

SCANSOURCE INC  
Form 10-K  
August 28, 2014

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

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FORM 10-K

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(Mark One)

Annual Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934  
For the fiscal year ended June 30, 2014

OR

Transition Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934  
For the transition period from \_\_\_\_\_ to \_\_\_\_\_  
Commission File Number: 000-26926

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

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|   |   |
|---|---|
| South Carolina<br>(State or other jurisdiction of<br>incorporation or organization)     | 57-0965380<br>(I.R.S. Employer<br>Identification No.) |
| 6 Logue Court<br>Greenville, South Carolina<br>(Address of principal executive offices) | 29615<br>(Zip Code)                                   |
| (864) 288-2432<br>(Registrant's telephone number, including area code)                  |   |

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Securities registered pursuant to Section 12(b) of the Act:  
Title of Each Class  
Common Stock, no par value  
Name of Each Exchange on Which Registered  
NASDAQ Global Select Market

Securities registered pursuant to Section 12(g) of the Act:  
None.

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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.

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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<br>(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, 2013 was \$1,198,337,846, 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 26, 2014 |
|--------------------------------------|--------------------------------|
| Common Stock, no par value per share | 28,541,465 shares              |

**DOCUMENTS INCORPORATED BY REFERENCE**

The registrant has incorporated by referenced into Part III of this report certain portions of its proxy statement for its 2014 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, 2014.

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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" and variations of such words and similar expressions are intended to identify such forward-looking statements. Except as may be required by law, we expressly disclaim any obligation to update these forward-looking statements to reflect events or circumstances after the date of this Annual Report on Form 10-K or to reflect the occurrence of unanticipated events. Actual results could differ materially from those anticipated in these forward-looking statements as a result of a number of factors including, but not limited to, the factors discussed in such sections and, in particular, those set forth in the cautionary statements contained in "Risk Factors." The forward-looking information we have provided in this Annual Report on Form 10-K pursuant to the safe harbor established under the Private Securities Litigation Reform Act of 1995 should be evaluated in the context of these factors.

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PART I

ITEM 1. Business.

ScanSource, Inc. was incorporated in South Carolina in 1992 and is a leading international wholesale distributor of specialty technology products. ScanSource, Inc. and its subsidiaries ("the Company") provide value-added distribution services for technology manufacturers and sell to resellers in the following specialty technology markets: POS and Barcode, Physical Security, and Communications.

The Company operates in the United States, Canada, Latin America, and Europe and uses centralized distribution centers for major geographic regions. The Company distributes to the United States and Canada from its Southaven, Mississippi distribution center; to Latin America, principally from distribution centers located in Florida, Mexico and Brazil; and to Europe from its distribution center in Belgium.

Business Segments

Historically, the Company's reporting units coincided with its geographic operating segments of North America and International. In the fourth quarter of 2013, the Company reorganized its management structure and reporting to globally leverage the Company's leadership in specific technology markets, changing from a geographic focus to a technology focus. As part of this new structure, the Company formed two operating segments with a global technology focus: Worldwide Barcode and Security ("Barcode/Security") and Worldwide Communications and Services ("Communications/Services"). Each segment is managed around its global technology focus and is supported by centralized infrastructure, including distribution centers and back office operations. Each operating segment has its own management team led by a president and includes regional presidents within the operating group who manage the various functions within each segment. Decisions and planning for the Company as a whole are made at the corporate level by analyzing results from the operating segments.

Worldwide Barcode & Security Segment

The Barcode & Security distribution segment focuses on automatic identification and data capture ("AIDC"), point-of-sale ("POS"), and electronic physical security 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 and are 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 infrastructure products. During fiscal year 2014, the Barcode & Security distribution segment added 3D printing solutions to their product offerings that are targeted at the manufacturing, healthcare, aerospace, and automotive markets.

Worldwide Communications & Services Segment

The Communications & Services distribution segment focuses on communications technologies and services. We have business units within this segment for sales and merchandising functions, including the ScanSource Catalyst

business unit in North America, ScanSource Communications business units in North America and Europe, and the ScanSource Services Group business unit in North America. ScanSource Catalyst and ScanSource Communications business units market voice, video conferencing, data networking and converged communications solutions. The ScanSource Services Group business unit delivers value-added support programs and services, including education and training, network assessments, custom configuration, implementation and marketing.

#### Products and Markets

The Company currently markets over 100,000 products from approximately 290 hardware and software vendors to approximately 28,000 reseller customers primarily from its centralized distribution centers in Mississippi, Florida, Mexico, Brazil and Belgium.

The Barcode & Security distribution segment focuses on AIDC, POS, and physical security technologies.

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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, 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 displays.

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 effective solutions, and ScanSource Security offers in-depth training and education to its partners to enable them to maintain the appropriate skill levels.

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

In Communications, 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.

Through our ScanSource Services Group business unit, we deliver value-added support programs and services, including education and training, customer configuration, marketing services, network assessments, WiFi services, and partnership programs, including our SUMO partner directory. ScanSource Services Group focuses on reducing complexity, building efficiency, and helping our resellers grow their businesses.

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 product categories.

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 are typically configured together to create a system solution. Therefore, both



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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 increasingly to 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's key vendors in barcode technologies include Bematech, Cisco, Datalogic, Datamax-O'Neil, Elo, Epson, Honeywell, Intermec by Honeywell, Motorola, NCR, Toshiba Global Commerce Solutions and Zebra Technologies. The Company's key vendors for security technologies include Arecont, Axis, Bosch, Cisco, Datacard, Exacq Technologies, Fargo, HID, March Networks, Panasonic, Ruckus Wireless, Samsung, Sony and Zebra Card. The Company's key vendors in communications technologies include Aruba, Avaya, AudioCodes, Cisco, Dialogic, Extreme Networks, Meru Networks, Plantronics, Polycom, ShoreTel and Sonus.

In April 2014, it was announced that Zebra Technologies intends to purchase much of Motorola Solutions' enterprise business. Zebra Technologies and Motorola Solutions represent key vendors in our barcode technologies business.

The Company's products are typically purchased 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, customer demand or vendor distribution policies.

The Company has approximately 290 hardware and software vendors that currently supply its products. Three vendors, Motorola, Avaya and Honeywell, each constituted more than 10% of the Company's net sales. These vendors represent key vendors for the Company, and further, represent a vendor concentration for fiscal year 2014.

The Company has two non-exclusive distribution agreements with Motorola. One agreement covers sales of Motorola hardware and software products in North and South America, and another agreement covers sales of Motorola hardware and software products in Europe, the Middle East and Africa ("EMEA"). The Motorola 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.

The Company also 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 certain portions of continental Europe. The Company's Avaya agreements each have a one year term that automatically renews for additional one year terms. These agreements may be terminated upon providing notice to the other party of 180 days for the US and Latin America agreement and 90 days for the

European agreement.

In September 2013, Honeywell acquired Intermec. The Company has several non-exclusive distribution agreements with Honeywell and Intermec that cover the distribution of products in various geographies across the globe. The Company's Honeywell agreements each have a one year term that automatically renews for additional one year terms. The Company's Intermec agreements each have a two year term that automatically renews for additional two year terms. The agreements may be terminated upon providing notice to the other party of 30 days for the Honeywell agreements and 60 days for the Intermec agreements.

In addition to the Motorola and Avaya agreements mentioned above, the Company has written distribution agreements with almost all of its vendors. These agreements are in the form that the Company believes are customarily used by manufacturers and distributors. The Company's agreements generally provide it with non-exclusive distribution rights and often include territorial restrictions that limit the countries in which the Company can distribute its products. These agreements, including those with Motorola, Avaya and Honeywell typically provide the Company with stock rotation and price protection provisions. Stock rotation rights give the Company the ability, subject to certain limitations, to return for credit or exchange a portion of those inventory items purchased from the vendor. Price protection situations occur when a vendor credits the Company for declines in inventory value resulting from the vendor's price reductions. Along with the Company's inventory management policies and practices, these

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provisions are designed to reduce the Company's risk of loss due to slow-moving inventory, vendor price reductions, product updates or obsolescence.

Some of the Company's distribution agreements contain minimum purchase requirements that the Company must meet in order to receive preferential prices. 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 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. 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.

The Company's merchandising departments recruit vendors and manage important aspects of its vendor relationships, such as purchasing arrangements, cooperative marketing initiatives, vendor sales force relationships, product training, monitoring of rebate programs, and various contract terms and conditions.

Customers

The Company's reseller customers currently include approximately 28,000 active value-added reseller ("VAR") accounts 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, 2014. 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.

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.

## Sales and Electronic Commerce

The Company's sales department consists primarily of inside sales representatives located in the United States, Canada, Mexico, Brazil, Belgium, France, Germany, the United Kingdom and the Netherlands. In order to build strong customer relationships, most active resellers are assigned to a sales representative. Each sales representative negotiates pricing directly with their 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.

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Increasingly, customers rely upon the Company's electronic ordering and information systems, in addition to its product catalogs and frequent mailings, 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 United Parcel Service ("UPS") and Federal Express ("FedEx") package tracking numbers from this site.

Marketing

The Company provides a range of marketing services, including cooperative advertising with vendors through trade publications and direct mail, product catalogs for each of the North American, European and Latin American markets, periodic newsletters, management of sales leads, trade shows with hardware and software companies and vendors and sales promotions. In addition, the Company organizes and operates its own web seminars and works 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, through its ScanSource Services Group, for 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. These services allow our vendors to recognize cost savings in their business, to improve their market presence, and to reduce variation in their business. Our business is based upon our abilities and our willingness to provide the extra service that keeps both our vendors and our customers coming back. In addition, our ScanSource Services Group ("SSG") assists resellers in providing more complete solutions and improving customer service. The mission of SSG 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 and partnership services, SSG improves efficiency, productivity, quality control, and profitability of our business partners. Since partners can leverage our expertise to complement or expand their reach, SSG is positioned to create opportunities, extend resources and increase profit for our partners.

Operations

Information Systems

The Company's multiple information systems that are centralized by geography and 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 UPS and FedEx 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 600,000 square foot centralized distribution center in Southaven, Mississippi, which is located near the FedEx hub facility in Memphis, Tennessee and serves all of North America. Our European operation utilizes a centralized third party warehouse located in Liege, Belgium that services all of Europe. Warehouses for our Latin American operations are located in Florida, Mexico and Brazil. Our distribution model creates several advantages, including: (i) a reduced amount of "safety stock" inventory which, in turn, reduces the Company's working capital requirements; (ii) an increased turnover rate through tighter controls over inventory; (iii) maintenance of a consistent order-fill rate; (iv) improved personnel productivity; (v) improved delivery time; (vi) simplified purchasing and tracking; (vii) decreased demand for management personnel; and (viii) flexibility to meet customer needs for systems integration. Our objective is to ship all orders on the same day, using bar code 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

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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.

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.

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/Security segment, we compete with broad-line distributors, such as Avnet, Ingram Micro, Synnex, and Tech Data in all geographic areas, and more specialized security distributors, such as ADI, Anixter and Tri-Ed. Additionally, the Company also competes against other smaller, more specialized AIDC and POS distributors, such as Azerty, BlueStar, BP Solutions, Prime Interway Do Brasil and Nimax. In our Communications/Services segment, the Company competes against other broad-line distributors, such as Avnet, Ingram Micro, Synnex and Tech Data, and more specialized distributors, such as Jenne, NETXUSA 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.

Employees

As of June 30, 2014, we had approximately 1,500 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 Security," "ScanSource Europe," "ScanSource Europe Communications," "ScanSource Latin America," "ScanSource Mexico," and "ScanSource Brasil."

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](http://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 has included its website address as a factual reference and does not intend it as an active link to its website. 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



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www.scansourceinc.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 risk factors that could affect our business, financial position and results of operations. These risks should be considered in connection with evaluating the forward looking statements contained in this Annual Report on Form 10-K because these factors could cause the actual results and conditions to differ materially from those projected in the forward looking statements or from our historical performance. 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.

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 or a new ERP system could disrupt our business.

We are highly dependent upon a variety of internal computer and telecommunication systems to operate our business, including our enterprise resource planning ("ERP") systems. In order to continue support of our growth, we are making significant technological upgrades to our information systems. We have been in the process of developing a company-wide, single ERP software system and related processes to perform various functions and improve on the efficiency of our global business. This is a lengthy and expensive process that has and will continue to result in a diversion of resources from other operations.

Any disruptions, delays or deficiencies in the design and/or implementation of the new ERP system, or in the performance of our legacy systems, particularly any disruptions, delays or deficiencies that impact our operations, could adversely affect our ability to effectively run and manage our business and potentially 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.

Additional costs, cost overruns and delays with a new ERP system - Our business and results of operations have been and will continue to be adversely affected if we experience significant costs, cost overruns and delays in connection with a new ERP system.

Our new ERP system has and will continue to involve substantial expenditures on system hardware and software, as well as design, development and implementation activities. We may experience cost overruns and project delays in connection with the process.

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Our business and results of operations will be adversely affected if we experience operating problems, additional costs, or cost overruns during the ERP process. To the extent that the ERP project cannot be completed in a timely and cost efficient manner, or there are significant problems with the transition to a new ERP system, our business, results of operations and financial results could experience a material adverse affect.

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

We have and expect to continue to acquire companies that complement or expand our business in the United States or internationally. This expansion increases the complexity of our business and places 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 it 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.

Acquisitions may involve significant risks and uncertainties, including the following: distraction of management's attention away from normal business operations; insufficient revenue generation to offset liabilities assumed and expenses associated with the acquisition; difficulty in the integration of acquired businesses, including new employees, business systems and technology; inability to adapt to challenges of new markets, including geographies, products and services, or to attract new sources of profitable business from expansion of products or services; exposure to new regulations; and issues not discovered in our due diligence process, such as unknown liabilities, fraud, cultural or business environment issues or that may not have adequate internal controls as required by Section 404 of the Sarbanes-Oxley Act of 2002. Also, we may be unable to retain or replace key employees of our acquired companies. Our operations may be adversely impacted by an acquisition that is not suited for us, is improperly executed, or substantially increases our debt. In addition, adverse movements in foreign currency exchange rates could increase the purchase price paid, including earnout payments. Any of these factors could adversely affect our operating results or financial condition. Moreover, future acquisitions could result in dilutive issuances of equity securities, the incurrence of debt, contingent liabilities, amortization of intangible assets, or impairment of goodwill. Acquisitions could also result in a dilutive impact to our earnings. No assurances can be given that we will be able to dispose of business units on favorable terms or without significant costs, nor can there be any assurance future acquisitions will not result in future impairment charges.

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

We currently have facilities in eight countries outside the United States and sell products in a number of others. A significant portion of our revenue is derived from our international operations. These operations are subject to a variety of risks that are in addition to the risks that we face domestically or are similar risks but with potentially greater exposure. These risks include:

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;

Difficulties in collecting accounts receivable and longer collection periods;  
Changes in, or expiration of, various foreign incentives that provide economic benefits to us;  
Changes in labor laws and regulations affecting our ability to hire and retain employees;  
Difficulties in staffing and managing operations in foreign countries;  
Fluctuations of foreign currency, exchange controls and currency devaluations;  
Changes in the interpretation and enforcement of laws (in particular related to items such as duty and taxation);  
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, or 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 privileges;  
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;  
Natural disasters, power shortages, telecommunication failures, water shortages, fires, medical epidemics or pandemics, and other manmade or natural disasters or business interruptions in a region or specific country;  
Potential regulatory changes, including foreign environmental restrictions; and  
Different general economic conditions.

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The potential criminal penalties for violations of export regulations and anti-corruption laws, particularly the U.S. Foreign Corrupt Practices Act, data privacy laws and environmental laws and regulations in many jurisdictions, create heightened risks for our international operations. In the event that a governing regulatory body determined that we have violated applicable export regulations or anti-corruption laws, we could be fined significant sums, incur sizable legal defense costs and/or our export capabilities could be restricted, which could have a material and adverse effect on our business and reputation.

In addition, in foreign markets we are more dependent upon third party providers of key services, such as third party freight forwarders and third party warehouses in Europe and Latin America. We also rely on third party legal advisors to provide guidance on trade compliance issues and information systems providers to provide services related to denied party screening. Adverse changes in any of these third party services could have an adverse effect on our business, financial condition or results of operations. As we expand our international operations, we expect these risks to increase.

Our company conducts business in the United States, Brazil, Canada, Mexico, Europe and Latin American countries, which exposes our business to fluctuations in currency exchange rates. Significant volatility and fluctuations in the rates of exchange for the U.S. dollar against currencies such as the euro, British pound, Mexican peso and the Brazilian real may also negatively impact our customer pricing, operating results and acquisition purchase prices, including earnout payments. While we manage our short-term exposure to fluctuations in the value of currencies using various derivatives or other financial instruments, such attempts to mitigate these risks are costly and not always successful. Our ability to engage in such mitigation may decrease or become even more costly as a result of more volatile market conditions.

Exchange rate fluctuations may cause our international results to fluctuate significantly when translated into U.S. dollars. Developing economies, such as Brazil, could have sudden and drastic changes in foreign exchange rates compared to others. The uncertainty of certain European countries to continue to service their sovereign debt obligations and the related European financial restructuring efforts may cause the value of the euro and other European currencies to fluctuate. Currency variations also contribute to variations in sales of products in impacted jurisdictions. Thus, the volatility in exchange rates can have tremendous impact on our customers' ability to purchase our products.

The value of our equity investment in foreign subsidiaries may fluctuate based on changes in foreign currency exchange rates. These fluctuations may result in losses in the event a foreign subsidiary is sold or closed at a time when the foreign currency is weaker than when we initially invested. We are unable to predict the impact of future exchange rate fluctuations on our business, financial position or operating results.

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

As a result of our April 2011 acquisition of all of the shares of CDC Brasil Distribuidora de Tecnologias Especiais LTDA ("CDC" or "ScanSource Brasil"), we have substantial operations in Brazil and face risks related to that country's complex tax, labor, trade compliance and consumer protection laws and regulations. We may now have exposure to the complex tax structure in Brazil, where we have noted that several other companies have had issues with Brazilian tax authorities that have impacted earnings. Additionally, developing markets such as Brazil 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 Brazil poses additional challenges such as finding qualified employees, underdeveloped infrastructure, and identifying and retaining qualified suppliers and service providers among other risks. Any of these factors could adversely affect our financial condition and results of operations. 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 Foreign Corrupt Practices Act or similar local anti-bribery laws. These laws generally prohibit companies and their employees, contractors or agents from making improper payments to government officials for the purpose of obtaining or retaining business. Failure to comply with these laws 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 such as Brazil is increasing as our competitors grow their global operations. Our success in integrating CDC's operations is critical to our growth strategy. If we cannot successfully increase our business in Brazil, our product sales, financial condition and results of operations could be materially and adversely affected.

Our operations also expose us to risks related to South America more generally and we are dependent on the general state of the South American economy. We cannot assure you that favorable economic, political, and other business conditions will exist in the

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future. A general economic recession in the region or any volatility or uncertainty related to the conditions to do business in the region could materially and adversely affect our financial condition and results of operations.

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 sold to us by 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 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 could 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 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 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.

In addition, 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. Suppliers 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.

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, operation results and financial condition.

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

The markets that we operate in are highly 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



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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.

Laws and regulations - Changes in tax laws and other laws and regulations may adversely impact us.

We are subject to a wide range of local, state and federal laws and regulations both in the United States and in the other countries in which we operate. While we plan our operations based upon existing and anticipated laws and regulations, we cannot anticipate every change and can have only little, if any, impact on others. When new legislation is enacted with minimal advance notice, or when new interpretations or applications of existing laws are made, we may need to implement changes in our policies or structure. We are particularly susceptible to changes in income and other tax laws, laws regulating international trade, and accounting and securities disclosure laws and regulations. To a lesser degree, changes in environmental regulation, including electronic waste recovery legislation, may impact us. In each case, a change in the laws or regulations that we are required to comply with could have an adverse impact on our business operations or financial results.

Violation of any laws, rules, or regulations applicable to our business could result in fines or other actions by regulatory agencies, increased cost of doing business, reduced profits, or restrictions on our ability to conduct business such as our ability to export products or bans on our ability to offer certain services. Additionally, any significant changes, developments, or new interpretations of laws, rules, or regulations applicable to our business will increase our costs of compliance and may further restrict our overseas client base, may require significant management and other resources to respond appropriately, and may harm our operating results.

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.

Global economic instability - Current world-wide economic conditions and market disruptions may adversely affect our business, pricing strategy and results of operations.

The results of our business are subject to the effects of global economic conditions. The slow recovery from the past economic downturn and the continued uncertainty regarding the future health of the global economy may adversely affect revenues, margins, earnings and growth rates. High levels of unemployment and reduced consumer confidence in various markets we have operations in can affect both our company directly and indirectly by affecting other companies that we do business with.

Financial markets throughout the world could experience extreme disruption, including, among other things, severely diminished liquidity and credit availability, rating downgrades of certain investments and declining valuations and pricing volatility of others, volatile energy costs, geopolitical issues and failure and potential failures of major financial institutions. These developments and/or a related general economic downturn may adversely impact our business and financial condition in a number of ways. We recently experienced weakened demand in our European operations as a result of current economic conditions in the region. Economic slowdowns can lead to reduced information technology spending by end users, which can adversely affect our sales. Economic instability has increased competitive pressure throughout the channels we serve, resulting in pricing pressures that have decreased our margins. This effect may continue in the future.

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Global economic downturn and instability may also result in changes in vendor terms and conditions, such as rebates, cash discounts and cooperative marketing efforts, which may result in downward pressure on our gross margins. Tightening of credit in financial markets and general economic downturn may adversely affect the ability of our reseller customers, vendors and service providers to obtain financing for significant purchases and operations and to perform their obligations under our agreements with them. Instability in financial and currency markets or changes in intergovernmental relations can also lead to limited access to U.S. dollars or other currencies by our customers. This can result in a decrease in or cancellation of orders for our products and services, negatively impact our ability to collect our accounts receivable on a timely basis, result in additional reserves for uncollectible accounts receivable being required and lead to elevated levels of obsolete inventory.

We continue to be unable to predict any duration of any economic downturn and disruption in financial markets or their effects on our business, financial position or results of operations.

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. Our customers generally do not have an obligation to purchase from us. 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.

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

We have credit exposure to our reseller customers and negative trends in their businesses could increase our credit risk. As is customary in our industry, we extend credit to our reseller 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 resellers' qualifications for credit and monitor our extensions of credit, these efforts cannot prevent all credit losses, and credit losses in excess of historical levels would negatively impact our performance. In addition, for financial reporting purposes, we estimate future credit losses and establish an appropriate reserve. To the extent that our credit losses exceed those reserves, our financial performance will be negatively impacted. There is no guarantee that our operating expenses will not increase as a result of the recognition of bad debt expense from our reseller customers. If there is a substantial deterioration in the collectability of our receivables or if we are unable to collect under existing 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 creates 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.

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 new worldwide management structure, announced in June 2013, is expected to provide improved management of our operations and improved succession planning within our organization.

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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.

Our continued growth is also dependent, in part, on the skills, experience and efforts of our senior management, including but not limited to, Michael Baur, our Chief Executive Officer. We may not be successful in retaining the members of our senior management team or our other key employees. While we have entered into employment agreements with key executives and have obtained a key person life insurance policy on our CEO's life, the loss of the services of Mr. Baur or any member of our senior management team could also have an adverse effect on our business, financial condition and results of operations. The process of identifying management successors creates uncertainty and could become a distraction to our senior management and the Board. We may not be successful in attracting qualified candidates to replace key positions when necessary. As a result, the transition process and the identification and recruitment of candidates to fill senior management positions may be disruptive to our business or operations.

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 in North America from a single warehouse near Memphis, Tennessee (with corresponding arrangements for our Latin American and European markets). Similarly, for the primary business operations, we utilize a single information system based in Greenville, South Carolina for 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.

Although we have business interruption insurance, not all losses are covered, and an uninsured loss from electrical or telephone failure, fire or other casualty, water damage, theft, or other disruption would have an adverse effect on our business, financial condition or results of operations. In addition, there are limits on all of our insurance coverage, and it is possible that losses might exceed that coverage.

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 or by technological changes affecting the usefulness or desirability of our products or by foreign currency fluctuations. The electronic components and computer products industries are subject to rapid technological change, new and enhanced products, changes in customer needs and changes in industry standards, which can contribute to a decline in value or obsolescence of inventory. 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. Also, we may have to write-down our inventory due to water damage, theft or other factors that may decrease our number of merchantable products.

Should there be an economic downturn, it is possible that prices may decline due to an oversupply of product, and therefore, there may be a greater risk of declines in inventory value. In addition, our vendors may become insolvent and unable to fulfill their product obligations to us. Significant declines in inventory value in excess of established inventory reserves or dramatic changes in prevailing technologies could have an adverse effect on our business, financial condition or results of operations.

Narrow gross profit margins - Our narrow gross profit margins significantly impact our operating results.

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Our industry is highly competitive and characterized by narrow gross profit margins and operating profit margins. Because of our narrow margins, fluctuations in sales can have a magnified impact on our overall operating results. We may not be able to reduce our operating expense as a percentage of revenue to mitigate any further reductions in profit margins in the future. If we cannot proportionately decrease our cost structure in response to competitive price pressures, our business and operating results could suffer.

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.

In addition, our third party service providers and other business partners process and maintain proprietary business information and data related to our business-to-business customers, suppliers and other business partners. Our information technology and other systems that maintain and transmit this information, or those of service providers or business partners, may also 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. As a result, our business information, customer, supplier, and other business partner data may be lost, disclosed, accessed or taken without their 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.

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.

Pursuant to Section 404 of the Sarbanes-Oxley Act of 2002, our management, including our Chief Executive Officer and Chief Financial Officer, is required to evaluate the effectiveness of our internal control over financial reporting as of the end of each year, and to include a management report assessing the effectiveness of our internal control over financial reporting in each Annual Report on Form 10-K. Moreover, an independent registered public accounting firm must attest to the effectiveness of our internal control over financial reporting. If our Chief Executive Officer, Chief

Financial Officer or independent registered public accounting firm determines that our internal control over financial reporting is not effective as defined under Section 404, investor perceptions and our reputation may be adversely affected and the market price of our stock could decline.

A weakness in our internal control over financial reporting may be identified in the future. Any failure to maintain or implement required new or improved controls, or any difficulties we encounter in their implementation, could result in additional material weaknesses, cause us to fail to meet our periodic reporting obligations, or result in material misstatements of our financial statements. Any such failure could also adversely affect the results of periodic management evaluations and annual auditor attestation reports regarding the effectiveness of our internal control over financial reporting. The existence of a material weakness could result in errors in our financial statements resulting in a restatement of financial statements, which could cause us to fail to meet our reporting obligations and cause investors to lose confidence in our reported financial information, leading to a decline in our share price. Even effective internal controls cannot provide absolute assurance with respect to the preparation and fair presentation of financial statements. We do not expect our internal control over financial reporting to detect all errors or fraudulent conduct.



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Third party logistics and warehousing providers - We use third party logistics and warehousing providers in certain parts of the world that may expose us to risks or liabilities based on their execution that may adversely affect our business operations or financial results.

In Europe and Brazil, 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 have an adverse impact on our logistical processes. Poor financial condition of these 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.

Reliance on third parties - We are dependent on third parties for services including the delivery of a majority of our products. 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 our business depends on and services 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.

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 acquisitions with an upfront payment and additional earnout payments. The acquisition of CDC was structured having an upfront payment with five annual cash installments based upon the financial performance of CDC for the twelve month periods ended on June 30, 2011 through June 30, 2015. 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. We expect to continue to use this structure for future acquisitions.

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. A global economic downturn could impact our prior judgments and assumptions about the fair value of our business, and we may be required to record impairment charges of goodwill or other identifiable intangible assets in the future.

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

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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 performed our annual impairment test for fiscal 2014 and determined that no goodwill impairment charge was necessary. In the fourth quarter of fiscal 2013 we recorded a non-cash charge for goodwill impairment in our European Communications and Brazilian POS & Barcode reporting units.

In the future, should the recent economic uncertainty continue in Latin America, Europe, or other global economies, the fair value of one or more 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.

Accounting rules - Changes in accounting rules or standards could have a significant adverse effect on our reported earnings.

Our financial statements are prepared in accordance with U.S. generally accepted accounting principles. These principles are subject to interpretations by various governing bodies including the Financial Accounting Standards Board, the Public Company Accounting Oversight Board, the SEC and the American Institute of Certified Public Accountants. These governing bodies create and interpret appropriate accounting standards. Future periodic assessments required by current or new accounting standards may result in additional non-cash charges and/or changes in presentation or disclosure. A change from current accounting standards could have a significant adverse effect on our financial position or results of operations.

In May 2014, the Financial Accounting Standards Board ("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 standard permits the use of either the retrospective or cumulative effect transition method. This guidance will be applicable to the Company at the beginning of its first quarter of fiscal year 2018. This change in accounting standard could have a significant adverse effect on our financial position or results of operations.

Terrorist or military operations - Future terrorist or military operations could result in a disruption of our operation or loss of assets in certain markets.

Future terrorist or military actions, in the United States or abroad, could result in destruction or seizure of assets or suspension or disruption of our operations. Additionally, such actions could affect the operations of our suppliers or customers, resulting in loss of access to products, potential losses on supplier programs, loss of business, higher losses on receivables or inventory, and/or other disruptions in our business, which could negatively affect our operating results. We do not carry broad insurance covering such terrorist or military actions, and even if we were to seek such coverage, the cost would likely be prohibitive.

Natural disasters and other crises - Exposure to adverse weather conditions or other emergency situations could result in a disruption of our operation or loss of assets in certain markets.

Extreme weather conditions such as floods, hurricanes, tornadoes, earthquakes, or other natural disasters, electrical failures, medical pandemics or epidemics, telecommunication failures, or other similar events may disrupt our ability

to distribute products. Any of these events could significantly and adversely affect our operational results. Particularly, these events could materially impact us because our business has centralized business operations and thus any major damage done to one of our facilities could greatly impact our operations. While we may mitigate some of this risk through insurance, we cannot guarantee that our losses will not exceed the value of our policies. Any disruption in business may adversely affect our operations or damage relationships with customers.

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

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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 operating results.

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.

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. Companies in our industry experience significant quarter-to-quarter fluctuations. 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.

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

Our net sales and operating results may fluctuate quarterly as a result of changes in demand for our products and services, the introduction of new technology, actions by our competitors, changes in vendors' prices or price protection policies, changes in vendors' business practices or strategies, changes in freight rates, the timing or the addition of operating expenses to support our growth, the timing of major marketing or other service projects, product supply shortages, changes in product mix, the impact of possible disruption caused by integration and reorganization of technology systems, currency fluctuations in countries we have operations, the loss of a major supplier or customer, occurrence of unexpected events, impairments and the general economic factors referenced above. In addition, a substantial portion of our net sales in each quarter results from orders booked in that quarter, which are difficult to accurately forecast in advance. 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. Our narrow operating margins may magnify the impact of the foregoing factors on our operating results. The results of any quarterly period are not indicative of results to be expected for a full fiscal year.

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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 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. Following our reorganization and changes in reportable segments, all of our properties are now utilized by both our Worldwide Barcode & Security and our Worldwide Communications & Services segments.

North American Distribution Facilities

The Company's North American distribution operations are located in Southaven, Mississippi. The Southaven facility accommodates approximately 600,000 square feet with an optional 147,000 square feet of available expansion space. In 2007, a subsidiary of the Company entered into a ten-year lease associated with this facility, with options to extend the lease for two consecutive five-year periods.

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; 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 and has distribution center space in Cologne, Germany. During fiscal 2012, we consolidated the European warehouse operations in Liège and transferred our inventory from Cologne to the third party warehouse in Liège. 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 or its subsidiaries have additional sales offices, each of approximately 10,000 square feet or less, in leased facilities in Bad Homburg, Germany; Hull, England; Crawley, England; Egham, England; Olivet, France; Eindhoven, Netherlands, Curitiba, Brazil; Blumenau, Brazil; and Fortaleza, Brazil.

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.

As previously discussed in our Annual Report on Form 10-K for the year ended June 30, 2013, and in our Quarterly Reports or Form 10-Q for the quarters ended September 30, 2013, December 31, 2013 and March 31, 2014, on January 2, 2013, through our wholly-owned subsidiary Partner Services, Inc. ("PSI"), we filed a lawsuit in the U.S. District Court in Atlanta, Georgia



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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.

ITEM 4. Mine Safety Disclosures.

Not applicable.

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## 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 28, 2014, there were approximately 534 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.

|                  | High    | Low     |
|------------------|---------|---------|
| Fiscal Year 2014 |         |         |
| First quarter    | \$36.74 | \$30.60 |
| Second quarter   | 43.65   | 33.75   |
| Third quarter    | 42.64   | 35.56   |
| Fourth quarter   | 42.99   | 36.10   |
| Fiscal Year 2013 |         |         |
| First quarter    | \$33.78 | \$26.41 |
| Second quarter   | 32.55   | 27.06   |
| Third quarter    | 34.08   | 28.15   |
| Fourth quarter   | 34.84   | 25.83   |

## 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, 2009.

|  | 2009  | 2010  | 2011  | 2012  | 2013  | 2014  |
|--|-------|-------|-------|-------|-------|-------|
| ScanSource, Inc.                                 | \$100 | \$102 | \$153 | \$125 | \$131 | \$155 |
| NASDAQ Composite                                 | \$100 | \$117 | \$155 | \$167 | \$197 | \$259 |
| SIC Code 5045 – Computers & Peripheral Equipment | \$100 | \$92  | \$117 | \$103 | \$113 | \$149 |

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## 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,            |             |             |             |             |
|--|---------------------------------------|-------------|-------------|-------------|-------------|
|  | 2014                                  | 2013        | 2012        | 2011        | 2010        |
|  | (in thousands, except per share data) |             |             |             |             |
| Statement of income data:                              |                                       |             |             |             |             |
| Net sales  | \$2,913,634                           | \$2,876,964 | \$3,015,296 | \$2,666,531 | \$2,114,979 |
| Cost of goods sold                                     | 2,612,535                             | 2,584,090   | 2,713,272   | 2,392,224   | 1,896,052   |
| Gross profit   | 301,099                               | 292,874     | 302,024     | 274,307     | 218,927     |
| Selling, general and administrative expenses           | 192,492                               | 191,216     | 188,388     | 161,326     | 143,151     |
| Impairment charges (legal recovery)                    | (15,490)                              | ) 48,772    | —           | —           | —           |
| Change in fair value of contingent consideration       | 2,311                                 | 1,843       | 120         | (128)       | ) —         |
| Operating income                                       | 121,786                               | 51,043      | 113,516     | 113,109     | 75,776      |
| Interest (income) expense, net                         | (1,633)                               | ) (1,463)   | ) (1,247)   | ) 511       | 85          |
| Other (income) expense, net                            | 312                                   | (520)       | ) 3,552     | 712         | (50)        |
| Income before income taxes                             | 123,107                               | 53,026      | 111,211     | 111,886     | 75,741      |
| Provision for income taxes                             | 41,318                                | 18,364      | 36,923      | 38,363      | 26,929      |
| Net income   | \$81,789                              | \$34,662    | \$74,288    | \$73,523    | \$48,812    |
| Net income per common share, basic                     | \$2.89                                | \$1.25      | \$2.72      | \$2.74      | \$1.83      |
| Weighted-average shares outstanding, basic             | 28,337                                | 27,774      | 27,362      | 26,872      | 26,605      |
| Net income per common share, diluted                   | \$2.86                                | \$1.24      | \$2.68      | \$2.70      | \$1.82      |
| Weighted-average shares outstanding, diluted           | 28,602                                | 27,994      | 27,751      | 27,246      | 26,869      |
|  | As of June 30,                        |             |             |             |             |
|  | 2014                                  | 2013        | 2012        | 2011        | 2010        |
|  | (in thousands)                        |             |             |             |             |
| Balance sheet data:                                    |                                       |             |             |             |             |
| Working capital  | \$715,850                             | \$614,378   | \$533,529   | \$532,167   | \$436,953   |
| Total assets   | 1,335,124                             | 1,164,183   | 1,201,806   | 1,182,188   | 859,750     |
| Total long-term debt (including short-term borrowings) | 5,429                                 | 5,429       | 9,697       | 60,106      | 30,429      |
| Total shareholders' equity                             | \$802,643                             | \$695,956   | \$652,311   | \$587,394   | \$486,851   |



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

Certain statements within this Annual Report on Form 10-K, including this Management's Discussion and Analysis of Financial Condition and Results of Operations ("MD&A"), are not historical facts and contain "forward-looking statements" as described in the "safe harbor" provision of the Private Securities Litigation Reform Act of 1995. These statements involve a number of risks and uncertainties and actual results could differ materially from those projected. Factors that could cause actual results to differ materially include the following: our dependence upon information systems and the ability to transition to a new ERP system without business disruption and in a timely and cost efficient manner; our ability to integrate acquisitions, and effectively manage and implement our growth strategies; our ability to manage the potential adverse effects of operating in foreign jurisdictions, including, adverse changes in economic, political and market conditions in Europe, Latin America, and in Brazil, Venezuela, and Argentina in particular; our ability to hedge or mitigate the effects of fluctuations in foreign exchange rates; our dependence on vendors, product supply, and availability; our ability to decrease our cost structure in response to competitive price pressures and changes in demand for our products; our ability to compete in new and existing markets that are highly competitive; our ability to anticipate adverse changes in tax laws, accounting rules, and other laws and regulations; our ability to effectively manage and implement our growth strategies; our ability to manage our business when general economic conditions are poor; our ability to retain and expand our existing and new customer relationships; our ability to manage and limit our credit exposure due to the deterioration in the financial condition of our customers; our ability to retain key employees, particularly senior management; our ability to centralize certain functions to provide efficient support to our business; our ability to manage and negotiate successful pricing and stock rotation opportunities associated with inventory value decreases; our ability to remain profitable in the face of narrow margins; our ability to manage loss, disclosure or misappropriation of, or access to, information or other breaches of our information security; our dependence on third-party freight carriers; our ability to manage the distribution channels; our ability to increase our business in Brazil; our exposure to the volatility of earnings due to changes in fair value of assets and liabilities, including changes in the fair value of our earn-out obligation to the sellers of CDC, changes in accounting principles, and our ability to make estimates and the assumptions underlying the estimates, which could have an effect on earnings; our ability to avoid goodwill and long-lived asset impairments resulting in material non-cash charges to earnings; our ability to manage disruptions or loss of certain assets from terrorist or military operations; our ability to obtain required capital at acceptable terms to fund our working capital and growth strategies; and our ability to resolve or settle potentially adverse litigation matters. Additional discussion of these and other factors affecting our business and prospects is contained in our periodic filings with the SEC, copies of which can be obtained under the "Investors Relations" tab on our website at [www.scansource.com](http://www.scansource.com). Please refer to the cautionary statements and important factors discussed in Item 1A. "Risk Factors" in this Annual Report on Form 10-K for further information. This discussion and analysis should be read in conjunction with Item 6. "Selected Financial Data" and the Consolidated Financial Statements and the Notes thereto included elsewhere in this Annual Report on Form 10-K. We caution readers not to place undue reliance on forward-looking statements. We undertake no obligation to update publicly or otherwise revise any forward-looking statements, whether as a result of new information, future events or other factors that affect the subject of these statements, except where we are expressly required to do so by law.

Overview

ScanSource, Inc. is a leading international wholesale distributor of specialty technology products. ScanSource, Inc. and its subsidiaries (the "Company") provide value-added distribution services for approximately 290 technology manufacturers and sells to approximately 28,000 resellers in the following specialty technology markets: POS and Barcode, Security and Communications.

The Company operates in the United States, Canada, Latin America, and Europe and uses centralized distribution centers for major geographic regions. The Company distributes to the United States and Canada from its Southaven, Mississippi distribution center; to Latin America principally from distribution centers located in Florida, Mexico and Brazil; and to Europe from its distribution center in Belgium.

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

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During fiscal year 2014, the Barcode & Security distribution segment added 3D printing solutions to their product offerings that are targeted at the manufacturing, healthcare, aerospace, and automotive markets.

In April 2014, it was announced that Zebra Technologies intends to purchase Motorola Solutions' enterprise business. Zebra Technologies and Motorola Solutions represent key vendors in our barcode technologies business.

In the fourth quarter of fiscal 2013, we announced a new management structure to enhance our worldwide technology markets focus and growth strategy. This worldwide management structure creates new leadership roles and reporting segments to globally leverage the Company's leadership in specific technology markets. As a part of this new structure, ScanSource has created two technology segments, each with its own president. The two segments are Worldwide Barcode & Security, which includes ScanSource POS and Barcode and ScanSource Security business units, and Worldwide Communications & Services, which encompasses ScanSource Catalyst, ScanSource Communications and ScanSource Services Group business units. The reporting segments of Worldwide Barcode & Security and Worldwide Communications & Services replaced the geographic segments of North America and International and gave the Company the ability to leverage its size and experience to deliver more value to our vendor and reseller partners in its existing markets.

We restructured our European Communications sales unit in the third quarter of fiscal year 2013 in order to support a strategy for profitable growth. The new organizational structure provided focused business unit leadership, as well as dedicated merchandising, sales and technical support teams, at the appropriate scale. In addition, the Company moved certain European support functions to centralized global teams in the United States to gain efficiencies. The annualized cost savings in connection with the restructuring, principally associated with the elimination of positions, was estimated at approximately \$3.1 million. The Company incurred approximately \$1.2 million in associated costs, including related severance expenses. These restructuring costs, which were accrued in the third quarter of fiscal year 2013, are included in selling, general and administration costs in the accompanying Consolidated Income Statements. For further discussion on our restructuring, refer to Note 14 -Restructuring Costs.

In the fourth quarter of fiscal year 2013, the Company decided not to proceed with the development of the Enterprise Resource Planning ("ERP") project using the Microsoft Dynamics AX software and we wrote off substantially all of the total capitalized expenses related to the original project. The non-cash charge recorded of \$28.2 million before the effect of income taxes (\$18.0 million net of the tax impact), included software development costs, hardware, software interfaces and other related costs. The remaining \$0.6 million of the total \$28.8 million capitalized balance was placed into service in July 2013. The software that was placed into service is not the ERP system itself, but an auxiliary database system designed to assist in the management of the product offerings. Prior to the write off, the capitalized software was included in property and equipment at cost on the Consolidated Balance Sheets.

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 impairment charges (legal recovery) line item on the Consolidated Income Statements.

In December 2013, the Company retained Systems Applications Products ("SAP") for software platform and implementation consulting services for a new Enterprise Resource Planning ("ERP") system. Development of our new ERP system began in January of 2014.

After we performed our annual goodwill impairment test in 2013 we determined that a goodwill impairment charge was necessary for our Brazilian POS & Barcode and European Communications reporting units. Prior to the test, no interim impairment indicators were identified. The Company's impairment testing included the determination of the reporting unit's fair value using market multiples and discounted cash flows modeling. The impairment charges were a result of reduced earnings and cash flow forecasts primarily due to the general macroeconomic environment and lower expectations of future results. Furthermore, earnout payments made to CDC shareholders have been lower than those forecasted and assumed in the calculation of goodwill, at the time of acquisition. During the fourth quarter of fiscal 2013, the Company recorded a non-cash charge for goodwill impairment of \$5.4 million and \$15.1 million in Europe and Brazil, respectively.



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During fiscal year 2014, the Company completed its annual impairment test as of April 30 and determined that no goodwill impairment charge was necessary.

As compared to prior year, our Latin America subsidiary has been experiencing a significant drop in revenue in Venezuela due to increased country-specific risks. The Company's transactions in Venezuela are denominated in U.S. dollars, however, our Venezuelan resellers are having difficulties getting U.S. dollars to pay us as the government controls the available U.S. dollars within the country. Hence, we have heightened risk of collectability in this country. At June 30, 2014, the Company held \$2.3 million in accounts receivable with 87% reserves specific to accounts receivable in Venezuela.

Our objective is to continue to grow profitable sales in the technologies we distribute and to focus on growth in security and communication technologies. 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 distribute. This competition may come in the form of pricing, credit terms, service levels and product availability. As this competition could affect both our market share and pricing of our products, we may change our strategy in order to effectively compete in the marketplace.

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, specifically, security, communication and 3D technology; increased marketing efforts to recruit resellers; and enhanced employee benefit plans to retain employees.

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, including adjusted net income and adjusted 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.

Adjusted Net Income and Adjusted EPS

To evaluate current period performance on a clearer and more consistent basis with prior periods, we disclose adjusted net income and adjusted diluted EPS. Results for the current year ended June 30, 2014 excluded a legal recovery, net of attorney fees. Results for the year ended June 30, 2013 excluded charges associated with the impairment of our old

ERP project using Microsoft Dynamics AX software and goodwill in two of our reporting units, and costs associated with tax compliance and personnel replacement in the Company's Belgian office. Please see notes 1, 5 and 14 of the Notes to Consolidated Financial Statements for additional information on these items. We believe that these historical items are outside of our normal operating expenses. Adjusted net income and adjusted diluted EPS are useful in better assessing and understanding our operating performance, especially when comparing results with previous periods or forecasting results 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:

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|   | Year ended June 30, 2014 |                         |                | Year ended June 30, 2013 |                         |                |
|---|--------------------------|-------------------------|----------------|--------------------------|-------------------------|----------------|
|   | Pre-Tax<br>Income        | Net<br>Income<br>(Loss) | Diluted<br>EPS | Pre-Tax<br>Income        | Net<br>Income<br>(Loss) | Diluted<br>EPS |
| GAAP Measures   | \$ 123,107               | \$ 81,789               | \$ 2.86        | \$ 53,026                | \$ 34,662               | \$ 1.24        |
| Adjustments:  |                          |                         |                |                          |                         |                |
| Legal recovery, net of attorney fees  | (15,490 )                | (9,756 )                | (0.34 )        | —                        | —                       | —              |
| Costs associated with Belgian tax compliance and personnel replacement costs, including related professional fees | —                        | —                       | —              | 2,121                    | 1,400                   | 0.05           |
| Impairment charges - ERP  | —                        | —                       | —              | 28,210                   | 18,015                  | 0.64           |
| Impairment charges - Goodwill   | —                        | —                       | —              | 20,562                   | 15,201                  | 0.54           |
| Non-GAAP measures   | \$ 107,617               | \$ 72,033               | \$ 2.52        | \$ 103,919               | \$ 69,278               | \$ 2.47        |

## Return on Invested Capital

Management uses ROIC as a performance measurement to assess efficiency at allocating capital under the Company's control to generate returns. Management believes this metric balances the Company's operating results with asset and liability management, is not impacted by capitalization decisions and is considered to have a strong correlation with shareholder value creation. In addition, it is easily computed, communicated and understood. ROIC also provides management a measure of the Company's profitability on a basis more comparable to historical or future periods. ROIC assists us in comparing our performance over various reporting periods on a consistent basis because it removes from our operating results the impact of items that do not reflect our core operating performance. 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 ("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, 2014, 2013, and 2012, respectively.

Management adjusted the calculation of ROIC to exclude the impact of legal recoveries, net of attorney fees for the current year ended June 30, 2014. Management also adjusted the calculation of ROIC to exclude the impact of ERP and goodwill impairment charges and costs associated with Belgian tax compliance for the year ended June 30, 2013. Management believes these adjustments provide a measure of the Company's profitability on a basis more comparable to historical or future periods. Had management not adjusted for the above mentioned items, the ROIC would have been 17.4% and 9% for the fiscal year ended June 30, 2014 and 2013, respectively. We believe the calculation of ROIC including adjusted EBITDA and adjusted average equity provides useful information to investors and is an additional relevant comparison of our performance during the year.

|                                  |      |        |        |   |
|----------------------------------|------|--------|--------|---|
|                                  | 2014 | 2013   | 2012   |   |
| Return on invested capital ratio | 15.4 | % 16.0 | % 17.2 | % |

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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, |           |           |
|---|----------------------------|-----------|-----------|
|   | 2014                       | 2013      | 2012      |
|   | (in thousands)             |           |           |
| Net income (GAAP)                               | \$81,789                   | \$34,662  | \$74,288  |
| Plus: income taxes                              | 41,318                     | 18,364    | 36,923    |
| Plus: interest expense                          | 731                        | 775       | 1,639     |
| Plus: depreciation & amortization               | 7,375                      | 8,457     | 9,580     |
| EBITDA  | 131,213                    | 62,258    | 122,430   |
| Adjustments <sup>(a)</sup>                      | (15,490                    | ) 50,893  | —         |
| Adjusted EBITDA (numerator for ROIC) (non-GAAP) | \$115,723                  | \$113,151 | \$122,430 |
| Invested capital calculations                   | Fiscal Year Ended June 30, |           |           |
|   | 2014                       | 2013      | 2012      |
|   | (in thousands)             |           |           |
| Equity – beginning of the year                  | \$695,956                  | \$652,311 | \$587,394 |
| Equity – end of the year                        | 802,643                    | 695,956   | 652,311   |
| Adjustments, net of tax <sup>(a)</sup>          | (9,756                     | ) 34,616  | —         |
| Average equity, adjusted                        | 744,422                    | 691,442   | 619,853   |
| Average funded debt <sup>(b)</sup>              | 5,429                      | 15,405    | 92,125    |
| Invested capital (denominator)                  | \$749,851                  | \$706,847 | \$711,978 |
| Return on invested capital                      | 15.4                       | % 16.0    | % 17.2    |

<sup>(a)</sup> Includes a legal recovery, net of attorney fees for the year ended June 30, 2014 and includes non-cash impairment charges, and expenses associated with

Belgian tax compliance and personnel replacement costs, including related professional fees for year ended June 30, 2013.

<sup>(b)</sup> 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 higher average equity from retained earnings.

## Results of Operations

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

| Statement of income data:                    | Fiscal Year Ended June 30, |         |         |
|--|----------------------------|---------|---------|
|  | 2014                       | 2013    | 2012    |
| Net sales                                    | 100.0                      | % 100.0 | % 100.0 |
| Cost of goods sold                           | 89.7                       | 89.8    | 90.0    |
| Gross profit                                 | 10.3                       | 10.2    | 10.0    |
| Selling, general and administrative expenses | 6.6                        | 6.6     | 6.2     |
| Impairment charges (legal recovery)          | (0.5                       | ) 1.7   | 0.0     |

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|  |      |       |       |   |
|--|------|-------|-------|---|
| Change in fair value of contingent consideration | 0.1  | 0.1   | 0.0   |   |
| Operating income                                 | 4.2  | 1.8   | 3.8   |   |
| Interest expense (income), net                   | (0.1 | ) 0.0 | 0.0   |   |
| Other expense (income), net                      | 0.0  | 0.0   | 0.1   |   |
| Income before income taxes and minority interest | 4.2  | 1.8   | 3.7   |   |
| Provision for income taxes                       | 1.4  | 0.6   | 1.2   |   |
| Net income                                       | 2.8  | % 1.2 | % 2.5 | % |

Comparison of Fiscal Years Ended June 30, 2014 and 2013

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## 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 enhancing comparability between reporting periods.

## Net Sales

The Company has two reportable segments, which are based on product sales. The following table summarizes the Company's net sales results by product categories and by geographic location for the comparable fiscal years ending June 30th:

## Segments

|                                     | 2014<br>(in thousands) | 2013        | \$ Change | % Change |    |
|-------------------------------------|------------------------|-------------|-----------|----------|----|
| Worldwide Barcode & Security        | \$1,873,177            | \$1,828,219 | \$44,958  | 2.5      | %  |
| Worldwide Communications & Services | 1,040,457              | 1,048,745   | (8,288)   | (0.8)    | )% |
| Total net sales                     | \$2,913,634            | \$2,876,964 | \$36,670  | 1.3      | %  |

## Geographic Sales

|                            | 2014<br>(in thousands) | 2013        | \$ Change | % Change |    |
|----------------------------|------------------------|-------------|-----------|----------|----|
| North American sales units | \$2,179,890            | \$2,139,723 | \$40,167  | 1.9      | %  |
| International sales units  | \$733,744              | 737,241     | (3,497)   | (0.5)    | )% |
| Total net sales            | \$2,913,634            | \$2,876,964 | \$36,670  | 1.3      | %  |

## Worldwide Barcode &amp; Security

The Barcode & Security distribution segment consists of sales to technology resellers in our ScanSource POS & Barcode business units in North America, Europe and Latin America and our ScanSource Security business unit in North America. During fiscal year 2014 net sales for this segment increased \$45.0 million or 2.5% compared to the prior fiscal year. On a constant currency basis, net sales for fiscal 2014 increased \$46.4 million or 2.5% compared to prior year. The increase is primarily due to growth in all business units within Worldwide Barcode & Security, with the exception of the Miami export business.

## Worldwide Communications &amp; Services

The Communications & Services distribution segment consists of sales to technology resellers in our ScanSource Communications business units in North America and Europe, ScanSource Catalyst in North America, and ScanSource Services Group. During fiscal year 2014, net sales for this segment decreased \$8.3 million or 0.8% compared to the prior fiscal year. On a constant currency basis, net sales for fiscal 2014 decreased \$11.1 million or

1.1% compared to prior year. Sales growth in the North America Communications business unit was offset by weaker sales results for the Catalyst and Europe Communications business units.

#### Gross Profit

The following table summarizes the Company's gross profit for the fiscal years ended June 30:

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|                                     | 2014           | 2013       | \$ Change | % Change | % of Sales<br>June 30, |        |   |
|-------------------------------------|----------------|------------|-----------|----------|------------------------|--------|---|
|                                     | (in thousands) |            |           |          | 2014                   | 2013   |   |
| Worldwide Barcode & Security        | \$ 168,233     | \$ 168,123 | \$ 110    | 0.1      | % 9.0                  | % 9.2  | % |
| Worldwide Communications & Services | 132,866        | 124,751    | 8,115     | 6.5      | % 12.8                 | % 11.9 | % |
| Total gross profit                  | \$ 301,099     | \$ 292,874 | \$ 8,225  | 2.8      | % 10.3                 | % 10.2 | % |

## Worldwide Barcode &amp; Security

Gross profit dollars for the Barcode & Security distribution segment remained relatively flat for the fiscal year ended June 30, 2014 as compared to prior year. As a percentage of sales, gross profit margin decreased slightly to 9.0% for fiscal year 2014 as compared to 9.2% for fiscal year 2013. This reduction is largely the result sales mix, principally higher sales volume of lower margin products.

## Worldwide Communications &amp; Services

Gross profit dollars and gross profit margin for the Communications & Services distribution segment increased for the fiscal year ended June 30, 2014. As a percentage of sales, gross profit margin increased to 12.8% for fiscal year 2014 compared to 11.9% for fiscal year 2013, primarily due to higher service fee income and improved vendor program attainment.

## Operating Expenses

The following table summarizes the Company's operating expenses for the periods ended June 30:

|  | 2014           | 2013       | \$ Change    | % Change | % of Sales<br>June 30, |       |   |
|--|----------------|------------|--------------|----------|------------------------|-------|---|
|  | (in thousands) |            |              |          | 2014                   | 2013  |   |
| Selling, general and administrative expenses     | \$ 192,492     | \$ 191,216 | \$ 1,276     | 0.7      | % 6.6                  | % 6.6 | % |
| Impairment charges (legal recovery)              | (15,490 )      | 48,772     | (64,262 )    | (131.8 ) | % (0.5 )               | % 1.7 | % |
| Change in fair value of contingent consideration | 2,311          | 1,843      | 468          | 25.4     | % 0.1                  | % 0.1 | % |
| Operating expenses                               | \$ 179,313     | \$ 241,831 | \$ (62,518 ) | (25.9 )  | % 6.2                  | % 8.4 | % |

Selling, general and administrative expenses ("SG&A") increased \$1.3 million for the fiscal year ending June 30, 2014. The increase in SG&A expenses is primarily due to increased personnel headcount and higher healthcare costs, 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. In the fourth quarter of fiscal 2013, we recorded impairment charges from our ERP project and goodwill in our ScanSource Communications Europe and ScanSource Brasil sales units as mentioned



above. Discussion on these impairments can be found in the overview section of the MD&A as well as Note 3 - Property & Equipment and Note 5 - Goodwill and Other Identifiable Intangible Assets in the notes to the consolidated financial statements.

We have elected to present changes in fair value of the contingent consideration owed to former shareholders of CDC separately from other selling, general and administrative expenses. In the current year, we have recorded a \$2.3 million loss, driven by recurring amortization of the unrecognized fair value discount and a decline in the discount rate used, partially offset by a reduction in forecasted results.

Operating Income

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The following table summarizes the Company's operating income for the fiscal years ended June 30:

|                                     | 2014           | 2013     | \$ Change | % Change | % of Sales |       |   |
|-------------------------------------|----------------|----------|-----------|----------|------------|-------|---|
|                                     |                |          |           |          | 2014       | 2013  |   |
|                                     | (in thousands) |          |           |          |            |       |   |
| Worldwide Barcode & Security        | \$51,523       | \$34,665 | \$16,858  | 48.6     | % 2.8      | % 1.9 | % |
| Worldwide Communications & Services | 54,773         | 44,588   | 10,185    | 22.8     | % 5.3      | % 4.3 | % |
| Corporate                           | 15,490         | (28,210) | 43,700    | (154.9)  | % —        | % nm* |   |
| Total operating income              | \$121,786      | \$51,043 | \$70,743  | 138.6    | % 4.2      | % 1.8 | % |

\*nm - percentages are not meaningful

## Worldwide Barcode &amp; Security

For the Barcode & Security distribution segment, operating income increased \$16.9 million for the fiscal year ended June 30, 2014. The increase is largely the result of a \$15.1 million impairment expense related to ScanSource Brasil, included in prior year results, as well as, a decrease in the provision for doubtful accounts.

## Worldwide Communications &amp; Services

For the Communications & Services distribution segment, operating income increased \$10.2 million for the fiscal year ended June 30, 2014. The increase is primarily attributable to increased gross profit margin and \$5.4 million of goodwill impairment charges related to Europe Communications included in prior year results.

## Corporate

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 for the year ended June 30, 2014. We incurred a \$28.2 million ERP impairment charge for the year ended June 30, 2013.

## Total Other (Income) Expense

The following table summarizes the Company's total other (income) expense for the fiscal years ended June 30:

|                                     | 2014           | 2013      | \$ Change | % Change | % of Sales |         |   |
|-------------------------------------|----------------|-----------|-----------|----------|------------|---------|---|
|                                     |                |           |           |          | 2014       | 2013    |   |
|                                     | (in thousands) |           |           |          |            |         |   |
| Interest expense                    | \$731          | \$775     | \$(44)    | (5.7)    | % —        | % —     | % |
| Interest income                     | (2,364)        | (2,238)   | (126)     | 5.6      | % (0.1)    | % (0.1) | % |
| Net foreign exchange losses (gains) | 616            | (32)      | 648       | nm*      | —          | % —     | % |
| Other, net                          | (304)          | (488)     | 184       | (37.7)   | % —        | % —     | % |
| Total other (income) expense        | \$(1,321)      | \$(1,983) | \$662     | (33.4)   | % —        | % (0.1) | % |

\*nm - percentages are not meaningful

Interest expense reflects interest incurred on the Company's long-term debt, non-utilization fees from the Company's revolving credit facility and the amortization of debt issuance costs.

Interest income for the year ended June 30, 2014 was generated on interest-bearing customer receivables and interest earned on cash and cash equivalents.

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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 British pound versus the euro, the U.S. dollar versus the euro, the U.S. dollar versus the Brazilian real, the Canadian dollar versus the U.S. dollar and other currencies versus 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.

## Provision for Income Taxes

Income tax expense was \$41.3 million and \$18.4 million for the fiscal years ended June 30, 2014 and 2013, respectively, reflecting an effective tax rate of 33.6% and 34.6%, respectively. The decrease in the effective tax rate is primarily due to the non-recurring impairment of goodwill in the United Kingdom for our European Communications reporting unit, which was not deductible for fiscal year 2013. The Company expects the fiscal year 2015 effective tax rate to range between 33% to 34%.

## Comparison of Fiscal Years Ended June 30, 2013 and 2012

## Net Sales

The Company has two reportable segments, which are based on product sales. The following table summarizes the Company's net sales results by product categories and by geographic location for the comparable fiscal years ending June 30th:

## Segments

|                                     | 2013           | 2012        | \$ Change   | % Change |    |
|-------------------------------------|----------------|-------------|-------------|----------|----|
|                                     | (in thousands) |             |             |          |    |
| Worldwide Barcode & Security        | \$1,828,219    | \$1,837,307 | \$(9,088)   | (0.5)    | )% |
| Worldwide Communications & Services | 1,048,745      | 1,177,989   | (129,244)   | (11.0)   | )% |
| Total net sales                     | \$2,876,964    | \$3,015,296 | \$(138,332) | (4.6)    | )% |

## Geographic Sales

|   | 2013           | 2012        | \$ Change   | % Change |    |
|---|----------------|-------------|-------------|----------|----|
|   | (in thousands) |             |             |          |    |
| North American distribution sales units | \$2,139,723    | \$2,236,459 | \$(96,736)  | (4.3)    | )% |
| International distribution sales units  | 737,241        | 778,837     | (41,596)    | (5.3)    | )% |
| Total net sales                         | \$2,876,964    | \$3,015,296 | \$(138,332) | (4.6)    | )% |

## Worldwide Barcode &amp; Security

The Barcode/Security distribution segment consists of sales to technology resellers in our ScanSource POS & Barcode business units in North America, Europe and Latin America and our ScanSource Security business unit. During fiscal year 2013 net sales for this segment decreased, primarily due to unfavorable foreign currency exchange translation. On a constant currency basis, net sales for fiscal 2013 increased \$25.4 million or 1.4%. The majority of the currency adjustment is from the change in the Brazilian Real. The Security and Brazil POS & Barcode sales units had

year-over-year growth rates excluding the impact of foreign currency translation. The POS & Barcode sales units in North America and Europe experienced a slight decline in revenue. Our Latin America business unit had a slight increase in revenue.

#### Worldwide Communications & Services

The Communications/Services distribution segment consists of sales to technology resellers in our ScanSource Communications business units in North America and Europe, ScanSource Catalyst in North America, and ScanSource Services Group. During fiscal year 2013, net sales for this segment declined compared to the prior fiscal year, with little change attributable to foreign currency exchange translation. The decrease was largely attributable to the loss of Juniper Networks sales, which decreased approximately \$109 million year-over-year. Our distribution agreement with Juniper Networks ended in September 2012.

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ScanSource Communications in North America had strong year-over-year growth. Sales for ScanSource Catalyst and ScanSource Communications in Europe declined primarily from the loss of Juniper sales as mentioned above.

## Gross Profit

The following table summarizes the Company's gross profit for the fiscal years ended June 30:

|                                     | 2013<br>(in thousands) | 2012      | \$ Change | % Change | % of Sales<br>June 30, |        |   |
|-------------------------------------|------------------------|-----------|-----------|----------|------------------------|--------|---|
|                                     |                        |           |           |          | 2013                   | 2012   |   |
| Worldwide Barcode & Security        | \$168,123              | \$169,080 | \$(957)   | (0.6)    | % 9.2                  | % 9.2  | % |
| Worldwide Communications & Services | 124,751                | 132,944   | (8,193)   | (6.2)    | % 11.9                 | % 11.3 | % |
| Total gross profit                  | \$292,874              | \$302,024 | \$(9,150) | (3.0)    | % 10.2                 | % 10.0 | % |

## Worldwide Barcode &amp; Security

Gross profit for the Barcode/Security distribution segment decreased for the fiscal year ended June 30, 2013. This reduction is the result of lower sales volumes. The gross profit expressed as a percentage of net sales was unchanged for the fiscal year 2013 compared to fiscal year 2012.

## Worldwide Communications &amp; Services

Gross profit for the Communications/Services distribution segment decreased for the fiscal year ended June 30, 2013. This is the result of lower sales volume, primarily related to the loss of Juniper Networks revenues as described earlier. The gross profit expressed as a percentage of net sales increased for fiscal year 2013 compared to fiscal year 2012 driven by improved product sales mix and vendor incentives.

## Operating Expenses

The following table summarizes the Company's operating expenses for the periods ended June 30:

|  | 2013<br>(in thousands) | 2012      | \$ Change | % Change | % of Sales<br>June 30, |       |   |
|--|------------------------|-----------|-----------|----------|------------------------|-------|---|
|  |                        |           |           |          | 2013                   | 2012  |   |
| Selling, general and administrative expense      | \$191,216              | \$188,388 | \$2,828   | 1.5      | % 6.6                  | % 6.2 | % |
| Impairment charges                               | 48,772                 | —         | 48,772    | 100.0    | % 1.7                  | % —   | % |
| Change in fair value of contingent consideration | 1,843                  | 120       | 1,723     | 1,435.8  | % 0.1                  | % —   | % |
| Operating expenses                               | \$241,831              | \$188,508 | \$53,323  | 28.3     | % 8.4                  | % 6.2 | % |

Selling, general and administrative expense increased for the fiscal year ending June 30, 2013 as a result of an increase in our provision for doubtful accounts for the year ended June 30, 2013. This increase was a result of increased expenses for the Barcode/Security segment in all geographies offset by recoveries and reserve reductions in

North America. Included in the Barcode/Security expense is the increased country specific reserves for Venezuela that occurred during the current fiscal year. Fiscal year 2013 selling, general and administrative expense also includes \$2.1 million in costs associated with Belgian tax compliance and personnel replacement costs, including professional fees and \$1.2 million for restructuring costs associated with our Communications business unit in Europe.

In the fourth quarter of fiscal 2013, we recorded impairment charges from our ERP project, and goodwill in our ScanSource Communications Europe and ScanSource Brasil sales units as mentioned above. Discussion on these impairments can be found

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in the overview section of the MD&A as well as Note 3 - Property & Equipment and Note 5 - Goodwill and Other Identifiable Intangible Assets in the notes to the consolidated financial statements.

We have elected to present changes in fair value of the contingent consideration owed to former shareholders of CDC separately from other selling, general and administrative expenses. In the current year, we have recorded a loss, driven by recurring amortization of the unrecognized fair value discount partially offset by income from changes to forecasted and actual results.

## Operating Income

The following table summarizes the Company's operating income for the fiscal years ended June 30:

|                                     | 2013           | 2012      | \$ Change   | % Change | % of Sales<br>June 30, |      |   |
|-------------------------------------|----------------|-----------|-------------|----------|------------------------|------|---|
|                                     | (in thousands) |           |             |          | 2013                   | 2012 |   |
| Worldwide Barcode & Security        | \$34,665       | \$56,669  | \$(22,004 ) | (38.8 )% | 1.9                    | 3.1  | % |
| Worldwide Communications & Services | 44,588         | 56,847    | (12,259 )   | (21.6 )% | 4.3                    | 4.8  | % |
| Corporate                           | (28,210 )      | —         | (28,210 )   | nm*      | nm*                    | —    | % |
| Total operating income              | \$51,043       | \$113,516 | \$(62,473 ) | (55.0 )% | 1.8                    | 3.8  | % |

\*nm - percentages are not meaningful

## Worldwide Barcode &amp; Security

For the Barcode/Security distribution segment, operating income dollars and percentage decreased for the fiscal year ended June 30, 2013. The change is largely the result of higher selling, general and administrative expenses which include a \$15.1 million impairment expense related to ScanSource Brasil, as mentioned in the overview above, as well as an increase in the provision for doubtful accounts.

## Worldwide Communications &amp; Services

For the Communications/Services distribution segment, operating income in dollars and as a percentage of sales decreased. The change is attributable to lower gross margin dollars resulting from lower sales in fiscal year 2013, the effect of the ScanSource Communications Europe restructuring costs, lower provision for doubtful accounts and \$5.4 million of goodwill impairment charges.

## Corporate

Corporate incurred a \$28.2 million loss relating to the ERP impairment charge discussed previously.

## Total Other (Income) Expense

The following table summarizes the Company's total other (income) expense for the fiscal years ended June 30:





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|                                     | 2013           | 2012      | \$ Change | % Change | % of Sales |       |    |
|-------------------------------------|----------------|-----------|-----------|----------|------------|-------|----|
|                                     | (in thousands) |           |           |          | June 30,   |       |    |
|                                     |                |           |           |          | 2013       | 2012  |    |
| Interest expense                    | \$775          | \$1,639   | \$(864)   | (52.7)   | )%         | 0.1   | )% |
| Interest income                     | (2,238)        | (2,886)   | ) 648     | (22.5)   | )%         | (0.1) | )% |
| Net foreign exchange (gains) losses | (32)           | ) 3,766   | (3,798)   | (100.8)  | )%         | 0.1   | )% |
| Other, net                          | (488)          | ) (214)   | ) (274)   | 128.0    | )%         | —     | )% |
| Total other (income) expense        | \$(1,983)      | ) \$2,305 | \$(4,288) | (186.0)  | )%         | 0.1   | )% |

Interest expense reflects interest incurred on borrowings on the Company's revolving credit facility and long-term debt, including commitment fees on non-utilized borrowing availability. The decrease in interest expense is the result of lower average debt balances in the current year versus the prior year.

The Company generates interest income on longer-term interest-bearing accounts receivable, cash invested in Brazil to fund a portion of future earnout payments and to supplement local working capital needs, and, to a lesser extent, interest earned on cash and cash equivalent balances in locations other than Brazil. The reduction in interest income year over year is the result of lower cash balances in Brazil in fiscal 2013 as compared to fiscal 2012.

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 British pound versus the euro, the U.S. dollar versus the euro, the U.S. dollar versus the Brazilian real and other currencies versus U.S. dollar. In September 2011, we incurred a \$2.5 million non-recurring loss in conjunction with an unfavorable forward exchange contract to purchase Brazilian reais. In August 2011, the Company decided to pre-fund a portion of the estimated earnout payments associated with the CDC acquisition. This contract was designed to preserve the currency exchange for the few weeks required to transfer the cash to Brazil. From the time that we entered into the contract through settlement, the real devalued from the contractual rate by 11.8%, ultimately resulting in a \$2.5 million loss. Further contributing to the foreign exchange loss in fiscal 2012, the Brazilian business incurred significant losses on U.S. dollar denominated exposures in the first quarter of fiscal 2012 that were not hedged at the time. Subsequently, we have been including these exposures in our hedging activities.

#### Goodwill Impairment Charge

We completed our annual impairment test as of June 30, 2013 and determined that the book value of the European Communications and the Brazilian POS & Barcode sales units were in excess of fair value and a goodwill impairment was required. Prior to this test, no interim indicators of impairment were identified. Reduced earnings and cash flow forecast primarily due to the general macroeconomic environment and lower expectations of future results contributed to our determination. Furthermore, earnout payments made to CDC shareholders have been lower than those forecasted and assumed in the calculation of goodwill, at the time of acquisition. Accordingly, we recorded a non-cash pretax goodwill impairment charge of \$20.6 million, or \$15.2 million after tax at the local tax rate, relating to our reporting units. These goodwill charges are included in a separate operating expense line item, "Impairment charges including ERP & goodwill" in our Consolidated Income Statements. Income and market approaches were used to determine the fair value of each of our seven reporting units. The application of goodwill impairment tests requires

management's judgment for many of the inputs. Key assumptions in the impairment test included our forecasted revenue growth rate, discount rate assumptions, and working capital requirements. Changes in these estimates could result in additional impairment of goodwill in a future period. The impairment charge reflects our view of anticipated risks based on our expectations of market and general economic conditions. Annual impairment testing did not result in an impairment of goodwill for the year ended June 30, 2012. For additional information regarding goodwill, see Note 5 - Goodwill and Other Identifiable Intangible Assets.

#### Provision for Income Taxes

Income tax expense was \$18.4 million and \$36.9 million for the fiscal years ended June 30, 2013 and 2012, respectively, reflecting an effective tax rate of 34.6% and 33.2%, respectively. This increase in the effective tax rate is primarily the result of the nondeductible goodwill impairment in the United Kingdom for our European Communications reporting unit.

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## 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 2013     |                 |                 |                  |
|---|---------------------------------------|-----------------|-----------------|------------------|-----------------|-----------------|-----------------|------------------|
|   | Fiscal 2014                           |                 |                 |                  |                 |                 |                 |                  |
|   | Jun. 30<br>2014                       | Mar. 31<br>2014 | Dec. 31<br>2013 | Sept. 30<br>2013 | Jun. 30<br>2013 | Mar. 31<br>2013 | Dec. 31<br>2012 | Sept. 30<br>2012 |
|   | (in thousands, except per share data) |                 |                 |                  |                 |                 |                 |                  |
| Net sales   | \$758,113                             | \$682,998       | \$740,618       | \$731,904        | \$712,678       | \$682,965       | \$747,716       | \$733,605        |
| Cost of goods sold                                    | 684,120                               | 609,647         | 663,362         | 655,405          | 637,027         | 614,133         | 673,365         | 659,565          |
| Gross profit  | \$73,993                              | \$73,351        | \$77,256        | \$76,499         | \$75,651        | \$68,832        | \$74,351        | \$74,040         |
| Net income  | \$27,105                              | \$16,949        | \$18,298        | \$19,437         | \$(13,315 )     | \$13,978        | \$16,357        | \$17,642         |
| Weighted-average<br>shares<br>outstanding, basic      | 28,525                                | 28,502          | 28,293          | 28,034           | 27,922          | 27,847          | 27,713          | 27,618           |
| Weighted-average<br>shares<br>outstanding,<br>diluted | 28,763                                | 28,730          | 28,597          | 28,257           | 27,922          | 28,024          | 27,958          | 27,901           |
| Net income (loss)<br>per common<br>share, basic       | \$0.95                                | \$0.59          | \$0.65          | \$0.69           | \$(0.48 )       | \$0.50          | \$0.59          | \$0.64           |
| Net income (loss)<br>per common<br>share, diluted     | \$0.94                                | \$0.59          | \$0.64          | \$0.69           | \$(0.48 )       | \$0.50          | \$0.59          | \$0.63           |

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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, 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. For further discussion of our significant accounting policies, refer to Note 1 - Business and Summary of Significant Accounting Policies.

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. Service revenue associated 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 configuration, marketing, service contracts and other services approximated 2% or less of consolidated net sales for fiscal years 2014, 2013 and 2012.

We also distribute third-party service contracts, typically for product maintenance and support. These service contracts are sold separately from the products, and often the Company serves as the agent for the contract on behalf of the original equipment manufacturer. Since we act as an agent on behalf of most of these service contracts sold, revenue is recognized net of cost at the time of sale. We also distribute some self-branded warranty programs and engage 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 contract and presented in net sales and cost of goods sold, respectively.

During the fiscal years ended June 30, 2014, 2013 and 2012, the Company has not engaged in any sales transactions involving multiple element arrangements. Had any arrangements with multiple deliverables occurred, we would follow the guidance set forth in the Financial Accounting Standards Board's ("FASB") Accounting Standards Codification ("ASC") 605 - Revenue Recognition.

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,

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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.

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.

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 in accordance with ASC 740, Accounting for Income Taxes. During fiscal 2013, the Company reviewed and modified its policy toward permanently reinvested foreign earnings. 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 tax effect of this accounting policy change is immaterial to the financial statements. See Note 11 - Income Taxes, for further discussion.

Additionally, the Company maintains reserves for uncertain tax provisions in accordance with ASC 740. See Note 11 - Income Taxes, in the Notes to Consolidated Financial Statements for more information.

Business Combinations

The Company accounts for business combinations in accordance with ASC Topic 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 4 - Acquisitions, in the Notes to Consolidated Financial Statements for further discussion.

#### 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 are those components that are one level below our Worldwide Barcode & Security and Worldwide Communications & Services operating segments for a total of seven 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



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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. During fiscal year 2014, the Company completed its annual impairment test as of April 30 and determined that no goodwill impairment charge was necessary. However, as of the most recent annual impairment test the estimated fair value of the Company's Latin American goodwill reporting unit exceeded its carrying value by smaller margins than the Company's other goodwill reporting units. The estimated fair value of the Latin America goodwill reporting unit exceeded the carrying value by 10.2%. The increase in sensitivity to this goodwill reporting unit is driven largely by the general macroeconomic environment and lower expectations for future results in the units. Key assumptions used in determining fair value include projected growth and operating margin, working capital requirements and discount rates. While we do not believe that this goodwill reporting unit is impaired at this time, if we are not able to achieve projected operating margins within the expected working capital requirements and/or there are unfavorable changes to the discount rate, a future impairment of goodwill is at least reasonably possible.

During fiscal 2013, the Company recorded a non-cash impairment charge of \$5.4 million and \$15.1 million for our European Communications and ScanSource Brasil reporting units. The carrying value of the European POS & Barcode and ScanSource Latin America goodwill as of June 30, 2013 was \$4.5 million and \$4.0 million, respectively. The increase in sensitivity to these goodwill reporting units are driven largely by the general macroeconomic environment and lower expectations for future results in the units. Key assumptions used in determining fair value include projected growth and operating margin, working capital requirements and discount rates.

See Note 5 - 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 CDC shareholders, the Company is obligated to make additional earnout payments based on future results through fiscal year 2015 based on a multiple of the subsidiary's pro forma net income as defined in the Share Purchase and Sale Agreement. Future payments are to be paid in Brazilian currency, the real. There are two remaining earnout payments payable in annual installments on August 31, 2014 and October 31, 2015. 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 discounted cash flow model following the income approach. 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.

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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, \$5.4 million industrial revenue bond and €6 million line of credit for our European subsidiary. As a distribution company, our business requires significant investment in working capital, particularly accounts receivable and inventory, partially financed through our accounts payable to vendors, cash 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 \$194.9 million at June 30, 2014, compared to \$148.2 million at June 30, 2013, of which \$39.7 million and \$23.8 million was held outside of the United States as of June 30, 2014 and 2013, respectively. Checks released but not yet cleared from these accounts in the amounts of \$84.1 million and \$65.9 million are classified as accounts payable as of June 30, 2014 and June 30, 2013, 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 11 - Income Taxes in the Notes to the Consolidated Financial Statements for further discussion.

Our net investment in working capital increased \$101.5 million to \$715.9 million at June 30, 2014 from \$614.4 million at June 30, 2013, principally from higher cash, accounts receivable and inventory balances, partially offset by higher accounts payable. Our net investment in working capital is affected by several factors such as fluctuations in sales volume, net income, timing of collections from customers, increases and decreases to inventory levels, payments to vendors, as well as cash generated or used by other financing and investing activities.

Net cash provided by operating activities was \$47.7 million for year ended June 30, 2014, compared to \$129.4 million provided by operating activity in the prior year. The decrease in operating cash flows is largely the result of higher inventory and accounts receivable balances, partially offset by higher accounts payable and net income.

The number of days sales outstanding ("DSO") was 55 at June 30, 2014 and June 30, 2013, which is within our typically expected range. Accounts receivable increased due to higher sales.

Inventory turnover decreased to 5.6 times during the fourth quarter of the current fiscal year, compared to 6.2 times in the prior year quarter. Throughout fiscal year 2014 inventory turnover ranged from 5.1 to 6.3 times. The decrease in inventory turns in relation to the prior year comparative quarter is primarily due to higher inventory levels in anticipation of the upcoming quarter demand.

Cash used in investing activities for the year ended June 30, 2014 was \$11.2 million, compared to \$4.8 million used in the prior year. Current year capital expenditures were attributable to the Company's new Enterprise Resource Planning ("ERP") system, while prior year investing cash flows were primarily attributable to investments that were subsequently impaired, as well as, building improvements in the United States and Europe.

In December 2013, we retained SAP for the software platform and implementation consulting services for a new ERP system. The Company is currently working on the development and implementation of the new ERP platform.

Management expects capital spending for fiscal 2015 to range from \$17 million to \$22 million, primarily related to the ERP system.

In fiscal 2014, cash provided by financing activities totaled to \$9.3 million, compared to \$5.0 million cash used in financing activities in the prior year. The change in cash flow is primarily attributable to increased exercises of stock

options and no activity related to our short-term borrowings.

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

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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, 2014.

There were no outstanding borrowings on the Company's \$300 million revolving credit facility as of June 30, 2014 and 2013.

On a gross basis, we made zero borrowings and repayments on the \$300.0 million revolving credit facility in fiscal 2014. In the prior year, we borrowed \$515.3 million and repaid \$515.9 million. The average daily balance on the revolving credit facility was \$0.0 million and \$9.4 million for the years ended June 30, 2014 and 2013, respectively. There were no standby letters of credits issued and outstanding as of June 30, 2014, leaving \$300 million available for borrowings under the revolving credit facility.

In addition to our multi-currency \$300 million revolving credit facility, we have a €6.0 million subsidiary line of credit utilized by our European operations which bears interest at the 30-day Euro Interbank Offered Rate ("EURIBOR") plus a spread ranging from 1.25% to 2.00% per annum. There were no outstanding borrowings as of June 30, 2014 and 2013. This facility is secured by the assets of our European operations and is guaranteed by ScanSource, Inc. On April 15, 2011, the Company, through its wholly-owned subsidiary, ScanSource do Brasil Participações LTDA completed its acquisition of all of the shares of CDC, pursuant to a Share Purchase and Sale Agreement dated April 7, 2011. The purchase price was paid with an initial payment of \$36.2 million, net of cash acquired, assumption of working capital payables and debt, and variable annual payments through October 2015 based on CDC's annual financial results. The Company has made its first three payments to the former shareholders totaling \$10.4 million. As of June 30, 2014, we have \$11.1 million recorded for the earnout obligation, of which \$5.9 million is classified as current and due August 31, 2014. 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, 2014 and 2013, and the effective interest rate was 1.00% and 1.04%, respectively. The Company was in compliance with all covenants associated with this agreement as of June 30, 2014.

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, 2014, 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 earnout pertaining to the CDC acquisition. See Notes 6, 8 and 12 of the Notes to the Consolidated Financial Statements. The following table summarizes our future contractual obligations:

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|  | Payments Due by Period |          |           |           |                         |
|--|------------------------|----------|-----------|-----------|-------------------------|
|  | Total                  | Year 1   | Years 2-3 | Years 4-5 | Greater than<br>5 Years |
|  | (in thousands)         |          |           |           |                         |
| Contractual Obligations                        |                        |          |           |           |                         |
| Non-cancelable operating leases <sup>(1)</sup> | \$15,871               | \$4,734  | \$7,510   | \$2,417   | \$1,210                 |
| Capital lease                                  | 743                    | 250      | 493       | —         | —                       |
| Principal debt payments                        | 5,429                  | —        | —         | 231       | 5,198                   |
| Contingent consideration <sup>(2)</sup>        | 11,107                 | 5,851    | 5,256     | —         | —                       |
| Other <sup>(3)</sup>                           | —                      | —        | —         | —         | —                       |
| Total obligations                              | \$33,150               | \$10,835 | \$13,259  | \$2,648   | \$6,408                 |

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.

Amounts disclosed regarding future CDC earnout payments are presented at their discounted fair value. Estimated future, undiscounted earnout payments total \$12.0 million as of June 30, 2014.

Amounts totaling \$14.0 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, 2014 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.

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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, 2014 would have resulted in less than a \$0.1 million increase or decrease, respectively, in pre-tax income for the period.

The Company evaluates its interest rate risk and may use interest rate swaps to mitigate the risk of interest rate fluctuations associated with the Company's variable rate long-term debt. At June 30, 2014, the Company had \$5.4 million in variable rate long-term debt outstanding with no interest rate swaps in place. If used, derivative instruments have the potential to expose the Company to certain market risks including the possibility of (1) the Company's hedging activities not being as effective as anticipated in reducing the volatility of the Company's cash flows, (2) the counterparty not performing its obligations under the applicable hedging arrangement, (3) the hedging arrangement being imperfect or ineffective, or (4) the terms of the swap or associated debt may change. 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 and Europe. These risks include transactions denominated in non-functional currencies and intercompany loans with foreign subsidiaries. In the normal course of the business, foreign exchange risk is managed by the use of foreign currency forward contracts to hedge these exposures as well as balance sheet netting of exposures. In addition, exchange rate fluctuations may cause our international results to fluctuate significantly when translated into U.S. dollars. These risks may change over time as business practices evolve and could have a material impact on the Company's financial results in the future.

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



The Company has elected not to designate its foreign currency contracts as hedging instruments, and therefore, the instruments are marked-to-market with changes in their values recorded in the consolidated income statement each period. The Company's foreign currencies are primarily British pounds, euros, Mexican pesos, Brazilian real and Canadian dollars. At June 30, 2014, the fair value of the Company's currency forward contracts outstanding was a net payable of less than \$0.1 million. The Company does not utilize financial instruments for trading or other speculative purposes.

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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.

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Report of Independent Registered Public Accounting Firm

Board of Directors and Shareholders

ScanSource, Inc.

We have audited the accompanying consolidated balance sheet of ScanSource Inc. (a South Carolina corporation) and subsidiaries (the "Company") as of June 30, 2014, and the related consolidated statements of income, comprehensive income, shareholders' equity, and cash flows for the year ended June 30, 2014. Our audit 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 audit.

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 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 audit provides 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, 2014, and the results of their operations and their cash flows for the year ended June 30, 2014 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, 2014, based on criteria established in the 1992 Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO), and our report dated August 28, 2014 expressed an unqualified opinion.

/s/ Grant Thornton LLP

Columbia, South Carolina  
August 28, 2014



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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, 2014, based on criteria established in the 1992 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. Our responsibility is to express an opinion on the Company’s internal control over financial reporting based on our audit.

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, 2014, based on criteria established in the 1992 Internal Control-Integrated Framework issued by COSO. We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated financial statements of the Company as of and for the year ended June 30, 2014, and our report dated August 28, 2014 expressed an unqualified opinion on those financial statements.

/s/ Grant Thornton LLP

Columbia, South Carolina  
August 28, 2014

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Report of Independent Registered Public Accounting Firm

The Board of Directors and Shareholders of ScanSource, Inc.

We have audited the accompanying consolidated balance sheet of ScanSource, Inc. and subsidiaries as of June 30, 2013 and the related consolidated statements of income, comprehensive income, shareholders' equity, and cash flows for each of the two years in the period ended June 30, 2013. Our audits also included the financial statement schedule for each of the two years in the period ended June 30, 2013 listed in the Index at Item 15(a). These financial statements and schedule are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements and 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 financial statements referred to above present fairly, in all material respects, the consolidated financial position of ScanSource, Inc. and subsidiaries at June 30, 2013, and the consolidated results of their operations and their cash flows for each of the two years in the period ended June 30, 2013 in conformity with U.S. generally accepted accounting principles. Also, in our opinion, the related financial statement schedule, when considered in relation to the basic financial statements taken as a whole, presents fairly in all material respects the information for each of the two years in the period ended June 30, 2013 set forth therein.

/s/ Ernst & Young LLP

Greenville, South Carolina  
August 26, 2013

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

|  | June 30,<br>2014 | June 30,<br>2013 |
|--|------------------|------------------|
| Assets   |                  |                  |
| Current assets:  |                  |                  |
| Cash and cash equivalents  | \$ 194,851       | \$ 148,164       |
| Accounts receivable, less allowance of \$26,257 at June 30, 2014 and \$25,479 at June 30, 2013   | 464,405          | 435,028          |
| Inventories  | 504,758          | 402,307          |
| Prepaid expenses and other current assets  | 33,558           | 40,105           |
| Deferred income taxes  | 18,109           | 16,456           |
| Total current assets   | 1,215,681        | 1,042,060        |
| Property and equipment, net  | 31,823           | 20,203           |
| Goodwill   | 32,342           | 31,795           |
| Other non-current assets, including net identifiable intangible assets   | 55,278           | 70,125           |
| Total assets   | \$1,335,124      | \$1,164,183      |
| Liabilities and Shareholders' Equity   |                  |                  |
| Current liabilities:   |                  |                  |
| Short-term borrowings  | \$—              | \$—              |
| Accounts payable   | 421,721          | 362,271          |
| Accrued expenses and other current liabilities   | 63,574           | 59,983           |
| Current portion of contingent consideration  | 5,851            | 3,732            |
| Income taxes payable   | 8,685            | 1,696            |
| Total current liabilities  | 499,831          | 427,682          |
| Deferred income taxes  | 185              | 205              |
| Long-term debt   | 5,429            | 5,429            |
| Borrowings under revolving credit facility   | —                | —                |
| Long-term portion of contingent consideration  | 5,256            | 8,813            |
| Other long-term liabilities  | 21,780           | 26,098           |
| Total liabilities  | 532,481          | 468,227          |
| Commitments and contingencies  |                  |                  |
| Shareholders' equity:  |                  |                  |
| Preferred stock, no par value; 3,000,000 shares authorized, none issued  | —                | —                |
| Common stock, no par value; 45,000,000 shares authorized, 28,539,481 and 27,971,809 shares issued and outstanding at June 30, 2014 and June 30, 2013, respectively | 168,447          | 149,821          |
| Retained earnings  | 650,896          | 569,107          |
| Accumulated other comprehensive (loss) income  | (16,700          | ) (22,972        |
| Total shareholders' equity   | 802,643          | 695,956          |
| Total liabilities and shareholders' equity   | \$1,335,124      | \$1,164,183      |



See accompanying notes to consolidated financial statements.

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## ScanSource, Inc. and Subsidiaries

## Consolidated Income Statements

Years Ended June 30, 2014, 2013, and 2012

(in thousands, except per share information)

|  | 2014        | 2013        | 2012        |   |
|--|-------------|-------------|-------------|---|
| Net sales  | \$2,913,634 | \$2,876,964 | \$3,015,296 |   |
| Cost of goods sold                               | 2,612,535   | 2,584,090   | 2,713,272   |   |
| Gross profit                                     | 301,099     | 292,874     | 302,024     |   |
| Selling, general and administrative expenses     | 192,492     | 191,216     | 188,388     |   |
| Impairment charges (legal recovery)              | (15,490     | ) 48,772    | —           |   |
| Change in fair value of contingent consideration | 2,311       | 1,843       | 120         |   |
| Operating income                                 | 121,786     | 51,043      | 113,516     |   |
| Interest expense                                 | 731         | 775         | 1,639       |   |
| Interest income                                  | (2,364      | ) (2,238    | ) (2,886    | ) |
| Other (income) expense, net                      | 312         | (520        | ) 3,552     |   |
| Income before income taxes                       | 123,107     | 53,026      | 111,211     |   |
| Provision for income taxes                       | 41,318      | 18,364      | 36,923      |   |
| Net income                                       | \$81,789    | \$34,662    | \$74,288    |   |
| Per share data:                                  |             |             |             |   |
| Net income per common share, basic               | \$2.89      | \$1.25      | \$2.72      |   |
| Weighted-average shares outstanding, basic       | 28,337      | 27,774      | 27,362      |   |
| Net income per common share, diluted             | \$2.86      | \$1.24      | \$2.68      |   |
| Weighted-average shares outstanding, diluted     | 28,602      | 27,994      | 27,751      |   |

See accompanying notes to consolidated financial statements.

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ScanSource, Inc. and Subsidiaries  
 Consolidated Statements of Comprehensive Income  
 Years Ended June 30, 2014, 2013, and 2012  
 (in thousands)

|   | 2014     | 2013     | 2012      |
|---|----------|----------|-----------|
| Net income  | \$81,789 | \$34,662 | \$74,288  |
| Unrealized gain on hedged transaction, net of tax | —        | —        | 139       |
| Foreign currency translation adjustment           | 6,272    | (1,281   | ) (25,459 |
| Comprehensive income                              | \$88,061 | \$33,381 | \$48,968  |

See accompanying notes to these consolidated financial statements.

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ScanSource, Inc. and Subsidiaries  
 Consolidated Statements of Shareholders' Equity  
 Years Ended June 30, 2014, 2013, and 2012  
 (in thousands, except share information)

|   | Common<br>Stock<br>(Shares) | Common<br>Stock<br>(Amount) | Retained<br>Earnings | Accumulated<br>Other<br>Comprehensive<br>Income (Loss) | Total     |
|---|-----------------------------|-----------------------------|----------------------|--|-----------|
| Balance at June 30, 2011  | 27,109,932                  | \$123,608                   | \$460,157            | \$3,629  | \$587,394 |
| Net income  | —                           | —                           | 74,288               | —  | 74,288    |
| Unrealized gain on hedged transaction, net of tax of \$76   | —                           | —                           | —                    | 139  | 139       |
| Foreign currency translation adjustment   | —                           | —                           | —                    | (25,459)   | (25,459)  |
| Exercise of stock options and shares issued under share-based compensation plans, net of shares withheld for employee taxes | 494,908                     | 7,642                       | —                    | —  | 7,642     |
| Share based compensation  | —                           | 7,004                       | —                    | —  | 7,004     |
| Tax benefit of deductible compensation arising from exercise or vesting of share based payment arrangements                 | —                           | 1,303                       | —                    | —  | 1,303     |
| Balance at June 30, 2012  | 27,604,840                  | \$139,557                   | \$534,445            | \$(21,691)   | \$652,311 |
| Net income  | —                           | —                           | 34,662               | —  | 34,662    |
| Foreign currency translation adjustment   | —                           | —                           | —                    | (1,281)  | (1,281)   |
| Exercise of stock options and shares issued under share-based compensation plans, net of shares withheld for employee taxes | 366,969                     | 4,024                       | —                    | —  | 4,024     |
| Share based compensation  | —                           | 5,692                       | —                    | —  | 5,692     |
| Tax benefit of deductible compensation arising from exercise or vesting of share based payment arrangements                 | —                           | 548                         | —                    | —  | 548       |
| 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  | 28,539,481                  | \$168,447                   | \$650,896            | \$(16,700)   | \$802,643 |

See accompanying notes to consolidated financial statements.



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## ScanSource, Inc. and Subsidiaries

## Consolidated Statements of Cash Flows

Years Ended June 30, 2014, 2013, and 2012

(in thousands)

|   | 2014      | 2013      | 2012        |
|---|-----------|-----------|-------------|
| Cash flows from operating activities:   |           |           |             |
| Net income  | \$81,789  | \$34,662  | \$74,288    |
| Adjustments to reconcile net income to net cash provided by (used in) operating activities: |           |           |             |
| Depreciation and amortization   | 7,375     | 8,457     | 9,580       |
| Amortization of debt issue costs  | 312       | 345       | 342         |
| Provision for doubtful accounts   | 6,573     | 10,333    | 7,134       |
| Share based compensation  | 5,248     | 5,618     | 6,840       |
| Impairment charges  | —         | 48,772    | —           |
| Deferred income taxes   | 8,606     | (19,630)  | (6,377)     |
| Excess tax benefits from share-based payment arrangements                                   | (982)     | (849)     | (1,720)     |
| Change in fair value of contingent consideration  | 2,311     | 1,843     | 120         |
| Changes in operating assets and liabilities, net of acquisitions:                           |           |           |             |
| Accounts receivable   | (31,860)  | 13,746    | (34,322)    |
| Inventories   | (99,214)  | 86,821    | (29,387)    |
| Prepaid expenses and other assets   | 6,206     | (28)      | (4,103)     |
| Other noncurrent assets   | 1,285     | 9,441     | 1,166       |
| Accounts payable  | 57,532    | (56,837)  | 28,306      |
| Accrued expenses and other liabilities  | (5,357)   | (14,145)  | 8,371       |
| Income taxes payable  | 7,898     | 895       | (280)       |
| Net cash provided by (used in) operating activities   | 47,722    | 129,444   | 59,958      |
| Cash flows from investing activities:   |           |           |             |
| Capital expenditures  | (11,228)  | (4,831)   | (12,790)    |
| Net cash provided by (used in) investing activities   | (11,228)  | (4,831)   | (12,790)    |
| Cash flows from financing activities:   |           |           |             |
| Increases (decreases) in short-term borrowings, net   | —         | (4,459)   | 1,345       |
| Borrowings on revolving credit, net of expenses   | —         | 515,262   | 1,408,522   |
| Repayments on revolving credit, net of expenses   | —         | (515,877) | (1,433,161) |
| Repayments on long-term debt  | —         | —         | (25,000)    |
| Debt issuance costs   | (468)     | —         | (1,360)     |
| Contingent consideration payments   | (3,810)   | (4,777)   | (2,000)     |
| Exercise of stock options   | 12,581    | 4,024     | 7,642       |
| Excess tax benefits from share-based payment arrangements                                   | 982       | 849       | 1,720       |
| Net cash provided by (used in) financing activities   | 9,285     | (4,978)   | (42,292)    |
| Effect of exchange rate changes on cash and cash equivalents                                | 908       | (644)     | (4,450)     |
| Increase (decrease) in cash and cash equivalents  | 46,687    | 118,991   | 426         |
| Cash and cash equivalents at beginning of period  | 148,164   | 29,173    | 28,747      |
| Cash and cash equivalents at end of period  | \$194,851 | \$148,164 | \$29,173    |
| Supplemental disclosure of cash flow information:   |           |           |             |
| Interest paid during the year   | \$739     | \$796     | \$1,578     |

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|                                   |          |          |          |
|-----------------------------------|----------|----------|----------|
| Income taxes paid during the year | \$24,323 | \$35,582 | \$46,057 |
|-----------------------------------|----------|----------|----------|

See accompanying notes to consolidated financial statements.

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SCANSOURCE, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

June 30, 2014

(1) Business and Summary of Significant Accounting Policies

Business Description

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

The Company operates in the United States, Canada, Latin America, and Europe and uses centralized distribution centers for major geographic regions. The Company distributes to the United States and Canada from its Southaven, Mississippi distribution center; to Latin America principally from distribution centers located in Florida, Mexico and Brazil; and to Europe from its distribution center in Belgium.

Consolidation Policy

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

Use of Estimates

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

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

(a) Allowances for Trade and Notes Receivable

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



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

(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

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SCANSOURCE, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements—(Continued)

June 30, 2014

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.

Reorganization and Segment changes

Prior to fiscal 2013 the Company's reporting units coincided with its geographic business segments of North America and International. In the fourth quarter of 2013, the Company reorganized its management structure and reporting segments to globally leverage the Company's leadership in specific technology markets. As part of this new structure, the Company created two technology business operating segments: Worldwide Barcode & Security ("Barcode/Security") and Worldwide Communications & Services ("Communications/Services"). Each operating segment is managed around its global technology focus and is supported by the Company's centralized infrastructure, including distribution centers and back office operations. Each operating segment has its own management team led by a president and includes regional presidents within the operating group who manage the various functions within each segment. Decisions and planning for the Company as a whole are made at the corporate level by analyzing results from the operating segments. These technology business segments replace the geographic segments previously used, and the Company has retrospectively reclassified the consolidated financial statements to conform to the new presentation.

Cash and Cash Equivalents

The Company considers all highly liquid investments with original maturities of three months, when purchased, or less to be cash equivalents. The Company maintains some zero-balance, disbursement accounts at various financial institutions in which the Company does not maintain significant depository relationships. Due to the nature of the Company's banking relationships with these institutions, the Company does not have the right to offset most if not all outstanding checks written from these accounts against cash on hand, and the respective institutions are not legally obligated to honor the checks until sufficient funds are transferred to fund the checks. Checks released but not yet cleared from these accounts in the amounts of \$84.1 million and \$65.9 million are classified as accounts payable as of June 30, 2014 and June 30, 2013, respectively.

The Company maintains its cash with various financial institutions globally that are monitored regularly for credit quality and holds amounts in excess of FDIC or other insured limits.

Concentration of Credit Risk

The Company sells its products to a large base of value-added resellers throughout United States, Canada, Latin America and Europe. The Company performs ongoing credit evaluations of its customers' financial condition. In certain cases, the Company will accept tangible assets as collateral to increase the trade credit of its customers. In addition, the Company carries credit insurance on certain subsections of the customer portfolio. No single customer accounted for more than 5% of the Company's net sales for the fiscal year 2014, and no single customer accounted for more than 6% of the Company's net sales for the fiscal year 2013 or 2012.

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 foreign currency and changes in interest rates in connection with borrowing activities. We record all derivative instruments as either assets or liabilities in the 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 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 by British pounds, euros, Mexican pesos, Brazilian reais and Canadian dollars.

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SCANSOURCE, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements—(Continued)

June 30, 2014

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, 2008, the Company entered into an interest rate swap and designated this instrument as a hedge of the cash flows on certain variable rate debt. The interest rate swap matured on September 28, 2011. To the extent the derivative instrument was effective in offsetting the variability of the hedged cash flows, changes in the fair value of the derivative instrument were not included in earnings in fiscal 2012, but were reported as other comprehensive income (loss). There was no ineffective portion to be recorded as an adjustment to earnings. No other interest rate swap agreements were executed or outstanding for fiscal year 2014, 2013, or 2012.

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 and withdrawals to and from the plan. The fair value of these investments and the corresponding deferred compensation obligation was \$14.0 million and \$13.8 million as of June 30, 2014 and June 30, 2013, respectively. These investments are classified as either current assets or other non-current assets in the Consolidated Balance Sheets depending on the timing of planned disbursements. The deferred compensation obligation is classified either within current liabilities or other long-term liabilities as well. The amounts of these investments classified as current assets with corresponding current liabilities were \$0.6 million and \$1.6 million at June 30, 2014 and June 30, 2013, 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 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.

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June 30, 2014

Vendor Concentration

The Company sells products from many vendors, however, sales of products supplied by Motorola, Avaya and Honeywell each constituted more than 10% of the Company's net sales for year ended June 30, 2014. Sales of products supplied by Motorola and each Avaya constituted more than 10% of the Company's net sales for the years ended June 30, 2013 and 2012.

Product Warranty

The Company's vendors generally provide a warranty on the products distributed by the Company and allow the Company to return defective products, including those that have been returned to the Company by its customers. In two of our product lines, the Company offers a self-branded warranty program, in which Management has determined that the Company is the primary obligor of these programs. 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 such, 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 distributes; 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.

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 is 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 are primarily based on geography, one level below our Barcode & Security segment and Communications & Services segment. 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.

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June 30, 2014

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:

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.

During the third quarter of fiscal 2014, the Company changed its annual goodwill impairment testing date from June 30 to April 30. This voluntary change is considered preferable as it better aligns the timing of the impairment test with management's financial planning and budgeting process, and ensures the completion of the test prior to the end of the annual reporting period. This change does not accelerate, delay or avoid a potential impairment charge.

See Note 5 - Goodwill and Other Identifiable Intangible Assets to the consolidated financial statements 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 2 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 included in other assets and are shown in detail in Note 5, 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.

In the fourth quarter of 2013, the Company decided not to proceed with the development of the Enterprise Resource Planning ("ERP") project using the Microsoft Dynamics AX software and wrote off substantially all of the total \$28.8 million in capitalized expenses related to the original project. The non-cash charge recorded of \$28.2 million before the effect of income taxes \$18.0 million net of the income tax impact), included software development costs, hardware, software interfaces and other related costs. Prior to the write-off, the capitalized software was included in property and equipment at cost on the consolidated balance sheet. The remaining balance of approximately \$0.6 million was placed into service in July 2014. See Note 3 - Property and Equipment

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June 30, 2014

for further discussion regarding our ERP project. The Company did not record any material impairment charges for the fiscal years ended June 30, 2014 and 2012.

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 8 - Fair Value of Financial Instruments.

Liability for Contingent Consideration

In addition to the initial cash consideration paid to former CDC shareholders, the Company is obligated to make additional earnout payments based on future results through fiscal year 2015 based on a multiple of the subsidiary's pro forma net income as defined in Exhibit 2.1.(b)(2) of the Share Purchase and Sale Agreement by and among the Company's Brazilian subsidiary, the former shareholders and CDC, dated April 7, 2011. Future payments are to be paid in Brazilian currency, the real. The Company has made its first three payments to the former shareholders totaling \$10.4 million. The next payment is anticipated to be made on August 31, 2014, based on the pro forma results of the twelve month period ended June 30, 2014. The final earnout payment will become payable on October 31, 2015. In accordance with ASC Topic 805, the Company determined the fair value of this liability for contingent consideration on the acquisition date using 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.

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.

Service revenue associated with configuration and marketing services is recognized when the work is complete, and the four criteria discussed above have been substantially met. Other service revenue associated with configuration, marketing, service contracts and other services approximates 2% or less of consolidated net sales for fiscal years 2014,

2013 and 2012.

The Company also distributes 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 distributes 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.

During the fiscal years ended June 30, 2014, 2013 and 2012, the Company has not engaged in sales transactions involving multiple element arrangements.

Shipping Revenue and Costs

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June 30, 2014

Shipping revenue is included in net sales, and related costs are included in cost of goods sold. Shipping revenue for the years ended June 30, 2014, 2013 and 2012 was \$12.2 million, \$12.1 million and \$12.2 million, 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 vendor reimbursement, were not significant in any of the three fiscal years ended June 30, 2014. Deferred advertising costs at June 30, 2014 and 2013 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 dollars, euros, British pounds and Brazilian reais. 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. During 2013, the Company reviewed and modified its policy toward permanently reinvested foreign earnings. 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 tax effect of this accounting policy change is immaterial to the financial statements. See Note 11 - Income Taxes for further discussion.

Additionally, the Company maintains reserves for uncertain tax provisions in accordance with ASC 740. See Note 11 - 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 primary components of comprehensive income for the Company include net income, foreign currency translation adjustments arising from the consolidation of the Company's foreign subsidiaries, and any unrealized gains or losses on effectively hedged transactions, net of tax. Currently, the Company is not engaged in any cash flow hedges that qualify for hedge accounting.

#### Business Combinations

The Company accounts for business combinations in accordance with ASC Topic 805, Business Combinations. ASC 805 establishes principles and requirements for recognizing the total consideration transferred to and the assets acquired, liabilities assumed and

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## SCANSOURCE, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements—(Continued)

June 30, 2014

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 4 - Acquisitions for further discussion.

## 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, 2016. Early application is prohibited. The standard permits the use of either the retrospective or cumulative effect transition method. This guidance will be applicable to the Company at the beginning of its first quarter of fiscal year 2018. The Company is currently evaluating the impact on its consolidated financial statements upon the adoption of this new standard.

## (2)Earnings per Share

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

|   | Fiscal Year Ended June 30,            |        |        |
|---|---------------------------------------|--------|--------|
|   | 2014                                  | 2013   | 2012   |
|   | (in thousands, except per share data) |        |        |
| Numerator:                              |                                       |        |        |
| Net income                              | \$81,789                              | 34,662 | 74,288 |
| Denominator:                            |                                       |        |        |
| Weighted-average shares, basic          | 28,337                                | 27,774 | 27,362 |
| Dilutive effect of share-based payments | 265                                   | 220    | 389    |
| Weighted-average shares, diluted        | 28,602                                | 27,994 | 27,751 |
| Net income per common share, basic      | \$2.89                                | \$1.25 | \$2.72 |
| Net income per common share, diluted    | \$2.86                                | \$1.24 | \$2.68 |

For the years ended June 30, 2014, 2013 and 2012, weighted average shares outstanding excluded from the computation of diluted earnings per share because their effect would have been antidilutive were 230,706, 1,062,000 and 583,000, respectively.

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## SCANSOURCE, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements—(Continued)

June 30, 2014

## (3)Property and Equipment

Property and equipment is comprised of the following:

|                                      | June 30,       |           |
|--------------------------------------|----------------|-----------|
|                                      | 2014           | 2013      |
|                                      | (in thousands) |           |
| Land                                 | \$3,009        | \$3,009   |
| Buildings and leasehold improvements | 21,088         | 20,020    |
| Computer software and equipment      | 14,770         | 14,338    |
| Furniture, fixtures and equipment    | 12,390         | 14,852    |
| Construction in progress             | 13,193         | 629       |
|                                      | 64,450         | 52,848    |
| Less accumulated depreciation        | (32,627        | ) (32,645 |
|                                      | \$31,823       | \$20,203  |

During the fiscal year ended June 30, 2014, the increase in gross fixed assets from the prior year is largely due to capital expenditures for the new ERP system using SAP software that is currently under development. In the fourth quarter of 2013, the Company ceased development of its ERP project using the Microsoft Dynamics AX software, rendering substantially all of the amount of the project impaired. Of the \$28.8 million in capitalized expenses related to the project, the Company wrote off \$28.2 million in the fiscal year ended June 30, 2013. The remaining \$0.6 million was placed into service in July 2014.

Depreciation expense was \$3.5 million, \$3.6 million, and \$3.5 million, respectively, for the fiscal years ended 2014, 2013, and 2012.

## (4)Acquisitions

## CDC Brazil S.A.

On April 15, 2011, the Company completed its acquisition of 100% of the shares of CDC, formerly known as CDC Brasil Distribuidora LTDA, Brazil's leading distributor of AIDC and POS solutions. This acquisition gave the Company an established presence in Latin America's largest specialty technology market and allowed the Company to more easily scale its Latin American operations.

Under the Share Purchase and Sale Agreement, the Company structured the purchase transaction as an all cash share purchase with an initial payment of \$36.2 million, net of cash acquired, and assumed working capital payables and debt at closing. The remaining purchase price is payable in annual cash installments based upon the financial performance of CDC for the twelve month periods ended on June 30 from 2011 through 2015. As of June 30, 2014, there are two remaining earnout payments to be made to the former shareholders. Please see Note 8 - Fair Value of Financial Instruments for further information regarding the fair value accounting for this contingent consideration.



In fiscal 2012, the Company incurred \$0.3 million of acquisition-related costs, primarily for professional fees incurred for due diligence, legal advice and tax planning. These costs are included in selling, general and administrative expenses in the Company's consolidated income statement. During the third quarter of fiscal 2012, the Company finalized the purchase accounting for the CDC acquisition.

The purchase price allocated to the fair value of identified intangible assets associated with the acquisition of CDC is as follows:

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## SCANSOURCE, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements—(Continued)

June 30, 2014

|   | Amount<br>(in thousands) |
|---|--------------------------|
| Identified intangible assets                |                          |
| Trade names (2 year useful life)            | \$2,746                  |
| Customer relationships (6 year useful life) | 18,965                   |
| Non-compete agreements (5 year useful life) | 894                      |
| Total identified intangible assets          | \$22,605                 |

The weighted average amortization period for these identified intangible assets after purchase accounting adjustments, other than goodwill, was 5 years.

During the Company's due diligence for the CDC acquisition, several pre-acquisition contingencies were identified regarding various Brazilian federal and state tax exposures. The Company is able to record indemnification receivables that are reported gross of the pre-acquisition contingency liabilities as they were escrowed in the Share Purchase and Sale Agreement. As part of the initial payment, the sellers placed \$25.5 million into a special and exclusive bank account to be released according to the specifications of the Share Purchase and Sale Agreement to provide for potential indemnification liabilities. However, indemnity claims can be made up to the entire purchase price, which includes the initial payment and all future earnout payments. During fiscal year 2012, the Company and former shareholders released \$5.3 million from the escrow account for the settlement of a pre-acquisition contingency and \$2.5 million to the sellers. The amount available after the impact of foreign currency translation, as of June 30, 2014 and 2013 for future pre-acquisition contingency settlements or to be released to the sellers, was \$11.8 million and \$11.7 million, respectively.

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

|   | June 30,<br>2014 | June 30,<br>2013 | June 30,<br>2012 |
|---|------------------|------------------|------------------|
|   | (in thousands)   |                  |                  |
| Assets                                      |                  |                  |                  |
| Prepaid expenses and other assets (current) | \$5,023          | \$5,061          | \$3,886          |
| Other assets (noncurrent)                   | \$1,221          | \$2,905          | \$5,112          |
| Liabilities                                 |                  |                  |                  |
| Other current liabilities                   | \$5,023          | \$5,061          | \$3,886          |
| Other long-term liabilities                 | \$1,221          | \$2,905          | \$5,112          |

The change in classification and amounts of the pre-acquisition contingencies is due to the finalization of purchase accounting in the third quarter of the fiscal 2012, 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 Company finalized its quantitative assessments for various state and federal tax exposures and identified the statute of limitations for these exposures in determining the appropriate classification. The amount of reasonably possible undiscounted pre-acquisition contingencies as of June 30, 2014 is estimated to range as high as \$8.1 million at this time, of which all exposures are indemnifiable under the Share Purchase and Sale Agreement.

(5) 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. This 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. The reporting units utilized for goodwill impairment tests are primarily based on geography, one level below the Barcode & Security and Communications & Services operating segments.

During fiscal year 2014, the Company completed its annual impairment test as of April 30, 2014 and determined that no goodwill impairment charge was necessary. However, as of the most recent annual impairment test, the estimated fair value of the Company's

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## SCANSOURCE, INC. AND SUBSIDIARIES

## Notes to Consolidated Financial Statements—(Continued)

June 30, 2014

Latin American goodwill reporting unit exceeded its carrying values by a smaller margin than the Company's other goodwill reporting units. The estimated fair value of the Latin America goodwill reporting unit exceeded the carrying value by 10.2%. The increase in sensitivity to this goodwill reporting unit is driven largely by the general macroeconomic environment and lower expectations for future results in the unit. Key assumptions used in determining fair value include projected growth and operating margin, working capital requirements and discount rates. While we do not believe that this goodwill reporting unit is impaired at this time, if we are not able to achieve projected operating margins within the expected working capital requirements and/or there are unfavorable changes to the discount rate, a future impairment of goodwill is at least reasonably possible.

During fiscal year 2013, the Company completed its annual impairment test as of June 30, 2013 and determined that a goodwill impairment charge was necessary for its Brazilian POS & Barcode and European Communications reporting units. Prior to the test, no interim impairment indicators were identified. The Company's impairment testing included the determination of the reporting unit's fair value using market multiples and discounted cash flows modeling based on forecasts which were discounted using a weighted average cost of capital (a level 3 input). The impairment charges were a result of reduced earnings and cash flow forecast primarily due to the general macroeconomic environment and lower expectations of future results. During the fourth quarter of fiscal 2013, the Company recorded a non-cash charge for goodwill impairment of \$5.4 million and \$15.1 million in Europe Communications and Brazil POS & Barcode, respectively.

Changes in the carrying amount of goodwill for the years ended June 30, 2014 and 2013, by reportable segment, are as follows:

|  | Barcode &<br>Security<br>Segment<br>(in thousands) | Communications<br>& Services<br>Segment | Total    |
|--|--|---|----------|
| Balance as of June 30, 2012                            | \$33,008   | \$20,877                                | \$53,885 |
| Impairment charges                                     | (15,143)   | (5,419)                                 | (20,562) |
| Unrealized gain (loss) on foreign currency translation | (1,536)  | 8                                       | (1,528)  |
| Balance as of June 30, 2013                            | \$16,329   | \$15,466                                | \$31,795 |
| Unrealized gain (loss) on foreign currency translation | 547  | —                                       | 547      |
| Balance as of June 30, 2014                            | \$16,876   | \$15,466                                | \$32,342 |

The following table shows the Company's identifiable intangible assets as of June 30, 2014 and 2013, respectively. These balances are included on the Consolidated Balance Sheet within other assets:

|                              | June 30, 2014                                 |                             |                      | June 30, 2013               |                             |                      |
|------------------------------|---|-----------------------------|----------------------|-----------------------------|-----------------------------|----------------------|
|                              | Gross<br>Carrying<br>Amount<br>(in thousands) | Accumulated<br>Amortization | Net<br>Book<br>Value | Gross<br>Carrying<br>Amount | Accumulated<br>Amortization | Net<br>Book<br>Value |
| Amortized intangible assets: |   |                             |                      |                             |                             |                      |
| Customer relationships       | \$33,417                                      | \$17,981                    | \$15,436             | \$33,166                    | \$14,191                    | \$18,975             |
| Trade names                  | —   | —                           | —                    | 1,941                       | 1,941                       | —                    |

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|                        |          |          |          |          |          |          |
|------------------------|----------|----------|----------|----------|----------|----------|
| Non-compete agreements | 636      | 408      | 228      | 888      | 535      | 353      |
| Distributor agreements | 424      | 93       | 331      | 637      | 153      | 484      |
| Total intangibles      | \$34,477 | \$18,482 | \$15,995 | \$36,632 | \$16,820 | \$19,812 |

During the fourth quarter of fiscal 2014, the Company impaired certain customer relationships related to our German communications entity and wrote off the gross carrying amount and corresponding accumulated amortization.

The weighted average amortization period for all intangible assets was approximately 11 years for the year ended June 30, 2014 and 10 years for the years ended June 30, 2013 and 2012. Amortization expense for the years ended June 30, 2014, 2013 and 2012 was \$3.9 million, \$4.9 million and \$6.4 million, respectively.

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## SCANSOURCE, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements—(Continued)

June 30, 2014

Estimated future amortization expense is as follows:

| Year Ended June 30, | Amortization<br>Expense<br>(in thousands) |
|---------------------|---|
| 2015                | \$3,783                                   |
| 2016                | 3,756                                     |
| 2017                | 3,187                                     |
| 2018                | 1,369                                     |
| 2019                | 1,252                                     |
| Thereafter          | 2,648                                     |
| Total               | \$15,995                                  |

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

## Short-Term Borrowings

A subsidiary of the Company has a €6.0 million line of credit, which is secured by the assets of our European operations and is guaranteed by ScanSource, Inc. This agreement can be withdrawn by the lender with minimal notice. The subsidiary line of credit bears interest at the 30-day Euro Interbank Offered Rate ("EURIBOR") plus a spread ranging from 1.25% to 2.00% per annum. The spread in effect for the period ended June 30, 2014 was 1.25%. Additionally, the Company is assessed commitment fees ranging from 0.10% to 0.275% on non-utilized borrowing availability if outstanding balances are below €3.0 million. The interest rate and commitment fee spreads are based on the Company's Leverage Ratio for its revolving credit facility, as defined below. There were no outstanding balances at June 30, 2014 and 2013.

## Revolving Credit Facility

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

At the Company's option, loans denominated in U.S. dollars under the New 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, 2014 was 1.00% for LIBOR-based loans and 0.00% for alternate base rate loans. Additionally, the Company is assessed commitment fees ranging from 0.175% to 0.40%, depending upon the Leverage Ratio, on non-utilized borrowing availability, excluding swingline loans. The commitment fee rate in effect for the period ended June 30, 2014 was 0.175%. Borrowings under the New 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 New Credit Agreement. The Company was in compliance with all covenants under the credit facility as of June 30, 2014. There were no outstanding balances at June 30, 2014 and June 30, 2013.

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## SCANSOURCE, INC. AND SUBSIDIARIES

## Notes to Consolidated Financial Statements—(Continued)

June 30, 2014

The average daily balance on the revolving credit facility during the year ended June 30, 2014 was \$0.0 million. There was \$300 million available for additional borrowings as of June 30, 2014, and there were no letters of credit issued under the revolving credit facility.

The average daily balance on the revolving credit facility during the year ended June 30, 2013 was \$9.4 million. There was \$300 million available for additional borrowings as of June 30, 2013, and there were no letters of credit issued under the revolving credit facility.

## Long-Term Debt

On August 1, 2007, the Company entered into an agreement with the State of Mississippi in order to provide financing for the acquisition and installation of certain equipment to be utilized at the Company's current Southaven, Mississippi distribution facility, through the issuance of an industrial development revenue bond. The bond matures on September 1, 2032 and accrues interest at 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, 2014, the Company was in compliance with all covenants under this bond. The balance on the bond was \$5.4 million as of June 30, 2014 and 2013 and is included in long-term debt. The interest rate at June 30, 2014 and 2013 was 1.00% and 1.04%, respectively.

The book value of debt listed above is considered to approximate fair value, as our debt instruments are indexed to LIBOR or the prime rate using the market approach.

Scheduled maturities of the Company's revolving credit facility and long-term debt at June 30, 2014 are as follows:

|                          | Future Debt<br>Payments<br>(in thousands) |
|--------------------------|---|
| Fiscal year:             |   |
| 2015                     | \$—                                       |
| 2016                     | —   |
| 2017                     | —   |
| 2018                     | —   |
| 2019                     | 231                                       |
| Thereafter               | 5,198                                     |
| Total principal payments | \$5,429                                   |

## Debt Issuance Costs

As of June 30, 2014, net debt issuance costs associated with the credit facility and bonds totaled \$1.3 million and are being amortized on a straight-line basis through the maturity date of each respective debt instrument.





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## SCANSOURCE, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements—(Continued)

June 30, 2014

## (7) Derivatives and Hedging Activities

The Company's results of operations could be materially impacted by significant changes in foreign currency exchange rates and interest rates. These risks and the management of these risks are discussed in greater detail below. In an effort to manage the exposure to these risks, the Company periodically enters into various derivative instruments. The Company's accounting policies for these instruments are based on whether the instruments are designated as hedge or non-hedge instruments in accordance with 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 – The Company conducts a portion of its business internationally in a variety of foreign currencies. The exposure to market risk for changes in foreign currency exchange rates arises from foreign currency denominated assets and liabilities, and transactions arising from non-functional currency financing or trading activities. The Company's objective is to preserve the economic value of non-functional currency denominated cash flows. The Company attempts to hedge transaction exposures with natural offsets to the fullest extent possible and, once these opportunities have been exhausted, through forward contracts or other hedging instruments with third parties. These contracts will periodically hedge the exchange of various currencies, including the U.S. dollar, euro, British pound, Canadian dollar, Mexican peso and Brazilian real. While the Company utilizes foreign exchange contracts to hedge foreign currency exposure, the Company's foreign exchange policy prohibits the use of derivative financial instruments for speculative purposes.

At June 30, 2014, the Company had contracts outstanding with notional amounts of \$62.5 million to exchange foreign currencies. 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, |         |           |
|---|----------------------------|---------|-----------|
|   | 2014                       | 2013    | 2012      |
|   | (in thousands)             |         |           |
| Net foreign exchange derivative contract (gain) loss              | \$3,640                    | \$(733) | ) \$1,480 |
| Net foreign currency transactional and re-measurement (gain) loss | (3,024)                    | ) 701   | 2,286     |
| Net foreign currency (gain) loss                                  | \$616                      | \$(32)  | ) \$3,766 |

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

In fiscal year 2012 the majority of the losses were associated with exposures between the U.S. dollar and the Brazilian real. The Brazilian business incurred significant losses on U.S. dollar denominated exposures in the first quarter of 2012 that were not hedged at the time. Subsequently, the Company has been including these exposures in its daily hedging activities.

Interest Rates – The Company’s earnings are also affected by changes in interest rates due to the impact those changes have on interest expense from floating rate debt instruments. To manage the exposure to interest rates, the Company may enter into interest rate swap agreements. Currently, there are no swap agreements outstanding.

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

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## SCANSOURCE, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements—(Continued)

June 30, 2014

|  | As of June 30, 2014   |  |
|--|---|--|
|  | Fair Value of<br>Derivatives<br>Designated as<br>Hedge<br>Instruments<br>(in thousands) | Fair Value of<br>Derivatives<br>Not Designated as Hedge<br>Instruments |
| Derivative assets: <sup>(a)</sup>      |   |  |
| Foreign exchange contracts             | \$—   | \$ 65  |
| Derivative liabilities: <sup>(b)</sup> |   |  |
| Foreign exchange contracts             | \$—   | \$ 119   |

(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.

## (8) Fair Value of Financial Instruments

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

• Level 1 – Unadjusted quoted prices in active markets that are accessible at the measurement date for identical, unrestricted assets or liabilities;

• Level 2 – Quoted prices in markets that are not active, or inputs which are observable, either directly or indirectly, for substantially the full term of the asset or liability;

• 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. The carrying value of debt listed in Note 6 is considered to approximate fair value, as the Company's debt instruments are indexed to LIBOR or the alternate base rate using the market approach (Level 2 criteria).

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

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## SCANSOURCE, INC. AND SUBSIDIARIES

## Notes to Consolidated Financial Statements—(Continued)

June 30, 2014

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

The following table presents assets and liabilities measured at fair value on a recurring basis as of June 30, 2013:

|   | Total          | Quoted<br>prices in<br>active<br>markets<br>(Level 1) | Significant<br>other<br>observable<br>inputs<br>(Level 2) | Significant<br>unobservable<br>inputs<br>(Level 3) |
|---|----------------|---|---|--|
|   | (in thousands) |   |   |  |
| Assets:   |                |   |   |  |
| Deferred compensation plan investments, current and non-current portion | \$ 13,752      | \$ 13,752   | \$—   | \$—  |
| Forward foreign currency exchange contracts                             | 308            | —   | 308   | —  |
| Total assets at fair value  | \$ 14,060      | \$ 13,752   | \$ 308  | \$—  |
| Liabilities:  |                |   |   |  |
| Deferred compensation plan investments, current and non-current portion | \$ 13,752      | \$ 13,752   | \$—   | \$—  |
| Forward foreign currency exchange contracts                             | 34             | —   | 34  | —  |
| Liability for contingent consideration, current and non-current         | 12,545         | —   | —   | 12,545   |
| Total liabilities at fair value   | \$ 26,331      | \$ 13,752   | \$ 34   | \$ 12,545  |

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.

Foreign currency forward contracts are measured using the market approach on a recurring basis considering foreign currency spot rates and forward rates quoted by banks or foreign currency dealers (Level 2). See Note 7 - Derivatives and Hedging Activities. Foreign currency contracts are classified in the consolidated balance sheet in prepaid expenses and other current assets or accrued expenses and other current liabilities, depending on the respective contracts' favorable or unfavorable positions.

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## SCANSOURCE, INC. AND SUBSIDIARIES

## Notes to Consolidated Financial Statements—(Continued)

June 30, 2014

The Company recorded a contingent consideration liability at the acquisition date of CDC representing the amounts payable to former CDC shareholders, as outlined under the terms of the Share Purchase and Sale Agreement, based upon the achievement of projected earnings, net of specific pro forma adjustments. The current and non-current portions of this obligation are reported separately on the Consolidated Balance Sheets. The fair value of contingent consideration (Level 3) is determined using a probability weighted discounted cash flow model. Subsequent changes in the fair value of the contingent consideration liability are recorded to the change in fair value of contingent consideration line item in the 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 Income.

The table below provides a summary of the changes in fair value of the Company's only financial asset or liability, the contingent consideration for the CDC earnout that is measured at fair value on a recurring basis using significant unobservable inputs (Level 3) for the year ended June 30, 2014 and 2013:

|  | Contingent<br>Consideration for<br>the Year Ended | Contingent<br>Consideration for<br>the Year Ended |
|--|---|---|
|  | June 30, 2014<br>(in thousands)                   | June 30, 2013                                     |
| Fair value at beginning of period            | \$12,545  | \$16,653  |
| Payments                                     | (3,810  | ) (4,777  |
| Change in fair value                         | 2,311   | 1,843   |
| Fluctuation due to foreign currency exchange | 61  | (1,174  |
| Fair value at end of period                  | \$11,107  | \$12,545  |

The fair value of the liability for the contingent consideration recognized at June 30, 2014 was \$11.1 million, of which \$5.9 million is classified as current. As of June 30, 2013, the fair value of the contingent consideration was \$12.5 million, of which \$3.7 million was classified as current. The fair values of amounts owed are recorded in "current portion of contingent consideration" and "long-term portion of contingent consideration" in the Company's 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 Brazilian reais 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 Share Purchase and Sale Agreement;
- the probability of achieving these results; and
- a discount rate reflective of the Company's creditworthiness and market risk premium associated with the Brazilian market.

A change in any of these unobservable inputs can significantly change the fair value of the contingent consideration. The change in fair value of the contingent consideration recognized in the Consolidated Income Statement contributed a loss of \$2.3 million for the year ended June 30, 2014. Generally, the change in fair value of the contingent consideration will generate a loss as the earnout period lapses. In the current year, the loss was partially offset by a change in the estimated future results. In addition, volatility in the foreign exchange between the Brazilian real and the U.S. dollar has driven significant changes in the translation of the real-denominated liability. Although there is no contractual limit, total future undiscounted contingent consideration payments are estimated to be \$12.0 million, based on the Company's best estimate as the earnout is based on a multiple of adjusted earnings.



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## SCANSOURCE, INC. AND SUBSIDIARIES

## Notes to Consolidated Financial Statements—(Continued)

June 30, 2014

## (9) Share-Based Compensation

## Share-Based Compensation Plans

The Company has awards outstanding from four share-based compensation plans (the 1997 Stock Incentive Plan, the 1999 Director 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, 2014, there were 2,754,984 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") or a restricted stock unit ("RSU"). 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, |         |         |
|--------------------------------------|----------------------------|---------|---------|
|                                      | 2014                       | 2013    | 2012    |
|                                      | (in thousands)             |         |         |
| Share-based compensation related to: |                            |         |         |
| Equity classified stock options      | \$1,577                    | \$2,125 | \$2,875 |
| Equity classified restricted stock   | 3,671                      | 3,493   | 3,965   |
| Total share-based compensation       | \$5,248                    | \$5,618 | \$6,840 |

## Stock Options

During the fiscal year ended June 30, 2014, the Company granted stock options for 122,856 shares to certain employees. These options vest annually over 3 years and have a 10-year contractual life. In accordance with the requirements of the Company's Equity Award Grant Policy and the 2013 Long-Term Incentive Plan, the options issued during the fiscal year were granted with an exercise price that is no less than 100% of the fair market value of those 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.

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## SCANSOURCE, INC. AND SUBSIDIARIES

## Notes to Consolidated Financial Statements—(Continued)

June 30, 2014

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

|  | Fiscal Year Ended June 30, |            |            |   |
|--|----------------------------|------------|------------|---|
|  | 2014                       | 2013       | 2012       |   |
| Expected term                          | 4.00 years                 | 4.64 years | 6.77 years |   |
| Expected volatility                    | 33.70                      | % 42.90    | % 41.33    | % |
| Risk-free interest rate                | 1.07                       | % 0.64     | % 1.42     | % |
| Dividend yield                         | 0.00                       | % 0.00     | % 0.00     | % |
| Weighted average fair value per option | \$11.91                    | \$10.48    | \$14.94    |   |

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 predominately 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 expectations of future dividend payments.

A summary of our stock option plans is presented below:

|   | Fiscal Year Ended June 30, 2014 |                                 |   |                           |
|---|---------------------------------|---------------------------------|---|---------------------------|
|   | Options                         | Weighted-Average Exercise Price | Weighted-Average Remaining Contractual Life | Aggregate Intrinsic Value |
| Outstanding, beginning of year                    | 1,478,283                       | \$31.18                         |   |                           |
| Granted during the period                         | 122,856                         | 42.57                           |   |                           |
| Exercised during the period                       | (498,971)                       | ) 27.96                         |   |                           |
| Canceled, forfeited, or expired during the period | (31,071)                        | ) 34.06                         |   |                           |
| Outstanding, end of year                          | 1,071,097                       | 33.91                           | 5.51  | \$5,025,390               |
| Vested and expected to vest at June 30, 2014      | 1,070,718                       | 33.91                           | 5.51  | \$5,024,582               |
| Exercisable, end of year                          | 820,165                         | \$32.98                         | 4.51  | \$4,181,791               |

The aggregate intrinsic value was calculated using the market price of our stock on June 30, 2014 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, 2014, 2013, and 2012 was \$5.4 million, \$3.1 million, and \$5.8 million, respectively.



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## SCANSOURCE, INC. AND SUBSIDIARIES

## Notes to Consolidated Financial Statements—(Continued)

June 30, 2014

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

|                             | Fiscal Year Ended June 30, 2014 |  |   |
|-----------------------------|---------------------------------|--|---|
|                             | Options                         | Weighted<br>Average<br>Exercise<br>Price | Weighted<br>Average<br>Grant<br>Date Fair-<br>Value |
| Unvested, beginning of year | 261,280                         | \$ 32.28                                 | \$ 12.40  |
| Granted                     | 122,856                         | 42.57                                    | 11.91   |
| Vested                      | (122,350 )                      | 33.29                                    | 13.39   |
| Canceled or forfeited       | (10,854 )                       | 29.80                                    | 11.52   |
| Unvested, end of year       | 250,932                         | \$ 36.93                                 | \$ 11.72  |

As of June 30, 2014, 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 1.08 years. The total fair value of options vested during the fiscal years ended June 30, 2014, 2013, and 2012 is \$1.6 million, \$2.6 million and \$2.9 million, respectively. The following table summarizes information about stock options outstanding and exercisable as of June 30, 2014:

| Range of Exercise Prices | Options Outstanding   |   |  | Options Exercisable   |  |
|--------------------------|-----------------------|---|--|-----------------------|--|
|                          | Shares<br>Outstanding | Weighted<br>Average<br>Remaining<br>Contractual<br>Life | Weighted<br>Average<br>Exercise<br>Price | Number<br>Exercisable | Weighted<br>Average<br>Exercise<br>Price |
| \$18.13 - \$22.27        | 15,758                | 4.43  | \$ 18.14                                 | 15,758                | \$ 18.14                                 |
| \$22.27 - \$26.38        | 30,000                | 5.43  | 24.57                                    | 30,000                | 24.57                                    |
| \$26.38 - \$30.49        | 230,739               | 4.99  | 28.95                                    | 152,936               | 28.55                                    |
| \$30.49 - \$34.60        | 338,644               | 4.93  | 33.21                                    | 288,371               | 33.02                                    |
| \$34.60 - \$38.71        | 335,600               | 5.11  | 36.44                                    | 333,100               | 36.44                                    |
| \$38.71 - \$42.82        | 120,356               | 9.43  | 42.69                                    | —                     | —  |
|                          | 1,071,097             | 5.51  | \$ 33.91                                 | 820,165               | \$ 32.98                                 |

The Company issues shares to satisfy the exercise of options.



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## SCANSOURCE, INC. AND SUBSIDIARIES

## Notes to Consolidated Financial Statements—(Continued)

June 30, 2014

## Restricted Stock

## Grants of Restricted Shares

During the fiscal year ended June 30, 2014, the Company elected to grant 131,038 shares of restricted stock to employees and non-employee directors, all of which were issued in the form of RSUs:

|                                       | Fiscal Year Ended June 30, 2014 |                  |                       |                       |
|---------------------------------------|---------------------------------|------------------|-----------------------|-----------------------|
|                                       | Shares granted                  | Date granted     | Grant date fair value | Vesting period        |
| Employees                             |                                 |                  |                       |                       |
| Certain employees based on promotions | 3,172                           | August 27, 2013  | \$31.54               | Annually over 3 years |
| Certain employees                     | 115,766                         | December 6, 2013 | 42.82                 | Annually over 3 years |
| Non-Employee Directors <sup>(1)</sup> |                                 |                  |                       |                       |
| Certain Directors                     | 10,800                          | December 6, 2013 | \$42.82               | 6 months              |
| Newly appointed Director              | 1,300                           | June 1, 2014     | \$37.10               | 6 months              |

Per 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 (1) common stock on the date of grant, as defined in the 2013 Long-Term Incentive Plan. 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, 2014 |  |
|--|---------------------------------|--|
|  | Shares                          | Weighted Average Grant Date Fair Value |
| Outstanding, beginning of year                     | 212,421                         | \$31.82                                |
| Granted during the period                          | 131,038                         | 42.49                                  |
| Vested during the period                           | (101,452)                       | ) 33.23                                |
| Cancelled, forfeited, or expired during the period | (21,899)                        | ) 33.54                                |
| Outstanding, end of year                           | 220,108                         | \$37.36                                |

As of June 30, 2014, there was approximately \$5.8 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 32,751 shares for income taxes during the fiscal year ended June 30,

2014.

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## SCANSOURCE, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements—(Continued)

June 30, 2014

## (10) 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 for each period which was 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, |         |         |
|-----------------------------|----------------------------|---------|---------|
|                             | 2014                       | 2013    | 2012    |
|                             | (in thousands)             |         |         |
| Matching contributions      | \$553                      | \$509   | \$473   |
| Discretionary contributions | 5,207                      | 5,501   | 5,066   |
| Total contributions         | \$5,760                    | \$6,010 | \$5,539 |

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.

## (11) Income Taxes

Income tax expense (benefit) consists of:

|                            | Fiscal Year Ended June 30, |          |          |
|----------------------------|----------------------------|----------|----------|
|                            | 2014                       | 2013     | 2012     |
|                            | (in thousands)             |          |          |
| Current:                   |                            |          |          |
| Federal                    | \$25,895                   | \$32,387 | \$37,736 |
| State                      | 2,439                      | 993      | 1,376    |
| Foreign                    | 3,826                      | 3,921    | 3,703    |
| Total current              | 32,160                     | 37,301   | 42,815   |
| Deferred:                  |                            |          |          |
| Federal                    | 7,933                      | (10,200) | (830)    |
| State                      | 725                        | (519)    | (44)     |
| Foreign                    | 500                        | (8,218)  | (5,018)  |
| Total deferred             | 9,158                      | (18,937) | (5,892)  |
| Provision for income taxes | \$41,318                   | \$18,364 | \$36,923 |



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## SCANSOURCE, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements—(Continued)

June 30, 2014

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, |          |          |
|--|----------------------------|----------|----------|
|  | 2014                       | 2013     | 2012     |
|  | (in thousands)             |          |          |
| U.S. Federal income tax at statutory rate            | \$43,088                   | \$18,559 | \$38,924 |
| Increase (decrease) in income taxes due to:          |                            |          |          |
| State and local income taxes, net of Federal benefit | 1,974                      | 523      | 1,026    |
| Tax credits  | (1,935                     | ) (1,629 | ) (1,122 |
| Valuation allowance                                  | 803                        | 353      | 24       |
| Effect of foreign operations, net                    | (1,627                     | ) (1,342 | ) (2,309 |
| Stock compensation                                   | (494                       | ) (148   | ) 86     |
| Goodwill impairment                                  | —                          | 1,139    | —        |
| Other  | (491                       | ) 909    | 294      |
| Provision for income taxes                           | \$41,318                   | \$18,364 | \$36,923 |

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

|   | June 30,       |          |
|---|----------------|----------|
|   | 2014           | 2013     |
|   | (in thousands) |          |
| Deferred tax assets derived from:                                       |                |          |
| Allowance for accounts receivable                                       | \$6,987        | \$5,958  |
| Inventories   | 10,950         | 9,708    |
| Nondeductible accrued expenses  | —              | 375      |
| Net operating loss carryforwards  | 4,675          | 4,065    |
| Tax credits   | 1,873          | 1,021    |
| Timing of amortization deduction from goodwill                          | 6,101          | 6,403    |
| Deferred compensation   | 5,300          | 5,205    |
| Stock compensation  | 5,129          | 5,537    |
| Timing of depreciation and other deductions for building and equipment  | —              | 10,152   |
| Total deferred tax assets   | 41,015         | 48,424   |
| Valuation allowance   | (1,696         | ) (893   |
| Total deferred tax assets, net of allowance                             | 39,319         | 47,531   |
| Deferred tax liabilities derived from:                                  |                |          |
| Nondeductible accrued expenses  | (231           | ) —      |
| Timing of depreciation and other deductions from building and equipment | (74            | ) —      |
| Timing of amortization deduction from goodwill                          | (4,477         | ) (3,938 |
| Timing of amortization deduction from intangible assets                 | (1,886         | ) (2,506 |
| Total deferred tax liabilities  | (6,668         | ) (6,444 |
| Net deferred tax assets   | \$32,651       | \$41,087 |



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## SCANSOURCE, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements—(Continued)

June 30, 2014

The components of pretax earnings are as follows:

|                           | Fiscal Year Ended June 30, |          |           |
|---------------------------|----------------------------|----------|-----------|
|                           | 2014                       | 2013     | 2012      |
|                           | (in thousands)             |          |           |
| Domestic                  | \$104,685                  | \$64,581 | \$103,711 |
| Foreign                   | 18,422                     | (11,555) | ) 7,500   |
| Worldwide pretax earnings | \$123,107                  | \$53,026 | \$111,211 |

At June 30, 2014, the Company has (i) gross net operating loss carry forwards of less than \$0.1 million for U.S. Federal income tax purposes that will begin to expire in 2020; (ii) gross net operating loss carry forwards of approximately \$0.9 million for state income tax purposes; (iii) foreign gross net operating loss carry forwards of approximately \$13.7 million; (iv) state income tax credit carry forwards of approximately \$0.3 million that will begin to expire in 2016; (v) withholding tax credits of approximately \$1.2 million; (vi) and foreign tax credits of \$0.5 million. As of June 30, 2014, the Company recorded a \$0.4 million valuation reserve against foreign net operating loss carry-forwards, related to the notional interest deduction carry forward. In addition to the valuation allowance for the notional interest deduction, the Company maintains a \$0.1 million valuation allowance for state net operating losses, and a \$1.2 million valuation allowance for withholding tax credits, 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 \$89.5 million at June 30, 2014. 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 \$14.9 million.

Recent financial results in Europe have generated pre-tax losses, primarily the result of our European Communications business. To the extent the Europe Communications business does not return to profitability, this could affect the valuation of certain deferred tax assets. Financial results in Belgium for the year ended June 30, 2014 resulted in a nominal pre-tax loss, but income on a tax basis. In the judgment of management, it is more likely than not that the deferred tax asset will be realized.

As of June 30, 2014, the Company had gross unrecognized tax benefits of \$1.2 million, \$0.7 million of which, if recognized, would affect the effective tax rate. This reflects an increase of \$0.2 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 for the years ending 2014, 2013 and 2012 were \$1.1 million, \$0.9 million and \$1.0 million, respectively. A reconciliation of the beginning and ending amount of unrecognized tax benefits is as follows:

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## SCANSOURCE, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements—(Continued)

June 30, 2014

|  | June 30,       |         |         |
|--|----------------|---------|---------|
|  | 2014           | 2013    | 2012    |
|  | (in thousands) |         |         |
| Beginning Balance  | \$1,034        | \$1,257 | \$1,181 |
| Additions based on tax positions related to the current year | 204            | 240     | 163     |
| Additions for tax positions of prior years                   | —              | —       | —       |
| Reduction for tax positions of prior years                   | (85            | ) (463  | ) (87   |
| Settlements  | —              | —       | —       |
| Ending Balance   | \$1,153        | \$1,034 | \$1,257 |

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, 2009.

## (12) Commitments and Contingencies

## Leases

The Company leases office and warehouse space under non-cancelable operating leases that expire through November 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,     |                           |                   |
|--|--------------------------------|---------------------------|-------------------|
|  | 2014                           | 2013                      | 2012              |
|  | (in thousands)                 |                           |                   |
| Lease expense  | \$5,561                        | \$5,094                   | \$5,025           |
|  | Operating<br>Lease<br>Payments | Capital Lease<br>Payments | Total<br>Payments |
|  | (in thousands)                 |                           |                   |
| Fiscal Year Ended June 30,                           |                                |                           |                   |
| 2015   | \$4,734                        | \$250                     | \$4,984           |
| 2016   | 4,071                          | 248                       | 4,319             |
| 2017   | 3,439                          | 245                       | 3,684             |
| 2018   | 1,528                          | —                         | 1,528             |
| 2019   | 889                            | —                         | 889               |
| Thereafter   | 1,210                          | —                         | 1,210             |
| Total future minimum lease payments                  | 15,871                         | 743                       | 16,614            |
| Less: amounts representing interest on capital lease | —                              | (12                       | ) (12             |
| Total future minimum principal lease payments        | \$15,871                       | \$731                     | \$16,602          |

On April 27, 2007, the Company entered into an agreement to lease approximately 600,000 square feet for distribution, warehousing and storage purposes in a building located in Southaven, Mississippi. The lease also provides for a right of first refusal on an additional 147,000 square feet of expansion space. The term of the lease is 120 months with 2 consecutive 5-year extension options.



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## SCANSOURCE, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements—(Continued)

June 30, 2014

On June 3, 2014, the Company entered into an equipment lease transaction for certain information technology infrastructure located in the Greenville, South Carolina facility. The Company determined this lease qualifies as a capital lease and accordingly, has recorded a capital lease obligation equal to the present value of the minimum lease payments of \$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, 2014 are as follows:

|                   | Property &<br>Equipment<br>(in thousands) | Accumulated<br>Depreciation | Net Book<br>Value | Capital Lease Obligations |           |       |
|-------------------|---|-----------------------------|-------------------|---------------------------|-----------|-------|
|                   |   |                             |                   | Short-Term                | Long-Term | Total |
| IT Infrastructure | \$731                                     | \$—                         | \$731             | \$241                     | \$490     | \$731 |

## Commitments and Contingencies

A majority of the Company's net revenues in 2014, 2013 and 2012 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 impairment charges (legal recovery) line item on the Consolidated Income Statements.

The Company is in the process of designing and developing a new Enterprise Resource Planning ("ERP") system. In December 2013, the Company retained SAP for software platform and implementation consulting services on the new ERP system. The Company incurred \$13.2 million in the form of capital expenditures related to the ERP project. As of June 30, 2014, amounts in accrued expenses and other current liabilities related to capital expenditures totaled \$3.0 million. Capital expenditures for fiscal 2015 could range from \$17 million to \$22 million.



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SCANSOURCE, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements—(Continued)

June 30, 2014

(13) Segment Information

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

Prior to fiscal 2013 the Company's reporting units coincided with its geographic operating segments of North America and International. In the fourth quarter of 2013, the Company reorganized its management structure and reporting segments to globally leverage the Company's leadership in specific technology markets, changing from a geographic to a technology focus. As part of this new structure, the Company formed two operating segments with a global technology focus: Worldwide Barcode & Security ("Barcode/Security") and Worldwide Communications & Services ("Communications/Services"). Each operating segment is managed around its global technology focus and is supported by the Company's centralized infrastructure, including distribution centers and back office operations. Each operating segment has its own management team led by a president and includes regional presidents within the operating group who manage the various functions within each segment. Decisions and planning for the Company as a whole are made at the corporate level by analyzing results from the operating segments. These technology business segments replace the geographic segments previously used, and the Company has retrospectively reclassified the consolidated financial statements to conform to the new presentation.

Worldwide Barcode & Security Segment

The Barcode/Security distribution segment focuses on automatic identification and data capture ("AIDC"), point-of-sale ("POS"), and electronic physical security 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 infrastructure products. During fiscal year 2014, the Barcode & Security distribution segment added 3D printing solutions to their product offerings that are targeted at the manufacturing, healthcare, aerospace, and automotive markets.

Worldwide Communications & Services Segment

The Communications/Services distribution segment focuses on communications technologies and services. We have business units within this segment for sales and merchandising functions, including the ScanSource Catalyst business unit in North America, ScanSource Communications business units in North America and Europe, and the ScanSource Services Group business unit in North America. ScanSource Catalyst and ScanSource Communications business units market voice, video conferencing, data networking and converged communications solutions. The ScanSource Services Group business unit delivers value-added support programs and services, including education and training, network assessments, custom configuration, implementation and marketing.



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## SCANSOURCE, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements—(Continued)

June 30, 2014

Selected financial information for each business segment is presented below:

|  | Fiscal Year Ended June 30, |             |             |
|--|----------------------------|-------------|-------------|
|  | 2014                       | 2013        | 2012        |
|  | (in thousands)             |             |             |
| Sales:   |                            |             |             |
| Worldwide Barcode & Security                       | \$1,873,177                | \$1,828,219 | \$1,837,307 |
| Worldwide Communications & Services                | 1,040,457                  | 1,048,745   | 1,177,989   |
|  | \$2,913,634                | \$2,876,964 | \$3,015,296 |
| Depreciation and amortization:                     |                            |             |             |
| Worldwide Barcode & Security                       | \$4,243                    | \$5,408     | \$6,590     |
| Worldwide Communications & Services                | 3,132                      | 3,049       | 2,990       |
|  | \$7,375                    | \$8,457     | \$9,580     |
| Operating income:                                  |                            |             |             |
| Worldwide Barcode & Security <sup>(1)</sup>        | \$51,523                   | \$34,665    | \$56,669    |
| Worldwide Communications & Services <sup>(2)</sup> | 54,773                     | 44,588      | 56,847      |
| Corporate <sup>(3)</sup>                           | 15,490                     | (28,210)    | —           |
|  | \$121,786                  | \$51,043    | \$113,516   |
| Assets:  |                            |             |             |
| Worldwide Barcode & Security                       | \$702,230                  | \$609,939   | \$695,717   |
| Worldwide Communications & Services                | 431,908                    | 387,097     | 438,442     |
| Corporate  | 200,986                    | 167,147     | 67,647      |
|  | \$1,335,124                | \$1,164,183 | \$1,201,806 |
| Capital expenditures:                              |                            |             |             |
| Worldwide Barcode & Security                       | \$784                      | \$446       | \$4,851     |
| Worldwide Communications & Services                | 316                        | 973         | 2,707       |
| Corporate  | 10,128                     | 3,412       | 5,232       |
|  | \$11,228                   | \$4,831     | \$12,790    |

<sup>(1)</sup> For the year ended June 30, 2013, the amount shown above includes a non-cash charge of \$15.1 million for the goodwill impairment in Brazil (see also Note 5).

<sup>(2)</sup> For the year ended June 30, 2013, the amount shown above includes a non-cash charge of \$5.4 million for the goodwill impairment in Europe (see also Note 5).

<sup>(3)</sup> For the year ended June 30, 2014, the amount shown includes a legal recovery, net of attorney fees of 15.5 million. For the year ended June 30, 2013, the amount shown above includes a non-cash charge of \$28.2 million for the impairment of our ERP project.

Selected financial information by geography category is presented below:

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|                              | Fiscal Year Ended June 30, |             |             |
|------------------------------|----------------------------|-------------|-------------|
|                              | 2014                       | 2013        | 2012        |
|                              | (in thousands)             |             |             |
| Sales by Geography Category: |                            |             |             |
| North America                | \$2,225,962                | \$2,196,986 | \$2,285,342 |
| International                | 733,744                    | 737,241     | 778,837     |
| Less intercompany sales      | (46,072 )                  | (57,263 )   | (48,883 )   |
|                              | \$2,913,634                | \$2,876,964 | \$3,015,296 |

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## SCANSOURCE, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements—(Continued)

June 30, 2014

## (14) Restructuring Costs

In April 2013, the Company implemented a restructuring plan for its Communications business unit in Europe to support a strategy for profitable growth. In the March 2013 quarter, the Company recorded a liability for expected restructuring costs of \$1.2 million related to the termination of employees for workforce reductions. This charge is included in selling, general and administrative expenses in the Consolidated Income Statements. The balance of the liability, which was recorded in accrued expenses and other current liabilities in the Consolidated Balance Sheets, was approximately \$0.5 million at June 30, 2013 and was utilized during fiscal 2014.

(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, |             |             |
|---|-----------------------------|-------------|-------------|
|   | 2014                        | 2013        | 2012        |
|   | (in thousands)              |             |             |
| Currency translation adjustment               | \$(16,700 )                 | \$(22,972 ) | \$(21,691 ) |
| Accumulated other comprehensive income (loss) | \$(16,700 )                 | \$(22,972 ) | \$(21,691 ) |

The tax effect of amounts in comprehensive income reflect a tax benefit of \$0.3 million, \$0.7 million, and \$0.5 million for the years ended June 30, 2014, 2013, and 2012 respectively.

## (16) Related Party Transactions

During fiscal years 2014, 2013, and 2012, the Company had sales of \$0.0 million, \$2.5 million, and \$4.2 million, respectively, to companies affiliated with a member of management and a former minority shareholder of ScanSource Latin America's Miami based operations. This individual left the Company in April 2013. At June 30, 2014 and 2013, there were no accounts receivable from these companies.

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SCANSOURCE, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements—(Continued)

June 30, 2014

(17) Subsequent Events

On August 14, 2014, the Company, entered into a binding letter of intent, pursuant to which the Company agreed to purchase, through the Company or one of the Company's affiliates, all of the shares of Intersmart Comércio Importação Exportação de Equipamentos Eletrônicos, S.A., a corporation organized under the laws of the Federative Republic of Brazil, and its related entities (collectively "Network1") from the Network1 shareholders (the "Sellers"). The Network1 Acquisition is subject to certain closing conditions, including the entrance into a definitive purchase agreement and satisfactory completion of due diligence. The letter agreement provides for an initial purchase price of R\$159.6 million (or approximately \$70.4 million), subject to certain adjustments, and additional amounts to the sellers pursuant to a four year earn-out. The estimated total purchase price pursuant to the letter agreement is approximately R\$307 million (or approximately \$135.4 million).

Further, on August 14, 2014, the Board of Directors (the "Board") of the Company authorized a program to repurchase outstanding shares of the Company's common stock, no par value per share, at any time and from time to time for a total aggregate cost to the Company not to exceed \$120.0 million. The Board authorized purchases through a trading plan adopted under Rule 10b5-1 of the Securities Exchange Act of 1934, as amended (the "Exchange Act"), open market purchases or private transactions, in accordance with the applicable federal securities laws, including Rule 10b-18 of the Exchange Act.

On August 21, 2014, the Company also announced the execution of a non-binding letter of intent to acquire the business of Imago Group plc (the "Imago Acquisition"). The purchase price for the Imago Acquisition in the letter of intent is an initial cash payment of GBP 24.5 million (approximately \$41.0 million), plus certain earnout payments over the next two years.



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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, 2014, 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, 2014. In making this assessment, we used the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission ("COSO") in 1992 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, 2014.

The effectiveness of our internal control over financial reporting as of June 30, 2014 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, 2014 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

ITEM 9B. Other Information.

Not applicable.



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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, 2014, a definitive Proxy Statement relating to the 2014 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.

Incorporated herein by reference to the information presented under the headings "Board of Directors and Executive Officers," "Corporate Governance Matters – Section 16(a) Beneficial Reporting Compliance," "Corporate Governance Matters – Code of Ethics," "Corporate Governance Matters – Independent Directors," and "Corporate Governance Matters – Board Meetings and Committees – Audit Committee," in the Company's 2014 Proxy Statement, which will be filed with the SEC not later than 120 days after June 30, 2014.

ITEM 11. Executive Compensation.

Incorporated herein by reference to the information presented under the headings "Executive Compensation," "Corporate Governance Matters – Compensation Committee Interlocks and Insider Participation," and "Compensation Committee Report" in the Company's 2014 Proxy Statement, which will be filed with the SEC not later than 120 days after June 30, 2014.

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

Incorporated herein by reference to the information presented under the headings "Equity Compensation Plan Information" and "Security Ownership of Certain Beneficial Owners and Management" in the Company's 2014 Proxy Statement, which will be filed with the SEC not later than 120 days after June 30, 2014.

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

Incorporated herein by reference to the information presented under the heading "Certain Relationships and Related Transactions" and "Corporate Governance Matters – Independent Directors" in the Company's 2014 Proxy Statement, which will be filed with the SEC not later than 120 days after June 30, 2014.

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 2014 Proxy Statement, which will be filed with the SEC not later than 120 days after June 30, 2014.

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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 the Financial Statements" on page 41.

(a)(2) Financial Statement Schedules. Schedule II – "Valuation and Qualifying Accounts" 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.

Table of ContentsIndex to Financial StatementsSCHEDULE II  
SCANSOURCE, INC. AND SUBSIDIARIES

## Valuation and Qualifying Accounts

(in thousands)

| Description                                 | Balance at<br>Beginning<br>of Period | Amounts<br>Charged to<br>Expense | Reductions <sup>(1)</sup> | Other <sup>(2)</sup> | Balance at<br>End of<br>Period |
|---|--------------------------------------|----------------------------------|---------------------------|----------------------|--------------------------------|
| Allowance for bad debt:                     |                                      |                                  |                           |                      |                                |
| Year ended June 30, 2012                    | \$23,506                             | 7,134                            | (7,137                    | ) 902                | \$24,405                       |
| Trade and current note receivable allowance |                                      |                                  |                           |                      | \$24,405                       |
| Year ended June 30, 2013                    | \$24,405                             | 10,333                           | (11,377                   | ) 2,118              | \$25,479                       |
| Trade and current note receivable allowance |                                      |                                  |                           |                      | \$25,479                       |
| Year ended June 30, 2014                    | \$25,479                             | 6,573                            | (8,100                    | ) 2,305              | \$26,257                       |
| Trade and current note receivable allowance |                                      |                                  |                           |                      | \$26,257                       |

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

(2) "Other" amounts include recoveries and the effect of foreign currency fluctuations.

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## 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 28, 2014

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.

| Signature  | Title  | Date            |
|--|--|-----------------|
| /s/ STEVEN R. FISCHER<br>Steven R. Fischer         | Chairman of the Board  | August 28, 2014 |
| /s/ MICHAEL L. BAUR<br>Michael L. Baur             | Chief Executive Officer and Director<br>(principal executive officer)                                  | August 28, 2014 |
| /s/ CHARLES A. MATHIS<br>Charles A. Mathis         | Executive Vice President and Chief Financial Officer<br>(principal financial officer)                  | August 28, 2014 |
| /s/ GERALD LYONS<br>Gerald Lyons                   | Senior Vice President of Finance and Principal Accounting<br>Officer<br>(principal accounting officer) | August 28, 2014 |
| /s/ PETER C. BROWNING<br>Peter C. Browning         | Director   | August 28, 2014 |
| /s/ MICHAEL J. GRAINGER<br>Michael J. Grainger     | Director   | August 28, 2014 |
| /s/ JOHN P. REILLY<br>John P. Reilly               | Director   | August 28, 2014 |
| /s/ CHARLES R. WHITCHURCH<br>Charles R. Whitchurch | Director   | August 28, 2014 |



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| Exhibit Number | Description   | Filed herewith | Form | Period Ending | Exhibit | Filing Date |
|----------------|---|----------------|------|---------------|---------|-------------|
| 2.1            | Share Purchase and Sale Agreement by and among ScanSource DO Brasil Participacoes LTDA as Buyer, Alexandre Machado De Campos Conde, Marcelo Duarte Hirsch, Gustavo Conde, Rosania De Souza Possebom, Juliane Possebom, Daniele Possebom, Gabriela Possebom, Adolar Nardes Junior and Caio Vinicius Domingos Nardes as Sellers; and CDC Brasil S.A., formerly called CDC Brasil Distribuidora LTDA, AECO Participacoes LTDA, Rhouse Participacoes LTDA and Nardes Administracao LTDA (as Agreeing Parties) dated April 7, 2011 |                | 8-K  |               | 2.1     | 4/15/2011   |
| 3.1            | Amended and Restated Articles of Incorporation of the Registrant and Articles of Amendment Amending the Amended and Restated Articles of Incorporation of the Registrant  |                | 10-Q | 12/31/2004    | 3.1     | 2/3/2005    |
| 3.2            | Amended and Restated Bylaws of the Registrant, effective May 6, 2014  |                | 10-Q | 12/31/2014    | 3.1     | 2/3/2005    |
| 4.1            | Form of Common Stock Certificate  |                | SB-2 |               | 4.1     | 2/7/1994    |
| 10.1           | Executive Compensation Plans and Arrangements 1997 Stock Incentive Plan, as amended, of the Registrant and Form of Stock Option Agreement   |                | 10-K | 6/30/1999     | 10.13   | 9/28/1999   |
| 10.2           | Amended and Restated Directors Equity Compensation Plan, as amended and restated  |                | 10-Q | 9/30/2012     | 10.4    | 11/2/2012   |
| 10.3           | Form of Restricted Stock Award (for ScanSource, Inc. Amended and Restated Directors Equity Compensation Plan as amended and restated)   |                | 10-Q | 3/31/2011     | 10.3    | 5/6/2011    |
| 10.4           | Nonqualified Deferred Compensation Plan, as amended and restated  |                | 10-Q | 9/30/2012     | 10.5    | 11/2/2012   |
| 10.5           | Amended and Restated 2002 Long-Term Incentive Plan  |                | 8-K  |               | 10.1    | 12/7/2009   |
| 10.6           | ScanSource, Inc. 2013 Long-Term Incentive Plan  |                | S-8  | 12/2/2013     | 99      | 12/5/2013   |
| 10.7           | ScanSource, Inc. Employee Stock Purchase Plan   |                | S-8  | 12/4/2013     | 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 | 12/31/2010    | 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 | 12/31/2010    | 10.3    | 2/4/2011    |
| 10.10          | Form of Restricted Stock Unit Award Certificate under the Amended and Restated 2002 Long-Term   |                | 10-Q | 12/31/2010    | 10.4    | 2/4/2011    |



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|       |   |      |            |      |          |
|-------|---|------|------------|------|----------|
|       | Incentive Plan for grants on or after December 3, 2010  |      |            |      |          |
| 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 | 12/31/2010 | 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 | 12/31/2008 | 10.1 | 2/4/2009 |

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|       |   |      |            |       |           |
|-------|---|------|------------|-------|-----------|
| 10.13 | Form of Restricted Stock Award Certificate (UK) under the 2002 Amended and Restated Long-Term Incentive Plan  | 10-Q | 12/31/2008 | 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 | 12/31/2008 | 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 | 3/31/2011  | 10.2  | 5/6/2011  |
| 10.19 | Amended and Restated Employment Agreement, effective as of June 25, 2014, between the Registrant and Michael L. Baur                                      | X    |            |       |           |
| 10.20 | Amended and Restated Employment Agreement, effective as of June 6, 2011, between the Registrant and Andrea D. Meade                                       | 10-K | 6/30/2011  | 10.21 | 8/29/2011 |
| 10.21 | First Amendment to Amended and Restated Employment Agreement effective July 1, 2013, between the Registrant and Andrea D. Meade                           | 10-K | 6/30/2013  | 10.25 | 8/26/2013 |
| 10.22 | Amended and Restated Employment Agreement, dated June 25, 2014, between the Registrant and John J. Ellsworth  | X    |            |       |           |
| 10.23 | Amended and Restated Employment Agreement, dated June 25, 2014, between the Registrant and Charles A. Mathis  | X    |            |       |           |
| 10.24 | Amended and Restated Employment Agreement, dated June 25, 2014, between the Registrant and Gerald Lyons   | X    |            |       |           |
| 10.25 | Form of Performance and Service-Based Restricted Stock Unit Award Agreement for John J. Ellsworth dated May 14, 2012                                      | 10-K | 6/30/2012  | 10.31 | 8/24/2012 |
| 10.26 | Form of Restricted Stock Award Agreement for Andrea D. Meade, dated June 6, 2011  | 10-K | 6/30/2011  | 10.27 | 8/29/2011 |
| 10.27 | Form of Restricted Stock Unit Award Certificate under ScanSource, Inc. 2013 Long-Term Incentive   | 10-Q | 12/31/2013 | 10.1  | 2/6/2014  |

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|       |  |      |            |      |          |
|-------|--|------|------------|------|----------|
| 10.28 | Plan for grants on or after December 5, 2013<br>Form of Director Stock Unit Award Certificate<br>under ScanSource, Inc. 2013 Long-Term Incentive<br>Plan for grants on or after December 5, 2013 | 10-Q | 12/31/2013 | 10.2 | 2/6/2014 |
| 10.29 | Form of Incentive Stock Option Award Certificate<br>under ScanSource, Inc. 2013 Long-Term Incentive<br>Plan for grants on or after December 5, 2013  | 10-Q | 12/31/2013 | 10.3 | 2/6/2014 |
| 10.30 | Form of Non-Qualified Stock Option Award<br>Certificate under ScanSource, Inc. 2013 Long-Term<br>Incentive Plan for grants on or after December 5,<br>2013                                       | 10-Q | 12/31/2013 | 10.4 | 2/6/2014 |
| 10.31 | Independent Contractor Agreement entered into on<br>December 2, 2013 between ScanSource, Inc. and<br>Andrea Meade on behalf of Brentwood Road<br>Ventures, LLC                                   | 10-Q | 12/31/2013 | 10.5 | 2/6/2014 |

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|--------|---|--------|-----------|-------|--|-----------|
| 10.32  | Other Stock Based Award Agreement for John J. Ellsworth dated August 26, 2014   | X      |           |       |  |           |
| 10.33  | Form of Other Stock Based Award Certificate under ScanSource, Inc. 2013 Long-Term Incentive Plan  | X      |           |       |  |           |
| 10.34  | Form of Performance and Service - Based Restricted Stock Unit Award Certificate under ScanSource, Inc. 2013 Long-Term Incentive Plan  | X      |           |       |  |           |
|        | Bank Agreements   |        |           |       |  |           |
| 10.35  | Amended and Restated Credit Agreement entered into on October 11, 2011, among ScanSource, Inc., the Subsidiary Borrowers party thereto, J.P. Morgan Chase Bank, N.A., individually and as administrative agent and the other financial institutions signatory thereto | 10-Q   | 9/30/2011 | 10.1  |  | 11/4/2011 |
| 10.36  | Amendment No. 1 dated as of November 6, 2013, to the Amended and Restated Credit Agreement, dated October 11, 2011 among ScanSource, Inc., the subsidiary borrowers thereto, the lender parties thereto and JP Morgan Chase Bank, N.A., as Administrative Agent       | 8-K    |           | 10.1  |  | 11/8/2013 |
|        | Other Agreements  |        |           |       |  |           |
| 10.37+ | Industrial Lease Agreement dated April 27, 2007 between Registrant and Industrial Developments International, Inc.  | 10-K   | 6/30/2007 | 10.26 |  | 8/29/2007 |
| 10.38+ | US Avaya Contract with ScanSource, Inc.   | 10-K   | 6/30/2010 | 10.39 |  | 8/26/2010 |
| 10.39+ | Amendment to Distribution Agreement with Avaya.   | 10-K   | 6/30/2013 | 10.37 |  | 8/26/2013 |
| 10.40+ | Addendum to Distributor Agreement with Avaya.   | 10-K/A | 6/30/2013 | 10.38 |  | 1/31/2014 |
| 10.41+ | US Motorola (f/k/a Symbol Technologies) Contract with ScanSource, Inc.  | 10-K   | 6/30/2010 | 10.40 |  | 8/26/2010 |
| 10.42+ | Letter Agreement with US Motorola   | 10-K   | 6/30/2010 | 10.41 |  | 8/26/2010 |
| 10.43+ | Distribution Agreement with US Motorola   | 10-Q   | 3/31/2014 | 10.1  |  | 5/7/2014  |
| 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   | 3/31/2014 | 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  | X      |           |       |  |           |
| 31.1   | Certification of the Chief Executive Officer, Pursuant to Rule 13a-14(a) or 15d-14(a) of the Exchange Act, as Adopted Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002   | X      |           |       |  |           |

- 31.2 Certification of the Chief Financial Officer,  
Pursuant to Rule 13a-14(a) or 15d-14(a) of the  
Exchange Act, as Adopted Pursuant to Section 302 X  
of the Sarbanes-Oxley Act of 2002
- 32.1 Certification of the Chief Executive Officer,  
Pursuant to 18 U.S.C. Section 1350, as Adopted X  
Pursuant to Section 906 of the Sarbanes-Oxley Act  
of 2002

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

101++ The following materials from our Annual Report on Form 10-K for the year ended June 30, 2014, formatted in XBRL (eXtensible Business Reporting Language): (i) the Consolidated Balance Sheets as of June 30, 2014 and June 30, 2013, (ii) the Consolidated Income Statements for the years ended June 30, 2014, June 30, 2013 and June 30, 2012, (iii) the Consolidated Statements of Shareholders' Equity for the years ended June 30, 2014, June 30, 2013 and June 30, 2012, (iv) the Consolidated Statements of Cash Flows for the years ended June 30, 2014, June 30, 2013 and June 30, 2012, and (v) the Notes to the Consolidated Financial Statements, tagged as blocks of text 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.

++ The XBRL-related information has been furnished electronically herewith. This exhibit, regardless of whether it is an exhibit to a document incorporated by reference into any of our filings and except to the extent specifically stated otherwise, is deemed not filed or part of a registration statement or prospectus for purposes of sections 11 or 12 of the Securities Act of 1933, as amended, is deemed not filed for purposes of section 18 of the Securities Exchange Act of 1934, as amended, and otherwise is not subject to liability under these sections.

Our SEC file number for documents filed with the SEC pursuant to the Securities Exchange Act of 1934, as amended, is 000-26926.