71.4 million and \$0.0 million outstanding on the revolving credit facility at June 30, 2016 and June 30, 2015.

On a gross basis, we borrowed \$1,377 million and repaid \$1,305 million on the \$300.0 million revolving credit facility in fiscal 2016. In the prior year, we borrowed \$93.6 million and repaid \$93.6 million. The average daily balance on the revolving credit facility was \$86.6 million and \$1.6 million for the years ended June 30, 2016 and 2015, respectively. Letters of credit issued under the multi-currency revolving credit facility totaled €0.4 million and €0.0 million as of June 30, 2016 and 2015, respectively. There was \$228.2 million and \$300 million available for additional borrowings as of June 30, 2016 and 2015.

Imago ScanSource has a multi-currency invoice discounting credit facility secured by the subsidiary's assets for its operations based in the United Kingdom. The invoice discounting facility allows for the issuance of funds up to 85% of the amount of each invoice processed, subject to limits by currency of £4.2 million, €0.3 million, and \$0.1 million. Borrowings under the invoice discounting facility 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 British pound sterling-based borrowings, 30-day Euro Interbank Offered Rate ("EUROLIBOR") for Euro-based borrowings, and the Lloyds Bank daily USD published rate for the U.S. dollar-based borrowings. Additionally, the Company is assessed an annual commitment fee of less than £0.1 million. There were no outstanding balances at June 30, 2016.

On April 15, 2011, the Company purchased CDC. 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 made the final earnout payment to the former shareholders of CDC during fiscal year 2016.

On September 19, 2014, the Company purchased Imago. 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. The Company has made one earnout payment as of June 30, 2016 totaling \$2.9 million. As of June 30, 2016, we have \$2.9 million recorded for the earnout obligation, all of which is classified as current. Future earnout payments will be funded by cash on hand and our existing revolving credit facility.

On January 13, 2015, the Company purchased Network1. The Company structured the purchase transaction with an initial cash payment of approximately \$29.1 million, plus additional annual cash installments based on EBITDA over the next 4 years, commencing with the period ending June 30, 2015. The Company acquired \$4.8 million of cash during the acquisition, resulting in \$24.3 million net cash paid for Network1 and assumed net debt of \$35.2 million as part of the initial consideration. The Company has made one earnout payment totaling \$1.3 million. As of June 30, 2016, we have \$21.8 million recorded for the earnout obligation, of which \$8.7 million is classified as current. Future earnout payments will be funded by cash on hand and our existing revolving credit facility.

On August 1, 2007, the Company entered into an agreement with the State of Mississippi in order to provide financing for the acquisition and installation of certain equipment to be utilized at the Company's Southaven, Mississippi distribution facility, through the issuance of an industrial development revenue bond. The bond matures on September 1, 2032 and accrues interest at the 30-day LIBOR rate plus a spread of 0.85%. The terms of the bond allow for payment of interest only for the first 10 years of the agreement, and then, starting on September 1, 2018 through 2032, principal and interest payments are due until the maturity date or the redemption of the bond. The agreement also provides the bondholder with a put option, exercisable only within 180 days of each fifth anniversary of the agreement, requiring the Company to pay back the bonds at 100% of the principal amount outstanding. The outstanding balance on this facility was \$5.4 million as of June 30, 2016 and 2015, and the effective interest rate was 1.32% and 1.03%, respectively. The Company was in compliance with all covenants associated with this agreement as of June 30, 2016.

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

Commitments

At June 30, 2016, the Company had contractual obligations in the form of non-cancelable operating leases, a capital lease (including interest payments), debt (including interest payments) and the contingent consideration for the earnouts pertaining to the Network1 and Imago ScanSource acquisitions. See Notes 7, 9 and 13 of the Notes to the Consolidated Financial Statements. The following table summarizes our future contractual obligations:

| | Payments Due by Period | | | | |
|--|-------------------------------|------------------|------------------|------------------|---------------------------------|
| | Total | Year 1 | Years 2-3 | Years 4-5 | Greater than 5 Years |
| | <i>(in thousands)</i> | | | | |
| Contractual Obligations | | | | | |
| Non-cancelable operating leases ⁽¹⁾ | \$ 13,975 | \$ 6,828 | \$ 5,495 | \$ 1,624 | \$ 28 |
| Capital lease | 248 | 248 | — | — | — |
| Principal debt payments | 5,429 | — | 329 | 671 | 4,429 |
| Contingent consideration ⁽²⁾ | 24,652 | 11,594 | 13,058 | — | — |
| Other ⁽³⁾ | — | — | — | — | — |
| Total obligations | \$ 44,304 | \$ 18,670 | \$ 18,882 | \$ 2,295 | \$ 4,457 |

- (1) Amounts to be paid in future periods for real estate taxes, insurance, and other operating expenses applicable to the properties pursuant to the respective operating leases have been excluded from the table above as the amounts payable in future periods are generally not specified in the lease agreements and are dependent upon amounts which are not known at this time. Such amounts were not material in the current fiscal year.
- (2) Amounts disclosed regarding future Imago ScanSource and Network1 earnout payments are presented at their discounted fair value. Estimated future, undiscounted earnout payments could range as high as \$3.0 million and \$26.0 million, respectively, as of June 30, 2016.
- (3) Amounts totaling \$17.9 million of deferred compensation, which are included in accrued expenses and other current liabilities and other long-term liabilities in our Consolidated Balance Sheets as of June 30, 2016, have been excluded from the table above due to the uncertainty of the timing of the payment of these obligations, which are generally at the discretion of the individual employees or upon death of the former employee, respectively.

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

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

Interest Rate Risk

The Company is exposed to changes in interest rates primarily as a result of its borrowing activities, which include revolving credit facilities with a group of banks used to maintain liquidity and fund the Company's business operations. The nature and amount of the Company's debt may vary as a result of future business requirements, market conditions and other factors. A hypothetical 100 basis point increase or decrease in interest rates on borrowings on the Company's revolving credit facility, variable rate long-term debt and subsidiary line of credit for the fiscal year ended June 30, 2016 would have resulted in less than a \$0.9 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 current and long-term debt. At June 30, 2016, the Company had \$76.9 million in variable rate long term debt and borrowings under the revolving credit facility with no interest rate swaps in place. The Company's use of 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 the use of currency options and forward contracts to hedge these exposures as well as balance sheet netting of exposures. In addition, exchange rate fluctuations may cause our international results to fluctuate significantly when translated into U.S. dollars. 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 Brazilian reais, euros, British pounds, Canadian dollars, Mexican pesos, Colombian pesos, Chilean pesos, and Peruvian nuevos soles. At June 30, 2016, the fair value of the Company's currency forward contracts outstanding was a net payable of less than \$0.5 million. The Company does not utilize financial instruments for trading or other speculative purposes.

ITEM 8. Financial Statements and Supplementary Data.

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

Report of Independent Registered Public Accounting Firm

Board of Directors and Shareholders
ScanSource, Inc.

We have audited the accompanying consolidated balance sheets of ScanSource Inc. (a South Carolina corporation) and subsidiaries (the “Company”) as of June 30, 2016 and 2015, and the related consolidated statements of income, comprehensive income, shareholders’ equity, and cash flows for each of the three years in the period ended June 30, 2016. Our audits of the basic consolidated financial statements included the financial statement schedule listed in the index appearing under Item 15(a)(2). These financial statements and financial statement schedule are the responsibility of the Company’s management. Our responsibility is to express an opinion on these financial statements and financial statement schedule based on our audits. We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of ScanSource, Inc. and subsidiaries as of June 30, 2016 and 2015, and the results of their operations and their cash flows for each of the three years in the period ended June 30, 2016 in conformity with accounting principles generally accepted in the United States of America. Also in our opinion, the related financial statement schedule, when considered in relation to the basic consolidated financial statements taken as a whole, presents fairly, in all material respects, the information set forth therein. We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the Company’s internal control over financial reporting as of June 30, 2016, based on criteria established in the *2013 Internal Control-Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO), and our report dated August 29, 2016 expressed an unqualified opinion.

/s/ Grant Thornton LLP

Columbia, South Carolina
August 29, 2016

Report of Independent Registered Public Accounting Firm

Board of Directors and Shareholders
ScanSource, Inc.

We have audited the internal control over financial reporting of ScanSource, Inc. (a South Carolina corporation) and subsidiaries (the “Company”) as of June 30, 2016, based on criteria established in the *2013 Internal Control-Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). The Company’s management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Management’s Report on Internal Control over Financial Reporting (“Management’s Report”). Our responsibility is to express an opinion on the Company’s internal control over financial reporting based on our audit. Our audit of, and opinion on, the Company’s internal control over financial reporting does not include the internal control over financial reporting of ScanSourceGov, Inc. (“KBZ”), a wholly-owned subsidiary, whose financial statements reflect total assets and revenues constituting 4 percent and 9 percent, respectively, of the related consolidated financial statement amounts as of and for the year ended June 30, 2016. As indicated in Management’s Report, KBZ was acquired during the year ended June 30, 2016. Management’s assertion on the effectiveness of the Company’s internal control over financial reporting excluded internal control over financial reporting of KBZ.

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

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

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

In our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of June 30, 2016, based on criteria established in the *2013 Internal Control-Integrated Framework* issued by COSO.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated financial statements of the Company as of and for the years ended June 30, 2016 and 2015, and our report dated August 29, 2016 expressed an unqualified opinion on those financial statements.

/s/ Grant Thornton LLP

Columbia, South Carolina
August 29, 2016

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

| | June 30, 2016 | June 30, 2015 |
|---|--------------------------|--------------------------|
| <u>Assets</u> | | |
| Current assets: | | |
| Cash and cash equivalents | \$ 61,400 | \$ 121,646 |
| Accounts receivable, less allowance of \$39,032 at June 30, 2016 and \$32,589 at June 30, 2015 | 559,557 | 522,532 |
| Inventories | 558,581 | 553,063 |
| Prepaid expenses and other current assets | 49,367 | 46,917 |
| Total current assets | 1,228,905 | 1,244,158 |
| Property and equipment, net | 52,388 | 46,574 |
| Goodwill | 92,715 | 66,509 |
| Net identifiable intangible assets | 51,127 | 46,272 |
| Deferred income taxes | 28,813 | 38,963 |
| Other non-current assets | 37,237 | 34,465 |
| Total assets | \$ 1,491,185 | \$ 1,476,941 |
| <u>Liabilities and Shareholders' Equity</u> | | |
| Current liabilities: | | |
| Current debt | \$ — | \$ 2,860 |
| Accounts payable | 471,487 | 501,329 |
| Accrued expenses and other current liabilities | 98,975 | 81,000 |
| Current portion of contingent consideration | 11,594 | 9,391 |
| Income taxes payable | 3,056 | 4,180 |
| Total current liabilities | 585,112 | 598,760 |
| Deferred income taxes | 2,555 | 3,773 |
| Long-term debt, net of current portion | 5,429 | 5,966 |
| Borrowings under revolving credit facility | 71,427 | — |
| Long-term portion of contingent consideration | 13,058 | 24,569 |
| Other long-term liabilities | 39,108 | 34,888 |
| Total liabilities | 716,689 | 667,956 |
| Commitments and contingencies | | |
| Shareholders' equity: | | |
| Preferred stock, no par value; 3,000,000 shares authorized, none issued | — | — |
| Common stock, no par value; 45,000,000 shares authorized, 25,614,673 and 28,214,153 shares issued and outstanding at June 30, 2016 and June 30, 2015, respectively | 67,249 | 157,172 |
| Retained earnings | 779,934 | 716,315 |
| Accumulated other comprehensive (loss) income | (72,687) | (64,502) |
| Total shareholders' equity | 774,496 | 808,985 |
| Total liabilities and shareholders' equity | \$ 1,491,185 | \$ 1,476,941 |

See accompanying notes to consolidated financial statements.

ScanSource, Inc. and Subsidiaries
Consolidated Income Statements
Years Ended June 30, 2016, 2015, and 2014
(in thousands, except per share information)

| | 2016 | 2015 | 2014 |
|--|---------------------|--------------|--------------|
| Net sales | \$ 3,540,226 | \$ 3,218,626 | \$ 2,913,634 |
| Cost of goods sold | 3,184,786 | 2,891,536 | 2,612,535 |
| Gross profit | 355,440 | 327,090 | 301,099 |
| Selling, general and administrative expenses | 257,269 | 222,982 | 192,492 |
| Legal recovery on impairment charges | — | — | (15,490) |
| Change in fair value of contingent consideration | 1,294 | 2,667 | 2,311 |
| Operating income | 96,877 | 101,441 | 121,786 |
| Interest expense | 2,124 | 1,797 | 731 |
| Interest income | (3,448) | (2,638) | (2,364) |
| Other (income) expense, net | 2,191 | 2,376 | 312 |
| Income before income taxes | 96,010 | 99,906 | 123,107 |
| Provision for income taxes | 32,391 | 34,487 | 41,318 |
| Net income | \$ 63,619 | \$ 65,419 | \$ 81,789 |
| Per share data: | | | |
| Net income per common share, basic | \$ 2.40 | \$ 2.29 | \$ 2.89 |
| Weighted-average shares outstanding, basic | 26,472 | 28,558 | 28,337 |
| Net income per common share, diluted | \$ 2.38 | \$ 2.27 | \$ 2.86 |
| Weighted-average shares outstanding, diluted | 26,687 | 28,799 | 28,602 |

See accompanying notes to consolidated financial statements.

ScanSource, Inc. and Subsidiaries
Consolidated Statements of Comprehensive Income
Years Ended June 30, 2016, 2015, and 2014
(in thousands)

| | <u>2016</u> | <u>2015</u> | <u>2014</u> |
|---|------------------|------------------|------------------|
| Net income | \$ 63,619 | \$ 65,419 | \$ 81,789 |
| Foreign currency translation adjustment | <u>(8,185)</u> | <u>(47,802)</u> | <u>6,272</u> |
| Comprehensive income | <u>\$ 55,434</u> | <u>\$ 17,617</u> | <u>\$ 88,061</u> |

See accompanying notes to these consolidated financial statements.

ScanSource, Inc. and Subsidiaries
Consolidated Statements of Shareholders' Equity
Years Ended June 30, 2016, 2015, and 2014
(in thousands, except share information)

| | Common Stock (Shares) | Common Stock (Amount) | Retained Earnings | Accumulated Other Comprehensive Income (Loss) | Total |
|---|-----------------------------|-----------------------------|--------------------------|--|--------------------------|
| Balance at June 30, 2013 | 27,971,809 | \$ 149,821 | \$ 569,107 | \$ (22,972) | \$ 695,956 |
| Net income | — | — | 81,789 | — | 81,789 |
| Foreign currency translation adjustment | — | — | — | 6,272 | 6,272 |
| Exercise of stock options and shares issued under share-based compensation plans, net of shares withheld for employee taxes | 567,672 | 12,581 | — | — | 12,581 |
| Share based compensation | — | 5,328 | — | — | 5,328 |
| Tax benefit of deductible compensation arising from exercise or vesting of share-based payment arrangements | — | 717 | — | — | 717 |
| Balance at June 30, 2014 | <u>28,539,481</u> | <u>\$ 168,447</u> | <u>\$ 650,896</u> | <u>\$ (16,700)</u> | <u>\$ 802,643</u> |
| Net income | — | — | 65,419 | — | 65,419 |
| Foreign currency translation adjustment | — | — | — | (47,802) | (47,802) |
| Exercise of stock options and shares issued under share-based compensation plans, net of shares withheld for employee taxes | 154,497 | 760 | — | — | 760 |
| Common stock repurchased | (479,825) | (18,768) | — | — | (18,768) |
| Share based compensation | — | 6,517 | — | — | 6,517 |
| Tax benefit of deductible compensation arising from exercise or vesting of share-based payment arrangements | — | 216 | — | — | 216 |
| Balance at June 30, 2015 | <u>28,214,153</u> | <u>\$ 157,172</u> | <u>\$ 716,315</u> | <u>\$ (64,502)</u> | <u>\$ 808,985</u> |
| Net income | — | — | 63,619 | — | 63,619 |
| Foreign currency translation adjustment | — | — | — | (8,185) | (8,185) |
| Exercise of stock options and shares issued under share-based compensation plans, net of shares withheld for employee taxes | 284,730 | 3,994 | — | — | 3,994 |
| Common stock repurchased | (2,884,210) | (100,751) | — | — | (100,751) |
| Share based compensation | — | 7,093 | — | — | 7,093 |
| Tax shortfall from exercise or vesting of share-based payment arrangements | — | (259) | — | — | (259) |
| Balance at June 30, 2016 | <u>25,614,673</u> | <u>\$ 67,249</u> | <u>\$ 779,934</u> | <u>\$ (72,687)</u> | <u>\$ 774,496</u> |

See accompanying notes to consolidated financial statements.

ScanSource, Inc. and Subsidiaries
Consolidated Statements of Cash Flows
Years Ended June 30, 2016, 2015, and 2014
(in thousands)

| | <u>2016</u> | <u>2015</u> | <u>2014</u> |
|---|------------------|-------------------|-------------------|
| Cash flows from operating activities: | | | |
| Net income | \$ 63,619 | \$ 65,419 | \$ 81,789 |
| Adjustments to reconcile net income to net cash provided by (used in) operating activities: | | | |
| Depreciation and amortization | 17,154 | 11,997 | 7,375 |
| Amortization of debt issue costs | 297 | 297 | 312 |
| Provision for doubtful accounts | 7,571 | 993 | 6,573 |
| Share-based compensation | 7,093 | 6,522 | 5,248 |
| Deferred income taxes | 1,846 | 3,921 | 8,606 |
| Excess tax benefits from share-based payment arrangements | (101) | (260) | (982) |
| Change in fair value of contingent consideration | 1,294 | 2,667 | 2,311 |
| Changes in operating assets and liabilities, net of acquisitions: | | | |
| Accounts receivable | 14,167 | (14,476) | (31,860) |
| Inventories | 2,999 | (37,695) | (99,214) |
| Prepaid expenses and other assets | 4,612 | 2,337 | 6,206 |
| Other noncurrent assets | (2,186) | 1,431 | 1,285 |
| Accounts payable | (71,706) | 28,280 | 57,532 |
| Accrued expenses and other liabilities | 6,401 | 7,449 | (5,357) |
| Income taxes payable | (849) | (3,360) | 7,898 |
| Net cash provided by (used in) operating activities | <u>52,211</u> | <u>75,522</u> | <u>47,722</u> |
| Cash flows from investing activities: | | | |
| Capital expenditures | (12,081) | (20,762) | (11,228) |
| Cash paid for business acquisitions, net of cash acquired | (61,475) | (59,779) | — |
| Net cash provided by (used in) investing activities | <u>(73,556)</u> | <u>(80,541)</u> | <u>(11,228)</u> |
| Cash flows from financing activities: | | | |
| Borrowings (repayments) short-term borrowings, net | — | (24,097) | — |
| Borrowings on revolving credit, net of expenses | 1,376,620 | 93,579 | — |
| Repayments on revolving credit, net of expenses | (1,305,193) | (93,579) | — |
| Repayments on long-term debt | (2,792) | (9,146) | — |
| Repayments of capital lease obligations | (223) | (262) | — |
| Debt issuance costs | — | — | (468) |
| Contingent consideration payments | (8,606) | (5,640) | (3,810) |
| Exercise of stock options | 3,994 | 760 | 12,581 |
| Repurchase of common stock | (100,206) | (18,768) | — |
| Excess tax benefits from share-based payment arrangements | 101 | 260 | 982 |
| Net cash provided by (used in) financing activities | <u>(36,305)</u> | <u>(56,893)</u> | <u>9,285</u> |
| Effect of exchange rate changes on cash and cash equivalents | (2,596) | (11,293) | 908 |
| Increase (decrease) in cash and cash equivalents | <u>(60,246)</u> | <u>(73,205)</u> | <u>46,687</u> |
| Cash and cash equivalents at beginning of period | 121,646 | 194,851 | 148,164 |
| Cash and cash equivalents at end of period | <u>\$ 61,400</u> | <u>\$ 121,646</u> | <u>\$ 194,851</u> |

Supplemental disclosure of cash flow information:

Interest paid during the year

\$ 1,706 \$ 1,075 \$ 739

Income taxes paid during the year

\$ 33,859 \$ 36,272 \$ 24,323

See accompanying notes to consolidated financial statements.

SCANSOURCE, INC. AND SUBSIDIARIES
Notes to Consolidated Financial Statements—(Continued)
June 30, 2016

(1) Business and Summary of Significant Accounting Policies

Business Description

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

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

Consolidation Policy

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

Related Party Transactions

A related party is generally defined as (i) any person that holds 10% or more of the Company's securities and their immediate families, (ii) the Company's management, (iii) someone that directly or indirectly controls, is controlled by or is under common control with the Company, or (iv) anyone who can significantly influence the financial and operating decisions of the Company. A transaction is considered to be a related party transaction when there is a transfer of resources or obligations between related parties. There were no material related party transactions for the fiscal years ended June 30, 2016, 2015, and 2014.

Use of Estimates

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

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

(a) Allowances for Trade and Notes Receivable

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

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

(b) Inventory Reserves

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

(c) Purchase Price Allocations

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

Cash and Cash Equivalents

The Company considers all highly liquid investments with original maturities of three months or less, when purchased, to be cash equivalents. The Company maintains some zero-balance disbursement accounts at various financial institutions in which the Company does not maintain significant depository relationships. Due to the 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 \$78.3 million and \$62.9 million are classified as accounts payable as of June 30, 2016 and June 30, 2015, respectively.

The Company maintains its cash with various financial institutions globally that are monitored regularly for credit quality and holds amounts in excess of Federal Deposit Insurance Corporation ("FDIC") limits or other insured limits. Cash and cash equivalents held outside of the United States totaled \$52.7 million and \$43.4 million as of June 30, 2016 and 2015, respectively.

Concentration of Credit Risk

The Company sells to a large base of value-added resellers throughout the United States, Canada, Latin America and Europe. The Company performs ongoing credit evaluations of its customers' financial condition. In certain cases, the Company will accept

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tangible assets as collateral to increase the trade credit of its customers. In addition, the Company carries credit insurance on certain subsections of the customer portfolio. No single customer accounted for more than 5% of the Company's net sales for fiscal years 2016, 2015, or 2014.

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

Derivative Financial Instruments

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

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

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

During the fiscal year ended June 30, 2015, through the acquisition of Network1, the Company assumed borrowings denominated in foreign currencies that were hedged into the functional currency of the respective borrowing entity using cross-currency swaps in order to mitigate the impact of foreign currency exposures and interest rate exposures on these borrowings. These swaps involved the exchange of principal and fixed interest receipts of U.S. dollar-denominated debt held by one of our Brazilian subsidiaries (Network1) for principal and variable interest payments in Brazilian reais. The impact of the changes in foreign exchange rates of the cross-currency debt instruments were recognized as adjustments to other income and expense in the Consolidated Income Statements. Interest rate differentials paid or received under the swap agreements were recognized as adjustments to interest expense in the Consolidated Income Statements.

Investments

The Company has investments that are held in a grantor trust formed by the Company related to the ScanSource, Inc. Nonqualified Deferred Compensation Plan and Founder's Supplemental Executive Retirement Plan ("SERP"). The Company has classified these investments as trading securities, and they are recorded at fair market value with unrealized gains and losses included in the accompanying Consolidated Income Statements. The Company's obligations under this deferred compensation plan change in concert with the performance of the investments along with contributions to and withdrawals from the plan. The fair value of these investments and the corresponding deferred compensation obligation was \$17.9 million and \$16.0 million as of June 30, 2016 and June 30, 2015, respectively. These investments are classified as either prepaid expenses and current assets or other non-current assets in the Consolidated Balance Sheets depending on the timing of planned disbursements. The deferred compensation

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obligation is classified either within accrued expenses and other current liabilities or other long-term liabilities as well. The amounts of these investments classified as current assets with corresponding current liabilities were \$1.6 million and \$0.7 million at June 30, 2016 and June 30, 2015, respectively.

Inventories

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

Vendor Programs

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

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

Vendor Concentration

The Company sells products from many vendors, however, sales of products supplied by Avaya, Cisco, and Zebra each constituted more than 10% of the Company's net sales for the year ended June 30, 2016. For the year ended June 30, 2015, sales of products supplied by Avaya and Zebra each constituted more than 10% of the Company's net sales. Sales of products supplied by Avaya, Honeywell, and Zebra constituted more than 10% of the Company's net sales for the year ended June 30, 2014.

Product Warranty

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

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Property and Equipment

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

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

Capitalized Software

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

Goodwill

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

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

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

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

Intangible Assets

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

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

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

Impairment of Long-Lived Assets

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

Fair Value of Financial Instruments

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

Liability for Contingent Consideration

In addition to the initial cash consideration paid to former shareholders of CDC, Imago, and Network1, the Company is obligated to make additional earnout payments based on future results through a specified date based on a multiple of the subsidiary's pro forma earnings measure as defined in the respective share purchase agreements. Future payments are to be paid in the subsidiary's local currency. In accordance with ASC 805, the Company determined the fair value of this liability for contingent consideration

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on the respective acquisition dates using a form of a probability-weighted discounted cash flow model following the income approach. Each period, the Company reflects the contingent consideration liability at fair value with changes recorded in the change in fair value of contingent consideration line item in the Consolidated Income Statements. The final earnout payment to the former shareholders of CDC was paid during fiscal year 2016.

Contingencies

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

Revenue Recognition

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

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

Service revenue associated with third-party service contracts and warranty programs, as mentioned above, along with configuration and marketing services is recognized when the work is complete, and the four criteria discussed above have been substantially met. Service revenue associated with service contracts, warranty programs, configuration, marketing and other services approximates 3% of consolidated net sales for fiscal years 2016 and 2015, compared to 2% of consolidated net sales for fiscal year 2014.

During the fiscal years ended June 30, 2016, 2015 and 2014, the Company did not engage in sales transactions involving multiple element arrangements.

Shipping Revenue and Costs

Shipping revenue is included in net sales, and related costs are included in cost of goods sold. Shipping revenue was \$13.0 million for the year ended June 30, 2016 and \$12.2 million for the years ended June 30, 2015 and 2014, respectively.

Advertising Costs

The Company defers advertising-related costs until the advertising is first run in trade or other publications, or in the case of brochures, until the brochures are printed and available for distribution. Advertising costs, included in marketing costs, after

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vendor reimbursement, were not significant in any of the three fiscal years ended June 30, 2016. Deferred advertising costs for any of the three fiscal years ended June 30, 2016 were also not significant.

Foreign Currency

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

Income Taxes

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

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

Share-Based Payments

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

Comprehensive Income

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

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Business Combinations

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

Reclassifications

In accordance with ASU 2015-17, all prior year deferred income taxes that were previously classified as current assets and liabilities have been reclassified to non-current positions on the Consolidated Balance Sheets. The Company reclassified \$20.6 million of deferred income tax previously classified as current assets to non-current assets as of June 30, 2015.

Recent Accounting Pronouncements

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

In December 2015, the FASB issued final guidance requiring companies to classify all deferred tax assets and liabilities as noncurrent on the balance sheet rather than separating deferred taxes into current and noncurrent amounts. In addition, companies will also be required to classify valuation allowances on deferred taxes as noncurrent. The guidance is effective for fiscal years, and interim periods within those years, beginning after December 15, 2016. Early application is permitted. The guidance may be adopted on either a prospective or retrospective basis. This guidance was adopted by the Company during fiscal year 2016.

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

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comparative period in the financial statements. The Company is currently evaluating the impact on its consolidated financial statements upon the adoption of this new guidance.

In March 2016, the FASB issued ASU 2016-09, *Compensation - Stock Compensation (Topic 718)* simplifying several aspects of the accounting for employee share-based payment transactions, including the accounting for income taxes, forfeitures, and statutory withholding requirements, as well as classification in the statement of cash flows. Under the new guidance, an entity will recognize all excess tax benefits and tax deficiencies as income tax expense or benefit in the income statement. This change eliminates the current practice of recognizing excess tax benefits in additional paid-in-capital ("APIC") and tax deficiencies in APIC to the extent that there is a sufficient APIC pool related to previously recognized excess tax benefits. In addition, excess tax benefits and tax deficiencies are considered discrete items in the reporting period they occur and are not included in the estimate of an entity's annual effective tax rate. As for classification on the statement of cash flows, excess tax benefits will no longer represent a financing activity since they are recognized in the income statement, and will appropriately be classified as an operating activity. The ASU allows an entity to elect as an accounting policy either to continue to estimate the total number of awards for which the requisite service period will not be rendered (as currently required) or to account for forfeitures when they occur. In regards to statutory withholding requirements, the new guidance stipulates that the net settlement of an award would not result, by itself, in liability classification of the award provided that the amount withheld for taxes does not exceed the maximum statutory tax rate in the employees' relevant tax jurisdictions. The standard is effective for fiscal years beginning after December 15, 2016, including interim periods within those fiscal years. If early adoption is elected, all amendments in the ASU that apply must be adopted in the same period. This guidance will be applicable to the Company for the fiscal year beginning July 1, 2017. The Company is currently evaluating the impact on its consolidated financial statements upon the adoption of this new guidance.

(2) Earnings per Share

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

| | Fiscal Year Ended June 30, | | |
|---|--|-------------|-------------|
| | 2016 | 2015 | 2014 |
| | <i>(in thousands, except per share data)</i> | | |
| Numerator: | | | |
| Net income | \$ 63,619 | 65,419 | 81,789 |
| Denominator: | | | |
| Weighted-average shares, basic | 26,472 | 28,558 | 28,337 |
| Dilutive effect of share-based payments | 215 | 241 | 265 |
| Weighted-average shares, diluted | 26,687 | 28,799 | 28,602 |
| Net income per common share, basic | \$ 2.40 | \$ 2.29 | \$ 2.89 |
| Net income per common share, diluted | \$ 2.38 | \$ 2.27 | \$ 2.86 |

For the years ended June 30, 2016, 2015 and 2014, weighted-average shares outstanding excluded from the computation of diluted earnings per share because their effect would have been antidilutive were 461,090, 340,697 and 230,706, respectively.

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(3) Property and Equipment

Property and equipment is comprised of the following:

| | June 30, | |
|--------------------------------------|-----------------------|-------------|
| | 2016 | 2015 |
| | <i>(in thousands)</i> | |
| Land | \$ 3,009 | \$ 3,009 |
| Buildings and leasehold improvements | 20,473 | 21,266 |
| Computer software and equipment | 46,112 | 44,444 |
| Furniture, fixtures and equipment | 23,316 | 16,849 |
| Construction in progress | 4,897 | 126 |
| | 97,807 | 85,694 |
| Less accumulated depreciation | (45,419) | (39,120) |
| | \$ 52,388 | \$ 46,574 |

During the fiscal year ended June 30, 2016, the increase in net fixed assets from the prior year is largely due to capital expenditures for building expansions and improvements to the Company's headquarters in Greenville, SC and SAP improvements during the year.

Depreciation expense was \$7.3 million, \$5.4 million, and \$3.5 million, respectively, for the fiscal years ended 2016, 2015, and 2014.

(4) Accrued Expenses and Other Current Liabilities

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

| | June 30, | |
|---|-----------------------|-------------|
| | 2016 | 2015 |
| | <i>(in thousands)</i> | |
| Deferred warranty revenue | \$ 29,836 | \$ 22,346 |
| Accrued compensation | 19,917 | 20,906 |
| Accrued marketing expense | 2,459 | 1,480 |
| Accrued freight | 3,507 | 3,291 |
| Brazilian pre-acquisition contingencies | 2,941 | 3,676 |
| Other taxes payable | 11,044 | 9,240 |
| Other accrued liabilities | 29,271 | 20,061 |
| | \$ 98,975 | \$ 81,000 |

(5) Acquisitions

KBZ

On September 4, 2015, the Company acquired substantially all the assets of KBZ Communications, Inc., a Cisco Authorized Distributor specializing in video conferencing, services, and cloud. KBZ is part of the Company's Worldwide Barcode and Security operating segment. This acquisition enables the Company to enhance its focus on Cisco's solutions, combining the

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strengths of both distributors to provide a more robust portfolio of products, solutions and services. The results of operations of KBZ have been included in the consolidated results from the date of acquisition.

Under the asset purchase agreement, the Company acquired the assets of KBZ for a cash payment of \$64.6 million. The Company acquired \$3.1 million of cash during the acquisition, resulting in \$61.5 million net cash paid for KBZ.

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

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

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

Network1

On January 13, 2015, the Company acquired 100% of the shares of Network1. Network1 is a Brazilian value-added provider of communications equipment and services and is part of the Company's Worldwide Communications and Services operating segment. ScanSource is committed to becoming the leading value-added provider 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 an initial cash payment of approximately \$29.1 million, plus additional annual cash installments based on a form of adjusted earnings before interest expense, taxes, depreciation and amortization ("adjusted EBITDA") over the next 4 years, commencing with the period ending June 30, 2015. The Company acquired \$4.8 million of cash during the acquisition, resulting in \$24.3 million net cash paid for Network1. The Company assumed net debt of \$35.2 million as part of the initial purchase 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

SCANSOURCE, INC. AND SUBSIDIARIES
Notes to Consolidated Financial Statements—(Continued)
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assets acquired and liabilities assumed based on their estimated fair values on the transaction date. Please see Note 9 - *Fair Value of Financial Instruments* for further information regarding the fair value accounting for this contingent consideration and Note 13 - *Commitments and Contingencies* for further information regarding pre-acquisition contingencies and related indemnification receivables.

During the second quarter of fiscal year 2016, the Company finalized the purchase accounting for the Network1 acquisition and recorded all purchase accounting adjustments. Further, during the third quarter of the fiscal year 2016, the Company identified an adjustment related to deferred taxes in association with the Network1 acquisition. The adjustment resulted in a reclassification of approximately \$7.9 million from other non-current assets to goodwill as of the opening balance sheet date. There was no impact to previously reported retained earnings, income from continuing operations, net income or earnings per share.

| | Goodwill | Identifiable Intangible Assets |
|---|-----------------------|---|
| | <i>(in thousands)</i> | |
| Purchase price allocation June 30, 2015 | \$ 22,536 | \$ 23,258 |
| Opening balance sheet adjustments | 8,496 | (76) |
| Purchase price allocation June 30, 2016 | \$ 31,032 | \$ 23,182 |

Intangible assets acquired include trade names, customer relationships, and non-compete agreements. The weighted-average amortization period for these identified intangible assets after purchase accounting adjustments, other than goodwill, was 9 years.

Imago

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

Under the share purchase agreement entered into with Imago, the Company structured the purchase transaction with an initial cash payment of \$37.4 million, plus 2 additional annual cash installments for the twelve month periods ending September 30, 2015 and 2016, based on a form of adjusted EBITDA. 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 9 - *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. The purchase price allocated to goodwill and identifiable intangible assets as of the acquisition date is as follows:

| | Goodwill | Identifiable Intangible Assets |
|------------------|-----------------------|---|
| | <i>(in thousands)</i> | |
| Imago ScanSource | \$ 18,266 | \$ 19,606 |

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Notes to Consolidated Financial Statements—(Continued)
June 30, 2016

Intangible assets acquired include trade names, customer relationships, and non-compete agreements. The weighted-average amortization period for these identified intangible assets after purchase accounting adjustments, other than goodwill, was 9 years.

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.

(6) Goodwill and Other Identifiable Intangible Assets

In accordance with ASC 350, *Intangibles - Goodwill and Other Intangible Assets*, the Company performs its annual goodwill impairment test during the fourth quarter of each fiscal year, or whenever indicators of impairment are present. The reporting units utilized for goodwill impairment tests align directly with our operating segments, Barcode & Security and Communications & Services. The testing includes the determination of each reporting unit's fair value using a discounted cash flows model compared to each reporting unit's carrying value. Key assumptions used in determining fair value include projected growth and operating margin, working capital requirements and discount rates. During fiscal years ended June 30, 2016, 2015, and 2014, no impairment charges related to goodwill were recorded.

Changes in the carrying amount of goodwill for the years ended June 30, 2016 and 2015, by reportable segment, are as follows:

| | Barcode & Security Segment | Communicatio ns & Services Segment | Total |
|--|---|---|------------------|
| | <i>(in thousands)</i> | | |
| Balance at June 30, 2014 | \$ 16,876 | \$ 15,466 | \$ 32,342 |
| Additions | — | 40,802 | 40,802 |
| Unrealized gain (loss) on foreign currency translation | (1,341) | (5,294) | (6,635) |
| Balance at June 30, 2015 | \$ 15,535 | \$ 50,974 | \$ 66,509 |
| Additions | 21,639 | 8,496 ¹ | 30,135 |
| Unrealized gain (loss) on foreign currency translation | (740) | (3,189) | (3,929) |
| Balance at June 30, 2016 | \$ 36,434 | \$ 56,281 | \$ 92,715 |

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

The following table shows the Company's identifiable intangible assets as of June 30, 2016 and 2015, respectively.

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Notes to Consolidated Financial Statements—(Continued)
June 30, 2016

| | June 30, 2016 | | | June 30, 2015 | | |
|------------------------------|-----------------------------|-----------------------------|----------------------|-----------------------------|-----------------------------|----------------------|
| | Gross Carrying Amount | Accumulated Amortization | Net Book Value | Gross Carrying Amount | Accumulated Amortization | Net Book Value |
| | <i>(in thousands)</i> | | | | | |
| Amortized intangible assets: | | | | | | |
| Customer relationships | \$ 70,379 | \$ 26,668 | \$ 43,711 | \$ 59,448 | \$ 20,573 | \$ 38,875 |
| Trade names | 11,270 | 4,398 | 6,872 | 7,857 | 1,278 | 6,579 |
| Non-compete agreements | 1,103 | 777 | 326 | 1,113 | 539 | 574 |
| Distributor agreements | 345 | 127 | 218 | 345 | 101 | 244 |
| Total intangibles | \$ 83,097 | \$ 31,970 | \$ 51,127 | \$ 68,763 | \$ 22,491 | \$ 46,272 |

During fiscal years 2016 and 2015, the Company acquired new customer relationships, trade names and non-compete agreements related to the acquisitions of KBZ, Imago ScanSource and Network1.

The weighted-average amortization period for all intangible assets was approximately 10 years for years ended June 30, 2016 and 2015 and 11 years for the year ended June 30, 2014, respectively. Amortization expense for the years ended June 30, 2016, 2015 and 2014 was \$9.8 million, \$6.6 million and \$3.9 million, respectively.

Estimated future amortization expense is as follows:

| | Amortization Expense |
|----------------------------|-------------------------|
| | <i>(in thousands)</i> |
| Year Ended June 30, | |
| 2017 | \$ 10,266 |
| 2018 | 8,084 |
| 2019 | 6,004 |
| 2020 | 5,387 |
| 2021 | 5,277 |
| Thereafter | 16,109 |
| Total | \$ 51,127 |

(7) 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. 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 £4.2 million, €0.3 million, and \$0.1 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 British pound sterling-based borrowings, 30-day Euro Interbank Offered Rate ("EUROLIBOR") for Euro-based borrowings, and the Lloyds Bank daily USD published rate for the U.S. dollar-based borrowings. Additionally, the Company is assessed an annual commitment fee of less than £0.1 million. There were no outstanding balances at June 30, 2016.

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June 30, 2016

Revolving Credit Facility

The Company has a \$300 million multi-currency senior secured revolving credit facility with JPMorgan Chase Bank N.A., as administrative agent, and a syndicate of banks (the “Amended Credit Agreement”) that matures on 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 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 June 30, 2016 was 1.00% for LIBOR-based loans and 0.00% for alternate base rate loans. Additionally, the Company is assessed commitment fees ranging from 0.175% to 0.40%, depending upon the Leverage Ratio, on non-utilized borrowing availability, excluding swingline loans. The commitment fee rate in effect for the period ended June 30, 2016 was 0.175%. Borrowings under the Amended Credit Agreement are guaranteed by substantially all of the domestic assets of the Company and a pledge of up to 65% of capital stock or other equity interest in certain foreign subsidiaries determined to be either material or a subsidiary borrower as defined in the Amended Credit Agreement. The Company was in compliance with all covenants under the credit facility as of June 30, 2016. There was \$71.4 million and \$0.0 million outstanding on the revolving credit facility at June 30, 2016 and June 30, 2015.

The average daily balance on the revolving credit facility during the year ended June 30, 2016 and 2015 was \$86.6 million and \$1.6 million, respectively. There was \$228.2 million and \$300 million available for additional borrowings as of June 30, 2016 and 2015, respectively. Letters of credit issued under the multi-currency revolving credit facility totaled €0.4 million and €0.0 million as of June 30, 2016 and 2015 respectively.

Long-Term Debt

On August 1, 2007, the Company entered into an agreement with the State of Mississippi in order to provide financing for the acquisition and installation of certain equipment to be utilized at the Company's Southaven, Mississippi distribution facility, through the issuance of an industrial development revenue bond. The bond matures on September 1, 2032 and accrues interest at a rate equal to 30-day LIBOR plus a spread of 0.85%. The terms of the bond allow for payment of interest only for the first 10 years of the agreement, and then, starting on September 1, 2018 through 2032, principal and interest payments are due until the maturity date or the redemption of the bond. The agreement also provides the bondholder with a put option, exercisable only within 180 days of each 5th anniversary of the agreement, requiring the Company to pay back the bonds at 100% of the principal amount outstanding. As of June 30, 2016, the Company was in compliance with all covenants under this bond. The balance on the bond was \$5.4 million as of June 30, 2016 and 2015 and is included in long-term debt. The interest rate at June 30, 2016 and 2015 was 1.32% and 1.03%, respectively.

SCANSOURCE, INC. AND SUBSIDIARIES
Notes to Consolidated Financial Statements—(Continued)
June 30, 2016

Network1 held a term loan agreement, denominated in U.S. dollars, with Banco Safra to provide funding for working capital needs. The loan was secured by accounts receivable of the subsidiary. The term loan matured on September 21, 2015 and was repaid in full. The terms of the loan provided for quarterly payments and bore interest at 3.6% per annum. The loan possessed a cross-currency swap contract which bore interest at a base rate equal to the Average One-Day Interbank Deposit Rate ("CDI" rate), plus a spread 2.75% per annum. The CDI interest rate at June 30, 2015 was approximately 13.6%. The outstanding balance as of June 30, 2016 and 2015 was \$0.0 million and \$0.7 million, respectively.

Network1 had secured multiple term loan agreements, denominated in Brazilian reals, with Banco Bradesco, to provide funding for working capital needs. The term loans matured on May 9, 2016 and were repaid in full. The terms of the loans provided for bi-annual payments of varying amounts and bore interest at 11.48% per annum. The outstanding balance as of June 30, 2016 and 2015 was \$0.0 million and \$1.8 million, respectively.

Network1 had a secured term loan agreement, denominated in Brazilian real, with Banco do Brasil to provide funding for working capital needs. The term loan was scheduled to mature on October 28, 2017. The terms of the loan provided for monthly payments and bore interest at 12.08% per annum. During the current fiscal year, the Company repaid the loan in full in advance of its maturity date. The outstanding balance as of June 30, 2016 and 2015 was \$0.0 million and \$0.9 million, of which \$0.4 million was classified as current, respectively.

Scheduled maturities of the Company's revolving credit facility and long-term debt at June 30, 2016 are as follows:

| | Long-Term Debt | Revolving Credit Facility |
|--------------------------|---------------------------|--|
| | <i>(in thousands)</i> | |
| Fiscal year: | | |
| 2017 | \$ — | \$ — |
| 2018 | — | — |
| 2019 | 329 | 71,427 |
| 2020 | 333 | — |
| 2021 | 338 | — |
| Thereafter | 4,429 | — |
| Total principal payments | \$ 5,429 | \$ 71,427 |

Debt Issuance Costs

As of June 30, 2016, net debt issuance costs associated with the credit facility and bonds totaled \$0.7 million and are being amortized on a straight-line basis through the maturity date of each respective debt instrument.

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Notes to Consolidated Financial Statements—(Continued)
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(8) Derivatives and Hedging Activities

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

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

The Company had contracts outstanding with notional amounts of \$46.2 million and \$80.6 million for the exchange of foreign currencies as of June 30, 2016 and 2015, respectively. To date, the Company has chosen not to designate these derivatives as hedging instruments, and accordingly, these instruments are adjusted to fair value through earnings in other income and expense. Summarized financial information related to these derivative contracts and changes in the underlying value of the foreign currency exposures are as follows:

| | Fiscal Year Ended June 30, | | |
|---|-----------------------------------|------------------------|----------------------|
| | 2016 | 2015 | 2014 |
| | <i>(in thousands)</i> | | |
| Net foreign exchange derivative contract (gain) loss | \$ (1,951) | \$ (5,364) | \$ 3,640 |
| Net foreign currency transactional and re-measurement (gain) loss | 4,522 | 8,408 | (3,024) |
| Net foreign currency (gain) loss | <u>\$ 2,571</u> | <u>\$ 3,044</u> | <u>\$ 616</u> |

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

Cross-Currency Swaps – Through the acquisition of Network1, the Company had borrowings denominated in foreign currencies that were primarily hedged into the functional currency of the respective borrowing entity using cross-currency swaps in order to mitigate the impact of foreign currency exposures and interest rate exposures on these borrowings. These swaps involved the exchange of principal and fixed interest receipts of U.S. dollar-denominated debt held by one of our Brazilian subsidiaries (Network1) for principal and variable interest payments in Brazilian reais. The impact of the changes in foreign exchange rates of the cross-currency debt instruments were recognized as adjustments to other income and expense in the Consolidated Income Statements. Interest rate differentials paid or received under the swap agreements were recognized as adjustments to interest expense in the Consolidated Income Statements, which totaled approximately \$0.5 million for the year ended June 30, 2015. The outstanding swaps were settled and the related borrowings were repaid in full during the fiscal year ended June 30, 2016.

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June 30, 2016

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

| | As of June 30, 2016 | |
|--|--|--|
| | 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 | \$ | — \$ 33 |
| Derivative liabilities: ^(b) | | |
| Foreign exchange contracts | \$ | — \$ 551 |

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

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

(9) Fair Value of Financial Instruments

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

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

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

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June 30, 2016

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, 2016:

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

The following table presents assets and liabilities measured at fair value on a recurring basis as of June 30, 2015:

| | 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 | \$ 15,970 | \$ 15,970 | \$ — | \$ — |
| Forward foreign currency exchange contracts | 125 | — | 125 | — |
| Cross-currency swap agreements | \$ 103 | \$ — | \$ 103 | \$ — |
| Total assets at fair value | <u>\$ 16,198</u> | <u>\$ 15,970</u> | <u>\$ 228</u> | <u>\$ —</u> |
| Liabilities: | | | | |
| Deferred compensation plan investments, current and non-current portion | \$ 15,970 | \$ 15,970 | \$ — | \$ — |
| Forward foreign currency exchange contracts | 476 | — | 476 | — |
| Liability for contingent consideration, current and non-current | 33,960 | — | — | 33,960 |
| Total liabilities at fair value | <u>\$ 50,406</u> | <u>\$ 15,970</u> | <u>\$ 476</u> | <u>\$ 33,960</u> |

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

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Derivative instruments, such as foreign currency forward contracts and cross-currency swap agreements are measured using the market approach on a recurring basis considering foreign currency spot rates and forward rates quoted by banks or foreign currency dealers and interest rates quoted by banks (Level 2). See Note 8 - *Derivatives and Hedging Activities*. Foreign currency contracts and cross-currency swap agreements are classified in the consolidated balance sheet as prepaid expenses and other current assets or accrued expenses and other current liabilities, depending on the respective instruments' favorable or unfavorable positions.

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

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

The tables below provides a summary of the changes in fair value of the Company's contingent considerations for the CDC, Imago ScanSource, and Network1 earnouts, which is measured at fair value on a recurring basis using significant unobservable inputs (Level 3) for the years ended June 30, 2016 and 2015:

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

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June 30, 2016

**Contingent Consideration for the Year Ended
June 30, 2015**

| | Barcode & Security Segment | Communications & Services Segment | Total |
|--|---|--|------------------|
| | <i>(in thousands)</i> | | |
| Fair value at beginning of period | \$ 11,107 | \$ — | \$ 11,107 |
| Issuance of contingent consideration | — | 32,035 | 32,035 |
| Payments | (5,640) | — | (5,640) |
| Change in fair value | 1,636 | 1,031 | 2,667 |
| Fluctuation due to foreign currency exchange | (1,994) | (4,215) | (6,209) |
| Fair value at end of period | <u>\$ 5,109</u> | <u>\$ 28,851</u> | <u>\$ 33,960</u> |

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

- estimated future results, net of pro forma adjustments set forth in the applicable 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.

Barcode and Security

The final payment of the contingent consideration related to CDC was paid during the current fiscal year. As of June 30, 2015, the fair value of the contingent consideration was \$5.1 million, all of which was classified as current. The change in fair value of the contingent consideration recognized in the Consolidated Income Statements was a loss of \$0.2 million for the year ended June 30, 2016. The loss was due to the recurring amortization of unrecognized fair value discount.

Communications and Services Segment

The fair value of the liability for the contingent consideration related to Imago ScanSource recognized at June 30, 2016 was \$2.9 million, all of which is classified as current. As of June 30, 2015, the fair value of the contingent consideration was \$5.4 million, of which \$2.6 million was classified as current. The change in fair value of the contingent consideration recognized in the Consolidated Income Statements was a loss of \$0.9 million for the year ended June 30, 2016, which was largely driven by the recurring amortization of the unrecognized fair value discount and achievement of better than expected actual results. In addition, volatility in the foreign exchange rate between the British pound and the U.S. dollar drove changes in the translation of this British pound denominated liability. Although there is no contractual limit, total future undiscounted contingent consideration payments are anticipated to range between \$2.9 million and \$3.0 million, based on the Company's best estimate of the earnout.

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Notes to Consolidated Financial Statements—(Continued)
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The fair value of the liability for the contingent consideration related to Network1 recognized at June 30, 2016 was \$21.8 million of which \$8.7 million is classified as current. As of June 30, 2015, the fair value of the contingent consideration was \$23.5 million, of which \$1.7 million was classified as current. The change in fair value of the contingent consideration recognized in the Consolidated Income Statements was a loss of \$0.2 million for the year ended June 30, 2016, which was largely driven by the recurring amortization of the unrecognized fair value discount, partially offset by a reduction in future projected results. In addition, volatility in the foreign exchange rate between the Brazilian real and the U.S. dollar drove significant changes in the translation of this Brazilian real denominated liability. Although there is no contractual limit, total future undiscounted contingent consideration payments are anticipated to range up to \$26.0 million, based on the Company's best estimate of the earnout calculated on a multiple of adjusted earnings.

SCANSOURCE, INC. AND SUBSIDIARIES
Notes to Consolidated Financial Statements—(Continued)
June 30, 2016

(10) Share-Based Compensation

Share-Based Compensation Plans

The Company has awards outstanding from three share-based compensation plans (the 1997 Stock Incentive Plan, the 2002 Long-Term Incentive Plan, and the 2013 Long-Term Incentive Plan). Awards are currently only granted under the 2013 Long-Term Incentive Plan. As of June 30, 2016, there were 2,234,445 shares available for future grant under the 2013 Long-Term Incentive Plan. All of the Company's share-based compensation plans are shareholder approved, and it is the Company's belief that such awards better align the interests of its employees and directors with those of its shareholders. Under the plans, the Company is authorized to award officers, employees, consultants and non-employee members of the Board of Directors various share-based payment awards, including options to purchase common stock and restricted stock. Restricted stock can be in the form of a restricted stock award ("RSA"), restricted stock unit ("RSU") or a performance unit ("PU"). An RSA is common stock that is subject to risk of forfeiture or other restrictions that lapse upon satisfaction of specified conditions. An RSU represents the right to receive shares of common stock in the future with the right to future delivery of the shares subject to risk of forfeiture or other restrictions that lapse upon satisfaction of specified conditions.

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

| | Fiscal Year Ended June 30, | | |
|--------------------------------------|-----------------------------------|-------------|-------------|
| | 2016 | 2015 | 2014 |
| | <i>(in thousands)</i> | | |
| Share-based compensation related to: | | | |
| Equity classified stock options | \$ 1,479 | \$ 1,480 | \$ 1,577 |
| Equity classified restricted stock | 5,614 | 5,042 | 3,671 |
| Total share-based compensation | \$ 7,093 | \$ 6,522 | \$ 5,248 |

Stock Options

During the fiscal year ended June 30, 2016, the Company granted stock options for 128,000 shares to certain employees. These options vest annually over 3 years and have a 10-year contractual life. These options were granted with an exercise price that is no less than 100% of the fair market value of the underlying shares on the date of the grant.

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

SCANSOURCE, INC. AND SUBSIDIARIES
Notes to Consolidated Financial Statements—(Continued)
June 30, 2016

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

| | Fiscal Year Ended June 30, | | |
|--|-----------------------------------|-------------|-------------|
| | 2016 | 2015 | 2014 |
| Expected term | 4.02 years | 4.02 years | 4.00 years |
| Expected volatility | 28.70 % | 30.06% | 33.70% |
| Risk-free interest rate | 1.47 % | 1.22% | 1.07% |
| Dividend yield | 0.00 % | 0.00% | 0.00% |
| Weighted-average fair value per option | \$ 9.53 | \$ 10.51 | \$ 11.91 |

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

A summary of our stock option plans is presented below:

| | Fiscal Year Ended June 30, 2016 | | | |
|---|--|--|--|----------------------------------|
| | Options | Weighted-Average Exercise Price | Weighted-Average Remaining Contractual Life | Aggregate Intrinsic Value |
| Outstanding, beginning of year | 1,166,031 | \$ 35.09 | | |
| Granted during the period | 128,000 | 38.15 | | |
| Exercised during the period | (194,041) | 29.04 | | |
| Canceled, forfeited, or expired during the period | (1,825) | 32.03 | | |
| Outstanding, end of year | <u>1,098,165</u> | 36.52 | 5.35 | \$ 2,123,342 |
| Vested and expected to vest at June 30, 2016 | <u>1,096,239</u> | 36.51 | 5.34 | \$ 2,123,244 |
| Exercisable, end of year | <u>819,670</u> | \$ 35.35 | 4.19 | \$ 2,120,598 |

The aggregate intrinsic value was calculated using the market price of our stock on June 30, 2016 and the exercise price for only those options that have an exercise price that is less than the market price of our stock. This amount will change as the market price per share changes. The aggregate intrinsic value of options exercised during the fiscal years ended June 30, 2016, 2015, and 2014 was \$1.3 million, \$0.6 million, and \$5.4 million, respectively.

SCANSOURCE, INC. AND SUBSIDIARIES
Notes to Consolidated Financial Statements—(Continued)
June 30, 2016

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

| | Fiscal Year Ended June 30, 2016 | | |
|-----------------------------|--|--|--|
| | Options | Weighted Average Exercise Price | Weighted Average Grant Date Fair- Value |
| Unvested, beginning of year | 286,580 | \$ 39.98 | \$ 10.91 |
| Granted | 128,000 | 38.15 | 9.53 |
| Vested | (136,085) | 38.29 | 10.93 |
| Canceled or forfeited | — | — | — |
| Unvested, end of year | <u>278,495</u> | \$ 39.96 | \$ 10.27 |

As of June 30, 2016, there was approximately \$2.0 million of total unrecognized compensation cost related to non-vested share-based compensation arrangements granted under the plans in the form of stock options. This cost is expected to be recognized over a weighted-average period of 1.10 years. The total fair value of options vested during the fiscal years ended June 30, 2016, 2015, and 2014 is \$1.5 million, \$1.6 million and \$1.6 million, respectively. The following table summarizes information about stock options outstanding and exercisable as of June 30, 2016:

| Range of Exercise Prices | Options Outstanding | | | Options Exercisable | |
|---------------------------------|-------------------------------|--|--|-------------------------------|--|
| | Shares Outstanding | Weighted Average Remaining Contractual Life | Weighted Average Exercise Price | Number Exercisable | Weighted Average Exercise Price |
| \$18.13 - \$22.27 | 5,600 | 2.43 | \$ 18.14 | 5,600 | \$ 18.14 |
| \$22.27 - \$26.38 | 30,000 | 3.43 | 24.57 | 30,000 | 24.57 |
| \$26.38 - \$30.49 | 35,922 | 6.48 | 29.59 | 35,922 | 29.59 |
| \$30.49 - \$34.60 | 296,929 | 3.38 | 33.23 | 296,929 | 33.23 |
| \$34.60 - \$38.71 | 442,765 | 5.02 | 36.92 | 313,940 | 36.43 |
| \$38.71 - \$42.82 | 286,949 | 8.02 | 41.77 | 137,279 | 42.04 |
| | <u>1,098,165</u> | <u>5.35</u> | <u>\$ 36.52</u> | <u>819,670</u> | <u>\$ 35.35</u> |

The Company issues shares to satisfy the exercise of options.

SCANSOURCE, INC. AND SUBSIDIARIES
Notes to Consolidated Financial Statements—(Continued)
June 30, 2016

Restricted Stock

Grants of Restricted Shares

During the fiscal year ended June 30, 2016, the Company granted 138,634 shares of restricted stock to employees and non-employee directors, all of which were issued in the form of RSUs or PUs:

| | Fiscal Year Ended June 30, 2016 | | | |
|---|--|---------------------|----------------------------------|-----------------------|
| | Shares granted | Date granted | Grant date fair value | Vesting period |
| <i>Employees</i> | | | | |
| Certain employees | 124,572 | December 4, 2015 | 38.19 | Annually over 3 years |
| Certain employees | 476 | February 12, 2016 | 36.30 | Annually over 3 years |
| <i>Non-Employee Directors⁽¹⁾</i> | | | | |
| Certain Directors | 13,500 | December 4, 2015 | \$ 38.19 | 6 months |

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

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

| | Fiscal Year Ended June 30, 2016 | |
|---|--|---|
| | Shares | Weighted-Average Grant Date Fair Value |
| Outstanding, beginning of year | 279,196 | \$ 38.87 |
| Granted during the period | 138,634 | 38.18 |
| Target shares adjustment during the period ⁽¹⁾ | 366 | 39.01 |
| Vested during the period | (133,068) | 38.83 |
| Cancelled, forfeited, or expired during the period | (10,324) | 40.65 |
| Outstanding, end of year | 274,804 | \$ 39.06 |

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

As of June 30, 2016, there was approximately \$7.6 million of unrecognized compensation cost related to unvested restricted stock awards and restricted stock units granted, which is expected to be recognized over a weighted-average period of 1.08 years. The Company withheld 42,379 shares for income taxes during the fiscal year ended June 30, 2016.

SCANSOURCE, INC. AND SUBSIDIARIES
Notes to Consolidated Financial Statements—(Continued)
June 30, 2016

(11) Employee Benefit Plans

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

| | Fiscal Year Ended June 30, | | |
|-----------------------------|-----------------------------------|-------------|-------------|
| | 2016 | 2015 | 2014 |
| | <i>(in thousands)</i> | | |
| Matching contributions | \$ 735 | \$ 626 | \$ 553 |
| Discretionary contributions | 3,617 | 5,350 | 5,207 |
| Total contributions | \$ 4,352 | \$ 5,976 | \$ 5,760 |

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

(12) Income Taxes

Income tax expense (benefit) consists of:

| | Fiscal Year Ended June 30, | | |
|----------------------------|-----------------------------------|-------------|-------------|
| | 2016 | 2015 | 2014 |
| | <i>(in thousands)</i> | | |
| Current: | | | |
| Federal | \$ 21,855 | \$ 24,658 | \$ 25,895 |
| State | 1,652 | 1,639 | 2,439 |
| Foreign | 6,100 | 4,927 | 3,826 |
| Total current | 29,607 | 31,224 | 32,160 |
| Deferred: | | | |
| Federal | 3,990 | 2,165 | 7,933 |
| State | 365 | 198 | 725 |
| Foreign | (1,571) | 900 | 500 |
| Total deferred | 2,784 | 3,263 | 9,158 |
| Provision for income taxes | \$ 32,391 | \$ 34,487 | \$ 41,318 |

SCANSOURCE, INC. AND SUBSIDIARIES
Notes to Consolidated Financial Statements—(Continued)
June 30, 2016

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

| | Fiscal Year Ended June 30, | | |
|--|-----------------------------------|-------------|-------------|
| | 2016 | 2015 | 2014 |
| | <i>(in thousands)</i> | | |
| U.S. Federal income tax at statutory rate | \$ 33,603 | \$ 34,967 | \$ 43,088 |
| Increase (decrease) in income taxes due to: | | | |
| State and local income taxes, net of Federal benefit | 1,578 | 1,318 | 1,974 |
| Tax credits | (2,517) | (1,435) | (1,935) |
| Valuation allowance | 541 | 582 | 803 |
| Effect of foreign operations, net | (1,150) | (1,665) | (1,627) |
| Stock compensation | (62) | (419) | (494) |
| Capitalized acquisition costs | 70 | 839 | — |
| Other | 328 | 300 | (491) |
| Provision for income taxes | \$ 32,391 | \$ 34,487 | \$ 41,318 |

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

| | June 30, | |
|---|-----------------------|-------------|
| | 2016 | 2015 |
| | <i>(in thousands)</i> | |
| Deferred tax assets derived from: | | |
| Allowance for accounts receivable | \$ 12,458 | \$ 9,925 |
| Inventories | 4,799 | 5,235 |
| Nondeductible accrued expenses | 3,842 | 5,838 |
| Net operating loss carryforwards | 3,036 | 2,223 |
| Tax credits | 3,316 | 2,136 |
| Timing of amortization deduction from goodwill | 2,660 | 10,652 |
| Deferred compensation | 6,733 | 6,014 |
| Stock compensation | 6,014 | 5,730 |
| Timing of amortization deduction from intangible assets | 1,600 | 83 |
| Total deferred tax assets | 44,458 | 47,836 |
| Valuation allowance | (3,029) | (2,509) |
| Total deferred tax assets, net of allowance | 41,429 | 45,327 |
| Deferred tax liabilities derived from: | | |
| Timing of depreciation and other deductions from building and equipment | (6,827) | (549) |
| Timing of amortization deduction from goodwill | (5,370) | (4,908) |
| Timing of amortization deduction from intangible assets | (2,974) | (4,680) |
| Total deferred tax liabilities | (15,171) | (10,137) |
| Net deferred tax assets | \$ 26,258 | \$ 35,190 |

SCANSOURCE, INC. AND SUBSIDIARIES
Notes to Consolidated Financial Statements—(Continued)
June 30, 2016

The components of pretax earnings are as follows:

| | Fiscal Year Ended June 30, | | |
|---------------------------|-----------------------------------|------------------|-------------------|
| | 2016 | 2015 | 2014 |
| | <i>(in thousands)</i> | | |
| Domestic | \$ 76,062 | \$ 79,364 | \$ 104,685 |
| Foreign | 19,948 | 20,542 | 18,422 |
| Worldwide pretax earnings | \$ 96,010 | \$ 99,906 | \$ 123,107 |

As of June 30, 2016, there were (i) gross net operating loss carryforwards of approximately \$1.4 million for state income tax purposes; (ii) foreign gross net operating loss carryforwards of approximately \$9.0 million; (iii) state income tax credit carryforwards of approximately \$1.3 million that will begin to expire in 2018; and (iv) withholding tax credits of approximately \$2.4 million; and (v) foreign tax credits of less than \$0.1 million. The Company maintains a valuation allowance of \$0.2 million for foreign net operating losses; a less than \$0.1 million valuation allowance for state net operating losses, a \$2.4 million valuation allowance for withholding tax credits, and a \$0.3 million valuation allowance for the notional interest deduction, where it was determined that, in accordance with ASC 740, it is more likely than not that they cannot be utilized.

The Company has provided for U.S. income taxes for the current earnings of its Canadian subsidiary. Earnings from all other geographies will continue to be considered retained indefinitely for reinvestment. The Company has not provided U.S. income taxes for undistributed earnings of foreign subsidiaries that are considered to be retained indefinitely for reinvestment. The distribution of these earnings would result in additional foreign withholding taxes and additional U.S. federal income taxes to the extent they are not offset by foreign tax credits. It has been the practice of the Company to reinvest those earnings in the business outside the United States. These undistributed earnings amounted to approximately \$108 million at June 30, 2016. If these earnings were remitted to the U.S., they would be subject to income tax. The tax, after foreign tax credits, is estimated to be approximately \$19.2 million.

Financial results in Belgium for the year ended June 30, 2016 produced pre-tax loss of approximately \$1.2 million. To the extent the Belgium business does not return to profitability as expected, this could affect the valuation of certain deferred tax assets. However, the Belgium business reported taxable income in the two prior years and positive cumulative earnings over the most recent three-year period. In the judgment of management, the conditions that gave rise to the fiscal 2016 losses are temporary and that it is more likely than not that the deferred tax asset will be realized.

As of June 30, 2016, the Company had gross unrecognized tax benefits of \$2.1 million, \$1.3 million of which, if recognized, would affect the effective tax rate. This reflects an increase of \$0.5 million on a net basis over the prior fiscal year. The Company does not expect that the total amounts of unrecognized tax benefits will significantly increase or decrease within the next twelve months.

The Company recognizes interest and penalties related to unrecognized tax benefits within the income tax expense line in the accompanying Consolidated Income Statement. Accrued interest and penalties are included within the related tax liability line in the Consolidated Balance Sheet. The total amount of interest and penalties accrued, but excluded from the table below were \$1.2 million the fiscal years ending June 30, 2016 and 2015, and \$1.1 million for the fiscal year ended June 30, 2014, respectively. A reconciliation of the beginning and ending amount of unrecognized tax benefits is as follows:

SCANSOURCE, INC. AND SUBSIDIARIES
Notes to Consolidated Financial Statements—(Continued)
June 30, 2016

| | June 30, | | |
|--|-----------------------|-------------|-------------|
| | 2016 | 2015 | 2014 |
| | <i>(in thousands)</i> | | |
| Beginning Balance | \$ 1,301 | \$ 1,153 | \$ 1,034 |
| Additions based on tax positions related to the current year | 326 | 262 | 204 |
| Additions for tax positions of prior years | 658 | — | — |
| Reduction for tax positions of prior years | (137) | (114) | (85) |
| Ending Balance | \$ 2,148 | \$ 1,301 | \$ 1,153 |

The Company conducts business globally and, as a result, one or more of its subsidiaries files income tax returns in the U.S. federal, various state, local and foreign jurisdictions. In the normal course of business, the Company is subject to examination by taxing authorities in countries in which it operates. With certain exceptions, the Company is no longer subject to state and local, or non-U.S. income tax examinations by tax authorities for tax years before June 30, 2011.

(13) Commitments and Contingencies

Leases

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

| | Fiscal Year Ended June 30, | | |
|--|---|-----------------------------------|---------------------------|
| | 2016 | 2015 | 2014 |
| | <i>(in thousands)</i> | | |
| Lease expense | \$ 7,394 | \$ 6,168 | \$ 5,561 |
| | Operating Lease Payments | Capital Lease Payments | Total Payments |
| | <i>(in thousands)</i> | | |
| Fiscal Year Ended June 30, | | | |
| 2017 | \$ 6,828 | \$ 248 | \$ 7,076 |
| 2018 | 3,670 | — | 3,670 |
| 2019 | 1,825 | — | 1,825 |
| 2020 | 1,146 | — | 1,146 |
| 2021 | 478 | — | 478 |
| Thereafter | 28 | — | 28 |
| Total future minimum lease payments | 13,975 | 248 | 14,223 |
| Less: amounts representing interest on capital lease | — | 2 | 2 |
| Total future minimum principal lease payments | \$ 13,975 | \$ 246 | \$ 14,221 |

On April 27, 2007, the Company entered into an agreement to lease approximately 593,000 square feet for distribution, warehousing and storage purposes in a building located in Southaven, Mississippi. On July 6, 2016, the Company entered into an amended lease agreement; see Note 16 - *Subsequent Events* for further information regarding the new lease terms effective for fiscal year 2017. On June 3, 2014, the Company entered into an equipment lease transaction for certain information technology

SCANSOURCE, INC. AND SUBSIDIARIES
Notes to Consolidated Financial Statements—(Continued)
June 30, 2016

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

The components of the Company's capital lease as of June 30, 2016 are as follows:

| | Capital Lease Obligations | | | | | |
|-------------------|-------------------------------------|-------------------------------------|---------------------------|-------------------|------------------|--------------|
| | Property & Equipment | Accumulated Depreciation | Net Book Value | Short-Term | Long-Term | Total |
| | <i>(in thousands)</i> | | | | | |
| IT Infrastructure | \$ 731 | \$ 487 | \$ 244 | \$ 246 | \$ — | \$ 246 |

Commitments and Contingencies

A majority of the Company's net revenues in fiscal years 2016, 2015 and 2014 were received from the sale of products purchased from the Company's ten largest vendors. The Company has entered into written distribution agreements with substantially all of its major vendors. While the Company's agreements with most of its vendors contain standard provisions for periodic renewals, these agreements generally permit termination by either party without cause upon 30 to 120 days' notice.

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

In January 2013, through the Company's wholly-owned subsidiary Partner Services, Inc. ("PSI"), the Company filed a lawsuit in the U.S. District Court in Atlanta, Georgia against our former ERP software systems integration partner, Avanade, Inc. ("Avanade"). In June 2014, the parties reached a Settlement Agreement where both parties agreed to mutually dismiss all claims and counterclaims against the other in exchange for Avanade's payment to the Company of \$15.0 million. The Company also reversed \$2.0 million in accrued liabilities for unpaid invoices received from Avanade and paid a contingency fee of \$1.5 million to the law firm who represented the Company in the lawsuit. The settlement, net of attorney fees and reversal of accrued liabilities is included in the legal recovery line item on the Consolidated Income Statements for the year ended June 30, 2014.

Capital Projects

The Company implemented a new Enterprise Resource Planning ("ERP") system in its European operations, excluding Imago ScanSource, in fiscal year 2015 and in its North American operations in fiscal year 2016. The Company intends to implement the ERP system in other geographies during fiscal year 2017 and expects capital expenditures for this project to approximate \$1.5 million. The Company expects total capital expenditures to range from \$3.0 million to \$8.0 million during fiscal year 2017.

Pre-Acquisition Contingencies

During the Company's due diligence for the CDC acquisition, several pre-acquisition contingencies were identified regarding various Brazilian federal and state tax exposures. In connection with these contingencies, the Company recorded indemnification receivables that are reported gross of the pre-acquisition contingency liabilities as the funds were escrowed as part of the acquisition. During fiscal year 2016, the Company released \$4.1 million from the escrow account to the sellers after the final earnout payment was made. The amount available after the impact of foreign currency translation, as of June 30, 2016 and 2015 for future pre-acquisition contingency settlements or to be released to the sellers, was \$3.5 million and \$8.4 million, respectively

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Notes to Consolidated Financial Statements—(Continued)
June 30, 2016

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

| | June 30, 2016 | June 30, 2015 |
|---|-----------------------|----------------------|
| | <i>(in thousands)</i> | |
| Assets | | |
| Prepaid expenses and other assets (current) | \$ 2,346 | \$ 3,156 |
| Other assets (noncurrent) | \$ — | \$ 69 |
| Liabilities | | |
| Other current liabilities | \$ 2,346 | \$ 3,156 |
| Other long-term liabilities | \$ — | \$ 69 |

The change in classification and amounts of the pre-acquisition contingencies is primarily due to foreign currency translation on a weaker Brazilian real against the U.S. dollar and the expiration of the statute of limitations for identified pre-acquisition contingencies. The amount of reasonably possible undiscounted pre-acquisition contingencies as of June 30, 2016 is estimated to range as high as \$3.5 million at this time, of which all exposures are indemnifiable under the share purchase and sale agreement.

During the Company's due diligence for the Network1 acquisition, several pre-acquisition contingencies were identified regarding various Brazilian federal and state tax exposures. The Company recorded indemnification receivables that are reported gross of the pre-acquisition contingency liabilities as the funds were escrowed as part of the acquisition. The amount available after the impact of foreign currency translation, as of June 30, 2016 and 2015 for future pre-acquisition contingency settlements or to be released to the sellers, was \$4.7 million and \$3.2 million, respectively.

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

| | June 30, 2016 | June 30, 2015 |
|---|-----------------------|----------------------|
| | <i>(in thousands)</i> | |
| Assets | | |
| Prepaid expenses and other assets (current) | \$ 595 | \$ 520 |
| Other assets (noncurrent) | \$ 9,837 | \$ 10,769 |
| Liabilities | | |
| Other current liabilities | \$ 595 | \$ 520 |
| Other long-term liabilities | \$ 9,837 | \$ 10,769 |

The amount of reasonably possible undiscounted pre-acquisition contingencies as of June 30, 2016 is estimated to range from \$9.9 million to \$31.0 million at this time, of which all exposures are indemnifiable under the share purchase agreement.

SCANSOURCE, INC. AND SUBSIDIARIES
Notes to Consolidated Financial Statements—(Continued)
June 30, 2016

(14) Segment Information

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

In October 2015, we implemented changes to our reporting structure that moved a portion of our networking business from the Communications & Services segment to the Barcode & Security segment. We have reclassified prior period results for each of these business segments to provide comparable information.

Worldwide Barcode & Security Segment

The Barcode & Security segment focuses on automatic identification and data capture ("AIDC"), point-of-sale ("POS"), networking, 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 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, Latin 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. Our teams deliver 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.

SCANSOURCE, INC. AND SUBSIDIARIES
Notes to Consolidated Financial Statements—(Continued)
June 30, 2016

Selected financial information for each business segment is presented below:

| | Fiscal Year Ended June 30, | | |
|-------------------------------------|-----------------------------------|---------------------|---------------------|
| | 2016 | 2015 | 2014 |
| | <i>(in thousands)</i> | | |
| Sales: | | | |
| Worldwide Barcode & Security | \$ 2,381,331 | \$ 2,134,124 | \$ 2,003,911 |
| Worldwide Communications & Services | 1,158,895 | 1,084,502 | 909,723 |
| | <u>\$ 3,540,226</u> | <u>\$ 3,218,626</u> | <u>\$ 2,913,634</u> |
| Depreciation and amortization: | | | |
| Worldwide Barcode & Security | \$ 5,663 | \$ 3,813 | \$ 4,243 |
| Worldwide Communications & Services | 8,531 | 6,912 | 3,132 |
| Corporate | 2,960 | 1,272 | — |
| | <u>\$ 17,154</u> | <u>\$ 11,997</u> | <u>\$ 7,375</u> |
| Operating income: | | | |
| Worldwide Barcode & Security | \$ 53,015 | \$ 49,045 | \$ 49,544 |
| Worldwide Communications & Services | 44,725 | 55,650 | 56,752 |
| Corporate ⁽¹⁾ | (863) | (3,254) | 15,490 |
| | <u>\$ 96,877</u> | <u>\$ 101,441</u> | <u>\$ 121,786</u> |
| Capital expenditures: | | | |
| Worldwide Barcode & Security | \$ 5,310 | \$ 733 | \$ 784 |
| Worldwide Communications & Services | 3,911 | 1,448 | 316 |
| Corporate | 2,860 | 18,581 | 10,128 |
| | <u>\$ 12,081</u> | <u>\$ 20,762</u> | <u>\$ 11,228</u> |
| Sales by Geography Category: | | | |
| United States | \$ 2,655,760 | \$ 2,391,073 | \$ 2,225,962 |
| International | 920,098 | 871,862 | 733,744 |
| Less intercompany sales | (35,632) | (44,309) | (46,072) |
| | <u>\$ 3,540,226</u> | <u>\$ 3,218,626</u> | <u>\$ 2,913,634</u> |

⁽¹⁾ For the years ended June 30, 2016 and 2015, the amounts shown above includes acquisition costs. For the year ended June 30, 2014, the amount shown above includes a legal recovery, net of attorney fees.

| | June 30, 2016 | June 30, 2015 |
|--|-----------------------|----------------------|
| | <i>(in thousands)</i> | |
| Assets: | | |
| Worldwide Barcode & Security | \$ 836,674 | \$ 740,020 |
| Worldwide Communications & Services | 595,781 | 599,358 |
| Corporate | 58,730 | 137,563 |
| | <u>\$ 1,491,185</u> | <u>\$ 1,476,941</u> |
| Property and equipment, net by Geography Category: | | |
| United States | \$ 46,935 | \$ 41,159 |
| International | 5,453 | 5,415 |
| | <u>\$ 52,388</u> | <u>\$ 46,574</u> |

SCANSOURCE, INC. AND SUBSIDIARIES
Notes to Consolidated Financial Statements—(Continued)
June 30, 2016

(15) Accumulated Other Comprehensive (Loss) Income

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

| | Fiscal Years Ended June 30, | | |
|---|------------------------------------|-------------|-------------|
| | 2016 | 2015 | 2014 |
| | <i>(in thousands)</i> | | |
| Currency translation adjustment | \$ (72,687) | \$ (64,502) | \$ (16,700) |
| Accumulated other comprehensive income (loss) | \$ (72,687) | \$ (64,502) | \$ (16,700) |

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

| | Fiscal years ended June 30, | | |
|-----------------------|------------------------------------|-------------|-------------|
| | 2016 | 2015 | 2014 |
| | <i>(in thousands)</i> | | |
| Tax expense (benefit) | \$ 327 | \$ 2,382 | \$ (279) |

(16) Subsequent Events

On August 8, 2016 the Company announced a definitive agreement to acquire Intelisys Communications, Inc., the industry-leading technology services distributor of business telecommunications and cloud services. Under the agreement, the all-cash transaction includes an initial purchase price of approximately \$83.6 million (\$8.46 million of which will be held in escrow to support the post-closing obligations of the sellers), plus annual earn-out payments based on a multiple of earnings before interest expense, taxes, depreciation and amortization (EBITDA) over the next four years. The total earnout-payments are estimated to be in the range of \$100 million to \$150 million, depending on the performance of the business. Intelisys will join the Worldwide Communications and Services segment. The acquisition received regulatory approval on August 25, 2016 and closed on August 29, 2016. Due to the timing of the acquisition relative to the annual filing, the Company is not able to present initial accounting estimates for the business combination, including purchase price allocation, valuation of tangible and intangible assets (including goodwill), valuation of the contingent consideration, and pro-forma results of operations.

On July 6, 2016, the Company entered into an amended lease agreement for our warehouse located in Southaven, Mississippi, which extended the square footage leased by approximately 148,000 scheduled to be delivered on October 1, 2017, for a total leased space of approximately 741,000 square feet, and further extended the term of the lease to 135 months with 2 consecutive 5-year extension options.

On August 29, 2016, the Company announced a new \$120 million three-year authorization by its Board of Directors to repurchase shares of the Company's common stock. Repurchases may be made in the open market or through privately negotiated transactions, and the Company may enter into Rule 10b5-1 plans to facilitate repurchases.

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

Not applicable.

ITEM 9A. Controls and Procedures.

(a) Evaluation of Disclosure Controls and Procedures

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

Based on their evaluation as of the end of the period covered by this Annual Report on Form 10-K, our Chief Executive Officer and Chief Financial Officer have concluded that our disclosure controls and procedures, as of June 30, 2016, were effective in providing reasonable assurance that the objectives of the disclosure controls and procedures are met.

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

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

We assessed the effectiveness of the Company's internal control over financial reporting as of June 30, 2016. However, the KBZ business acquired during the current fiscal year has been excluded from management's assessment of internal controls over financial reporting. KBZ's pro forma results are not material to the Company's consolidated financial statements. In making this assessment, we used the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission ("COSO") in *2013 Internal Control – Integrated Framework*. Based on its assessment using those criteria, our management concluded that our internal control over financial reporting was effective as of June 30, 2016.

The effectiveness of our internal control over financial reporting as of June 30, 2016 has been audited by Grant Thornton LLP, an independent registered public accounting firm, as stated in their Report of Independent Registered Certified Public Accounting Firm on Internal Control Over Financial Reporting which is included with the Financial Statements in Part II, Item 8 of this Annual Report on Form 10-K and is incorporated herein by reference.

(c) Changes in Internal Control over Financial Reporting

There were no changes in our internal control over financial reporting that occurred during the fiscal year ended June 30, 2016 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

ITEM 9B. Other Information.

Not applicable.

PART III

Information called for by Part III (Items 10, 11, 12, 13 and 14) of this Annual Report on Form 10-K has been omitted as the Company intends to file with the SEC not later than 120 days after the end of its fiscal year ended June 30, 2016, a definitive Proxy Statement relating to the 2016 Annual Meeting of Shareholders pursuant to Regulation 14A promulgated under the Exchange Act. Such information will be set forth in such Proxy Statement and is incorporated herein by reference.

ITEM 10. Directors, Executive Officers and Corporate Governance.

The information required to be included by Item 10 of Form 10-K will be included in the Company's 2016 Proxy Statement for the 2016 Annual Meeting of Shareholders and such information is incorporate by reference herein. The Proxy Statement will be filed with the SEC not later than 120 days after June 30, 2016.

ITEM 11. Executive Compensation.

The information regarding executive and director compensation set forth in the Proxy Statement for the 2016 Annual Meeting of Shareholders is incorporated herein by reference.

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

The information required to be included by Item 12 of the Form 10-K will be included in the Company's 2016 Proxy Statement for the 2016 Annual Meeting of Shareholders and such information is incorporated by reference here in. The Proxy Statement will be filed with the SEC not later than 120 days after June 30, 2016.

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

The information required to be included by Item 13 of the Form 10-K will be included in the Company's 2016 Proxy Statement for the 2016 Annual Meeting of Shareholders and such information is incorporated by reference here in. The Proxy Statement will be filed with the SEC not later than 120 days after June 30, 2016.

ITEM 14. Principal Accountant Fees and Services.

Incorporated herein by reference to the information presented under the headings "*Proposal Three – Ratification of Appointment of Independent Auditors – Principal Accountant Fees and Services*" and "*Proposal Three – Ratification of Appointment of Independent Auditors – Audit Committee's Pre-Approval Policies and Procedures*" in the Company's 2016 Proxy Statement for the 2016 Annual Meeting of Shareholders, which will be filed with the SEC not later than 120 days after June 30, 2016.

PART IV

ITEM 15. Exhibits and Financial Statement Schedules.

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

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

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

(b) *Exhibits*. See Exhibit Index.

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

SCHEDULE II

SCANSOURCE, INC. AND SUBSIDIARIES

Valuation and Qualifying Accounts

(in thousands)

| Description | Balance at Beginning of Period | Amounts Charged to Expense | Reductions ⁽¹⁾ | Other ⁽²⁾ | Balance at End of Period |
|--|---|---|----------------------------------|-----------------------------|---|
| Allowance for bad debt: | | | | | |
| Year ended June 30, 2014 | \$ 25,479 | 6,573 | (8,100) | 2,305 | \$ 26,257 |
| Trade and current note receivable allowance | | | | | \$ 26,257 |
| Year ended June 30, 2015 | \$ 26,257 | 993 | (8,288) | 13,627 | \$ 32,589 |
| Trade and current note receivable allowance | | | | | \$ 32,589 |
| Year ended June 30, 2016 | \$ 32,589 | 7,571 | (3,829) | 2,701 | \$ 39,032 |
| Trade and current note receivable allowance | | | | | \$ 39,032 |

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

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

SIGNATURES

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

August 29, 2016

SCANSOURCE , INC.

By: /s/ MICHAEL L. BAUR

Michael L. Baur
Chief Executive Officer

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

| <u>Signature</u> | <u>Title</u> | <u>Date</u> |
|---|---|-----------------|
| <u>/s/ STEVEN R. FISCHER</u> Steven R. Fischer | Chairman of the Board | August 29, 2016 |
| <u>/s/ MICHAEL L. BAUR</u> Michael L. Baur | Chief Executive Officer and Director (principal executive officer) | August 29, 2016 |
| <u>/s/ CHARLES A. MATHIS</u> Charles A. Mathis | Executive Vice President and Chief Financial Officer (principal financial officer) | August 29, 2016 |
| <u>/s/ GERALD LYONS</u> Gerald Lyons | Senior Vice President of Finance and Principal Accounting Officer (principal accounting officer) | August 29, 2016 |
| <u>/s/ PETER C. BROWNING</u> Peter C. Browning | Director | August 29, 2016 |
| <u>/s/ MICHAEL J. GRAINGER</u> Michael J. Grainger | Director | August 29, 2016 |
| <u>/s/ JOHN P. REILLY</u> John P. Reilly | Director | August 29, 2016 |
| <u>/s/ CHARLES R. WHITCHURCH</u> Charles R. Whitchurch | Director | August 29, 2016 |

Exhibit Index

| Exhibit Number | Description | Filed herewith | Form | Exhibit | Filing Date |
|--|---|-----------------------|-------------|----------------|--------------------|
| 2.1 | Share Purchase and Sale Agreement for CDC Brasil S.A dated April 7, 2011 | | 8-K | 2.1 | 4/15/2011 |
| 2.2 | Letter Agreement between Registrant and Intersmart Comércio Importação Exportação de Equipamentos Eletrônicos, S.A., dated August 14, 2014 | | 8-K | 10.1 | 8/15/2014 |
| 2.3 | Share Purchase and Sale Agreement for Global Data Network LLP dated January 8, 2015 | | 10-Q | 2.1 | 2/3/2015 |
| 3.1 | Amended and Restated Articles of Incorporation of the Registrant and Articles of Amendment | | 10-Q | 3.1 | 2/3/2005 |
| 3.2 | Bylaws | | 10-Q | 3.2 | 5/7/2014 |
| 4.1 | Form of Common Stock Certificate | | SB-2 | 4.1 | 2/7/1994 |
| Executive Compensation Plans and Arrangements | | | | | |
| 10.1 | 1997 Stock Incentive Plan, as amended, and Form of Stock Option Agreement | | 10-K | 10.13 | 9/28/1999 |
| 10.2 | Amended and Restated Directors Equity Compensation Plan, as amended and restated | | 10-Q | 10.4 | 11/2/2012 |
| 10.3 | Form of Restricted Stock Award (for Amended and Restated Directors Equity Compensation Plan as amended and restated) | | 10-Q | 10.3 | 5/6/2011 |
| 10.4 | Nonqualified Deferred Compensation Plan, as amended and restated | | 10-Q | 10.5 | 11/2/2012 |
| 10.5 | Amended and Restated 2002 Long-Term Incentive Plan | | 8-K | 10.1 | 12/7/2009 |
| 10.6 | 2013 Long-Term Incentive Plan | | S-8 | 99 | 12/5/2013 |
| 10.7 | Employee Stock Purchase Plan | | S-8 | 99 | 12/5/2013 |
| 10.8 | Form of Incentive Stock Option Award Certificate under the Amended and Restated 2002 Long-Term Incentive Plan for grants on or after December 3, 2010 | | 10-Q | 10.2 | 2/4/2011 |
| 10.9 | Form of Non-Qualified Stock Option Award Certificate under the Amended and Restated 2002 Long-Term Incentive Plan for grants on or after December 3, 2010 | | 10-Q | 10.3 | 2/4/2011 |
| 10.10 | Form of Restricted Stock Unit Award Certificate under the Amended and Restated 2002 Long-Term Incentive Plan for grants on or after December 3, 2010 | | 10-Q | 10.4 | 2/4/2011 |
| 10.11 | Form of Restricted Stock Award Certificate under the Amended and Restated 2002 Long-Term Incentive Plan for grants on or after December 3, 2010 | | 10-Q | 10.5 | 2/4/2011 |
| 10.12 | Form of Restricted Stock Award Certificate (US) under the 2002 Amended and Restated Long-Term Incentive Plan | | 10-Q | 10.1 | 2/4/2009 |
| 10.13 | Form of Restricted Stock Award Certificate (UK) under the 2002 Amended and Restated Long-Term Incentive Plan | | 10-Q | 10.2 | 2/4/2009 |
| 10.14 | Form of Restricted Stock Award Certificate (Europe, not UK) under the 2002 Amended and Restated Long-Term Incentive Plan | | 10-Q | 10.3 | 2/4/2009 |
| 10.15 | Form of Restricted Stock Award Certificate under the Amended and Restated 2002 Long-Term Incentive Plan for grants on or after December 3, 2009 | | 8-K | 10.2 | 12/7/2009 |
| 10.16 | Form of Incentive Stock Option Award Certificate under the Amended and Restated 2002 Long-Term Incentive Plan for grants on or after December 3, 2009 | | 8-K | 10.3 | 12/7/2009 |
| 10.17 | Form of Non-Qualified Stock Option Award Certificate under the Amended and Restated 2002 Long-Term Incentive Plan for grants on or after December 3, 2009 | | 8-K | 10.4 | 12/7/2009 |
| 10.18 | Founder's Supplemental Executive Retirement Plan Agreement | | 10-Q | 10.2 | 5/6/2011 |

| | | | | |
|--------|---|--------|-------|------------|
| 10.19 | Amended and Restated Employment Agreement, effective as of June 25, 2014, of Michael L. Baur | 10-K | 10.19 | 8/28/2014 |
| 10.20 | Amended and Restated Employment Agreement, effective as of June 6, 2011, of Andrea D. Meade | 10-K | 10.21 | 8/29/2011 |
| 10.21 | First Amendment to Amended and Restated Employment Agreement effective July 1, 2013, of Andrea D. Meade | 10-K | 10.25 | 8/26/2013 |
| 10.22 | Amended and Restated Employment Agreement, dated June 25, 2014, of John J. Ellsworth | 10-K | 10.22 | 8/28/2014 |
| 10.23 | Amended and Restated Employment Agreement, dated June 25, 2014, of Charles A. Mathis | 10-K | 10.23 | 8/28/2014 |
| 10.24 | Amended and Restated Employment Agreement, dated June 25, 2014, of Gerald Lyons | 10-K | 10.24 | 8/28/2014 |
| 10.25 | Form of Performance and Service-Based Restricted Stock Unit Award Agreement for John J. Ellsworth dated May 14, 2012 | 10-K | 10.31 | 8/24/2012 |
| 10.26 | Form of Restricted Stock Award Agreement for Andrea D. Meade, dated June 6, 2011 | 10-K | 10.27 | 8/29/2011 |
| 10.27 | Form of Restricted Stock Unit Award Certificate under ScanSource, Inc. 2013 Long-Term Incentive Plan for grants on or after December 5, 2013 | 10-Q | 10.1 | 2/6/2014 |
| 10.28 | Form of Director Stock Unit Award Certificate under ScanSource, Inc. 2013 Long-Term Incentive Plan for grants on or after December 5, 2013 | 10-Q | 10.2 | 2/6/2014 |
| 10.29 | Form of Incentive Stock Option Award Certificate under ScanSource, Inc. 2013 Long-Term Incentive Plan for grants on or after December 5, 2013 | 10-Q | 10.3 | 2/6/2014 |
| 10.30 | Form of Non-Qualified Stock Option Award Certificate under ScanSource, Inc. 2013 Long-Term Incentive Plan for grants on or after December 5, 2013 | 10-Q | 10.4 | 2/6/2014 |
| 10.31 | Independent Contractor Agreement entered into on December 2, 2013 between ScanSource, Inc. and Andrea Meade on behalf of Brentwood Road Ventures, LLC | 10-Q | 10.5 | 2/6/2014 |
| 10.32 | Other Stock Based Award Agreement for John J. Ellsworth dated August 26, 2014 | 10-K | 10.32 | 8/28/2014 |
| 10.33 | Form of Other Stock Based Award Certificate under ScanSource, Inc. 2013 Long-Term Incentive Plan | 10-K | 10.33 | 8/28/2014 |
| 10.34 | Form of Performance and Service - Based Restricted Stock Unit Award Certificate under ScanSource, Inc. 2013 Long-Term Incentive Plan | 10-K | 10.34 | 8/28/2014 |
| 10.35 | Nonqualified Deferred Compensation Plan, as amended and restated effective January 1, 2015 | 10-Q | 10.1 | 2/3/2015 |
| | Bank Agreements | | | |
| 10.36 | Amended and Restated Credit Agreement | 10-Q | 10.1 | 11/4/2011 |
| 10.37 | Amendment No. 1 to the Amended and Restated Credit Agreement | 8-K | 10.1 | 11/8/2013 |
| 10.38 | Amendment No. 2 to the Amended and Restated Credit Agreement | 8-K | 10.1 | 12/14/2015 |
| | Other Agreements | | | |
| 10.39+ | Industrial Lease Agreement dated April 27, 2007 between Registrant and Industrial Developments International, Inc. | 10-K | 10.26 | 8/29/2007 |
| 10.40+ | US Avaya Contract with ScanSource, Inc. | 10-K | 10.39 | 8/26/2010 |
| 10.41+ | Amendment to Distribution Agreement with Avaya. | 10-K | 10.37 | 8/26/2013 |
| 10.42+ | Addendum to Distributor Agreement with Avaya. | 10-K/A | 10.38 | 1/31/2014 |
| 10.43+ | US Motorola (f/k/a Symbol Technologies) Contract with ScanSource, Inc. | 10-K | 10.40 | 8/26/2010 |

| | | | | | |
|---------|---|---|--------|-------|------------|
| 10.44+ | Letter Agreement with US Motorola | | 10-K | 10.41 | 8/26/2010 |
| 10.45+ | Distribution Agreement with US Motorola | | 10-Q | 10.1 | 5/7/2014 |
| 10.46+ | Distribution Agreement with Symbol Technologies, Inc. | | 10-Q/A | 10.1 | 10/24/2014 |
| 10.47+ | Distributor Agreement Addendum with Avaya Inc. | | 10-Q | 10.1 | 5/5/2015 |
| 10.48+ | Payment Terms Offer to Distributor Agreement with Avaya Inc. | | 10-Q | 10.2 | 5/5/2015 |
| 10.49 | Expiration of Payment Terms Offer to Distributor Agreement with Avaya, effective November 16, 2015. | | 10-Q | 10.1 | 11/4/2015 |
| 10.50** | Amendment to PartnerEmployer Distribution Agreement with Zebra. | X | | | |
| 10.51 | Participation Agreement Relating to Distribution Agreement with Zebra. | X | | | |
| 10.52** | Google Services Amendment to Distributor Agreement with Avaya. | X | | | |
| 10.53** | Hosted Service Amendment to Distributor Agreement with Avaya. | X | | | |
| 10.54** | Third Amendment to Industrial Lease Agreement between Registrant and Industrial Developments International, Inc. | X | | | |
| 16.1 | Letter from Ernst & Young LLP, dated January 6, 2014 | | 8-K | 16.1 | 1/7/2014 |
| 18.1 | Preferability letter re change in accounting policy related to goodwill | | 10-Q | 18.1 | 5/7/2014 |
| 21.1 | Subsidiaries of the Company | X | | | |
| 23.1 | Consent of Grant Thornton LLP | X | | | |
| 23.2 | Consent of Ernst & Young LLP | | 10-K | 23.2 | 8/27/2015 |
| 31.1 | Certification of the Chief Executive Officer | X | | | |
| 31.2 | Certification of the Chief Financial Officer | X | | | |
| 32.1 | Certification of the Chief Executive Officer | X | | | |
| 32.2 | Certification of the Chief Financial Officer | X | | | |
| 101 | The following materials from our Annual Report on Form 10-K for the year ended June 30, 2016, formatted in XBRL (eXtensible Business Reporting Language): (i) the Consolidated Balance Sheets as of June 30, 2016 and June 30, 2015, (ii) the Consolidated Income Statements for the years ended June 30, 2016, June 30, 2015 and June 30, 2014, (iii) the Consolidated Statements of Shareholders' Equity for the years ended June 30, 2016, June 30, 2015 and June 30, 2014, (iv) the Consolidated Statements of Cash Flows for the years ended June 30, 2016, June 30, 2015 and June 30, 2014, and (v) the Notes to the Consolidated | X | | | |

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

** Confidential treatment has been requested with respect to certain portions of this Exhibit, which portions have been omitted and filed separately with the Commission as part of an application for confidential treatment.
Our SEC file number for documents filed with the SEC pursuant to the Securities Exchange Act of 1934, as amended, is 000-26926.



Investor Inquiries

ScanSource welcomes inquiries from its shareholders and other interested investors. For further information, please contact Investor Relations: 864.286.4892 • investor@scansource.com

