

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

FORM 10-K

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the fiscal year ended June 30, 2019

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



ScanSource, Inc.  
South Carolina  
(State of incorporation)

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

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

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

Title of Each Class	Trading Symbol	Name of Each Exchange on Which Registered
Common Stock, no par value	SCSC	NASDAQ Global Select Market

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

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

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

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

Indicate by check mark whether the registrant has submitted electronically on its corporate Web site, if any, every Interactive Data File required to be submitted 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 such files).  Yes  No

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

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

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

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

The aggregate market value of the voting common stock of the Registrant held by non-affiliates of the Registrant as of December 31, 2018 was \$877,604,886, 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 16, 2019
Common Stock, no par value per share	25,241,115 shares

DOCUMENTS INCORPORATED BY REFERENCE

The registrant has incorporated by reference into Part III of this report certain portions of either an amendment to this Form 10-K or its proxy statement for its 2020 Annual Meeting of Shareholders, which are expected to be filed within 120 days after the end of the registrant's fiscal year ended June 30, 2019.

## **FORWARD-LOOKING STATEMENTS**

The forward-looking statements included in the "Business," "Risk Factors," "Legal Proceedings," "Management's Discussion and Analysis of Financial Condition and Results of Operations," and "Quantitative and Qualitative Disclosures About Market Risk" sections and elsewhere herein. Words such as "expects," "anticipates," "believes," "intends," "plans," "hopes," "forecasts," "seeks," "estimates," "goals," "projects," "strategy," "future," "likely," "may," "should," and variations of such words and similar expressions generally identify such forward-looking statements. Any forward-looking statement made by us in this Form 10-K is based only on information currently available to us and speaks only as of the date on which it is made. Except as may be required by law, we expressly disclaim any obligation to update these forward-looking statements to reflect events or circumstances after the date of this Annual Report on Form 10-K, except as required by law. Actual results could differ materially from those anticipated in these forward-looking statements as a result of a number of factors including, but not limited to, changes in interest and exchange rates and regulatory regimes impacting our overseas operations, the failure of acquisitions to meet our expectations, the failure to manage and implement our organic growth strategy, credit risks involving our larger customers and suppliers, termination of our relationship with key suppliers or a significant modification of the terms under which we operate with a key supplier, the decline in demand for the products and services that we provide, reduced prices for the products and services that we provide due both to competitor and customer actions and the other factors set forth in "Risk Factors" contained herein.

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**TABLE OF CONTENTS**

	<b>Page</b>
<b><u>PART I</u></b>	<b><u>1</u></b>
Item 1. <a href="#">Business</a>	<a href="#">1</a>
Item 1A. <a href="#">Risk Factors</a>	<a href="#">7</a>
Item 1B. <a href="#">Unresolved Staff Comments</a>	<a href="#">15</a>
Item 2. <a href="#">Properties</a>	<a href="#">15</a>
Item 3. <a href="#">Legal Proceedings</a>	<a href="#">16</a>
Item 4. <a href="#">Mine Safety Disclosures</a>	<a href="#">16</a>
<b><u>PART II</u></b>	<b><u>18</u></b>
Item 5. <a href="#">Market for Registrant’s Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities</a>	<a href="#">18</a>
Item 6. <a href="#">Selected Financial Data</a>	<a href="#">20</a>
Item 7. <a href="#">Management’s Discussion and Analysis of Financial Condition and Results of Operations</a>	<a href="#">21</a>
Item 7A. <a href="#">Quantitative and Qualitative Disclosures About Market Risk</a>	<a href="#">37</a>
Item 8. <a href="#">Financial Statements and Supplementary Data</a>	<a href="#">38</a>
Item 9. <a href="#">Changes in and Disagreements With Accountants on Accounting and Financial Disclosure</a>	<a href="#">85</a>
Item 9A. <a href="#">Controls and Procedures</a>	<a href="#">85</a>
Item 9B. <a href="#">Other Information</a>	<a href="#">85</a>
<b><u>PART III</u></b>	<b><u>88</u></b>
Item 10. <a href="#">Directors, Executive Officers and Corporate Governance</a>	<a href="#">88</a>
Item 11. <a href="#">Executive Compensation</a>	<a href="#">88</a>
Item 12. <a href="#">Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters</a>	<a href="#">88</a>
Item 13. <a href="#">Certain Relationships and Related Transactions, and Director Independence</a>	<a href="#">88</a>
Item 14. <a href="#">Principal Accountant Fees and Services</a>	<a href="#">88</a>
<b><u>PART IV</u></b>	<b><u>89</u></b>
Item 15. <a href="#">Exhibits and Financial Statement Schedules</a>	<a href="#">89</a>
Item 16. <a href="#">Form 10-K Summary</a>	<a href="#">89</a>
<b><u>Signatures</u></b>	<b><u>91</u></b>

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## PART I

### ITEM 1. Business.

ScanSource, Inc. (together with its subsidiaries referred to as “the Company” or “ScanSource” or “we”) is at the center of the technology solution delivery channel, connecting businesses and providing solutions for their complex needs. Using a channel sales model, we provide technology solutions and services from the world’s leading suppliers of point-of-sale (POS), payments, barcode, physical security, unified communications and collaboration, telecom and cloud services to our customers.

Our customers are businesses of all sizes that sell to end-customers across many industries. Our customer channels include value-added resellers (“VARs”), sales partners or agents, independent sales organizations (“ISOs”) and independent software vendors (“ISVs”). These customer channels provide us with multiple routes-to-market. We align our teams, tools and processes around all of our customers to help them grow through reducing their costs, creating efficiencies and generating end-customer demand for business solutions. We enable our customers to create, deliver and manage solutions for end-customers across almost every vertical market in the United States, Canada, Brazil, additional Latin American countries and Europe.

ScanSource was incorporated in South Carolina in 1992 and serves approximately 38,000 customers. Net sales for fiscal year ending June 30, 2019 totaled \$3.9 billion. Our common stock trades on the NASDAQ Global Select Market under the symbol “SCSC.”

#### Strategy

We rely on a channel sales model to offer hardware, software, services and connectivity from technology suppliers to our sales partners (resellers, agents, ISOs, ISVs) to solve end-customer needs. While we do not manufacture products, we provide technology solutions and services from leading technology suppliers. Our solutions may include a combination of offerings from multiple suppliers or access to additional services, such as custom configuration, key injection, integration support custom development and other services, to deliver solutions. We also offer the flexibility of on-premise, cloud or hybrid solutions for their end-customers.

As a trusted adviser to our sales partners, we provide more complete solutions through a better understanding of end-customer needs. In addition, we drive growth through enhancing our sales partners' capabilities to provide hardware, software, services and connectivity solutions to meet these needs. Our teams deliver value-added support programs and services, including education and training, assessments, provisioning, implementation, custom development and marketing, designed to help our sales partners' develop new technology practices and reach new end-customers and deliver new solutions to their current customers.

Part of our strategy is to expand in higher margin and adjacent markets to help our sales partners offer more products and services while building recurring revenue opportunities. In fiscal 2020, we acquired intY and its CASCADE cloud services distribution platform. With intY’s CASCADE solution, we are providing our sales partners with another route to market to enable key strategic cloud services. In fiscal 2019, we acquired Canpango, a global Salesforce implementation and professional services business with deep knowledge of customer relationship management (“CRM”) and integration with telecom systems. With Canpango, we added capabilities to help our sales partners sell customer experience (CX) solutions, where CRM integrates with other communications offerings. In fiscal 2018, we acquired POS Portal, a leading provider of payments devices and services primarily to the small and medium-sized (“SMB”) business segment. POS Portal added to our offerings industry-leading services and capabilities in serving the U.S. payments channel. In fiscal 2017, we acquired Intelisys, an industry-leading technology services provider (also called a master agent) of business telecommunications and cloud services. Using a master agent business model, Intelisys acts as an intermediary connecting sales partners with service providers and suppliers who offer services to end-customers. Intelisys’ sales partners earn commission payments from those service providers or suppliers on end-customer sales, typically multi-year contracts. Intelisys earns a percentage of the commission streams, building more predictable, recurring revenues. Since our Intelisys business is a services model, the working capital requirements are very low and require no inventories.

#### Value Proposition

Our customer channels and supplier relationships serve as competitive advantages. From our position in the center of the solution delivery channel, we provide robust value to both our sales partners and our suppliers. We make it easier for our sales partners and suppliers to deliver leading technology solutions that drive business outcomes for end-customers.

Value proposition for our customers/sales partners:

- Understand end-customer needs
- Provide more complete technology solutions

- Offer market and technology solutions expertise
- Offer training, education and marketing services
- Provide custom configuration, services, platforms and digital tools
- Deliver technical support
- Enable opportunities in emerging technologies
- Reduce working capital requirements
- Offer flexible financing solutions
- Increased ability to navigate supplier programs

Value proposition for our suppliers:

- Provide access to emerging, diverse and established customer channels and routes to market
- Create scale and efficiency
- Serve small- and medium-sized businesses more efficiently
- Deliver more complete technology solutions
- Provide market insights
- Offer expertise and technical support
- Manage channel credit
- Create demand

### *Financial Strength*

Our consolidated balance sheet reflects financial strength. Our strong balance sheet and cash generated from our business provide us with the ability to execute our capital allocation plan, which includes organic growth, strategic acquisitions and share repurchases. We have the financial flexibility to invest in our business and in future growth.

### **Business Segments**

We segment our business into two technology-focused areas that each operate in the U.S., Canada, Brazil, additional Latin American countries, and Europe:

- Worldwide Barcode, Networking & Security; and
- Worldwide Communications & Services.

#### *Worldwide Barcode, Networking & Security Segment*

The Worldwide Barcode, Networking & Security portfolio of solutions includes enterprise mobile computing, data capture, barcode printing, POS, payments, networking, electronic physical security, cyber security and other technologies. There are adjacencies among these technologies to develop and deliver solutions for our customers. These solutions include data capture and POS solutions that interface with computer systems to automate the collection, processing and communication of information for commercial and industrial applications, including retail sales, distribution, shipping, inventory control, materials handling, warehouse management and health care applications. Electronic physical security products include identification, access control, video surveillance, intrusion-related and wireless and networking infrastructure products.

The Worldwide Barcode, Networking & Security segment includes the fiscal 2016 acquisition of KBZ, which specializes in video conferencing, services, and cloud, and the fiscal 2018 acquisition of POS Portal.

#### *Worldwide Communications & Services Segment*

The Worldwide Communications & Services portfolio of solutions includes communications technologies and services for voice, video conferencing, wireless, data networking, cyber security, cable, unified communications and collaboration, cloud and technology services. As these solutions come together on IP networks, new opportunities are created to move into adjacent solutions for all vertical markets, such as education, healthcare and government.

The Worldwide Communications & Services segment includes the fiscal 2015 acquisition of Network1, a leading value-added distributor of communications technologies, infrastructure solutions, digital networks and cyber security in Latin America, the fiscal 2017 acquisition of Intelisys, the fiscal 2019 acquisitions of Canpango and RPM, a business process software developer, and the fiscal 2020 acquisition of intY.

## Customers

Our customers, or sales partners are businesses of all sizes that sell to end-customers across industries ranging from manufacturing, warehouse and distribution, retail and e-commerce, hospitality, transportation and logistics, government, education and health care, among others. Our customers provide us with multiple routes-to-market through various channels, including: VARs, agents, ISOs, and ISVs. No single customer accounted for more than 5% of our total net sales for the fiscal year ended June 30, 2019.

### *VARs*

Within VARs, our customers include specialty technology VARs, direct marketers, IT system integrators and service providers. Specialty technology VARs focus on one or more technologies, providing specialized knowledge and expertise for technology solutions, such as tailored software or integrated hardware. Direct marketers provide a very broad range of technology brands to business, government, education and healthcare markets. IT system integrators develop computer and networking solutions for end-customers' IT needs. Service providers deliver advanced multi-discipline services with customized solutions that bundle data, collaboration, cloud, network and digital telecommunication services for end-customers' needs.

### *Agents*

Agents focus on selling telecommunications and cloud services to end-customers, advising about various services, technologies and cost alternatives to help them make informed choices. Agents typically earn monthly commissions on multi-year contract sales as they build their recurring revenue business.

### *Independent Sales Organizations*

ISOs focus on selling credit card processing and finding new merchant customers for credit card member banks. They offer on-going customer service and support and look to bundle hardware, software and processing services.

### *Independent Software Vendors*

ISVs develop software, apps and integrated solutions. They generally focus on cloud solutions and sell or certify bundled hardware, software and service solutions.

## Suppliers

We provide products and services from approximately 550 suppliers, including Axis, AudioCodes, Avaya, Barco, Bematech, Bosch, CenturyLink/Level 3, Cisco, Comcast Business, Datalogic, Dell, Elo, Epson, Exacq, Extreme, Fortinet, Hanwha, HID, Honeywell, HP/Aruba, IBM, Ingenico, Jabra, Lifesize, Microsoft, Milestone, Mitel, NCR, Panasonic, Pioneer, Plantronics/Polycom (Poly), RingCentral, Ruckus, Samsung, Spectralink, Spectrum, Star Micronics, Toshiba Global Commerce Solutions, Ubiquiti, Verifone, Verizon, Windstream, Yealink and Zebra Technologies. We also offer customers significant choices in cloud services through our Intelisys business and our intY cloud services distribution platform, including offerings in contact center, infrastructure, unified communications, security, and Microsoft offerings.

We provide products and services from many of our key suppliers in all of our geographic markets; however, certain suppliers only allow distribution to specific geographies. We typically purchase products directly from the supplier and our supplier agreements generally do not restrict us from selling similar or competitive products or services. We have the flexibility to terminate or curtail sales of one product line in favor of another due to technological change, pricing considerations, product availability, customer demand or supplier distribution policies.

Products from two suppliers, Cisco and Zebra, each constituted more than 10% of our net sales for the fiscal year ended June 30, 2019.

- We have two non-exclusive agreements with Cisco. One agreement covers the distribution of Cisco products in the United States and has a two year term; and one agreement covers distribution of products in Brazil and has a two year term. Each of these agreements must be renewed by written agreement. Either party may terminate the agreement upon 30 days' notice to the other party.
- We have two non-exclusive agreements with Zebra. One agreement covers sales of Zebra products in North and South America, and the other agreement covers sales of Zebra products in Europe, the Middle East and Africa ("EMEA"). The Zebra agreements each have a one year term that automatically renews for additional one year terms, and either party may terminate the agreement upon 30 days' notice to the other party.

In addition to the agreements mentioned above, we have written agreements with almost all of our other suppliers. These agreements generally include the following terms:

- Non-exclusive distribution rights to resell products and related services in geographical areas (vendor agreements often include territorial restrictions that limit the countries in which we can sell their products and services).
- Short-term periods, subject to periodic renewal, and provide for termination by either party without cause upon 30 to 120 days' notice.
- Stock rotation rights, which give us the ability, subject to limitations, to return for credit or exchange a portion of the items purchased.
- Price protection provisions, which enables us to take a credit for declines in inventory value resulting from the vendor's price reductions.

Along with our inventory management policies and practices, these stock rotation rights and price protection provisions are designed to reduce our risk of loss due to slow-moving inventory, vendor price reductions, product updates and obsolescence.

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

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

### **Offerings and Markets**

We currently market over 100,000 products from approximately 550 hardware, software and service suppliers to approximately 38,000 customers. We sell products and services to the U.S. and Canada from our facilities located in Mississippi, California and Kentucky; into Brazil and other parts of Latin America principally from facilities located in Florida, Mexico, Brazil, Colombia and Chile; and into Europe principally from facilities located in Belgium, France and the United Kingdom. See "Risk Factors," for a discussion of the risks related to our foreign operations. We also have drop-shipment arrangements with some of our suppliers, which allow us to offer products to customers without taking physical delivery at our facilities. These drop-shipment arrangements represent approximately 17% of fiscal year 2019 net sales.

Our offerings to our customers include hardware, software, services and connectivity from leading technology suppliers, including the flexibility of on-premise, cloud and hybrid solutions. We believe that sales partners want to offer end-customers complete technology solutions that solve real business needs and drive business outcomes. We align our teams, tools, and processes to help our sales partners grow by providing more complete solutions through a better understanding of end-customers' need. We may provide a combination of offerings from multiple suppliers or give our sales partners access to additional services, such as configuration, key injection, integration support and others to deliver solutions.

We provide our sales partners and suppliers an array of pre-sale business tools and value-added services, including market and technology solution expertise, education and training, product configuration tools, technical support, logistics and channel financial services. These services allow our sales partners to gain knowledge and experience on marketing, negotiation and selling, to improve customer service, to profitably grow their business and be more cost effective. Our business is enhanced by our ability and our willingness to provide the extra level of services that keeps both our sales partners and our suppliers satisfied.

We bring technology solutions and services that include the following offerings:

- *POS*: We provide POS solutions for retail, grocery and hospitality environments to efficiently manage in-store sales and operations. POS solutions include computer-based terminals, tablets, monitors, payment processing solutions, receipt printers, pole displays, cash drawers, keyboards, peripheral equipment and fully integrated processing units. These solutions may include self-service checkout, kiosks and products that attach to the POS network in the store, including network access points, routers and digital signage.

- *Payments:* We offer payment terminals, comprehensive key injection services, reseller partner branding, extensive key libraries, ability to provide point-to-point encryption (“P2PE”), and redundant key injection facilities. We have the resources to deliver secure payment devices that are preconfigured and ready for use. In addition, we partner with ISVs to deliver to merchants integrated tablet POS solution hardware that a merchant may purchase outright or “as a service,” and which includes merchant hardware support and next-day replacement of tablets, terminals and peripherals.
- *Barcode:* We offer automatic identification and data capture (“AIDC”) technology that incorporates the capabilities for electronic identification and data processing without the need for manual input. These solutions 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.
- *Physical Security:* We provide electronic physical security solutions that include identification, access control, video surveillance and intrusion-related products and networking infrastructure. Physical security products are used every day across every vertical market to protect lives, property and information. These technology solutions require specialized knowledge to deploy effectively, and we offer in-depth training and education to our sales partners to enable them to maintain the appropriate skill levels.
- *Unified Communications and Collaboration:* We provide unified communications and collaboration capabilities, such as voice, video, audio conferencing, web conferencing and messaging. These offerings combine voice, data, fax and speech technologies with computers, telecommunications and the internet to deliver communications solutions on-premise, from the cloud and as a hybrid. Software and hardware products include IP-based telephony platforms, Voice over Internet Protocol (“VoIP”) systems, private branch exchanges (“PBXs”), call center applications, video conferencing, desk phones and other endpoints. Cloud-delivered services, such as unified communications, contact center and video conferencing, enable end-customers to consume and pay for communications services typically on a monthly subscription basis.
- *Cloud and Telecom Services:* We offer business communications services, including voice, data, access, cable collaboration, wireless and cloud. We focus on empowering and educating sales partners so they can advise end-customers in making informed choices about services, technology and cost savings. With the CASCADE cloud services platform, we offer sales partners another way to grow their recurring revenue practices. CASCADE takes the friction out of acquiring, provisioning and managing XaaS offerings. We have contracts with more than 150 of the world’s leading telecom carriers and cloud services providers.

## **Our People**

The strength of our Company is our people, working together to help our customers grow their businesses. As of June 30, 2019, we had more than 2,700 employees, of which approximately 1,600 are in the United States and 1,100 are located internationally in Canada, Brazil, other parts of Latin America and Europe. We have no organized labor or trade unions in the United States. We consider our relations with our employees to be good.

## **Competition**

We believe we are a leader in the specialty markets we serve. The market for technology products and solutions is highly competitive, both in the United States and internationally. Competitive factors include 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 local, regional, national and international distributors, as well as suppliers that sell directly to resellers and to end-customers. In addition, our competitors include master resellers that sell to franchisees, third-party dealers and end-customers. Certain current and potential competitors have greater financial, technical, marketing and other resources than we have and may be able to respond more quickly to new or emerging technologies and changes in customer requirements. Certain smaller, regional competitors, who are specialty two-tier or mixed model master resellers, may also be able to respond more quickly to new or emerging technologies and local or regional changes in customer requirements from the specialized market focus. Competition has increased over the last several years as broad line and other value-added distributors have entered into the specialty technology markets. Such competition could also result in price reductions, reduced margins and loss of market share.



In our Worldwide Barcode, Networking & Security segment, we compete with broad-line distributors, such as Ingram Micro, Synnex and Tech Data in most geographic areas, and more specialized security distributors, such as ADI and Anixter. Additionally, we also compete against other smaller, more specialized AIDC and POS distributors, such as Azerty, BlueStar, Jarltech and Nimax. In our Worldwide Communications & Services segment, we compete against broad-line distributors, such as Ingram Micro, Synnex and Tech Data, and more specialized distributors, such as Jenne and Westcon. Additionally, for Intelisys' technology services, we also compete against other smaller, master agents, such as Avant and Telarus. For our intY business, we compete against other small developers of cloud software and services platforms such as CloudBlue and Pax8. As we seek to expand our business into other areas closely related to our offerings, we may encounter increased competition from current competitors and/or from new competitors, some of which may be our current sales partners.

## **Sales**

Our sales department consists of inside and field sales representatives located in the United States, Canada, Brazil, Chile, Colombia, Mexico, Peru, Belgium, France, Germany, the United Kingdom, the Netherlands, Poland and Spain. The majority of our sales partners are assigned to a dedicated sales representative or team whose main focus is developing customer relationships and providing the sales partners with the solutions to meet their end-customer's needs. Our sales teams are advocates for and trusted advisers to our sales partners. Sales teams are often responsible for developing technical expertise within broad product markets, recruiting sales partners, creating demand, negotiating pricing and reviewing overall product and service requirements of our sales partners. Our sales representatives receive comprehensive training with respect to the technical characteristics of suppliers' products, supplemented by frequent product and service seminars conducted by vendor representatives and bi-weekly meetings among product, marketing and sales managers.

Our sales teams also provide sales partners with online ordering, API, EDI and other information systems, allowing sale partners to easily gain access to product specifications, availability, and customized pricing, as well as the ability to place and follow the status of orders.

## **Marketing**

We market our technology solutions and services through a range of digital and print channels, including online product catalogs customized for our North American, Brazilian, other Latin American and European markets; social media; search engine optimization and marketing; content marketing; content automation; e-commerce; email direct marketing, among others. Our marketing practices are tailored to fit the specific needs of our sales partners and suppliers - ensuring we help our partners create, deliver and manage solutions for end-customers across our vertical markets. Our comprehensive marketing efforts include sales promotions, advertisements, management of sales leads, trade show design and event management, advertorials, content creation, partner events, and training and certification courses with leading suppliers in an effort to recruit prospective sales partners.

## **Operations**

### *Information Technology Systems*

Starting in 2015, we rolled-out a new, global SAP information system designed to replace the current existing systems. This new system is currently operating in the U.S. and Canada, excluding Intelisys, POS Portal and RPM; in Europe, excluding intY; and Latin America, excluding Brazil. Our information systems are scalable and capable of supporting numerous operational functions including purchasing, receiving, order processing, shipping, inventory management and accounting. Our sales partners and employees rely on our information systems for on-line, real-time information on pricing, inventory availability and reservation and order status. Our warehouse operations use bar code technology for receiving and shipping and automated systems for freight processing and shipment tracking, each of which is integrated with our multiple information systems. The customer service and technical support departments employ systems for documentation and faster processing of sales partner inquiries. To ensure that adequate inventory levels are maintained, our buyers depend on the system's purchasing and receiving functions to track inventory on a perpetual basis.

### *Warehouse and Shipping Strategy*

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

### *Financial Services*

Our sales terms compete within our specific geographic areas to facilitate various third-party financing options, which include leasing, flooring and other secured financing for qualified sales partners. We believe this policy reduces the sales partner's need to establish multiple credit relationships.

### **Trade and Service Marks**

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

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

### **Additional Information**

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

### **ITEM 1A. Risk Factors.**

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

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

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

- Fluctuations of foreign currency and exchange rates, which can impact sales, costs of the goods we sell and the reporting of our results and assets on our financial statements;
- Changes in international trade laws, trade agreements, or trading relationships affecting our import and export activities, including export license requirements, restrictions on the export of certain technology and tariff changes, or the imposition of new or increased trade sanctions;
- Difficulties in collecting accounts receivable and longer collection periods;
- Changes in, or expiration of, various foreign incentives that provide economic benefits to us;
- Labor laws or practices that impact our ability and costs to hire, retain and discharge employees;
- Difficulties in staffing and managing operations in foreign countries;

- Changes in the interpretation and enforcement of laws (in particular related to items such as duty and taxation), and laws related to data privacy such as GDPR and other similar privacy laws that impact our IT systems and processes;
- Global economic and financial market instability related to the U.K.'s referendum withdrawal from the E.U., as well as instability from the possibility of withdrawal of other E.U. member states;
- 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, U.K. Bribery Act, and similar laws of other jurisdictions, governing our business activities outside the United States, the violation of which could result in severe penalties, including monetary fines, criminal proceedings and suspension of export or import privileges; and
- Terrorist or military actions that result in destruction or seizure of our assets or suspension or disruption of our operations or those of our customers, suppliers or service providers.

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

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

In addition, competition in developing markets is increasing. Our success in integrating our Brazilian operations is important to our growth strategy. If we cannot successfully increase our business, our product sales, financial condition and results of operations could be adversely affected. As recently announced, we plan to exit our business in all Latin American countries (with the exception of Brazil). Before we exit, we are still subject to all risk associated with operating in those countries.

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

We have acquired, and expect to continue to acquire, companies that complement or expand our existing business in the United States and internationally, and some of these acquisitions may be in business lines where we have little, if any, experience. Acquisitions entail a number of risks, including that the acquired company will not perform as expected and that we will be responsible for unexpected costs or liabilities. In addition, increases in the size and complexity of our business may place a significant strain on our management, operations, technical performance, financial resources and internal financial control and reporting functions, and there are no assurances that we will be able to manage the acquisition process or newly acquired companies effectively. It is not always possible to conduct an assessment of an acquired business's internal control over financial reporting in the period between the consummation date and the date of management's assessment. Any failure to implement required new or improved controls, or difficulties encountered in their implementation, could harm our operating results or cause us to fail to meet our reporting obligations under Section 404 of the Sarbanes-Oxley Act of 2002.

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 acquisition opportunities could damage our reputation, limit our future growth, and adversely affect our business, financial condition and operating results.

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

A significant component of our growth strategy is to expand our channels. Expansion of our existing products and services in our existing channels and entry into new channels may divert our resources and systems, require additional resources that might not be available (or available on acceptable terms), result in new or more intense competition, require longer implementation times or greater expenditures than anticipated and otherwise fail to achieve timely desired results, if at all. If we are unable to increase our sales and earnings by expanding our product and service offerings in a cost effective manner, our results may suffer.

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

As recently announced, we have initiated a plan to sell our operations in additional Latin American countries (with the exception of Brazil) and our operations in Europe (with the exception of our digital businesses, including the acquisitions of intY, Canpango, and Intelisys Global). We may face administrative and regulatory hurdles in the process, the sale process may be longer than anticipated, we may not find a buyer for the operations and we may incur significant expenses in connection with the wind-down of our operations in excess of our estimates. If we are not successful in exiting our operations in those countries in a cost-effective manner, our revenues, results of operations and financial condition may be adversely impacted. Reorienting our business and redeploying capital to focus on higher margin opportunities in our United States, Canadian and Brazilian businesses are designed to lead to longer-term value creation for our shareholders.

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

As is customary in our industry, we extend credit to our customers, and most of our sales are on open accounts. As we grow and compete for business, our typical payment terms tend to be longer, and therefore may increase our credit risk.

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

In addition, extending credit to international customers involves additional risks. It is often more difficult to evaluate credit risk with 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 international sales compared to domestic sales.

As we implement our plan to sell our operations in additional Latin American countries (with the exception of Brazil) and in Europe (with the exception of our digital businesses, including the acquisitions of intY, Canpango, and Intelisys Global), we may face a heightened risk of credit losses in those geographies that could negatively impact our performance.

***Suppliers - Changes to supply agreement terms or lack of product availability from our suppliers could adversely affect our operating margins, revenues or the level of capital required to fund our operations.***

A significant percentage of our net sales relates to products we purchase from relatively few suppliers, including Cisco and Zebra. As a result of such concentration risk, terminations of supply or services agreements or a change in terms or conditions of sale from one or more of our key suppliers could adversely affect our operating margins, revenues or the level of capital required to fund our operations. Our suppliers 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 suppliers. In certain product categories, limited price protection or return rights offered by our suppliers may have a bearing on the amount of product we are willing to stock. Our inability to pass through to our customers the impact of these changes, as well as if we fail to develop or maintain systems to manage ongoing supplier 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 suppliers 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 suppliers are based on percentage increases in sales of products. Our operating results could be

adversely impacted if these rebates or discounts are reduced or eliminated or if our suppliers significantly increase the complexity of their refund procedures and thus increase costs for us to obtain 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 suppliers have experienced product supply shortages from time to time due to the inability of certain of their suppliers to supply products on a timely basis. In addition, our dependence on a limited number of suppliers leaves us vulnerable to having an inadequate supply of required products, price increases, late deliveries and poor product quality. As a result, we have experienced, and may in the future continue to experience, short-term shortages of specific products or be unable to purchase our desired volume of products. Suppliers that 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-customers. 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 suppliers, which could have an adverse impact on our operating results. We cannot provide any assurances that suppliers will maintain an adequate supply of products to fulfill all of our customer orders on a timely basis. Our reputation, sales and profitability may suffer if suppliers 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.

Increasingly, our suppliers are combining and merging, leaving us with fewer alternative sources. Supplier consolidation may also lead to changes in the nature and terms of relationships with our suppliers. Any loss or deterioration of a major supplier relationship could adversely affect our business, financial condition and results of operations.

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

Meeting our customers' needs quickly and fairly is critical to our business success. Transactions with our customers generally are performed on a purchase order basis rather than under long term supply agreements. Therefore, our customers readily can choose to purchase from other sources. From time to time, we experience shortages in availability of some products from suppliers, and this impacts customers' decisions regarding whether to make purchases from us. Anything that negatively influences customer relations also can negatively impact our operating results.

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

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

Our markets are fiercely competitive. We compete on the basis of price, product and service availability, speed and accuracy of delivery, effectiveness of sales and marketing programs, credit availability and terms, 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 and service suppliers that sell directly to resellers and to end-customers. In addition, we compete with master resellers that sell to franchisees, third party dealers and end-customers. 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, that are specialty two-tier or mixed model master resellers, may be able to respond more quickly to new or emerging technologies and changes in customer requirements in their regions. 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 historically have been narrow, and we expect them to continue 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 an adverse impact on our results of operations. We may lose market share, or reduce our prices in response to the action of our competitors and thereby experience a reduction in our gross margins, or that we will remain in any geographical market where we do not believe we can earn appropriate 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.

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

Our business requires significant levels of capital to finance accounts receivable and product inventory that is not financed by trade creditors. We have an increased demand for capital when our business is expanding, including through acquisitions and organic growth. Changes in payment terms with either suppliers or customers could also increase our capital requirements. We have historically relied upon cash generated from operations, borrowings under our revolving credit facility and secured and unsecured borrowings to satisfy our capital needs and to finance growth. While we believe 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 or if we are unable to comply with covenants under our borrowings, such capital may not be available to us on terms acceptable to us, or at all. The Amended Credit Agreement includes customary representations, warranties, and affirmative and negative covenants, including financial covenants. Specifically, our Leverage Ratio must be less than or equal to 3.50 to 1.00 at all times. In addition, our Interest Coverage Ratio (as such term is defined in the Amended Credit Agreement) must be at least 3.00:1.00 as of the end of each fiscal quarter. In the event of a default, customary remedies are available to the lenders, including acceleration and increased interest rates.

In addition, the cost of borrowings under our existing sources of capital and any potential new sources of capital as a result of variable interest rates and the transition away from LIBOR may increase, which could have an adverse effect on our financial condition. 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.

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

Our business, like that of other distributors, is subject to the risk that the value of our inventory will be adversely affected by price reductions by manufacturers, by technological changes affecting the usefulness or desirability of our products or by foreign currency fluctuations. Most of our supplier agreements and most manufacturers' policies 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 protections are not always reflected in supplier agreements and their application in a particular situation is dependent upon negotiations with our suppliers. As a result, occasionally 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.

***People - 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. 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 and retain employees who are committed to these values and our culture of providing exceptional service to our customers and suppliers. 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.

Many of our employees work in small teams to provide specific services to customers and suppliers. They are trained to develop their knowledge of products, services, 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.

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

The market for our products and services is subject to rapid technological change, evolving industry standards and changes in customer demand, which can contribute to the decline in value or obsolescence of inventory. Although most of our suppliers

provide us with certain protections from the loss in value of inventory (such as price protection and certain rights of return), we cannot be sure that such protections will fully compensate for any loss in value, or that the suppliers will choose to, or be able to, honor such agreements.

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

***IT Systems - Our ability to manage our business and monitor results is highly dependent upon information and communication systems. A failure of these systems could disrupt our business.***

We are highly dependent upon a variety of computer and telecommunication systems to operate our business, including our enterprise resource planning ("ERP") systems. 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, financial condition and results of operations.

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

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

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

We are subject to laws and 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 our information or other breach of such 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.

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

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

We have substantial goodwill. On at least an annual basis, we are required to assess our goodwill and other intangible assets, including but not limited to customer relationships, trademarks, 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. In addition, our decision to dispose of certain of our operations may require us to recognize an impairment to the carrying value of goodwill and other intangible assets attendant to those operations. We are still evaluating the potential impacts of winding-down these operations. 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.

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

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

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

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

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

In order to be as efficient as possible, we centralize a number of critical functions. For instance, we currently distribute products to the majority of North America from a single warehouse. Similarly, for the primary business operations, we utilize a single information system based in the United States for the majority of our North American, Latin American and European operations, while our Brazilian 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 as a result of natural disasters, security breaches or otherwise 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.



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

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

In particular, we are dependent upon major shipping companies, including FedEx and UPS, for the shipment of our products to and from our centralized warehouses. Changes in shipping terms, or the inability of these third-party shippers to perform effectively, could affect our responsiveness to our customers. From time to time, we have experienced significant increases in shipping costs due to increases in fuel costs. Increases in our shipping costs may adversely affect our financial results if we are unable to pass on these higher costs to our customers.

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

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

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

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

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

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

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

in the future as our operating results may fluctuate significantly quarter to quarter. The results of any quarterly period are not indicative of results to be expected for a full fiscal year.

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

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

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

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

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

**ITEM 1B. Unresolved Staff Comments.**

Not applicable.

**ITEM 2. Properties.**

Our fixed assets include office space and warehouses. Our principal locations and/or properties as of June 30, 2019, were as follows:

<b>Location</b>	<b>Approximate Square Footage</b>	<b>Type of Interest</b>	<b>Description of Use</b>
<b><i>United States</i></b>			
Greenville, SC	180,000	Owned	Headquarters - Principal Executive and Sales Offices
Southaven, MS	741,000	Leased	Warehouse
Miami, FL	29,000	Leased	Sales Office and Warehouse
Sacramento, CA	41,000	Leased	Sales and Administration Offices and Warehouse
Louisville, KY	22,000	Leased	Warehouse
<b><i>International</i></b>			
Mexico City, Mexico	25,000	Leased	Warehouse
Brussels, Belgium	28,000	Leased	Sales and Administration Offices
Sao Jose does Pinhais, Brazil	24,000	Leased	Sales Office and Warehouse
Serra, Espirito Santo, Brazil	31,000	Leased	Sales Office and Warehouse
Itajai, Santa Catarina, Brazil	164,000	Leased	Sales Office and Warehouse

Of the 180,000 owned square footage in Greenville, South Carolina approximately 40,000 square feet is subleased to an unrelated third party. Our primary North American distribution operations are located in Southaven, Mississippi. We utilize the logistical services of various third party warehouses in the United States and internationally. We also lease various additional sales offices and warehouse spaces, each approximately 20,000 square feet or less throughout the United States and international locations.

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

### **ITEM 3. Legal Proceedings.**

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

### **ITEM 4. Mine Safety Disclosures.**

[Table of Contents](#)

[Index to Financial Statements](#)

Not applicable.

**PART II**

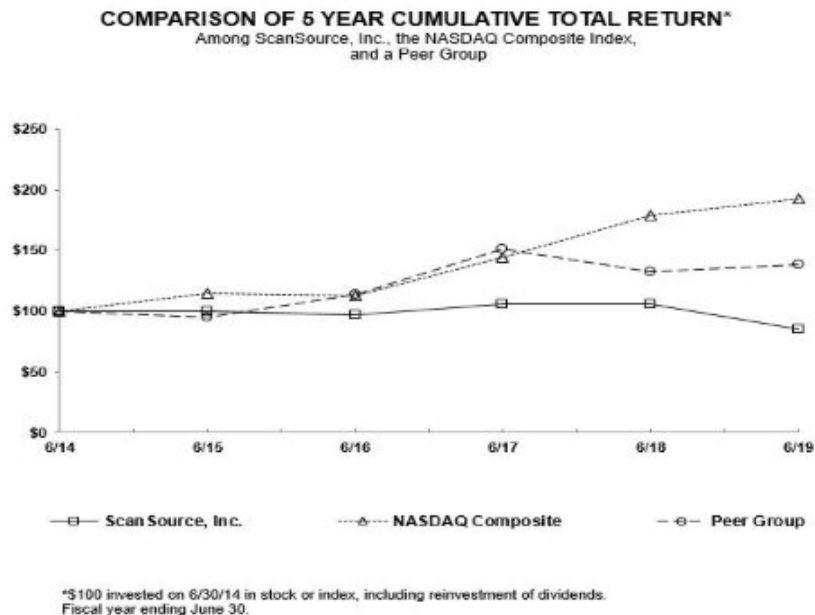
**ITEM 5. Market for Registrant’s Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities.**

Our common stock is quoted on the NASDAQ Global Select Market under the symbol "SCSC." As of August 22, 2019, there were approximately 600 holders of record of our common stock.

*Stock Performance Chart*

The following stock performance graph compares cumulative total shareholder return on our common stock over a five-year period with the Nasdaq Market Index and with the Standard Industrial Classification ("SIC") Code Index (SIC Code 5045 – Wholesale Computers and Peripheral Equipment and Software) for the same period. Total shareholder return represents stock price changes and assumes the reinvestment of dividends. The graph assumes the investment of \$100 on June 30, 2014.

	2014	2015	2016	2017	2018	2019
ScanSource, Inc.	\$ 100	\$ 100	\$ 97	\$ 106	\$ 106	\$ 86
NASDAQ Composite	\$ 100	\$ 114	\$ 113	\$ 144	\$ 178	\$ 192
SIC Code 5045 – Computers & Peripheral Equipment	\$ 100	\$ 95	\$ 114	\$ 152	\$ 133	\$ 139



*Unregistered Sales of Equity Securities and Use of Proceeds*

On August 29, 2016, we announced our Board of Directors' ("BOD") authorization to repurchase shares up to \$120 million of our common stock for up to three years. During the year ended June 30, 2017, we repurchased 544,643 shares for \$20.3 million under the program. No share repurchases occurred under the BOD authorization for the year ended June 30, 2018. During the year ended June 30, 2019, we repurchased 323,832 shares for \$10.1 million under the program. The following information describes the Company's stock repurchases under the program during the fourth quarter of fiscal year 2019. There were no stock repurchases related to shares withheld for employees stock-based awards in order to satisfy required tax withholding obligations during the fourth quarter of the fiscal year 2019.

Period	Total number of shares purchased	Average price paid per share	Total number of shares purchased as part of the publicly announced plan or program	Approximate dollar value of shares that may yet be purchased under the plan or program
April 1, 2019 through April 30, 2019	—	\$ —	—	\$ 99,356,839
May 1, 2019 through May 31, 2019	117,472	30.97	—	95,718,282
June 1, 2019 through June 30, 2019	196,973	31.39	—	89,535,486
Total	314,445	\$ 31.23	—	\$ 89,535,486

**ITEM 6. Selected Financial Data.**

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

**FIVE YEAR FINANCIAL SUMMARY**

	<b>Fiscal Year Ended June 30,</b>				
	<b>2019</b>	<b>2018</b>	<b>2017</b>	<b>2016</b>	<b>2015</b>
	<i>(in thousands, except per share data)</i>				
<b>Statement of income data:</b>					
Net sales	\$ 3,873,111	\$ 3,846,260	\$ 3,568,186	\$ 3,540,226	\$ 3,218,626
Cost of goods sold	<u>3,420,539</u>	<u>3,410,135</u>	<u>3,184,590</u>	<u>3,184,786</u>	<u>2,891,536</u>
Gross profit	452,572	436,125	383,596	355,440	327,090
Selling, general and administrative expenses	314,521	297,475	265,178	240,115	210,985
Depreciation expense	13,155	13,311	9,444	7,326	5,356
Intangible amortization expense	19,732	20,657	15,524	9,828	6,641
Change in fair value of contingent consideration	15,200	37,043	5,211	1,294	2,667
Operating income	<u>89,964</u>	<u>67,639</u>	<u>88,239</u>	<u>96,877</u>	<u>101,441</u>
Interest expense	13,382	9,149	3,215	2,124	1,797
Interest income	(1,843)	(3,713)	(5,329)	(3,448)	(2,638)
Other (income) expense, net	517	1,278	(11,142)	2,191	2,376
Income before income taxes	77,908	60,925	101,495	96,010	99,906
Provision for income taxes	<u>20,311</u>	<u>27,772</u>	<u>32,249</u>	<u>32,391</u>	<u>34,487</u>
Net income	\$ 57,597	\$ 33,153	\$ 69,246	\$ 63,619	\$ 65,419
Net income per common share, basic	\$ 2.25	\$ 1.30	\$ 2.74	\$ 2.40	\$ 2.29
Weighted-average shares outstanding, basic	<u>25,642</u>	<u>25,522</u>	<u>25,318</u>	<u>26,472</u>	<u>28,558</u>
Net income per common share, diluted	\$ 2.24	\$ 1.29	\$ 2.71	\$ 2.38	\$ 2.27
Weighted-average shares outstanding, diluted	<u>25,734</u>	<u>25,624</u>	<u>25,515</u>	<u>26,687</u>	<u>28,799</u>

	<b>As of June 30,</b>				
	<b>2019</b>	<b>2018</b>	<b>2017</b>	<b>2016</b>	<b>2015</b>
	<i>(in thousands)</i>				
<b>Balance sheet data:</b>					
Working capital	\$ 776,429	\$ 651,851	\$ 624,748	\$ 643,793	\$ 645,398
Total assets	<u>2,067,261</u>	<u>1,945,295</u>	<u>1,718,303</u>	<u>1,491,185</u>	<u>1,476,941</u>
Total debt (including current debt)	360,506	249,429	97,300	76,856	8,826
Total shareholders' equity	\$ 914,129	\$ 866,376	\$ 837,145	\$ 774,496	\$ 808,985

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

### **Overview**

ScanSource is at the center of the technological solution delivery channel, connecting businesses and institutions and providing solutions for their complex needs. We provide technology solutions and services from the world's leading suppliers of point-of-sale (POS), payments, barcode, physical security, unified communications and collaboration, telecom and cloud services to our customers. We serve approximately 38,000 customers located in the United States, Canada, Brazil, additional Latin American countries and Europe and provide solutions and services from approximately 550 technology suppliers.

We operate our business under a management structure that enhances our worldwide technology market focus and growth strategy. We segment our business into two technology-focused areas that each operate in the U.S., Canada, Brazil, additional Latin American countries and Europe:

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

We sell products to the United States and Canada from our facilities located in Mississippi, California and Kentucky; into Latin America principally from facilities located in Florida, Mexico, Brazil, Colombia and Chile; and into Europe principally from facilities in Belgium, France and the United Kingdom. We also have drop-shipment arrangements with some of our suppliers, which allow us to offer products to customers without taking physical delivery at our facilities.

Our key suppliers include Axis, AudioCodes, Avaya, Barco, Bematech, Bosch, CenturyLink/Level 3, Cisco, Comcast Business, Datalogic, Dell, Elo, Epson, Exacq, Extreme, Fortinet, Hanwha, HID, Honeywell, HP/Aruba, IBM, Ingenico, Jabra, Lifesize, Microsoft, Milestone, Mitel, NCR, Panasonic, Pioneer, Plantronics/Polycom (Poly), RingCentral, Ruckus, Samsung, Spectralink, Spectrum, Star Micronics, Toshiba Global Commerce Solutions, Ubiquiti, Verifone, Verizon, Windstream, Yealink and Zebra Technologies. We also offer customers significant choices in cloud services through our Intelisys business and our intY cloud services distribution platform, including offerings in contact center, infrastructure, unified communications, security, and Microsoft offerings.

### **Recent Developments**

On August 20, 2019, we announced plans to divest our physical product distribution businesses in Europe, UK, Mexico, Colombia, Chile, Peru and our Miami-based export operations. We will continue to operate our digital businesses in these locations, including the businesses acquired within the last year, intY, Canpango and Intelisys Global. The operations in these locations have been performing below our expectations. We are beginning the process to market and sell these businesses. There can be no assurance that this sale process will result in a transaction or the timing of any transaction.

On July 1, 2019, we acquired intY and its CASCADE cloud services distribution platform. As an additional element of the our cloud and digital strategy, intY's CASCADE solution provides our sales partners with another route to market to enable distribution and sales opportunities for key strategic cloud services. IntY joins our Worldwide Communications & Services operating segment.

### **Our Strategy**

We rely on a channel sales model offering hardware, software, services, and connectivity solutions from technology suppliers to sales partners that serve end customers. We sell technology solutions that solve end customer's business needs. While we do not manufacture products, we provide technology solutions and services from leading technology suppliers. Our solutions may include a combination of offerings from multiple suppliers or give our sales partners access to additional services, such as custom configuration, key injection, integration support, custom development and other services, to deliver solutions. We also offer the flexibility of on-premise, cloud and hybrid solutions.

As a trusted adviser to our sales partners, we provide more complete solutions through a better understanding of end customer needs. We drive growth through enhancing our sales partners' capabilities to provide hardware, software, services and connectivity solutions to meet these needs. Our teams deliver value-added support programs and services, including education and training, network assessments, implementation, custom development and marketing to help our sales partners extend their capabilities, develop new technology practices or reach new end customers.



Our objective is to grow profitable sales in the technologies we offer and expand in higher margin and adjacent markets to help our sales partners offer more products and services and increase recurring revenue opportunities. As part of our strategic plan, we consider strategic acquisitions and alliances to enhance our technology offerings and service capabilities.

### Profitability

Our operating income is driven by gross profits and by 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 solution selling. In order to continue to grow in our markets, we have continued to invest in new technologies and increased marketing efforts to recruit new customers.

### Results of Operations

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

	Fiscal Year Ended June 30,	
	2019	2018
Statement of income data:		
Net sales	100.0%	100.0%
Cost of goods sold	88.3	88.7
Gross profit	11.7	11.3
Selling, general and administrative expenses	8.1	7.7
Depreciation expense	0.3	0.3
Intangible amortization expense	0.5	0.5
Change in fair value of contingent consideration	0.4	1.0
Operating income	2.3	1.8
Interest (income) expense, net	0.3	0.1
Other (income) expense, net	0.0	0.0
Income before income taxes	2.0	1.6
Provision for income taxes	0.5	0.7
Net income	1.5%	0.9%

### Comparison of Fiscal Years Ended June 30, 2019 and 2018

Below is a discussion of fiscal years ended June 30, 2019 and 2018. Please refer to our Form 10-K for the fiscal year ended June 30, 2018 for a discussion of fiscal year ended June 30, 2017.

#### Net Sales

We have two reportable segments, which are based on the technologies provided to customers. The following table summarizes our net sales results by business segment and by geographic location for the comparable fiscal years ending June 30, 2019 and 2018.

	2019	2018	\$ Change	% Change	% Change Constant Currency, Excluding Acquisitions (a)
	<i>(in thousands)</i>				
Sales by Segment:					
Worldwide Barcode, Networking & Security	\$ 2,589,837	\$ 2,628,988	\$ (39,151)	(1.5)%	(0.6)%
Worldwide Communications & Services	1,283,274	1,217,272	66,002	5.4 %	8.6 %
Total net sales	<u>\$ 3,873,111</u>	<u>\$ 3,846,260</u>	<u>\$ 26,851</u>	0.7 %	2.3 %
Sales by Geography Category:					
North America	\$ 2,917,780	\$ 2,847,197	\$ 70,583	2.5 %	1.9 %
International	955,331	999,063	(43,732)	(4.4)%	3.5 %
Total net sales	<u>\$ 3,873,111</u>	<u>\$ 3,846,260</u>	<u>\$ 26,851</u>	0.7 %	2.3 %

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

### **Worldwide Barcode, Networking & Security**

The Worldwide Barcode, Networking & Security segment consists of sales to technology customers in North America, Europe, Brazil and additional Latin American countries. During fiscal year 2019, net sales for this segment decreased \$39.2 million, or 1.5%, compared to fiscal year 2018. Excluding the foreign exchange negative impact of \$33.3 million and sales from the POS Portal acquisition for the first quarter of fiscal years 2019 and 2018, adjusted net sales for fiscal year 2019 decreased \$14.7 million, or 0.6%, compared to the prior year. The decrease in net sales and adjusted net sales is primarily due to decreased sales in our international businesses, partially offset by sales growth in our North America business.

### **Worldwide Communications & Services**

The Worldwide Communications & Services segment consists of sales to technology customers in North America, Europe Brazil and additional Latin American countries. During fiscal year 2019, net sales for this segment increased \$66.0 million or 5.4% compared to fiscal year 2018. Excluding the foreign exchange negative impact of \$45.7 million and sales from fiscal 2019 acquisitions, adjusted net sales for fiscal year 2019 increased \$104.4 million, or 8.6%, compared to the prior year. The increase in net sales and adjusted net sales is primarily due to sales growth in our Brazil and North America businesses, partially offset by lower sales volume for our Europe business.

### ***Gross Profit***

The following table summarizes our gross profit for the fiscal years ended June 30, 2019 and 2018:

	2019	2018	\$ Change	% Change	% of Sales June 30,	
					2019	2018
	<i>(in thousands)</i>					
Worldwide Barcode, Networking & Security	\$ 244,746	\$ 238,318	\$ 6,428	2.7%	9.5%	9.1%
Worldwide Communications & Services	207,826	197,807	10,019	5.1%	16.2%	16.3%
Total gross profit	\$ 452,572	\$ 436,125	\$ 16,447	3.8%	11.7%	11.3%

### **Worldwide Barcode, Networking & Security**

For the Worldwide Barcode, Networking & Security segment gross profit dollars increased \$6.4 million and gross profit margin increased to 9.5% for fiscal year 2019 compared to the prior year primarily due to higher vendor program recognition.

### **Worldwide Communications & Services**

For the Worldwide Communications & Services segment gross profit dollars increased \$10.0 million due to increased sales volume. Gross profit margin decreased slightly to 16.2% for fiscal year 2019 as compared to 16.3% for the prior year primarily due to a less favorable sales mix.

### **Operating expenses**

The following table summarizes our operating expenses for the periods ended June 30, 2019 and 2018:

	2019	2018	\$ Change	% Change	% of Sales June 30,	
					2019	2018
	<i>(in thousands)</i>					
Selling, general and administrative expenses	\$ 314,521	\$ 297,475	\$ 17,046	5.7%	8.1%	7.7%
Depreciation expense	13,155	13,311	(156)	(1.2)%	0.3%	0.3%
Intangible amortization expense	19,732	20,657	(925)	(4.5)%	0.5%	0.5%
Change in fair value of contingent consideration	15,200	37,043	(21,843)	(59.0)%	0.4%	1.0%
Operating expenses	\$ 362,608	\$ 368,486	\$ (5,878)	(1.6)%	9.4%	9.6%

Selling, general and administrative expenses ("SG&A") increased \$17.0 million for the fiscal year ending June 30, 2019 compared to the prior year. The increase in SG&A expenses reflects investments for future growth, primarily in increased employee-related expenses in North America.

Depreciation expense and intangible amortization expense decreased \$0.2 million and \$0.9 million, respectively, for the fiscal year ending June 30, 2019. The decrease is due to assets that became fully depreciated or amortized during the current year, partially offset by additional expense related to assets acquired through fiscal year 2019 acquisitions.

We have elected to present changes in fair value of the contingent consideration owed to former shareholders of businesses we acquire separately from other SG&A expenses. In fiscal 2019, we have recorded a \$15.2 million expense from change in fair value of contingent consideration, largely from recurring amortization of the unrecognized fair value discount for the Intelisys liability and agreed upon adjustments in the final earnout payment to Network1.

### **Operating Income**

The following table summarizes our operating income for the periods ended June 30, 2019 and 2018:

	2019	2018	\$ Change	% Change	% of Sales June 30,	
					2019	2018
	<i>(in thousands)</i>					
Worldwide Barcode, Networking & Security	\$ 59,875	\$ 56,911	\$ 2,964	5.2%	2.3%	2.2%
Worldwide Communications & Services	31,307	10,900	20,407	187.2%	2.4%	0.9%
Corporate	(1,218)	(172)	(1,046)	608.1%	—%	—%
Total operating income	<u>\$ 89,964</u>	<u>\$ 67,639</u>	<u>\$ 22,325</u>	33.0%	2.3%	1.8%

### Worldwide Barcode, Networking & Security

For the Worldwide Barcode, Networking & Security segment, operating income increased \$3.0 million and operating margin increased slightly to 2.3% for the fiscal year ended June 30, 2019 compared to the prior year. The increase in operating income and operating margin is primarily attributable to higher gross margins, partially offset by increased employee-related expenses.

### Worldwide Communications & Services

For the Worldwide Communications & Services segment, operating income increased \$20.4 million and operating margin increased to 2.4% for the fiscal year ended June 30, 2019 as compared to the prior year. Operating margin in the prior year was impacted by significant expense related to the change in fair value of contingent consideration for Network1. Excluding change in fair value of contingent consideration for each comparable year, adjusted operating income decreased \$1.3 million and adjusted operating margin decreased to 3.6% compared to 3.9% in the prior-year, largely due to increased employee-related expenses, partially offset by increased sales volume.

### Corporate

Corporate incurred \$1.2 million and \$0.2 million in acquisition costs for the years ended June 30, 2019 and 2018, respectively.

### Total Other (Income) Expense

The following table summarizes our total other (income) expense for the fiscal years ended June 30, 2019 and 2018:

	2019	2018	\$ Change	% Change	% of Sales June 30,	
					2019	2018
	<i>(in thousands)</i>					
Interest expense	\$ 13,382	\$ 9,149	\$ 4,233	46.3 %	0.3 %	0.2 %
Interest income	(1,843)	(3,713)	1,870	(50.4)%	— %	(0.1)%
Net foreign exchange losses (gains)	1,156	2,096	(940)	(44.8)%	— %	0.1 %
Other, net	(639)	(818)	179	(21.9)%	— %	— %
Total other (income) expense	<u>\$ 12,056</u>	<u>\$ 6,714</u>	<u>\$ 5,342</u>	79.6 %	0.3 %	0.2 %

Interest expense reflects interest incurred on borrowings, non-utilization fees from our revolving credit facility and amortization of debt issuance costs. Interest expense increased in fiscal 2019 as compared to 2018 principally from additional borrowings on our multi-currency revolving credit facility.

Interest income for the year ended June 30, 2019 was generated on interest-bearing customer receivables and interest earned on cash and cash equivalents, principally in Brazil. In fiscal year 2018 we recognized accrued interest income related to a legal tax settlement in Brazil of \$0.7 million that did not recur in the current year.

Net foreign exchange gains and losses consist of foreign currency transactional and functional currency re-measurements, offset by net foreign currency exchange contract gains and losses. Foreign exchange gains and losses are generated as the result of fluctuations in the value of the U.S. dollar versus the Brazilian real, the U.S. dollar versus the euro, the British pound versus the euro, the Canadian dollar versus the U.S. dollar and other currencies versus the U.S. dollar. While we utilize foreign exchange contracts and debt in non-functional currencies to hedge foreign currency exposure, our foreign exchange policy prohibits the use of derivative financial instruments for speculative transactions. We partially offset foreign currency exposure with the use of foreign exchange forward contracts to hedge against these exposures. The costs associated with foreign exchange forward contracts are included in the net foreign exchange loss. Foreign exchange losses decreased during fiscal year 2019 compared to the prior year from the lower cost of hedging.

### Provision for Income Taxes

Income tax expense was \$20.3 million and \$27.8 million for the fiscal years ended June 30, 2019 and 2018, respectively, reflecting an effective tax rate of 26.1% and 45.6%, respectively. The decrease in the effective tax rate for fiscal year 2019 as compared to fiscal year 2018 is primarily due to significant discrete tax items recognized in the prior year associated with U.S. tax reform that did not recur in the current year.

We expect the fiscal year 2020 effective tax rate from continuing operations to be approximately 25% to 26%. See Note 13 - *Income Taxes* in the Notes to Consolidated Financial Statements for further discussion including an effective tax rate reconciliation.

### 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 2019				Fiscal 2018			
	Jun. 30 2019	Mar. 31 2019	Dec. 31 2018	Sept. 30 2018	Jun. 30 2018	Mar. 31 2018	Dec. 31 2017	Sept. 30 2017
	<i>(in thousands, except per share data)</i>							
Net sales	\$ 960,833	\$ 893,357	\$ 1,046,021	\$ 972,900	\$ 993,852	\$ 895,637	\$ 1,032,212	\$ 924,559
Cost of goods sold	850,969	783,342	925,543	860,685	880,503	791,749	919,241	818,642
Gross profit	\$ 109,864	\$ 110,015	\$ 120,478	\$ 112,215	\$ 113,349	\$ 103,888	\$ 112,971	\$ 105,917
Change in fair value of contingent consideration	\$ 3,665	\$ 5,101	\$ 1,850	\$ 4,584	\$ 8,448	\$ 4,801	\$ 6,913	\$ 16,881
Net income	\$ 11,578	\$ 11,715	\$ 19,982	\$ 14,322	\$ 10,388	\$ 10,649	\$ 7,969	\$ 4,147
Net income per common share, basic	\$ 0.45	\$ 0.46	\$ 0.78	\$ 0.56	\$ 0.41	\$ 0.42	\$ 0.31	\$ 0.16
Weighted-average shares outstanding, basic	25,627	25,704	25,640	25,599	25,577	25,572	25,506	25,434
Net income per common share, diluted	\$ 0.45	\$ 0.45	\$ 0.78	\$ 0.56	\$ 0.40	\$ 0.42	\$ 0.31	\$ 0.16
Weighted-average shares outstanding, diluted	25,691	25,762	25,750	25,755	25,675	25,606	25,648	25,579

### Non-GAAP Financial Information

#### Evaluating Financial Condition and Operating Performance

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

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

#### *Net Sales in Constant Currency, Excluding Acquisitions*

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

#### *Net Sales by Segment:*

	<b>Fiscal Year Ended June 30,</b>			
	<b>2019</b>	<b>2018</b>	<b>\$ Change</b>	<b>% Change</b>
<b>Worldwide Barcode, Networking &amp; Security:</b>	<i>(in thousands)</i>			
Net sales, as reported	\$ 2,589,837	\$ 2,628,988	\$ (39,151)	(1.5)%
Foreign exchange impact <sup>(a)</sup>	33,318	—		
Net sales, constant currency	2,623,155	2,628,988	(5,833)	(0.2)%
Less: Acquisitions	(23,465)	(14,553)		
Net sales, constant currency excluding acquisitions	<u>\$ 2,599,690</u>	<u>\$ 2,614,435</u>	\$ (14,745)	(0.6)%
<b>Worldwide Communications &amp; Services:</b>				
Net sales, as reported	\$ 1,283,274	\$ 1,217,272	\$ 66,002	5.4 %
Foreign exchange impact <sup>(a)</sup>	45,655	—		
Net sales, constant currency	1,328,929	1,217,272	111,657	9.2 %
Less: Acquisitions	(7,261)	—		
Net sales, constant currency excluding acquisitions	<u>\$ 1,321,668</u>	<u>\$ 1,217,272</u>	\$ 104,396	8.6 %
<b>Consolidated:</b>				
Net sales, as reported	\$ 3,873,111	\$ 3,846,260	\$ 26,851	0.7 %
Foreign exchange impact <sup>(a)</sup>	78,973	—		
Net sales, constant currency	3,952,084	3,846,260	105,824	2.8 %
Less: Acquisitions	(30,726)	(14,553)		
Net sales, constant currency excluding acquisitions	<u>\$ 3,921,358</u>	<u>\$ 3,831,707</u>	\$ 89,651	2.3 %

(a) Year-over-year net sales growth rate excluding the translation impact of changes in foreign currency exchange rates. Calculated by translating the net sales for the year ended June 30, 2019 into U.S. dollars using the average foreign exchange rates for the year ended June 30, 2018.

**Net Sales by Geography:**

	Fiscal Year Ended June 30,		\$ Change	% Change
	2019	2018		
<b>United States and Canada:</b>				
	<i>(in thousands)</i>			
Net sales, as reported	\$ 2,917,780	\$ 2,847,197	\$ 70,583	2.5 %
Less: Acquisitions	(30,726)	(14,553)		
Net sales, excluding acquisitions	<u>\$ 2,887,054</u>	<u>\$ 2,832,644</u>	\$ 54,410	1.9 %
<b>International:</b>				
Net sales, as reported	\$ 955,331	\$ 999,063	\$ (43,732)	(4.4)%
Foreign exchange impact <sup>(a)</sup>	78,973	—		
Net sales, constant currency	<u>1,034,304</u>	<u>999,063</u>	35,241	3.5 %
Less: Acquisitions	—	—		
Net sales, constant currency excluding acquisitions	<u>\$ 1,034,304</u>	<u>\$ 999,063</u>	\$ 35,241	3.5 %
<b>Consolidated:</b>				
Net sales, as reported	\$ 3,873,111	\$ 3,846,260	\$ 26,851	0.7 %
Foreign exchange impact <sup>(a)</sup>	78,973	—		
Net sales, constant currency	<u>3,952,084</u>	<u>3,846,260</u>	105,824	2.8 %
Less: Acquisitions	(30,726)	(14,553)		
Net sales, constant currency excluding acquisitions	<u>\$ 3,921,358</u>	<u>\$ 3,831,707</u>	\$ 89,651	2.3 %

(a) Year-over-year net sales growth rate excluding the translation impact of changes in foreign currency exchange rates. Calculated by translating the net sales for the year ended June 30, 2019 into U.S. dollars using the average foreign exchange rates for the year ended June 30, 2018.

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

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

	Year ended June 30, 2019				Year ended June 30, 2018			
	Operating Income	Pre-Tax Income	Net Income	Diluted EPS	Operating Income	Pre-Tax Income	Net Income	Diluted EPS
	<i>(in thousands, except per share data)</i>							
GAAP Measures	\$ 89,964	\$ 77,908	\$ 57,597	\$ 2.24	\$ 67,639	\$ 60,925	\$ 33,153	\$ 1.29
Adjustments:								
Amortization of intangible assets	19,732	19,732	14,956	0.58	20,657	20,657	14,021	0.55
Change in fair value of contingent consideration	15,200	15,200	11,294	0.44	37,043	37,043	24,697	0.96
Acquisition costs	1,218	1,218	1,218	0.05	172	172	172	0.01
Restructuring costs	2,402	2,402	1,740	0.07	—	—	—	—
Tax recovery, net and related interest income	—	—	(387)	(0.02)	(2,466)	(3,119)	(2,058)	(0.08)
Legal settlement, net of attorney fees	—	—	—	—	952	952	771	0.03
Tax reform changes	—	—	—	—	—	—	9,034	0.35
Non-GAAP measures	<u>\$ 128,516</u>	<u>\$ 116,460</u>	<u>\$ 86,418</u>	<u>\$ 3.36</u>	<u>\$ 123,997</u>	<u>\$ 116,630</u>	<u>\$ 79,790</u>	<u>\$ 3.11</u>



**Operating Income by Segment:**

	Fiscal year ended June 30,				% of Net Sales June 30,	
	2019	2018	\$ Change	% Change	2019	2018
<b>Worldwide Barcode, Networking &amp; Security:</b>						
GAAP operating income	\$ 59,875	\$ 56,911	\$ 2,964	5.2 %	2.3%	2.2%
Adjustments:						
Amortization of intangible assets	8,098	8,703	(605)			
Restructuring costs	793	—	793			
Change in fair value of contingent consideration	—	69	(69)			
Tax recovery	—	(1,512)	1,512			
Non-GAAP operating income	\$ 68,766	\$ 64,171	\$ 4,595	7.2 %	2.7%	2.4%
<b>Worldwide Communications &amp; Services:</b>						
GAAP operating income	\$ 31,307	\$ 10,900	\$ 20,407	187.2 %	2.4%	0.9%
Adjustments:						
Amortization of intangible assets	11,634	11,954	(320)			
Change in fair value of contingent consideration	15,200	36,974	(21,774)			
Restructuring costs	1,609	—	1,609			
Legal settlement	—	952	(952)			
Tax recovery	—	(954)	954			
Non-GAAP operating income	\$ 59,750	\$ 59,826	\$ (76)	(0.1)%	4.7%	4.9%
<b>Corporate:</b>						
GAAP operating income	\$ (1,218)	\$ (172)	\$ (1,046)	nm*	nm*	nm*
Adjustments:						
Acquisition costs	1,218	172	1,046			
Non-GAAP operating income	\$ —	\$ —	\$ —	nm*	nm*	nm*
<b>Consolidated:</b>						
GAAP operating income	\$ 89,964	\$ 67,639	\$ 22,325	33.0 %	2.3%	1.8%
Adjustments:						
Amortization of intangible assets	19,732	20,657	(925)			
Change in fair value of contingent consideration	15,200	37,043	(21,843)			
Acquisition costs	1,218	172	1,046			
Restructuring costs	2,402	—	2,402			
Legal settlement	—	952	(952)			
Tax recovery	—	(2,466)	2,466			
Non-GAAP operating income	\$ 128,516	\$ 123,997	\$ 4,519	3.6 %	3.3%	3.2%

**Return on Invested Capital**

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

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

We calculate ROIC as earnings before interest expense, income taxes, depreciation and amortization, plus change in fair value of contingent consideration and other non-GAAP adjustments ("adjusted EBITDA"), divided by invested capital. Invested capital is defined as average equity plus average daily funded interest-bearing debt for the period. The following table summarizes annualized ROIC for the fiscal years ended June 30, 2019 and 2018, respectively.

	2019	2018
Return on invested capital ratio	12.0%	12.5%

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

#### Reconciliation of EBITDA to Net Income

	Fiscal Year Ended June 30,	
	2019	2018
	<i>(in thousands)</i>	
Net income (GAAP)	\$ 57,597	\$ 33,153
Plus: income taxes	20,311	27,772
Plus: interest expense	13,382	9,149
Plus: depreciation & amortization <sup>(a)</sup>	36,619	37,495
EBITDA	127,909	107,569
Change in fair value of contingent consideration	15,200	37,043
Acquisition costs <sup>(b)</sup>	1,218	172
Restructuring costs <sup>(a)</sup>	2,267	—
Legal settlement (recovery), net of attorney fees	—	952
Tax recovery and related interest income	—	(3,119)
Adjusted EBITDA (numerator for ROIC) (non-GAAP)	\$ 146,594	\$ 142,617

#### Invested capital calculations

	Fiscal Year Ended June 30,	
	2019	2018
	<i>(in thousands)</i>	
Equity – beginning of the year	\$ 866,376	\$ 837,145
Equity – end of the year	914,129	866,376
Change in fair value of contingent consideration, net of tax	11,294	24,697
Acquisition costs <sup>(b)</sup>	1,218	172
Restructuring costs <sup>(a)</sup>	1,631	—
Legal settlement (recovery), net of attorney fees, net of tax	—	771
Tax recovery, net and related interest income, net of tax	(387)	(2,058)
Tax reform charges	—	9,034
Average equity, adjusted	897,131	868,069
Average funded debt <sup>(c)</sup>	329,473	276,233
Invested capital (denominator)	\$ 1,226,604	\$ 1,144,302

<sup>(a)</sup> Accelerated depreciation expense on certain European facilities in connection with restructuring in the third quarter of fiscal 2019 are classified as depreciation expense above rather than restructuring costs.

<sup>(b)</sup> Includes acquisition costs for the years ended June 30, 2019 and 2018. Acquisition costs are generally non-deductible for tax purposes.

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

## **Critical Accounting Policies and Estimates**

Management's discussion and analysis of financial condition and results of operations are based on our consolidated financial statements, which have been prepared in conformity with US 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 net realizable value and supplier incentives. Management bases its estimates on historical experience and on various other assumptions that management believes to be reasonable under the circumstances, the results of which form a basis for making judgments about the carrying value of assets and liabilities that are not readily available from other sources. Actual results may differ materially from these estimates under different assumptions or conditions. For further discussion of our significant accounting policies, refer to Note 1 - *Business and Summary of Significant Accounting Policies*.

### *Allowances for Trade and Notes Receivable*

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

### *Inventory Reserves*

Management determines the inventory reserves required to reduce inventories to the lower of cost or net realizable value 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 net realizable value, less cost to dispose, of products whose value is determined to be impaired. If these products are ultimately sold at less than estimated amounts, additional reserves may be required. The estimates used to calculate these reserves are applied consistently. The adjustments are recorded in the period in which the loss of utility of the inventory occurs, which establishes a new cost basis for the inventory. This new cost basis is maintained until such time that the reserved inventory is disposed of, returned to the supplier 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.

### *Supplier Programs*

We receive incentives from suppliers related to cooperative advertising allowances, volume rebates and other incentive programs. These incentives are generally under quarterly, semi-annual or annual agreements with the suppliers. Some of these incentives are negotiated on an ad hoc basis to support specific programs mutually developed between the Company and the supplier. Suppliers generally require that we use the suppliers' cooperative advertising allowances for advertising or other marketing programs. Incentives received from suppliers for specifically identified incremental cooperative advertising programs are recorded as adjustments to selling, general and administrative expenses. ASC 606— *Revenue from Contracts with Customers* addresses accounting for consideration payable to a customer, which the Company interrupts and applies as the customer (i.e., the Company) receiving advertising funds from a supplier. The portion of these supplier funds in excess of our costs are reflected as a reduction of inventory. Such funds are recognized as a reduction of the cost of goods sold when the related inventory is sold.

We record unrestricted volume rebates received as a reduction of inventory and reduces the cost of goods sold when the related inventory is sold. Amounts received or receivables from suppliers that are not yet earned are deferred in the Consolidated Balance Sheets. Supplier receivables are generally collected through reductions to accounts payable authorized by the supplier. In addition, we may receive early payment discounts from certain suppliers. We record early payment discounts received as a reduction of inventory, thereby resulting in a reduction of cost of goods sold when the related inventory is sold. ASC 606 requires management to make certain estimates of the amounts of supplier consideration that will be received. Estimates are based on the terms of the incentive program and historical experiences. Actual recognition of the supplier consideration may vary from management estimates.

### *Goodwill*

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

Under Accounting Standards Update ("ASU") 2017-04 if fair value of goodwill fair value is determined to be less than carrying value, an impairment loss is recognized for the amount of the carrying value that exceeds the amount of the reporting units' fair value, not to exceed the total amount of goodwill allocated to the reporting unit. Additionally, we would consider income tax effects from any tax deductible goodwill on the carrying amount of the reporting unit when measuring the goodwill impairment loss, if applicable. We also 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 requires us to estimate future cash flows and discount those amounts to present value. The key assumptions utilized in determining fair value included:

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

While we believe our assumptions are appropriate, they are subject to uncertainty and by nature include judgments and estimates regarding future events, including projected growth rates, margin percentages and operating efficiencies. Key assumptions used in determining fair value include projected growth and operating margin, working capital requirements and discount rates. During fiscal years 2019 and 2018, we completed our annual impairment test as of each April 30th and determined that our goodwill is not at risk of impairment.

See Note 7 - *Goodwill and Other Identifiable Intangible Assets* in the Notes to Consolidated Financial Statements for further discussion on our goodwill impairment testing and results.

#### *Liability for Contingent Consideration*

In addition to the initial cash consideration paid to former shareholders of Intelisys, Network1, POS Portal and Imago, we agreed to make additional earnout payments based on future results through a specified date based on a multiple of the subsidiary's pro forma earnings as defined in the respective purchase agreements. We paid the final earnout payment to the former shareholders of Network1 during fiscal year 2019 and to Imago during fiscal year 2017. We also made a single earnout payment to the former shareholders of POS Portal during fiscal year 2018 in accordance with the share purchase agreement.

Intelisys has two remaining earnout payments to be paid in annual installments during fiscal years 2020 and 2021. In accordance with ASC Topic 805, *Business Combinations*, we determine the fair value of this liability for contingent consideration at each reporting date throughout the term of the earnout using a form of a probability weighted discounted cash flow model. Each period we reflect the contingent consideration liability at fair value with changes recorded in the change in fair value of contingent consideration line item on the Consolidated Income Statement. Current and noncurrent portions of the liability are presented in the current portion of contingent consideration and long-term portion of contingent consideration line items on the Consolidated Balance Sheets.

#### **Off-Balance Sheet Arrangements**

We have no off-balance sheet arrangements that have or are reasonably likely to have a current or future affect or change on our financial condition, revenues or expenses, results of operations, liquidity, capital expenditures or capital resources that are material to investors. The term "off-balance sheet arrangement" generally means any transaction, agreement or other contractual arrangement to which an entity unconsolidated with the company is a party, under which the company has (i) any obligation arising under a

guarantee contract, derivative instrument or variable interest; or (ii) a retained or contingent interest in assets transferred to such entity or similar arrangement that serves as credit, liquidity or market risk support for such assets.

### Accounting Standards Recently Issued

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

### Liquidity and Capital Resources

Our primary sources of liquidity are cash flows from operations and borrowings under the \$350 million revolving credit facility. Our business requires significant investment in working capital, particularly accounts receivable and inventory, partially financed through our accounts payable to suppliers. 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 \$23.8 million at June 30, 2019, compared to \$25.5 million at June 30, 2018, of which \$18.9 million and \$20.3 million was held outside of the United States as of June 30, 2019 and 2018, respectively. Checks released but not yet cleared from these accounts in the amounts of \$25.4 million and \$5.7 million are classified as accounts payable as of June 30, 2019 and 2018, respectively.

We conduct business in many locations throughout the world where we generate and use cash. We provide for United States income taxes for the earnings of our Canadian subsidiary, but earnings from Brazil will continue to be considered retained indefinitely for reinvestment and all other foreign geographies are immaterial. It has been our practice to reinvest those earnings in the businesses outside the United States. Due to recent tax legislation in the United States, we were required to estimate a one-time transition tax on repatriation of foreign earnings during the fiscal year ended June 30, 2018. See Note 13 - *Income Taxes* in the Notes to the Consolidated Financial Statements for further discussion.

Our net investment in working capital increased \$124.6 million to \$776.4 million at June 30, 2019 from \$651.9 million at June 30, 2018, principally from higher inventory levels. Higher inventory levels in the current year are due to strategic inventory purchases during the year, coupled with lower than planned sales. 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 suppliers, as well as cash generated or used by other financing and investing activities.

	Year ended	
	June 30, 2019	June 30, 2018
Cash provided by (used in):		
	<i>(in thousands)</i>	
Operating activities	\$ (27,127)	\$ 24,805
Investing activities	(39,376)	(151,927)
Financing activities	64,233	100,574
Effect of exchange rate change on cash and cash equivalents	558	(4,016)
Decrease in cash and cash equivalents	<u>\$ (1,712)</u>	<u>\$ (30,564)</u>

Net cash used in operating activities was \$27.1 million for the year ended June 30, 2019, compared to \$24.8 million provided by operating activities for the years ended June 30, 2018. Operating cash flows for the year ended June 30, 2019 is primarily attributable to increased inventory levels, partially offset by net income, excluding the impact of initial account balances assumed from the Canpango and RPM acquisitions. Operating cash flows for the year ended June 30, 2018 is primarily attributable to net income, increases in non-cash adjustments to net income, partially offset by overall increases in cash used for working capital needs, excluding the impact of initial accounts balances assumed from the POS Portal acquisition.

Excluding Intelisys, the number of days sales outstanding ("DSO") was 62 at June 30, 2019, compared to 59 at June 30, 2018. Throughout the current fiscal year, DSO ranged from 58 to 62. Inventory turnover was 4.7 times during the fourth quarter of the current fiscal year, compared to 6.0 times in the fourth quarter of fiscal year 2018. Throughout fiscal year 2019, inventory turnover ranged from 4.3 to 5.4 times.

Cash used in investing activities was \$39.4 million and \$151.9 million for the years ended June 30, 2019 and 2018, respectively. Cash used in the business acquisitions of RPM and Canpango and POS Portal in each respective year drove investing cash flow for the years ended June 30, 2019 and 2018.

Cash provided by financing activities for the year ended June 30, 2019 totaled to \$64.2 million, compared to cash provided by financing activities of \$100.6 million in fiscal year 2018. For both fiscal years, cash provided by financing activities is primarily attributable to net debt borrowings, partially offset by contingent consideration payments.

In August 2016, the Board of Directors authorized a three year \$120 million share repurchase program. Since the inception of the program through June 30, 2019, we have repurchased 0.9 million shares totaling \$30.5 million, of which 0.3 million totaling \$10.1 million were repurchased during the year ended June 30, 2019. The current share repurchase authorization expires in August 2019.

We have a multi-currency senior secured credit facility with JPMorgan Chase Bank N.A., as administrative agent, and a syndicate of banks (the "Amended Credit Agreement"). On April 30, 2019, we amended this credit facility to expand the borrowing capacity and extend its maturity to April 30, 2024. The Amended Credit Agreement includes (i) a five-year \$350 million multi-currency senior secured revolving credit facility and (ii) a five-year \$150 million senior secured term loan facility. Pursuant to an "accordion feature," we may increase its borrowings up to an additional \$250 million, for a total of up to \$750 million and allows for the issuance of up to \$50 million for letters of credit, subject to obtaining additional credit commitments from the lenders participating in the increase.

At our option, loans denominated in U.S. dollars under the Amended Credit Agreement, other than swingline loans, bear interest at a rate equal to a spread over the LIBOR or alternate base rate depending upon the Company's net leverage ratio, calculated as total debt less up to \$15 million of unrestricted domestic cash to trailing four-quarter adjusted earnings before interest expense, taxes, depreciation and amortization ("EBITDA") (the "Leverage Ratio"). This spread ranges from 1.00% to 1.750% for LIBOR-based loans and 0.00% to 0.750% for alternate base rate loans. The Amended Credit Agreement provides for the substitution of a new interest rate benchmark upon the transition from LIBOR, subject to agreement between the Company and the administrative agent. The Amended Credit Agreement contains customary yield protection provisions. Additionally, the Company is assessed commitment fees ranging from 0.150% to 0.30%, depending upon the Leverage Ratio, on non-utilized borrowing availability, excluding swingline loans. Borrowings under the Amended Credit Agreement are guaranteed by substantially all of the domestic assets of the Company and a pledge of up to 65% of capital stock or other equity interest in certain foreign subsidiaries determined to be either material or a subsidiary borrower as defined in the Amended Credit Agreement.

The Amended Credit Agreement includes customary representations, warranties, and affirmative and negative covenants, including financial covenants. Specifically, our Leverage Ratio must be less than or equal to 3.50 to 1.00 at all times. In addition, our Interest Coverage Ratio (as such term is defined in the Amended Credit Agreement) must be at least 3.00:1.00 as of the end of each fiscal quarter. In the event of a default, customary remedies are available to the lenders, including acceleration and increased interest rates. We were in compliance with all covenants under the credit facility as of June 30, 2019. There was \$200.8 million and \$244.0 million outstanding on the revolving credit facility at June 30, 2019 and 2018, respectively.

The average daily balance on the revolving credit facility, excluding the term loan facility, was \$296.4 million and \$269.5 million for the years ended June 30, 2019 and 2018, respectively. There were no letters of credit issued under the multi-currency revolving credit facility as of June 30, 2019 and 2018. There was \$149.2 million, and \$156.0 million available for additional borrowings as of June 30, 2019 and 2018, respectively. Future availability will depend upon, among other things, the levels of our Leverage Ratio and Interest Coverage Ratio, which, in turn, will depend upon (1) our overall net debt relative to our EBITDA, and (2) EBITDA relative to total interest expense, respectively. As a result, our availability will increase if EBITDA increases (subject to the limit of the facility) and decrease if EBITDA decreases.

We have a bank overdraft facility with Bank of America used by our European subsidiaries. The facility allows us to disburse checks in excess of bank balances up to \$14.0 million U.S. dollar equivalent for up to seven days. Borrowings under the overdraft facility bear interest at a rate equal to a spread of 1.0% over the applicable currency's LIBOR with a zero percent floor. There was an outstanding balance of \$4.6 million on the overdraft facility at June 30, 2019.

As of June 30, 2019, we are obligated to pay certain earnout payments to the former shareholders of Intelisys related to their acquisition on August 29, 2016. See Note 10 - *Fair Value of Financial Instruments* for a discussion on the liabilities recorded. We paid the final earnout payment to the former shareholders of Network1 in fiscal year 2019. We made a single earnout payment to the former shareholders of POS Portal in fiscal year 2018. Future earnout payments for Intelisys are expected to be funded by cash from operations and our existing revolving credit facility.

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

### Commitments

At June 30, 2019, we had contractual obligations in the form of non-cancelable operating leases, a capital lease (including interest payments), debt (including interest payments) and the contingent consideration for the earnout pertaining to the Intelisys acquisition. See Notes 8, 10 and 14 of the Notes to the Consolidated Financial Statements. The following table summarizes our future contractual obligations:

	Payments Due by Period				
	Total	Year 1	Years 2-3	Years 4-5	Greater than 5 Years
	<i>(in thousands)</i>				
<b>Contractual Obligations</b>					
Non-cancelable operating leases <sup>(1)</sup>	\$ 41,257	\$ 8,043	\$ 13,137	\$ 9,297	\$ 10,780
Capital lease	675	675	—	—	—
Overdraft facility	4,590	4,590	—	—	—
Principal debt payments	155,099	4,085	15,681	131,950	3,383
Revolving credit facility	200,817	—	—	200,817	—
Contingent consideration <sup>(2)</sup>	77,925	37,933	39,534	—	—
Other <sup>(3)</sup>	—	—	—	—	—
<b>Total obligations</b>	<b>\$ 480,363</b>	<b>\$ 55,326</b>	<b>\$ 68,352</b>	<b>\$ 342,064</b>	<b>\$ 14,163</b>

- (1) Amounts to be paid in future periods for real estate taxes, insurance and other operating expenses applicable to the properties pursuant to the respective operating leases have been excluded from the table above as the amounts payable in future periods are generally not specified in the lease agreements and are dependent upon amounts which are not known at this time. Such amounts were not material in the current fiscal year.
- (2) Amounts disclosed regarding future Intelisys earnout payments are presented at their discounted fair value. Estimated future, undiscounted earnout payments for Intelisys could range as high as \$85.1 million as of June 30, 2019.
- (3) Amounts totaling \$25.8 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, 2019, have been excluded from the table above due to the uncertainty of the timing of the payment of these obligations, which are generally at the discretion of the individual employees or upon death of the former employee, respectively.

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

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

*Interest Rate Risk*

We are exposed to changes in interest rates primarily as a result of our borrowing activities, which include revolving credit facilities with a group of banks used to maintain liquidity and fund our business operations. The nature and amount of our debt may vary as a result of future business requirements, market conditions and other factors. A hypothetical 100 basis point increase or decrease in interest rates on borrowings on our revolving credit facility and variable rate long-term debt, net of the impact of the interest rate swap, would have resulted in approximately a \$2.6 million and \$2.3 million increase or decrease in pre-tax income for the fiscal year ended June 30, 2019 and 2018, respectively.

We evaluate our interest rate risk and may use interest rate swaps to mitigate the risk of interest rate fluctuations associated with our current and long-term debt. At June 30, 2019 and 2018 we had \$355.9 million and \$249.4 million, respectively, in variable rate long term debt and borrowings under the revolving credit facility. In connection with the borrowings under the credit facility including potential future amendments or extensions of the facility, we entered into an interest rate swap maturing on April 3, 2022. The interest rate swap agreement was settled in connection with the April 30, 2019 amendment to our credit facility and we entered into a new interest rate swap with a notional amount of \$100.0 million, with a \$50.0 million tranche scheduled to mature on April 30, 2024 and a \$50.0 million tranche scheduled to mature April 30, 2026. The purpose of the interest rate swap is to manage or hedge our exposure to floating rate debt and achieve a desired proportion of fixed versus floating rate debt. Our use of derivative instruments have the potential to expose us to certain market risks including the possibility of (1) our hedging activities not being as effective as anticipated in reducing the volatility of our cash flows, (2) the counterparty not performing its obligations under the applicable hedging arrangement, (3) the hedging arrangement being imperfect or ineffective or (4) the terms of the swap or associated debt changing. We seek to lessen such risks by having established a policy to identify, control and manage market risks which may arise from changes in interest rates, as well as limiting our counterparties to major financial institutions.

*Foreign Currency Exchange Rate Risk*

We are exposed to foreign currency risks that arise from our foreign operations in Canada, Brazil, other parts of 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 currency options and forward contracts to hedge these exposures as well as balance sheet netting of exposures. In addition, exchange rate fluctuations may cause our international results to fluctuate significantly when translated into U.S. dollars. A hypothetical 10% increase or decrease in foreign exchange rates would have resulted in approximately a \$1.3 million and \$0.4 million increase or decrease in pre-tax income for fiscal years ended June 30, 2019 and 2018, respectively. These risks may change over time as business practices evolve and could have a material impact on our financial results in the future.

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

We have elected not to designate our foreign currency contracts as hedging instruments, and therefore, the instruments are marked-to-market with changes in their values recorded in the consolidated income statement each period. Our foreign currencies are primarily Brazilian reais, euros, British pounds, Canadian dollars, Mexican pesos and Colombian pesos. At June 30, 2019 and 2018 the fair value of our currency forward contracts were of net receivable of less than \$0.1 million. We do not utilize financial instruments for trading or other speculative purposes.



**ITEM 8. Financial Statements and Supplementary Data.**

**Index to Financial Statements**

	<u>Page</u>
<b>Financial Statements</b>	
<a href="#">Report of Grant Thornton LLP Independent Registered Public Accounting Firm</a>	<a href="#">41</a>
<a href="#">Report of Grant Thornton LLP Independent Registered Public Accounting Firm on Internal Control Over Financial Reporting</a>	<a href="#">39</a>
<a href="#">Consolidated Balance Sheets</a>	<a href="#">42</a>
<a href="#">Consolidated Income Statements</a>	<a href="#">43</a>
<a href="#">Consolidated Statements of Comprehensive Income</a>	<a href="#">44</a>
<a href="#">Consolidated Statements of Shareholders' Equity</a>	<a href="#">45</a>
<a href="#">Consolidated Statements of Cash Flows</a>	<a href="#">46</a>
<a href="#">Notes to Consolidated Financial Statements</a>	<a href="#">48</a>

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

## Report of Independent Registered Public Accounting Firm

Board of Directors and Shareholders  
ScanSource, Inc.:

### Opinion on the Financial Statements

We have audited the accompanying consolidated balance sheets of ScanSource, Inc. (a South Carolina corporation) and subsidiaries (the “Company”) as of June 30, 2019 and 2018, the related consolidated statements of income, comprehensive income, changes in shareholders’ equity, and cash flows for each of the three years in the period ended June 30, 2019, and the related notes and financial statement schedule included under Item 15(a)(2) (collectively referred to as the “financial statements”). In our opinion, the financial statements present fairly, in all material respects, the financial position of the Company as of June 30, 2019 and 2018, and the results of its operations and its cash flows for each of the three years in the period ended June 30, 2019, in conformity with accounting principles generally accepted in the United States of America.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (“PCAOB”), the Company’s internal control over financial reporting as of June 30, 2019, based on criteria established in the 2013 *Internal Control-Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (“COSO”), and our report dated August 22, 2019 expressed an unqualified opinion.

### Basis for opinion

These financial statements are the responsibility of the Company’s management. Our responsibility is to express an opinion on the Company’s financial statements based on our audits. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether due to error or fraud. Our audits included performing procedures to assess the risks of material misstatement of the financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that our audits provide a reasonable basis for our opinion.

### Critical audit matters

The critical audit matters communicated below are matters arising from the current period audit of the financial statements that were communicated or required to be communicated to the audit committee and that: (1) relate to accounts or disclosures that are material to the financial statements and (2) involved our especially challenging, subjective, or complex judgments. The communication of critical audit matters does not alter in any way our opinion on the financial statements, taken as a whole, and we are not, by communicating the critical audit matters below, providing separate opinions on the critical audit matters or on the accounts or disclosures to which they relate.

### Supplier Incentives

As more fully described in Note 1 to the financial statements, the Company has incentive agreements with many of its suppliers. Supplier rebates can be in the form of instant rebates or achievement-based rebates. Instant rebate programs reduce the Company’s inventory cost so that the Company can reduce the ultimate sales price to the customer or provide additional margin to the Company. Achievement-based rebates are earned by achieving certain sales or purchase targets on a periodic basis. We identified supplier incentives as a critical audit matter.

The principal considerations for our determination that supplier incentives is a critical audit matter are the large volume of transactions subject to rebates that are earned under varying contract terms, and the related assumptions made by management. The Company determines whether, among other items, all qualifying sales and purchases are considered in calculating the rebates and cash receipts or credit memos received are appropriately applied. The determination of achievement-based rebates requires management to make assumptions about future purchases and sales. Accordingly, for both instant and achievement-based rebates,

there is a risk that the rebates are not accounted for consistent with the terms of the current contracts, which requires a high degree of auditor judgment in designing and executing audit procedures to respond to this risk.

Our audit procedures related to the supplier incentives included the following, among others. We confirmed a sample of outstanding balances of supplier rebate receivables. For unreturned confirmations, we vouched the related balances to subsequent cash receipts or credit memos received by the Company or obtained the underlying vendor agreements. Using those agreements, we recalculated the receivable based on the stated terms and verified the completeness and accuracy of the underlying sales or purchases data used by management in determining the receivables balance. In addition, we analyzed the rebate receivable collection history to evaluate the overall collectability of the supplier rebate receivables balance. We also tested the design and operating effectiveness of controls relating to supplier incentives including, among others, the Company's controls over processing new incentive agreements, specifically related to the appropriate recognition of reductions to cost of goods sold for instant rebates and the appropriate amortization of inventory valuation adjustments to cost of goods sold for achievement-based rebates.

/s/ Grant Thornton

We have served as the Company's auditor since 2014.

Columbia, South Carolina  
August 22, 2019

## Report of Independent Registered Public Accounting Firm

Board of Directors and Shareholders  
ScanSource, Inc.:

### Opinion on internal control over financial reporting

We have audited the internal control over financial reporting of ScanSource, Inc. (a South Carolina corporation) and subsidiaries (the “Company”) as of June 30, 2019, based on criteria established in the 2013 *Internal Control-Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (“COSO”). In our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of June 30, 2019, based on criteria established in the 2013 *Internal Control-Integrated Framework* issued by COSO.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (“PCAOB”), the consolidated financial statements of the Company as of and for the year ended June 30, 2019, and our report dated August 22, 2019 expressed an unqualified opinion on those financial statements.

### Basis for opinion

The Company’s management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Management’s Report on Internal Control over Financial Reporting (“Management’s Report”). Our responsibility is to express an opinion on the Company’s internal control over financial reporting based on our audit. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audit in accordance with the standards of the PCAOB. 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.

Our audit of, and opinion on, the Company’s internal control over financial reporting does not include the internal control over financial reporting of Canpango, Inc. (Canpango) and RPM Software, LLC (RPM), two wholly-owned subsidiaries, whose financial statements reflect total combined assets and revenues constituting 2 and 1 percent, respectively, of the related consolidated financial statement amounts as of and for the year ended June 30, 2019. As indicated in Management’s Report, Canpango and RPM were acquired during the year ended June 30, 2019. Management’s assertion on the effectiveness of the Company’s internal control over financial reporting excluded internal control over financial reporting of Canpango and RPM.

### Definition and limitations of internal control over financial reporting

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.

/s/ Grant Thornton  
Columbia, South Carolina  
August 22, 2019

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

	June 30, 2019	June 30, 2018
<b>Assets</b>		
Current assets:		
Cash and cash equivalents	\$ 23,818	\$ 25,530
Accounts receivable, less allowance of \$38,849 at June 30, 2019 and \$45,561 at June 30, 2018	654,983	646,086
Inventories	697,343	595,948
Prepaid expenses and other current assets	101,171	94,598
Total current assets	1,477,315	1,362,162
Property and equipment, net	63,363	73,042
Goodwill	319,538	298,174
Identifiable intangible assets, net	127,939	136,806
Deferred income taxes	24,724	22,199
Other non-current assets	54,382	52,912
Total assets	\$ 2,067,261	\$ 1,945,295
<b>Liabilities and Shareholders' Equity</b>		
Current liabilities:		
Accounts payable	\$ 558,101	\$ 562,564
Accrued expenses and other current liabilities	91,407	90,873
Current portion of contingent consideration	38,393	42,975
Income taxes payable	4,310	13,348
Short-term borrowings	4,590	—
Current portion of long-term debt	4,085	551
Total current liabilities	700,886	710,311
Deferred income taxes	1,395	1,769
Long-term debt, net of current portion	151,014	4,878
Borrowings under revolving credit facility	200,817	244,000
Long-term portion of contingent consideration	39,532	65,258
Other long-term liabilities	59,488	52,703
Total liabilities	1,153,132	1,078,919
Commitments and contingencies		
Shareholders' equity:		
Preferred stock, no par value; 3,000,000 shares authorized, none issued	—	—
Common stock, no par value; 45,000,000 shares authorized, 25,408,397 and 25,593,122 shares issued and outstanding at June 30, 2019 and June 30, 2018, respectively	64,287	68,220
Retained earnings	939,930	882,333
Accumulated other comprehensive loss	(90,088)	(84,177)
Total shareholders' equity	914,129	866,376
Total liabilities and shareholders' equity	\$ 2,067,261	\$ 1,945,295

See accompanying notes to consolidated financial statements.

**ScanSource, Inc. and Subsidiaries**  
**Consolidated Income Statements**  
**Years Ended June 30, 2019, 2018 and 2017**  
**(in thousands, except per share information)**

	2019	2018	2017
Net sales	\$ 3,873,111	\$ 3,846,260	\$ 3,568,186
Cost of goods sold	3,420,539	3,410,135	3,184,590
Gross profit	452,572	436,125	383,596
Selling, general and administrative expenses	314,521	297,475	265,178
Depreciation expense	13,155	13,311	9,444
Intangible amortization expense	19,732	20,657	15,524
Change in fair value of contingent consideration	15,200	37,043	5,211
Operating income	89,964	67,639	88,239
Interest expense	13,382	9,149	3,215
Interest income	(1,843)	(3,713)	(5,329)
Other (income) expense, net	517	1,278	(11,142)
Income before income taxes	77,908	60,925	101,495
Provision for income taxes	20,311	27,772	32,249
Net income	\$ 57,597	\$ 33,153	\$ 69,246
Per share data:			
Net income per common share, basic	\$ 2.25	\$ 1.30	\$ 2.74
Weighted-average shares outstanding, basic	25,642	25,522	25,318
Net income per common share, diluted	\$ 2.24	\$ 1.29	\$ 2.71
Weighted-average shares outstanding, diluted	25,734	25,624	25,515

*See accompanying notes to consolidated financial statements.*

**ScanSource, Inc. and Subsidiaries**  
**Consolidated Statements of Comprehensive Income**  
**Years Ended June 30, 2019, 2018 and 2017**  
**(in thousands)**

	2019	2018	2017
Net income	\$ 57,597	\$ 33,153	\$ 69,246
Unrealized (loss) gain on hedged transaction, net of tax	(3,277)	1,089	13
Foreign currency translation adjustment	(2,634)	(12,062)	(530)
Comprehensive income	<u>\$ 51,686</u>	<u>\$ 22,180</u>	<u>\$ 68,729</u>

*See accompanying notes to these consolidated financial statements.*

**ScanSource, Inc. and Subsidiaries**  
**Consolidated Statements of Shareholders' Equity**  
**Years Ended June 30, 2019, 2018 and 2017**  
(in thousands, except share information)

	Common Stock (Shares)	Common Stock (Amount)	Retained Earnings	Accumulated Other Comprehensive Loss	Total
Balance at June 30, 2016	25,614,673	\$ 67,249	\$ 779,934	\$ (72,687)	\$ 774,496
Net income	—	—	69,246	—	69,246
Unrealized gain on hedged transaction, net of tax	—	—	—	13	13
Foreign currency translation adjustment	—	—	—	(530)	(530)
Exercise of stock options and shares issued under share-based compensation plans, net of shares withheld for employee taxes	394,815	8,208	—	—	8,208
Common stock repurchased	(577,643)	(20,335)	—	—	(20,335)
Share based compensation	—	6,578	—	—	6,578
Tax shortfall from exercise or vesting of share-based payment arrangements	—	(531)	—	—	(531)
Balance at June 30, 2017	25,431,845	61,169	849,180	(73,204)	837,145
Net income	—	—	33,153	—	33,153
Unrealized gain on hedged transaction, net of tax	—	—	—	1,089	1,089
Foreign currency translation adjustment	—	—	—	(12,062)	(12,062)
Exercise of stock options and shares issued under share-based compensation plans, net of shares withheld for employee taxes	161,277	636	—	—	636
Common stock repurchased	—	—	—	—	—
Share based compensation	—	6,415	—	—	6,415
Balance at June 30, 2018	25,593,122	68,220	882,333	(84,177)	866,376
Net income	—	—	57,597	—	57,597
Unrealized loss on hedged transaction, net of tax	—	—	—	(3,277)	(3,277)
Foreign currency translation adjustment	—	—	—	(2,634)	(2,634)
Exercise of stock options and shares issued under share-based compensation plans, net of shares withheld for employee taxes	139,107	103	—	—	103
Common stock repurchased	(323,832)	(10,129)	—	—	(10,129)
Share based compensation	—	6,093	—	—	6,093
Balance at June 30, 2019	25,408,397	\$ 64,287	\$ 939,930	\$ (90,088)	\$ 914,129

See accompanying notes to consolidated financial statements.



**ScanSource, Inc. and Subsidiaries**  
**Consolidated Statements of Cash Flows**  
**Years Ended June 30, 2019, 2018 and 2017**  
**(in thousands)**

	2019	2018	2017
<b>Cash flows from operating activities:</b>			
Net income	\$ 57,597	\$ 33,153	\$ 69,246
Adjustments to reconcile net income to net cash (used in) provided by operating activities:			
Depreciation and amortization	36,618	37,495	24,968
Amortization of debt issue costs	350	326	290
Provision for doubtful accounts	2,282	7,075	8,901
Share-based compensation	6,122	6,459	6,602
Deferred income taxes	(2,900)	(22,286)	(1,861)
Excess tax benefits from share-based payment arrangements	—	—	(89)
Change in fair value of contingent consideration	15,200	37,043	5,211
Contingent consideration payments excess	(10,190)	(3,066)	—
Changes in operating assets and liabilities, net of acquisitions:			
Accounts receivable	(12,598)	(38,268)	(62,731)
Inventories	(104,594)	(59,498)	28,449
Prepaid expenses and other assets	(5,203)	(14,864)	(7,698)
Other noncurrent assets	(678)	(6,361)	(9,540)
Accounts payable	(2,730)	44,464	19,861
Accrued expenses and other liabilities	2,703	(11,540)	8,491
Income taxes payable	(9,106)	14,673	4,776
Net cash (used in) provided by operating activities	(27,127)	24,805	94,876
<b>Cash flows from investing activities:</b>			
Capital expenditures	(7,215)	(8,159)	(8,849)
Cash paid for business acquisitions, net of cash acquired	(32,161)	(143,768)	(83,804)
Payments for acquisition of intangible assets	—	—	(3,583)
Net cash used in investing activities	(39,376)	(151,927)	(96,236)
<b>Cash flows from financing activities:</b>			
Short-term borrowings, net	4,558	—	—
Borrowings on revolving credit, net of expenses	2,072,279	2,301,443	1,813,062
Repayments on revolving credit, net of expenses	(2,115,530)	(2,149,659)	(1,792,620)
Borrowings on long-term debt, net	149,670	—	—
Repayments of capital lease obligations	(662)	(591)	(246)
Debt issuance costs	(1,096)	(296)	(876)
Contingent consideration payments	(35,606)	(50,959)	(10,241)
Exercise of stock options	1,509	2,273	9,969
Taxes paid on settlement of equity awards	(1,406)	(1,637)	(1,761)
Repurchase of common stock	(9,483)	—	(20,882)
Excess tax benefits from share-based payment arrangements	—	—	89
Net cash provided by (used in) financing activities	64,233	100,574	(3,506)
Effect of exchange rate changes on cash and cash equivalents	558	(4,016)	(440)
Decrease in cash and cash equivalents	(1,712)	(30,564)	(5,306)
Cash and cash equivalents at beginning of period	25,530	56,094	61,400
Cash and cash equivalents at end of period	\$ 23,818	\$ 25,530	\$ 56,094

	<b>2019</b>	<b>2018</b>	<b>2017</b>
	<i>(continued)</i>		
Supplemental disclosure of cash flow information:			
Interest paid during the year	<b>\$ 13,078</b>	<b>\$ 8,544</b>	<b>\$ 2,831</b>
Income taxes paid during the year	<b>\$ 33,061</b>	<b>\$ 38,330</b>	<b>\$ 31,126</b>

*See accompanying notes to consolidated financial statements.*

**SCANSOURCE, INC. AND SUBSIDIARIES**  
**Notes to Consolidated Financial Statements**  
**June 30, 2019**

**(1) Business and Summary of Significant Accounting Policies**

*Business Description*

ScanSource, Inc. (together with its subsidiaries referred to as “the Company” or “ScanSource”) is at the center of the solution delivery channel, connecting businesses and institutions and providing technology solutions. The Company brings technology solutions and services from the world’s leading suppliers of point-of-sale (POS), payments, barcode, physical security, unified communications and collaboration and telecom and cloud services to market. The Company operates in the United States, Canada, Brazil, additional Latin American countries, and Europe. The Company’s two operating segments, Worldwide Barcode, Networking & Security and Worldwide Communications & Services, are based on product, customer and service type.

*Consolidation Policy*

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

*Related Party Transactions*

A related party is generally defined as (i) any person that holds 10% or more of the Company’s securities and their immediate families, (ii) the Company’s management, (iii) someone that directly or indirectly controls, is controlled by or is under common control with the Company or (iv) anyone who can significantly influence the financial and operating decisions of the Company. A transaction is considered to be a related party transaction when there is a transfer of resources or obligations between related parties. There were no material related party transactions for the fiscal years ended June 30, 2019, 2018 and 2017.

*Use of Estimates*

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

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

*(a) Allowances for Trade and Notes Receivable*

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

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

**SCANSOURCE, INC. AND SUBSIDIARIES**  
**Notes to Consolidated Financial Statements—(Continued)**  
**June 30, 2019**

*(b) Inventory Reserves*

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

*(c) Purchase Price Allocations*

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

*(d) Goodwill Fair Value*

The Company estimates the fair value of its goodwill reporting units primarily based on the income approach utilizing the discounted cash flow method. The Company also utilizes 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 requires it to make assumptions about the applicability of those multiples to its reporting units. The discounted cash flow method requires the Company to estimate future cash flows, using key assumptions such as the weighted average cost of capital, revenue growth rates, projected gross margin and operating margin percentage growth, expected working capital changes and a related cash flow impact from working capital changes, and then discount those amounts to present value.

*Cash and Cash Equivalents*

The Company considers all highly liquid investments with original maturities of three months or less, when purchased, to be cash equivalents. The Company maintains some zero-balance disbursement accounts at various financial institutions in which the Company does not maintain significant depository relationships. Due to the terms of the agreements governing these accounts, the Company does not have the right to offset most if not all outstanding checks written from these accounts against cash on hand and the respective institutions are not legally obligated to honor the checks until sufficient funds are transferred to fund the checks. As a result, checks released but not yet cleared from these accounts in the amounts of \$25.4 million and \$5.7 million are classified as accounts payable as of June 30, 2019 and 2018, respectively.

The Company maintains its cash with various financial institutions globally that are monitored regularly for credit quality, although it may hold amounts in excess of Federal Deposit Insurance Corporation ("FDIC") or other insured limits. Cash and cash equivalents held outside of the United States totaled \$18.9 million and \$20.3 million as of June 30, 2019 and 2018, respectively.

*Concentration of Credit Risk*

The Company sells to a large base of customers throughout the United States, Canada, Brazil, additional Latin American countries 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%, 6% and 5% of the Company's net sales for fiscal years 2019, 2018 and 2017, respectively.

In the event that the Company does not collect payment on accounts receivable within the established trade terms for certain customers, the Company may establish arrangements for longer-term financing. The Company accounts for these arrangements

**SCANSOURCE, INC. AND SUBSIDIARIES**  
**Notes to Consolidated Financial Statements—(Continued)**  
**June 30, 2019**

by recording them at their historical cost less specific allowances at balance sheet dates. Interest income is recognized in the period earned and is recorded as interest income in the Consolidated Income Statement.

*Derivative Financial Instruments*

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

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

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.

The Company's earnings are 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, the Company has an interest rate swap agreement and has designated this instrument as a hedge of the cash flows on certain variable rate debt. To the extent the derivative instrument was effective in offsetting the variability of the hedged cash flows, changes in the fair value of the derivative instrument were not included in current earnings, but were reported as other comprehensive income (loss). There was no ineffective portion recorded as an adjustment to earnings for the year ended June 30, 2019.

*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 value with unrealized gains and losses included in the accompanying Consolidated Income Statements. The Company's obligations under this deferred compensation plan change in concert with the performance of the investments along with contributions to and withdrawals from the plan. The fair value of these investments and the corresponding deferred compensation obligation was \$25.8 million and \$23.4 million as of June 30, 2019 and June 30, 2018, respectively. These investments are classified as either prepaid expenses and current assets or other non-current assets in the Consolidated Balance Sheets depending on the timing of planned disbursements. The deferred compensation obligation is classified either within accrued expenses and other current liabilities or other long-term liabilities as well. The amounts of these investments classified as current assets with corresponding current liabilities were \$1.6 million at June 30, 2019 and 2018.

*Inventories*

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

*Supplier Programs*

The Company receives incentives from suppliers related to cooperative advertising allowances, volume rebates and other incentive programs. These incentives are generally under quarterly, semi-annual or annual agreements with the suppliers. Some of these incentives are negotiated on an ad hoc basis to support specific programs mutually developed between the Company and the supplier. Suppliers generally require that the Company use the suppliers' cooperative advertising allowances for advertising or other marketing programs. Incentives received from suppliers for specifically identified incremental cooperative advertising programs are recorded as adjustments to selling, general and administrative expenses. ASC 606— *Revenue from Contracts with Customers* addresses accounting for consideration payable to a customer, which the Company interprets and applies as the customer

**SCANSOURCE, INC. AND SUBSIDIARIES**  
**Notes to Consolidated Financial Statements—(Continued)**  
**June 30, 2019**

(i.e., the Company) receiving advertising funds from a supplier. The portion of these supplier funds in excess of our costs are reflected as a reduction of inventory. Such funds are recognized as a reduction of the cost of goods sold when the related inventory is sold.

The Company records unrestricted volume rebates received as a reduction of inventory and reduces the cost of goods sold when the related inventory is sold. Amounts received or receivables from suppliers that are not yet earned are deferred in the Consolidated Balance Sheets. Supplier receivables are generally collected through reductions to accounts payable authorized by the supplier. In addition, the Company may receive early payment discounts from certain suppliers. The Company records early payment discounts received as a reduction of inventory, thereby resulting in a reduction of cost of goods sold when the related inventory is sold. Management makes certain estimates of the amounts of supplier consideration that will be received. Estimates are based on the terms of the incentive program and historical experiences. Actual recognition of the supplier consideration may vary from management estimates.

*Supplier Concentration*

The Company sells products from many suppliers; however, sales of products supplied by Cisco and Zebra each constituted more than 10% of the Company's net sales for the year ended June 30, 2019. Avaya, Cisco and Zebra each constituted more than 10% of the Company's net sales for the years ended June 30, 2018 and 2017.

*Product Warranty*

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

*Property and Equipment*

Property and equipment are recorded at cost. Depreciation is computed using the straight-line method over estimated useful lives of 3 to 10 years for furniture, equipment and computer software, 25 to 40 years for buildings and 15 years for building improvements. Leasehold improvements are amortized over the shorter of the lease term or the estimated useful life. Maintenance, repairs and minor renewals are charged to expense as incurred. Additions, major renewals and betterments to property and equipment are capitalized.

*Capitalized Software*

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

*Goodwill*

The Company accounts for recorded goodwill in accordance with ASC 350, *Goodwill and Other Intangible Assets*, which requires that goodwill be reviewed annually for impairment or more frequently if impairment indicators exist. Goodwill testing utilizes an impairment analysis, whereby the Company compares the carrying value of each identified reporting unit to its fair value. The Company's goodwill reporting units align directly with its operating segments, Worldwide Barcode, Networking & Security and

**SCANSOURCE, INC. AND SUBSIDIARIES**  
**Notes to Consolidated Financial Statements—(Continued)**  
**June 30, 2019**

Worldwide Communications & Services. The fair values of the reporting units are estimated using the net present value of discounted cash flows generated by each reporting unit. Considerable judgment is necessary in estimating future cash flows, discount rates and other factors affecting the estimated fair value of the reporting units, including operating and macroeconomic factors. Historical financial information, internal plans and projections and industry information are used in making such estimates.

Under Accounting Standards Update ("ASU") 2017-04, if fair value of goodwill is determined to be less than carrying value, an impairment loss is recognized for the amount of the carrying value that exceeds the amount of the reporting units' fair value, not to exceed the total amount of goodwill allocated to the reporting unit. Additionally, the Company would consider income tax effects from any tax deductible goodwill on the carrying amount of the reporting unit when measuring the goodwill impairment loss, if applicable. The Company also assesses the recoverability of goodwill if facts and circumstances indicate goodwill may be impaired. In its most recent annual test, the Company estimated the fair value of its reporting units primarily based on the income approach utilizing the discounted cash flow method. The Company also corroborated the fair value estimates derived from the income approach by considering the implied market multiples of comparable transactions and companies. The discounted cash flow method required the Company to estimate future cash flows and discount those amounts to present value. The key assumptions utilized in determining fair value included:

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

No goodwill impairment charges were recognized for the years ended June 30, 2019, 2018 and 2017. See Note 7 - *Goodwill and Other Identifiable Intangible Assets* for more information regarding goodwill and the results of our testing.

#### *Intangible Assets*

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

These assets are shown in detail in Note 7 - *Goodwill and Other Identifiable Intangible Assets*.

#### *Impairment of Long-Lived Assets*

The Company reviews its long-lived assets for impairment whenever events or changes in circumstances indicate that the carrying amount of the asset or asset group may not be recoverable. Tests for recoverability of a long-lived asset to be held and used are measured by comparing the carrying amount of the long-lived asset to the sum of the estimated future undiscounted cash flows expected to be generated by the asset. In estimating the future undiscounted cash flows, the Company uses projections of cash flows directly associated with, and which are expected to arise as a direct result of, the use and eventual disposition of the assets. If it is determined that a long-lived asset is not recoverable, an impairment loss would be calculated equal to the excess of the carrying amount of the long-lived asset over its fair value. No impairment charges were recognized for the years ended June 30, 2019, 2018 and 2017.

#### *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 10 - *Fair Value of Financial Instruments*.

**SCANSOURCE, INC. AND SUBSIDIARIES**  
**Notes to Consolidated Financial Statements—(Continued)**  
**June 30, 2019**

*Liability for Contingent Consideration*

In addition to the initial cash consideration paid to former shareholders of Intelisys, Network1, POS Portal and Imago, the Company agreed to make additional earnout payments based on future results through a specified date based on a multiple of the subsidiary's pro forma earnings as defined in the respective purchase agreements. Future payments are to be paid in the functional currency of the acquired entity. The Company paid the final earnout payment to the former shareholders of Network1 during fiscal year 2019 and to Imago during fiscal year 2017. The Company also made a single earnout payment to the former shareholders of POS Portal during fiscal year 2018 in accordance with the share purchase agreement.

Intelisys has two remaining earnout payments to be paid in annual installments during fiscal years 2020 and 2021. In accordance with ASC Topic 805, *Business Combinations*, the Company determines the fair value of this liability for contingent consideration at each reporting date throughout the term of the earnout using a form of a probability weighted discounted cash flow model. Each period the Company will reflect the contingent consideration liability at fair value with changes recorded in the change in fair value of contingent consideration line item on the Consolidated Income Statement. Current and noncurrent portions of the liability are presented in the current portion of contingent consideration and long-term portion of contingent consideration line items on the Consolidated Balance Sheets.

*Contingencies*

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

*Revenue Recognition*

The Company adopted ASC 606 effective July 1, 2018 utilizing the full retrospective method. In determining the appropriate amount of revenue to recognize, the Company applies the following five-step model: (i) identify contracts with customers; (ii) identify performance obligations in the contracts; (iii) determine the transaction price; (iv) allocate the transaction price to the performance obligations per the contracts; and (v) recognize revenue when (or as) the Company satisfies a performance obligation. The Company recognizes revenue as control of products and services are transferred to customers, which is generally at the point of shipment. The Company delivers products to customers in several ways, including: (i) shipment from the Company's warehouse, (ii) drop-shipment directly from the supplier, or (iii) electronic delivery for software licenses. For more detailed disclosures on the Company's revenue recognition policies, see Note 2 - *Revenue Recognition*.

*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 or posted online. Advertising costs, net of supplier reimbursement, are included in selling, general and administrative expenses and were not significant in any of the three fiscal years ended June 30, 2019, 2018 and 2017. Deferred advertising costs for each of these three fiscal years were also not significant.

*Foreign Currency*

The currency effects of translating the financial statements of the Company's foreign entities that operate in their local currency are included in the cumulative currency translation adjustment component of accumulated other comprehensive income or loss. The Company's functional currencies include U.S. dollars, Brazilian reais, euros, British pounds, Colombian pesos, Canadian dollars and South African rand. 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*



**SCANSOURCE, INC. AND SUBSIDIARIES**  
**Notes to Consolidated Financial Statements—(Continued)**  
**June 30, 2019**

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. In accordance with ASC 740, *Accounting for Income Taxes*, valuation allowances are provided against deferred tax assets when it is more likely than not that an asset will not be realized. Additionally, the Company maintains reserves for uncertain tax provisions. See Note 13 - *Income Taxes* for further discussion and the impact of the Tax Cut and Jobs Act (the "Tax Act") enacted by the U.S. government on December 22, 2017.

*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. Furthermore, the Company adopted ASU 2016-09 which simplified several aspects of the accounting for share-based compensation, including income tax effects, forfeitures, statutory withholding requirements and cash flow statement classifications. Share-based compensation is estimated at the grant date based on the fair value of the awards. Since this compensation cost is based on awards ultimately expected to vest, it has been reduced for estimated forfeitures. ASU 2016-09 allows companies to elect an accounting policy either to continue to estimate the total number of awards for which the requisite service period will not be rendered or to account for forfeitures when they occur. The Company has elected to maintain its current accounting policy, estimate the total number of awards expected to be forfeited at the time of grant and revise such estimates, if necessary, in subsequent periods if actual forfeitures differ. The Company has elected to expense grants of awards with graded vesting on a straight-line basis over the requisite service period for each separately vesting portion of the award.

*Common stock repurchases*

Repurchases of common stock are accounted for at cost, which includes brokerage fees, and are included as a component of shareholder's equity on the Consolidated Balance Sheets. In August 2016, the Board of Directors authorized a three-year \$120 million share repurchase program.

*Comprehensive Income*

ASC 220, *Comprehensive Income*, defines comprehensive income as the change in equity (net assets) of a business enterprise during a period from transactions and other events and circumstances from non-owner sources. The components of comprehensive income for the Company include net income, unrealized gains or losses on hedged transactions, net of tax and foreign currency translation adjustments arising from the consolidation of the Company's foreign subsidiaries.

*Business Combinations*

The Company accounts for business combinations in accordance with ASC 805, *Business Combinations*. ASC 805 establishes principles and requirements for recognizing the total consideration transferred to and the assets acquired, liabilities assumed and any non-controlling interest in the acquired target in a business combination. ASC 805 also provides guidance for recognizing and measuring goodwill acquired in a business combination and requires the acquirer to disclose information that users may need to evaluate and understand the financial impact of the business combination. See Note 6 - *Acquisitions* for further discussion.

*Reclassifications*

Certain reclassifications have been made on the Consolidated Balance Sheets and Consolidated Statements of Cash Flows in the prior years. On the Consolidated Balance Sheets balances have been reclassified within other current assets from trade accounts receivable to other receivables. On the Consolidated Statements of Cash Flows balances have been reclassified within the operating activities related to the aforementioned changes to other current assets and balances have been reclassified within our operating and financing activities section for contingent consideration payments in connection with adopting ASU 2016-15. These reclassifications had no effect on consolidated financial results.

**Recent Accounting Pronouncements**

**SCANSOURCE, INC. AND SUBSIDIARIES**  
**Notes to Consolidated Financial Statements—(Continued)**  
**June 30, 2019**

In May 2014, the Financial Accounting Standards Board ("FASB") issued a comprehensive new revenue recognition standard for contracts with customers that superseded the most current revenue recognition guidance, including industry-specific guidance under Accounting Standards Update ("ASU") 2014-09, *Revenue from Contracts with Customers (Topic 606)*. In March, April, May and December 2016 the FASB issued additional ASUs to provide supplemental adoption guidance and clarification to ASU 2014-09. 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 Company adopted the standard on July 1, 2018 using the full retrospective method. The adoption of this standard had no material impact on the Company's consolidated financial statements. See Note 2 Revenue Recognition for additional information.

In February 2016, the FASB issued ASU 2016-02, *Leases (Topic 842)* requiring lessees to reflect most leases on their balance sheets and recognize expenses on their income statements in a manner similar to current guidance. Under the new guidance, lessees will be required to recognize a lease liability, which is a lessee's obligation to make lease payments arising from a lease, measured on a discounted basis, and a right-of-use asset, which is an asset that represents the lessee's right to use, or control the use of, a specified asset for the lease term. The asset will be measured at the lease liability amount, adjusted for lease prepayments, lease incentives received and the lessee's initial direct costs. For leases with a lease term of 12 months or less, as long as the lease does not include options to purchase the underlying assets, lessees can elect not to recognize a lease liability and right-of-use asset. Under the new guidance, lessor accounting is largely unchanged, and the accounting for sale and leaseback transactions is simplified. The standard is effective for fiscal years beginning after December 15, 2018, including interim periods within those fiscal years. This guidance will be applicable to the Company for the fiscal year beginning July 1, 2019. The guidance can be adopted using a modified retrospective approach or a cumulative-effect adjustment to the opening balance sheet of retained earnings in the period of adoption for leases that exist or are entered into after the beginning of the earliest comparative period in the financial statements. The Company is currently in the process of finalizing its assessment of the impact of the new standard and implementing related process and system changes. The Company currently expects that the primary impact will be an increase in its total assets and total liabilities due to the recognition of right-of-use assets and corresponding lease liabilities upon implementation for leases currently accounted for as operating leases. The adoption of this standard is not expected to be material to the Company's consolidated financial statements, and based on the Company's ongoing assessment, the Company expects to recognize right-of-use assets and corresponding lease liabilities of approximately \$35 million to \$45 million.

In June 2016, the FASB issues ASU 2016-13, *Financial Instruments - Credit Losses (Topic 326)*. In November 2018, the FASB issued ASU 2018-19, *Codification Improvements to Topic 326: Financial Instruments - Credit Losses*, which provides supplemental guidance and clarification to ASU 2016-13 and must be adopted concurrently. The pronouncement revises the methodology for measuring credit losses on financial instruments and the timing of when such losses are recorded. The guidance is effective for the Company beginning in the first quarter of fiscal year 2021 with early adoption permitted. The Company is currently evaluating the potential impact of this guidance on its consolidated financial statements.

In August 2016, the FASB issued ASU 2016-15, *Statement of Cash Flows (Topic 230)* intended to reduce diversity in practice of how certain cash receipts and cash payments are presented and classified in the statement of cash flows. The update addresses eight specific cash flow issues, with the treatment of contingent consideration payments made after a business combination being the most directly applicable to the Company. The update requires that cash payments made approximately three months or less after an acquisition's consummation date should be classified as cash outflows for investing activities. Payment made thereafter up to the amount of the original contingent consideration liability should be classified as cash outflows from financing activities. Payments made in excess of the amount of the original contingent consideration liability should be classified as cash outflows from operating activities. The standard is effective for fiscal years beginning after December 15, 2017, including interim periods within those fiscal years. The Company adopted the standard for the fiscal year beginning July 1, 2018 using the retrospective transition method. For fiscal year 2018, the Company classified the amount of the Network1 earnout payment paid in excess of the originally anticipated liability at the acquisition date as an operating cash outflow. For fiscal year 2019, the Company classified the amounts of the Intelisys and Network1 earnout payments in excess as an operating cash outflow.

In August 2017, the FASB issued ASU 2017-12, *Derivatives and Hedging (Topic 815)* that amends and simplifies guidance related to hedge accounting to more accurately portray the economics of an entity's risk management activities in its financial statements.

**SCANSOURCE, INC. AND SUBSIDIARIES**  
**Notes to Consolidated Financial Statements—(Continued)**  
**June 30, 2019**

The standard is effective for fiscal years beginning after December 15, 2018, including interim periods within those fiscal years. Early adoption is permitted in any interim or annual period. This guidance will be applicable to the Company for the fiscal year beginning July 1, 2019. The guidance requires adoption using a modified retrospective approach. The presentation and disclosure requirements apply prospectively. The Company is currently evaluating the impact on its consolidated financial statements upon the adoption of this new guidance.

In August 2018, the FASB issued ASU 2018-13, *Fair Value Measurement (Topic 820) Disclosure Framework – Changes to the Disclosure Requirements for Fair Value Measurement*. The pronouncement eliminates, modifies and adds disclosure requirements for fair value measurements. This guidance is effective for fiscal years beginning after December 15, 2019, and for interim periods within those fiscal years, with early adoption permitted. This guidance is applicable to the Company's fiscal year beginning July 1, 2020. The Company is currently evaluating the potential impact of this guidance on its consolidated financial statements.

In August 2018, the FASB issued ASU 2018-15, *Customer's Accounting for Implementation Costs Incurred in a Cloud Computing Arrangement that is a Service Contract*. This ASU amends the definition of a hosting arrangement and requires a customer in a hosting arrangement that is a service contract to capitalize certain implementation costs as if the arrangement was an internal-use software project. Under this ASU, a customer will determine whether to capitalize implementation costs of the cloud computing arrangement that is a service contract or expense them as incurred. This guidance is applicable to the Company's fiscal year beginning July 1, 2020, with early adoption permitted. The Company adopted the standard as of June 30, 2019, capitalizing \$5.4 million of SaaS implementation costs related to Salesforce software which is classified as prepaid expenses and other current assets in the Consolidated Balance Sheets.

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

**(2) Revenue Recognition**

The Company provides technology solutions and services from the world's leading suppliers of POS, payments, barcode, physical security, unified communications and collaboration, and telecom and cloud services. This includes hardware, related accessories, device configuration as well as software licenses, professional services and hardware support programs.

The Company adopted ASC 606 effective July 1, 2018 utilizing the full retrospective method. In determining the appropriate amount of revenue to recognize, the Company applies the following five-step model: (i) identify contracts with customers; (ii) identify performance obligations in the contracts; (iii) determine the transaction price; (iv) allocate the transaction price to the performance obligations per the contracts; and (v) recognize revenue when (or as) the Company satisfies a performance obligation. The Company recognizes revenue as control of products and services are transferred to customers, which is generally at the point of shipment. The Company delivers products to customers in several ways, including: (i) shipment from the Company's warehouse, (ii) drop-shipment directly from the supplier, or (iii) electronic delivery for software licenses.

*Significant Judgments:*

*Principal versus Agent Considerations*

The Company is the principal for sales of all hardware, software and certain services, including self-branded warranty programs. The Company considers itself the principal in these transactions as it has control of the product or service before it is transferred to the customer. When the Company provides self-branded warranty programs, it 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 on a straight-line basis. The Company recognizes the previously described revenue and cost of goods sold on a gross basis.

The Company is the agent for third-party service contracts, including product warranties and supplier-hosted software. 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. The Company's responsibility is to arrange for the provision of the specified service by the original equipment manufacturer, and the Company does not control the specified service before it is transferred to the customer. Because the Company acts as an agent, revenue is recognized net of cost at the time of sale.

**SCANSOURCE, INC. AND SUBSIDIARIES**  
**Notes to Consolidated Financial Statements—(Continued)**  
**June 30, 2019**

Related to the Company's Intelisys business, the Company acts as a master agent connecting independent sales partners with service providers or suppliers who offer telecom and cloud services to end-customers. Intelisys' sales partners earn commission payments from those service providers or suppliers on end-customer sales. Intelisys provides commission processing services to sales partners, earning a percentage of the commission stream. Because the Company acts as an agent, revenue is recognized on a net basis.

*Variable Considerations*

For certain transactions, products are sold with a right of return and may also provide other rebates or incentives, which are accounted for as variable consideration. The Company estimates returns allowance based on historical experience and reduces revenue accordingly. The Company estimates the amount of variable consideration for rebates and incentives by using the expected value or the most likely amount to be given to the customer and reduces the revenue by those estimated amounts. These estimates are reviewed and updated as necessary at the end of each reporting period.

*Contract Balances*

The Company records contract assets and liabilities for payments received from customers in advance of services performed. These assets and liabilities are the result of the sales of the Company's self-branded warranty programs and other transactions where control has not yet passed to the customer. These amounts are immaterial to the consolidated financial statements for the periods presented.

*Practical Expedients & Accounting Policy Elections*

- *Incremental costs of obtaining a contract* - These costs are included in selling, general and administrative expenses as the amortization period is generally one year or less. The Company expenses costs associated with obtaining and fulfilling contracts as incurred.
- *Shipping costs* - The Company accounts for certain shipping and handling activities as fulfillment costs and expenses them as incurred.
- *Significant financing components* - The Company has elected not to adjust the promised amount of consideration for the effects of a significant financing component as the Company expects, at contract inception, that the period between when the entity transfers a promised good or service to a customer and when the customer pays for that good or service will generally be one year or less.
- *Sales tax and other related taxes* - Sales and other tax amounts collected from customers for remittance to governmental authorities are excluded from revenue.

*Disaggregation of Revenue*

The following tables represent the Company's disaggregation of revenue:

	<b>Fiscal year ended June 30, 2019</b>		
	<b>Worldwide Barcode, Networking &amp; Security Segment</b>	<b>(in thousands) Worldwide Communications &amp; Services Segment</b>	<b>Total</b>
Revenue by product/service:			
Technology solutions	\$ 2,589,837	\$ 1,228,017	\$ 3,817,854
Master agency and professional services	—	55,257	55,257
	<b>\$ 2,589,837</b>	<b>\$ 1,283,274</b>	<b>\$ 3,873,111</b>

**SCANSOURCE, INC. AND SUBSIDIARIES**  
**Notes to Consolidated Financial Statements—(Continued)**  
**June 30, 2019**

	<b>Fiscal year ended June 30, 2018</b>		
	<i>(in thousands)</i>		
	<b>Worldwide Barcode, Networking &amp; Security Segment</b>	<b>Worldwide Communications &amp; Services Segment</b>	<b>Total</b>
Revenue by product/service:			
Technology solutions	\$ 2,628,988	\$ 1,174,960	\$ 3,803,948
Master agency and professional services	—	42,312	42,312
	\$ 2,628,988	\$ 1,217,272	\$ 3,846,260

	<b>Fiscal year ended June 30, 2017</b>		
	<i>(in thousands)</i>		
	<b>Worldwide Barcode, Networking &amp; Security Segment</b>	<b>Worldwide Communications &amp; Services Segment</b>	<b>Total</b>
Revenue by product/service:			
Technology solutions	\$ 2,389,256	\$ 1,149,508	\$ 3,538,764
Master agency and professional services	—	29,422	29,422
	\$ 2,389,256	\$ 1,178,930	\$ 3,568,186

**(3) 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.

	<b>Fiscal year ended June 30,</b>		
	<b>2019</b>	<b>2018</b>	<b>2017</b>
	<i>(in thousands, except per share data)</i>		
Numerator:			
Net income	\$ 57,597	\$ 33,153	\$ 69,246
Denominator:			
Weighted-average shares, basic	25,642	25,522	25,318
Dilutive effect of share-based payments	92	102	197
Weighted-average shares, diluted	25,734	25,624	25,515
Net income per common share, basic	\$ 2.25	\$ 1.30	\$ 2.74
Net income per common share, diluted	\$ 2.24	\$ 1.29	\$ 2.71

For the years ended June 30, 2019, 2018 and 2017, weighted-average shares outstanding excluded from the computation of diluted earnings per share because their effect would have been antidilutive were 582,856, 551,320 and 418,325, respectively.

**(4) Property and Equipment**

Property and equipment is comprised of the following:

**SCANSOURCE, INC. AND SUBSIDIARIES**  
**Notes to Consolidated Financial Statements—(Continued)**  
**June 30, 2019**

	June 30,	
	2019	2018
	<i>(in thousands)</i>	
Land	\$ 3,331	\$ 3,331
Buildings and leasehold improvements	21,603	21,384
Computer software and equipment	70,357	74,220
Furniture, fixtures and equipment	26,676	27,077
Construction in progress	2,751	1,584
Rental equipment	12,056	13,817
	<u>136,774</u>	<u>141,413</u>
Less accumulated depreciation	(73,411)	(68,371)
	<u>\$ 63,363</u>	<u>\$ 73,042</u>

Depreciation expense recorded as selling, general and administrative costs in the accompanying Consolidated Income Statements was \$13.2 million, \$13.3 million and \$9.4 million for the fiscal years ended 2019, 2018 and 2017, respectively. Depreciation expense recorded as cost of goods sold in the accompanying Consolidated Income Statements was \$3.7 million and \$3.5 million for the fiscal year ended June 30, 2019 and 2018. There was no depreciation expense recorded as cost of goods sold prior to the acquisition of POS Portal on July 31, 2017.

**(5) Other assets and liabilities, current and non-current**

The table below details prepaid expenses and other current assets.

	June 30,	
	2019	2018
	<i>(in thousands)</i>	
Other receivables	\$ 63,699	\$ 60,802
Foreign currency receivable	165	157
Prepaid expense	12,845	6,004
Other taxes receivable	10,005	6,333
Other current assets	14,457	21,302
	<u>\$ 101,171</u>	<u>\$ 94,598</u>

The table below details accrued expenses and other current liabilities.

	June 30,	
	2019	2018
	<i>(in thousands)</i>	
Deferred warranty revenue	\$ 16,835	\$ 20,483
Accrued compensation	17,703	21,762
Other taxes payable	23,719	18,573
Accrued marketing expense	4,247	4,457
Brazilian pre-acquisition contingencies	761	1,385
Accrued freight	4,071	3,848
Other accrued liabilities	24,071	20,365
	<u>\$ 91,407</u>	<u>\$ 90,873</u>

**SCANSOURCE, INC. AND SUBSIDIARIES**  
**Notes to Consolidated Financial Statements—(Continued)**  
**June 30, 2019**

The table below details other long-term liabilities.

	June 30,	
	2019	2018
	<i>(in thousands)</i>	
Long-term deferred warranty revenue	\$ 7,034	\$ 7,235
Long-term deferred compensation liability	24,224	21,757
Interest rate swap	3,504	—
Long-term income taxes payable	7,376	8,264
Other long-term liabilities	17,350	15,447
	<u>\$ 59,488</u>	<u>\$ 52,703</u>

**(6) Acquisitions**

*RPM, Canpango and Intelisys Global*

During the quarter ended December 31, 2018, the Company acquired the assets of RPM Software ("RPM"), a business process software developer with focus in the telecom channel business for calculating and paying agency commissions in an automated cloud-based system. During the quarter ended September 30, 2018, the Company completed the acquisition of Canpango, a global Salesforce implementation and consulting business with deep knowledge of customer relationship management (CRM) and integration with telecom systems. Intelisys Global was also acquired during the quarter ended September 30, 2018. The total combined purchase price for all companies, net of cash acquired, was approximately \$32.2 million. The purchase price of these collective acquisitions was allocated to the assets acquired and liabilities assumed based on their estimated fair values on the transaction date. Purchase accounting was finalized during the year ended June 30, 2019. The impact of these acquisitions was not material to the consolidated financial statements. In connection with these acquisitions during fiscal 2019, the Company recognized \$0.9 million in acquisition-related costs included in selling, general and administrative expenses on the Consolidated Income Statements.

*POS Portal*

On July 31, 2017, the Company acquired all of the outstanding shares of POS Portal a leading provider of payment devices and services primarily to the small and midsized market segment in the United States. POS Portal joined the Worldwide Barcode, Networking & Security segment.

Under the share purchase agreement, the all-cash transaction included an initial purchase price of approximately \$144.9 million paid in cash at closing. The Company paid an additional \$3.4 million for customary closing adjustments during the six months ended December 31, 2017. The Company acquired \$4.6 million in cash, net of debt payoff and other customary closing adjustments, resulting in \$143.8 million net cash paid for POS Portal. The Company paid a cash earnout payment of \$13.2 million during the quarter ended December 31, 2017. A portion of the purchase price was placed into escrow to indemnify the Company for certain pre-acquisition damages. As of June 30, 2019, the balance available in escrow was \$0.2 million. In connection with the POS Portal acquisition during fiscal 2018, the Company recognized \$0.2 million in acquisition-related cost included in selling, general and administrative expenses on the Consolidated Income Statements.

The purchase price of this acquisition was allocated to the assets acquired and liabilities assumed based on their estimated fair values on the transaction date. Purchase accounting for this acquisition was finalized during the quarter ended December 31, 2017. The goodwill balance is primarily attributed to expanding the Company's high-value capabilities and market reach across all payment channels. Goodwill, identifiable intangible assets and the related deferred tax liability are not deductible for tax purposes. Pro forma results of operations have not been presented for the acquisition of POS Portal because such results are not material to our consolidated results.

**SCANSOURCE, INC. AND SUBSIDIARIES**  
**Notes to Consolidated Financial Statements—(Continued)**  
**June 30, 2019**

	<b>POS Portal</b>	
	<i>(in thousands)</i>	
Receivables	\$	8,914
Inventory		8,352
Other current assets		917
Property and equipment, net		24,963
Goodwill		101,198
Identifiable intangible assets		57,000
Other non-current assets		100
	\$	201,444
Accounts payable	\$	10,897
Accrued expenses and other current liabilities		5,130
Contingent consideration		13,098
Other long-term liabilities		102
Long-term deferred taxes payable		28,449
Consideration transferred, net of cash acquired		143,768
	\$	201,444

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

**(7) Goodwill and Other Identifiable Intangible Assets**

In accordance with ASC 350, *Intangibles - Goodwill and Other Intangible Assets*, the Company performs its annual goodwill impairment test during the fourth quarter of each fiscal year, or whenever indicators of impairment are present. The reporting units utilized for goodwill impairment tests align directly with our operating segments, Worldwide Barcode, Networking & Security and Worldwide Communications & Services. The testing includes the determination of each reporting unit's fair value using a discounted cash flows model compared to each reporting unit's carrying value. Key assumptions used in determining fair value include projected growth and operating margin, working capital requirements and discount rates. During fiscal years ended June 30, 2019, 2018 and 2017, no impairment charges related to goodwill were recorded.

Changes in the carrying amount of goodwill for the years ended June 30, 2019 and 2018, by reportable segment, are set forth in the table below. Additions to goodwill for fiscal years 2019 and 2018 are due to the recent acquisitions.

	<b>Worldwide Barcode, Networking &amp; Security Segment</b>		<b>Worldwide Communications &amp; Services Segment</b>		<b>Total</b>
	<i>(in thousands)</i>				
Balance at June 30, 2017	\$	36,260	\$	164,621	\$ 200,881
Additions		101,198		—	101,198
Unrealized loss on foreign currency translation		(244)		(3,661)	(3,905)
Balance at June 30, 2018	\$	137,214	\$	160,960	\$ 298,174
Additions		—		21,854	21,854
Unrealized loss on foreign currency translation		(137)		(353)	(490)
Balance at June 30, 2019	\$	137,077	\$	182,461	\$ 319,538



**SCANSOURCE, INC. AND SUBSIDIARIES**  
**Notes to Consolidated Financial Statements—(Continued)**  
**June 30, 2019**

The following table shows the Company's identifiable intangible assets as of June 30, 2019 and 2018, respectively.

	June 30, 2019			June 30, 2018		
	Gross Carrying Amount	Accumulated Amortization	Net Book Value	Gross Carrying Amount	Accumulated Amortization	Net Book Value
<i>(in thousands)</i>						
Amortized intangible assets:						
Customer relationships	\$ 143,541	\$ 51,823	\$ 91,718	\$ 139,479	\$ 40,337	\$ 99,142
Trade names	23,831	11,320	12,511	27,123	12,224	14,899
Non-compete agreements	3,094	1,714	1,380	3,064	1,221	1,843
Distributor agreements	354	210	144	363	188	175
Supplier partner program	3,583	815	2,768	3,583	456	3,127
Encryption key library	19,900	4,768	15,132	19,900	2,280	17,620
Developed technology	4,512	226	4,286	—	—	—
Total intangibles	\$ 198,815	\$ 70,876	\$ 127,939	\$ 193,512	\$ 56,706	\$ 136,806

During fiscal year 2019, the Company acquired customer relationships, trade names, non-compete agreements and developed technology related to the acquisitions of Canpango and RPM. The Company also disposed of fully amortized trade names and non-compete agreements from prior acquisitions.

The weighted-average amortization period for all intangible assets was approximately 9 years for the year ended June 30, 2019, compared to 10 years for years ended June 30, 2018 and 2017. Amortization expense for the years ended June 30, 2019, 2018 and 2017 was \$19.7 million, \$20.7 million and \$15.5 million, respectively, all of which relates to selling, general and administrative costs, not the cost of selling goods, and has been presented as such in the accompanying Consolidated Income Statements.

Estimated future amortization expense is as follows:

Year Ended June 30,	Amortization Expense
	<i>(in thousands)</i>
2020	\$ 19,075
2021	19,489
2022	17,698
2023	16,588
2024	16,443
Thereafter	38,646
Total	\$ 127,939

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

The following table shows the Company's short-term and long-term debt as of June 30, 2019 and 2018, respectively.

**SCANSOURCE, INC. AND SUBSIDIARIES**  
**Notes to Consolidated Financial Statements—(Continued)**  
**June 30, 2019**

	June 30,	
	2019	2018
	<i>(in thousands)</i>	
Short-term borrowings	\$ 4,590	\$ —
Current portion of long-term debt	4,085	551
Mississippi revenue bond, net of current portion	4,764	4,878
Senior secured term loan facility, net of current portion	146,250	—
Borrowings under revolving credit facility	200,817	244,000
<b>Total debt</b>	<b>\$ 360,506</b>	<b>\$ 249,429</b>

#### *Short-term Borrowings*

The Company has a bank overdraft facility with Bank of America used by its European subsidiaries. The facility allows the Company to disburse checks in excess of bank balances up to \$14.0 million U.S. dollar equivalent for up to seven days. Borrowings under the overdraft facility bear interest at a rate equal to a spread of 1.0% over the applicable currency's London Interbank Offered Rate ("LIBOR") with a zero percent floor. Since borrowings outstanding under the overdraft facility at June 30, 2019 were denominated in euros, which bore a negative LIBOR rate, the interest applicable to the Company was 1.0%. There was no outstanding balance on the overdraft facility at June 30, 2018.

#### *Credit Facility*

The Company has a multi-currency senior secured credit facility with JPMorgan Chase Bank N.A., as administrative agent, and a syndicate of banks (the "Amended Credit Agreement"). On April 30, 2019, the Company amended this credit facility to expand the borrowing capacity and extend its maturity to April 30, 2024. The Amended Credit Agreement includes (i) a five-year \$350 million multi-currency senior secured revolving credit facility and (ii) a five-year \$150 million senior secured term loan facility. Pursuant to an "accordion feature," the Company may increase its borrowings up to an additional \$250 million for a total of up to \$750 million, subject to obtaining additional credit commitments from the lenders participating in the increase. The Amended Credit Agreement allows for the issuance of up to \$50 million for letters of credit, subject to obtaining additional credit commitments from the lenders participating in the increase. The Company incurred debt issuance costs of \$1.1 million in connection with the amendments to the Amended Credit Agreement on April 30, 2019. These costs were capitalized to other non-current 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 Amended Credit Agreement, other than swingline loans, bear interest at a rate equal to a spread over the LIBOR or alternate base rate depending upon the Company's net leverage ratio, calculated as total debt less up to \$15 million of unrestricted domestic cash to trailing four-quarter adjusted earnings before interest expense, taxes, depreciation and amortization ("EBITDA") (the "Leverage Ratio"). This spread ranges from 1.00% to 1.75% for LIBOR-based loans and 0.00% to 0.75% for alternate base rate loans. Additionally, the Company is charged commitment fees ranging from 0.15% to 0.30%, depending upon the Leverage Ratio, on non-utilized borrowing availability, excluding swingline loans. The Amended Credit Agreement provides for the substitution of a new interest rate benchmark upon the transition from LIBOR, subject to agreement between the Company and the administrative agent. 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. Under the terms of the revolving credit facility, the payment of cash dividends is restricted.

The spread in effect as of June 30, 2019 was 1.75% for LIBOR-based loans and 0.75% for alternate base rate loans. The commitment fee rate in effect as of June 30, 2019 was 0.30%. The Amended Credit Agreement includes customary representations, warranties, and affirmative and negative covenants, including financial covenants. Specifically, the Company's Leverage Ratio must be less than or equal to 3.50 to 1.00 at all times. In addition, the Company's Interest Coverage Ratio (as such term is defined in the Amended Credit Agreement) must be at least 3.00 to 1.00 as of the end of each fiscal quarter. In the event of a default, customary remedies are available to the lenders, including acceleration and increased interest rates. The Company was in compliance with all covenants under the credit facility as of June 30, 2019.

**SCANSOURCE, INC. AND SUBSIDIARIES**  
**Notes to Consolidated Financial Statements—(Continued)**  
**June 30, 2019**

The average daily balance on the revolving credit facility, excluding the term loan facility, during the fiscal years ended June 30, 2019 and 2018 was \$296.4 million and \$269.5 million, respectively. There was \$149.2 million and \$156.0 million available for additional borrowings as of June 30, 2019 and 2018, respectively. There were no letters of credit issued under the multi-currency revolving credit facility as of June 30, 2019 and June 30, 2018.

*Mississippi Revenue Bond*

On August 1, 2007, the Company entered into an agreement with the State of Mississippi in order to provide financing for the acquisition and installation of certain equipment to be utilized at the Company's Southaven, Mississippi facility through the issuance of an industrial development revenue bond. The bond matures on September 1, 2032 and accrues interest at a rate equal to 30-day LIBOR plus a spread of 0.85%. The terms of the bond allow for payment of interest only for the first 10 years of the agreement and then, starting on September 1, 2018 through 2032, principal and interest payments are due until the maturity date or the redemption of the bond. The agreement also provides the bondholder with a put option, exercisable only within 180 days of each 5th anniversary of the agreement, requiring the Company to pay back the bonds at 100% of the principal amount outstanding. As of June 30, 2019, the Company was in compliance with all covenants under this bond. The interest rate at June 30, 2019 and 2018 was 3.280% and 2.855%, respectively.

Scheduled maturities of the Company's short-term borrowings, revolving credit facility and long-term debt at June 30, 2019 are as follows:

	<b>Revolving Credit Facility</b>	<b>Term Loan Facility</b>	<b>Mississippi Bond</b>	<b>Bank Overdraft Facility</b>
	<i>(in thousands)</i>			
Fiscal year:				
2020	\$ —	\$ 3,750	\$ 335	\$ 4,590
2021	—	7,500	338	—
2022	—	7,500	343	—
2023	—	11,250	348	—
2024	200,817	120,000	352	—
Thereafter	—	—	3,383	—
Total principal payments	<u>\$ 200,817</u>	<u>\$ 150,000</u>	<u>\$ 5,099</u>	<u>\$ 4,590</u>

*Debt Issuance Costs*

As of June 30, 2019, net debt issuance costs associated with the credit facility and bonds totaled \$2.1 million and are being amortized on a straight-line basis through the maturity date of each respective debt instrument.

**SCANSOURCE, INC. AND SUBSIDIARIES**  
**Notes to Consolidated Financial Statements—(Continued)**  
**June 30, 2019**

**(9) 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. 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 consolidated balance sheet at fair value. Derivatives that are not designated as hedging instruments or the ineffective portions of cash flow hedges are adjusted to fair value through earnings in other income and expense.

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

The Company had contracts outstanding with notional amounts of \$110.7 million and \$74.6 million for the exchange of foreign currencies as of June 30, 2019 and 2018, respectively. To date, the Company has chosen not to designate these derivatives as hedging instruments, and accordingly, these instruments are adjusted to fair value through earnings in other income and expense. Summarized financial information related to these derivative contracts and changes in the underlying value of the foreign currency exposures are as follows:

	Fiscal year ended June 30,		
	2019	2018	2017
	<i>(in thousands)</i>		
Net foreign exchange derivative contract loss (gain)	\$ (558)	\$ 386	\$ 146
Net foreign currency transactional and re-measurement loss	1,714	1,710	1,773
Net foreign currency loss	<u>\$ 1,156</u>	<u>\$ 2,096</u>	<u>\$ 1,919</u>

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

*Interest Rates* – The Company's earnings are also affected by changes in interest rates due to the impact those changes have on interest expense from floating rate debt instruments. The Company manages its exposure to changes in interest rates by using interest rate swaps to hedge this exposure and to achieve a desired proportion of fixed versus floating rate debt. The Company entered into an interest rate swap agreement, which was subsequently settled, and entered into a new amended agreement on April 30, 2019. The swap agreement has a notional amount of \$100.0 million, with a \$50.0 million tranche scheduled to mature on April 30, 2024 and a \$50.0 million tranche scheduled to mature April 30, 2026. This swap agreement is designated as a cash flow hedge to hedge the variable rate interest payments on the revolving credit facility. Interest rate differentials paid or received under the swap agreement are recognized as adjustments to interest expense. To the extent the swap is effective in offsetting the variability of the hedged cash flows, changes in the fair value of the swap are not included in current earnings but are reported as other comprehensive income (loss). There was no ineffective portion to be recorded as an adjustment to earnings for fiscal years ended June 30, 2019 and 2018.

**SCANSOURCE, INC. AND SUBSIDIARIES**  
**Notes to Consolidated Financial Statements—(Continued)**  
**June 30, 2019**

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

	Fiscal Year Ended June 30,		
	2019	2018	2017
	<i>(in thousands)</i>		
Net interest (income) expense recognized as a result of interest rate swap	\$ (233)	\$ 161	\$ 7
Unrealized (loss) gain in fair value of interest swap rates	(4,159)	1,422	14
Net increase in accumulated other comprehensive (loss) income	(4,392)	1,583	21
Income tax effect	(1,115)	494	8
Net increase in accumulated other comprehensive (loss) income, net of tax	\$ (3,277)	\$ 1,089	\$ 13

The Company has the following derivative instruments located on the Consolidated Balance Sheets and Income Statements as of June 30, 2019, utilized for the risk management purposes detailed above:

		June 30, 2019	
Balance Sheet Location		Fair Value of Derivatives Designated as Hedge Instruments	Fair Value of Derivatives Not Designated as Hedge Instruments
<i>(in thousands)</i>			
Derivative assets:			
Foreign exchange contracts	Prepaid expenses and other current assets	\$ —	\$ 168
Derivative liabilities:			
Foreign exchange contracts	Accrued expenses and other current liabilities	\$ —	\$ 165
Interest rate swap agreement	Other current liabilities	\$ 3,504	\$ —

The Company has the following derivative instruments located on the Consolidated Balance Sheets and Income Statements as of June 30, 2018, utilized for the risk management purposes detailed above:

		June 30, 2018	
Balance Sheet Location		Fair Value of Derivatives Designated as Hedge Instruments	Fair Value of Derivatives Not Designated as Hedge Instruments
<i>(in thousands)</i>			
Derivative assets:			
Foreign exchange contracts	Prepaid expenses and other current assets	\$ —	\$ 157
Interest rate swap agreement	Other current assets	\$ 1,604	\$ —
Derivative liabilities:			
Foreign exchange contracts	Accrued expenses and other current liabilities	\$ —	\$ 156

**SCANSOURCE, INC. AND SUBSIDIARIES**  
**Notes to Consolidated Financial Statements—(Continued)**  
**June 30, 2019**

**(10) Fair Value of Financial Instruments**

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

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

The assets and liabilities maintained by the Company that are required to be measured at fair value on a recurring basis include deferred compensation plan investments, forward foreign currency exchange contracts, interest rate swap agreements and contingent consideration owed to the previous owners of Intelisys. The carrying value of debt listed in Note 8 - *Short-Term Borrowings and Long Term Debt* is considered to approximate fair value, as the Company's debt instruments are indexed to a variable rate using the market approach (Level 2 criteria).

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, 2019:

	Total	Quoted prices in active markets (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)
<i>(in thousands)</i>				
<b>Assets:</b>				
Deferred compensation plan investments, current and non-current portion	\$ 25,787	\$ 25,787	\$ —	\$ —
Forward foreign currency exchange contracts	168	—	168	—
Total assets at fair value	<u>\$ 25,955</u>	<u>\$ 25,787</u>	<u>\$ 168</u>	<u>\$ —</u>
<b>Liabilities:</b>				
Deferred compensation plan investments, current and non-current portion	\$ 25,787	\$ 25,787	\$ —	\$ —
Forward foreign currency exchange contracts	165	—	165	—
Interest rate swap agreement	3,504	—	3,504	—
Liability for contingent consideration, current and non-current	77,925	—	—	77,925
Total liabilities at fair value	<u>\$ 107,381</u>	<u>\$ 25,787</u>	<u>\$ 3,669</u>	<u>\$ 77,925</u>

The following table presents assets and liabilities measured at fair value on a recurring basis as of June 30, 2018:

**SCANSOURCE, INC. AND SUBSIDIARIES**  
**Notes to Consolidated Financial Statements—(Continued)**  
**June 30, 2019**

	Total	Quoted prices in active markets (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)
<i>(in thousands)</i>				
<b>Assets:</b>				
Deferred compensation plan investments, current and non-current portion	\$ 23,352	\$ 23,352	\$ —	\$ —
Forward foreign currency exchange contracts	157	—	157	—
Interest rate swap agreement	1,604	—	1,604	—
<b>Total assets at fair value</b>	<b>\$ 25,113</b>	<b>\$ 23,352</b>	<b>\$ 1,761</b>	<b>\$ —</b>
<b>Liabilities:</b>				
Deferred compensation plan investments, current and non-current portion	\$ 23,352	\$ 23,352	\$ —	\$ —
Forward foreign currency exchange contracts	156	—	156	—
Liability for contingent consideration, current and non-current	108,233	—	—	108,233
<b>Total liabilities at fair value</b>	<b>\$ 131,741</b>	<b>\$ 23,352</b>	<b>\$ 156</b>	<b>\$ 108,233</b>

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.

Derivative instruments, such as foreign currency forward contracts, are measured using the market approach on a recurring basis considering foreign currency spot rates and forward rates quoted by banks or foreign currency dealers and interest rates quoted by banks (Level 2). Fair values of interest rate swaps are measured using standard valuation models with inputs that can be derived from observable market transactions, including LIBOR spot and forward rates (Level 2). Foreign currency contracts and interest rate swap agreements are classified in the Consolidated Balance Sheet as prepaid expenses and other current assets or accrued expenses and other current liabilities, depending on the respective instruments' favorable or unfavorable positions. See Note 9 - *Derivatives and Hedging Activities*.

The Company recorded contingent consideration liabilities at the acquisition date of Network1, Intelisys and POS Portal representing the amounts payable to former shareholders, as outlined under the terms of the applicable purchase agreements, based upon the achievement of a projected earnings measure, net of specific pro forma adjustments. The current and non-current portions of these obligations are reported separately on the Consolidated Balance Sheets. The fair value of the contingent considerations (Level 3) are determined using a form of a probability weighted discounted cash flow model. Subsequent changes in the fair value of the contingent consideration liabilities are recorded to the change in fair value of contingent consideration line item in the Consolidated Income Statements. Fluctuations due to foreign currency translation are captured in other comprehensive income through the changes in foreign currency translation adjustments line item as seen in Note 16 - *Accumulated Other Comprehensive (Loss) Income*.

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

The table below provides a summary of the changes in fair value of the Company's contingent considerations for the Network1, and Intelisys earnouts, which is measured at fair value on a recurring basis using significant unobservable inputs (Level 3) for the fiscal year ended June 30, 2019. The final earnout payment due to former shareholders of Network1 was paid during fiscal year ended June 30, 2019.

**SCANSOURCE, INC. AND SUBSIDIARIES**  
**Notes to Consolidated Financial Statements—(Continued)**  
**June 30, 2019**

**Contingent Consideration for the Fiscal Year Ended**

	June 30, 2019		
	Worldwide Barcode, Networking & Security Segment	Worldwide Communications & Services Segment	Total
	<i>(in thousands)</i>		
Fair value at beginning of period	\$ —	\$ 108,233	\$ 108,233
Payments	—	(45,796)	(45,796)
Change in fair value	—	15,200	15,200
Fluctuation due to foreign currency exchange	—	288	288
Fair value at end of period	<u>\$ —</u>	<u>\$ 77,925</u>	<u>\$ 77,925</u>

The table below provides a summary of the changes in fair value of the Company's contingent considerations for the Network1, Intelisys and POS Portal earnouts, which is measured at fair value on a recurring basis using significant unobservable inputs (Level 3) for the fiscal year ended June 30, 2018. The contingent consideration due to the former shareholders of POS Portal was paid in full during fiscal year ended June 30, 2018.

**Contingent Consideration for the Fiscal Year Ended**

	June 30, 2018		
	Worldwide Barcode, Networking & Security Segment	Worldwide Communications & Services Segment	Total
	<i>(in thousands)</i>		
Fair value at beginning of period	\$ —	\$ 114,036	\$ 114,036
Issuance of contingent consideration	13,098	—	13,098
Payments	(13,167)	(40,858)	(54,025)
Adjustments to contingent consideration <sup>(1)</sup>	—	(779)	(779)
Change in fair value	69	36,974	37,043
Fluctuation due to foreign currency exchange	—	(1,140)	(1,140)
Fair value at end of period	<u>\$ —</u>	<u>\$ 108,233</u>	<u>\$ 108,233</u>

<sup>(1)</sup> The contingent consideration payable to the former shareholders of Network1 was been reduced by payments the Company made to settle pre-acquisition contingencies during the quarter ended June 30, 2018.

The fair values of amounts owed are recorded in the current portion of contingent consideration and the long-term portion of contingent consideration in the Company's Consolidated Balance Sheets. In accordance with ASC 805, the Company will revalue the contingent consideration liability at each reporting date through the last payment, with changes in the fair value of the contingent consideration reflected in the change in fair value of contingent consideration line item on the Company's Consolidated Income Statement that is included in the calculation of operating income. The fair value of the contingent consideration liability associated with future earnout payments is based on several factors, including:

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

A change in any of these unobservable inputs can significantly change the fair value of the contingent consideration. Valuation techniques and significant observable inputs used in recurring Level 3 fair value measurements for our contingent consideration liabilities as of June 30, 2019 and 2018 were as follows.



**SCANSOURCE, INC. AND SUBSIDIARIES**  
**Notes to Consolidated Financial Statements—(Continued)**  
**June 30, 2019**

Reporting Period	Valuation Technique	Significant Unobservable Inputs	Weighted Average Rates
June 30, 2019	Discounted cash flow	Weighted average cost of capital	<b>14.2%</b>
		Adjusted EBITDA growth rate	<b>21.5%</b>
June 30, 2018	Discounted cash flow	Weighted average cost of capital	14.8%
		Adjusted EBITDA growth rate	18.2%

*Worldwide Barcode, Networking & Security Segment*

*POS Portal*

The contingent consideration due to the former shareholders of POS Portal was paid in full during the fiscal year ended June 30, 2018. The expense from the change in the fair value of the contingent consideration recognized in the Consolidated Income Statements for the fiscal year ended June 30, 2018 totaled less than \$0.1 million.

*Worldwide Communications & Services Segment*

*Network1*

The final earnout payment was paid to the former shareholders of Network1 during the fiscal year ended June 30, 2019, therefore no liability for the contingent consideration related to Network1 is recognized as of June 30, 2019. The expense from the change in fair value of the contingent consideration recognized in the Consolidated Income Statements totaled \$2.5 million for the fiscal year ended June 30, 2019, which is primarily for agreed upon adjustments in the final payment.

As of June 30, 2018, the fair value of the contingent consideration was \$10.7 million, all of which was classified as current. The expense from the change in fair value of the contingent consideration recognized in the Consolidated Income Statements totaled \$21.0 million for the fiscal year ended June 30, 2018, which was primarily due to a change in estimate of the fiscal year 2018 payment to the former shareholders of Network1, additional agreed upon adjustments to the projected final settlement and improved actual results for the for fiscal year 2018.

*Intelisys*

The fair value of the liability for the contingent consideration related to Intelisys recognized at June 30, 2019 was \$77.9 million, of which \$38.4 million is classified as current. The expense from the change in fair value of the contingent consideration recognized in the Consolidated Income Statements totaled \$12.7 million for the fiscal year ended June 30, 2019, which was primarily due to the recurring amortization of the unrecognized fair value discount and improved projected results. Although there is no contractual limit, total future undiscounted contingent consideration payments are anticipated to range up to \$85.1 million, based on the Company's best estimate of the earnout calculated on a multiple of adjusted earnings.

The fair value of the liability for the contingent consideration related to Intelisys recognized at June 30, 2018 was \$97.5 million of which \$32.2 million is classified as current. The expense from the change in fair value of the contingent consideration recognized in the Consolidated Income Statements totaled \$16.0 million for the fiscal year ended June 30, 2018, which was largely driven by the recurring amortization of the unrecognized fair value discount and an adjustment to the probability weights in the discounted cash flow model.

Scheduled maturities of the Company's contingent considerations at June 30, 2019 are as follows:

**SCANSOURCE, INC. AND SUBSIDIARIES**  
**Notes to Consolidated Financial Statements—(Continued)**  
**June 30, 2019**

	<b>Contingent Consideration</b>
	<b>(in thousands)</b>
Fiscal year:	
2020	\$ 38,393
2021	39,532
Total contingent consideration payments	\$ 77,925

**SCANSOURCE, INC. AND SUBSIDIARIES**  
**Notes to Consolidated Financial Statements—(Continued)**  
**June 30, 2019**

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

The Company has awards outstanding from two share-based compensation plans (the 2002 Long-Term Incentive Plan and the 2013 Long-Term Incentive Plan). Awards are currently only being granted under the 2013 Long-Term Incentive Plan. As of June 30, 2019, there were 1,740,768 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 align the interests of its employees and directors with those of its shareholders. Under the plans, the Company is authorized to award officers, employees, consultants and non-employee members of the Board of Directors various share-based payment awards, including options to purchase common stock and restricted stock. Restricted stock can be in the form of a restricted stock award ("RSA"), restricted stock unit ("RSU") or a performance unit ("PU"). An RSA is common stock that is subject to risk of forfeiture or other restrictions that lapse upon satisfaction of specified conditions. An RSU represents the right to receive shares of common stock in the future with the right to future delivery of the shares subject to risk of forfeiture or other restrictions that lapse upon satisfaction of specified conditions.

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

	<b>Fiscal Year Ended June 30,</b>		
	<b>2019</b>	<b>2018</b>	<b>2017</b>
	<i>(in thousands)</i>		
Share-based compensation related to:			
Equity classified stock options	\$ <b>868</b>	\$ 1,184	\$ 1,356
Equity classified restricted stock	<b>5,254</b>	5,275	5,246
Total share-based compensation	<b>\$ 6,122</b>	\$ 6,459	\$ 6,602

*Stock Options*

During the fiscal year ended June 30, 2019, the Company granted stock options for 2,110 shares. These options vest annually over 3 years and have a 10-year contractual life. These options were granted with an exercise price that is no less than 100% of the fair market value of the underlying shares on the date of the grant.

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

**SCANSOURCE, INC. AND SUBSIDIARIES**  
**Notes to Consolidated Financial Statements—(Continued)**  
**June 30, 2019**

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

	Fiscal Year Ended June 30,		
	2019	2018	2017
Expected term	4 years	5 years	5 years
Expected volatility	32.93%	30.70%	30.88%
Risk-free interest rate	2.84%	2.17%	1.84%
Dividend yield	0.00%	0.00%	0.00%
Weighted-average fair value per option	\$ 11.86	\$ 10.60	\$ 11.26

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

A summary of activity under our stock option plans is presented below:

	Fiscal Year Ended June 30, 2019			
	Options	Weighted-Average Exercise Price	Weighted-Average Remaining Contractual Life	Aggregate Intrinsic Value
Outstanding, beginning of year	897,120	\$ 37.33		
Granted during the period	2,110	39.35		
Exercised during the period	(43,975)	33.21		
Canceled, forfeited, or expired during the period	(4,560)	34.35		
Outstanding, end of year	<u>850,695</u>	37.57	5.05	\$ 259,658
Vested and expected to vest at June 30, 2019	<u>850,220</u>	37.57	5.05	\$ 259,467
Exercisable, end of year	<u>748,263</u>	\$ 37.91	4.61	\$ 257,612

The aggregate intrinsic value was calculated using the market price of the Company's stock on June 30, 2019, 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, 2019, 2018 and 2017 was \$0.4 million, \$0.5 million and \$1.6 million, respectively.

**SCANSOURCE, INC. AND SUBSIDIARIES**  
**Notes to Consolidated Financial Statements—(Continued)**  
**June 30, 2019**

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

	<b>Fiscal Year Ended June 30, 2019</b>		
	<b>Options</b>	<b>Weighted Average Exercise Price</b>	<b>Weighted Average Grant Date Fair- Value</b>
Unvested, beginning of year	211,566	\$ 35.69	\$ 10.54
Granted	2,110	39.35	11.86
Vested	(106,684)	36.45	10.33
Canceled or forfeited	(4,560)	34.35	10.62
Unvested, end of year	<u>102,432</u>	<u>\$ 35.03</u>	<u>\$ 10.78</u>

As of June 30, 2019, there was approximately \$0.7 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 0.84 years. The total fair value of options vested during the fiscal years ended June 30, 2019, 2018 and 2017 is \$1.1 million, \$1.3 million and \$1.5 million, respectively. The following table summarizes information about stock options outstanding and exercisable as of June 30, 2019:

<b>Range of Exercise Prices</b>	<b>Options Outstanding</b>			<b>Options Exercisable</b>	
	<b>Shares Outstanding</b>	<b>Weighted Average Remaining Contractual Life</b>	<b>Weighted Average Exercise Price</b>	<b>Number Exercisable</b>	<b>Weighted Average Exercise Price</b>
\$22.27 - \$26.38	25,000	0.43	24.57	25,000	24.57
\$26.38 - \$30.49	19,731	3.44	29.80	19,731	29.80
\$30.49 - \$34.60	153,236	6.90	34.17	80,251	34.18
\$34.60 - \$38.71	371,169	4.67	37.04	343,832	37.04
\$38.71 - \$42.82	281,559	5.06	41.81	279,449	41.83
	<u>850,695</u>	<u>5.05</u>	<u>\$ 37.57</u>	<u>748,263</u>	<u>\$ 37.91</u>

The Company issues shares to satisfy the exercise of options.

***Restricted Stock***

*Grants of Restricted Shares*

During the fiscal year ended June 30, 2019, the Company granted 210,359 shares of restricted stock to employees and non-employee directors, all of which were issued in the form of RSUs or PUs:

**SCANSOURCE, INC. AND SUBSIDIARIES**  
**Notes to Consolidated Financial Statements—(Continued)**  
**June 30, 2019**

	<b>Fiscal Year Ended June 30, 2019</b>			
	<b>Shares granted</b>	<b>Date granted</b>	<b>Grant date fair value</b>	<b>Vesting period</b>
<i>Employees</i>				
Certain employees based on performance	127,506	December 3, 2018	\$ 39.35	Annually over 3 years
Certain employees based on performance <sup>(1)</sup>	27,192	January 29, 2019	\$ 37.27	January 1, 2019 through December 31, 2020
Certain employees based on performance <sup>(2)</sup>	35,261	January 29, 2019	\$ 37.27	January 1, 2019 through December 31, 2021
<i>Non-Employee Directors<sup>(3)</sup></i>				
Certain Directors	20,400	December 3, 2018	\$ 39.35	6 months

(1) The RSU's granted to non-executive employees on January 29, 2019 contains both service and performance-based vesting conditions for the period January 1, 2019 through December 31, 2020 (the "performance cycle") as determined by the Compensation Committee of the Company's Board of Directors. The total number for target shares granted could differ from the actual shares vested at the conclusion of the respective performance cycle. See the Company's proxy statement for more information about these grants.

(2) The RSU's granted to executive officers on January 29, 2019 contain performance-based vesting conditions for the period January 1, 2019 through December 31, 2020 and service-based vesting conditions for the period January 1, 2019 through December 31, 2021 (collectively the "performance cycle") as determined by the Compensation Committee of the Company's Board of Directors. The total number for target shares granted could differ from the actual shares vested at the conclusion of the respective performance cycle. See the Company's proxy statement for more information about these grants.

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

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

	<b>Fiscal Year Ended June 30, 2019</b>	
	<b>Shares</b>	<b>Weighted-Average Grant Date Fair Value</b>
Outstanding, beginning of year	253,519	\$ 35.93
Granted during the period	210,359	38.73
Vested during the period	(133,196)	37.01
Cancelled, forfeited, or expired during the period	(9,797)	37.23
Outstanding, end of year	<u>320,885</u>	<u>\$ 37.28</u>

As of June 30, 2019, there was approximately \$6.6 million of unrecognized compensation cost related to unvested restricted stock awards and restricted stock units granted, which is expected to be recognized over a weighted-average period of 1.33 years. The Company withheld 38,064 shares for income taxes during the fiscal year ended June 30, 2019.

**SCANSOURCE, INC. AND SUBSIDIARIES**  
**Notes to Consolidated Financial Statements—(Continued)**  
**June 30, 2019**

**(12) Employee Benefit Plans**

The Company has defined contribution plans under Section 401(k) of the Internal Revenue Code of 1986. One plan governs all employees located in the United States that meet certain eligibility requirements and provides a matching contribution equal to one-half of each participant's contribution, up to a maximum matching contribution per participant of \$800. Employer contributions are vested based upon tenure over a five-year period.

	<b>Fiscal Year Ended June 30,</b>		
	<b>2019</b>	<b>2018</b>	<b>2017</b>
	<i>(in thousands)</i>		
Matching contributions	\$ 1,283	\$ 1,163	\$ 875
Discretionary contributions	1,555	4,700	3,413
Total contributions	\$ 2,838	\$ 5,863	\$ 4,288

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 members of management 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.

**(13) Income Taxes**

On December 22, 2017, the U.S. government enacted the Tax Cuts and Jobs Act (the "Tax Act"). The Tax Act reduced the corporate federal tax rate from 28% to 21% effective January 1, 2018 and implemented a modified territorial tax system. Since the Company has a June 30th fiscal year-end, the lower tax rate resulted in a blended U.S. statutory federal rate of approximately 28% for the fiscal year ended June 30, 2018. The U.S. statutory federal rate is 21% for fiscal year ended June 30, 2019 and subsequent fiscal years. As part of the Tax Act, U.S. companies are required to pay a one-time transition tax on the deemed repatriation of undistributed foreign earnings and to remeasure deferred tax assets and liabilities.

The Tax Act includes a mandatory deemed repatriation of all undistributed foreign earnings that are subject to a U.S. income tax as part of the transition. For the fiscal year ended June 30, 2018, the Company recognized provisional income tax expense of \$9.6 million for a one-time transition tax liability on total post-1986 foreign subsidiaries' earnings and profits ("E&P") that were previously deferred from U.S. income taxes. The Company completed its analysis for this item within the permitted measurement period under the guidance of Staff Accounting Bulletin No. 118 ("SAB 118") and determined an adjustment was necessary. As a result, a discrete tax benefit for \$0.2 million was recorded during the quarter ended December 31, 2018. The Company will continue to distribute the earnings of its Canadian subsidiary, but earnings from Brazil will continue to be considered retained indefinitely for reinvestment and all other foreign geographies are immaterial. It has been the practice of the Company to reinvest those earnings in the businesses outside the United States. Apart from the one-time transition tax, any incremental deferred income taxes on the unremitted foreign earnings are not expected to be material.

As part of accounting for the Tax Act, the Company remeasured certain deferred tax assets and liabilities based on the rates at which such deferred taxes are expected to reverse in the future, which is generally 21%. For the fiscal year ended June 30, 2018 the Company recognized provisional discrete income tax benefit of \$1.6 million for the remeasurement of the Company's deferred tax asset and liability balances. The Company completed its analysis for this item within the permitted measurement period under the guidance of SAB 118 and determined that the provisional amount should not be adjusted.

The Tax Act created a provision known as global intangible low-tax income ("GILTI") that imposes a tax on certain earnings of foreign subsidiaries. The GILTI tax became effective for the Company during fiscal year 2019 and an accounting policy election was made to treat the tax as a current period expense. The Company recognized GILTI tax of approximately \$0.4 million for the fiscal year ended June 30, 2019.

Income tax expense (benefit) consists of:

**SCANSOURCE, INC. AND SUBSIDIARIES**  
**Notes to Consolidated Financial Statements—(Continued)**  
**June 30, 2019**

	<b>Fiscal Year Ended June 30,</b>		
	<b>2019</b>	<b>2018</b>	<b>2017</b>
	<i>(in thousands)</i>		
<b>Current:</b>			
Federal	\$ 17,742	\$ 38,263	\$ 31,149
State	4,404	3,503	2,615
Foreign	(157)	9,203	269
<b>Total current</b>	<b>21,989</b>	<b>50,969</b>	<b>34,033</b>
<b>Deferred:</b>			
Federal	(4,328)	(9,987)	(3,832)
State	(806)	(1,962)	(397)
Foreign	3,456	(11,248)	2,445
<b>Total deferred</b>	<b>(1,678)</b>	<b>(23,197)</b>	<b>(1,784)</b>
<b>Provision for income taxes</b>	<b>\$ 20,311</b>	<b>\$ 27,772</b>	<b>\$ 32,249</b>

A reconciliation of the U.S. Federal income tax expense at a statutory rate of 21% for the fiscal year ended June 30, 2019, a blended statutory rate of 28.0% for the fiscal year ended June 30, 2018 and a statutory rate of 35% for the fiscal year ended and June 30, 2017 to actual income tax expense is as follows:

	<b>Fiscal Year Ended June 30,</b>		
	<b>2019</b>	<b>2018</b>	<b>2017</b>
	<i>(in thousands)</i>		
U.S. statutory rate	21.0%	28.0%	35.0%
U.S. Federal income tax at statutory rate	\$ 16,361	\$ 17,094	\$ 35,524
<b>Increase (decrease) in income taxes due to:</b>			
State and local income taxes, net of Federal benefit	2,727	1,883	1,729
Tax credits	(1,808)	(1,825)	(1,430)
Valuation allowance	2,142	1,530	444
Effect of foreign operations, net	2,103	(1,396)	(1,477)
Stock compensation	35	1,049	(61)
Capitalized acquisition costs	69	48	231
Nontaxable income	(828)	(9)	(4,437)
Disallowed interest	1,600	1,888	2,011
Net favorable recovery	(2,670)	—	—
Other	1,085	(1,438)	(285)
U.S. Tax Reform transition tax	(827)	9,609	—
U.S. Tax Reform impact of rate change on deferred taxes	—	(1,615)	—
Belgium Tax Reform impact of rate change on deferred taxes	—	1,040	—
Other jurisdictions impact of rate change on deferred taxes	(43)	(86)	—
Global intangible low taxed income (GILTI) tax	365	—	—
<b>Provision for income taxes</b>	<b>\$ 20,311</b>	<b>\$ 27,772</b>	<b>\$ 32,249</b>

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



**SCANSOURCE, INC. AND SUBSIDIARIES**  
**Notes to Consolidated Financial Statements—(Continued)**  
**June 30, 2019**

	June 30,	
	2019	2018
<i>(in thousands)</i>		
Deferred tax assets derived from:		
Allowance for accounts receivable	\$ 10,681	\$ 12,874
Inventories	4,561	4,060
Nondeductible accrued expenses	9,848	7,426
Net operating loss carryforwards	6,241	5,350
Tax credits	6,530	5,795
Timing of amortization deduction from goodwill	6,406	5,756
Deferred compensation	6,396	5,696
Stock compensation	3,034	2,809
Timing of amortization deduction from intangible assets	3,110	2,510
Total deferred tax assets	<u>56,807</u>	<u>52,276</u>
Valuation allowance	(7,238)	(5,098)
Total deferred tax assets, net of allowance	<u>49,569</u>	<u>47,178</u>
Deferred tax liabilities derived from:		
Timing of depreciation and other deductions from building and equipment	(6,719)	(7,468)
Timing of amortization deduction from goodwill	(3,742)	(1,782)
Timing of amortization deduction from intangible assets	(15,779)	(17,498)
Total deferred tax liabilities	<u>(26,240)</u>	<u>(26,748)</u>
Net deferred tax assets	<u>\$ 23,329</u>	<u>\$ 20,430</u>

The components of pretax earnings are as follows:

	Fiscal Year Ended June 30,		
	2019	2018	2017
<i>(in thousands)</i>			
Domestic	\$ 67,426	\$ 66,416	\$ 79,871
Foreign	10,482	(5,491)	21,624
Worldwide pretax earnings	<u>\$ 77,908</u>	<u>\$ 60,925</u>	<u>\$ 101,495</u>

As of June 30, 2019, there were (i) gross net operating loss carryforwards of approximately \$4.0 million for U.S. federal income tax purposes; (ii) gross state net operating loss carryforwards of approximately \$7.3 million; (iii) foreign gross net operating loss carryforwards of approximately \$19.0 million; (iv) state income tax credit carryforwards of approximately \$2.5 million that will begin to expire in the 2020 tax year; and (v) withholding tax credits of approximately \$4.0 million; and (vi) foreign tax credits of \$0.5 million. The Company maintains a valuation allowance of \$2.3 million for foreign net operating losses, a less than \$0.1 million valuation allowance for state net operating losses, a \$4.0 million valuation allowance for withholding tax credits, a \$0.5 million valuation allowance for foreign tax credits, and \$0.3 million valuation allowance for state income tax credits, and a less than \$0.1 million valuation allowance for the notional interest deduction, where it was determined that, in accordance with ASC 740, it is more likely than not that they cannot be utilized.

The Company adopted ASU 2016-09 during fiscal year 2018 which required the Company to recognize excess tax benefits and tax deficiencies as income tax expense or benefit for stock award settlements that were previously recognized as additional paid-in-capital. As a result of these changes, the Company recognized net tax expense of less than \$0.1 million and \$1.0 million for the fiscal years ended June 30, 2019 and 2018, respectively.

As of June 30, 2019, the Company had gross unrecognized tax benefits of \$1.2 million, \$1.0 million of which, if recognized, would affect the effective tax rate. This reflects a decrease of \$0.9 million on a gross 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.

**SCANSOURCE, INC. AND SUBSIDIARIES**  
**Notes to Consolidated Financial Statements—(Continued)**  
**June 30, 2019**

The Company recognizes interest and penalties related to unrecognized tax benefits within the income tax expense line in the accompanying Consolidated Income Statement. Accrued interest and penalties are included within the related tax liability line in the Consolidated Balance Sheet. The total amount of interest and penalties accrued, but excluded from the table below were \$1.0 million, \$1.2 million and \$1.1 million for the fiscal years ended June 30, 2019, 2018 and 2017, respectively. A reconciliation of the beginning and ending amount of unrecognized tax benefits is as follows:

	June 30,		
	2019	2018	2017
	<i>(in thousands)</i>		
Beginning Balance	\$ 2,053	\$ 2,176	\$ 2,148
Additions based on tax positions related to the current year	69	157	174
Additions for tax positions of prior years	—	—	—
Reduction for tax positions of prior years	(888)	(280)	(146)
Ending Balance	<u>\$ 1,234</u>	<u>\$ 2,053</u>	<u>\$ 2,176</u>

Financial results for the Belgium business produced pre-tax loss of less than \$0.1 million for the year ended June 30, 2019. However, the Belgium business reported cumulative taxable income for two of the five prior years. In the judgment of management, it is more likely than not that the deferred tax asset will be realized. A corporate tax reform law was enacted in Belgium on December 25, 2017, which reduces the corporate tax rate from 33% to 25% over a three-year period. The company remeasured certain deferred tax assets and liabilities based on the rates at which such deferred taxes are expected to reverse in the future. As a result, the Company recognized income tax expense of \$1.0 million during the year ended June 30, 2018.

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

A Supplemental Law was issued in Brazil during the Company's fiscal year 2019 which affirmed that Brazilian state-provided benefits are not subject to income tax. The Company recorded, discrete to the June 30, 2019 quarter, an income tax benefit of \$3.1 million related to the confirmation of the recovery of state-provided tax benefits.

The Company conducts business globally and, as a result, one or more of its subsidiaries files income tax returns in the United States federal, various state, local and foreign jurisdictions. In the normal course of business, the Company is subject to examination by taxing authorities in countries in which it operates. With certain exceptions, the Company is no longer subject to state and local, or non-United States income tax examinations by tax authorities for tax years before June 30, 2014.

**(14) Commitments and Contingencies**

*Leases*

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

	Fiscal Year Ended June 30,		
	2019	2018	2017
	<i>(in thousands)</i>		
Lease expense	\$ 9,519	\$ 9,824	\$ 8,703

**SCANSOURCE, INC. AND SUBSIDIARIES**  
**Notes to Consolidated Financial Statements—(Continued)**  
**June 30, 2019**

	Operating Lease Payments	Capital Lease Payments	Total Payments
	<i>(in thousands)</i>		
Fiscal Year Ended June 30,			
2020	\$ 8,043	\$ 675	\$ 8,718
2021	7,197	—	7,197
2022	5,940	—	5,940
2023	5,092	—	5,092
2024	4,205	—	4,205
Thereafter	10,780	—	10,780
Total future minimum lease payments	41,257	675	41,932
Less: amounts representing interest on capital lease	—	8	8
Total future minimum principal lease payments	\$ 41,257	\$ 667	\$ 41,924

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

On December 7, 2017 the Company entered into a new lease agreement and amended an existing lease agreement for certain information technology infrastructure located in the Greenville, South Carolina facility expiring in 2020. The Company determined each lease qualified as a capital lease and recorded a capital lease obligation equal to the present value of the minimum lease payments of \$1.9 million.

The components of the Company's capital lease as of June 30, 2019 are as follows:

	Capital Lease Obligations					
	Property & Equipment	Accumulated Depreciation	Net Book Value	Short-Term	Long-Term	Total
	<i>(in thousands)</i>					
IT Infrastructure	\$ 1,583	\$ (914)	\$ 669	\$ 667	\$ —	\$ 667

#### *Commitments and Contingencies*

A majority of the Company's net revenues in fiscal years 2019, 2018 and 2017 were received from the sale of products purchased from the Company's ten largest suppliers. The Company has entered into written agreements with substantially all of its major suppliers. While the Company's agreements with most of its suppliers contain standard provisions for periodic renewals, these agreements generally permit termination by either party without cause upon 30 to 120 days' notice.

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

During fiscal year ended June 30, 2018, the Company recognized \$2.9 million in proceeds from a legal tax settlement, net of attorney fees, in Brazil. Of the total settlement, \$2.5 million is included in selling, general and administrative expenses and \$0.4 million is included in interest income on the Consolidated Income Statements. During the fiscal year ended June 30, 2017, the Company recognized \$12.8 million in proceeds from a legal settlement, net of attorney fees, included in other income (expense), net on the Consolidated Income Statements.

#### *Capital Projects*

**SCANSOURCE, INC. AND SUBSIDIARIES**  
**Notes to Consolidated Financial Statements—(Continued)**  
**June 30, 2019**

The Company expects total capital expenditures to range from \$4.0 million to \$6.0 million during fiscal year 2020 primarily for rental equipment investments, IT investments and facility improvements.

*Pre-Acquisition Contingencies*

During the Company's due diligence for the Network1 acquisition, several pre-acquisition contingencies were identified regarding various Brazilian federal and state tax exposures. The Company recorded indemnification receivables that are reported gross of the pre-acquisition contingency liabilities as the funds were escrowed as part of the acquisition. The sellers deposited \$6.4 million and \$12.3 million into the escrow account for the years ended June 30, 2019 and 2018. In addition, \$25.3 million was released from the escrow account during the fiscal year ended June 30, 2019. The amount available after the impact of foreign currency translation, as of June 30, 2019 and 2018, for future pre-acquisition contingency settlements or to be released to the sellers was \$6.5 million and \$24.1 million, respectively.

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

	<b>June 30, 2019</b>	<b>June 30, 2018</b>
	<i>(in thousands)</i>	
<b>Assets</b>		
Prepaid expenses and other assets (current)	\$ 761	\$ 1,385
Other assets (noncurrent)	\$ 5,219	\$ 5,700
<b>Liabilities</b>		
Other current liabilities	\$ 761	\$ 1,385
Other long-term liabilities	\$ 5,219	\$ 5,700

The net decline in the value of pre-acquisition contingencies for Network1 is primarily due to the expiration of the statute of limitations for identified pre-acquisition contingencies. The amount of reasonably possible undiscounted pre-acquisition contingencies as of June 30, 2019 is estimated to range from \$6.0 million to \$22.3 million at this time, of which all exposures are indemnifiable under the share purchase agreement.

**SCANSOURCE, INC. AND SUBSIDIARIES**  
**Notes to Consolidated Financial Statements—(Continued)**  
**June 30, 2019**

**(15) Segment Information**

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

*Worldwide Barcode, Networking & Security Segment*

The Worldwide Barcode, Networking & Security segment includes a portfolio of solutions primarily for enterprise mobile computing, data capture, barcode printing, POS, payments, networking, electronic physical security, cyber security and other technologies. We have business operations within this segment in the United States, Canada, Brazil, additional Latin American countries and Europe. We see adjacencies among these technologies in helping our customers develop solutions. Data capture and POS solutions interface with computer systems used to automate the collection, processing and communication of information for commercial and industrial applications, including retail sales, distribution, shipping, inventory control, materials handling, warehouse management and health care applications. Electronic physical security products include identification, access control, video surveillance, intrusion-related and wireless and networking infrastructure products.

*Worldwide Communications & Services Segment*

The Worldwide Communications & Services segment includes a portfolio of solutions primarily for communications technologies and services. We have business operations within this segment in the United States, Canada, Brazil, additional Latin American countries and Europe. These offerings include voice, video conferencing, wireless, data networking, cable, unified communications and collaboration, cloud and technology services. As these solutions come together on IP networks, new opportunities are created to move into adjacent solutions for all vertical markets, such as education, healthcare and government.

**SCANSOURCE, INC. AND SUBSIDIARIES**  
**Notes to Consolidated Financial Statements—(Continued)**  
**June 30, 2019**

Selected financial information for each business segment is presented below:

	Fiscal Year Ended June 30,		
	2019	2018	2017
	<i>(in thousands)</i>		
Sales:			
Worldwide Barcode, Networking & Security	\$ 2,589,837	\$ 2,628,988	\$ 2,389,256
Worldwide Communications & Services	1,283,274	1,217,272	1,178,930
	<u>\$ 3,873,111</u>	<u>\$ 3,846,260</u>	<u>\$ 3,568,186</u>
Depreciation and amortization:			
Worldwide Barcode, Networking & Security	\$ 17,623	\$ 18,233	\$ 6,496
Worldwide Communications & Services	15,507	15,769	15,099
Corporate	3,488	3,493	3,373
	<u>\$ 36,618</u>	<u>\$ 37,495</u>	<u>\$ 24,968</u>
Change in fair value of contingent consideration:			
Worldwide Barcode, Networking & Security	\$ —	\$ 69	\$ —
Worldwide Communications & Services	15,200	36,974	5,211
	<u>\$ 15,200</u>	<u>\$ 37,043</u>	<u>\$ 5,211</u>
Operating income:			
Worldwide Barcode, Networking & Security	\$ 59,875	\$ 56,911	\$ 49,727
Worldwide Communications & Services	31,307	10,900	39,768
Corporate <sup>(1)</sup>	(1,218)	(172)	(1,256)
	<u>\$ 89,964</u>	<u>\$ 67,639</u>	<u>\$ 88,239</u>
Capital expenditures:			
Worldwide Barcode, Networking & Security	\$ 3,876	\$ 4,841	\$ 3,796
Worldwide Communications & Services	3,335	1,964	3,163
Corporate	4	1,354	1,890
	<u>\$ 7,215</u>	<u>\$ 8,159</u>	<u>\$ 8,849</u>
Sales by Geography Category:			
United States	\$ 2,946,644	\$ 2,877,225	\$ 2,719,413
International <sup>(2)</sup>	955,322	999,245	882,446
Less intercompany sales	(28,855)	(30,210)	(33,673)
	<u>\$ 3,873,111</u>	<u>\$ 3,846,260</u>	<u>\$ 3,568,186</u>

<sup>(1)</sup> For the years ended June 30, 2019, 2018 and 2017, the amounts shown above include acquisition costs.

<sup>(2)</sup> For the years ended June 30, 2019, 2018 and 2017, there were no sales in excess of 10% of consolidated net sales to any single international country.

**SCANSOURCE, INC. AND SUBSIDIARIES**  
**Notes to Consolidated Financial Statements—(Continued)**  
**June 30, 2019**

	June 30, 2019	June 30, 2018
	<i>(in thousands)</i>	
<b>Assets:</b>		
Worldwide Barcode, Networking & Security	\$ 1,097,207	\$ 1,062,143
Worldwide Communications & Services	905,439	841,490
Corporate	64,615	41,662
	<u>\$ 2,067,261</u>	<u>\$ 1,945,295</u>
<b>Property and equipment, net by Geography Category:</b>		
United States	\$ 58,961	\$ 69,032
International	4,402	4,010
	<u>\$ 63,363</u>	<u>\$ 73,042</u>

**(16) Accumulated Other Comprehensive (Loss) Income**

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

	Fiscal Years Ended June 30,		
	2019	2018	2017
	<i>(in thousands)</i>		
Currency translation adjustment	\$ (87,913)	\$ (85,279)	\$ (73,217)
Unrealized (loss) gain on fair value of interest rate swap, net of tax	(2,175)	1,102	13
Accumulated other comprehensive loss	<u>\$ (90,088)</u>	<u>\$ (84,177)</u>	<u>\$ (73,204)</u>

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

	Fiscal years ended June 30,		
	2019	2018	2017
	<i>(in thousands)</i>		
Tax expense (benefit)	\$ 73	\$ 1,993	\$ (396)

**(17) Subsequent Events**

On July 1, 2019, the Company acquired all the outstanding shares of intY and its CASCADE cloud services distribution platform for a purchase price of approximately \$51.0 million. As an additional element of the Company's cloud and digital strategy, intY's CASCADE solution provides the Company's sales partners with another route to market to enable key strategic cloud services and aid in growth of their recurring revenue practices.

On August 20, 2019, the Company announced its plan to divest its physical product distribution businesses in Europe, UK, Mexico, Colombia, Chile, Peru and the Company's Miami-based export operations. ScanSource will continue to operate its digital businesses in these locations, including the businesses acquired within the last year, intY, Canpango, and Intelisys Global. The operations in these locations have been performing below Management's expectations. The Company is beginning the process to market and sell these businesses. There can be no assurance that this sale process will result in a transaction or the timing of any transaction.

**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, 2019, were effective in providing reasonable assurance that the objectives of the disclosure controls and procedures are met.

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

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

We assessed the effectiveness of our internal control over financial reporting as of June 30, 2019. However, the Canpango and RPM businesses acquired during the current fiscal year has been excluded from management's assessment of internal controls over financial reporting. The operations of Canpango and RPM, acquired August 20, 2018 and December 20, 2018, represent less than 1% of our consolidated revenues and less than 2% of our consolidated total assets for the fiscal year ended June 30, 2019. In making this assessment, we used the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission ("COSO") in *2013 Internal Control – Integrated Framework*. Based on its assessment using those criteria, our management concluded that our internal control over financial reporting was effective as of June 30, 2019.

The effectiveness of our internal control over financial reporting as of June 30, 2019 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, 2019 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

**ITEM 9B. Other Information.**

We will be holding our next annual shareholders' meeting on or about January 30, 2020 (the "2020 Annual Meeting"), which is more than 30 days from the first anniversary of the 2018 annual shareholders meeting. Therefore, we must receive shareholder proposals intended to be presented at the 2020 Annual Meeting for possible inclusion in the proxy materials relating to such meeting by September 10, 2019, which is a reasonable time before we expect to print and mail the proxy statement for the 2020 Annual Meeting.



Shareholders intending to present a proposal or to nominate a candidate for the election of directors at the 2020 Annual Meeting, but not to have the proposal or nomination considered for inclusion in the proxy materials for that meeting, must be eligible and give us advance written notice in accordance with our Bylaws.

Our Bylaws provide that such notice shall set forth in writing: (i) whether the shareholder is providing the notice at the request of a beneficial holder of shares, whether the shareholder, any such beneficial holder or any nominee has any agreement, arrangement or understanding with, or has received any financial assistance, funding or other consideration from, any other person with respect to the investment by the shareholder or such beneficial holder in the Company or the matter the notice relates to, and the details thereof, including the name of such other person (the shareholder, any beneficial holder on whose behalf the notice is being delivered, any nominees listed in the notice and any persons with whom such agreement, arrangement or understanding exists or from whom such assistance has been obtained are hereinafter collectively referred to as “Interested Persons”), (ii) the name and address of all Interested Persons, (iii) a complete listing of the record and beneficial ownership positions (including number or amount) of all equity securities and debt instruments, whether held in the form of loans or capital market instruments, of the Company or any of its subsidiaries held by all Interested Persons, (iv) whether and the extent to which any hedging, derivative or other transaction is in place or has been entered into within the prior six months preceding the date of delivery of the notice by or for the benefit of any Interested Person with respect to the Company or its subsidiaries or any of their respective securities, debt instruments or credit ratings, the effect or intent of which transaction is to give rise to gain or loss as a result of changes in the trading price of such securities or debt instruments or changes in the credit ratings for the Company, its subsidiaries or any of their respective securities or debt instruments (or, more generally, changes in the perceived creditworthiness of the Company or its subsidiaries), or to increase or decrease the voting power of such Interested Person, and if so, a summary of the material terms thereof, and (v) a representation that the shareholder is a holder of record of stock of the Company that would be entitled to vote at the meeting and intends to appear in person or by proxy at the meeting to propose the matter set forth in the notice. As used herein, “beneficially owned” has the meaning provided in Rules 13d-3 and 13d-5 under the Exchange Act. The notice shall be updated not later than 10 days after the record date for the determination of shareholders entitled to vote at the meeting to provide any material changes in the foregoing information as of the record date.

Because the 2020 Annual Meeting is not scheduled to be held within a period that commences 30 days before the anniversary date of the 2018 Annual Meeting and ends within 60 days after the anniversary date of the 2018 Annual Meeting, the deadline for shareholders to provide written notice of intent to make nominations for the election of directors at the 2020 Annual Meeting (but not for inclusion in the proxy materials relating to such meeting) will be November 1, 2019.

If the notice relates to the nomination of directors it must also contain (i) the information regarding each nominee required by paragraphs (a), (e) and (f) of Item 401 of Regulation S-K adopted by the SEC (or the corresponding provisions of any successor regulation), (ii) each nominee’s signed consent to serve as a director if elected, and (iii) whether each nominee is eligible for consideration as an independent director under the relevant standards contemplated by Item 407(a) of Regulation S-K (or the corresponding provisions of any successor regulation). We may also require any proposed nominee to furnish such other information, including completion of our director’s questionnaire, as it may reasonably require to determine whether the nominee would be considered “independent” as a director or as a member of the audit committee of the Board of Directors under the various rules and standards applicable to the Company. In addition to complying with the foregoing procedures, any shareholder recommending a director candidate must also comply with all applicable requirements of the Exchange Act, including the rules and regulations under such Act. In the event that the number of directors to be elected to the Board of Directors is increased and either all of the nominees for director or the size of the increased Board of Directors is not publicly announced or disclosed by us at least 100 days prior to the first anniversary of the preceding year’s annual meeting, a shareholder’s notice shall also be considered timely hereunder, but only with respect to nominees for any new positions created by such increase, if it shall be delivered to the Secretary of the Company at our principal executive office not later than the close of business on the tenth day following the first date all of such nominees or the size of the increased Board of Directors shall have been publicly announced or disclosed.

Our Nominating Committee will consider nominees recommended by shareholders that are properly brought before the Company. The proper procedures shareholders must follow to receive nominee consideration are outlined in this section. These nominees will be evaluated in the same manner as Board nominees as described in our proxy statement.

For business proposals to be brought before an annual meeting by a shareholder, the shareholder must give timely notice to the Corporate Secretary and such other business must otherwise be a proper matter for shareholder action. Notice other than the nomination of directors must contain: (i) the text of the proposal to be presented, including the text of any resolutions to be proposed for consideration by shareholders and (ii) a brief written statement of the reasons why such shareholder favors the proposal. The deadline for shareholders to provide written notice of their intent to bring a proposal (other than a nomination for the election of directors) at the 2020 Annual Meeting (but not for inclusion in the proxy materials relating to such meeting) is November 1, 2019.

To be in proper written form, a shareholder's notice to the Corporate Secretary must set forth in writing as to each matter the shareholder proposes to bring before the annual meeting (i) a brief description of the business desired to be brought before the annual meeting and the reasons for conducting such business at the annual meeting, (ii) the name and address, as they appear on our books, of the shareholder proposing such business and the beneficial owner, if any, on whose behalf the proposal is made, (iii) the class and number of shares of our common stock which are owned beneficially and of record by the shareholder and such beneficial owner and (iv) any material interest of the shareholder or such beneficial owner in such business.

### **PART III**

Information called for by Part III (Items 10, 11, 12, 13 and 14) of this Annual Report on Form 10-K has been omitted as we intend to file with the SEC not later than 120 days after the end of our fiscal year ended June 30, 2019, an amendment to this Form 10-K or a definitive Proxy Statement relating to the 2020 Annual Meeting pursuant to Regulation 14A promulgated under the Exchange Act (the "Part III Filing"). Such information will be set forth in such Part III Filing and is incorporated herein by reference.

**ITEM 10. Directors, Executive Officers and Corporate Governance.**

The information required to be included by Item 10 of Form 10-K will be included in our Part III Filing and such information is incorporated by reference herein.

**ITEM 11. Executive Compensation.**

The information required to be included by Item 11 of the Form 10-K will be included in our Part III Filing and such information is incorporated by reference herein.

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

The information required to be included by Item 12 of Form 10-K will be included in our Part III Filing and such information is incorporated by reference herein.

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

The information required to be included by Item 13 of Form 10-K will be included in our Part III Filing and such information is incorporated by reference herein.

**ITEM 14. Principal Accountant Fees and Services.**

The information required to be included by Item 14 of Form 10-K will be included in our Part III Filing and such information is incorporated by reference herein.

**PART IV**

**ITEM 15. Exhibits and Financial Statement Schedules.**

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

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

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

(b) *Exhibits*. See Exhibit Index.

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

**SCHEDULE II**

## SCANSOURCE, INC. AND SUBSIDIARIES

## Valuation and Qualifying Accounts

*(in thousands)*

Description	Balance at Beginning of Period	Amounts Charged to Expense	Reductions <sup>(1)</sup>	Other <sup>(2)</sup>	Balance at End of Period
Allowance for bad debt:					
Year ended June 30, 2017	\$ 39,032	8,901	(3,860)	361	\$ 44,434
Trade and current note receivable allowance					\$ 44,434
Year ended June 30, 2018	\$ 44,434	7,075	(5,610)	(338)	\$ 45,561
Trade and current note receivable allowance					\$ 45,561
<b>Year ended June 30, 2019</b>	<b>\$ 45,561</b>	<b>2,282</b>	<b>(9,421)</b>	<b>427</b>	<b>\$ 38,849</b>
<b>Trade and current note receivable allowance</b>					<b>\$ 38,849</b>

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

(2) "Other" amounts include recoveries and the effect of foreign currency fluctuations for years ended June 30, 2019, 2018 and 2017. The amount in 2019 includes \$0.1 million in accounts receivable reserves acquired with the Canpango acquisition on August 20, 2018. The amount in 2018 includes \$0.1 million in accounts receivable reserves acquired with the POS Portal acquisition on July 31, 2017. The amount in 2017 includes \$0.6 million of recoveries and \$0.3 million of accounts receivable reserves acquired with the Intelisys acquisition on August 29, 2017.

**ITEM 16. FORM 10-K SUMMARY**

None

**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.

**SCANSOURCE , INC.**

Date: August 22, 2019

By: /s/ MICHAEL L. BAUR

Michael L. Baur  
Chairman, Chief Executive Officer and President

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

<u>Signature</u>	<u>Title</u>	<u>Date</u>
<u>/s/ MICHAEL L. BAUR</u> Michael L. Baur	Chairman, Chief Executive Officer and President (principal executive officer)	August 22, 2019
<u>/s/ GERALD LYONS</u> Gerald Lyons	Senior Executive Vice President and Chief Financial Officer (principal financial officer and principal accounting officer)	August 22, 2019
<u>/s/ PETER C. BROWNING</u> Peter C. Browning	Director	August 22, 2019
<u>/s/ MICHAEL J. GRAINGER</u> Michael J. Grainger	Director	August 22, 2019
<u>/s/ JOHN P. REILLY</u> John P. Reilly	Director	August 22, 2019
<u>/s/ ELIZABETH O. TEMPLE</u> Elizabeth O. Temple	Director	August 22, 2019
<u>/s/ CHARLES R. WHITCHURCH</u> Charles R. Whitchurch	Director	August 22, 2019

**Exhibit  
Index**

<b>Exhibit Number</b>	<b>Description</b>	<b>Filed herewith</b>	<b>Form</b>	<b>Exhibit</b>	<b>Filing Date</b>
2.1	<a href="#">Letter Agreement between Registrant and Intersmart Comércio Importação/Exportação de Equipamentos Eletrônicos, S.A., dated August 14, 2014</a>		8-K	10.1	8/15/2014
2.2	<a href="#">Share Purchase and Sale Agreement for Global Data Network LLP dated January 8, 2015</a>		10-Q	2.1	2/3/2015
2.3+	<a href="#">Asset Purchase Agreement for Intelisys, Inc. dated August 5, 2016</a>		10-Q	10.1	11/7/2016
2.4+	<a href="#">Share Purchase Agreement for POS Portal, Inc. dated June 28, 2017</a>		10-K	2.5	8/29/2017
3.1	<a href="#">Amended and Restated Articles of Incorporation and Articles of Amendment</a>		10-Q	3.1	2/3/2005
3.2	<a href="#">Amended and Restated Bylaws</a>		8-K	3.1	11/30/2018
4.1	Form of Common Stock Certificate		SB-2	4.1	2/7/1994
4.2	<a href="#">Description of Securities</a>	X			
	<b>Executive Compensation Plans and Arrangements</b>				
10.1	<a href="#">Amended and Restated Directors Equity Compensation Plan, as amended and restated</a>		10-Q	10.4	11/2/2012
10.2	<a href="#">Form of Restricted Stock Award (for Amended and Restated Directors Equity Compensation Plan as amended and restated)</a>		10-Q	10.3	5/6/2011
10.3	<a href="#">Nonqualified Deferred Compensation Plan, as amended and restated</a>		10-Q	10.1	2/3/2015
10.4	<a href="#">Amended and Restated 2002 Long-Term Incentive Plan</a>		8-K	10.1	12/7/2009
10.5	<a href="#">2013 Long-Term Incentive Plan</a>		S-8	99	12/5/2013
10.6	<a href="#">Employee Stock Purchase Plan</a>		S-8	99	12/5/2013
10.7	<a href="#">Founder's Supplemental Executive Retirement Plan Agreement</a>		10-Q	10.2	5/6/2011
10.8	<a href="#">Executive Severance Plan</a>		8-K	10.3	6/21/2017
10.9	<a href="#">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</a>		8-K	10.3	12/7/2009
10.10	<a href="#">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</a>		10-Q	10.2	2/4/2011
10.11	<a href="#">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</a>		8-K	10.4	12/7/2009
10.12	<a href="#">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</a>		10-Q	10.3	2/4/2011

10.13	<a href="#">Form of Restricted Stock Unit Award Certificate under ScanSource, Inc. 2013 Long-Term Incentive Plan for grants on or after December 5, 2013</a>	10-Q	10.1	2/6/2014
10.14	<a href="#">Form of Director Restricted Stock Unit Award Certificate under ScanSource, Inc. 2013 Long-Term Incentive Plan for grants on or after December 5, 2013</a>	10-Q	10.2	2/6/2014
10.15	<a href="#">Form of Incentive Stock Option Award Certificate under ScanSource, Inc. 2013 Long-Term Incentive Plan for grants on or after December 5, 2013</a>	10-Q	10.3	2/6/2014
10.16	<a href="#">Form of Non-Qualified Stock Option Award Certificate under ScanSource, Inc. 2013 Long-Term Incentive Plan for grants on or after December 5, 2013</a>	10-Q	10.4	2/6/2014
10.17	<a href="#">Form of Other Stock Based Award Certificate under ScanSource, Inc. 2013 Long-Term Incentive Plan</a>	10-K	10.33	8/28/2014
10.18	<a href="#">Form of Performance and Service - Based Restricted Stock Unit Award Certificate under ScanSource Inc. 2013 Long-Term Incentive Plan</a>	10-K	10.34	8/28/2014
10.19	<a href="#">Form of Restricted Stock Unit Award (Performance and Service-Based) under the 2013 Long-Term Incentive Plan (2017 version)</a>	8-K	10.1	12/8/2017
10.20	<a href="#">Form of Restricted Stock Unit Award (Service-Based) under the 2013 Long-Term Incentive Plan (2017 version)</a>	8-K	10.2	12/8/2017
10.21	<a href="#">Form of Non-Qualified Stock Option Agreement under the 2013 Long-Term Incentive Plan (2017 version)</a>	8-K	10.3	12/8/2017
10.22	<a href="#">Form of Incentive Stock Option Agreement under the 2013 Long-Term Incentive Plan (2017 version)</a>	8-K	10.4	12/8/2017
10.23	<a href="#">Amended and Restated Employment Agreement, effective as of July 1, 2017, of Michael L. Baur</a>	8-K	10.1	6/21/2017
10.24	<a href="#">Amended and Restated Employment Agreement, dated June 25, 2014, of Gerald Lyons</a>	10-K	10.24	8/28/2014
10.25	<a href="#">First Amendment to Amended and Restated Employment Agreement, effective June 15, 2017, of Gerald Lyons</a>	8-K	10.2	6/21/2017
10.26	<a href="#">Employment Letter, dated August 23, 2017, of Gerald Lyons</a>	8-K	10.1	8/24/2017
10.27	<a href="#">Employment Letter, dated January 11, 2018 of Matthew Dean</a>	X		
10.28	<a href="#">Board of Directors Compensation Program effective July 1, 2018</a>	10-K	10.32	8/28/2018
10.29	<a href="#">First Amendment to Nonqualified Deferred Compensation Plan</a>	8-K	10.1	11/30/2018
10.30	<a href="#">Form of Director Restricted Stock Award Certificate for grants on or after January 1, 2019</a>	8-K	10.2	11/30/2018
10.31	<a href="#">Form of Director Restricted Stock Unit Certificate for grants on or after January 1, 2019</a>	8-K	10.3	11/30/2018
10.32	<a href="#">Form of Director Restricted Stock Award Certificate</a>	8-K	10.4	11/30/2018
10.33	<a href="#">Form of Restricted Stock Unit Award Certificate</a>	8-K	10.5	11/30/2018

**Bank Agreements**



10.34	<a href="#">Second Amended and Restated Credit Agreement</a>	8-K	10.1	5/1/2019
	<b>Other Agreements</b>			
10.35+	<a href="#">Industrial Lease Agreement dated April 27, 2007 between Registrant and Industrial Developments International, Inc.</a>	10-K	10.26	8/29/2007
10.36+	<a href="#">Third Amendment to Industrial Lease Agreement between Registrant and Industrial Developments International, Inc.</a>	10-K	10.54	8/29/2016
10.37+	<a href="#">Fourth Amendment to Industrial Lease Agreement</a>	10-Q	10.1	5/9/2019
10.38++	<a href="#">Nonexclusive Value Added Distributor Agreement between ScanSource, Inc. and Cisco Systems, Inc.</a>	X		
10.39++	<a href="#">Amendment No. 3 to Cisco Nonexclusive Value Added Distributor Agreement</a>	X		
10.40++	<a href="#">Amendment No. 5 to Cisco Nonexclusive Value Added Distributor Agreement</a>	X		
10.41++	<a href="#">Amendment No. 6 to Cisco Nonexclusive Value Added Distributor Agreement</a>	X		
10.42++	<a href="#">Amendment No. 7 to Cisco Nonexclusive Value Added Distributor Agreement</a>	X		
10.43	<a href="#">Amendment No. 9 to Cisco Nonexclusive Value Added Distributor Agreement</a>	X		
10.44++	<a href="#">Amendment No. 11 to Cisco Nonexclusive Value Added Distributor Agreement</a>	X		
10.45	<a href="#">Amendment No. 12 to Cisco Nonexclusive Value Added Distributor Agreement</a>	X		
10.46	<a href="#">Amendment No. 13 to Cisco Nonexclusive Value Added Distributor Agreement</a>	X		
10.47	<a href="#">Amendment No. 14 to Cisco Nonexclusive Value Added Distributor Agreement</a>	X		
10.48++	<a href="#">Addendum to Cisco Nonexclusive Value Added Distributor Agreement dated March 25, 2019</a>	X		
10.49++	<a href="#">Addendum to Cisco Nonexclusive Value Added Distributor Agreement dated March 2, 2015</a>	X		
10.50++	<a href="#">Affiliate Agreement under Cisco Nonexclusive Value Added Distributor Agreement</a>	X		
10.51+	<a href="#">Distribution Agreement with US Motorola (f/k/a Symbol Technologies, Inc.)</a>	10-Q/A	10.1	10/24/2014
10.52+	<a href="#">Amendment to PartnerEmpower Distribution Agreement with Zebra</a>	10-K	10.50	8/29/2016
10.53+	<a href="#">Participation Agreement Relating to Distribution Agreement with Zebra</a>	10-K	10.51	8/29/2016
10.54+	<a href="#">Amendment to PartnerConnect EVM Distributor Agreement</a>	10-K	10.51	8/29/2017
10.55++	<a href="#">Addendum to Zebra Partnerconnect Distributor Agreement</a>	10-Q	10.2	5/9/2019

21.1	<a href="#">Subsidiaries of the Company</a>	X
23.1	<a href="#">Consent of Grant Thornton LLP</a>	X
31.1	<a href="#">Certification of the Chief Executive Officer</a>	X
31.2	<a href="#">Certification of the Chief Financial Officer</a>	X
32.1	<a href="#">Certification of the Chief Executive Officer</a>	X
32.2	<a href="#">Certification of the Chief Financial Officer</a>	X
101	The following materials from our Annual Report on Form 10-K for the year ended June 30, 2019, formatted in Inline XBRL (eXtensible Business Reporting Language): (i) the Consolidated Balance Sheets as of June 30, 2019 and June 30, 2018, (ii) the Consolidated Income Statements for the years ended June 30, 2019, June 30, 2018 and June 30, 2017, (iii) the Consolidated Statements of Shareholders' Equity for the years ended June 30, 2019, June 30, 2018 and June 30, 2017, (iv) the Consolidated Statements of Cash Flows for the years ended June 30, 2019, June 30, 2018 and June 30, 2017, and (v) the Notes to the Consolidated Financial Statements, tagged as blocks of text. The instance document does not appear in the Interactive Data File because XBRL tags are embedded within the Inline XBRL document.	X

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

++ Portions of this exhibit have been omitted pursuant to Item 601(b)(10)(iv) of Regulation S-K.

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

**ScanSource, Inc.****Description of Securities**

The following is a summary of the general terms and provisions of the common stock of ScanSource, Inc. (the "Company"). The description set forth below does not purport to be complete and is subject to and qualified in its entirety by reference to the Company's Amended and Restated Articles of Incorporation, as amended (the "Articles of Incorporation") and Amended and Restated Bylaws (the "Bylaws") each of which is incorporated herein by reference and attached as an exhibit to the Company's Annual Report on Form 10-K. You are encouraged to read the Articles of Incorporation, Bylaws, and the applicable provisions of the South Carolina Business Corporation Act of 1988, as amended from time to time (the "SCBCA") for additional information.

**Authorized Shares of Common Stock**

The Company has 45,000,000 shares of authorized common stock, without par value. As of August 16, 2019, there were 25,241,115 shares of common stock issued and outstanding.

**Common Stock*****Voting Rights***

Holders of common stock are entitled to one vote per share for each share held of record on any matter submitted to the holders of common stock for a vote. Holders of common stock do not have cumulative voting rights. In elections of directors, those candidates receiving the greatest number of votes cast (although not necessarily a majority of votes cast) at the meeting shall be elected. Any other corporate action shall be authorized by a majority of the votes cast at the meeting unless otherwise provided by the SCBCA, the Articles of Incorporation, or the Bylaws.

***Dividends***

Subject to the rights of the holders of any outstanding shares of preferred stock, holders of common stock are entitled to receive ratably such dividends, if any, as may be declared by the board of directors out of legally available funds.

***Liquidation Rights***

In the event of the liquidation, dissolution or winding up of the Company, holders of common stock are entitled to share equally and ratably, based on the number of shares held, in the assets, if any, remaining after payment of all of the Company's debts and liabilities and the liquidation preference of any outstanding series of preferred stock granted a liquidation preference upon its designation by the board of directors.

***Absence of Other Rights***

Holders of common stock do not have preemptive or other rights to subscribe for or purchase any additional shares of capital stock issued by the Company.

**Listing**

The Company's common stock is listed on the NASDAQ under the symbol "SCSC."

**Certain Provisions of the Articles of Incorporation, Bylaws and South Carolina Law*****General***

Certain provisions of the Articles of Incorporation, the Bylaws and South Carolina law may impact the rights of holders of common stock or have the effect of impeding the acquisition of control of the Company. These provisions are designed to reduce, or have the effect of reducing, the Company's vulnerability to unsolicited takeover attempts.

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### ***Preferred Stock***

Under the Articles of Incorporation, the Company is authorized to issue up to 3,000,000 shares of preferred stock in one or more series. As of August 16, 2019, no shares of preferred stock were issued and outstanding. The Company's board of directors is authorized to fix by resolution the designations, preferences and rights, and the qualifications, limitations or restrictions thereof, of each series of preferred stock, including, without limitation, the authority to fix the dividend rights, voting rights, conversion rights, and liquidation preferences of any wholly unissued series of preferred stock, and the number of shares constituting any such series.

### ***Restrictions on Special Meetings***

Under the Bylaws, special meetings of the shareholders may be called only by the Chief Executive Officer, the Chairman of the Board, or a majority of the directors. This provision may impede a shareholder who wishes to require the Company to call a special meeting of shareholders to consider any proposed corporate action.

### ***Indemnification of Directors and Officers***

Section 33-8-500 et seq. of the SCBCA provides the Company with broad powers and authority to indemnify its directors and officers and to purchase and maintain insurance for such purposes. The SCBCA also mandates the indemnification of the Company's directors, unless limited by a company's articles of incorporation, who are wholly successful on the merits in the defense of any proceeding to which the director was a party because he or she is or was a director of the Company against reasonable expenses incurred by such director in connection with the proceeding. As permitted by the SCBCA, the Articles of Incorporation provide that a director of the Company shall not be personally liable to the Company or its shareholders for monetary damages for breach of fiduciary duty as a director, except for liability (i) for any breach of the director's duty of loyalty to the Company or its shareholders, (ii) for acts or omissions not in good faith or which involve gross negligence, intentional misconduct or a knowing violation of law, (iii) for any unlawful distribution as set forth in Section 33-8-330 of the SCBCA, or (iv) for any transaction from which the director derived an improper personal benefit. These provisions may have the effect in certain circumstances of reducing the likelihood of derivative litigation against directors. While these provisions eliminate the right to recover monetary damages from directors except in limited circumstances, rights to seek injunctive or other non-monetary relief is not eliminated.

The Bylaws also provide the Company with the power and authority to the fullest extent legally permissible under the SCBCA to indemnify its directors and officers, persons serving at the request of the Company or for its benefit as directors or officers of another corporation, and persons serving as the Company's representatives in certain circumstances (regardless of whether such proceeding is by or in the right of the Company) against all expenses, liabilities and losses, including attorneys' fees, judgments, fines, and amounts paid in settlement, that are suffered or reasonably incurred in connection with the person's service. The Company's Bylaws mandate indemnification of such persons in certain circumstances and set forth such indemnification provisions as a contractual right of such persons. However, such right is not exclusive of any other right which a director, officer or representative may have or acquire. Directors, officers, and representatives are further entitled to any respective rights of indemnification under any bylaw, agreement, vote of shareholders, insurance, provision of law, or otherwise, in addition to the indemnification rights outlined in the Bylaws. Unless a determination has been made that indemnification is not permissible, and upon receipt of any written affirmation required by the SCBCA from the director, officer or representative to be indemnified, the Company shall make advances and reimbursements for expenses incurred by such person in a proceeding upon receipt of an undertaking from such person to repay the same if it is ultimately determined that such person is not entitled to indemnification.

In addition, the Company maintains directors' and officers' liability insurance covering some liabilities for actions taken by directors and officers in their capacities as such.

### ***South Carolina Anti-Takeover Law***

South Carolina has two takeover-related statutes applicable to publicly held corporations organized under the laws of South Carolina. Article 1 of Chapter 2 of Title 35 of the South Carolina Code of Laws precludes an acquirer of the shares of a South Carolina public corporation who crosses one of three voting thresholds, 20%, 33 1/3%, or 50%, from obtaining voting control of the shares unless a majority in interest of the disinterested shareholders of the corporation votes to grant voting power to the shares. Article 2 of Chapter 2 of Title 35 of the South Carolina Code of Laws restricts business combination transactions involving a South Carolina public corporation and a beneficial owner of 10% or more of its voting stock. Neither of these statutes applies to the Company because, as permitted by these statutes, we have elected not to be covered by them and have included a provision in the Articles of Incorporation reflecting that election.

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However, the Articles of Incorporation expressly permit the Board of Directors, when evaluating any proposed tender or exchange offer, any merger, consolidation, or sale of substantially all of the assets, or any similar extraordinary transaction, to consider: (i) all relevant factors, including without limitation the social, legal, and economic effects on the employees, customers, suppliers and other constituencies of the Company and its subsidiaries, on the communities and geographical areas in which the Company and its subsidiaries operate or are located and on any of the business and properties of the Company or any of its subsidiaries; and (ii) the consideration being offered, not only in relation to the then current market price for the Company's outstanding shares of capital stock, but also in relation to the then current value of the Company in a freely negotiated transaction and in relation to the Board of Directors' estimate of the future value of the Company (including the unrealized value of its properties and assets) as an independent going concern.



**THIS AGREEMENT IS SUBJECT TO ARBITRATION PURSUANT TO S.C. CODE ANN. § 15-48-10, et seq., THE SOUTH CAROLINA UNIFORM ARBITRATION ACT**

January 11, 2018  
Matthew Dean  
9810 Riverway Run  
Powell, OH 43065

Dear Matt:

On behalf of ScanSource, Inc. (or the "Company"), I am pleased to confirm our offer of employment to you for the position of Vice President and General Counsel. I believe you will find it to be both challenging and rewarding and we look forward to having you as an important member of our ScanSource team.

Please be at the Reception Lobby at 9:00 a.m. on your first day and ask for John Harvey, WW Vice-President of Human Resources. We have previously sent you a Welcome Packet from our Human Resources Team. The packet provides general information on the benefit programs offered by ScanSource. Your benefits will be explained in more detail during New Hire Orientation on the date indicated above (where we will also provide a hard copy of the Welcome Packet).

The remainder of this offer letter (the "Letter") states additional terms and conditions that apply with respect to your employment.

1. **Certain Employment Terms.** You will assume your role as Vice President and General Counsel of the Company on January 12, 2018. The date your employment with the Company commences is your "Hire Date." Your position is a full-time position and you will be expected to devote your full business time and attention to the performance of your duties and responsibilities in the position described above. You will report to Mike Baur, Chief Executive Officer. Your employment will be for no set duration. You will be an at-will employee, which means that either the Company or you may terminate the employment relationship at any time, for any reason or no reason, with or without cause. Although your position will require travel, your principal place of employment will be at the Company's headquarters in Greenville, South Carolina, and you will be expected to reside in the Greenville, South Carolina area.

2. **Base Salary.** Your annual base salary for this exempt position will be \$340,000, paid in accordance with the Company's payroll practices (every two weeks by direct deposit) pro-rated for any partial year, and less applicable taxes and withholdings. Your salary will be subject to periodic review by the Company.

3. **Bonuses.** You will be eligible to participate in the Company's variable cash compensation incentive program (the "Bonus Plan"). Your target annual bonus opportunity for fiscal 2018 will be equal to 50% of base salary, subject to a maximum annual bonus opportunity not to exceed 100% of your base salary. Thereafter, any target and maximum variable cash incentive opportunities will be subject to periodic review by Company. Bonuses, if any, will be prorated for any partial years, based on actual performance. Payment occurs annually for fiscal year after filing of Company's Form 10-K, subject to your continued employment. The performance measures and goals applicable to your annual bonus opportunity (for any year) will be established by the Company, and the Company will have the discretion to determine if, and the extent to which, any such measures and goals have been met and the bonus has been earned. Any bonus payment made to you under the Bonus Plan will be paid to you in accordance with Treasury Reg. Section 1.409A-1(b)(4) or shall otherwise be made in a manner intended to be exempt from, or to comply with, Section 409A of the Internal Revenue Code of 1986, as amended (the "Code").

4. **New Hire Grant.** Upon hire you will receive a one-time grant of 10,000 options that will vest over 3 years (34%, 33%, 33%). The date of the grant will be in accordance with the Company's Equity Grant Policy.

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5. **Long-Term Incentive Awards.** You will be eligible to participate in and receive awards under any long-term incentive plan or program of the Company that is in place from time to time in which other senior executives of the Company participate. The amount, form and vesting and other terms and conditions of such awards will be reviewed and established periodically by the Compensation Committee. The guidelines for your inclusion in the company's long-term incentive award program will be for value of \$225,000 annually, subject to Compensation Committee discretion. Your long-term incentive awards shall be of a type(s) determined by the Compensation Committee (e.g., restricted stock units, options, performance awards, other equity awards or any combination of the foregoing) and shall be subject to the terms of the Company's 2013 Long-Term Incentive Plan (as it may be amended, and any successor plan thereto, the "Stock Plan") and award agreement(s) in form(s) established by the Compensation Committee.

6. **Other Plans and Benefits.** The Company provides a comprehensive package of benefits, including medical and prescription drug coverage, dental coverage, vision coverage, life insurance, short- and long-term disability insurance and other offerings. Provided you are and remain an eligible employee as defined under each of the Company's health and welfare benefits plan(s), you will be eligible to participate in such plan(s), subject to the applicable terms of such plan(s) and the Company's right to modify or terminate such plans. In addition, you will be eligible to participate in the Company-sponsored 401(k) savings plan, subject to the terms of such plan, including its eligibility requirements, and the Company's right to modify or terminate such plan. Eligibility requirements and conditions of enrollment and coverage are subject to change and are set forth in the applicable plan documents. The Company's benefit offerings and other terms and conditions of employment are subject to change or termination, with or without notice. In the event of differences between any documents relating to compensation and benefits, the terms of the applicable plan or other document will control.

The Company will arrange for and have direct billed up to 6 months of furnished temporary housing. The Company will arrange with carrier and pay for packing and physical move of household goods (up to 2 cars can be shipped). If you are still in temporary housing when the household goods arrive, the Company will pay for storage (capped at 9 months of temporary housing) until you move to permanent housing. The Company will also pay reasonable fees for having goods moved to permanent housing and unpacked. The Company will also pay for up to \$10,000 for approved incidentals (can include, for example, cost of return trip(s) back home, car registration, set up of utilities) with timely submission of receipts.

7. **Vacation.** Beginning July 1, 2018, you will be entitled to no less than 15 vacation days, 5 sick days, and 1 personal day. The Company also offers 8 paid holidays. For the period January 12 through June 30, 2018, you will be entitled to 8 vacation days, 2 sick days, and a personal day.

8. **Deferred Compensation.** You will be eligible to participate in the Company's Nonqualified Deferred Compensation Plan, subject to the plan's terms and conditions and the Company's right to modify or terminate such plan. You shall be eligible to participate by deferring up to 50% of base pay and 100% of incentive pay, with a match of 30% of deferred amounts being made by the Company on the first 15% of pay.

9. **Severance Benefits; Restrictive Covenants.** The Company intends that you shall be designated to participate in the Company's Executive Severance Plan (the "Severance Plan"), which Severance Plan shall include such terms and conditions as may be established by the Compensation Committee and/or the Board. Subject to the terms of the Severance Plan, it is currently anticipated that you will be eligible for severance benefits equal to 1.5 times your three-year average annual (a) base salary and (b) variable compensation (as defined in the Severance Plan) upon termination by the Company without cause or by you for good reason (as such terms are defined in the Severance Plan), or 2.0 times your three-year average annual base salary and variable compensation in the event of a non-cause termination by the Company or your termination for good reason within 12 months after or prior to and otherwise in contemplation of a change in control (as defined in the Severance Plan). Without limiting the effect of the foregoing, the treatment of any equity awards upon such a qualifying termination will be subject to the terms of the Stock Plan and related award agreements. In addition, you will be subject to certain non-competition, non-solicitation, confidentiality and other restrictive covenants (collectively, the "Restrictive Covenants"), as provided in the Severance Plan or other applicable plan or arrangement (with such Restrictive Covenants to apply during employment and for such period(s) following termination of employment as may be provided in the Severance Plan or other applicable plan or arrangement), and your entitlement to benefits under the Severance Plan and this Letter shall be subject to your compliance with such Restrictive Covenants. Notwithstanding the foregoing, (i) nothing in this Letter or other agreement prohibits you from reporting possible violations of law or regulation to any federal, state or local governmental agency or entity, including but not limited to the Department of Justice, the Securities and Exchange Commission, the Congress and any agency Inspector General (the "Government Agencies"), or communicating with Government Agencies or otherwise participating in any investigation or proceeding that may be conducted by Government Agencies, including providing documents or other information, (ii) you do not need the prior authorization of the Company to take any action described in (i), and you are not required to notify the Company that you have taken any action described in (i); and (iii) this Letter does not limit your right to receive an award for providing information relating to a possible securities law violation to the Securities and Exchange Commission. Further, notwithstanding the foregoing, you will not be held criminally or

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civily liable under any federal, state or local trade secret law for the disclosure of a trade secret that (i) is made (A) in confidence to a federal, state or local government official, either directly or indirectly, or to an attorney, and (B) solely for the purpose of reporting or investigating a suspected violation or law; or (ii) is made in a complaint or other document filed in a lawsuit or other proceeding, if such filing is made under seal. Additionally, an individual suing an employer for retaliation based on the reporting of a suspected violation of law may disclose a trade secret to his or her attorney and use the trade secret information in the court proceeding, so long as any document containing the trade secret is filed under seal and the individual does not disclose the trade secret except pursuant to court order.

10. **Business Travel; Reimbursements.** You may be expected to travel in connection with your employment. The Company will reimburse you for reasonable business expenses incurred in connection with your employment, upon presentation of documentation in accordance with the Company's applicable expense reimbursement policies. All expenses eligible for reimbursements in connection with your employment with the Company must be incurred by you during the term of your employment or service to the Company. The amount of reimbursable expenses incurred in one taxable year shall not affect the expenses eligible for reimbursement in any other taxable year. In no event shall any reimbursement be paid after the last day of your taxable year following the taxable year during which the expense was incurred. No right to reimbursement is subject to liquidation or exchange for other benefits.

11. **Withholding and Taxes.** All amounts payable or that become payable under this Letter will be subject to any deductions and withholdings previously authorized by you or required by law. You will be responsible for any and all taxes resulting from the benefits provided under this Letter. The Company makes no undertakings regarding, and has no obligation to achieve, any certain tax results for you related to the benefits provided herein.

12. **Waiver and Release.** You acknowledge and agree that the Company may at any time require, as a condition to receipt of certain benefits payable under this Letter or other plan, agreement or arrangement, that you (or a representative of your estate) execute a waiver and release in form satisfactory to the Company discharging the Company and its subsidiaries, and their respective affiliates, and its and their officers, directors, managers, employees, agents and representatives and the heirs, predecessors, successors and assigns of all of the foregoing, from any and all claims, actions or other liability arising out of or in any way related to your employment, or the ending of your employment with the Company or the benefits thereunder, including, without limitation, any claims under this Letter or other related instruments.

13. **Amendment and Termination; Entire Agreement; Consideration.** This Letter may be amended or terminated by a written agreement between you and the Company. This Letter contains the entire agreement of you and the Company related to the subject matter hereof and supersedes all prior verbal or written discussion, agreements and understandings with respect to such subject matter, and you and the Company have made no agreements, representations or warranties related to the subject matter of this Letter that are not set forth herein. Your entering into this Letter does not violate any other agreements or obligations. As a condition to the effectiveness of this Letter, you will be required to sign a mutual agreement to arbitrate claims in form acceptable to the Company. You further acknowledge that you are receiving valuable consideration in exchange for agreeing to the terms of this Letter.

14. **Compliance with Code Section 409A; Recoupment, Ownership and Other Policies or Agreements.** You and the Company agree that you both will cooperate in good faith so that no compensation paid to you by the Company under this Letter will violate Code Section 409A and the regulations promulgated thereunder. In case any one or more provisions of this Letter fail to comply with the provisions of Code Section 409A, the remaining provisions of this Letter shall remain in effect, and this Letter shall be administered and applied as if the non-complying provisions were not part of this Letter. The parties in that event shall endeavor to agree upon a reasonable substitute for the non-complying provisions, to the extent that a substituted provision would not cause this Letter to fail to comply with Code Section 409A, and, upon so agreeing, shall incorporate such substituted provisions into this Letter. A termination of your employment hereunder shall not be deemed to have occurred for purposes of any provision of this Letter providing for the payment of any amount or benefit constituting "deferred compensation" under Code Section 409A upon or following a termination of employment unless such termination is also a "separation from service" within the meaning of Code Section 409A and, for purposes of any such provision of this Letter, references to a "termination," "termination of employment" or like terms shall mean "separation from service." In the event that any payment or benefit made hereunder or under any compensation plan, program or arrangement of the Company would constitute payments or benefits pursuant to a non-qualified deferred compensation plan within the meaning of Code Section 409A and, at the time of your "separation from service" you are a "specified employee" within the meaning of Code Section 409A, then any such payments or benefits that are provided to you on account of your "separation from service" shall be delayed until the six-month anniversary of the date of your "separation from service" (such six month anniversary being the "Specified Employee Payment Date"). The aggregate amount of any payments that would otherwise have been made during such six-month period shall be paid in a lump sum on the Specified Employee Payment Date with interest and, thereafter, any remaining payments shall be paid without delay in accordance with their original schedule. If you die before the Specified Employee Payment Date, any delayed payments shall

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be paid to your estate in a lump sum within 30 days of your death. Each payment made under this Letter shall be designated as a "separate payment" within the meaning of Code Section 409A. You acknowledge and agree that in the event that this Letter or any benefit described herein shall be deemed not to comply with Code Section 409A, then neither the Company, the Board, the Compensation Committee of the Board nor its or their designees or agents shall be liable to you or other persons for actions, decisions or determinations made in good faith. Further, as a condition to entering into this Letter, you agree that you will abide by all provisions of any compensation recovery ("clawback") policy, stock ownership guidelines, equity retention policy and/or other similar policies maintained by the Company, each as in effect from time to time and to the extent applicable to you from time to time. In addition, you will be subject to such compensation recovery, recoupment, forfeiture or other similar provisions as may apply at any time to you under applicable law.

15. **Compensation and Benefit Plans Control.** The Company's benefit offerings and other terms and conditions of employment are subject to change or termination, with or without notice. In the event of differences between any documents relating to compensation and benefits, the terms of the applicable plan or other document will control.

16. **Governing Law; Successors and Assigns.** This Letter will be governed by and construed in accordance with the laws of the State of South Carolina, without regard to the principles of conflict of laws, and in accordance with applicable U.S. federal law. The provisions, obligations and rights of this Letter will be binding upon and inure to the benefit of the parties hereto and their respective successors and assigns.

17. **Additional Terms.** This offer of employment is made in reliance on your representation that there exists no conflict of interest or contractual or statutory obligation that would prevent you from becoming employed with the Company and performing duties as described in this Letter. You represent that you are legally eligible to work in the United States and you understand that a condition of your employment is that you furnish acceptable proof of such eligibility to the Company. You agree that you will not use trade secret or confidential information of any previous employer on behalf of the Company. You further represent that you will adhere to ethical business practices in performing your duties and there is no third party that has a financial interest or will receive monetary benefit from the performance of your duties.

If the terms of this Letter are acceptable to you, please sign below and return it to the Company's Vice President Worldwide - Human Resources, at your earliest opportunity.

Sincerely,

Mike Baur

Chief Executive Officer

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I acknowledge receipt and acceptance of the offer of employment in this Letter. By my signature below, I accept all terms and conditions set forth above. In addition, I acknowledge and agree that, I will be employed on an at-will basis and that any change to that status may only be made through an agreement in writing signed by the Company. In addition, my continued employment is contingent on the condition that I execute a mutual agreement to arbitrate claims in form acceptable to the Company, which should be executed in conjunction with your acceptance of the offer of continued employment as described in this Letter.

Accepted: /s/ Matthew S. Dean  
Matthew S. Dean  
Date: January 12, 2018

**THIS OFFER OF EMPLOYMENT IS NOT A CONTRACT. THE EMPLOYMENT RELATIONSHIP BETWEEN SCANSOURCE, INC. AND ITS EMPLOYEES IS AT-WILL AND VOLUNTARY. YOU HAVE THE RIGHT TO TERMINATE YOUR EMPLOYMENT**

IN ACCORDANCE WITH ITEM 601(b) OF REGULATION S-K, CERTAIN IDENTIFIED INFORMATION (THE "CONFIDENTIAL INFORMATION") HAS BEEN EXCLUDED FROM THIS EXHIBIT BECAUSE IT IS BOTH (I) NOT MATERIAL AND (II) WOULD LIKELY CAUSE COMPETITIVE HARM IF PUBLICLY DISCLOSED. THE CONFIDENTIAL INFORMATION IS DENOTED HEREIN BY [\*\*\*\*\*].

**CISCO SYSTEMS, INC.  
NONEXCLUSIVE VALUE ADDED DISTRIBUTOR AGREEMENT**

This Nonexclusive Value Added Distributor Agreement ("Agreement"), between ScanSource, Inc., a South Carolina corporation, with its principal place of business at 6 Logue Court, Greenville, South Carolina, 29615 ("Distributor"), and Cisco Systems, Inc., a California corporation with its principal place of business at 170 West Tasman Drive, San Jose, California 95134 - 1706, ("Cisco") is entered into as of the date last written below ("the Effective Date").

This Agreement consists of this signature page and the following attachments, each of which is incorporated into this Agreement by reference:

1. Nonexclusive Value Added Distributor Agreement Terms and Conditions
2. EXHIBIT A: Territory
3. EXHIBIT B: Value Added Distributor Support Exhibit  
3.1 Appendix 1: Cisco Problem Prioritization and Escalation Guideline
4. EXHIBIT C: Software License Agreement
5. EXHIBIT D: Distributor Freight Policy
6. EXHIBIT E: Affiliate List
7. EXHIBIT F: Software Transfer and Relicensing Policy
8. EXHIBIT G: End of Life Policy

This Agreement is the complete agreement between the parties hereto concerning the subject matter of this Agreement and replaces any prior or contemporaneous oral or written communications between the parties. In the event of conflict between the terms of this Agreement and the terms of an Exhibit hereto, the terms of the Exhibit shall govern. There are no conditions, understandings, agreements, representations or warranties, express or implied, which are not specified herein. This Agreement may only be modified by a written document executed by the parties hereto.

IN WITNESS WHEREOF, the parties hereto have caused this Agreement to be duly executed. Each party warrants and represents that its respective signatories whose signatures appear below have been and are on the date of signature duly authorized to execute this Agreement.

**ScanSource, Inc. ("Distributor")**

By: /s/ Jeffrey E. Yelton  
Name: Jeffrey E. Yelton  
Title: VP Merchandising  
  
Date: 1/19/07

**Cisco Systems, Inc. ("Cisco")**

By: /s/ Frank A. Calderon  
Name: Frank A. Calderon  
Title: VP, WW Sales Finance  
Date: January 22, 2007

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**NONEXCLUSIVE VALUE ADDED DISTRIBUTOR AGREEMENT  
TERMS AND CONDITIONS**

**1.0 DEFINITIONS.**

Affiliate(s) are the entities listed on Exhibit E to this Agreement that are either business units of Distributor (and therefore wholly-owned and a part of Distributor) or are wholly-owned subsidiaries of Distributor, but in either case, only for so long as ownership remains as defined in this provision.

Cisco Quarter shall mean Cisco's fiscal quarters (August 1-October 31; November 1-January 31; February 1-April 30; and May 1-July 31).

Documentation shall mean user manuals, training materials, Product descriptions and specifications, technical manuals, license agreements, supporting materials and other printed information relating to any Product, whether distributed in print, in electronic form, or in CD-ROM or video format.

End User is the final purchaser or licensee who has acquired Products for its own internal use and not for resale, remarketing or redistribution. An entity that performs stocking, sparing or warehousing activities for third parties or procures Cisco Products, Services or Software for delivery to third parties is not an End User.

Global Price List means a complete listing of those Cisco products, services, including products and services which Cisco may make available to Distributor at its sole discretion, and associated prices.

Hardware is the tangible product made available to Distributor.

Major Release or New Release means a release of Software which is designated by Cisco as a change in the ones digit in the Software version number [(x).x.x].

Non-Genuine Products are any and all products: (i) to which a Mark or other Cisco trademark or service mark has been affixed without Cisco's consent; (ii) that have not been manufactured by Cisco or Cisco Technologies, Inc. ("CTI") or by a licensed manufacturer of either Cisco or CTI in accordance with the applicable license; or (iii) are produced with the intent to counterfeit or imitate a genuine Cisco Product

Obsolete Product shall mean any Product that is removed from the then-current Value Added Distributor Price List.

Purchase Order is a written or electronic order from Distributor to Cisco for Hardware, Software or Services to be purchased, licensed or provided under this Agreement.

Product means, individually or collectively as appropriate, Hardware, licensed Software, Documentation, developed products, supplies, accessories, and goods to the foregoing, listed on the then-current published Global Price List.

Reseller means an authorized reseller of Distributor that meets Cisco's then-current requirements for resellers, including, without limitation, the requirements set out in Section 26.0 of this Agreement. In the event Cisco enters into authorization agreements whereby Cisco authorizes particular resellers to purchase Products or Services from Distributor and to resell Products or Services to End User, then "Reseller" shall mean a reseller that is a party to such an authorization agreement.

Services means Cisco's SmartNet family of packaged service offerings, as well as such other service offerings as Cisco makes available for purchase by Distributor on Cisco's Wholesale or Global Price List.

Software is the machine readable (object code) version of the computer programs listed from time to time on the Wholesale or Global Price List and made available by Cisco for license by Distributor, and any copies or Updates thereof. Cisco reserves the right, during the term of this Agreement, to license and distribute items of Software from time to time. Such items of Software may be licensed under additional or different policies and license terms, which will be made available to Distributor. Notwithstanding the use of the term "purchase" to refer to any item of Software comprising or included within a Product, Cisco and Distributor agree that all Software provided by Cisco to Distributor under this Agreement is licensed by Cisco to Distributor rather than purchased by Distributor from Cisco.

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Territory is comprised of those regions or countries listed in Exhibit A.

Unauthorized Cisco Product means any genuine Cisco Product or Cisco Service that Distributor purchases or acquires from any party other than Cisco and/or an Approved Source. Unauthorized Cisco Products do not include Non-Genuine Products.

Update means a bug fix, error correction, patch or workaround for the Software which is provided by Cisco to Distributor in response to Distributor's request, or at Cisco's option, which Cisco chooses to provide to Distributor.

Value Added Distributor Price List shall mean a portion of the Global Price List containing Products which Cisco makes available to Distributor for stocking and the prices at which Cisco will sell such Products to Distributor.

## 2.0 SCOPE.

This Agreement and the attached Exhibits set forth the terms and conditions for Distributor's purchase of Hardware and license of Software, and redistribution of Products, during the term of this Agreement.

Affiliates of Distributor listed on Exhibit E may purchase Products, solely for redistribution, from Cisco under this Agreement. Distributor hereby guarantees the performance by such Affiliates of the financial and other contractual obligations set forth in this Agreement and represents and warrants that it is empowered to enter into this Agreement on behalf of such Affiliates, and to bind (and does so bind) such Affiliates to the terms and conditions of this Agreement.

Cisco may require certain of the listed Affiliates to execute an agreement with Cisco or an affiliate of Cisco such that the legal relationship shall be between Cisco or Cisco's affiliate and Distributor's Affiliate.

Any breach by Distributor or by an Affiliate of (i) this Agreement, or (ii) any other agreement between Cisco and Distributor or an Affiliate of either party, shall entitle Cisco to terminate this Agreement and/or any such agreement with Affiliate and/or any other Affiliate pursuant to Section 18.

The limit of liability set forth in this Agreement shall be deemed an aggregate limit of liability, not per Affiliate, regardless of whether an Affiliate or Affiliates has executed a separate agreement with Cisco or a Cisco Affiliate permitting such Affiliate to purchase under the terms of this Agreement.

In addition, any reporting requirements hereunder shall be performed solely by Distributor. All reporting information related to Distributor or any Affiliate(s) shall be aggregated and submitted as part of a single report, as required herein.

## 3.0 APPOINTMENT OF DISTRIBUTOR.

3.1 By this Agreement, Cisco makes, and Distributor accepts, the appointment of Distributor as an authorized, non-exclusive distributor of Products and Services to Resellers located in the Territory. Distributor agrees to use its best efforts to distribute Product solely to Resellers located in the Territory. Those Resellers may resell Product only to End Users who intend to use the Product in the Territory. All Resellers to which Distributor distributes Product must meet Cisco's then-current guidelines for Resellers, as amended from time to time.

3.2 Distributor is authorized to resell only those Products and Services which are listed on the Value Added Distributor Price List. Notwithstanding the foregoing, Cisco may, in its discretion, make available for purchase and resale by Distributor, but not for stocking by Distributor, certain other products and/or services which are listed on the Global Price List. Upon such products or services being made available to Distributor, such products and services will be deemed to be Products and Services as defined herein.

3.3 Products Requirements. For new Products or Services added to the Global or Value Added Distributor Price List, including products or services which become available to Cisco as a result of an acquisition by Cisco of another entity, Cisco may impose certification, installation, or training requirements on Distributor prior to allowing Distributor to purchase, resell, or provide support for such Products or Services.

3.4 Distributor agrees not to solicit orders for Products or Services, or to engage salespeople or establish warehouses or other distribution centers for the redistribution of Products or Services, outside the Territory, except to the extent advertising is placed in a particular advertising medium (except catalogs) which is distributed both inside and outside of the Territory.

3.5 Unauthorized Cisco Products. Distributor acknowledges that the purchase and Resale of Non-Genuine or Unauthorized Cisco Products are not within the scope of this Agreement and Integrator is not entitled to the rights granted herein with respect to the resale of such Non-Genuine or Unauthorized Cisco Products. For all Unauthorized Cisco Products, Cisco reserves the right to withhold any warranty or Cisco Support on such products, unless such products pass a Cisco equipment inspection and Cisco receives payment for the applicable equipment inspection and/or software license fees, as required in the then current Software Transfer and Licensing Policy. A printed copy of the Software Transfer and Licensing Policy, in effect on the Effective Date of this Agreement and available at [http://www.cisco.com/warp/public/csc/refurb\\_equipment/swpolicy.html](http://www.cisco.com/warp/public/csc/refurb_equipment/swpolicy.html), shall accompany this agreement. This policy is subject to change without notice. If Cisco determines that Reseller has Resold and/or redistributed Unauthorized Cisco Products purchased from Unauthorized Sources, then Cisco may, at Cisco's sole discretion: (a) audit Reseller's purchase and resale records of Cisco Product and relevant records pursuant to Section 17.0 (Reports and Records) and/or (b) invoice Reseller for all reasonable costs incurred by Cisco in its performance of the Audit and/or (c) suspend all Product shipments to Reseller.

#### 4.0 ORDERS.

4.1 Upon and subject to credit approval by Cisco at the time of Cisco's receipt of any Purchase Order, Distributor shall purchase or license Products or Services by issuing a Purchase Order, signed, if requested by Cisco, or (in the case of electronic transmission) sent by its authorized representative, indicating specific Products and Services, Cisco Product numbers, quantity, unit price, total purchase price, shipping instructions, requested shipping dates, bill-to and ship-to addresses, tax exempt certifications, if applicable and contract reference, if any. No contingency contained on any Purchase Order shall be binding upon Cisco. The terms of this Agreement shall apply, regardless of any additional or conflicting terms on any Purchase Order or other correspondence or documentation submitted by Distributor to Cisco, and any such additional or conflicting terms are deemed rejected by Cisco.

4.2 Cisco shall use commercially reasonable efforts to provide order acknowledgement information within [\*\*\*\*\*] business days for all Purchase Orders placed on Cisco.com or within [\*\*\*\*\*] business days of Purchase Orders faxed or hand delivered to Cisco. Cisco Customer Service will review and accept or decline all Purchase Orders for the Cisco entity that will supply the Products or Services, and no other person is authorized to accept Purchase Orders on behalf of Cisco. Cisco Customer Service may accept a Purchase Order even if some of the information required by Section 4.1 above is missing or incomplete. In relation to Services, Cisco will confirm acceptance of a Purchase Order for Services by issuing a list of Products covered by such Services (the "Equipment List").

4.3 Distributor may defer Product shipment for up to [\*\*\*\*\*] from the original shipping date scheduled by Cisco, provided written or electronic notice (issued, in either case, by an authorized representative of Distributor) is received by Cisco at least [\*\*\*\*\*] days before the originally scheduled shipping date. Cancelled Purchase Orders, rescheduled shipments or Product configuration changes requested by Distributor less than [\*\*\*\*\*] days before the original scheduled shipping date shall be subject to (a) acceptance by Cisco, and (b) a charge of [\*\*\*\*\*] of the total invoice amount relating to the affected Products. Cisco reserves the right to reschedule shipment in cases of configuration changes requested by Distributor within [\*\*\*\*\*] days of scheduled shipment. No cancellation shall be accepted by Cisco where Products are purchased with implementation Services, including design, customization or installation Services, except as may be set forth in the agreement or Statement of Work under which the Services are to be rendered.

#### 5.0 SHIPPING AND DELIVERY

5.1 Scheduled shipping dates will be assigned by Cisco as close as practicable to the Distributor's requested date based on Cisco's then-current lead times for the Products. Cisco will communicate scheduled shipping dates in the order acknowledgement or on Cisco.com. Cisco will ship Product in compliance with Distributor Freight Policy set forth in Exhibit D. If no guidance is contained on Exhibit D for any particular shipment, Cisco shall select the carrier.

5.2 For shipments to the United States, shipping terms are [\*\*\*\*\*], which shall appear on Cisco's order acknowledgement or be accessible via Cisco.com. Title and risk of loss shall pass from Cisco to Distributor [\*\*\*\*\*]. For orders placed and/or shipments to destinations outside of the United States but within the Territory ("International Orders"), Distributor may need to contract with, and/or order from, a Cisco affiliate. Different shipping terms may apply to International Orders, as Cisco shall specify at the time and as shall be recorded in Distributor's agreement with such Cisco affiliate or otherwise set out on Cisco.com.

5.3 CISCO SHALL NOT BE LIABLE FOR LOSS, DAMAGE OR PENALTY FOR DELAY IN DELIVERY OR FOR FAILURE TO GIVE NOTICE OF ANY DELAY. EXCEPT IN ACCORDANCE WITH THE APPLICABLE DELIVERY TERMS SET FORTH IN THIS AGREEMENT, CISCO SHALL NOT HAVE ANY

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LIABILITY IN CONNECTION WITH SHIPMENT, NOR SHALL THE CARRIER BE DEEMED TO BE AN AGENT OF CISCO.

## 6.0 PAYMENT.

6.1 Prices for Products shall be those specified in Cisco's then-current Global or Value Added Distributor Price List. [\*\*\*\*\*] As provided in sub-section 3.2, in its discretion, Cisco may choose to make products or services which are on the Global Price List but not on the Value Added Distributor Price List available to Distributor. The prices for such products or services will be provided by Cisco to Distributor at the time Cisco makes such products available.

6.2 Upon and subject to credit approval by Cisco, payment terms shall be [\*\*\*\*\*] days from shipping date. All payments shall be made in the currency in which the Price List is quoted for the applicable Purchase Order [\*\*\*\*\*].

6.3 The purchase price does not include any federal, state or local taxes, or sales, use, excise, ad valorem, value-add, withholding or other taxes or duties that may be applicable to the purchase of Products. When Cisco has the legal obligation to collect such taxes, the appropriate amount shall be added to Distributor's invoice and paid by Distributor, unless Distributor provides Cisco with a valid tax exemption certificate prior to issuance of a purchase order. Such certificate must be in a form authorized by the appropriate taxing authority.

6.4 Distributor is free to determine its minimum resale prices unilaterally. Distributor understands that neither Cisco nor any employee or representative of Cisco may give any special treatment (favorable or unfavorable) to Distributor as a result of Distributor's selection of minimum resale prices. No employee or representative of Cisco or anyone else has any authority to determine what Distributor's minimum resale prices for the Products must be, or to limit Distributor's pricing discretion with respect to the Products and Services.

6.5 In the event any provisions of this Agreement or any other agreement between Distributor and Cisco require that Cisco grant credits to Distributor's account, Cisco will grant such credit to Distributor's account. [\*\*\*\*\*]. Cisco will only consider debit memos initially received from Distributor during the time period associated with such request, as set forth herein.

All debit memos Distributor submits to Cisco will be submitted using any method identified in 25.8, or as otherwise agreed between the parties.

6.6 Except as stated in Sections 7 (Price Protection), 12 (Inventory Balance), 13 (Return of Obsolete Product), 18 (Term and Termination) or as otherwise stated herein, for all price adjustment related credits requested by the Distributor to be granted by Cisco, the

6.7 Distributor must make the initial credit request to Cisco, in writing, within [\*\*\*\*\*] of the underlying point of sale transaction. Any initial credit requests submitted by the Distributor to Cisco greater than [\*\*\*\*\*] after the underlying point of sale transaction will not be honored by Cisco and Cisco will not grant such credit to Distributor.

## 7.0 PRICE PROTECTION.

7.1 Definition: For purposes of this Section 7.0, Products "In-Transit" shall be defined as all Products with a particular Cisco part number shipped by Cisco to Distributor in the [\*\*\*\*\*] day period prior to the date on which Cisco announces a general price decrease for Products with such part number, excluding those Products which Distributor has received into its inventory during such [\*\*\*\*\*] day period.

7.2 In the event Cisco puts into effect a general price decrease for any Product from the Value Added Distributor Price List, Cisco will provide to Distributor a price credit on any such Product on order, In Transit or in Distributor's inventory as of the effective date of the price decrease, provided that the price credit for such Product in inventory or In Transit shall not exceed the dollar value of shipments of that Product (measured by the appropriate Cisco product number) to Distributor over the preceding [\*\*\*\*\*]. Cisco will credit Distributor's account with an amount equal to the number of units of such Product in Distributor's inventory and In Transit on the effective date of a price decrease multiplied by the difference between the net price paid and the new net price. Distributor will have [\*\*\*\*\*] from the effective date of the price change to exercise protection under this program by issuing a request for credit memo with supporting documentation to Cisco. Claims for price protection submitted more than [\*\*\*\*\*] from the effective date of a price decrease will be rejected. Notwithstanding the foregoing, Product on order will receive an automatic retroactive price credit. The only inventoried Product covered under this price protection clause is Product which has been identified by Distributor to Cisco in the daily inventory reports required in sub-section 17.2.2, excluding any Third-Party

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Sourced Product. Cisco will use commercially reasonable efforts to notify Distributor within [\*\*\*\*\*] of all such pricing changes.

## 8.0 RESERVED

## 9.0 PROPRIETARY RIGHTS AND SOFTWARE LICENSING.

9.1 Distributor's use of Software is governed by the terms contained in Exhibit C (End User License Agreement ("EULA")). For purposes of this Agreement, all references to "Customer" or "You" therein shall refer to Distributor.

9.2 Distributor shall notify Cisco promptly of any breach or suspected breach of the EULA and further agrees that it will, at Cisco's request, assist Cisco in efforts to preserve Cisco's intellectual property rights including pursuing an action against any breaching third parties.

## 10. WARRANTY.

10.1 Cisco Products are provided with written limited warranties, as set forth at the following URL: <http://www.cisco.com/warp/public/cc/serv/mkt/sup/tsssv/wnty/>. Distributor will pass through to Resellers all written limited warranties provided by Cisco with Products purchased by Distributor and Distributor shall contractually require (in whatever manner Distributor deems appropriate) each such Reseller to provide such warranty and other terms to any End User to which the Reseller redistributes the Product.

10.2 In addition to the written limited warranty provided by Cisco with its Products, such warranty statement shall apply to Distributor during the period between when it receives a Product and when it resells or redistributes such Product,

10.3 Notwithstanding any other provision hereof, Cisco's sole and exclusive warranty and obligation with respect to the Products sold hereunder are set forth in Cisco's Limited Warranty Statement delivered with the Product. Distributor SHALL NOT MAKE ANY WARRANTY COMMITMENT, WHETHER WRITTEN OR ORAL, ON CISCO'S BEHALF. Distributor shall indemnify Cisco against any warranties made in addition to Cisco's standard warranty and for any misrepresentation of Cisco's reputation or Cisco's Products.

10.4 DISCLAIMER OF WARRANTY. EXCEPT AS EXPRESSLY PROVIDED IN THIS SECTION 10.0, CISCO HEREBY DISCLAIMS AND DISTRIBUTOR WAIVES ALL REPRESENTATIONS, CONDITIONS AND WARRANTIES (WHETHER EXPRESS, IMPLIED, OR STATUTORY), INCLUDING, WITHOUT LIMITATION, ANY WARRANTY OR CONDITION (A) OF MERCHANTABILITY, FITNESS FOR A PARTICULAR PURPOSE, NONINFRINGEMENT, SATISFACTORY QUALITY, QUIET ENJOYMENT, ACCURACY, OR SYSTEM INTEGRATION, OR (B) ARISING FROM ANY COURSE OF DEALING, COURSE OF PERFORMANCE, OR USAGE IN THE INDUSTRY. TO THE EXTENT AN IMPLIED WARRANTY CANNOT BE DISCLAIMED, SUCH WARRANTY IS LIMITED IN DURATION TO THE APPLICABLE EXPRESS WARRANTY PERIOD.

NOTWITHSTANDING ANYTHING TO THE CONTRARY IN THIS SECTION 10, CISCO MAKES NO REPRESENTATION OR WARRANTY AS TO OWNERSHIP OF INTELLECTUAL PROPERTY OR OF PROPRIETARY RIGHTS, OR AS TO INFRINGEMENT OR MISAPPROPRIATION THEREOF. DISTRIBUTOR'S SOLE AND EXCLUSIVE REMEDIES IN THE EVENT OF ANY SUCH INFRINGEMENT, MISAPPROPRIATION OR ANY CLAIM THEREOF SHALL BE AS SET FORTH IN SECTION 15 OF THIS AGREEMENT ("PATENT AND COPYRIGHT INFRINGEMENT").

## 11.0 TRADEMARKS.

11.1 Cisco grants to Distributor the right to use the name, logo, trademarks, and other marks of Cisco (collectively, the "Marks") for all proper purposes in the sale of Cisco Products and Services to End Users and the performance of Distributor's duties hereunder only so long as this Agreement is in effect. Distributor's use of such Marks shall be in accordance with Cisco's policies including, but not limited to trademark usage and advertising policies, and be subject to Cisco's written approval. Distributor further agrees not to affix any Marks to products other than genuine Products. Distributor shall have no claim or right in the Marks, including but not limited to trademarks, service marks, or trade names owned, used or claimed now or which Cisco has authority to grant Distributor the right to use in the future. Distributor agrees that upon notice from Cisco it will immediately terminate its use of a particular Mark.

11.2 Distributor shall not acquire, use, promote or Resell Non-Genuine Products. Additionally, Distributor shall

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notify Cisco promptly of the existence, or suspected existence, of Non Genuine Products in possession of or promoted by third parties, and further agrees that it will, at Cisco's request, assist Cisco to diligently pursue any action against any third party in possession of or promoting Non-Genuine Products.

11.3 If Distributor acquires, uses, promotes or Resells Non-Genuine Products, Cisco may take one or more of the following actions, at Cisco's discretion: (i) invoice Distributor, and the latter further agrees to pay within [\*\*\*\*] of receipt of the invoice, for all reasonable costs associated with any Audit and/or any investigation carried out by Cisco or its independent accountants or investigators, that disclosed a material breach by Distributor of this Section, and/or (ii) require Distributor, [\*\*\*\*] of Cisco's request, to recall and destroy all Non-Genuine Products that Distributor has sold to Resellers and replace such products with legitimate, equivalent Products at Distributor's expense, (iii) require Distributor, within [\*\*\*\*] of receiving Cisco's written request, to provide Cisco with all details related to Distributor's acquisition of all Non-Genuine Products, including without limitation, its suppliers, shipping details and all buyers to whom Distributor resold Non-Genuine Products, and (iv) terminate this Agreement by notice with immediate effect.

## 12.0 INVENTORY BALANCE.

For a [\*\*\*\*] period, beginning on the effective date of this agreement, Distributor has the option to return to Cisco, for credit, up to [\*\*\*\*] of the dollar value of Product listed on the Value Added Distributor Price List and shipped to Distributor in the preceding Cisco Quarter, net of credits issued by Cisco to Distributor. [\*\*\*\*] Cisco shall credit Distributor's account in the amount of the price paid by Distributor for returned Products, less any price protection credits issued to Distributor related to the Product returned (the "Return Credit"). Each of the following requirements must be met by Distributor:

12.1 [\*\*\*\*]

12.2 Distributor may submit the inventory balance claim between the first and [\*\*\*\*] calendar days of the following months: February, May, August, and November.

12.3 [\*\*\*\*]

12.4 Distributor shall bear all shipping and handling charges to the Cisco designated United States site for Product returned for credit;

12.5 Distributor shall obtain an RMA number prior to returning any Product to Cisco. Distributor shall follow Cisco's then-current RMA process; and

12.6 Distributor reports must be provided to Cisco in accordance with the requirements of sub- section 17.2.

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## 13.0 RETURN OF OBSOLETE PRODUCT

13.1 Cisco will use commercially reasonable efforts to notify Distributor, including by electronic posting, when a Product becomes an Obsolete Product.

13.2 Provided Distributor provides required reports to Cisco in accordance with Section 17.0 of this Agreement, Distributor shall have the right to return Obsolete Product for full credit under Cisco's then-current RMA Process. [\*\*\*\*]

13.3 Distributor must notify Cisco of the quantity of Obsolete Product to be returned to Cisco within [\*\*\*\*] of notification of obsolescence by Cisco. Such right to return is contingent upon return by Distributor of Obsolete Product within [\*\*\*\*] of such notification by Cisco. Such Product must be in new and unused condition and in factory sealed boxes.

13.4 [\*\*\*\*]

## 14.0 RESERVED

## 15.0 PATENT AND COPYRIGHT INFRINGEMENT.

15.1 Cisco will have the obligation and right to defend any claim, action, suit or proceeding ("IPR Claim") brought

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against Distributor, its officers, directors, employees and agents ("Named Parties") so far as it is based on a claim that any Product supplied under this Agreement infringes Third Party IPR (as defined below). Cisco will indemnify Named Parties and hold harmless against any final judgment entered in respect of such an IPR Claim by a court of competent jurisdiction and against any settlements arising out of such an IPR Claim. Cisco's obligations to defend the IPR Claim and indemnify Distributor are conditional upon:

- 15.1.1 Distributor notifying Cisco promptly in writing of the IPR Claim or threat thereof;
- Distributor granting Cisco full and exclusive authority for the conduct of the defense and settlement of the 15.1.2 IPR Claim and any subsequent appeal; and
- 15.1.3 Distributor providing Cisco all information and assistance reasonably requested by Cisco in connection with the conduct of the defense and settlement of the IPR Claim and any subsequent appeal.

15.2 For the purposes of this Agreement, Third Party IPR means a United States copyright existing as at the Effective Date, a United States patent issued as at the Effective Date, a trademark registered in the United States as at the Effective Date, trade dress existing in the United States as at the Effective Date, or a claim that a Product is manufactured by means of misappropriation of a third party's trade secrets.

15.3 If an IPR Claim has been made, or in Cisco's opinion is likely to be made, Distributor agrees to permit Cisco, at its option and expense, either to: (a) procure for Distributor the right to continue using the Product; (b) replace or modify the Product so that it becomes non-infringing; or (c) immediately terminate both parties' respective rights and obligations under this Agreement with regard to the Product, in which case Distributor will return the Product to Cisco and Cisco will refund to Distributor the price originally paid by Distributor to Cisco for the Product, [\*\*\*\*\*].

15.4 Notwithstanding the foregoing, Cisco has no liability for, and Distributor will defend and indemnify Cisco against, any IPR Claim arising from:

- 15.4.1 the combination, operation, or use of a Product supplied under this Agreement with any product, device, or software not supplied by Cisco;
- 15.4.2 the amount or duration of use which Distributor, a Reseller or an End User makes of the Product, revenue earned by Distributor, a Reseller or an End User from services it provides that use the Product, or services offered by Distributor, a Reseller or an End User to external or internal customers;
- 15.4.3 the alteration or modification of any Product supplied under this Agreement;
- 15.4.4 Cisco's compliance with Distributor's designs, specifications, or instructions; or
- 15.4.5 Distributor's use of the Product after Cisco has informed Distributor of modifications or changes in the Product required to avoid such an IPR Claim if the alleged infringement would have been avoided by implementation of Cisco's recommended modifications or changes.

15.5 This Section states the entire obligation of Cisco and its suppliers, and the exclusive remedy of Distributor, in respect of any infringement or alleged infringement of any intellectual property rights or proprietary rights. THIS INDEMNITY OBLIGATION AND REMEDY ARE GIVEN TO Distributor SOLELY FOR ITS BENEFIT AND IN LIEU OF, AND CISCO DISCLAIMS, ALL WARRANTIES, CONDITIONS AND OTHER TERMS OF NON-INFRINGEMENT OR TITLE WITH RESPECT TO ANY PRODUCT.

15.6 [\*\*\*\*\*].

## 16.0 SUPPORT.

Support shall be provided in accordance with Exhibit B. Distributor acknowledges that Cisco will not be responsible for warranty service and support except as specifically provided in Exhibit B or a Cisco support program (e.g., SmartNet).

## 17.0 REPORTS AND RECORDS.

17.1 With regard to both Distributor and Affiliates' activity, Distributor shall keep full, true, and accurate records and accounts, in accordance with generally-accepted accounting principles, of each Product or Service purchased and deployed, Resold, or distributed by serial number, including information regarding compliance with Cisco marketing and sales programs, Software usage, and export or transfer. Distributor shall make these records available for audit by Cisco upon [\*\*\*\*\*] prior written notice, during regular business hours, at Distributor's principal place of business or such other of Distributor's locations where Distributor may maintain relevant records. [\*\*\*\*\*].

All reporting and related obligations in this Section 17 apply to not only data regarding Distributor's activities, but also

the activities of the Affiliates. All such information shall be compiled into one report unless otherwise directed herein. The report(s) shall identify the specific Distributor entity involved in the subject transaction.

17.2 Reporting. [\*\*\*\*\*]

17.3 Distributor agrees to use commercially reasonable efforts, commensurate with the manner in which Distributor treats any of its other leading vendors, in order to facilitate Cisco's ability to obtain daily sales information from Distributor via EDI.

17.4 ECCN Numbers. Upon request by Distributor, Cisco agrees to make available to Distributor the Export Control Classification Number (ECCN) for each of Cisco's Product and information as to whether or not any of such Products are classified under the U.S. Munitions license.

17.5 Unauthorized Cisco Product. Distributor will not purchase Products for resale to any Reseller from any person or entity other than Cisco, provided that Distributor may accept returned Product from Resellers if Distributor initially sold the Product to be returned to such Reseller. [\*\*\*\*\*]

## 18.0 TERM AND TERMINATION.

18.1 This Agreement shall commence on the Effective Date and continue thereafter for a period of two (2) years, unless extended by written agreement of both parties or sooner terminated as set forth below. Without prejudice to either party's right to terminate this Agreement as set forth in sub sections 18.2 to 18.5 below, Cisco may, by written notice to Distributor, given at least thirty (30) days prior to the end of the then-current term of the Agreement, extend the term of the Agreement for the period set forth in such notice, up to a maximum of one (1) year beyond the then-current expiration date. Any extension shall be on the same terms and conditions then in force, except as may be mutually agreed in writing by the parties. In the event the Agreement expires and Cisco intends to not renew the Agreement, Cisco will provide written notice of same to Distributor. Notwithstanding Cisco's right to extend the term of this Agreement, each party acknowledges that this Agreement shall always be interpreted as being limited in duration to a definite term and that the other party has made no commitments whatsoever regarding the duration or renewal of this Agreement beyond those expressly stated herein.

18.2 Termination for Convenience. Either party may terminate this Agreement, without cause, by giving the other party [\*\*\*\*\*] days prior written notice. Notwithstanding the foregoing, Cisco may terminate this Agreement immediately upon written notice in the event of breach by Distributor of Section 9.0 (Proprietary Rights and Software Licensing), Section 11.0 (Trademarks), Section 19.0 (Confidentiality) or Section 20.0 (Export Restrictions) of this Agreement.

18.3 A party may terminate this Agreement immediately through written notice if (i) the other party ceases to carry on business as a going concern; or (ii) the other party becomes or may become the object of the institution of voluntary or involuntary proceedings in bankruptcy or liquidation; or (iii) a receiver or similar officer is appointed with respect to the whole or a substantial part of the other party's assets; or (iv) an event similar to any of the foregoing occurs under applicable law.

18.4 Cisco may terminate this Agreement upon [\*\*\*\*\*] days' written notice, in the event it becomes known that (i) Distributor or an Affiliate or Distributor's direct or indirect parent has acquired or intends to acquire a controlling interest in a third party that is a competitor of Cisco, or (ii) Distributor or its direct or indirect parent is to be acquired by a third party, or (iii) a controlling interest in Distributor or its direct or indirect parent is to be transferred to a third party.

18.5 Upon termination or expiration of this Agreement, (a) Cisco reserves the right to cease all further delivery of Product or Services due against any existing Purchase Orders unless Distributor agrees to pay for such deliveries in advance by certified or cashier's check, (b) all outstanding invoices immediately become due and payable by certified or cashier's check, and (c) all rights and licenses of Distributor hereunder shall terminate, subject to the terms of the following sentence. Except for a termination of this Agreement resulting from Distributor's breach of Section 9.0 (Proprietary Rights and Software Licensing) or Section 19.0(Confidential Information), upon termination or expiration of this Agreement, Distributor may continue to use, in accordance with the terms and conditions of this Agreement, Products shipped to it by Cisco prior to the date of termination or expiration.

18.6 Upon termination or expiration of this Agreement, Distributor shall immediately return to Cisco all Confidential Information (including all copies thereof) then in Distributor's possession, custody or control; provided, that except for a termination resulting from Distributor's breach of Section 9.0 (Proprietary Rights and Software Licensing) or Section 19.0 (Confidential Information), Distributor may retain a sufficient amount of such Confidential Information and material

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to support its installed base of Products.

18.7 [\*\*\*\*\*].

18.8 In the event of termination by Cisco for convenience, termination by Distributor for Cisco's material breach, or expiration of this Agreement where Cisco has provided Distributor with written notice from an authorized representative of its intention not to renew the Agreement, Cisco agrees to repurchase all Product in Distributor's inventory within [\*\*\*\*\*] days following the effective date of termination or expiration. Within [\*\*\*\*\*] days following the effective date of termination or expiration, Distributor shall return to Cisco all Product held in inventory as of the effective date of termination. Distributor shall receive credit for any Product so returned in an amount equal to the original purchase price thereof, less any credits or discounts which have been previously paid or applied to Distributor. Such credits shall be first applied to any uncontested amounts due Cisco. Any remaining balance shall be payable to Distributor as soon as commercially practicable. Cisco shall have the option to select the method of return and shall bear all freight costs associated with returns of Product by Distributor under this Section 18.8.

18.9 In the event of termination by Cisco for Distributor's material breach, or termination by Distributor for convenience, Cisco may, at its option, allow Distributor to return unsold Product, but Cisco is in no way obligated to do so. In the case of authorized return of Product by Cisco under Section 18.9, Distributor will bear all freight costs associated with return of Product to Cisco.

18.10 [\*\*\*\*\*]

Distributor shall obtain an RMA number prior to returning any Product to Cisco. Distributor shall follow Cisco's then-current RMA process.

18.11 DISTRIBUTOR AGREES THAT, IN THE EVENT OF ANY TERMINATION OF THIS AGREEMENT, IT SHALL HAVE NO RIGHTS TO DAMAGES OR INDEMNIFICATION OF ANY NATURE, SPECIFICALLY INCLUDING COMMERCIAL SEVERANCE PAY, WHETHER BY WAY OF LOSS OF FUTURE PROFITS, EXPENDITURES FOR PROMOTION OF ANY PRODUCT, OR OTHER COMMITMENTS IN CONNECTION WITH THE BUSINESS AND GOOD WILL OF DISTRIBUTOR. DISTRIBUTOR EXPRESSLY WAIVES AND RENOUNCES ANY CLAIM TO COMPENSATION OR INDEMNITIES FOR ANY TERMINATION OF A BUSINESS RELATIONSHIP. EXCEPT AS OTHERWISE EXPRESSLY SET FORTH HEREIN, THIS SECTION SHALL IN NO WAY BE INTERPRETED TO RELEASE EITHER CISCO OR DISTRIBUTOR FROM ANY PAYMENTS OR FINANCIAL OBLIGATION MADE PRIOR TO TERMINATION.

## 19.0 CONFIDENTIALITY.

Distributor acknowledges that, in the course of selling Products and Services and performing its duties under this Agreement, Distributor, its Resellers, and End Users to which Distributor provides access to Cisco technical data (including without limitation Products, Services, and technical data made available on Cisco Connection Online pursuant to Exhibit C), may obtain information relating to Products, Services, or to Cisco, which is of a confidential and proprietary nature ("Proprietary Information"). Such Proprietary Information includes, but is not limited to, trade secrets, know-how, inventions, techniques, processes, programs, schematics, software source documents, data, Customer lists, financial information and sales and marketing plans.

Cisco owns and intends to maintain its ownership of all such Proprietary Information. [\*\*\*\*\*] Distributor shall appropriately bind each of its employees to whom such disclosure is made, to hold the Proprietary Information in strict confidence and not to disclose such information to any person other than as is necessary in the course of its employment by Distributor and will indemnify Cisco for all damages suffered by Cisco in the event of wrongful disclosure of such Proprietary Information. Neither party shall disclose, advertise, or publish either the existence, the subject matter, any discussions relating to, or any of the terms and conditions, of this Agreement (or any summary of any of the forgoing) to any third party without the prior written consent of the other party. Any press release, publication, advertisement or public disclosure regarding this Agreement is subject to both the prior review and the written approval of both parties.

Cisco acknowledges that, under this Agreement, Distributor may provide Point of Sale ("POS") reports, financial information, sales and marketing plans, Distributor network design information and Distributor lists, of a proprietary and confidential nature ("Distributor Confidential Information"). Such Distributor information, excluding POS reports and Distributor lists, shall be used by Cisco only in connection with this Agreement. [\*\*\*\*\*] Cisco further agrees to immediately return to Distributor, at Distributor's request, all Distributor Confidential Information in Cisco's possession, custody, or control upon termination of this Agreement at any time and for any reason, except for POS reports or Distributor

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lists that Cisco may use for internal business or end user support purposes or government-related purposes.

#### **20.0 EXPORT RESTRICTIONS.**

Certain of the Products supplied by Cisco under the Agreement are subject to export controls under the laws and regulations of the United States (U.S.) and elsewhere. Distributor shall comply with such laws and regulations governing use, export, re-export, and transfer of Products and will obtain all required U.S. and local authorizations, permits, or licenses.

#### **21.0 COMPLIANCE WITH LAWS.**

21.1 Distributor shall obtain all licenses, permits and approvals required by any government, including any recycling or take-back programs applicable to packaging or Products, and shall comply with all applicable laws, rules, regulations, policies and procedures and any requirements applicable to the importation, exportation, use, sale, loan, purchase, and distribution of Products under telecommunications, consumer rights related, environmental, labor, tax, and any other laws and regulations, of any government or other competent authority where the Products are to be sold, used or deployed (collectively "Applicable Laws").

21.2 Distributor will indemnify and hold harmless Cisco for any claim arising from or relating to Distributor's violation or alleged violation of any Applicable Laws.

21.3 Distributor hereby represents and warrants that: (a) it shall comply with all Applicable Laws; (b) this Agreement and each of its terms are in full conformance and in compliance with such laws; and (c) it shall not take any action or permit or authorize any action which will render Cisco liable for a violation of the U.S. Foreign Corrupt Practices Act, which prohibits the offering, giving or promising to offer or give, directly or indirectly, money or anything of value to any official of a government, political party or instrumentality thereof in order to assist it or Cisco in obtaining or retaining business and (i) it will not violate or cause Cisco to violate such Act in connection with the sale or distribution of Cisco Products or Services; and (ii) if Distributor is a non-governmental entity, it will notify Cisco in writing if any of its owners, partners, principals, officers, and employees are or become during the term of this Agreement officials, officers or representatives of any government, political party or candidate for political office outside the United States and are responsible for a decision regarding obtaining or retaining business for Cisco Products by such government. Cisco strives to maintain the highest standards of business integrity and, accordingly, if Distributor has any cause for concern regarding any business practices these should be reported to Cisco at [EMAIL ADDRESS] or by Fax to [FAX NUMBER].

21.4 Distributor shall use its best efforts to regularly and continuously inform Cisco of any requirements under any Applicable Laws that directly or indirectly affect this Agreement, the sale, use and distribution of Products, or Cisco's trade name, trademarks or other commercial, industrial or intellectual property interests, including, but not limited to, certification or type approval of the Products from the proper authorities in the Territory.

#### **22.0 LIMITATION OF LIABILITY.**

NOTWITHSTANDING ANYTHING ELSE IN THIS AGREEMENT TO THE CONTRARY, AND EXCEPT FOR LIABILITY ARISING OUT OF DISTRIBUTOR'S BREACH OF SECTION 9 (PROPRIETARY RIGHTS AND SOFTWARE LICENSING) OR EXHIBIT C (SOFTWARE LICENSE AGREEMENT), OR AMOUNTS DUE FOR PRODUCTS AND SERVICES PURCHASED WITH RESPECT TO THE PAYMENT OF WHICH NO BONA FIDE DISPUTE EXISTS, ALL LIABILITY OF EACH PARTY, INCLUDING EACH PARTY'S AFFILIATES, OFFICERS, DIRECTORS, EMPLOYEES, AGENTS AND SUPPLIERS COLLECTIVELY, FOR CLAIMS ARISING UNDER THIS AGREEMENT OR OTHERWISE HOWSOEVER ARISING SHALL BE LIMITED SEPARATELY FOR PRODUCTS AND SERVICES PURCHASES TO THE GREATER OF 1) [\*\*\*\*\*] OR (II) THE MONEY PAID TO CISCO FOR PRODUCTS OR FOR SERVICES, SEPARATELY AND AS APPLICABLE, UNDER THIS AGREEMENT DURING THE [\*\*\*\*\*] PERIOD PRECEDING THE EVENT OR CIRCUMSTANCES FIRST GIVING RISE TO SUCH LIABILITY. THESE LIMITATIONS OF LIABILITY FOR PRODUCT AND SERVICES ARE CUMULATIVE AND NOT PER-INCIDENT (I.E., THE EXISTENCE OF TWO OR MORE CLAIMS WILL NOT ENLARGE THIS LIMIT).

#### **23.0 CONSEQUENTIAL DAMAGES WAIVER.**

EXCEPT FOR LIABILITY ARISING OUT OF OR IN CONNECTION WITH DISTRIBUTOR'S BREACH OF SECTION 9 (PROPRIETARY RIGHTS AND SOFTWARE LICENSING) OR EXHIBIT C (SOFTWARE LICENSE AGREEMENT), IN NO EVENT SHALL EITHER PARTY, ITS RESPECTIVE AFFILIATES, OFFICERS, DIRECTORS, EMPLOYEES, AGENTS OR SUPPLIERS BE LIABLE FOR ANY SPECIAL, INCIDENTAL,

INDIRECT OR CONSEQUENTIAL DAMAGES, OR LOST REVENUE, LOST PROFITS, OR LOST OR DAMAGED DATA, WHETHER ARISING IN CONTRACT, TORT (INCLUDING NEGLIGENCE), OR OTHERWISE, EVEN IF SUCH PARTY HAS BEEN INFORMED OF THE POSSIBILITY THEREOF.

#### 24.0 GENERAL INDEMNIFICATION

Each party shall defend, indemnify and hold harmless the other, and their respective officers, directors, employees, and agents from and against any and all claims, losses, liabilities, damages, and expenses (including, without limitation, reasonable attorneys' fees), including without limitation, those based on contract or tort, arising out of or in connection with a claim, suit or proceeding brought by a third party based upon bodily injury (including death) or damage to tangible personal property (not including lost or damaged data) arising from the negligent or intentional acts or omissions of the indemnifying party or its subcontractors, or the officers, directors, employees, agents, successors and assigns of any of them. In the event that the indemnified party's or a third party's negligent or intentional acts or omissions contributed to cause the injury or damage for which a claim of indemnity is being asserted against the indemnifying party hereunder, the damages and expenses (including, without limitation, reasonable attorneys' fees) shall be allocated or reallocated, as the case may be, between the indemnified party, the indemnifying party and any other party bearing responsibility in such proportion as appropriately reflects the relative fault of such parties, or their subcontractors, or the officers, directors, employees, agents, successors and assigns of any of them, and the liability of the indemnifying party shall be proportionately reduced.

The foregoing indemnification obligations are conditioned upon the indemnified party promptly notifying the indemnifying party in writing of the claim, suit or proceeding for which the indemnifying party is obligated under this Section 24, cooperating with, assisting and providing information to, the indemnifying party as reasonably required, and granting the indemnifying party the exclusive right to defend or settle such claim, suit or proceeding.

#### 25.0 INSURANCE

(a) Each party shall be responsible for maintaining Worker's Compensation insurance in the statutory amounts required by the applicable state laws.

(b) Each party shall maintain Commercial General Liability insurance with bodily injury and property damage limits of \$[\*\*\*\*\*] per occurrence and \$[\*\*\*\*\*] aggregate. Such insurance shall (a) provide for contractual liability coverage, (b) provide for cross liability coverage, and (c) name the other party and its subcontractors, as well as the directors, officers, employees, agents, successors and assigns of all of them, as additional insureds, but only to the extent of liabilities falling within the indemnity obligations of the other party pursuant to the terms of Section 24 in this Agreement.

#### 26.0 REQUIREMENTS FOR RESELLERS

26.1 [\*\*\*\*\*]

26.2 [\*\*\*\*\*]

#### 27.0 GENERAL PROVISIONS.

27.1 Choice of Law. The validity, interpretation, and performance of this Agreement shall be controlled by and construed under the laws of the State of New York, United States of America, as if performed wholly within the state and without giving effect to the principles of conflicts of law, and the state and federal courts of California shall have jurisdiction over any claim arising under this Agreement. The parties specifically disclaim the UN Convention on Contracts for the International Sale of Goods. Notwithstanding the foregoing, either party may seek interim injunctive relief in any court of appropriate jurisdiction with respect to any alleged breach of such party's intellectual property or proprietary rights.

27.2 Force Majeure. Except for the obligation to pay monies due and owing, neither party shall be liable for any delay or failure in performance due to events outside the defaulting party's reasonable control, including without limitation acts of God, earthquakes, labor disputes, industry wide shortages of supplies, actions of governmental entities, riots, war, acts of terrorism, fire, epidemics, or delays of common carriers or other circumstances beyond its reasonable control. The obligations and rights of the defaulting party shall be extended for a period equal to the period during which such event prevented such party's performance.

27.3 No Waiver. The waiver by either party of any right provided under this Agreement shall

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not constitute a subsequent or continuing waiver of such right or of any other right under this Agreement.

27.4 Assignment. Distributor may not assign or delegate its rights or obligations under this Agreement (other than (i) the right to receive any amount due, which shall be freely assignable, or (ii) to Distributor's parent or majority-owned subsidiary company of sufficient net worth to meet any potential liability under this Agreement) without the prior written consent of Cisco, such consent not to be unreasonably withheld or delayed, provided that any such assignment shall not relieve Distributor of any obligation to pay monies that were owed Cisco prior to the date of the assignment.

27.5 Severability. In the event that one or more terms of this Agreement becomes or is declared to be illegal or otherwise unenforceable by any court of competent jurisdiction, each such term shall be null and void and shall be deemed deleted from this Agreement. All remaining terms of this Agreement shall remain in full force and effect. Notwithstanding the foregoing, if this paragraph is invoked and, as a result, the value of this Agreement is materially impaired for either party, as determined by such party in its sole discretion, then the affected party may terminate this Agreement by written notice with immediate effect to the other.

27.6 Attorneys' Fees. In any suit or proceeding relating to this Agreement the prevailing party will have the right to recover from the other its costs and reasonable fees and expenses of attorneys incurred in connection with the suit or proceeding, including costs, fees and expenses upon appeal, separately from and in addition to any other amount included in such judgment. This provision is intended to be severable from the other provisions of this Agreement, and shall survive expiration or termination and shall not be merged into any such judgment

27.7 No Agency. This Agreement does not create any agency, partnership, joint venture, or franchise relationship. No employee of either party shall be or become, or shall be deemed to be or become, an employee of the other party by virtue of the existence or implementation of this Agreement. Each party hereto is an independent contractor. Neither party has the right or authority to, and shall not, assume or create any obligation of any nature whatsoever on behalf of the other party or bind the other party in any respect whatsoever.

27.8 Notices. All notices required or permitted under this Agreement will be in writing and will be deemed given one (1) day after deposit with a commercial express courier specifying next day delivery (or two (2) days for international courier packages specifying 2-day delivery), with written verification of receipt. All communications will be sent to the addresses set forth on the cover sheet of this Agreement or such other address as may be designated by a party by giving written notice to the other party pursuant to this paragraph. Notwithstanding the foregoing, notices regarding general changes in product status, pricing, policies, financial transactions or programs may also be made by posting on Cisco.com or delivery by e-mail or fax, as applicable. Cisco shall use commercially reasonable efforts to provide Distributor [\*\*\*\*\*] notice when introducing new Programs or Product or modifying Product pricing. Any notice regarding discontinuation of Product shall be pursuant to Cisco's then-current End of Life Policy, as found at [http://www.cisco.com/en/US/products/products\\_end-of-life\\_policy.html](http://www.cisco.com/en/US/products/products_end-of-life_policy.html). A current copy of this policy, as of the Effective Date of this Agreement, is attached hereto as Exhibit G. [\*\*\*\*\*].

27.9 Non-exclusive Market and Purchase Rights. It is expressly understood and agreed that this Agreement does not grant to Cisco or Distributor an exclusive right to purchase or sell Products and shall not prevent either party from developing or acquiring or selling competing Products of other vendors or customers.

27.10 Survival. Sections 6.0 (Payment), 10.0 (Limited Warranty), 19.0 (Confidential Information), 15.0 (Patent and Copyright Infringement), 18 (Term and Termination), 17.0 (Reports and Records), 20.0 (Export Restrictions), 22.0 (Limitation of Liability), 23.0 (Consequential Damages Waiver), 27.0 (General) and the license to use the Software set out in Exhibit C (Software License Agreement) (subject to the termination provisions set forth in Section 18.0) shall survive the termination of this Agreement.

27.11 Counterparts. This Agreement may be executed in two counterparts, each of which shall be deemed an original and together which shall constitute one and the same instrument. A validly executed counterpart that is delivered by

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one party to the other via electronic transmission (a "Counterpart Image") shall be valid and binding to the same extent as one delivered physically, provided that the valid signature is clearly visible in the Counterpart Image. In the event that a party delivers a Counterpart Image in place of an originally-executed counterpart, such party shall retain the originally-executed counterpart in its files for at least the duration of the Term hereof.

27.12 Headings. Headings of sections have been added solely for convenience of reference and shall not be deemed part of this Agreement.

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**EXHIBIT A  
TERRITORY**

**Territory:** The United States, excluding its territories.

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**EXHIBIT B**  
**VALUE ADDED DISTRIBUTOR SUPPORT EXHIBIT**

**1.0 DEFINITIONS.**

Capitalized terms used in this Exhibit B have the meanings assigned to those terms in Section 1.0 of the Nonexclusive Value Added Distributor Agreement Terms and Conditions. Additional capitalized terms and the definitions assigned to those terms in this Exhibit B follow:

CCO means Cisco Connection Online, Cisco's online information web server.

Customer means End Users and Resellers.

Standard Business Hours means 6:00 AM to 6:00 PM Pacific Standard Time Monday through Friday, excluding Cisco-observed holidays, in the U.S. and Canada and outside the U.S. and Canada, means 8:00 AM to 6:00 PM Australia's Eastern Standard Time and Central European Time, Monday through Friday, excluding local Cisco-observed holidays.

TAC means Cisco's Technical Assistance Center.

**2.0 CISCO RIGHTS AND OBLIGATIONS.**

For Products purchased under the Agreement, Cisco provides the services described below. [\*\*\*\*\*]

2.1 CCO Access. Cisco will provide DISTRIBUTOR with partner-level access to CCO.

2.2 Technical Support. [\*\*\*\*\*].

2.3 Updates. [\*\*\*\*\*].

2.4 Hardware Support.

2.4.1 Return for Replacement. During the Cisco warranty period, DISTRIBUTOR may return failed Product to Cisco for replacement. Cisco will use commercially reasonable efforts to ship a replacement within [\*\*\*\*\*] days after receipt of the failed Product from DISTRIBUTOR. After the end of the warranty period, parts will be charged at Cisco's then-current rates.

2.4.2 DISTRIBUTOR may request advance replacement delivery of replacement parts (Cisco will send the part upon DISTRIBUTOR's receipt of an RMA number) at Cisco's then-current Advance Replacement charge.

2.4.3 Product used for replacement may be new or equivalent to new, at Cisco's discretion.

2.5 Cisco Brand Services Option.

Cisco will make available for purchase by DISTRIBUTOR, all appropriate Cisco Brand support Products for Distributor's internal use and for resale to Resellers. This option to resell Cisco brand services whereby services are delivered directly by Cisco to the End User is available in accordance with Cisco's then-current packaged service resale program. Availability of Cisco brand services is subject to geographic limitations. Information on where such services are available for resale, as well as the process for reselling Cisco brand services is located at "<http://www.cisco.com/warp/cproreg/45/index.html>".

**3.0 DISTRIBUTOR RIGHTS AND OBLIGATIONS.**

3.1 Prioritization and Escalation Guideline. DISTRIBUTOR will escalate problems to Cisco pursuant to the Escalation and Prioritization Guideline (Appendix A).

3.2 Spare Parts. DISTRIBUTOR shall maintain sufficient spare parts inventory to support its Customer base for a one-month period under normal circumstances. DISTRIBUTOR shall maintain adequate manpower and facilities to assure prompt handling of inquiries, orders and shipments for Products.

3.3 Warranty Service. DISTRIBUTOR shall provide to its Resellers, [\*\*\*\*\*] all warranty service for a minimum

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of the warranty period set forth in the published Product warranty provided with the original Product. Such warranty shall commence upon shipment to the End User. Warranty service will consist of Software and Hardware replacement service as follows:

3.3.1 Software Service. DISTRIBUTOR will use reasonable efforts to provide work around solutions or implement a Cisco-provided patch. DISTRIBUTOR will use reasonable effort to make latest release of all Cisco Software available to its resellers.

3.3.2 Hardware Advance Replacement. DISTRIBUTOR will ship replacement parts and/or Product to its Resellers in accordance with Cisco's then-current published Product warranty applicable to the particular Product.

3.4 Returns Coordination. DISTRIBUTOR will comply with the following:

3.4.1 DISTRIBUTOR shall coordinate the return of all failed parts and/or Product, freight and insurance prepaid, to the Cisco repair center specified by Cisco.

3.4.2 DISTRIBUTOR shall comply with the following RMA procedure:

3.4.2.1 DISTRIBUTOR will ensure all Products are properly packaged prior to being shipped, and will include a written description of the failure and specification of any changes or alterations made to the Product. Product returned to Cisco will conform in quantity and serial number to the RMA request.

3.4.2.2 DISTRIBUTOR shall tag each Product returned with the RMA transaction number and a brief description of the problem.

3.4.2.3 Cisco will not accept any Product returned which is not accompanied by an RMA number.

3.4.3 Title and risk of loss to failed Product and parts transfers to Cisco upon delivery to the Cisco repair center specified by Cisco.

3.5 Reseller Support. DISTRIBUTOR will ensure Reseller has all appropriate support as follows:

3.5.1 DISTRIBUTOR shall provide competent technical support staff to support the Product so as to ensure that the Reseller is able to provide the necessary support to the End User Reseller.

3.5.2 Reseller Frontline Support. DISTRIBUTOR will use best efforts to ensure that its Resellers provide high quality front-line support.

3.5.3 [\*\*\*\*\*] Cisco is not responsible for any claims arising from failure by Distributor's Resellers to provide this support.

3.5.4 Resale of Cisco Brand Services. Where available, DISTRIBUTOR will offer for purchase by its Resellers, all appropriate Cisco brand support products through its normal products availability process.

#### 4.0 SERVICES NOT COVERED UNDER THIS EXHIBIT.

4.1 New Releases or Major Releases for Software.

4.2 Customization of existing Software for non-standard applications.

4.3 Support or replacement of Product that is altered, modified, mishandled, destroyed or damaged by natural causes or damaged during unauthorized use.

4.4 Software problems resulting from third party equipment or causes beyond Cisco's control.

4.5 Any hardware upgrade of Product required to accept Updates.

#### 5.0 TERMINATION.

Upon expiration or termination of the Agreement, (a) all rights and licenses of DISTRIBUTOR under this Support Exhibit shall terminate, (b) DISTRIBUTOR shall immediately discontinue all representations that DISTRIBUTOR

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provides maintenance services for Cisco Product, and (c) DISTRIBUTOR access to CCO shall terminate.

**6.0 SOFTWARE LICENSE.**

DISTRIBUTOR acknowledges that it may receive Software as a result of services provided under this Agreement. DISTRIBUTOR agrees that it is licensed to distribute such Software only on Product covered under the services and subject to the terms and conditions of this Agreement and the Software license granted with the original acquisition. Except as otherwise specified in this Exhibit, DISTRIBUTOR shall not copy, in whole or in part, Software or documentation; modify the Software, reverse compile or reverse assemble all or any portion of the Software; or rent, lease, distribute, sell, or create derivative works of the Software.

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**APPENDIX 1**  
**CISCO PROBLEM PRIORITIZATION AND ESCALATION GUIDELINE**

To ensure that all problems are reported in a standard format, Cisco has established the following problem priority definitions. These definitions will assist Cisco in allocating the appropriate resources to resolve problems. Distributor must assign a priority to all problems submitted to Cisco.

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## EXHIBIT C

Software License Agreement  
[v.08.05.03]

PLEASE READ THIS SOFTWARE LICENSE AGREEMENT CAREFULLY BEFORE DOWNLOADING, INSTALLING OR USING CISCO OR CISCO-SUPPLIED SOFTWARE.

BY DOWNLOADING OR INSTALLING THE SOFTWARE, OR USING THE EQUIPMENT THAT CONTAINS THIS SOFTWARE, YOU ARE BINDING THE BUSINESS ENTITY THAT YOU REPRESENT ("CUSTOMER") TO THIS AGREEMENT. IF YOU DO NOT AGREE TO ALL OF THE TERMS OF THIS AGREEMENT, THEN (A) DO NOT DOWNLOAD, INSTALL OR USE THE SOFTWARE, AND (B) YOU MAY RETURN THE SOFTWARE FOR A FULL REFUND, OR, IF THE SOFTWARE IS SUPPLIED AS PART OF ANOTHER PRODUCT, YOU MAY RETURN THE ENTIRE PRODUCT FOR A FULL REFUND. YOUR RIGHT TO RETURN AND REFUND EXPIRES 30 DAYS AFTER PURCHASE FROM CISCO OR AN AUTHORIZED CISCO RESELLER, AND APPLIES ONLY IF CUSTOMER IS THE ORIGINAL END USER PURCHASER.

*The following terms of this Software License Agreement ("Agreement") govern Customer's access and use of the Software, except to the extent (a) there is a separate signed agreement between Customer and Cisco governing Customer's use of the Software or (b) the Software includes a separate "click-accept" license agreement as part of the installation and/or download process. To the extent of a conflict between the provisions of the foregoing documents, the order of precedence shall be (1) the signed agreement, (2) the click-accept agreement, and (3) this Software License Agreement.*

**License.** Subject to the terms and conditions of this Agreement, Cisco Systems, Inc. or its subsidiary licensing the Software instead of Cisco Systems, Inc. ("Cisco"), grants to Customer a nonexclusive and nontransferable license to use for Customer's internal business purposes the Software and the Documentation for which Customer has paid the required license fees. "Documentation" means written information (whether contained in user or technical manuals, training materials, specifications or otherwise) regarding the Software and made available by Cisco in any manner (including on CD-Rom, or on-line).

Customer's license to use the Software shall be limited to, and Customer shall not use the Software in excess of, a single hardware chassis or card or that number of agent(s), concurrent users, sessions, IP addresses, port(s), seat(s), server(s) or site(s), as set forth in the applicable Purchase Order which has been accepted by Cisco and for which Customer has paid to Cisco the required license fee.

Unless otherwise expressly provided in the Documentation, Customer shall use the Software solely as embedded in, for execution on, or (where the applicable documentation permits installation on non-Cisco equipment) for communication with Cisco equipment owned or leased by Customer. **NOTE:** For evaluation or beta copies for which Cisco does not charge a license fee, the above requirement to pay license fees does not apply.

**General Limitations.** Except as otherwise expressly provided under this Agreement, Customer shall have no right, and Customer specifically agrees not to:

- (i) transfer, assign or sublicense its license rights to any other person or entity, or use the Software on unauthorized or secondhand Cisco equipment, and Customer acknowledges that any attempted transfer, assignment, sublicense or use shall be void;
- (ii) make error corrections to or otherwise modify or adapt the Software or create derivative works based upon the Software, or permit third parties to do the same;
- (iii) decompile, decrypt, reverse engineer, disassemble or otherwise reduce the Software to human-readable form; or
- (iv) use or permit the Software to be used to perform services for third parties without the express written authorization of Cisco.

To the extent required by law, and at Customer's written request, Cisco shall provide Customer with the interface information needed to achieve interoperability between the Software and another independently created program, on payment of Cisco's

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applicable fee, if any. Customer shall observe strict obligations of confidentiality with respect to such information.

**Software, Upgrades and Additional Copies.** For purposes of this Agreement, "Software" shall include (and the terms and conditions of this Agreement shall apply to) computer programs, including firmware, as provided to Customer by Cisco or an authorized Cisco reseller, and any upgrades, updates, bug fixes or modified versions thereto (collectively, "Upgrades") or backup copies of the Software licensed or provided to Customer by Cisco or an authorized Cisco reseller. NOTWITHSTANDING ANY OTHER PROVISION OF THIS AGREEMENT: (1) CUSTOMER HAS NO LICENSE OR RIGHT TO USE ANY ADDITIONAL COPIES OR UPGRADES UNLESS CUSTOMER, AT THE TIME OF ACQUIRING SUCH COPY OR UPGRADE, ALREADY HOLDS A VALID LICENSE TO THE ORIGINAL SOFTWARE AND HAS PAID THE APPLICABLE FEE FOR THE UPGRADE; (2) USE OF UPGRADES IS LIMITED TO CISCO EQUIPMENT FOR WHICH CUSTOMER IS THE ORIGINAL END USER PURCHASER OR LESSEE OR WHO OTHERWISE HOLDS A VALID LICENSE TO USE THE SOFTWARE WHICH IS BEING UPGRADED; AND (3) THE MAKING AND USE OF ADDITIONAL COPIES IS LIMITED TO NECESSARY BACKUP PURPOSES ONLY.

**Proprietary Notices.** Customer agrees to maintain and reproduce all copyright and other proprietary notices on all copies, in any form, of the Software in the same form and manner that such copyright and other proprietary notices are included on the Software. Except as expressly authorized in this Agreement, Customer shall not make any copies or duplicates of any Software without the prior written permission of Cisco.

**Protection of Information.** Customer agrees that aspects of the Software and associated Documentation, including the specific design and structure of individual programs, are trade secrets and/or copyrighted materials of Cisco, its suppliers or licensors. Customer shall not disclose, provide, or otherwise make available such trade secrets or copyrighted material in any form to any third party without the prior written consent of Cisco. Customer shall implement reasonable security measures to protect such trade secrets and copyrighted materials. Title to Software and Documentation shall remain solely with Cisco, its suppliers or licensors.

**Term and Termination.** This Agreement and the license granted herein shall remain effective until terminated. Customer may terminate this Agreement and the license at any time by destroying all copies of Software including any Documentation. Customer's rights under this Agreement will terminate immediately without notice from Cisco if Customer fails to comply with any provision of this Agreement. Upon termination, Customer shall destroy all copies of Software and Documentation in its possession or control.

**Customer Records.** Customer grants to Cisco and its independent accountants the right to examine Customer's books, records and accounts during Customer's normal business hours to verify compliance with this Agreement. In the event such audit discloses non-compliance with this Agreement, Customer shall promptly pay to Cisco the appropriate license fees.

**Export.** Software, including technical data, may be subject to U.S. export control laws, including the U.S. Export Administration Act and its associated regulations, and may be subject to export or import regulations in other countries. Customer agrees to comply strictly with all such regulations and acknowledges that it has the responsibility to obtain licenses to export, re-export, or import Software.

**Government End User Purchasers.** The Software and Documentation qualify as "commercial items," as that term is defined at 48 C.F.R. 2.101, consisting of "commercial computer software" and "commercial computer software documentation" as such terms are used in 48 C.F.R. 12.212. Consistent with 48 C.F.R. 12.212 and 48 C.F.R. 227.7202-1 through 227.7202-4, Customer will provide to Government end user, or, if this Agreement is direct Government end user will acquire, the Software and software documentation with only those rights set forth herein that apply to non-governmental customers. Use of this Software and Documentation constitutes agreement by the Government entity that the computer software and Documentation is commercial, and constitutes acceptance of the rights and restrictions herein.

#### **Limited Warranty**

Cisco warrants that commencing from the date of shipment to Customer (but in case of resale by an authorized Cisco reseller, commencing not more than ninety (90) days after original shipment by Cisco), and continuing for a period of the longer of (a) ninety (90) days or (b) the software warranty period (if any) set forth in the warranty card accompanying the Product (if any): (a) the media on which the Software is furnished will be free of defects in materials and workmanship under normal use; and (b) the Software substantially conforms to its published specifications. The date of shipment of a Product by Cisco is set forth on the packaging material in which the Product is shipped. Except for the foregoing, the Software is provided AS IS. This limited warranty extends only to the Customer who is the original licensee. Customer's sole and exclusive remedy and the entire liability of Cisco and its suppliers and licensors under this limited warranty will be, at Cisco's option, repair, replacement,

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or refund of the Software if reported (or, upon request, returned) to Cisco or the party supplying the Software to Customer, if different than Cisco. In no event does Cisco warrant that the Software is error free or that Customer will be able to operate the Software without problems or interruptions. In addition, due to the continual development of new techniques for intruding upon and attacking networks, Cisco does not warrant that the Software or any equipment, system or network on which the Software is used will be free of vulnerability to intrusion or attack.

**Restrictions.** This warranty does not apply if the Software, Product or any other equipment upon which the Software is authorized to be used (a) has been altered, except by Cisco, (b) has not been installed, operated, repaired, or maintained in accordance with instructions supplied by Cisco, (c) has been subjected to abnormal physical or electrical stress, misuse, negligence, or accident; or (d) is licensed, for beta, evaluation, testing or demonstration purposes for which Cisco does not charge a purchase price or license fee.

DISCLAIMER OF WARRANTY. EXCEPT AS SPECIFIED IN THIS WARRANTY, ALL EXPRESS OR IMPLIED CONDITIONS, REPRESENTATIONS, AND WARRANTIES INCLUDING, WITHOUT LIMITATION, ANY IMPLIED WARRANTY OR CONDITION OF MERCHANTABILITY, FITNESS FOR A PARTICULAR PURPOSE, NONINFRINGEMENT, SATISFACTORY QUALITY OR ARISING FROM A COURSE OF DEALING, LAW, USAGE, OR TRADE PRACTICE, ARE HEREBY EXCLUDED TO THE EXTENT ALLOWED BY APPLICABLE LAW AND ARE EXPRESSLY DISCLAIMED BY CISCO, ITS SUPPLIERS AND LICENSORS. TO THE EXTENT AN IMPLIED WARRANTY CANNOT BE EXCLUDED, SUCH WARRANTY IS LIMITED IN DURATION TO THE WARRANTY PERIOD. BECAUSE SOME STATES OR JURISDICTIONS DO NOT ALLOW LIMITATIONS ON HOW LONG AN IMPLIED WARRANTY LASTS, THE ABOVE LIMITATION MAY NOT APPLY. THIS WARRANTY GIVES CUSTOMER SPECIFIC LEGAL RIGHTS, AND CUSTOMER MAY ALSO HAVE OTHER RIGHTS WHICH

VARY FROM JURISDICTION TO JURISDICTION. This disclaimer and exclusion shall apply even if the express warranty set forth above fails of its essential purpose.

**General Terms Applicable to the Limited Warranty Statement and Software License**

**Disclaimer of Liabilities.** IN NO EVENT WILL CISCO OR ITS SUPPLIERS BE LIABLE FOR ANY LOST REVENUE, PROFIT, OR LOST OR DAMAGED DATA, OR FOR SPECIAL, INDIRECT, CONSEQUENTIAL, INCIDENTAL, OR PUNITIVE DAMAGES HOWEVER CAUSED AND REGARDLESS OF THE THEORY OF LIABILITY OR WHETHER ARISING OUT OF THE USE OF OR INABILITY TO USE SOFTWARE OR OTHERWISE AND EVEN IF CISCO OR ITS SUPPLIERS OR LICENSORS HAVE BEEN ADVISED OF THE POSSIBILITY OF SUCH DAMAGES. In no event shall Cisco's or its suppliers' or licensors' liability to Customer, whether in contract, tort (including negligence), or otherwise, exceed the price paid by Customer for the Software that gave rise to the claim or if the Software is part of another Product, the price paid for such other Product. The foregoing limitations shall apply even if the above-stated warranty fails of its essential purpose. BECAUSE SOME STATES OR JURISDICTIONS DO NOT ALLOW LIMITATION OR EXCLUSION OF CONSEQUENTIAL OR INCIDENTAL DAMAGES, THE ABOVE LIMITATION MAY NOT APPLY TO YOU.

The Warranty and the Software License shall be governed by and construed in accordance with the laws of the State of California, without reference to principles of conflict of laws. The United Nations Convention on the International Sale of Goods shall not apply. If any portion hereof is found to be void or unenforceable, the remaining provisions of the Agreement shall remain in full force and effect. Except as expressly provided herein, this Agreement constitutes the entire agreement between the parties with respect to the license of the Software and supersedes any conflicting or additional terms contained in any purchase order or elsewhere all of which terms are excluded.

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**EXHIBIT D**  
**SCANSOURCE FREIGHT POLICY**

**TO: All SUPPLIERS**

SUBJECT: ROUTING INSTRUCTIONS

In order to minimize inbound transportation cost, and to maximize control over transit time, tracing, and expediting, this routing guide has been issued. These instructions supercede all previous shipping instructions and are to be retained for ready reference.

For shipments of Catalyst Telecom and Paracon products: Contact:

Melinda Hamilton, Receiving Supervisor  
Phone: (800) 854-9570 ext. 8187  
Fax: (901) 369-7876  
Email: melinda.hamilton@partnerservicesinc.com

Ship to address:

**ScanSource, Inc.****4020 Quest Way, Ste. 114****Memphis, TN. 38115****Receiving hours: 7:00 am - 2:00 pm**

For shipments of ScanSource and ScanSource Security products: Contact:

Deborah Lucas, Receiving Manager

Phone: (800) 854-9570 ext. 8111  
Fax: (901) 367-0666  
Email: deborah.lucas@partnerservicesinc.com

Ship to address:

**ScanSource, Inc.****4100 Quest Way****Memphis, TN. 38115****Receiving hours 7:00 am - 12:00 pm (noon)**

Note: A packing slip/manifest must be included with each shipment. It should include:

- a) A listing of products and quantities shipped
- b) Purchase order number (this must also show on the bill of lading)
- c) Date shipped
- d) Name of carrier
- e) Tracking or pro number

**Please comply with the following instructions when transportation is our responsibility:**

1. All freight charges assigned to ScanSource must be shipped "freight collect". For UPS shipments ship "bill recipient". Please consolidate all of one day's shipments on one bill of lading. Exceptions will be charged back. Cisco may accomplish this by leveraging an order grouping process and setting up internal tools accordingly. OG will only be available for LTL or TL carriers. In order to support OG, ScanSource must include a LTL and TL carriers in their routing config in SRC tool. If combined shipments do not meet the minimum requirement to ship LTL or TL (i.e. number pieces, min weight) then no grouping will be done.
  2. Do not insure shipments or declare value for carriage.
  3. Each bill of lading must display the total number of cartons in the shipment, i.e. 24 cartons on 1 pallet. Bill of lading must be filled out completely. Please accurately describe products with the appropriate NMFC code. If you do not have the NMFC information available, ask the carrier to identify it for you.
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4. Indicate our purchase order number and number of boxes on all containers and shipping documents.
5. All pallets must be standard 40" wide X 48" long four way pallets. Primary fork entry from the 40" end.
6. Banding must be plastic, no metal.
7. Stack height on pallets is 48" maximum.

All freight bills are audited, and any premium transportation charges incurred because these instructions have not been followed will be charged to Cisco. The charges will be based on the actual premium paid. ScanSource agrees to provide Cisco with advance notice in the event such a charge becomes necessary. Cisco will have the opportunity to validate any such charge prior to actually incurring same.

If pickup service, via the carrier shown below, is not available in your area or if you have any other questions concerning this guide, please contact the **ScanSource Traffic Department at (901) 362-0421, Bob Balsano**. Your cooperation in following this program is appreciated.

**STANDARD SURFACE TRANSPORTATION**

- I. Shipments, not individual cartons, weighing less than 250 lbs. and meeting the weight and size restrictions, must be shipped by United Parcel Service.
- II. Approved motor carriers for all LTL shipments from the States shown below are listed.

**CARRIER SERVICING**

**FedEx Freight East**

Toll free number for pickups (800) 874-4723

- Alabama
- Arkansas
- Georgia
- Illinois
- Indiana
- Kentucky
- Louisiana
- Minnesota
- Mississippi
- Missouri
- New Jersey
- North Carolina
- Oklahoma
- South Carolina
- Tennessee
- Texas
- Virginia
- West Virginia
- Wisconsin

Con-way:

- Arizona
- California
- Colorado
- Oregon
- Washington

**ALL REMAINING STATES**

**Yellow Freight**

Toll free (800) 610-6500

**PREMIUM ROUTINGS**

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ScanSource Purchasing or Traffic Department must authorize use of premium freight (air, special truck, truckload) in advance. All premium shipments must state the total number of cartons in the shipment and the correct dimension of each carton.

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**EXHIBIT E**

AFFILIATE LIST

The following entities are either business units of Distributor or are wholly-owned subsidiaries of Distributor. For the purposes of this Agreement, and as set forth in Section 1 ("Definitions"), all such entities listed below shall be referred to herein as "Affiliate(s)."

1. ScanSource, Inc.
  2. ScanSource, Inc. d/b/a Catalyst Telecom
  3. ScanSource, Inc. d/b/a Paracon
  4. ScanSource Security Distribution, Inc.
  5. T2 Supply, Inc.
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**EXHIBIT F****Software Transfer and Relicensing Policy**

September 15, 2000

This document sets forth Cisco's policy with respect to the transferability of any Cisco software ("Software"). A transfer occurs when: (1) the original or authorized subsequent licensee tries to convey or reassign its right to use the Software to another entity, or (2) the original lessor of Cisco used hardware (including bundled Software) ("Hardware") tries to reassign the original lessee's right to use the Software to another lessee, or the lessor tries to convey or reassign its right to lease the Hardware and Software bundle to another lessor. A rental would be treated the same as the lease situation as described in item 2 above.

This policy applies to all Software whether Standalone or Embedded. Standalone Software is Software which is not required to operate the Hardware upon which it resides (i.e., ICSG software such as call center, unified messaging, network management software). Embedded Software is Software which is incorporated into the Hardware and is required for its operation (i.e., operating system software, certain features of IOS).

**Policy:**

Cisco's policy is that Software, whether Standalone or Embedded, is not transferable, except where a listed exception below applies, and except, of course, where Cisco's contract expressly allows it. Any other transfers will require the payment of a new license fee (see Global Price List). For products where there is no separate line item for the Software (i.e. the prices for both the Hardware and Software are bundled), and therefore, a fee cannot be determined, an exception will be made to allow for the transfer without the customer being required to obtain a new license (the customer may be required to pay an inspection fee), if (A) Software to be transferred (i) will be under a support contract provided by either Cisco or a Cisco authorized support partner or (ii) is still supported by Cisco; or (B) approval from the theatre Sales Controller has been obtained.

Use of the Software will be governed by either the original license terms and conditions in place between Cisco and the original Software licensee or by the new license between Cisco and the new user. Cisco may withhold its consent to any transfer not conforming to this policy.

**License Fee:**

The License Fee is generally the same amount as the fee charged for a new license or a portion of the fee of a new license, unless otherwise noted on the Global Price List.

It is the obligation of the transferor to obtain Cisco's consent and/or a new license before the transfer occurs.

**Exceptions:**

Provided the conditions of transfer are met as set forth below, the follow exceptions apply to the prohibition against transfer without written approval and payment of the applicable fee. These exceptions may be overridden by express terms in an applicable licensing agreement governing the transferability of Special License Software (Special License Software is the term now used in our templates to refer to ICSG Product)

Affiliate: An entity may transfer its right to use a certain piece of Software to its Affiliate. An Affiliate is another entity where at least 50.1% of its voting power is owned or controlled by the transferring entity or where as least 50.1% of the transferring entity's voting power is owned or controlled by the transferee.

Merger or Acquisition: An entity may transfer its right to use a certain piece of Software to the purchaser of all or substantially all of the capital stock of the transferor or all or substantially all of the assets of that portion of the transferor's business to which those licenses pertain.

Lease: In a leasing situation where the original lessee/customer would like to buy out the equipment from the leasing company during or at the end of the lease term, the original lessee/customer may retain the license without paying a new License Fee, provided leasing company gives Cisco prior written notice. Also, if the original lessee/customer defaults under the lease and the leasing company takes the equipment back before the end of the lease term, the leasing company may transfer the license to the another lessee for the remainder of the original lease term, without paying Cisco a License Fee, upon 30 days' prior written notice to Cisco, or as soon as practicable if the equipment is re-leased before such 30- day period. If the new lease term is in

excess of the original lease term, the leasing company is expected to pay Cisco a new License Fee on or before the expiration date of the original lease term. [NOTE: In the situation where a leasing company leases Cisco equipment to Customer A for a specified term and at the end of the lease term, the leasing company desires to lease the same equipment to Customer B, leasing company may not transfer the license without obtaining a new license from Cisco.].

Outsource: Customer desires to outsource the operation, support and maintenance of its network to a third party (e.g. EDS) ("Third-Party Service Provider"), for the benefit of that customer. As part of the outsourcing, customer transfers all of its rights, title and interest to the assets, including certain Cisco products and software licenses, to the Third-Party Service Provider. Customer may transfer the license to the Third-Party Service Provider solely for the purposes of providing services to Customer upon 30 days' prior written notice to Cisco.

All notices should be sent to [sw-license@cisco.com](mailto:sw-license@cisco.com) or as indicated in the agreement between Cisco and the customer or transferor, if any.

**Conditions of Transfer:**

Transfers, in any event, shall only be allowed under the following conditions:

- The parties involved in the transfer are not in breach of the agreement governing the use of the Software or any other agreement with Cisco;
- Any additional services or charges incurred by Cisco as the result of any transfer shall be borne by the transferor and transferee; and
- The parties involved in the transfer shall provide written prior notice of a permitted transfer to Cisco and the transferee shall, in a writing to Cisco, (i) assume all of the obligations of the transferor, and (ii) agree that transferee's use of the Software shall be governed by the terms of the then-current license agreement between Cisco and transferor or, at Cisco's sole discretion, by the terms of Cisco's then-current standard license agreement.

Questions?

Any questions or comments regarding this policy should be sent to [sw-license@cisco.com](mailto:sw-license@cisco.com).

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## EXHIBIT G

## Cisco End of Life Policy

Products reach the end of their *Product Life Cycle* for a number of reasons. These reasons may be due to market demands, technology innovation and development driving changes in the product, or the products simply mature over time and are replaced by functionally richer technology. While this is an established part of the overall product life cycle, Cisco Systems recognizes that end-of-life milestones often prompt companies to review the way in which such end-of-sale and end-of-life milestones impact the Cisco products in their networks. With that in mind, we have set out below Cisco's end-of-life policy to help customers better manage their end-of-life transition and to understand the role that Cisco can play in helping to migrate to alternative Cisco platforms and technology.

The End of Life Policy only applies to End of Life and End of Sale announcements made in all Theaters on or after November 30, 2002 for all Cisco product lines. The Policy does not apply to product that is already subject to an End of Life and/or End of Sale announcement.

The general policy guidelines are:

1. As a general rule, Cisco will provide 6 months' notice of the affected product's end-of-sale date and/or the last day when the affected product can be ordered. This notice will appear on Cisco.com site ([http://www.cisco.com/en/US/products/prod\\_end\\_of\\_life.html](http://www.cisco.com/en/US/products/prod_end_of_life.html)) and we encourage you to visit this site regularly as it contains useful information regarding Cisco's end-of-life program. Sign up to receive notification here: <http://www.cisco.com/cgi-bin/Support/FieldNoticeTool/field-notice>
  2. Access to Cisco's Technical Assistance Center (TAC) will be available 24 hours a day, seven days a week for a period of 5 years from the end-of-sale date for hardware and operating system software issues and for a period of 3 years from the end-of-sale date for application software issues.
  3. Spares or replacement parts for hardware will be available for a period of 5 years from the end-of sale date. We will provide spares and replacement parts in accordance with our Return Materials Authorization (RMA) process.
  4. Software support will be as follows
    - a. For the first year following the end-of-sale date, we will provide bug fixes, maintenance releases, workarounds, or patches for critical bugs reported via the TAC or Cisco.com Web site.
    - b. After the first year and for Operating System SW -where available- we will provide bug fixes, maintenance releases, workarounds or patches for a period of 4 years for operating system software. Bear in mind that it may be necessary to use software upgrade release to correct a reported problem.
    - c. After the first year and for Application SW -where available - we will provide bug fixes, maintenance releases, workarounds or patches for a period of 2 years for application software. Bear in mind that it may be necessary to use software upgrade release to correct a reported problem.
  5. You will need to ensure that you have a current and fully paid support contract with Cisco. Please contact your Support Account Manager regarding fees payable during the end-of-life period so that we can support you right through the end-of-life transition period.
  6. Below are guidelines that should be followed to ensure that you receive effective support for the affected products within your network:
    - a. For hardware or software that is not covered under a service contract, customers may add the product(s) to a current contract or purchase a new contract until 12 months after the end-of-sale date.
    - b. Service contracts that have not been renewed or have lapsed after 12 months of end-of sale date are not re-newable.
    - c. Renewal of your service contract will generally be available until the last year of support, but will not extend
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beyond the last date of support.

The end-of-life milestones and Cisco commitments are presented in Table 1.

Table 1. Standard Guideline for End-of-Life Milestones							
Milestone	- 6 mos	Day 0	1 Year	2 Year	3 Year	4 year	5 Year
End-of-Sale Notice Period		End-of-sale date					
Operating System Software Maintenance Support			See 4(a)	See 4(b)	above		
Add or attach new service contracts							
Renew service contracts - for HW & Operating System SW							
Hardware Repair or Replacement							
Customer Service and Support of HW & Operating System SW ( <i>TAC access &amp; support</i> )							
Application Software maintenance support			See 4(a)	See 4(c)	above		
Renew service contracts - for Application SW							

**Here is an explanation of some of the terms that we have used in this notice:**

**End of Product Life Cycle:** A process that guides the final business operations associated with the product life cycle. The end-of-life process consists of a series of technical and business milestones and activities that, once completed, make a product obsolete. Once obsolete, the product is not sold, manufactured, improved, repaired, maintained, or supported.

**End-of-sale date:** The last date to order the product through Cisco point-of-sale mechanisms. The product is no longer for sale.

**Hardware:** The physical product and its physical components.

**Operating System Software:** Cisco operating system software that runs on Cisco hardware **Application software:** Cisco software that requires the presence of some non-Cisco operating system software.

**Software Maintenance support:** The time period that Cisco may release any software maintenance releases or bug fixes to the software product. After this date, Cisco Engineering will no longer develop, repair, maintain, or test the product software.

**IN ACCORDANCE WITH ITEM 601(b) OF REGULATION S-K, CERTAIN IDENTIFIED INFORMATION (THE "CONFIDENTIAL INFORMATION") HAS BEEN EXCLUDED FROM THIS EXHIBIT BECAUSE IT IS BOTH (I) NOT MATERIAL AND (II) WOULD LIKELY CAUSE COMPETITIVE HARM IF PUBLICLY DISCLOSED. THE CONFIDENTIAL INFORMATION IS DENOTED HEREIN BY [\*\*\*\*\*].**

**AMENDMENT NO. 3 TO THE NONEXCLUSIVE  
VALUE ADDED DISTRIBUTOR AGREEMENT**

This Amendment No. 3 ("Amendment No. 3") to the Nonexclusive Value Added Distributor Agreement, as amended ("Agreement"), by and between Cisco Systems, Inc. ("Cisco"), a California corporation having its principal place of business at 170 West Tasman Drive, San Jose, CA, 95134, and ScanSource, Inc. ("Distributor"), a South Carolina corporation with a place of business at 6 Logue Court, Greenville, South Carolina, 29615, is effective as of the date last signed below ("Amendment Effective Date"). All capitalized terms contained herein shall have the same meaning as the terms defined in the Agreement unless specifically modified in this Amendment.

WHEREAS, Cisco and Distributor have previously entered into the Agreement dated January 22, 2007, and

WHEREAS, Cisco and Distributor wish to renew and update certain terms and conditions in the Agreement regarding payment; and,

NOW WHEREFORE, the parties agree to further amend the Agreement as follows:

1. The Term of the Agreement is hereby extended to January 20, 2012 unless sooner terminated as provided for in the Agreement. If the Agreement expired prior to the Amendment Effective Date, any orders received and Products and Services purchased between the date of expiration and the Amendment Effective Date shall be in all respects deemed made under the Agreement as in effect prior to this Amendment. The parties further agree that if Distributor places Purchase Orders after the expiration of the Agreement, and Cisco accepts such Purchase Orders, then any such Purchase Orders shall be governed by the terms and conditions of the Agreement; provided, however that acceptance by Cisco of any Purchase Order placed after the Agreement has expired will not be considered as an extension of the term of the Agreement nor a renewal thereof. Notwithstanding Cisco's right to extend the term of the Agreement, each party acknowledges that the Agreement shall always be interpreted as being limited in duration to a definite term and that the other party has made no commitments whatsoever regarding the renewal of the Agreement beyond those expressly agreed in writing.
2. Section 6.0 ("Payment") of the Agreement is modified by adding the following new Section 6.7:  
6.7 [\*\*\*\*\*]
3. Section 12 ("Inventory Balance") is deleted in its entirety and hereby replaced with the following:

**12.0 INVENTORY BALANCE**

**12.1** Distributor shall have the option to return to Cisco, for credit, up [\*\*\*\*\*] of the dollar value of Products from the Wholesale Price List (or, if no Wholesale Price Lists exists for Distributor's Territory, then the applicable price list) shipped to Distributor, net of credits, less returns to Cisco, in the preceding [\*\*\*\*\*] period (the "Balancing Cap") of the preceding Cisco fiscal quarter. The above-referenced cap shall be determined based on all Product purchases made under this Agreement. The responsibility to manage the Balancing Cap shall rest solely upon Distributor. Distributor shall be entitled to return Product once per quarter, provided such returns do not exceed the Balancing Cap. "Dead on Arrival" and Obsolete Products returned pursuant to Section 13 of this Agreement shall be excluded from calculation of the Balancing Cap. Cisco shall credit Distributor's account in the amount of the price paid by Distributor therefore, less any price protection credits issued to Distributor related to the Product returned (the "Return Credit").

**12.2** For all returns made pursuant to this Section 12, the following requirements must be met by Distributor:

12.2.1 [\*\*\*\*\*]

12.2.2 [\*\*\*\*\*]



12.2.3 Distributor shall bear all shipping and handling charges to the Cisco designated site set forth in Cisco's published Return Materials Authorization ("RMA") Policy for Product returned for credit;

12.2.4 Distributor shall obtain an RMA number prior to returning any Product to Cisco. Distributor shall follow Cisco's then-current RMA process; and

12.2.5 Distributor reports must be provided to Cisco in accordance with the terms of this Agreement.

4.0 Section 21.0 ("Compliance with Laws") is hereby deleted in its entirety and replaced with the following:

#### 21.0 COMPLIANCE WITH LAWS, INCLUDING ANTI-CORRUPTION LAWS

21.1 In connection with the sale or distribution of Cisco Products or Services, or otherwise in carrying out its obligations under this Agreement, Distributor represents and warrants the following:

(a) Distributor will comply with all country, federal, state and local laws, ordinances, codes, regulations, rules, policies and procedures, including, without limitation, all anti-corruption laws, including, the U.S. Foreign Corrupt Practices Act (Applicable Laws). Distributor can find more information about the Foreign Corrupt Practices Act at the following URL: <http://www.usdoj.gov/criminal/fraud/docs/dojdocb.html>, or by contacting [publicsectorcompliance@cisco.com](mailto:publicsectorcompliance@cisco.com).

(b) Distributor shall not take any action or permit or authorize any action in violation of the Applicable Laws;

(c) Distributor will not use money or other consideration paid by Cisco (and Distributor will not use its own money on Cisco's behalf) for any unlawful purposes, including any purposes violating Applicable Laws, such as direct or indirect payments, for the purpose of assisting Cisco in obtaining or retaining business, to any of the following:

- (i) Government officials (including any person holding an executive, legislative, judicial or administrative office, whether elected or appointed, or of any public international organization, such as the United Nations or World Bank, or any person acting in any official capacity for or on behalf of such government, public enterprise or state-owned business);
- (ii) Political parties or party officials;
- (iii) Candidates for political office; or
- (iii) Any person, while knowing that all or a portion of such money or thing of value will be offered, given or promised, directly or indirectly to any of the above identified persons or organizations.

(d) Distributor remains responsible for undertaking appropriate and reasonable measures to ensure that its own relevant subcontractors, consultants, agents or representatives who interact with government affiliated organizations comply with applicable anti-corruption laws;

(e) Distributor's key personnel who directly support Cisco's account have or will have completed training (provided by Distributor, Cisco's on-line anti-corruption training is available in numerous languages and is free of charge for up to five of Distributor's personnel at [http://corpedia.com/clients/cisco/pre\\_reg.asp?lid-300446001](http://corpedia.com/clients/cisco/pre_reg.asp?lid-300446001), or another third party) on compliance with applicable anti-corruption laws within the past 12 months (from the date when this Agreement becomes effective);

(f) Distributor's record-keeping obligations, set forth in the "Audit" provision herein, shall apply equally to Distributor's representations and warranties in this section, Cisco's audit rights, as set forth herein, and Distributor's compliance with the Applicable Laws;

(g) In no event shall Cisco be obligated under this Agreement to take any action or omit to take any action that Cisco believes, in good faith, would cause it to be in violation of any laws of the Territory(ies) identified in this Agreement or the Applicable Laws;

(h) Distributor is unaware of any of its directors, officers or employees serving as government officials or employees (at any level of government);

(i) The directors, officers and employees of Distributor's business are not employees of Cisco (including any of its affiliated companies);

- (j) Neither Distributor nor, to Distributor's knowledge, any of its directors or officers have been formally charged with, convicted of, or plead guilty to, any offense involving fraud or corruption;
- (k) Distributor, its directors and officers have not been listed by any government or public agency (such as the United Nations or World Bank) as debarred, suspended, or proposed for suspension or debarment or otherwise ineligible for government procurement programs;
- (l) Distributor has not offered to pay, nor has Distributor paid, nor will Distributor pay, any political contributions to any person or entity on behalf of Cisco;
- (m) If Distributor is a non-governmental entity, it will notify Cisco In writing If any of its owners, partners, principals, officers, or employees are or become, during the term of this Agreement, officials, officers or representatives of any government, political party or candidate for political office outside the United States and are responsible for a decision regarding obtaining or retaining business for Cisco Products or Services by such government. Distributor will also promptly inform Cisco if any other portion of the statements set forth in subsections (g) through (k) above changes.
- (n) Notwithstanding any other provision in this Agreement, Cisco may terminate this Agreement immediately upon written notice if Distributor breaches any of the representations and warranties set forth in this section.
- (o) Distributor can report to Cisco any concerns it may have regarding any business practices by emailing [ethics@cisco.com](mailto:ethics@cisco.com), or by calling Cisco's Helpline toll free number In North America 1- 877-571-1700 or worldwide number (reverse calling charges to Cisco) 001-770-776-5611. Contact [ethics@cisco.com](mailto:ethics@cisco.com) for other Cisco) 001-770-776-5611. Contact [ethics@cisco.com](mailto:ethics@cisco.com) for other available regional hotline numbers;
- (p) Distributor has read Cisco's "Compliance with Global Anticorruption Laws by Cisco' Partners", published at [http://www.cisco.com/legal/anti\\_corruption.html](http://www.cisco.com/legal/anti_corruption.html).

**5.0** All capitalized terms not defined in this Amendment No. 3 shall have the meaning assigned to them in the Agreement. In the event of conflict between the terms of this Amendment No. 3 and the Agreement, the terms of this Amendment No. 3 shall prevail. All other terms and conditions of the Agreement remain unchanged.

IN WITNESS WHEREOF, the parties hereto have caused this Amendment No. 3 to be duly executed as of the Effective Date.

**Cisco Systems, Inc.**

**ScanSource, Inc.**

BY: /s/ S.K. Vereschagin  
(Authorized Signature)

BY: /s/ Jeffrey E. Yelton  
(Authorized Signature)

NAME: S.K. Vereschagin

NAME: Jeff Yelton

TITLE: Director, Finance

TITLE: President POS/Barocoding

DATE: 8/4/10

DATE: 7-29-10

**IN ACCORDANCE WITH ITEM 601(b) OF REGULATION S-K, CERTAIN IDENTIFIED INFORMATION (THE "CONFIDENTIAL INFORMATION") HAS BEEN EXCLUDED FROM THIS EXHIBIT BECAUSE IT IS BOTH (I) NOT MATERIAL AND (II) WOULD LIKELY CAUSE COMPETITIVE HARM IF PUBLICLY DISCLOSED. THE CONFIDENTIAL INFORMATION IS DENOTED HEREIN BY [\*\*\*\*\*].**

**AMENDMENT NO. 5 TO THE NONEXCLUSIVE VALUE ADDED DISTRIBUTOR AGREEMENT**

This Amendment No. 5 ("the Amendment") to the Nonexclusive Value Added Distributor Agreement by and between ScanSource, Inc. ("Distributor"), a South Carolina corporation with a place of business at 6 Logue Court, Greenville, South Carolina, 29615, and Cisco Systems, Inc., a California corporation having its principal place of business at 170 West Tasman Drive, San Jose, CA 95134 ("Cisco"), is effective as of the date of last signature below (the "Amendment Effective Date"). All capitalized terms contained herein shall have the same meaning as the terms defined in the Agreement unless specifically modified in this Amendment.

**WHEREAS**, Cisco and Distributor previously entered into a Nonexclusive Value Added Distributor Agreement dated January 22, 2007, as amended (the "Agreement"); and

**WHEREAS**, Cisco and Distributor desire to add authorization for distribution to Resellers with U.S. Federal Government End Users;

**NOW THEREFORE**, in consideration of the covenants and promises set forth herein and for other good and valuable consideration, the receipt and sufficiency of which are hereby expressly acknowledged by all of the parties to this Amendment, Cisco and Distributor hereby represent, covenant and agree as follows:

1. The following definition is added to Section 1.0 (Definitions):

*U.S. Federal Government* is an executive, legislative or judicial branch agency of the United States Government or a U.S. Government corporation that was specifically formed and is currently existing under an Act of Congress, as well as any government-owned, contractor-operated ("GOCO") facilities and establishments.

2. Section 9.4 (Restricted Rights) is added:

9.4 **Restricted Rights.** Software is provided to all agencies, departments, and other units of the United States Government except for the Department of Defense and its constituent agencies with LIMITED RIGHTS. Related documentation is provided with RESTRICTED RIGHTS. Use, duplication, or disclosure by the US Government, except for the Department of Defense and its constituent agencies, is subject to the restrictions set forth in subparagraph (c) of the "Commercial Computer Software-Restricted Rights" clause at FAR 52.227-19. In the event of a sale to the Department of Defense or its constituent agencies, the US Governments rights in Software, supporting documentation, and technical data are subject to the restrictions in the 'Commercial Computer Software and Commercial Computer Software Documentation' clause at DFARS 227.7202.

3. Section 20.1 (Government/Military Sales) is added:

20.1 **Government/Military Sales.** Distributor hereby certifies that none of the Products, Services, or technical data supplied by Cisco under this Agreement will be knowingly sold or otherwise transferred to, or made available for use by or for, any government or military end-user or in any government or military end-use located in or operating under the authority of any country not identified in Supplement No. 1, Country Group A1 to Part 740 of the EAR without US or other country's export authorizations.

4. Section 20.2 is added:
-

20.2 If Distributor's customers elect to sell Cisco's Products (including supplies, software, documentations or services) to the U.S. Government or to a prime contractor selling to the U.S. Government, the Products are "commercial items" as that term is defined at 48 C.F.R. 2.101. Cisco will comply with provisions of FAR 52.244-6, Subcontracts for Commercial Items and Commercial Components. Should U.S. Government End Users acquire Products that consist of "commercial computer software" and "commercial computer software document" as such terms are used in 48 C.F.R. 12.212, which generally limits their rights to the licenses customarily provided by Cisco to the public, as provided in FAR 52.227-19.

5. Section 20.3 is added:

Cisco and Distributor further agree to provisions regarding sales to the Federal government in Exhibit H.

6. Exhibit H (Distribution to Federal Government Terms) is hereby added.

7. The Term of the Agreement is hereby renewed for one year from the Effective Date, unless sooner terminated as provided for in the Agreement. If the Agreement expired prior to the Amendment Effective Date, any orders received and Products and Services purchased between the date of expiration and the Amendment Effective Date shall be in all respects deemed made under the Agreement as in effect prior to this Amendment. The parties further agree that if Distributor places Purchase Orders after the expiration of the Agreement, and Cisco accepts such Purchase Orders, then any such Purchase Orders shall be governed by the terms and conditions of the Agreement; provided however that acceptance by Cisco of any Purchase Order placed after the Agreement has expired will not be considered as an extension of the term of the Agreement nor a renewal thereof. Notwithstanding Cisco's right to extend the term of the Agreement, each party acknowledges that the Agreement shall always be interpreted as being limited in duration to a definite term and that the other party has made no commitments whatsoever regarding the renewal of the Agreement beyond those expressly agreed in writing.

8. This Amendment may be executed in one or more counterparts, each of which when so executed and delivered will be an original and all of which together will constitute one and the same instrument. Facsimile signatures and electronic signatures will be deemed to be equivalent to original signatures for the purpose of this Amendment.

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**EXHIBIT H**  
**DISTRIBUTION TO FEDERAL GOVERNMENT TERMS**

In addition to the requirements set forth elsewhere in this Agreement for resale of Products generally, the following additional requirements shall apply to Distributor's resale of Products to Resellers who resell such Product to the U.S. Federal Government:

- 1.0 Distributor shall have sales specialists with an understanding of Government regulations and Government terms and conditions to support Resellers in the federal government marketplace.
- 2.0 Distributor shall maintain a configuration facility for systems integration and testing in support of federal government specific contracts and opportunities for Resellers.
- 3.0 Distributor will not distribute Products under this Agreement through a General Services Administration ("GSA") schedule contract, California Multiple Award Schedule ("CMAS"), or other schedule contracts. This Agreement shall not be construed by Distributor as a representation that Cisco will furnish supplies needed by Distributor to fulfill any of Distributor's GSA, CMAS, or similar contract obligations under any schedule contract.
- 4.0 The federal government contract flowdown provisions set forth in Section 6.0 of this Exhibit are applicable to Purchase Orders for U.S. Federal Government End Users. Cisco does not accept any additional or modified flowdown provisions, including but not limited to Federal Acquisition Regulation ("FAR"), Department of Defense ("DoD") FAR Supplement ("DFARS"), or NASA FAR Supplement ("NSF") provisions, notwithstanding existence of such provisions on Distributor's Purchase Orders or supplementary documentation or Cisco's acceptance of such Purchase Orders or documentation.
- 5.0 [\*\*\*\*\*]
- 6.0 This Agreement pertains to the sale of "commercial items" as that term is defined under FAR 2.101 and FAR Part 12. Notwithstanding any other clause in the prime contract, only those clauses identified in 52.212-5(e) and 52.244-6 are required to be in subcontract agreements for commercial items or commercial components (see further, FAR 12.502(b), 44.402(b)). The following FAR clauses, identified in 52.212-5(e) and 52.244-6 are hereby incorporated by reference, with the same force and effect as if they were given in full.
  - 52.203-13 Contractor Code of Business Ethics and Conduct (Dec 2008)
  - 52.203-15 Whistleblower Protections Under the American Recovery and Reinvestment Act of 2009 (Jun 2010)
  - 52.219-8 Utilization of Small Business Concerns (May 2004) Equal Opportunity (Mar 2007) (E.O. 11246)
  - 52.222-26 Equal Opportunity (Mar 2007) (E.O. 11246)
  - 52.222-35 Equal Opportunity for Special Disabled Veterans, Veterans of the Vietnam Era, and Other Eligible Veterans (Sept 2006)
  - 52.222-36 Affirmative Action for Workers with Disabilities (Jun 1998)
  - 52.222-40 Notification of Employee Rights under the National Labor Relations Act (Dec 2010) (E.O. 13496)
  - 52.222-41 Service Contract Act of 1965 (Nov 2007)
  - 52.222-50 Combating Trafficking in Persons (Aug 2007) (22 U.S.C. 7104(g))
  - 52.222-51 Exemption from Application of the Service Contract Act to Contracts for Maintenance, Calibration, or Repair of Certain Equipment-Requirements (Nov 2007)
  - 52.222-53 Exemption from Application of the Service Contract Act to Contracts for Certain Services-Requirements (Feb 2009)
  - 52.222-54 Employment Eligibility Verification (Jan 2009)
  - 52.226-6 Promoting Excess Food Donation to Nonprofit Organizations (Mar 2009)
  - 52.247-64 Preference for Privately Owned U.S.-Flag Commercial Vessels (Feb 2006)

**IN ACCORDANCE WITH ITEM 601(b) OF REGULATION S-K, CERTAIN IDENTIFIED INFORMATION (THE "CONFIDENTIAL INFORMATION") HAS BEEN EXCLUDED FROM THIS EXHIBIT BECAUSE IT IS BOTH (I) NOT MATERIAL AND (II) WOULD LIKELY CAUSE COMPETITIVE HARM IF PUBLICLY DISCLOSED. THE CONFIDENTIAL INFORMATION IS DENOTED HEREIN BY [\*\*\*\*\*].**

**AMENDMENT NO. 6 TO THE NONEXCLUSIVE VALUE ADDED DISTRIBUTION AGREEMENT**

This Amendment No. 6 ("the Amendment") to the Nonexclusive Value Added Distributor Agreement by and between ScanSource, Inc. ("Distributor"), a South Carolina corporation with a place of business at 6 Logue Court, Greenville, South Carolina, 29615, and Cisco Systems, Inc., a California corporation having its principal place of business at 170 West Tasman Drive, San Jose, CA 95134 ("Cisco"), is effective as of the date of last signature below (the "Amendment Effective Date"). All capitalized terms contained herein shall have the same meaning as the terms defined in the Agreement unless specifically modified in this Amendment.

**WHEREAS**, Cisco and Distributor previously entered into a Nonexclusive Value Added Distributor Agreement dated January 22, 2007, as amended (the "Agreement"); and

**WHEREAS**, the parties wish to update certain terms and conditions in the Agreement regarding rebate claims;

**NOW THEREFORE**, in consideration of the covenants and promises set forth herein and for other good and valuable consideration, the receipt and sufficiency of which are hereby expressly acknowledged by all of the parties to this Amendment, Cisco and Distributor hereby represent, covenant and agree as follows:

1. The Term of the Agreement is hereby renewed for one year from the Effective Date, unless sooner terminated as provided for in the Agreement. If the Agreement expired prior to the Amendment Effective Date, any orders received and Products and Services purchased between the date of expiration and the Amendment Effective Date shall be in all respects deemed made under the Agreement as in effect prior to this Amendment. The parties further agree that if Distributor places Purchase Orders after the expiration of the Agreement, and Cisco accepts such Purchase Orders, then any such Purchase Orders shall be governed by the terms and conditions of the Agreement; provided, however that acceptance by Cisco of any Purchase Order placed after the Agreement has expired will not be considered as an extension of the term of the Agreement nor a renewal thereof. Notwithstanding Cisco's right to extend the term of the Agreement, each party acknowledges that the Agreement shall always be interpreted as being limited in duration to a definite term and that the other party has made no commitments whatsoever regarding the renewal of the Agreement beyond those expressly agreed in writing.
2. The following Section 12.7 is hereby added to the Agreement:  
  
12.7 Distributor may not return Product that is on order with Cisco.
3. The following Section 28 is hereby added to the Agreement:  
  
28. **Rebate Claims.** In order for a claim to be valid under any current and/or future offer or program, it must be submitted in strict accordance with this Section 28. Any claim not adhering to this section will be deemed invalid and will be rejected. In such case, no rebate will be issued by Cisco.

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4. This Amendment may be executed in one or more counterparts, each of which when so executed and delivered will be an original and all of which together will constitute one and the same instrument. Facsimile signatures and electronic signatures will be deemed to be equivalent to original signatures for purposes of this Amendment.

**IN WITNESS WHEREOF**, the parties hereto have each duly executed this Amendment effective as of the Effective Date. Each party warrants and represents that its respective signatories whose signatures appear below have been and are, on the date of signature, authorized to execute this Amendment.

**Cisco Systems, Inc.**

**ScanSource, Inc.**

By: /s/ Phil Lozano

By: /s/ Ansley M. Hoke

Name: Phil Lozano

Name: Ansley M. Hoke

Title: Director, Finance

Title: VP Merchandising, ScanSource Catalyst

Date: November 7, 2013

Date: 11/6/13

**IN ACCORDANCE WITH ITEM 601(b) OF REGULATION S-K, CERTAIN IDENTIFIED INFORMATION (THE "CONFIDENTIAL INFORMATION") HAS BEEN EXCLUDED FROM THIS EXHIBIT BECAUSE IT IS BOTH (I) NOT MATERIAL AND (II) WOULD LIKELY CAUSE COMPETITIVE HARM IF PUBLICLY DISCLOSED. THE CONFIDENTIAL INFORMATION IS DENOTED HEREIN BY [\*\*\*\*\*].**

**AMENDMENT NO. 7 TO THE  
NONEXCLUSIVE VALUE ADDED DISTRIBUTOR AGREEMENT**

This Amendment No. 7 ("the Amendment") to the Nonexclusive Value Added Distributor Agreement by and between ScanSource, Inc. ("Distributor"), a South Carolina corporation with a place of business at 6 Logue Court, Greenville, South Carolina, 29615, and Cisco Systems, Inc., a California corporation having its principal place of business at 170 West Tasman Drive, San Jose, CA 95134 ("Cisco"), is effective as of the date of last signature below (the "Amendment Effective Date"). All capitalized terms contained herein shall have the same meaning as the terms defined in the Agreement unless specifically modified in this Amendment.

**WHEREAS**, Cisco and Distributor previously entered into a Nonexclusive Value Added Distributor Agreement dated January 22, 2007, as amended (the "Agreement"); and

**WHEREAS**, Cisco and Distributor desire to extend the Term of the Agreement;

**NOW THEREFORE**, in consideration of the covenants and promises set forth herein and for other good and valuable consideration, the receipt and sufficiency of which are hereby expressly acknowledged by all of the parties to this Amendment, Cisco and Distributor hereby represent, covenant and agree as follows:

1. The attached Exhibit I (Direct Value Add Distributor Program Terms and Conditions) is hereby added to the Agreement. For the avoidance of doubt, this program is sometimes also referred to as Channels Booking Neutrality or "CBN".
2. This Amendment may be executed in one or more counterparts, each of which when so executed and delivered will be an original and all of which together will constitute one and the same instrument. Facsimile signatures and electronic signatures will be deemed to be equivalent to original signatures for purposes of this Amendment.
3. All other terms of the Agreement remain the same. Capitalized terms in the Amendment shall have the same meaning as those terms have in the Agreement.

**IN WITNESS WHEREOF**, the parties hereto have each duly executed this Amendment effective as of the Effective Date. Each party warrants and represents that its respective signatories whose signatures appear below have been and are, on the date of signature, authorized to execute this Amendment.

**Cisco Systems, Inc.**

**ScanSource, Inc.**

By: /s/ Phil Lozano

By: /s/ Ansley M. Hoke

Name: Phil Lozano

Name: Ansley M. Hoke

Title: Director, Finance

Title: VP Merchandising, ScanSource Catalyst

Date: October 8, 2014

Date: 10/7/14





**EXHIBIT I**  
**Direct Value Add Distributor ("DVAD") Program Terms and Conditions**

**DISTRIBUTOR ("DVAD") PROGRAM**

1. The Program is focused on establishing new business practices between Cisco and its distribution base for high-value project based business, as defined herein. The parties agree that Distributor may participate in the Program in the Territory, subject to the terms and conditions of these Terms and Conditions. Distributor agrees to comply at all times with the then-current DVAD Program (also referred to as the "CBN" or Channels Booking Neutrality program) guidelines and policies published by Cisco from time to time at <https://www.ciscodistributioncentral.com/strategy-and-planning/channel-book-neutrality> ("Guidelines"). The parties agree these Guidelines apply specifically to this program and do not alter any of the terms and conditions contained in the Agreement. In case of any conflict between the Agreement and the Guidelines, the Agreement shall control. Cisco will make commercially reasonable efforts to notify Distributor of any change in the Guidelines.
2. [\*\*\*\*\*].
3. Order Qualification Requirements: [\*\*\*\*\*]
4. [\*\*\*\*\*] All sales made by Cisco under the Program are final. In addition, Distributor shall not fulfill Program Orders from Distributor's inventory. [\*\*\*\*\*] Cisco reserves the right to request, and Distributor agrees to promptly furnish, any supporting documentation related to Orders placed under the Program, including, without limitation, the purchase orders or purchase contracts between the Distributor and Reseller for the relevant Product contained in an Order. If Cisco reasonably believes that Distributor has used the Program to procure inventory, or has otherwise abused the Program, Cisco may immediately terminate Distributor's participation in the Program.
5. [\*\*\*\*\*].
6. For each Order submitted under the Program, Distributor shall, upon request from Cisco, submit to Cisco copies of the relevant shipping documents showing Distributor's shipment of the Product to either the applicable reseller or End User. Cisco acknowledges that, where Distributor is the importer of record, Distributor may need to perform staging activities as it relates to Product purchased under the Program.
7. Participation in the Program does not entitle Distributor to any of the benefits provided under Cisco's Channel Programs to Cisco Direct Value Add Resellers ("DVARs") or any other Cisco-authorized resellers.
8. Term: These Terms and Conditions are coterminous with the Agreement. Cisco is under no obligation to develop any kind of program, or modify any ordering processes, as a result of the Program. Participation in the Program is at Distributor's expense. Cisco will not be responsible for any costs incurred by Distributor as a result of the Program. Distributor further acknowledges and agrees that Cisco may modify or terminate the DVAD Program at any time, with no less than [\*\*\*\*\*] days advance notice to Distributor.

**AMENDMENT NO. 9 TO THE  
NONEXCLUSIVE VALUE ADDED DISTRIBUTOR AGREEMENT**

This Amendment No. 9 ("the Amendment") to the Nonexclusive Value Added Distributor Agreement by and between ScanSource, Inc. ("Distributor"), a South Carolina corporation with a place of business at 6 Logue Court, Greenville, South Carolina, 29615, and Cisco Systems, Inc., a California corporation having its principal place of business at 170 West Tasman Drive, San Jose, CA 95134 ("Cisco"), is effective as of the date of last signature below (the "Amendment Effective Date"). All capitalized terms contained herein shall have the same meaning as the terms defined in the Agreement unless specifically modified in this Amendment.

**WHEREAS**, Cisco and Distributor previously entered into a Nonexclusive Value Added Distributor Agreement dated January 22, 2007, as amended (the "Agreement"); and

**WHEREAS**, Cisco and Distributor desire to extend the Term of the Agreement;

**NOW THEREFORE**, in consideration of the covenants and promises set forth herein and for other good and valuable consideration, the receipt and sufficiency of which are hereby expressly acknowledged by all of the parties to this Amendment, Cisco and Distributor hereby represent, covenant and agree as follows:

1. The Term of the Agreement is hereby renewed for two (2) years from the Effective Date, unless sooner terminated as provided for in the Agreement. If the Agreement expired prior to the Amendment Effective Date, any orders received and Products and Services purchased between the date of expiration and the Amendment Effective Date shall be in all respects deemed made under the Agreement as in effect prior to this Amendment. The parties further agree that if Distributor places Purchase Orders after the expiration of the Agreement, and Cisco accepts such Purchase Orders, then any such Purchase Orders shall be governed by the terms and conditions of the Agreement; provided, however that acceptance by Cisco of any Purchase Order placed after the Agreement has expired will not be considered as an extension of the term of the Agreement nor a renewal thereof. Notwithstanding Cisco's right to extend the term of the Agreement, each party acknowledges that the Agreement shall always be interpreted as being limited in duration to a definite term and that the other party has made no commitments whatsoever regarding the renewal of the Agreement beyond those expressly agreed in writing.

2. The definition of "Value Added Distributor Price List" in Section 1 (Definitions) is hereby deleted and replaced by the term "Wholesale Price List", which is defined as:

Wholesale Price List shall mean a list containing Products and prices at which Cisco will sell such Products to Distributor

3. All references in the Agreement to "Value Added Distributor Price List" are hereby deleted and replaced by "Wholesale Price List".

4. This Amendment may be executed in one or more counterparts, each of which when so executed and delivered will be an original and all of which together will constitute one and the same instrument. Facsimile signatures and electronic signatures will be deemed to be equivalent to original signatures for purposes of this Amendment.

5. All other terms of the Agreement remain the same. Capitalized terms in the Amendment shall have the same meaning as those terms have in the Agreement.

*[signatures on following page]*

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**IN WITNESS WHEREOF**, the parties hereto have each duly executed this Amendment effective as of the Effective Date. Each party warrants and represents that its respective signatories whose signatures appear below have been and are, on the date of signature, authorized to execute this Amendment.

**Cisco Systems, Inc.**            **ScanSource, Inc.**

By:   /s/ Phil Lozano      By:   /s/ Rich Long Jr.  

Name:   Phil Lozano      Name:   Rich Long Jr.  

Title:   Director, Finance      Title:   President  

Date:   2/3/2015      Date:   1/30/15

IN ACCORDANCE WITH ITEM 601(b) OF REGULATION S-K, CERTAIN IDENTIFIED INFORMATION (THE “CONFIDENTIAL INFORMATION”) HAS BEEN EXCLUDED FROM THIS EXHIBIT BECAUSE IT IS BOTH (I) NOT MATERIAL AND (II) WOULD LIKELY CAUSE COMPETITIVE HARM IF PUBLICLY DISCLOSED. THE CONFIDENTIAL INFORMATION IS DENOTED HEREIN BY [\*\*\*\*\*].

**AMENDMENT NO. 11 TO THE  
NONEXCLUSIVE VALUE ADDED DISTRIBUTOR AGREEMENT**

This Amendment No. 11 (the “Amendment”) to the NONEXCLUSIVE VALUE ADDED DISTRIBUTOR AGREEMENT by and between ScanSource, Inc., a South Carolina corporation with its principal place of business at 6 Logue Court, Greenville, South Carolina 29615 (“Distributor”) and Cisco Systems, Inc., a California corporation having its principal place of business at 170 West Tasman Drive, San Jose, CA 95134 (“Cisco”), is effective as of the date of last signature below (the “Effective Date”). All capitalized terms contained herein shall have the same meaning as the terms defined in the Agreement unless specifically modified in this Amendment.

**WHEREAS**, Distributor and Cisco previously entered into a Nonexclusive Value Added Distributor Agreement, dated January 22, 2007, as amended (the “Agreement”); and

**WHEREAS**, the parties wish to update the terms of the Agreement;

**NOW THEREFORE**, for such good and valuable consideration as may have been exchanged between the Parties, the receipt and sufficiency of which is hereby acknowledged, the Parties agree to the following terms and conditions of this Amendment:

1. Section 6.7 (“Prompt Pay Discount”) which was added in Amendment 3 of the Agreement [\*\*\*\*\*].
2. All of the terms and conditions of the Agreement shall continue in full force and effect except as modified by the terms of this Amendment. In the event of any inconsistency between the terms and conditions of this Amendment and the terms and conditions of the Agreement, the terms and conditions of this Amendment shall control and govern.
3. Binding Effect. All of the covenants and agreements contained herein shall be binding upon and shall inure to the benefit of the parties hereto and their respective representatives, successors, and assigns.
4. Severability. Any dispute in the meaning, effect, or validity of this Amendment will be resolved in accordance with the terms of the Agreement. If any provision of this Amendment is held to be illegal or unenforceable, that provision will be limited or eliminated to the minimum extent necessary so that this Amendment will otherwise remain in full force and effect and enforceable so as to give effect to the intent of the parties hereunder.
5. Entire Agreement; Amendment. This Amendment constitutes the entire agreement among the parties concerning the subject matter of this Amendment and replaces any prior oral or written communications between the parties, all of which are excluded. There are no conditions, understandings, agreements, representations or warranties, expressed or implied, that are not specified herein. This Amendment may be modified only by a written document executed by the parties hereto.
6. Counterparts. This Amendment may be executed in one or more counterparts, each of which when so executed and delivered will be an original and all of which together will constitute one and the same instrument. Facsimile signatures and electronic signatures will be deemed to be equivalent to original signatures for purposes of this Amendment.

**AMENDMENT NO.12 TO THE  
NONEXCLUSIVE VALUE ADDED DISTRIBUTOR AGREEMENT**

This Amendment No. 12 ("the Amendment") to the Nonexclusive Value Added Distributor Agreement by and between ScanSource, Inc. ("Distributor"), a South Carolina corporation with a place of business at 6 Logue Court, Greenville, South Carolina, 29615, and Cisco Systems, Inc., a California corporation having its principal place of business at 170 West Tasman Drive, San Jose, CA 95134 ("Cisco"), is effective as of the date of last signature below (the "Amendment Effective Date"). All capitalized terms contained herein shall have the same meaning as the terms defined in the Agreement unless specifically modified in this Amendment.

**WHEREAS**, Cisco and Distributor previously entered into a Nonexclusive Value Added Distributor Agreement dated January 22, 2007, as amended (the "Agreement"); and

**WHEREAS**, Cisco and Distributor desire to extend the Term of the Agreement;

**NOW THEREFORE**, in consideration of the covenants and promises set forth herein and for other good and valuable consideration, the receipt and sufficiency of which are hereby expressly acknowledged by all of the parties to this Amendment, Cisco and Distributor hereby represent, covenant and agree as follows:

1. The Term of the Agreement is hereby renewed for two (2) years from the Effective Date, unless sooner terminated as provided for in the Agreement. If the Agreement expired prior to the Amendment Effective Date, any orders received and Products and Services purchased between the date of expiration and the Amendment Effective Date shall be in all respects deemed made under the Agreement as in effect prior to this Amendment. The parties further agree that if Distributor places Purchase Orders after the expiration of the Agreement, and Cisco accepts such Purchase Orders, then any such Purchase Orders shall be governed by the terms and conditions of the Agreement; provided, however that acceptance by Cisco of any Purchase Order placed after the Agreement has expired will not be considered as an extension of the term of the Agreement nor a renewal thereof. Notwithstanding Cisco's right to extend the term of the Agreement, each party acknowledges that the Agreement shall always be interpreted as being limited in duration to a definite term and that the other party has made no commitments whatsoever regarding the renewal of the Agreement beyond those expressly agreed in writing."
2. This Amendment may be executed in one or more counterparts, each of which when so executed and delivered will be an original and all of which together will constitute one and the same instrument. Facsimile signatures and electronic signatures will be deemed to be equivalent to original signatures for purposes of this Amendment.
3. All other terms of the Agreement remain the same. Capitalized terms in the Amendment shall have the same meaning as those terms have in the Agreement.

**AMENDMENT NO. 13 TO THE NONEXCLUSIVE VALUE ADDED DISTRIBUTOR AGREEMENT**

This Amendment No. 13 ("the Amendment") to the Nonexclusive Value Added Distributor Agreement by and between ScanSource, Inc. ("Distributor"), a South Carolina corporation with a place of business at 6 Logue Court, Greenville, South Carolina, 29615, and Cisco Systems, Inc., a California corporation having its principal place of business at 170 West Tasman Drive, San Jose, CA 95134 ("Cisco"), is effective as of the date of last signature below (the "Amendment Effective Date"). All capitalized terms contained herein shall have the same meaning as the terms defined in the Agreement unless specifically modified in this Amendment.

**WHEREAS**, Cisco and Distributor previously entered into a Nonexclusive Value Added Distributor Agreement dated January 22, 2007, as amended (the "Agreement"); and

**WHEREAS**, Cisco and Distributor desire to delete Exhibit D ("ScanSource Freight Policy") and update Exhibit E ("Affiliate List") of the Agreement;

**NOW THEREFORE**, in consideration of the covenants and promises set forth herein and for other good and valuable consideration, the receipt and sufficiency of which are hereby expressly acknowledged by all of the parties to this Amendment, Cisco and Distributor hereby represent, covenant and agree as follows:

1. Exhibit D ("ScanSource Freight Policy") is hereby deleted in its entirety and any reference to it in the Agreement shall no longer apply as of the Amendment Effective Date.
2. Exhibit E ("Affiliate List") is hereby replaced in its entirety by Appendix 1 attached hereto.
3. This Amendment may be executed in one or more counterparts, each of which when so executed and delivered will be an original and all of which together will constitute one and the same instrument. Facsimile signatures and electronic signatures will be deemed to be equivalent to original signatures for purposes of this Amendment.
4. All other terms of the Agreement remain the same. Capitalized terms in the Amendment shall have the same meaning as those terms have in the Agreement.

**AMENDMENT NO. 14 TO THE  
NONEXCLUSIVE VALUE ADDED DISTRIBUTOR AGREEMENT**

This Amendment No. 14 ("the Amendment") to the Nonexclusive Value Added Distributor Agreement by and between ScanSource, Inc. ("Distributor"), a South Carolina corporation with a place of business at 6 Logue Court, Greenville, South Carolina, 29615, and Cisco Systems, Inc., a California corporation having its principal place of business at 170 West Tasman Drive, San Jose, CA 95134 ("Cisco"), is effective as of the date of last signature below (the "Amendment Effective Date"). All capitalized terms contained herein shall have the same meaning as the terms defined in the Agreement unless specifically modified in this Amendment.

**WHEREAS**, Cisco and Distributor previously entered into a Nonexclusive Value Added Distributor Agreement dated January 22, 2007, as amended (the "Agreement"); and

**WHEREAS**, ScanSourceGov, Inc., f/k/a/ ZSource, Inc., d/b/a KBZ, a South Carolina corporation and wholly-owned subsidiary of the Distributor ("ScanSourceGov"), was merged with and into the Distributor, effective January 1, 2019 (the "Merger Effective Date"), as set forth in the Articles of Merger filed with the Secretary of State of the State of South Carolina on December 31, 2018, attached hereto as Exhibit A (the "Articles of Merger");

**WHEREAS**, as of the Merger Effective Date, the Distributor is the only surviving entity and successor in interest to all rights and obligations of ScanSourceGov pursuant to the Articles of Merger;

**WHEREAS**, Cisco and Distributor desire to amend the scope of the Agreement to the extent required by the Articles of Merger;

**NOW THEREFORE**, in consideration of the covenants and promises set forth herein and for other good and valuable consideration, the receipt and sufficiency of which are hereby expressly acknowledged by all of the parties to this Amendment, Cisco and Distributor hereby represent, covenant and agree as follows:

1. As of the Merger Effective Date and subject to the Articles of Merger, all rights, privileges, powers and franchises of ScanSourceGov, and all real and/or personal property, including, without limitations, all tax attributes of ScanSourceGov, and all debts due to ScanSourceGov on whatever account, shall be vested in the Distributor and subject to the Agreement, as applicable.
2. This Amendment may be executed in one or more counterparts, each of which when so executed and delivered will be an original and all of which together will constitute one and the same instrument. Facsimile signatures and electronic signatures will be deemed to be equivalent to original signatures for purposes of this Amendment.
3. All other terms of the Agreement remain the same. Capitalized terms in the Amendment shall have the same meaning as those terms have in the Agreement.

*[signatures on following page]*

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**IN WITNESS WHEREOF**, the parties hereto have each duly executed this Amendment effective as of the Amendment Effective Date. Each party warrants and represents that its respective signatories whose signatures appear below have been and are, on the date of signature, authorized to execute this Amendment.

**Cisco Systems, Inc.**

**ScanSource, Inc.**

By: /s/ Jennifer Pate

By: /s/ Tracey Boucher

Name: Jenn Pate

Name: Tracey Boucher

Title: Authorized Signatory

Title: VP, Supplier Service

Date: March 25, 2019

Date: 3/19/19



**IN ACCORDANCE WITH ITEM 601(b) OF REGULATION S-K, CERTAIN IDENTIFIED INFORMATION (THE "CONFIDENTIAL INFORMATION") HAS BEEN EXCLUDED FROM THIS EXHIBIT BECAUSE IT IS BOTH (I) NOT MATERIAL AND (II) WOULD LIKELY CAUSE COMPETITIVE HARM IF PUBLICLY DISCLOSED. THE CONFIDENTIAL INFORMATION IS DENOTED HEREIN BY [\*\*\*\*\*].**

**ADDENDUM TO THE NONEXCLUSIVE VALUE ADDED DISTRIBUTOR AGREEMENT**

This Addendum (the "Addendum") to the Nonexclusive Value Added Distributor Agreement (the "Agreement") by and between ScanSource Inc., a South Carolina corporation with its principal place of business at 6 Logue Court, Greenville, South Carolina, 29615 ("Distributor"), Cisco Systems, Inc., a California corporation having its principal place of business at 170 West Tasman Drive, San Jose, CA 95134 ("Cisco") and its wholly-owned subsidiary BroadSoft, Inc., a Delaware corporation, with its principal place of business at 9737 Washingtonian Boulevard, Suite 350, Gaithersburg, MD 20878 (hereinafter "BroadSoft"), is effective as of the date of last signature below (the "Effective Date").

**WHEREAS**, as of January 22, 2007, Cisco and Distributor entered into the Agreement, as amended (if applicable);

**WHEREAS**, BroadSoft develops and markets software, hardware and related services that are used in the connection with the provision of telecommunication services, including PacketSmart hardware and PacketSmart monitoring and assessment services;

**WHEREAS**, Distributor desires to act as a reseller of the BroadSoft PacketSmart hardware and also to market and resell BroadSoft's PacketSmart monitoring and assessment services and BroadSoft is willing to allow Distributor to resell the PacketSmart hardware and also the PacketSmart monitoring and assessment services, subject to the terms and conditions of this Agreement.

**NOW THEREFORE**, for such good and valuable consideration as may have been exchanged among the parties, the receipt and sufficiency of which is hereby acknowledged, the parties hereto agree to the attached Exhibit A ("PacketSmart Distribution Terms and Conditions") of this Addendum, which shall be incorporated by reference into the Agreement.

1. As of the Effective Date, BroadSoft agrees to be bound by this Addendum and all other terms of the Agreement, including any amendments thereto, related to the attached Exhibit A.
  2. For purposes of this Addendum, (a) PacketSmart Products shall be considered a "Product" or "Cisco Product" (even though PacketSmart Products are not listed on the Global Price List); and (b) PacketSmart Services shall be considered "Services" or "Cisco Services" (even though PacketSmart Services are not listed on Cisco's Wholesale or Global Price List) as those terms are defined in Section 1.0 Definitions of the Agreement.
  3. For the purposes of this Addendum, BroadSoft and Distributor shall be bound by any and all of the provisions of the Agreement as they relate to the provision of the PacketSmart Products and PacketSmart Services. Notwithstanding the preceding sentence, the applicable corresponding sections of the PacketSmart Distribution Terms and Conditions set forth in Exhibit A shall take precedence over the following sections of the Agreement which shall not apply to the provision of the PacketSmart Products and PacketSmart Services: 4 (Orders), 6 (Payment), 7 (Price Protection), 10 (Warranty), 12 (Inventory Balance), 13 (Return of Obsolete Product), 16 (Support), 17.2, 17.3, and 17.5 (Reports and Records), 26 (Requirements for Resellers), 27.8 (Notices), Exhibit A (Territory), Exhibit B (Value Added Distributor Support Exhibit), Exhibit D (ScanSource Freight Policy), and Exhibit G (Cisco End of Life Policy).
  4. For purposes of this Addendum, Proprietary Information as defined in Section 19 (Confidentiality) of the Agreement shall also include all information on the BroadSoft Xchange (i.e., the BroadSoft Customer/Partner portal). A non-disclosure agreement with terms no less restrictive than those set forth in the Agreement must be in place before access to the BroadSoft Xchange may be granted.
  5. To the extent that there is conflict between the Agreement and this Addendum, the terms of this Addendum shall take precedence over the terms and conditions of the Agreement with regards to the subject matter described herein.
  6. Any terms not defined in this Addendum shall have the meaning stated in the Agreement. All other terms and conditions of the Agreement remain unchanged and in full force and effect. This Addendum and the Agreement comprise the complete agreement between Distributor and Broadsoft regarding subject matter described therein.
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IN WITNESS WHEREOF, the parties hereto have caused this Addendum to be duly executed. Each party warrants and represents that its respective signatories whose signatures appear below have been and are on the date of signature duly authorized to execute this Agreement.

**ScanSource, Inc.**

**Cisco Systems, Inc.**

/s/ Tracey Boucher      /s/ Jenn Pate  
Authorized Signature      Authorized Signature

Tracey Boucher      Jenn Pate  
Print Name      Print Name

VP Supplier Services      Authorized Signatory  
Title      Title

01/03/2019      March 25, 2019  
Day/Month/Year      Day/Month/Year

**BreadSoft, Inc.**

/s/ Jennifer Pate  
Authorized Signature

Jenn Pate  
Print Name

Authorized Signatory  
Title

March 25, 2019  
Day/Month/Year

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## Exhibit A

### PACKETSMART DISTRIBUTION TERMS AND CONDITIONS

#### 1. DEFINITIONS

The following definitions shall apply to this Addendum:

- (a) "Customer(s)" of Distributor shall include dealers, resellers, value added resellers, direct resellers and other entities that acquire the PacketSmart Products and/or PacketSmart Services from Distributor.
- (b) "DOA" shall mean a PacketSmart Product, or any portion thereof, which fails to operate properly on initial installation, or use.
- (c) "Documentation" means written materials prepared by BroadSoft that contain information intended for an End User for the purpose of explaining the operation of the PacketSmart Products and PacketSmart Services, including installation requirements, user manuals product and service descriptions, guidelines and/or other items of concern to such user, whether in print, electronic or web-based format.
- (d) "End User" means the final purchasers or licensees that have acquired the PacketSmart Product(s) and/or a PacketSmart Service(s) for their own use and not for resale, remarketing or redistribution.
- (e) "Non-Saleable Products" shall mean any PacketSmart Product that has been returned to Distributor by Customers or End Users for which any components of the original package are missing or damaged or is otherwise not fit for resale and such condition was not caused by such Customer or End User.
- (f) "PacketSmart Products" means the hardware listed on BroadSoft's then current published PacketSmart Distributor Price Book. This includes the software installed on or bundled with such PacketSmart Products.
- (g) "PacketSmart Services" means the monitoring services and assessment services offered by BroadSoft that are listed on BroadSoft's then current published PacketSmart Distributor Price Book.
- (h) "PacketSmart Territory" shall mean the countries listed in Attachment A, which is attached hereto and incorporated herein.
- (i) "Return Credit" shall mean a credit to Distributor in an amount equal to the price paid by Distributor for a PacketSmart Product that is returned to BroadSoft pursuant to the terms of this Addendum.
- (j) "Routing Guide" shall mean Distributor's inbound transportation routing instructions and guidelines which includes, among things, carrier, mode of transport, and product marketing requirements.

#### 2. APPOINTMENT OF DISTRIBUTOR

- 2.1 Appointment. BroadSoft hereby appoints Distributor as a nonexclusive distributor for the sale of the PacketSmart Products, and the PacketSmart Services in the PacketSmart Territory. Distributor will purchase from BroadSoft the PacketSmart Products for resale in accordance with the terms and conditions of this Addendum. The sale of the PacketSmart Products and the PacketSmart Services may be made to Customers and End Users in the PacketSmart Territory. The sale of the PacketSmart Services shall be done in conjunction with either the sale of the PacketSmart Products or a third party product on which PacketSmart software has been embedded. Distributor has the right to order, possess and distribute the PacketSmart Products to Customers and to provide the PacketSmart Products to Customers for use as demonstration units. BroadSoft and Distributor acknowledge and agree that any license to use the PacketSmart Product is solely between BroadSoft and the End User and is governed by the terms of BroadSoft's standard use license available at BroadSoft's PacketSmart web portal. An Affiliate of Distributor may also distribute the PacketSmart Products and the PacketSmart Services, provided that such Affiliate enters into an Amendment to the Agreement prior to distributing the PacketSmart Products and the PacketSmart Services.
  - 2.2 Non-Exclusive. This Addendum does not prevent BroadSoft from appointing other distributors and resellers of the PacketSmart Products and the PacketSmart Services and does not prevent BroadSoft from marketing and selling the PacketSmart Products and the PacketSmart Services.
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### 3. DISTRIBUTOR'S OBLIGATIONS

- 3.1 Promotion of PacketSmart Products and PacketSmart Services. Distributor will use commercially reasonable efforts to promote the distribution and sale of the PacketSmart Products and PacketSmart Services in the PacketSmart Territory, including advertising and participation at appropriate trade shows. All promotional and advertising material for the PacketSmart Products and PacketSmart Services, unless supplied by BroadSoft, must be approved in writing by BroadSoft prior to its use, which approval shall not be unreasonably withheld. Distributor shall assign all right, title and interest in the copyrights to such advertising material to BroadSoft.
- 3.2 Facilities. Distributor will maintain adequate facilities and personnel to perform its obligation under this Addendum.
- 3.3 Compliance. Distributor shall comply with all applicable laws, rules and regulations governing Distributor's resale of the PacketSmart Products and the PacketSmart Services, including the U.S. Export Administration Regulations, as well as end user and destination restrictions issued by the U.S. and other governments. In particular, Distributor agrees not to distribute or supply the PacketSmart Products or PacketSmart Services to any person or entity if Distributor has reason to believe that such person or entity intends to (a) export, re-export or otherwise transfer the same to, or use the same in any country for which an export license has not yet been obtained or (b) transfer the PacketSmart Products to any person or entity that is on the U.S. Department of Commerce's Denied Persons List. Upon BroadSoft's reasonable request, Distributor agrees to provide BroadSoft with written assurance certifying its compliance with the United States Department of Commerce's "Table of Denial Orders" regulations.
- 3.4 Sales Force. Distributor shall maintain a trained sales organization to sell the PacketSmart Products and PacketSmart Services.
- 3.5 Activation of PacketSmart Services. Distributor is responsible for activating the PacketSmart Services for the Customers and End Users to whom Distributor sells such PacketSmart Services. Such activation will be done through the following website: <https://packetsmart.broadsoft.com>. BroadSoft will provide Distributor with written instructions concerning the activation of End Users.
- 3.6 Modification of PacketSmart Products and PacketSmart Services. Distributor has no right hereunder to modify, reverse engineer, reverse compile or reverse assemble any PacketSmart Product or PacketSmart Service except as expressly permitted by applicable law or this Addendum.

### 4. BROADSOFT'S OBLIGATIONS

- 4.1 Support. BroadSoft is responsible for providing support and maintenance for the PacketSmart Products and PacketSmart Services to End Users
- 4.2 PacketSmart Product and PacketSmart Service Changes. BroadSoft shall give Distributor [\*\*\*\*\*] days-notice, or at least as much notice as is given to any other similar purchaser, of any changes in packaging, documentation or major version changes with the PacketSmart Products and PacketSmart Services, as applicable.
- 4.3 PacketSmart Product Set Up, Descriptions and Technical Support Requirements. BroadSoft shall provide Distributor with the materials set forth on Attachment B hereto. Distributor may, from time to time, change the requirements set forth in Attachment B, and BroadSoft in its discretion may continue to provide such new materials. BroadSoft shall be solely responsible for the factual accuracy and completeness of any information or materials provided to Distributor. Distributor reserves the right to delay set up in Distributor's systems of any PacketSmart Product for which this information is not provided.
- 4.4 New PacketSmart Products. BroadSoft agrees to provide Distributor with the material described in Section 4.3 and Attachment B hereof for all updates and revisions of each PacketSmart Product and for each new PacketSmart Product made available for distribution by BroadSoft during the term of this Addendum, and shall provide Distributor with [\*\*\*\*\*] days prior notice or at least as much notice given to any other similar purchaser of any such update, revision or new PacketSmart Product.
- 4.5 Product Changes. BroadSoft shall give Distributor [\*\*\*\*\*] days-notice or at least as much notice as is given to any other similar purchaser for any changes in PacketSmart Product packaging, documentation or major version changes.
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## 5. FORECASTS AND PURCHASE ORDERS

5.1 [\*\*\*\*\*]

### 5.2 Issuance and Acceptance of Purchase Order.

- (a) This Addendum shall not obligate Distributor to purchase any PacketSmart Products or PacketSmart Services except as specifically set forth in a written purchase order.
  - (b) Distributor shall issue to BroadSoft purchase orders identifying the PacketSmart Products and PacketSmart Services that Distributor desires to purchase from BroadSoft. The terms and conditions of this Addendum shall govern all purchase orders. The preprinted terms on Distributor's purchase order, BroadSoft's acknowledgement form, and any other ordering document or communication from either party shall be inapplicable to any order submitted by Distributor, unless such terms and conditions are mutually agreed to in writing by Distributor and BroadSoft. Purchase orders will be placed by Distributor electronically to [orders@broadsoft.com](mailto:orders@broadsoft.com) or via fax to 1-240-404-7299 or 1-240-404-0498; (the second number should only be used if there is an issue with the first listed number.) Distributor shall electronically attach the then current Routing Guide to any purchase order transmission. BroadSoft agrees to comply with the stated instructions set forth in the Routing Guide.
  - (c) All purchase orders are subject to acceptance by BroadSoft. A purchase order shall be deemed accepted by BroadSoft unless BroadSoft notifies Distributor in writing within [\*\*\*\*\*] days of the date of BroadSoft's receipt of the purchase order that BroadSoft does not accept the purchase order.
- 5.3 Purchase Order Alterations or Cancellations. At any time prior to the shipment date of the PacketSmart Products, BroadSoft shall accept alterations to a purchase order in order to: (i) change a location for delivery of a PacketSmart Product, (ii) modify the quantity or type of PacketSmart Products to be delivered, provided that the revised purchase order is provided to BroadSoft at least [\*\*\*\*\*] days prior to the originally scheduled delivery date for such PacketSmart Products, or (iii) correct typographical or clerical errors. Up to [\*\*\*\*\*] days prior to the shipment date of the PacketSmart Products, Distributor may cancel a purchase order for PacketSmart Products without charge or penalty by providing written notice of such cancellation to BroadSoft.
- 5.4 Evaluation or Demonstration Products. BroadSoft shall provide to Distributor an agreed upon number of demonstration or evaluation PacketSmart Products [\*\*\*\*\*] for use by Distributor in the PacketSmart Territory.
- 5.5 Purchase Order for PacketSmart Services. Prior to Distributor ordering PacketSmart Services, Distributor shall submit a purchase order to BroadSoft in the amount of [\*\*\*\*\*] against which BroadSoft shall submit invoices for PacketSmart Services. Whenever the balance remaining on this purchase order falls below [\*\*\*\*\*], Distributor shall reissue the purchase order in the amount of [\*\*\*\*\*].
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## 6. DELIVERY AND ACCEPTANCE OF PACKETSMART PRODUCTS

- 6.1 Acceptance of PacketSmart Products. Distributor shall have [\*\*\*\*\*] days to inspect each shipment of PacketSmart Products to determine if such PacketSmart Products and all necessary documentation delivered to Distributor are in accordance with the purchase order ("Acceptance Date"). Any PacketSmart Products not ordered may be returned to BroadSoft at BroadSoft's expense (including without limitation reasonable costs of shipment or storage). BroadSoft shall refund to Distributor within [\*\*\*\*\*] following notice thereof all monies paid in respect to such rejected PacketSmart Products. Distributor shall not be required to accept partial shipment unless Distributor agrees prior to shipment.
- 6.2 Title and Risk of Loss. The PacketSmart Products shall be delivered [\*\*\*\*\*]. BroadSoft and Distributor agree that no title or ownership of the proprietary rights to any software is transferred by virtue of this Agreement notwithstanding the use of terms such as "purchase", "sale" or the like within this Agreement. BroadSoft retains all ownership rights and title to any software within the PacketSmart Products.
- 6.3 Delivery of PacketSmart Products. Unless otherwise agreed, BroadSoft shall deliver the PacketSmart Products listed in a purchase order to Distributor's carrier set forth in the Routing Guide within [\*\*\*\*\*] after BroadSoft's receipt of such purchase order, provided that (i) the purchase order is in compliance with the terms and conditions of this Agreement, and (ii) the number of PacketSmart Products being ordered is covered by the forecast submitted by Distributor. BroadSoft shall deliver the PacketSmart Products to Distributor's carrier with serial number, product description and machine readable bar code (employing UPC or other industry standard bar code) clearly marked on the PacketSmart Product package. Distributor shall designate the common carrier set forth in the Routing Guide and all charges for transportation of the PacketSmart Products shall be paid by Distributor. BroadSoft shall deliver the PacketSmart Products to Distributor's carrier with serial number, product description and machine-readable bar code (employing UPC or other industry standard bar code) clearly marked on the PacketSmart Product package. BroadSoft shall use commercially reasonable efforts to deliver PacketSmart Products by the delivery date set forth in the applicable purchase order or as otherwise agreed upon by the Parties.

## 7. PACKETSMART PRODUCT RETURNS

- 7.1 [\*\*\*\*\*]
- 7.2 Dead on Arrival (DOA) PacketSmart Products. Distributor shall have the right to return to BroadSoft for Return Credit any DOA PacketSmart Product that is returned to Distributor within [\*\*\*\*\*] after the initial delivery date to the End User. BroadSoft shall bear all costs of shipping and risk of loss of DOA PacketSmart Products to BroadSoft's location and back to Distributor or the End User as may be specified by Distributor.
- 7.3 Discontinued PacketSmart Products. Distributor shall have the right to return for credit all PacketSmart Products that BroadSoft discontinues; provided Distributor returns such PacketSmart Products within [\*\*\*\*\*] after Distributor receives written notice from BroadSoft that such PacketSmart Products are discontinued. BroadSoft shall bear all costs of shipping and risk of loss of discontinued PacketSmart Products to BroadSoft's location.
- 7.4 Non-Saleable PacketSmart Products. Distributor shall have the right to return to BroadSoft for Return Credit Non-Saleable PacketSmart Products. Distributor shall bear all costs of shipping and risk of loss of Non-Saleable PacketSmart Products to BroadSoft's location. Distributor shall return such Non-Saleable PacketSmart Products to BroadSoft within [\*\*\*\*\*] of the return of such Non-Saleable PacketSmart Products to Distributor by a Customer or End User.
- 7.5 Condition Precedent to Returns. As a condition precedent to returning PacketSmart Products, Distributor shall request and BroadSoft shall issue a Return Material Authorization Number (RMA), provided, however, that in the event such RMA is not issued by BroadSoft [\*\*\*\*\*] of the request, Distributor shall have the right to return any units of the PacketSmart Products to BroadSoft without an RMA, and BroadSoft shall be obligated to accept such return.
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## 8. INVOICING AND PAYMENT

- 8.1 Invoices for PacketSmart Products. BroadSoft shall invoice Distributor for the PacketSmart Products ordered, following the delivery of the PacketSmart Products. Each invoice shall contain (i) BroadSoft's name and invoice date, (ii) a reference to the purchase order or other authorizing document, (iii) separate descriptions, unit prices and quantities of the PacketSmart Products being invoiced, (iv) credits (if applicable), (v) shipping charges (if applicable) (vi) name (where applicable), title, phone number and complete mailing address as to where payment is to be sent, and (vii) other substantiating documentation or information as may reasonably be required by Distributor from time to time. Notwithstanding any pre-printed terms or conditions on BroadSoft's invoices, the terms and conditions of this Addendum shall apply to and govern all invoices issued by BroadSoft hereunder, except that invoices may include other terms and conditions which are consistent with the terms and conditions of this Addendum or which are mutually agreed to in writing by Distributor and BroadSoft.
- 8.2 Invoices for PacketSmart Services. BroadSoft shall within [\*\*\*\*] after the end of each month submit a report to Distributor indicating the PacketSmart Services sold to Customers and End Users in the prior month, which PacketSmart Services were activated by Distributor. Such report shall be submitted to Distributor via email. Distributor shall have [\*\*\*\*] after receipt of the report to dispute any item set forth on the report. Such dispute shall be submitted in writing via email by Distributor to BroadSoft. Failure by Distributor to dispute any item set forth on a report shall be deemed acceptance of the information set forth. If Distributor disputes an item on a report, the Parties shall work together to resolve such dispute. BroadSoft shall submit an invoice for all undisputed PacketSmart Services at the end of the [\*\*\*\*] period. Any disputed PacketSmart Services shall be invoiced after such dispute is resolved.
- 8.3 Charges, Prices and Fees for PacketSmart Products and PacketSmart Services. Charges, prices, quantities and discounts, if any, for PacketSmart Products and PacketSmart Services shall be determined as set forth in the then current PacketSmart Distribution Price Book, or as otherwise mutually agreed upon by the Parties in writing, and may be confirmed at the time of order. Distributor shall not be bound by any of BroadSoft's suggested resale prices.
- 8.4 Reports from BroadSoft. BroadSoft shall, if requested, render monthly reports to Distributor setting forth for PacketSmart Products and PacketSmart Services, the dollars invoiced for each, and total dollars invoiced to Distributor for the month, and such other information as Distributor may reasonably request.
- 8.5 Payment. Except as otherwise set forth in this Addendum, any undisputed sum due to BroadSoft pursuant to this Addendum shall be payable as follows: net [\*\*\*\*] date. BroadSoft shall invoice Distributor no earlier than the applicable shipping or delivery date of the PacketSmart Products. BroadSoft may submit each invoice to Distributor electronically and Distributor shall provide BroadSoft with an email address to which the invoice may be sent. PacketSmart Products, which are shipped from outside the United States, shall not be invoiced to Distributor prior to the PacketSmart Products being placed on a common carrier within the United States for final delivery to Distributor. The due date for payment shall be extended during any time the Parties have a bona fide dispute concerning such payment.
- 8.6 No Conflicting Terms. Notwithstanding any pre-printed terms or conditions on BroadSoft's invoices, the terms and conditions of this Addendum shall apply to and govern all invoices issued by BroadSoft hereunder, except that invoices may include other terms and conditions which are consistent with the terms and conditions of this Addendum, or which are mutually agreed to in writing by Distributor and BroadSoft.
- 8.7 Interest. BroadSoft may charge Distributor interest on any invoice that is not timely paid and which is not in good faith dispute at the rate of [\*\*\*\*]. BroadSoft may not charge interest to Distributor until after providing Distributor with [\*\*\*\*] days' written notice that the invoice is past due. BroadSoft must notify Distributor in writing of its intent to collect such interest within [\*\*\*\*] days of the receipt of the late payment. Such notice shall include sufficient information for Distributor to validate a payment was late and confirm the amount of interest due. If such notice is not given to Distributor, BroadSoft waives the right to collect any interest due on such late payment.
- 8.8 Taxes The purchase price does not include any federal state or local taxes, or sales, use excise, ad valorem, value-add, withholding or other taxes or duties that may be applicable to the purchase of the PacketSmart Products and PacketSmart Services. When BroadSoft has the legal obligation to collect such taxes, the appropriate amount shall be added to Distributor's invoice and paid by Distributor, unless Distributor provides BroadSoft with a valid tax exemption certificate prior to issuance of a purchase order. Such certificate must be in a form authorized by the appropriate taxing authority.
- 8.9 Price Increases. BroadSoft shall have the right to increase prices from time to time upon written notice to Distributor not less than [\*\*\*\*] prior to the effective date of such increase. All orders placed prior to the effective date of
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the increase for shipment of a PacketSmart Product within [\*\*\*\*] after the effective date, shall be invoiced by BroadSoft at the price in effect at the time of order.

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## 9. WARRANTIES AND INDEMNITIES OTHER OBLIGATIONS

- 9.1 Warranty. BroadSoft hereby represents and warrants that BroadSoft has all right, title, ownership interest and marketing rights necessary to provide the PacketSmart Products and PacketSmart Services to Distributor. BroadSoft further represents and warrants that it has not entered into any agreements or commitments which are inconsistent with or in conflict with the rights granted to Distributor in this Agreement; the PacketSmart Products are new and when provided to Distributor and are free and clear of all liens and encumbrances; the PacketSmart Products have been listed with Underwriters' Laboratories or other nationally recognized testing laboratory whenever such listing is required; if applicable, the PacketSmart Products meet all FCC requirements; the PacketSmart Products do and will conform to all codes, laws or regulations; and the PacketSmart Products conform in all respects to the PacketSmart Product warranties. BroadSoft agrees that Distributor shall be entitled to pass through to End Users all PacketSmart Product warranties granted by BroadSoft. Distributor shall have no authority to alter or extend any of the warranties of BroadSoft expressly contained or referred to in this Agreement without prior approval of BroadSoft. EXCEPT AS SET FORTH HEREIN OR IN THE END USER WARRANTIES ENCLOSED IN THE PACKETSMART PRODUCT PACKAGING, BROADSOFT DISCLAIMS ALL WARRANTIES WITH REGARD TO THE PACKETSMART PRODUCTS, INCLUDING WITHOUT LIMITATION, NON-INFRINGEMENT, AND THE IMPLIED WARRANTIES OF MERCHANTABILITY AND FITNESS FOR A PARTICULAR PURPOSE. THIS SECTION SHALL SURVIVE TERMINATION OR EXPIRATION OF THIS AGREEMENT.
- 9.2 Intellectual Property Representations and Warranties. BroadSoft hereby represents and warrants to Distributor that BroadSoft is the sole and exclusive owner or valid licensee, and/or authorized user of all right, title and interest in and to the PacketSmart Products and PacketSmart Services provided by BroadSoft hereunder.
- 9.3 Additional Indemnification Obligations. [\*\*\*\*\*].
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## 10. OTHER OBLIGATIONS OF THE PARTIES

Distributor Reports. [\*\*\*\*] BroadSoft agrees that any such information provided by Distributor shall be received and held by BroadSoft in strict confidence and shall be used solely for sell through or compensation reporting information and shall not be used for purposes related to BroadSoft's sales activities.

## 11. TERMINATION OR EXPIRATION

- 11.1 Term of Addendum. The term of this Addendum shall commence on the Effective Date and, unless terminated by either Party as set forth in this Addendum, shall remain in full force and effect for a term that is coterminous with the Agreement. The Addendum may be renewed under the terms of Section 18.0 of the Agreement.
- 11.2 Termination. In addition to the termination provisions set forth in the Agreement, this Addendum shall immediately terminate should the Agreement be terminated or expire and not renewed.
- 11.3 Survival of Terms. Termination or expiration of this Agreement for any reason shall not release either Party from any liabilities or obligations set forth in this Agreement which (i) the Parties have expressly agreed shall survive any such termination or expiration, or (ii) remain to be performed or by their nature would be intended to be applicable following any such termination or expiration. The termination or expiration of this Agreement shall not affect any of BroadSoft's warranties, indemnification or obligations relating to returns, or any other matters set forth in this Agreement that should survive termination or expiration in order to carry out their intended purpose, all of which shall survive the termination or expiration of this Agreement.

## 12. MISCELLANEOUS

- 12.1 Binding Nature. This Addendum shall be binding on the Parties and their respective successors and assigns.
- 12.2 Media Releases. Except for any announcement intended solely for internal distribution, any disclosure required by legal, accounting or regulatory requirements beyond the reasonable control of either Party, and except for catalogs, advertising and marketing materials customarily used by Distributor in the normal course of business, all media releases, public announcements or public disclosures relating to this Addendum or its subject matter, or including the name of either Party, must be approved in writing (within 48 hours of submission) by the other Party prior to the release thereof, which approval shall not be unreasonably withheld.
- 12.3 Dispute Resolution. In the event of any disagreement regarding performance under or interpretation of this Addendum, prior to the commencement of any formal proceedings, the Parties shall continue performance as set forth in this Addendum and shall attempt in good faith to reach a negotiated resolution by designating an officer or authorized representative of the Party to resolve the dispute.
- 12.4 Notices. Wherever one Party is required or permitted to give notice to the other pursuant to this Addendum, such notice shall be deemed given when delivered in hand, or when delivered by FedEx, UPS or similar overnight service, or five (5) days after mailing by registered or certified mail, return receipt requested, postage prepaid, and addressed as follows:

In the case of BroadSoft:

BroadSoft, Inc.  
9737 Washingtonian Boulevard, Suite 350  
Gaithersburg, MD 20877 Attn: Legal Department

In the case of Distributor:

ScanSource, Inc.  
6 Logue Court  
Greenville, SC 29615  
Attn: CEO with a copy to the General Counsel

Either party may from time to time change its address for notification purposes by giving the other party written notice of the new address and the date upon which it will become effective.

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12.5 Remedies. All remedies set forth in this Addendum shall be cumulative and in addition to and not in lieu of any other remedies available to either Party at law, in equity or otherwise, and may be enforced concurrently or from time to time.

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**Attachment A to EXHIBIT A**

**PacketSmart Territory**

Distributor is permitted to resell the PacketSmart Products and PacketSmart Services the United States (excluding its territories), Canada, and Mexico.

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**Attachment B to EXHIBIT A**  
**PRODUCT INFORMATION SUPPORT REQUIREMENTS**

1. A new Product Set Up Form must be fully completed for each PacketSmart Product and PacketSmart Service, update, version change or new PacketSmart Product and PacketSmart Service introduced by BroadSoft, which BroadSoft wishes Distributor to distribute. The Product Set Up Form shall be provided to BroadSoft by Distributor.
2. Spec Sheets, Original Data Sheets and additional BroadSoft-provided reference materials must be completely legible. Materials which are not completely legible will be returned to BroadSoft and will not be used.
3. For each PacketSmart Product and PacketSmart Service distributed by Distributor, BroadSoft is required to provide the following:
  - 3.1 Spec and Data Sheets:
    - (a) Three (3) original Spec or Data Sheets for the PacketSmart Product or PacketSmart Service
    - (b) If BroadSoft is new to Distributor, BroadSoft must send five (5) PacketSmart Product family, or company product offering, brochures
    - (c) If a Spec Sheet refers to multiple PacketSmart Products or PacketSmart Services, all relevant Distributor part numbers must be listed on such Spec or Data Sheet.
  - 3.2 Logos and Photos:
    - (a) Two BroadSoft logos scanned at 2400 dpi resolution into EPS or TIFF files. One of the EPS or TIFF files must contain a black-and-white logo and one of the EPS or TIFF files must contain a color logo.
    - (b) One (1) approximately 2" x 3" digitized color image of each product in high resolution CMYK TIFF format ready for output up to 2400 dpi. (Other formats such as native PhotoShop, EPS, etc. are also acceptable.) Digitized images are preferred, but if they are not available please send: One (1) color photograph of each product (in 35-mm slide, 2 1/4-inch or 4 X 5-inch transparency format). All photos must be marked with Distributor SKU number. Distributor SKU number must also be affixed to the back side of product photos.
4. SOFTWARE AND PACKETSMART PRODUCT FOR EVALUATION TESTING. For all PacketSmart Products which Distributor has not previously distributed, including, but not limited to, new models or software updates which differ significantly from previous releases, BroadSoft shall provide fully functional "Not-For-Resale" ("NFR") software or hardware units of the PacketSmart Product(s) for a ninety (90) day evaluation testing by Distributor's Technical Support department. After the 90 day evaluation period, the evaluation PacketSmart Products will be returned to BroadSoft upon request.
5. PACKETSMART PRODUCT PHYSICAL INFORMATION . BroadSoft agrees to provide Distributor with the per-unit weight of each PacketSmart Product (such weight to include packaging) to be distributed by Distributor, and the cube dimension of each unit of PacketSmart Product, each master carton for each PacketSmart Product (if any), and each pallet.

**IN ACCORDANCE WITH ITEM 601(b) OF REGULATION S-K, CERTAIN IDENTIFIED INFORMATION (THE “CONFIDENTIAL INFORMATION”) HAS BEEN EXCLUDED FROM THIS EXHIBIT BECAUSE IT IS BOTH (I) NOT MATERIAL AND (II) WOULD LIKELY CAUSE COMPETITIVE HARM IF PUBLICLY DISCLOSED. THE CONFIDENTIAL INFORMATION IS DENOTED HEREIN BY [\*\*\*\*\*].**

**CISCO DISTRIBUTOR VALUE CREATED SERVICES PROGRAM ADDENDUM**

This Addendum (the “**Addendum**”) to the Support Exhibit of the Two Tier Nonexclusive Distributor Agreement (“**Agreement**”) is entered into between Cisco Systems, Inc., a California corporation having its principal place of business at 170 West Tasman Drive, San Jose, CA 95134 ("Cisco"), and ScanSource, Inc. ("Distributor"), a South Carolina corporation with a place of business at 6 Logue Court, Greenville, South Carolina, 29615. Cisco and Distributor may be referred to herein individually as a “**Party**” or collectively as the “**Parties**” and is effective as of the date of last signature below (the “**Effective Date**”).

**WHEREAS**, Cisco and Distributor previously entered into a Nonexclusive Value Added Distributor Agreement dated January 22, 2007, as amended (the "Agreement"), and are now supplementing the Agreement In the manner stated herein;

**NOW THEREFORE**, in consideration of the covenants and promises set forth herein and for other good and valuable consideration, the receipt and sufficiency of which are hereby expressly acknowledged by all of the parties to this Amendment, Cisco and Distributor hereby represent, covenant and agree as follows:

1. Cisco Distributor Value Created Services Program – Terms and Conditions

This Addendum sets forth additional terms and conditions for Distributor’s participation and purchase of services related to the Cisco Distributor Value Created Services Program during the term of the Agreement. Any terms not defined in this Addendum shall have the meaning stated in the Agreement. Except as modified by this Addendum, all terms and conditions of the Agreement shall remain in full force and effect. In the event of a conflict between the terms and conditions of this Addendum and any terms and conditions of the Agreement, this Addendum will prevail with regard to the subject matter herein.

This Addendum and the Agreement are the complete agreements between the parties and supersede all prior oral and written agreements, representations, warranties and commitments of the parties regarding subject matter herein.

**IN WITNESS WHEREOF**, the parties hereto have caused this Addendum to be duly executed. Each party warrants and represents that its respective signatories whose signatures appear below have been and are on the date of signature duly authorized to execute this Addendum.

<b>Cisco System, Inc.</b>	<b>ScanSource, Inc.</b>
By: <u>/s/ Brian Dulac</u>	By: <u>/s/ Rich Long</u>
Name: <u>Brian Dulac</u>	Name: <u>Rich Long</u>
Title: <u>Controller, Finance</u>	Title: <u>President</u>
Date: <u>March 2, 2015</u>	Date: <u>2-24-15</u>

## ADDENDUM TO THE TWO TIER NONEXCLUSIVE DISTRIBUTOR AGREEMENT CISCO DISTRIBUTOR VALUE CREATED

## SERVICES PROGRAM TERMS AND CONDITIONS

## 1.0 DEFINITIONS.

- 1.1 **Additional Program Documentation** means the Performance Management Appendix, Eligibility Guide, Eligible Bookings Guide, and incorporated by reference within the Program Guide.
  - 1.2 **Deliverable(s)** means, with respect to each Service Description, the items to be delivered by Cisco to Distributor as specified in the Service Description, including, without limitation, any Reports.
  - 1.3 **End User Network Information** [\*\*\*\*\*].
  - 1.4 **Previous Service Program** means the Cisco Partner Core-Bridge Program as defined in the Cisco Partner Core-Bridge Distributor Consumption Model Program Guide. Under which Distributor may have been previously participating and receiving services from Cisco prior to the Program defined under this Addendum becoming available.
  - 1.5 **Program** means the Cisco Distributor Value Created Services Program.
  - 1.6 **Program Guide** means the governing document for Cisco Distributor Value Created Services Program, defining program elements, including, but not limited to, eligibility, performance management, and any applicable rebates.
  - 1.7 **Report(s)** means a report or reports generated by Cisco based on End User Network Information. The information contained in Reports may include part or all of the collected End User Network Information, product alert information, and such other information as Cisco deems appropriate.
  - 1.8 **Service(s)** means those services made available under the Program.
  - 1.9 **Services Description** means the description of the Services, as of the purchase date of such Services, to be made available by Cisco and the applicable terms and conditions under which those Services are provided.
  - 1.10 **Territory** means the country or countries in which Distributor has been granted authorization by Cisco to participate in the Program.
  - 1.11 **Tool(s)** means the software or hardware appliance, commonly referred to as "**Data Collector Tools**" or "**Collectors**", [\*\*\*\*\*].
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## 2.1 SCOPE OF THE PROGRAM.

- 2.2 The Cisco Distributor Value Created Services Program is a Cisco services program that grants participants accelerated access to purchase and provide support services for certain products as defined by the Program Guide. This Addendum sets forth the terms and conditions for Distributor's participation, purchase and/or license of Services solely from Cisco in the context of a Distributor-Led service offering as described further below and in the terms of the Services purchased under the Program. Subject to meeting eligibility criteria, Distributor is authorized to participate in the Program within the authorized Territory.
- 2.3 Upon execution of this Addendum, the Previous Service Program shall be automatically terminated and Distributor will no longer have rights under the Previous Service Program.

## 3.0 QUALIFICATIONS OF DISTRIBUTOR. [\*\*\*\*] Additionally, Distributor understands and acknowledges that Cisco may from time to time require Cisco's Advanced Technology Provider certification or other specializations as a pre-requisite to the Distributor being certificated as meeting the requirements to support certain technologies or Products. These qualifications ("Eligibility Criteria") vary depending on Territory, and are more fully described in the Program Guide and/or Additional Program Documentation. Distributor will only be eligible to purchase Services if they have met the eligibility requirements of the specific Service offering. Eligibility Criteria includes, but is not limited to the following:

- i) Meeting the Distributor eligibility requirements, including training, testing, certification, demonstrating capabilities, and services delivery as described more fully in the Program Guide and/or Additional Program Documentation; and
- ii) Meeting or exceeding minimum program service metrics during the term of the Agreement in order to remain in the Program as outlined in the Program Guide and/or Additional Program Documentation. In the event Distributor does not meet qualifications, enrollment in the Program shall be revoked until such time as the Distributor has been reinstated in the Program, subject to meeting metrics or taking other actions as defined in the Program Guide and/or Additional Program Documentation.

## 4.0 CHANGE OF SCOPE. Cisco reserves the right to make changes to the Program, or parts thereof, at any time, including, but not limited to, the eligibility criteria, performance metrics, service offerings, and rebates. Any Program changes shall become effective [\*\*\*\*] from the date of notice provided by Cisco. If Distributor does not agree with a change made to Services under the Program under this clause, Distributor may elect to either (i) terminate this Addendum within [\*\*\*\*] days of the notice of change of scope by providing written notice to Cisco of such termination; or (ii) cease purchasing the affected Service at its sole discretion, but such cessation will not limit Distributor's ability to participate in the affected Service or any other Services under the Program for which Distributor is eligible.

## 5.0 CISCO RIGHTS AND OBLIGATIONS.

- 5.0 Cisco will make available the Services listed at <http://www.ciscodistributioncentral.com/cisco-distributor-value-created-services-program> for purchase by Distributor and resale to Reseller with service delivery to End User in a Distributor-Led support model under the Program. Services are subject to Distributor eligibility and any availability limitations specified in the applicable Service Description.
- 5.2 Inspection Fee. In order to be eligible to receive support services as set out herein for Product that has not been previously supported, for Product where support has lapsed and/or for Other Product, the following shall apply:
- 5.2.1 Cisco may charge an inspection fee for Product and/or Other Product in accordance with Cisco's standard fee schedule on the Price List in effect at the time of inspection (any related upgrades, replacements, repairs, or troubleshooting are excluded) ; and
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5.2.2 Cisco will validate a Software license exists for Software to be supported. Where a valid Software license does not exist, a Software license fee shall be payable by Distributor to Cisco.

## 6.0 DISTRIBUTOR RIGHTS AND OBLIGATIONS.

- 6.1** Distributor has read, understood, and agrees to comply with Program Guide, and Additional Program Documentation contained therein, located at <http://www.ciscodistributioncentral.com/cisco-distributor-value-created-services-program> which is incorporated herein by reference and may be updated from time to time by Cisco in its sole discretion under Section 4.0 (Change of Scope). Distributor must comply at all times with requirements of particular Services, Program Guide, and Additional Program Documentation in order to achieve and retain the benefits of the Program, including any associated rebate.
- 6.2** Distributor-Led. Distributor has been granted the right by Cisco to provide support to End Users for Services that have been made available for purchase by any Reseller from Distributor. Such support would be considered as Distributor-Led support provided to End User on behalf of Reseller. Under this type of support model, Distributor will be providing support, depending on Service indicated in the Program Guide and Additional Program Documentation, to the End User and Cisco will be providing back line escalation support to Distributor as defined in the Service Description for the applicable Service purchased by Distributor. Under a Distributor-Led support model, Distributor acknowledges that Cisco will not be providing support to Distributor, Reseller or End User. The responsibility to provide support directly to End User will fall on the Distributor as described in the applicable Service Description.

**7.0 REPRESENTATION OF CISCO BRAND.** Distributor agrees to comply with the guidelines located at <http://www.cisco.com/web/partners/market/partner-marks.html>, is incorporated herein by reference.

## 8.0 PRICE AND PAYMENT.

- 8.1** The price for support of Products is (a) calculated by applying Cisco's then-current service list price less Distributor's discount under the Program.
- 8.2** All stated prices are exclusive of taxes, fees, duties or other applicable amounts. Any taxes related to Services purchased pursuant to this Agreement shall be paid by Distributor or Distributor shall present an exemption certificate acceptable to the taxing authorities. Applicable taxes, if any, shall be billed as a separate item on the invoice, to the extent possible. Cisco reserves the right to increase any Service fee in the event a withholding prevents Cisco from receiving the price specified above.
- 8.3** Distributor is free to determine its resale prices unilaterally. Distributor understands that neither Cisco, nor any employee or representative of Cisco, may give any special treatment (favorable or unfavorable) to Distributor as a result of Distributor's selection of resale prices. No employee or representative of Cisco or anyone else has any authority to specify what Distributor's resale prices for the Services must be, or to inhibit in any way, Distributor's pricing discretion with respect to the Services.
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**9.0 LICENSE.**

- 9.1** Subject to the terms and conditions herein, Cisco grants to Distributor a limited, revocable, non-exclusive, non-transferable license to (a) use, display, reproduce, modify, and distribute Deliverables; (b) create, use, reproduce, and distribute derivative works of the Deliverables; and (c) distribute Software that Distributor may receive as a result of Services provided under the Program, only on Product covered under the Program. The license herein is granted solely for Distributor's support of End Users during its participation in the Program and solely for use with Cisco products. Distributor may not sublicense to any persons or entity any rights to reproduce or distribute the Deliverables. Cisco also may terminate this license upon written or oral notice to Distributor, with or without prior notice.
- 9.2** Access to and use of Tool(s) by Distributor is subject to acceptance of the Cisco End User License Agreement located at [www.cisco.com/go/warranty](http://www.cisco.com/go/warranty) incorporated by reference and made a part hereof. Distributor agrees to return Tool(s) upon termination of the license or upon Cisco's request that the Tool(s) be returned to Cisco.

- 10.0 OWNERSHIP.** As between Distributor and Cisco, Cisco shall at all times retain all right, title, and interest in and to all pre-existing Intellectual Property owned by Cisco as of the Effective Date and all Intellectual Property in and to the Services and Deliverables or other Intellectual Property provided or developed by Cisco or a third party on Cisco's behalf thereafter. As between Distributor and Cisco, Distributor shall at all times retain all right, title, and interest in and to all pre-existing Intellectual Property owned by Distributor as of the Effective Date and all Intellectual Property that is developed by Distributor or by a third party on Distributor's behalf thereafter without the benefit of any of Cisco's Intellectual Property. Third party hardware and software shall at all times be owned by the applicable third party.

- 11.0 WARRANTY.** ALL SERVICES PROVIDED HEREUNDER SHALL BE PERFORMED IN A WORKMANLIKE MANNER. EXCEPT AS SPECIFIED IN THIS SECTION, CISCO HEREBY DISCLAIMS AND DISTRIBUTOR WAIVES ALL REPRESENTATIONS, CONDITIONS, AND WARRANTIES (WHETHER EXPRESS, IMPLIED, OR STATUTORY), INCLUDING, WITHOUT LIMITATION, ANY WARRANTY OR CONDITION (A) OF MERCHANTABILITY, FITNESS FOR A PARTICULAR PURPOSE, NONINFRINGEMENT, TITLE, SATISFACTORY QUALITY, QUIET ENJOYMENT, ACCURACY, (B) ARISING FROM ANY COURSE OF DEALING, COURSE OF PERFORMANCE, OR USAGE IN THE INDUSTRY. TO THE EXTENT AN IMPLIED WARRANTY CANNOT BE DISCLAIMED, SUCH WARRANTY IS LIMITED IN DURATION TO THE APPLICABLE EXPRESS WARRANTY PERIOD. DISTRIBUTOR'S SOLE AND EXCLUSIVE REMEDY FOR BREACH OF WARRANTY SHALL BE, AT CISCO'S OPTION, RE PERFORMANCE OF THE SERVICES; OR CANCELLATION OF THE APPLICABLE SERVICE ORDERED AND RETURN OF THE PORTION OF THE SERVICE FEES PAID TO CISCO BY DISTRIBUTOR FOR SUCH NON-CONFORMING SERVICES.

**12.0 LIMITATION OF LIABILITY AND CONSEQUENTIAL DAMAGES WAIVER.**

- 12.1** DISTRIBUTOR EXPRESSLY ACKNOWLEDGES AND AGREES THAT IT IS SOLELY RESPONSIBLE FOR THE DETERMINATION AND IMPLEMENTATION OF THEIR END USER'S NETWORK, DESIGN, BUSINESS, OR OTHER REQUIREMENTS AND THAT CISCO SHALL NOT BE RESPONSIBLE FOR THE FAILURE OF DELIVERABLES AND/OR RELATED SOFTWARE TO MEET END USER'S NETWORK, DESIGN, BUSINESS, OR OTHER REQUIREMENTS.
- 12.2** ALL LIABILITY OF CISCO, ITS AFFILIATES, OFFICERS, DIRECTORS, EMPLOYEES, AGENTS, AND SUPPLIERS (COLLECTIVELY) FOR CLAIMS ARISING UNDER THIS ADDENDUM OR OTHERWISE HOWSOEVER ARISING SHALL BE LIMITED TO THE AMOUNT PAID BY DISTRIBUTOR TO CISCO PURSUANT TO THE RELEVANT SERVICE DURING THE [\*\*\*\*] PERIOD PRECEDING THE EVENT OR CIRCUMSTANCES FIRST GIVING RISE TO SUCH LIABILITY. THIS LIMITATION OF LIABILITY IS CUMULATIVE AND NOT PER-INCIDENT (I.E., THE EXISTENCE OF TWO OR MORE CLAIMS WILL NOT ENLARGE THIS LIMIT).
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**12.3** EXCEPT FOR DISTRIBUTOR'S BREACH OF SECTION 9 (LICENSE), IN NO EVENT SHALL EITHER PARTY, ITS RESPECTIVE AFFILIATES, OFFICERS, DIRECTORS, EMPLOYEES, AGENTS, OR SUPPLIERS BE LIABLE FOR ANY SPECIAL, INCIDENTAL, INDIRECT, OR CONSEQUENTIAL DAMAGES, OR LOST REVENUE, LOST PROFITS, OR LOST OR DAMAGED DATA, WHETHER ARISING IN CONTRACT, TORT (INCLUDING NEGLIGENCE), OR OTHERWISE, EVEN IF SUCH PARTY HAS BEEN INFORMED OF THE POSSIBILITY THEREOF.

**13.0 DATA USAGE AND PROTECTION.**

**13.1** For the purposes of this Section, "personal data", "processing of personal data", ("processing"), "controller", "processor", "data subjects", and "third party", shall have the same meanings as in Directive 95/46/EC of the European Parliament and of the Council of 24 October 1995 on the protection of individuals with regard to the processing of personal data and of the free movement of such data. If the applicable laws implementing the Directive in a particular country apply a broader definition of "personal data" (e.g. so as also to include information about legal entities), then the definition of "personal data" under that country's implementing laws shall apply.

**13.2** Cisco shall, during the term of this Agreement, comply with all applicable laws, regulations, regulatory requirements, and codes of practice in connection with any processing of personal data which they undertake in the performance of or in connection with this Agreement or which may otherwise apply, including, without limitation, privacy or data protection laws applicable in the country or countries where personal data is collected or held or otherwise processed including, but not limited to laws and regulations implementing Directive 95/46/EC (such as the UK Data Protection Act 1998), Directive 2002/58/EC on Privacy and Electronic Communications, and any data privacy laws enacted thereunder (together, the "Data Protection Laws").

**13.3** Cisco shall not transfer End User personal data across any country border unless it is strictly unavoidable for the proper performance of the Services.

**13.4** Cisco shall treat all personal data in a manner consistent with its Privacy Policy statement (available at [Cisco.com](http://Cisco.com)).

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**14.0 ASSIGNMENT AND SUBCONTRACTING.**

- 14.1** Without prejudice to the Assignment provision of the Agreement, Distributor may not delegate, assign, or subcontract any obligation which it has to an End User to provide support services for Products under the Program incorporating any of the Services, except where;
- (a) otherwise permitted in writing by Cisco with its prior written consent; or
  - (b) Distributor subcontracts to a company that meets the qualification criteria for participation under the Program but is acting as a subcontractor to Distributor ("**Services Only Partner**"); or
  - (c) Distributor subcontracts to a service provider in respect of which Distributor demonstrates to Cisco's reasonable satisfaction, such approval not to be unreasonably withheld or delayed, that the service provider provides support services of an equivalent level of quality to an Distributor qualified under the Program.
- 14.2** In the event that the Territory includes a country within the European Economic Area ("**EEA**" ), Distributor is authorized to provide support services incorporating the Services under the Program in an EEA country ("**Destination Country**" ) where it is not qualified to participate in the Program, provided it has either: (f) subcontracted the Services to a Services Only Partner qualified in the Destination Country as set forth above; or (li) made other arrangements to Cisco's reasonable satisfaction, such approval not to be unreasonably withheld or delayed, to provide support services in the Destination Country of a quality equivalent to a Services Only Partner qualified in that country.
- 14.3** In all permitted exceptions identified above, the Distributor subcontracting the Services shall remain entirely responsible and any actions taken by the Distributor or the Services Only Partner will count in the measurement of Distributor's performance metrics under the Program.

**15.0 TERM AND TERMINATION.**

- 15.1** In addition to all rights and remedies which it may have under the Agreement, Cisco may terminate or suspend its performance with respect to some or all Products covered under this Program, whether or not Products were purchased prior to or subsequent to the Effective Date, immediately upon notice if (i) Distributor fails to maintain the eligibility under the Program; (ii) Distributor fails to pay for the Services when due and fails to make such payment within [\*\*\*\*] days after notice from Cisco of such past due payment; (iii) if Distributor breaches the provisions of Sections 9, 17.2, 17.3, and/or any of the material provisions of this Addendum and fails to remedy such breach within [\*\*\*\*] days after written notification by Cisco to Distributor of such breach; (iv) in the event that Cisco discontinues Service for one or more Product for whatever reason or (v) the Agreement terminates.
- 15.2** Either party may at any time terminate the Addendum for convenience, for any reason or no reason, by providing the other party with [\*\*\*\*] prior written notice of termination.
- 15.3** This Addendum shall terminate when the Agreement terminates.
- 15.4** In the event that Cisco's obligations to Distributor under this Program with respect to support of Product for which payment was made prior to the expiration of the term as set forth in this Section extend beyond the term as applicable, and provided that Distributor complies with the terms of the Agreement and its obligations in this Addendum, Cisco will provide support to Distributor for the term of support specified in the purchase order issue to Cisco by Distributor provided that the maximum period of support shall not exceed [\*\*\*\*] years from the date of such purchase order.
- 16.0 INDEMNIFICATION.** Distributor hereby indemnifies and holds Cisco harmless from any claim, loss, damage, or expense, including, but not limited to, reasonable court costs and attorneys' fees, resulting from any claim made by End User against Cisco that: (a) Distributor has failed to provide End User with support services in accordance w1th an agreement between Distributor and End User; or (b) Distributor has failed to
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comply with or perform its obligations set forth in this Agreement, whether under a claim of a third party beneficiary or otherwise. This shall not limit Cisco's obligations, subject to the terms of this Agreement, to provide the support services described herein.

## 17.0 GENERAL.

- 17.1** Third Party Services. Cisco reserves the right to subcontract the provision of all or part of the Services to a third party.
- 17.2** Disclosure of Contract Information. Distributor acknowledges and agrees that in no event shall any of the information contained in this Agreement or Distributor's service contract number(s) or Cisco.com access information be disclosed to any third party. Such information shall be considered Confidential Information under the Agreement.
- 17.3** Service Marks. Distributor will not use Cisco's service marks in any manner except as set out in this Agreement or as mutually agreed upon in writing.
- 17.4** Entitlement. Distributor acknowledges that Cisco has the right to verify an End User's entitlement to receipt of Services, and that End User is entitled to receive support services only on Product for which Distributor has paid the applicable license and support fees to Cisco. Distributor agrees to assist Cisco with enforcement of End User entitlement as necessary, including, without limitation, providing serial number(s) to Cisco and enabling Cisco to undertake inventory review(s).
- 17.5** Notices. All notices required or permitted under this Addendum will be in writing and will be deemed given one (1) day after deposit with a commercial express courier specifying next day delivery (or two (2) days for international courier packages specifying 2-day delivery), with written verification of receipt. All communications will be sent to the addresses set forth on the cover sheet of this Agreement or such other address as may be designated by a party by giving written notice to the other party pursuant to this paragraph. Notwithstanding the above, notices regarding changes to the Program may also be by posting on Cisco.com or by e-mail or fax.
- 17.6** Assignment. Neither this Addendum nor any rights under this Addendum may be assigned by Distributor without the express prior written consent of Cisco. Any attempted assignment in violation of the preceding sentence shall immediately terminate the Addendum. Cisco may assign this Addendum and any right or obligation under it without Distributor's approval, to any affiliate, meaning any corporation, firm, partnership or other entity that directly or indirectly controls, or is controlled by, or is under common control with Cisco.
- 17.7** Survival. Sections 9 (License), 10 (Ownership), 11 (Warranty), 12 (Limitation of Liability and Consequential Damages Waiver), 13 (Data Usage and Protection), 15 (Term and Termination), 16 (Indemnification), and 18 (General) shall survive the termination or expiration of this Addendum.

**IN ACCORDANCE WITH ITEM 601(b) OF REGULATION S-K, CERTAIN IDENTIFIED INFORMATION (THE "CONFIDENTIAL INFORMATION") HAS BEEN EXCLUDED FROM THIS EXHIBIT BECAUSE IT IS BOTH (I) NOT MATERIAL AND (II) WOULD LIKELY CAUSE COMPETITIVE HARM IF PUBLICLY DISCLOSED. THE CONFIDENTIAL INFORMATION IS DENOTED HEREIN BY [\*\*\*\*\*].**

### Affiliate Agreement

The Affiliate of ScanSource, Inc. ("Distributor"), specified below ("Approved Affiliate"), agrees to comply with all of the terms and conditions imposed upon Distributor in the Nonexclusive Value Added Distributor Agreement ("Agreement"), dated January 22, 2007, as amended, entered into between Distributor and Cisco Systems, Inc., a California corporation with its principal place of business at 170 West Tasman Drive, San Jose, California 95134-1706 ("Cisco").

Approved Affiliate acknowledges that for so long as Approved Affiliate is an "Affiliate" (as defined in the Agreement) of Distributor, Approved Affiliate will have the right to purchase only those Cisco Products and Services specified in the Agreement and in this Affiliate Agreement during the term thereof, pursuant to the rights and obligations of Distributor under the Agreement including but not limited to the reporting requirements thereunder; provided, however, that the terms set forth below shall apply to Approved Affiliate instead of any terms regarding the same subject matter thereof that apply to Distributor under the Agreement.

1. The Certified Territory for Approved Affiliate is: Brazil.
2. Notice to Approved Affiliate pursuant to the Agreement shall be addressed as follows, unless Approved Affiliate indicates otherwise in writing to Cisco:

Approved Affiliate:

**ScanSource Brasil Distribuidora de Tecnologias LTDA .**

Avenida Rui Barbosa, n° 2.529, módulos 11 e 12 São José dos Pinhais. PR - Brazil - CEP 83055-320 CNPJ 05.607.657/0001-35

2.1 For the avoidance of any doubt, the Approved Affiliate includes the branch offices, as listed below:

Goiânia:

ScanSource Brasil Distribuidora de Tecnologias LTDA Av\_Independência, 1146 - LTS 20/21  
Goiânia, GO - Brazil - CEP 74645-010  
CNPJ OS.607.657/0009-92

Itajai:

ScanSource Brasil Distribuidora de Tecnologias LTDA  
Rua José Gall, 1115 GALPAO 10\11 - Bairro Ressacada Itajai, SC – Brazil - CEP - BB307-102  
CNPJ 05.607.657/000B-D1

Barueri:

ScanSource Brasil Distribuidora de Tecnologias LTDA  
Alameda Araguaia, 3.787 - Unidade 1 - Sala 1 - Centro Empresarial Tamboré  
Barueri, SP - Brazil - CEP: 06455-000  
CNPJ 05.607.657/0011-07

Serra:

ScanSource Brasil Distribuidora de Tecnologias LTDA  
Avenida Talma Rodrigues Ribeiro, 147 - Galpão 01 - Modulo D Unilogistica Business Park • Portal de Jacaraípe  
Serra, ES – Brazil - CEP - 29173-795  
CNPJ 05.607 .657/0010-26  
Copy to:  
ScanSource, Inc. 6 Logue Court  
Greenville, South Carolina, 29615  
Attention: Legal Department

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3. Notwithstanding anything to the contrary herein, Cisco or Approved Affiliate may terminate this Affiliate Agreement at any time on the terms set forth in Section 18 (Term and Termination) in the Agreement. Cisco may terminate this Affiliate Agreement immediately in the event that Approved Affiliate is no longer an "Affiliate" (as defined herein) of Distributor.
  4. Approved Affiliate acknowledges that upon full execution of this Affiliate Agreement and subject to the terms of the Agreement, the terms and conditions of any current distribution or resale agreement for Cisco Products and Services with Cisco will terminate and will be superseded by the terms and conditions of this Affiliate Agreement; thereafter, the terms and conditions of any such distribution or resale agreement will have no further force and effect.
  5. Approved Affiliate acknowledges that upon full execution of this Affiliate Agreement and subject to the terms of the Agreement, the terms and conditions of any current distribution or resale agreement for Cisco Products and Services with Cisco will terminate and will be superseded by the terms and conditions of this Affiliate Agreement; thereafter, the terms and conditions of any such distribution or resale agreement will have no further force and effect.
  6. The Parties agree that the following provisions will apply to all business between the Affiliate and Cisco Brazil:
    - A. Cisco Brazil as Party to the Agreement. Beginning on the Affiliate Agreement Effective Date, Approved Affiliate shall place all orders for Products and Services from Cisco Brazil from the Brazil Price List (BPL).
    - B. Prices and Quotes. The Products and Services in the BPL and all quotes related to those BPL Products and Services shall be presented in Brazilian Reals.
      - a. All prices in the BPL are exclusive of any freight, handling, and shipping insurance charges, taxes, fees, and duties or other similar amounts, however designated, including without limitation value added, sales, and withholding taxes which are levied or based upon prices or charges, or upon this Agreement.
      - b. Distributor shall pay any taxes related to Products and Services pursuant to this Affiliate Agreement (except for taxes based on Cisco Brazil's revenue/Income) or shall present an exemption certificate acceptable to all relevant local tax authorities. Applicable taxes shall, to the extent practical, be billed as a separate Item on the Invoice.
    - C. Payment. All payments pursuant to this Affiliate Agreement shall be made in Brazilian Reals to Cisco Brazil, via wire transfer to the bank account indicated by Cisco Brazil or via *boleto*, as instructed by Cisco Brazil.
    - D. Shipping and Delivery.
      - a. Scheduled shipping dates will be assigned by Cisco Brazil as close as practicable to Distributor's requested date based on Cisco Brazil's then-current lead times for the Products. Cisco Brazil will communicate scheduled shipping dates in the order acknowledgment or on Cisco.com.
      - b. Applicable shipment terms (per Incoterms 2010) are set forth in Exhibit E-1 (Shipping Terms) hereto. Title and risk of loss shall transfer from Cisco Brazil to Distributor and delivery shall be deemed to occur in accordance with Exhibit E-1.
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Distributor shall be responsible for all freight, handling, and insurance charges subsequent to delivery.

- c. All sales are final. Except as mutually agreed in writing by the parties, and except as provided in Cisco's warranty statements, Cisco Brazil does not accept returns unless (i) Cisco Brazil shipped a Product other than as specified in the Purchase Order, (ii) such Product is unopened, and (iii) the Product is returned in accordance with Cisco's then current RMA policy and procedures.
- d. Distributor or Its authorized representative must accept ordered Products on the shipping date in accordance with this Section (d).
- e. For any Purchase Order ("PO"), Distributor must submit a requested shipping date for each line of the PO. Cisco Brazil will use standard lead-time based scheduling (based on the order fulfillment lead-time that has been established to the Product). Cisco Brazil will generate a Factory Commit Date (FCD) for each line Item on the PO. Cisco Brazil will not support partial order-line shipments. Shipments will be made as soon as all Products with the same requested shipping date are ready for shipment. If, for any reason, the requested shipping date is changed, then the shipping date for all of the Products with the same requested shipping date will be changed accordingly so that all the Products with the same requested shipping date are ready on the same day.

E. Services. Distributor may order Services from Cisco Brazil as detailed in this Section

E. Distributor may purchase and resell Services under this Affiliate Agreement as agreed in the Agreement, and in accordance to the following: (i) on and after the Affiliate Agreement Effective Date, technical services that are attached to non-BPL products shall be placed with Cisco Inc.; and (ii) on and after the Affiliate Agreement Effective Date, orders by Distributor for the *renewal* of any Services (even when such Services were originally purchased from Cisco Inc. and/or are related or attached to non-BPL Products) should be placed with Cisco Brazil.

F. Choice of Law. The validity, interpretation, and performance of this Affiliate Agreement with respect to the business between Cisco Brazil and Affiliate shall be controlled by and construed under the laws of Brazil, as if performed wholly within Brazil and without giving effect to the principles of conflicts of law, and the courts of the state of Sao Paulo in Brazil shall have exclusive jurisdiction over any claim arising under this Agreement. The parties specifically disclaim the application of the UN Convention on Contracts for the International Sale of Goods. Notwithstanding the foregoing, either party may seek interim injunctive relief in any court of appropriate jurisdiction with respect to any alleged breach of such party's intellectual property or proprietary rights

7. All capitalized terms in this Affiliate Agreement not otherwise defined herein shall have the meaning set forth in the Agreement. Except as expressly modified in this Affiliate Agreement, all terms and conditions of the Agreement remain unchanged and in full force and effect. This Affiliate Agreement and the Agreement comprise the complete agreement between the Parties hereto regarding this subject matter. There are no conditions, understandings, agreements, representations, or warranties, expressed or implied, which are not specified herein. This Affiliate Agreement may be modified only by a written document executed by the parties hereto. In the event of a conflict between the Agreement and this Affiliate Agreement, this Affiliate Agreement will prevail with regard to the subject matter herein, *i.e.*, transactions involving Cisco Brazil. For the avoidance of doubt the provisions of this Affiliate

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Agreement shall apply automatically to any of Distributor's Affiliates which are Incorporated in Brazil, have a principal place of in Brazil, and have adopted the terms of the Agreement via an Affiliate Agreement.

8. Effective Date. This Affiliate Agreement Is effective as of the date of last signature below (the "Affiliate Agreement Effective Date"). If both Parties agree to modify the Affiliate Agreement Effective Date, they may do so by mutual written consent via email, letter or internal electronic communication from Cisco to the Distributor.
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Exhibit E-1

Shipping Terms

Bill-To Location	Ship-to Location	Orders Placed On	Ship-from Region	Routing	Shipping Term (Incoterms 2010)	Title Transfer	Risk of Loss Transfer	Delivery Point
Brazil*	Brazil	Cisco Comercio e Serviços de Hardware e Software do Brasil Ltda.	Brazil	Customer routed**	[*****]	[*****]	[*****]	[*****]

**DEFINITIONS:**

1. **Cisco Designated Shipping Point** means any predefined point that Cisco deems appropriate for collection.
2. **Customer Routed (opt-out)** means, where available, a shipping program, as selected by Integrator on the Purchase Order at the time of Purchase Order submission, by which Products are delivered in accordance with the Shipping term (Incoterms 2010) defined in the table above. If applicable, Integrator's carrier must be part of Cisco's Approved Vendor List (AVL).

\* Option applies only to Cisco Products manufactured in Brazil which are on the Price List for Cisco Brazil for sale in Brazil.

\*\* If applicable, Integrator's carrier must be part of Cisco's Approved Vendor List (AVL).

*END OF EXHIBIT*

**ScanSource, Inc.**  
**Schedule of Subsidiaries**

Name of Subsidiary	State/Country of Incorporation
4100 Quest, LLC	South Carolina
ScanSource Properties, LLC	South Carolina
Logue Court Properties, LLC	South Carolina
8650 Commerce Drive, LLC	Mississippi
ScanSource Canada, Inc.	Canada
Canpango, Inc.	South Carolina
Intelisys, Inc.	South Carolina
ScanSource Payments, Inc.	South Carolina
POS Portal, Inc.	California
Outsourcing Unlimited, Inc.	Georgia
RPM Software, LLC	South Carolina
intY USA, Inc.	Florida
ScanSource Latin America, Inc.	Florida
ScanSource de Mexico S. de R.L. de C.V.	Mexico
Canpango, S.A.	South Africa
intY Holdings Ltd.	United Kingdom
intY Cascade, Ltd.	Ireland
IntY Ltd.	United Kingdom
ScanSource France SARL	France
ScanSource Europe Ltd.	United Kingdom
ScanSource G.B. and N.I. Ltd.	United Kingdom
ScanSource Ltd.	United Kingdom
ScanSource Europe SPRL	Belgium <sup>1</sup>
ScanSource Germany GmbH	Germany
ScanSource Communications Ltd.	United Kingdom
ScanSource Europe CV	Rotterdam,NL
ScanSource Europe BV	Amsterdam,NL
ScanSource Communications GmbH	Germany
ScanSource UK Ltd.	United Kingdom
ScanSource Video Communications Europe Ltd.	United Kingdom
Video Corporation Ltd.	United Kingdom
ScanSource Video Communications SARL	France
ScanSource Brasil Distribuidora de Tecnologias Ltda.	Brazil
Network 1 International Colombia S.A.S	Colombia
Importadora y Comercializadora Network 1 International (Chile) SPA	Chile
Network 1 International Peru SAC	Peru
Intersmart S. de R.L. de C.V.	Mexico
Intersmart Technologies LLC	Florida

ScanSource Europe SPRL has branch offices that operate under the names ScanSource Europe Italia, ScanSource Netherlands, ScanSource Poland and

<sup>1</sup> ScanSource Spain.

CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

We have issued our reports dated August 22, 2019, with respect to the consolidated financial statements and internal control over financial reporting included in the Annual Report of ScanSource, Inc. on Form 10-K for the year ended June 30, 2019. We consent to the incorporation by reference of said reports in the Registration Statements of ScanSource, Inc. on Forms S-8 (File No. 333-110220; File No. 333-144121; File No. 333-153653; File No. 333-169064; File No. 333-192664; and File No. 333-192665).

/s/ Grant Thornton LLP

Columbia, South Carolina  
August 22, 2019

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

I, Michael L. Baur, certify that:

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

/s/ Michael L. Baur

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Michael L. Baur, Chairman, Chief Executive Officer and President  
(Principal Executive Officer)

Date: August 22, 2019

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

I, Gerald Lyons, certify that:

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

/s/ Gerald Lyons

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Gerald Lyons, Senior Executive Vice President and Chief Financial Officer  
(Principal Financial Officer)

Date: August 22, 2019

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

In connection with the annual report of ScanSource, Inc. (the "Company") on Form 10-K for the fiscal year ended June 30, 2019 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), the undersigned officer of the Company certifies, pursuant to 18 U.S.C. § 1350, as adopted pursuant to § 906 of the Sarbanes-Oxley Act of 2002, that:

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

Date: August 22, 2019

/s/ Michael L. Baur

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Michael L. Baur,

Chairman, Chief Executive Officer and President

(Principal Executive Officer)

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



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

In connection with the annual report of ScanSource, Inc. (the “Company”) on Form 10-K for the fiscal year ended June 30, 2019 as filed with the Securities and Exchange Commission on the date hereof (the “Report”), the undersigned officer of the Company certifies, pursuant to 18 U.S.C. § 1350, as adopted pursuant to § 906 of the Sarbanes-Oxley Act of 2002, that:

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

Date: August 22, 2019

/s/ Gerald Lyons

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Gerald Lyons

Senior Executive Vice President and Chief Financial Officer

(Principal Financial Officer)

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