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

FORM 10-Q

Quarterly Report Pursuant to Section 13 or 15 (d) of the Securities Exchange Act of 1934 for the Quarterly period ended March 31, 2019

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 exchange on which registered:
Common stock, no par value	SCSC	NASDAQ Global Select Market

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 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	☒	Smaller reporting company	☐
Accelerated filer	☐	Emerging growth company	☐
Non-accelerated filer	☐		

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 Exchange Act). Yes ☐ No ☒

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

Class	Outstanding at May 7, 2019
Common Stock, no par value per share	**25,705,842**

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FORWARD-LOOKING STATEMENTS

Forward-looking statements are included in the "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-Q is based only on information currently available to us and speaks only as of the date on which it is made. Except as may be required by law, we expressly disclaim any obligation to update these forward-looking statements to reflect events or circumstances after the date of this Quarterly Report on Form 10-Q, 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 in our Annual Report on Form 10-K for the year ended June 30, 2018 .

PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

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

	March 31, 2019	June 30, 2018
Assets		
Current assets:		
Cash and cash equivalents	**$ 20,400**	$ 25,530
Accounts receivable, less allowance of $43,124 at March 31, 2019 and $45,561 at June 30, 2018	**632,539**	678,940
Inventories	**760,711**	595,948
Prepaid expenses and other current assets	**52,544**	61,744
Total current assets	**1,466,194**	1,362,162
Property and equipment, net	**71,282**	73,042
Goodwill	**319,042**	298,174
Identifiable intangible assets, net	**133,014**	136,806
Deferred income taxes	**20,660**	22,199
Other non-current assets	**51,963**	52,912
Total assets	**$ 2,062,155**	$ 1,945,295
Liabilities and Shareholders' Equity		
Current liabilities:		
Accounts payable	**$ 585,121**	$ 562,564
Accrued expenses and other current liabilities	**86,910**	90,873
Current portion of contingent consideration	**39,445**	42,975
Income taxes payable	**1,664**	13,348
Current portion of long-term debt	**335**	551
Total current liabilities	**713,475**	710,311
Deferred income taxes	**1,607**	1,769
Long-term debt	**4,764**	4,878
Borrowings under revolving credit facility	**342,573**	244,000
Long-term portion of contingent consideration	**34,814**	65,258
Other long-term liabilities	**53,859**	52,703
Total liabilities	**1,151,092**	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, 25,705,842 and 25,593,122 shares issued and outstanding at March 31, 2019 and June 30, 2018, respectively	**72,903**	68,220
Retained earnings	**928,352**	882,333
Accumulated other comprehensive income (loss)	**(90,192)**	(84,177)
Total shareholders' equity	**911,063**	866,376
Total liabilities and shareholders' equity	**$ 2,062,155**	$ 1,945,295

June 30, 2018 amounts are derived from audited consolidated financial statements.
See accompanying notes to these condensed consolidated financial statements.

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

	Quarter ended March 31, 2019	Quarter ended March 31, 2018	Nine months ended March 31, 2019	Nine months ended March 31, 2018
Net sales	**$ 893,357**	$ 895,637	**$ 2,912,278**	$ 2,852,408
Cost of goods sold	**783,342**	791,749	**2,569,570**	2,529,632
Gross profit	**110,015**	103,888	**342,708**	322,776
Selling, general and administrative expenses	**77,688**	72,691	**236,569**	220,642
Depreciation expense	**3,417**	3,352	**9,954**	10,059
Intangible amortization expense	**5,005**	5,103	**14,708**	15,600
Change in fair value of contingent consideration	**5,101**	4,801	**11,535**	28,595
Operating income	**18,804**	17,941	**69,942**	47,880
Interest expense	**3,670**	2,784	**9,415**	6,655
Interest income	**(682)**	(887)	**(1,397)**	(2,349)
Other expense, net	**21**	252	**254**	691
Income before income taxes	**15,795**	15,792	**61,670**	42,883
Provision for income taxes	**4,080**	5,143	**15,651**	20,118
Net income	**$ 11,715**	$ 10,649	**$ 46,019**	$ 22,765
Per share data:				
Net income per common share, basic	**$ 0.46**	$ 0.42	**$ 1.79**	$ 0.89
Weighted-average shares outstanding, basic	**25,704**	25,572	**25,647**	25,503
Net income per common share, diluted	**$ 0.45**	$ 0.42	**$ 1.79**	$ 0.89
Weighted-average shares outstanding, diluted	**25,762**	25,606	**25,755**	25,607

See accompanying notes to these condensed consolidated financial statements.

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

	Quarter ended March 31,		Nine months ended March 31,	
	2019	**2018**	**2019**	**2018**
Net income	**$ 11,715**	$ 10,649	**$ 46,019**	$ 22,765
Unrealized (loss) gain on hedged transaction, net of tax	**(350)**	561	**(819)**	910
Foreign currency translation adjustment	**(1,797)**	4,194	**(5,196)**	11,644
Comprehensive income	**$ 9,568**	$ 15,404	**$ 40,004**	$ 35,319

See accompanying notes to these condensed consolidated financial statements.

SCANSOURCE, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY (UNAUDITED)
(In thousands, except share information)

	Common Stock (Shares)	Common Stock (Amount)	Retained Earnings	Accumulated Other Comprehensive Loss	Total
Balance at June 30, 2018	25,593,122	$ 68,220	$ 882,333	$ (84,177)	$ 866,376
Net income	—	—	14,322	—	14,322
Unrealized gain on hedged transaction, net of tax	—	—	—	146	146
Foreign currency translation adjustment	—	—	—	(4,762)	(4,762)
Exercise of stock options and shares issued under share-based compensation plans, net of shares withheld for employee taxes	14,542	425	—	—	425
Share-based compensation	—	1,390	—	—	1,390
Balance at September 30, 2018	25,607,664	70,035	896,655	(88,793)	877,897
Net income	—	—	19,982	—	19,982
Unrealized loss on hedged transaction, net of tax	—	—	—	(615)	(615)
Foreign currency translation adjustment	—	—	—	1,363	1,363
Exercise of stock options and shares issued under share-based compensation plans, net of shares withheld for employee taxes	104,065	(321)	—	—	(321)
Stock repurchased	(9,387)	(308)	—	—	(308)
Share-based compensation	—	1,506	—	—	1,506
Balance at December 31, 2018	25,702,342	70,912	916,637	(88,045)	899,504
Net income	—	—	11,715	—	11,715
Unrealized loss on hedged transaction, net of tax	—	—	—	(350)	(350)
Foreign currency translation adjustment	—	—	—	(1,797)	(1,797)
Exercise of stock options and shares issued under share-based compensation plans, net of shares withheld for employee taxes	3,500	(2)	—	—	(2)
Share-based compensation	—	1,993	—	—	1,993
Balance at March 31, 2019	25,705,842	$ 72,903	$ 928,352	$ (90,192)	$ 911,063

SCANSOURCE, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY (UNAUDITED)
(In thousands, except share information)

	Common Stock (Shares)	Common Stock (Amount)	Retained Earnings	Accumulated Other Comprehensive Loss	Total
Balance at June 30, 2017	25,431,845	$ 61,169	$ 849,180	$ (73,204)	$ 837,145
Net income	—	—	4,147	—	4,147
Unrealized gain on hedged transaction, net of tax	—	—	—	29	29
Foreign currency translation adjustment	—	—	—	9,885	9,885
Exercise of stock options and shares issued under share-based compensation plans, net of shares withheld for employee taxes	8,471	193	—	—	193
Share based compensation	—	1,577	—	—	1,577
Balance at September 30, 2017	25,440,316	62,939	853,327	(63,290)	852,976
Net income	—	—	7,969	—	7,969
Unrealized loss on hedged transaction, net of tax	—	—	—	320	320
Foreign currency translation adjustment	—	—	—	(2,435)	(2,435)
Exercise of stock options and shares issued under share-based compensation plans, net of shares withheld for employee taxes	131,039	317	—	—	317
Share based compensation	—	1,640	—	—	1,640
Balance at December 31, 2017	25,571,355	64,896	861,296	(65,405)	860,787
Net income	—	—	10,649	—	10,649
Unrealized loss on hedged transaction, net of tax	—	—	—	561	561
Foreign currency translation adjustment	—	—	—	4,194	4,194
Exercise of stock options and shares issued under share-based compensation plans, net of shares withheld for employee taxes	807	(6)	—	—	(6)
Share based compensation	—	1,611	—	—	1,611
Balance at March 31, 2018	25,572,162	$ 66,501	$ 871,945	$ (60,650)	$ 877,796

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

	Nine months ended March 31, 2019	Nine months ended March 31, 2018
Cash flows from operating activities:		
Net income	$ 46,019	$ 22,765
Adjustments to reconcile net income to net cash (used in) provided by operating activities:		
Depreciation and amortization	27,566	28,204
Amortization of debt issuance costs	252	242
Provision for doubtful accounts	3,199	5,939
Share-based compensation	4,906	4,855
Deferred income taxes	1,132	(3,061)
Change in fair value of contingent consideration	11,535	28,595
Contingent consideration paid in excess of acquisition fair value	(10,190)	(3,066)
Changes in operating assets and liabilities, net of acquisitions:		
Accounts receivable	40,530	(16,950)
Inventories	(169,031)	(22,570)
Prepaid expenses and other assets	10,116	(2,904)
Other non-current assets	413	(3,114)
Accounts payable	25,138	(32,418)
Accrued expenses and other liabilities	(4,082)	(9,452)
Income taxes payable	(12,050)	(3,295)
Net cash (used in) operating activities	(24,547)	(6,230)
Cash flows from investing activities:		
Capital expenditures	(10,977)	(5,307)
Cash paid for business acquisitions, net of cash acquired	(32,161)	(143,768)
Net cash (used in) investing activities	(43,138)	(149,075)
Cash flows from financing activities:		
Borrowings on revolving credit	1,602,568	1,734,973
Repayments on revolving credit	(1,503,654)	(1,550,460)
Debt issuance costs	—	(296)
Repayments on long-term debt	(330)	—
Repayments on capital lease obligation	(495)	(437)
Contingent consideration payments	(35,606)	(50,959)
Exercise and issuance of equity awards	1,509	2,126
Taxes paid on settlement of equity awards	(1,406)	(1,622)
Repurchase of common stock	(308)	—
Net cash provided by financing activities	62,278	133,325
Effect of exchange rate changes on cash and cash equivalents	277	1,247
Decrease in cash and cash equivalents	(5,130)	(20,733)
Cash and cash equivalents at beginning of period	25,530	56,094
Cash and cash equivalents at end of period	$ 20,400	$ 35,361

See accompanying notes to these condensed consolidated financial statements.

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

(1) Business and Summary of Significant Accounting Policies

Business Description

ScanSource, Inc. (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, Latin America and Europe. The Company's two operating segments, Worldwide Barcode, Networking & Security and Worldwide Communications & Services, are based on product, customer and service type.

Basis of Presentation

The accompanying unaudited condensed consolidated financial statements of the Company have been prepared by the Company’s management in accordance with United States generally accepted accounting principles ("U.S. GAAP") for interim financial information and applicable rules and regulations of the Securities Exchange Act of 1934. Accordingly, they do not include all of the information and footnotes required by U.S. GAAP for annual financial statements. The unaudited condensed consolidated financial statements included herein contain all adjustments (consisting of normal recurring and non-recurring adjustments) that are, in the opinion of management, necessary to present fairly the financial position as of March 31, 2019 and June 30, 2018 , the results of operations for the quarters and nine months ended March 31, 2019 and 2018 , the statements of comprehensive income for the quarters and nine months ended March 31, 2019 and 2018 , the statements of shareholders' equity for the quarters and nine months ended March 31, 2019 and 2018 and the statements of cash flows for the nine months ended March 31, 2019 and 2018 . The results of operations for the quarters and nine months ended March 31, 2019 and 2018 are not necessarily indicative of the results to be expected for a full year. These financial statements should be read in conjunction with the audited consolidated financial statements and notes thereto included in the Company’s Annual Report on Form 10-K for the fiscal year ended June 30, 2018 .

Summary of Significant Accounting Policies

Except as described below, there have been no material changes to the Company’s significant accounting policies for the nine months ended March 31, 2019 from the policies described in the notes to the Company’s consolidated financial statements included in the Annual Report on Form 10-K for the fiscal year ended June 30, 2018 . For a discussion of the Company’s significant accounting policies, please see the Company’s Annual Report on Form 10-K for the fiscal year ended June 30, 2018 .

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 zero-balance disbursement accounts at various financial institutions at which the Company does not maintain significant depository relationships. Due to the terms of the agreements governing these accounts, the Company generally does not have the right to offset 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 $16.8 million and $5.7 million are included in accounts payable as of March 31, 2019 and June 30, 2018 , respectively.

Long-lived Assets

The Company presents depreciation expense and intangible amortization expense individually on the Condensed Consolidated Income Statements. The Company's depreciation expense related to selling, general and administrative costs totaled $3.4 million and $10.0 million for the quarter and nine months ended March 31, 2019 , respectively, and $3.4 million and $10.1 million for the quarter and nine months ended March 31, 2018 , respectively. Depreciation expense reported as part of cost of goods sold on the Condensed Consolidated Income Statements totaled $0.9 million and $2.9 million for the quarter and nine months ended March 31, 2019 , respectively, and $1.0 million and $2.5 million for the quarter and nine months ended March 31, 2018 , respectively. The Company's amortization expense reported on the Condensed Consolidated Income Statements relates to selling, general and administrative costs, not the cost of selling goods. Intangible amortization expense totaled $5.0 million and $14.7 million for the quarter and nine months ended March 31, 2019 , respectively, and $5.1 million and $15.6 million for the quarter and nine months ended March 31, 2018 , respectively.

Recent Accounting Pronouncements

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 has established a lease implementation team and is in the process of reviewing leases to determine an implementation approach. Currently, the Company is evaluating the impact on its consolidated financial statements upon the adoption of this new guidance.

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. 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 is currently evaluating the potential impact of this guidance on its consolidated financial statements.

In August 2018, the SEC adopted a final rule that amends certain of its disclosure requirements. The rule requires registrants to include in the interim financial reporting an analysis of changes in shareholders' equity for the current and comparative year-to-date interim periods. The final rule was effective on November 5, 2018 with registrants required to provide interim reporting in the first period beginning after the effective date. The Company provided an interim analysis of changes in shareholders' equity for the quarter ending March 31, 2019 in this Form 10-Q.

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.

Reclassifications

Certain reclassifications have been made on the Consolidated Statements of Cash Flows to classify contingent consideration payments made in excess of the original contingent liability as an operating activity in accordance with ASU 2016-15. These reclassifications had no effect on consolidated financial results.

(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.

Related to the Company’s Intelisys business, the Company acts as a master agent partnering suppliers with sales agents to provide telecom and cloud services to end customers. Commission revenue received from the supplier is recognized net of cost associated with commissions the Company pays to sales agents at the time of sale.

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 represents the Company's disaggregation of revenue:

	Quarter ended March 31, 2019 (in thousands)		
	Worldwide Barcode, Networking & Security Segment	Worldwide Communications & Services Segment	Total
Revenue by product/service:			
Technology solutions	$ 596,913	$ 282,124	$ 879,037
Master agency and professional services	—	14,320	14,320
	$ 596,913	$ 296,444	$ 893,357

	Nine months ended March 31, 2019 (in thousands)		
	Worldwide Barcode, Networking & Security Segment	Worldwide Communications & Services Segment	Total
Revenue by product/service:			
Technology solutions	$ 1,953,664	$ 917,727	$ 2,871,391
Master agency and professional services	—	40,887	40,887
	$ 1,953,664	$ 958,614	$ 2,912,278

	Quarter ended March 31, 2018 (in thousands)		
	Worldwide Barcode, Networking & Security Segment	Worldwide Communications & Services Segment	Total
Revenue by product/service:			
Technology solutions	$ 604,322	$ 280,644	$ 884,966
Master agency and professional services	—	10,671	10,671
	$ 604,322	$ 291,315	$ 895,637

	Nine months ended March 31, 2018 (in thousands)		
	Worldwide Barcode, Networking & Security Segment	Worldwide Communications & Services Segment	Total
Revenue by product/service:			
Technology solutions	$ 1,944,436	$ 877,197	$ 2,821,633
Master agency and professional services	—	30,775	30,775
	$ 1,944,436	$ 907,972	$ 2,852,408

(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.

	Quarter ended March 31,		Nine months ended March 31,	
	2019	2018	2019	2018
	(in thousands, except per share data)			
Numerator:				
Net income	**$ 11,715**	$ 10,649	**$ 46,019**	$ 22,765
Denominator:				
Weighted-average shares, basic	**25,704**	25,572	**25,647**	25,503
Dilutive effect of share-based payments	**58**	34	**108**	104
Weighted-average shares, diluted	**25,762**	25,606	**25,755**	25,607
Net income per common share, basic	**$ 0.46**	$ 0.42	**$ 1.79**	$ 0.89
Net income per common share, diluted	**$ 0.45**	$ 0.42	**$ 1.79**	$ 0.89

For the quarter and nine months ended March 31, 2019 , weighted-average shares outstanding excluded from the computation of diluted earnings per share because their effect would be anti-dilutive were 592,411 and 459,189 , respectively. For the quarter and nine months ended March 31, 2018 , there were 952,351 and 534,082 , respectively, weighted-average shares outstanding excluded from the computation of diluted earnings per share because their effect would be anti-dilutive.

(4) Accumulated Other Comprehensive Income (Loss)

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

	March 31, 2019	June 30, 2018
	(in thousands)	
Foreign currency translation adjustment	**$ (90,475)**	$ (85,279)
Unrealized gain (loss) on hedged transaction, net of tax	**283**	1,102
Accumulated other comprehensive income (loss)	**$ (90,192)**	$ (84,177)

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

	Quarter ended March 31,		Nine months ended March 31,	
	2019	2018	2019	2018
	(in thousands)			
Tax expense (benefit)	**$ 307**	$ (108)	**$ 905**	$ (487)

(5) 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, 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 impact of these acquisitions was not material to the consolidated financial statements. The allocation of the RPM purchase price to the assets and liabilities acquired, including the valuation of the identifiable intangible assets, has not been completed as of the reporting date.

POS Portal

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

Under the 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 agreement also included a cash earn-out payment up to $13.2 million based on POS Portal's earnings before interest expense, taxes, depreciation and amortization (EBITDA) for the trailing twelve months (TTM) ending September 30, 2017, which was paid in full 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 March 31, 2019 , the balance available in escrow was $0.2 million .

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.

	POS Portal
	(in thousands)
Receivables	$ 8,914
Inventory	8,352
Other current assets	917
Property and equipment	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	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 intangible assets after purchase accounting adjustments, other than goodwill, was 10 years.

(6) Goodwill and Other Identifiable Intangible Assets

The changes in the carrying amount of goodwill for the nine months ended March 31, 2019 , by reporting segment, are set forth in the table below. Additions to goodwill for the current year are due to recent acquisitions.

	Barcode, Networking & Security Segment	Communications & Services Segment	Total
		(in thousands)	
Balance as of June 30, 2018	$ 137,214	$ 160,960	$ 298,174
Additions	—	21,618	21,618
Foreign currency translation adjustment	(75)	(675)	(750)
Balance as of March 31, 2019	**$ 137,139**	**$ 181,903**	**$ 319,042**

The following table shows changes in the amount recognized for net identifiable intangible assets for the nine months ended March 31, 2019 .

	Net Identifiable Intangible Assets
	(in thousands)
Balance as of June 30, 2018	$ 136,806
Additions	11,127
Amortization expense	(14,708)
Foreign currency translation adjustment	(211)
Balance as of March 31, 2019	**$ 133,014**

The Company acquired customer relationships, trade names and non-compete agreements related to the Canpango acquisition. With the RPM acquisition, the Company acquired trade names, customer relationships and developed technology. The allocation of the purchase price to the assets and liabilities acquired for the RPM acquisition has not been completed as of the reporting date.

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

The following table presents the Company’s debt as of March 31, 2019 and June 30, 2018 .

	March 31, 2019	June 30, 2018
	(in thousands)	
Current portion of long-term debt	**$ 335**	$ 551
Long-term debt, net of current portion	**4,764**	4,878
Borrowings under revolving credit facility	**342,573**	244,000
Total debt	**$ 347,672**	$ 249,429

Revolving Credit Facility

The Company has a multi-currency senior secured revolving credit facility with JPMorgan Chase Bank N.A., as administrative agent, and a syndicate of banks (the “Amended Credit Agreement”). On April 3, 2017, the Company amended this credit facility to extend its maturity to April 3, 2022 . On August 8, 2017, the Company amended the Amended Credit Agreement to increase the committed credit facility from $300 million to $400 million . The Amended Credit Agreement allows for the issuance of up to $50 million for letters of credit and has a $200 million accordion feature that allows the Company to increase the availability to $600 million , subject to obtaining additional credit commitments from the lenders participating in the increase. The Company incurred $0.9 million and $0.3 million in connection with the amendments to the Amended Credit Agreement on April 3, 2017 and August 8, 2017 , respectively. These costs were capitalized to other assets on the Condensed Consolidated Balance Sheets and added to the unamortized debt issuance costs from the previous credit facility.

At the Company's option, loans denominated in U.S. dollars under the Amended Credit Agreement, other than swingline loans, bear interest at a rate equal to a spread over the London Interbank Offered Rate ("LIBOR") or alternate base rate depending upon the Company's ratio of total debt (excluding accounts payable and accrued liabilities), measured as of the end of the most recent quarter, to adjusted earnings before interest expense, income taxes, depreciation and amortization ("EBITDA") for the most recently completed four quarters (the "Leverage Ratio"). This spread ranges from 1.00% to 2.125% for LIBOR-based loans and 0.00% to 1.125% for alternate base rate loans. Additionally, the Company is assessed commitment fees ranging from 0.175% to 0.35% , depending upon the Leverage Ratio, on non-utilized borrowing availability, excluding swingline loans. Borrowings are guaranteed by substantially all of the domestic assets of the Company and a pledge of up to 65% of capital stock or other equity interest in certain foreign subsidiaries determined to be either material or a subsidiary borrower as defined in the Amended Credit Agreement.

At March 31, 2019 , the spread in effect was 1.875% for LIBOR-based loans and 0.875% for alternate base rate loans. The commitment fee rate in effect as of March 31, 2019 was 0.30% . The Company was in compliance with all covenants under the credit facility as of March 31, 2019 .

The average daily outstanding balance during the nine month periods ended March 31, 2019 and 2018 was $313.6 million and $277.3 million , respectively. There was $57.4 million and $156.0 million available for additional borrowings as of March 31, 2019 and June 30, 2018 , respectively. There were no letters of credit issued under the multi-currency revolving credit facility as of March 31, 2019 and June 30, 2018 .

On April 30, 2019, the Company amended and restated the Amended Credit Agreement as described in Note 13.

Long-Term Debt

On August 1, 2007 , the Company entered into an agreement with the State of Mississippi to provide financing for the acquisition and installation of certain equipment to be utilized at the Company's Southaven, Mississippi warehouse, through the issuance of an industrial development revenue bond. The bond matures on September 1, 2032 and accrues interest at the 30-day LIBOR rate plus a spread of 0.85% . The terms of the bond allow for payment of interest only for the first 10 years of the agreement, and then, starting on September 1, 2018 through 2032, principal and interest payments are due until the maturity date or the redemption of the bond. The agreement also provides the bondholder with a put option, exercisable only within 180 days of each fifth anniversary of the agreement, requiring the Company to pay back the bonds at 100% of the principal amount outstanding. As of March 31, 2019 , the Company was in compliance with all covenants under this bond. The interest rate at March 31, 2019 and June 30, 2018 was 3.318% and 2.855% , respectively.

Debt Issuance Costs

As of March 31, 2019 , net debt issuance costs associated with the credit facility and bond totaled $1.1 million and are being amortized on a straight-line basis through the maturity date of each respective debt instrument.

(8) Derivatives and Hedging Activities

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

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

The Company had contracts outstanding for purposes of managing cash flows with notional amounts of $104.9 million and $74.6 million for the exchange of foreign currencies as of March 31, 2019 and June 30, 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:

	Quarter ended March 31,		Nine months ended March 31,	
	2019	2018	2019	2018
	(in thousands)			
Net foreign exchange derivative contract (gains) losses	**$ 1,125**	$ 1,115	**$ 178**	$ 2,057
Net foreign currency transactional and re-measurement (gains) losses	**(654)**	(622)	**810**	(782)
Net foreign currency (gains) losses	**$ 471**	$ 493	**$ 988**	$ 1,275

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) expense, net in the accompanying condensed consolidated income statements. 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 and other currencies versus the U.S. dollar.

Interest Rates - 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 entered into an interest rate swap agreement with a notional amount of $50.0 million scheduled to mature on April 3, 2022 . 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 the quarter and nine months ended March 31, 2019 and 2018 .

The components of the cash flow hedge included in accumulated other comprehensive income (loss), net of income taxes, in the Condensed Consolidated Balance Sheets, are as follows:

	Quarter ended March 31,		Nine months ended March 31,	
	2019	2018	2019	2018
	(in thousands)			
Net interest (income) expense recognized as a result of interest rate swap	**$ (79)**	$ 28	**$ (161)**	$ 174
Unrealized gain (loss) in fair value of interest rate swap	**(385)**	725	**(919)**	1,136
Net increase (decrease) in accumulated other comprehensive income (loss)	**$ (464)**	$ 753	**$ (1,080)**	$ 1,310
Income tax effect	**(114)**	192	**(261)**	400
Net increase (decrease) in accumulated other comprehensive income (loss), net of tax	**$ (350)**	$ 561	**$ (819)**	$ 910

The Company used the following derivative instruments as of March 31, 2019 and June 30, 2018 , reflected in its Condensed Consolidated Balance Sheets, for the risk management purposes detailed above:

	Balance Sheet Location	March 31, 2019 Fair Value of Derivatives Designated as Hedge Instruments	March 31, 2019 Fair Value of Derivatives Not Designated as Hedge Instruments	June 30, 2018 Fair Value of Derivatives Designated as Hedge Instruments	June 30, 2018 Fair Value of Derivatives Not Designated as Hedge Instruments
		(in thousands)			
Derivative assets:					
Foreign exchange contracts	Prepaid expenses and other current assets	**$ —**	**$ 581**	$ —	$ 157
Interest rate swap agreement	Other non-current assets	**$ 524**	**$ —**	$ 1,604	$ —
Derivative liabilities:					
Foreign exchange contracts	Accrued expenses and other current liabilities	**$ —**	**$ 112**	$ —	$ 156

(9) Fair Value of Financial Instruments

Accounting guidance defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Under this guidance, the Company classifies certain assets and liabilities based on the fair value hierarchy, which aggregates 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 or disclosed at fair value on a recurring basis include the Company's various debt instruments, deferred compensation plan investments, outstanding forward foreign currency exchange contracts, interest rate swap agreements and contingent consideration owed to the previous owners of Network1 and Intelisys. The carrying value of 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 March 31, 2019 :

	Total	Quoted prices in active markets (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)
		(in thousands)		
Assets:				
Deferred compensation plan investments, current and non-current portion	$ 24,574	$ 24,574	$ —	$ —
Forward foreign currency exchange contracts	581	—	581	—
Interest rate swap agreement	524	—	524	—
Total assets at fair value	$ 25,679	$ 24,574	$ 1,105	$ —
Liabilities:				
Deferred compensation plan investments, current and non-current portion	$ 24,574	$ 24,574	$ —	$ —
Forward foreign currency exchange contracts	112	—	112	—
Liability for contingent consideration, current and non-current portion	74,259	—	—	74,259
Total liabilities at fair value	$ 98,945	$ 24,574	$ 112	$ 74,259

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, 2018 :

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

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 and active employees. These investments are recorded to prepaid expenses and other current assets or other non-current assets depending on their corresponding, anticipated distribution dates 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). See Note 8 - *Derivatives and Hedging Activities* . 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 Condensed Consolidated Balance Sheets as prepaid expenses and other current assets or accrued expenses and other current liabilities, depending on the respective instruments' favorable or unfavorable positions.

The Company recorded contingent consideration liabilities at the acquisition date of Network1, Intelisys and POS Portal representing the amounts payable to former shareholders, as outlined under the terms of the purchase agreements, based upon the achievement of a projected earnings measure, net of specific pro forma adjustments. A final contingent consideration payment was paid to the former shareholders of Network1 during the quarter ended March 31, 2019. The contingent consideration for POS Portal was paid in full during the quarter ended December 31, 2017. The current and non-current portions of these obligations are reported separately on the Condensed Consolidated Balance Sheets. The fair value of the contingent considerations (Level 3) are determined using a form of a probability weighted discounted cash flow model. Subsequent changes in the fair value of the contingent consideration liabilities are recorded to the change in fair value of contingent consideration line item in the Condensed Consolidated Income Statements. Fluctuations due to foreign currency translation are captured in other comprehensive income through the changes in foreign currency translation adjustments line item as seen in Note 4 - *Accumulated Other Comprehensive Income (Loss)* .

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 (Level 3) for the Network1 and Intelisys earnouts for the quarter and nine months ended March 31, 2019 .

	Contingent consideration for the quarter ended March 31, 2019			Contingent consideration for the nine months ended March 31, 2019		
	Barcode, Networking & Security Segment	Communications & Services Segment	Total	Barcode, Networking & Security Segment	Communications & Services Segment	Total
	(in thousands)					
Fair value at beginning of period	**$ —**	**$ 71,886**	**$ 71,886**	**$ —**	**$ 108,233**	**$ 108,233**
Issuance of contingent consideration	**—**	**—**	**—**	**—**	**—**	**—**
Payments	**—**	**(2,736)**	**(2,736)**	**—**	**(45,796)**	**(45,796)**
Change in fair value of contingent consideration	**—**	**5,101**	**5,101**	**—**	**11,535**	**11,535**
Foreign currency translation adjustment	**—**	**8**	**8**	**—**	**287**	**287**
Fair value at end of period	**$ —**	**$ 74,259**	**$ 74,259**	**$ —**	**$ 74,259**	**$ 74,259**

The table below provides a summary of the changes in fair value of the Company’s contingent considerations (Level 3) for the Network1, Intelisys and POS Portal earnouts for the quarter and nine months ended March 31, 2018 .

	Contingent consideration for the quarter ended March 31, 2018			Contingent consideration for the nine months ended March 31, 2018		
	Barcode, Networking & Security Segment	Communications & Services Segment	Total	Barcode, Networking & Security Segment	Communications & Services Segment	Total
	(in thousands)					
Fair value at beginning of period	$ —	$ 97,031	$ 97,031	$ —	$ 114,036	$ 114,036
Issuance of contingent consideration	—	—	—	13,098	—	13,098
Payments	—	—	—	(13,167)	(40,858)	(54,025)
Change in fair value of contingent consideration	—	4,801	4,801	69	28,526	28,595
Foreign currency translation adjustment	—	(54)	(54)	—	74	74
Fair value at end of period	$ —	$ 101,778	$ 101,778	$ —	$ 101,778	$ 101,778

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

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

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 liability related to Intelisys as of March 31, 2019 and June 30, 2018 were as follows.

Reporting Period	Valuation Technique	Significant Unobservable Inputs	Weighted Average Rates
March 31, 2019	Discounted cash flow	Weighted average cost of capital	**14.9%**
		Adjusted EBITDA growth rate	**15.3%**
June 30, 2018	Discounted cash flow	Weighted average cost of capital	14.8%
		Adjusted EBITDA growth rate	18.2%

The weighted average cost of capital ("WACC") as of June 30, 2018 has been adjusted to exclude Network1 as the earnout period ended as of June 30, 2018.

Worldwide Barcode, Networking & Security

POS Portal

The contingent consideration due to the former shareholders of POS Portal was paid in full during the quarter ended December 31, 2017. For the quarter ended March 31, 2018 , the change in fair value of the contingent consideration recognized in the Condensed Consolidated Income Statements contributed a loss of less than $0.1 million .

Worldwide Communications & Services Segment

Intelisys

The discounted fair value of the liability for the contingent consideration due to the former shareholders of Intelisys recognized at March 31, 2019 was $74.3 million , of which $39.4 million is classified as current. The change in fair value of the contingent consideration recognized in the Condensed Consolidated Income Statement contributed a loss of $2.6 million and $9.0 million for the quarter and nine months ended March 31, 2019 . The change in fair value for the quarter is primarily driven by the recurring amortization of the unrecognized fair value discount. The change in the fair value for the nine month period is primarily the result of recurring amortization of the unrecognized fair value discount as well as improved financial results. Although there is no contractual limit, total future undiscounted contingent consideration payments are anticipated to range up to $85.0 million , based on the Company’s best estimate of the earnout calculated on a multiple of earnings, before interest expense, income taxes, depreciation and amortization.

The discounted fair value of the liability for the contingent consideration related to Intelisys recognized at March 31, 2018 was $93.7 million , of which $32.7 million is classified as current. The change in fair value of the contingent consideration recognized in the Condensed Consolidated Income Statement contributed a loss of $3.0 million and $12.2 million for the quarter and nine months ended March 31, 2018 , respectively. The change in fair value for the quarter is primarily driven by the recurring amortization of the unrecognized fair value discount. The change in fair value for the nine month period is 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.

Network1

Two final payments were made the former shareholders of Network1 during the quarter and nine months ended March 31, 2019 . The change in the fair value of the contingent consideration for the quarter and nine months ended March 31, 2019 recognized in the Condensed Consolidated Income Statements contributed to a loss of $2.5 million for agreed upon adjustments in the final payments.

The discounted fair value of the liability for the contingent consideration related to Network1 recognized at March 31, 2018 was $8.1 million , all of which is classified as current. For the quarter and nine months ended March 31, 2018 , the change in fair value of the contingent consideration recognized in the Condensed Consolidated Income Statements contributed a loss of $1.8 million and $16.3 million , respectively. The change in fair value for the quarter is primarily due to improved actual results. The change in fair value for the nine month period is primarily driven by a change in estimate of the current year payment to the former shareholders of Network1, additional agreed upon adjustments to the projected final settlement and improved actual results for the nine month period. In addition, volatility in the foreign exchange between the Brazilian real and the U.S. dollar has driven changes in the translation of this Brazilian real denominated liability.

(10) Segment Information

The Company is a leading global provider of technology solutions and services 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 North America, Latin America and Europe. We see adjacencies among these technologies in helping our customers develop solutions. Data capture and POS products interface with computer systems used to automate the collection, processing and communication of information for commercial and industrial applications, including retail sales, distribution, shipping, inventory control, materials handling, warehouse management and health care applications. Electronic physical security products include identification, access control, video surveillance, intrusion-related and wireless and networking infrastructure products.

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 North America, Latin America and Europe. The offerings include voice, video conferencing, wireless, data networking, cable, unified communications and collaboration and cloud and technology services. As these solutions come together on IP networks, new opportunities are created for customers to move into adjacent solutions for all vertical markets, such as education, healthcare and government.

Selected financial information for each business segment is presented below:

	Quarter ended March 31, 2019	Quarter ended March 31, 2018	Nine months ended March 31, 2019	Nine months ended March 31, 2018
	(in thousands)			
Sales:				
Worldwide Barcode, Networking & Security	**$ 596,913**	$ 604,322	**$ 1,953,664**	$ 1,944,436
Worldwide Communications & Services	**296,444**	291,315	**958,614**	907,972
	$ 893,357	$ 895,637	**$ 2,912,278**	$ 2,852,408
Depreciation and amortization:				
Worldwide Barcode, Networking & Security	**$ 4,371**	$ 4,830	**$ 13,387**	$ 13,413
Worldwide Communications & Services	**4,097**	3,740	**11,494**	12,172
Corporate	**895**	868	**2,685**	2,619
	$ 9,363	$ 9,438	**$ 27,566**	$ 28,204
Change in fair value of contingent consideration:				
Worldwide Barcode, Networking & Security	**$ —**	$ —	**$ —**	$ 69
Worldwide Communications & Services	**$ 5,101**	$ 4,801	**$ 11,535**	$ 28,526
	$ 5,101	$ 4,801	**$ 11,535**	$ 28,595
Operating income (loss):				
Worldwide Barcode, Networking & Security	**$ 16,865**	$ 11,566	**$ 48,974**	$ 41,143
Worldwide Communications & Services	**2,161**	6,375	**21,956**	6,909
Corporate	**(222)**	—	**(988)**	(172)
	$ 18,804	$ 17,941	**$ 69,942**	$ 47,880
Capital expenditures:				
Worldwide Barcode, Networking & Security	**$ 2,298**	$ 1,293	**$ 6,038**	$ 3,033
Worldwide Communications & Services	**2,899**	529	**4,935**	1,237
Corporate	**—**	189	**4**	1,037
	$ 5,197	$ 2,011	**$ 10,977**	$ 5,307
Sales by Geography Category:				
United States and Canada	**$ 678,078**	$ 660,139	**$ 2,210,729**	$ 2,118,963
International [(1)]	**221,202**	242,243	**722,715**	757,070
Less intercompany sales	**(5,923)**	(6,475)	**(21,166)**	(23,625)
	$ 893,357	$ 895,637	**$ 2,912,278**	$ 2,852,408

[(1)] For the quarters and nine months ended March 31, 2019 and 2018, no sales exceeded 10% of consolidated net sales to any single international country.

	March 31, 2019	June 30, 2018
	(in thousands)	
Assets:		
Worldwide Barcode, Networking & Security	**$ 1,079,812**	$ 1,062,143
Worldwide Communications & Services	**937,517**	841,490
Corporate	**44,826**	41,662
	$ 2,062,155	$ 1,945,295
Property and equipment, net by Geography Category:		
United States and Canada	**$ 67,111**	$ 69,032
International	**4,171**	4,010
	$ 71,282	$ 73,042

(11) Commitments and Contingencies

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

The Company expects total capital expenditures to range from $10 million to $12 million for fiscal year 2019, primarily for information technology investments.

During the Company's due diligence for the Network1 acquisition, several pre-acquisition contingencies were identified regarding various Brazilian federal and state tax exposures. The Company recorded indemnification receivables that are reported gross of the pre-acquisition contingency liabilities as the funds were escrowed as part of the acquisition. The amount available after the impact of foreign currency translation to future pre-acquisition contingency settlements or to be released to the sellers was $6.4 million and $24.1 million , as of March 31, 2019 and June 30, 2018 , 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 Condensed Consolidated Balance Sheets as of March 31, 2019 and June 30, 2018 :

	March 31, 2019	June 30, 2018
	Network1	
	(in thousands)	
Assets		
Prepaid expenses and other current assets	**$ 528**	$ 1,385
Other non-current assets	**$ 5,133**	$ 5,700
Liabilities		
Accrued expenses and other current liabilities	**$ 528**	$ 1,385
Other long-term liabilities	**$ 5,133**	$ 5,700

(12) Income Taxes

On December 22, 2017, the U.S. government enacted the Tax Cuts and Jobs Act (the "Tax Act"). The Tax Act reduces the corporate federal tax rate from 35% to 21% effective January 1, 2018 and implements 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 ending June 30, 2018. The U.S. statutory federal rate is 21% for the year ending 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 remeasure deferred tax assets and liabilities.

Income taxes for the quarter and nine months ended March 31, 2019 have been included in the accompanying condensed consolidated financial statements using an estimated annual effective tax rate. In addition to applying the estimated annual effective tax rate to pre-tax income, the Company also includes certain items treated as discrete events to arrive at an estimated overall tax provision. During the nine months ended March 31, 2019, the Company recognized discrete tax benefits of $0.7 million related to the reversal of an unrecognized tax benefit and $0.2 million related to the completion of the accounting for the Tax Act.

The Company's effective tax rate of 25.4% for the nine months ended March 31, 2019 differs from the current federal statutory rate of 21% primarily as a result of income derived from tax jurisdictions with varying income tax rates, nondeductible expenses and state income taxes.

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 ("SAB") 118 and determined that the provisional amount should be adjusted to the final amount of $9.4 million . 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 all other geographies will continue to be considered retained indefinitely for reinvestment. It has been the practice of the Company to reinvest those earnings in the business 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 a provisional discrete income tax benefit of $1.6 million for the remeasurement of the Company's net 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 had approximately $1.2 million and $2.1 million of total gross unrecognized tax benefits as of March 31, 2019 and June 30, 2018 , respectively. Of this total at March 31, 2019 , approximately $1.0 million represents the amount of unrecognized tax benefits that are permanent in nature and, if recognized, would affect the annual effective tax rate. The Company does not believe that the total amount of unrecognized tax benefits will significantly increase or decrease within twelve months of the reporting date.

The Company conducts business globally and one or more of its subsidiaries files income tax returns in the U.S. federal, various state, local and foreign jurisdictions. In the normal course of business, the Company is subject to examination by taxing authorities in countries and states in which it operates. With certain exceptions, the Company is no longer subject to federal, state and local, or non-U.S. income tax examinations by tax authorities for the years before June 30, 2013 .

The Company's policy is to recognize interest and penalties related to income tax matters in income tax expense. As of March 31, 2019 and June 30, 2018 , the Company had approximately $1.0 million and $1.2 million , respectively, accrued for interest and penalties, respectively.

Financial results in Belgium produced a pre-tax loss of approximately $0.8 million for the quarter ended March 31, 2019 and pre-tax income of approximately $0.7 million for the nine months ended March 31, 2019 . Belgium had pre-tax losses in the prior year. To the extent the Belgium business does not maintain profitability as expected, this could affect the valuation of certain deferred tax assets. However, in the judgment of management it is more likely than not that the deferred tax asset will be realized. Belgium enacted a corporate tax reform law 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 as a discrete event during the year ended June 30, 2018 .

(13) Subsequent Events

On April 30, 2019 , the Company entered into an expanded and extended credit facility (the "Second Amended Credit Agreement") that 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, with a maturity date of April 30, 2024 . The former credit facility provided $400 million of revolving capacity and was scheduled to mature on April 3, 2022 . Pursuant to an "accordion feature," the Company may increase its borrowings by 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. Loans denominated in U.S. dollars, other than swingline loans, bear interest at a rate equal to a spread over 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 EBITDA. This spread ranges from 1.00% to 1.75% for LIBOR-based loans and 0.0% to 0.75% for alternate base rate loans. The secured term loan facility will amortize based on the percentage of original principal amount with 2.5% in Year 1, 5.0% in Year 2, 5.0% in Year 3, 7.5% in Year 4, and 10.0% in Year 5.

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

Overview

ScanSource is at the center of the technology 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, Latin America and Europe and provide solutions and services from over 500 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 United States, Canada, Latin America 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 Aruba/HPE, Axis, AudioCodes, Avaya, Barco, Bematech, CenturyLink/Level 3, Cisco, Comcast Business, Datalogic, Dell, Dialogic, Elo, Epson, F5, Fortinet, Hanwha, Honeywell, HID, Ingenico, Jabra, March Networks, Mitel, NCR, Oracle, Panasonic, Plantronics/Polycom (Poly), RingCentral, Ruckus, Samsung, Sony, Spectralink, Toshiba Global Commerce Solutions, Ubiquiti, Verifone, Verizon, Windstream and Zebra Technologies. We also offer customers significant choices in cloud services through our Intelisys business, including offerings in contact center, infrastructure and unified communications.

Our Strategy

We sell 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. We have the ability to provide 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 customers' 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 customers 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 customers offer more products and services and increase recurring revenue opportunities. As part of our strategic plan, we consider strategic acquisitions to enhance our technology offerings and service capabilities. In August 2018, we completed the acquisition of 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 channel partners sell customer experience (CX) solutions, where CRM integrates with other communications offerings.

Results of Operations

Net Sales

The following tables summarize our net sales results by technology segment and by geographic location for the quarters and nine months ended March 31, 2019 and 2018 .

Net Sales by Segment:	Quarter ended March 31, 2019	Quarter ended March 31, 2018	$ Change	% Change	% Change, Constant Currency, Excluding Acquisitions [a]
	(in thousands)				
Worldwide Barcode, Networking & Security	**$ 596,913**	$ 604,322	$ (7,409)	(1.2)%	0.6%
Worldwide Communications & Services	**296,444**	291,315	5,129	1.8 %	5.0%
Total net sales	**$ 893,357**	$ 895,637	$ (2,280)	(0.3)%	2.0%

	Nine months ended March 31, 2019	Nine months ended March 31, 2018	$ Change	% Change	% Change, Constant Currency, Excluding Acquisitions [a]
	(in thousands)				
Worldwide Barcode, Networking & Security	**$ 1,953,664**	$ 1,944,436	$ 9,228	0.5 %	1.4%
Worldwide Communications & Services	**958,614**	907,972	50,642	5.6 %	9.2%
Total net sales	**$ 2,912,278**	$ 2,852,408	$ 59,870	2.1 %	3.9%

[a] A reconciliation of non-GAAP net sales in constant currency, excluding acquisitions is presented at the end of *Results of Operations* in the non-GAAP section.

Worldwide Barcode, Networking & Security

The Barcode, Networking & Security segment consists of sales to customers in North America, Latin America and Europe. For the quarter ended March 31, 2019 , net sales for the Barcode, Networking & Security segment decreased $7.4 million compared to the prior-year quarter largely due to the negative impact from foreign exchange and lower sales volume from big deals. Net sales increased $9.2 million for the nine months ended March 31, 2019 compared to the prior-year nine month period. Excluding the foreign exchange negative impact, adjusted net sales increased $3.4 million , or 0.6% , for the quarter ended March 31, 2019 compared to the prior-year quarter. Excluding the foreign exchange negative impact and net sales from POS Portal for the first quarter of each year, net sales increased $26.4 million , or 1.4% , for the nine month period ended March 31, 2019 compared to the prior-year nine month period. The increase in net sales and adjusted net sales is primarily due to higher sales volume in North America, partially offset by declines in Europe and Latin America.

Worldwide Communications & Services

The Communications & Services segment consists of sales to customers in North America, Latin America and Europe. For the quarter and nine months ended March 31, 2019 , net sales increased $5.1 million and $50.6 million , compared to the prior-year quarter and nine month period, respectively. Excluding the foreign exchange negative impact and net sales from acquisitions, adjusted net sales increased $14.7 million , or 5.0% , for the quarter and $83.6 million , or 9.2% , for the nine month period ended March 31, 2019 compared to the prior-year periods. The increase in both net sales and adjusted net sales for the quarter is primarily due to increased sales volume in Brazil. The increase for the nine month period compared to the prior year is primarily driven by increased sales volume in North America and Brazil.

Net Sales by Geography:	Quarter ended March 31, 2019	2018	$ Change	% Change	% Change, Constant Currency, Excluding Acquisitions [(a)]
	(in thousands)				
United States and Canada	**$ 672,155**	$ 653,537	$ 18,618	2.8 %	2.5%
International	**$ 221,202**	$ 242,100	(20,898)	(8.6)%	0.8%
Total net sales	**$ 893,357**	$ 895,637	$ (2,280)	(0.3)%	2.0%

	Nine months ended March 31, 2019	2018	$ Change	% Change	% Change, Constant Currency, Excluding Acquisitions [(a)]
	(in thousands)				
United States and Canada	**$ 2,189,567**	$ 2,095,519	$ 94,048	4.5 %	3.8%
International	**722,711**	756,889	(34,178)	(4.5)%	4.0%
Total net sales	**$ 2,912,278**	$ 2,852,408	$ 59,870	2.1 %	3.9%

[(a)] A reconciliation of non-GAAP net sales in constant currency, excluding acquisitions is presented at the end of *Results of Operations* in the non-GAAP section.

Gross Profit

The following table summarizes our gross profit for the quarters and nine months ended March 31, 2019 and 2018 :

	Quarter ended March 31, 2019	2018	$ Change	% Change	% of Net Sales March 31, 2019	2018
	(in thousands)					
Worldwide Barcode, Networking & Security	**$ 61,563**	$ 56,493	$ 5,070	9.0%	**10.3%**	9.3%
Worldwide Communications & Services	**48,452**	47,395	1,057	2.2%	**16.3%**	16.3%
Gross profit	**$ 110,015**	$ 103,888	$ 6,127	5.9%	**12.3%**	11.6%

	Nine months ended March 31, 2019	2018	$ Change	% Change	% of Net Sales March 31, 2019	2018
	(in thousands)					
Worldwide Barcode, Networking & Security	**$ 188,339**	$ 175,939	$ 12,400	7.0%	**9.6%**	9.0%
Worldwide Communications & Services	**154,369**	146,837	7,532	5.1%	**16.1%**	16.2%
Gross profit	**$ 342,708**	$ 322,776	$ 19,932	6.2%	**11.8%**	11.3%

Worldwide Barcode, Networking & Security

Gross profit dollars and gross profit margin for the Barcode, Networking & Security segment increased for the quarter and nine months ended March 31, 2019 , compared to the prior year primarily due to higher vendor programs.

Worldwide Communications & Services

In the Communications & Services segment, gross profit dollars increased for the quarter and nine months ended March 31, 2019 compared to the prior year largely due to higher sales volumes. Gross profit margin remained flat for the quarter and decreased slightly to 16.1% for the nine month period ended March 31, 2019 compared to the prior-year period from a less favorable sales mix.

Operating Expenses

The following table summarizes our operating expenses for the quarters and nine months ended March 31, 2019 and 2018 :

	Quarter ended March 31,				% of Net Sales March 31,	
	2019	**2018**	**$ Change**	**% Change**	**2019**	**2018**
	(in thousands)					
Selling, general and administrative expenses	**$ 77,688**	$ 72,691	$ 4,997	6.9 %	**8.7%**	8.1%
Depreciation expense	**3,417**	3,352	65	1.9 %	**0.4%**	0.4%
Intangible amortization expense	**5,005**	5,103	(98)	(1.9)%	**0.6%**	0.6%
Change in fair value of contingent consideration	**5,101**	4,801	300	6.2 %	**0.6%**	0.5%
Operating expenses	**$ 91,211**	$ 85,947	$ 5,264	6.1 %	**10.2%**	9.6%

	Nine months ended March 31,				% of Net Sales March 31,	
	2019	**2018**	**$ Change**	**% Change**	**2019**	**2018**
	(in thousands)					
Selling, general and administrative expenses	**$ 236,569**	$ 220,642	$ 15,927	7.2 %	**8.1%**	7.7%
Depreciation expense	**9,954**	10,059	(105)	(1.0)%	**0.3%**	0.4%
Intangible amortization expense	**14,708**	15,600	(892)	(5.7)%	**0.5%**	0.5%
Change in fair value of contingent consideration	**11,535**	28,595	(17,060)	(59.7)%	**0.4%**	1.0%
Operating expenses	**$ 272,766**	$ 274,896	$ (2,130)	(0.8)%	**9.4%**	9.6%

Selling, general and administrative expenses ("SG&A") increased $5.0 million and $15.9 million for the quarter and nine months ended March 31, 2019 , respectively, as compared to the prior year. Higher SG&A expenses for the quarter and nine month period reflects investments in future growth, primarily in increased employee-related expenses.

Depreciation expense and amortization expense remained fairly consistent for the quarter ended March 31, 2019 compared to the prior-year quarter. Depreciation expense and amortization expense decreased $0.1 million and $0.9 million for the nine months ended March 31, 2019 , respectively, primarily due to assets that were fully depreciated or amortized, partially offset by additional expense related to assets acquired through the current-year acquisitions.

We present changes in fair value of the contingent consideration owed to the former shareholders of businesses that we acquire as a separate line item in operating expenses. We recorded fair value adjustment expense of $5.1 million and $11.5 million for the quarter and nine months ended March 31, 2019 . The expense from change in fair value of contingent consideration for the quarter and nine month period is largely due to the recurring amortization of the unrecognized fair value discount for the Intelisys acquisition and changes to the current year payments to Network1 shareholders.

Operating Income

The following table summarizes our operating income for the quarters and nine months ended March 31, 2019 and 2018 :

	Quarter ended March 31, 2019	Quarter ended March 31, 2018	$ Change	% Change	% of Net Sales March 31, 2019	% of Net Sales March 31, 2018
		(in thousands)				
Worldwide Barcode, Networking & Security	**$ 16,865**	$ 11,566	$ 5,299	45.8 %	**2.8%**	1.9%
Worldwide Communications & Services	**2,161**	6,375	(4,214)	(66.1)%	**0.7%**	2.2%
Corporate	**(222)**	—	(222)	nm*	**nm***	nm*
Operating income	**$ 18,804**	$ 17,941	$ 863	4.8 %	**2.1%**	2.0%

	Nine months ended March 31, 2019	Nine months ended March 31, 2018	$ Change	% Change	% of Net Sales March 31, 2019	% of Net Sales March 31, 2018
		(in thousands)				
Worldwide Barcode, Networking & Security	**$ 48,974**	$ 41,143	$ 7,831	19.0 %	**2.5%**	2.1%
Worldwide Communications & Services	**21,956**	6,909	15,047	217.8 %	**2.3%**	0.8%
Corporate	**(988)**	(172)	(816)	nm*	**nm***	nm*
Operating income	**$ 69,942**	$ 47,880	$ 22,062	46.1 %	**2.4%**	1.7%

**nm - percentages are not meaningful*

Worldwide Barcode, Networking & Security

For the Barcode, Networking & Security segment, operating income and operating margin increased for the quarter and nine months ended March 31, 2019 compared to the prior year. The increase in the operating income for the quarter is primarily due to increased gross profit. The increase for the nine month period is largely due to increased gross profit, partially offset by higher employee-related expenses.

Worldwide Communications & Services

For the Communications & Services segment, operating income and operating margin decreased for the quarter ended March 31, 2019 compared to the prior year quarter largely due to higher employee-related expense and unfavorable operating performance for our international business. Operating income and operating margin increased for the nine months ended March 31, 2019 primarily due to lower expense recognized from the change in fair value of contingent consideration. Excluding the change in fair value of contingent consideration, operating income totaled $33.4 million, or 3.5% of net sales, and $35.4 million, or 3.9% of net sales, for the nine months ended March 31, 2019 and 2018, respectively. The decrease in adjusted operating income and adjusted operating margin for the nine month period is primarily due to higher employee-related expense.

Corporate

Corporate incurred $0.2 million and $1.0 million in acquisition costs for the quarter and nine months ended March 31, 2019 , respectively.

Total Other (Income) Expense

The following table summarizes our total other (income) expense for the quarters and nine months ended March 31, 2019 and 2018 :

	Quarter ended March 31,				% of Net Sales March 31,	
	2019	2018	$ Change	% Change	2019	2018
	(in thousands)					
Interest expense	**$ 3,670**	$ 2,784	$ 886	31.8 %	**0.4 %**	0.3 %
Interest income	**(682)**	(887)	205	23.1 %	**(0.1)%**	(0.1)%
Net foreign exchange (gains) losses	**471**	493	(22)	(4.5)%	**0.1 %**	0.1 %
Other, net	**(450)**	(241)	(209)	(86.7)%	**(0.1)%**	(0.0)%
Total other (income) expense, net	**$ 3,009**	$ 2,149	$ 860	40.0 %	**0.3 %**	0.2 %

	Nine months ended March 31,				% of Net Sales March 31,	
	2019	2018	$ Change	% Change	2019	2018
	(in thousands)					
Interest expense	**$ 9,415**	$ 6,655	$ 2,760	41.5 %	**0.3 %**	0.2 %
Interest income	**(1,397)**	(2,349)	952	(40.5)%	**(0.0)%**	(0.1)%
Net foreign exchange (gains) losses	**988**	1,275	(287)	(22.5)%	**0.0 %**	0.0 %
Other, net	**(734)**	(584)	(150)	25.7 %	**(0.0)%**	(0.0)%
Total other (income) expense, net	**$ 8,272**	$ 4,997	$ 3,275	65.5 %	**0.3 %**	0.2 %

Interest expense consists primarily of interest incurred on borrowings, non-utilization fees charged on the revolving credit facility and amortization of debt issuance costs. Interest expense increased for the quarter and nine months ended March 31, 2019 principally from higher average borrowings on our multi-currency revolving credit facility.

Interest income consists primarily of interest income generated on longer-term interest-bearing receivables and interest earned on cash and cash equivalents, principally in Brazil. Interest income decreased for the quarter and nine months ended March 31, 2019 due to lower cash balances and lower interest rates in Brazil.

Net foreign exchange losses consist of foreign currency transactional and functional currency re-measurements, offset by net foreign currency exchange contract gains and losses. Foreign exchange gains and losses are generated from fluctuations in the value of the 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, the U.S. dollar versus the Colombian peso 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. Our net foreign exchange losses reflect the net impact of changes in foreign currency exchange rates and the use of foreign exchange forward contracts to hedge against currency exposures.

Provision for Income Taxes

For the quarter and nine months ended March 31, 2019 , income tax expense was $4.1 million and $15.7 million , respectively, reflecting an effective tax rate of 25.8% and 25.4% , respectively. The effective tax rate for the quarter and nine months ended March 31, 2018 was 32.6% and 46.9% , respectively. The decrease in the effective tax rate is primarily due to the recognition of net discrete tax expense of $0.2 million and $7.1 million for the prior-year quarter and nine month period, respectively, related to the Tax Act and the reduction in the U.S. Federal statutory rate effective January 1, 2018. We expect the effective tax rate, excluding discrete items, for fiscal year 2019 to be approximately 25 to 26%, which reflects the application of the 21% U.S. statutory tax rate effective January 1, 2018. See Note 12 - *Income Taxes* to the Notes to Consolidated Financial Statements for further discussion.

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 ("U.S. 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 earnings per share (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 U.S. 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 provide a non-GAAP reconciliation of net sales in constant currency, excluding acquisition (organic growth):

Net Sales by Segment:

	Quarter ended March 31,			
	2019	**2018**	**$ Change**	**% Change**
Worldwide Barcode, Networking & Security:	*(in thousands)*			
Net sales, as reported	**$ 596,913**	$ 604,322	$ (7,409)	(1.2)%
Foreign exchange impact [(a)]	**10,802**	—		
Net sales, constant currency	**607,715**	604,322	3,393	0.6 %
Less: Acquisitions	**—**	—		
Net sales, constant currency excluding acquisitions	**$ 607,715**	$ 604,322	$ 3,393	0.6 %
Worldwide Communications & Services:				
Net sales, as reported	**$ 296,444**	$ 291,315	$ 5,129	1.8 %
Foreign exchange impact [(a)]	**11,945**	—		
Net sales, constant currency	**308,389**	291,315	17,074	5.9 %
Less: Acquisitions	**(2,423)**	—		
Net sales, constant currency excluding acquisitions	**$ 305,966**	$ 291,315	$ 14,651	5.0 %
Consolidated:				
Net sales, as reported	**$ 893,357**	$ 895,637	$ (2,280)	(0.3)%
Foreign exchange impact [(a)]	**22,747**	—		
Net sales, constant currency	**916,104**	895,637	20,467	2.3 %
Less: Acquisitions	**(2,423)**	—		
Net sales, constant currency excluding acquisitions	**$ 913,681**	$ 895,637	$ 18,044	2.0 %

[(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 quarter ended March 31, 2019 into U.S. dollars using the average foreign exchange rates for the quarter ended March 31, 2018.

Net Sales by Segment:

	Nine months ended March 31, 2019	Nine months ended March 31, 2018	$ Change	% Change
	(in thousands)			
Worldwide Barcode, Networking & Security:				
Net sales, as reported	**$ 1,953,664**	$ 1,944,436	$ 9,228	0.5%
Foreign exchange impact [a]	**26,119**	—		
Net sales, constant currency	**1,979,783**	1,944,436	35,347	1.8%
Less: Acquisitions	**(23,465)**	(14,553)		
Net sales, constant currency excluding acquisitions	**$ 1,956,318**	$ 1,929,883	$ 26,435	1.4%
Worldwide Communications & Services:				
Net sales, as reported	**$ 958,614**	$ 907,972	$ 50,642	5.6%
Foreign exchange impact [a]	**38,166**	—		
Net sales, constant currency	**996,780**	907,972	88,808	9.8%
Less: Acquisitions	**(5,219)**	—		
Net sales, constant currency excluding acquisitions	**$ 991,561**	$ 907,972	$ 83,589	9.2%
Consolidated:				
Net sales, as reported	**$ 2,912,278**	$ 2,852,408	$ 59,870	2.1%
Foreign exchange impact [a]	**64,285**	—		
Net sales, constant currency	**2,976,563**	2,852,408	124,155	4.4%
Less: Acquisitions	**(28,684)**	(14,553)		
Net sales, constant currency excluding acquisitions	**$ 2,947,879**	$ 2,837,855	$ 110,024	3.9%

[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 nine months ended March 31, 2019 into U.S. dollars using the average foreign exchange rates for the nine months ended March 31, 2018.

Net Sales by Geography:

	Quarter ended March 31, 2019	Quarter ended March 31, 2018	$ Change	% Change
	(in thousands)			
United States and Canada:				
Net sales, as reported	**$ 672,155**	$ 653,537	$ 18,618	2.8 %
Less: Acquisitions	**(2,423)**	—		
Net sales, excluding acquisitions	**$ 669,732**	$ 653,537	$ 16,195	2.5 %
International:				
Net sales, as reported	**$ 221,202**	$ 242,100	$ (20,898)	(8.6)%
Foreign exchange impact [(a)]	**22,747**	—		
Net sales, constant currency	**243,949**	242,100	1,849	0.8 %
Less: Acquisitions	**—**	—		
Net sales, constant currency excluding acquisitions	**$ 243,949**	$ 242,100	$ 1,849	0.8 %
Consolidated:				
Net sales, as reported	**$ 893,357**	$ 895,637	(2,280)	(0.3)%
Foreign exchange impact [(a)]	**22,747**	—		
Net sales, constant currency	**916,104**	895,637	20,467	2.3 %
Less: Acquisitions	**(2,423)**	—		
Net sales, constant currency excluding acquisitions	**$ 913,681**	$ 895,637	$ 18,044	2.0 %

[(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 quarter ended March 31, 2019 into U.S. dollars using the average foreign exchange rates for the quarter ended March 31, 2018.

	Nine months ended March 31, 2019	Nine months ended March 31, 2018	$ Change	% Change
	(in thousands)			
United States and Canada:				
Net sales, as reported	**$ 2,189,567**	$ 2,095,519	$ 94,048	4.5 %
Less: Acquisitions	**(28,684)**	(14,553)		
Net sales, constant currency excluding acquisitions	**$ 2,160,883**	$ 2,080,966	$ 79,917	3.8 %
International:				
Net sales, as reported	**$ 722,711**	$ 756,889	$ (34,178)	(4.5)%
Foreign exchange impact [(a)]	**64,285**	—		
Net sales, constant currency	**786,996**	756,889	30,107	4.0 %
Less: Acquisitions	**—**	—		
Net sales, constant currency excluding acquisitions	**$ 786,996**	$ 756,889	$ 30,107	4.0 %
Consolidated:				
Net sales, as reported	**$ 2,912,278**	$ 2,852,408	$ 59,870	2.1 %
Foreign exchange impact [(a)]	**64,285**	—		
Net sales, constant currency	**2,976,563**	2,852,408	124,155	4.4 %
Less: Acquisitions	**(28,684)**	(14,553)		
Net sales, constant currency excluding acquisitions	**$ 2,947,879**	$ 2,837,855	$ 110,024	3.9 %

[(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 nine months ended March 31, 2019 into U.S. dollars using the average foreign exchange rates for the nine months ended March 31, 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 and changes in fair value of contingent consideration. 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:

	Quarter ended March 31, 2019				Quarter ended March 31, 2018			
	Operating Income	**Pre-Tax Income**	**Net Income**	**Diluted EPS**	**Operating Income**	**Pre-Tax Income**	**Net Income**	**Diluted EPS**
	(in thousands, except per share data)							
GAAP Measures	**$ 18,804**	**$ 15,795**	**$ 11,715**	**$ 0.45**	$ 17,941	$ 15,792	$ 10,649	$ 0.42
Adjustments:								
Amortization of intangible assets	**5,005**	**5,005**	**3,789**	**0.15**	5,103	5,103	3,590	0.14
Change in fair value of contingent consideration	**5,101**	**5,101**	**3,619**	**0.14**	4,801	4,801	3,272	0.12
Acquisition costs	**222**	**222**	**222**	**0.01**	—	—	—	—
Restructuring costs	**592**	**592**	**443**	**0.02**	—	—	—	—
Non-GAAP measures	**$ 29,724**	**$ 26,715**	**$ 19,788**	**$ 0.77**	$ 27,845	$ 25,696	$ 17,511	$ 0.68

Operating Income by Segment:

	Quarter ended March 31, 2019	Quarter ended March 31, 2018	$ Change	% Change	% of Net Sales March 31, 2019	% of Net Sales March 31, 2018
Worldwide Barcode, Networking & Security:						
GAAP operating income	**$ 16,865**	$ 11,566	$ 5,299	45.8 %	**2.8%**	1.9%
Adjustments:						
Amortization of intangible assets	**1,968**	2,310	(342)			
Non-GAAP operating income	**$ 18,833**	$ 13,876	$ 4,957	35.7 %	**3.2%**	2.3%
Worldwide Communications & Services:						
GAAP operating income	**$ 2,161**	$ 6,375	$ (4,214)	(66.1)%	**0.7%**	2.2%
Adjustments:						
Amortization of intangible assets	**3,037**	2,793	244			
Change in fair value of contingent consideration	**5,101**	4,801	300			
Restructuring costs	**592**	—	592			
Non-GAAP operating income	**$ 10,891**	$ 13,969	$ (3,078)	(22.0)%	**3.7%**	4.8%
Corporate:						
GAAP operating income	**$ (222)**	$ —	$ (222)	nm*	**nm***	nm*
Adjustments:						
Acquisition costs	**222**	—	222			
Non-GAAP operating income	**$ —**	$ —	$ —	nm*	**nm***	nm*
Consolidated:						
GAAP operating income	**$ 18,804**	$ 17,941	$ 863	4.8 %	**2.1%**	2.0%
Adjustments:						
Amortization of intangible assets	**5,005**	5,103	(98)			
Change in fair value of contingent consideration	**5,101**	4,801	300			
Acquisition costs	**222**	—	222			
Restructuring costs	**592**	—	592			
Non-GAAP operating income	**$ 29,724**	$ 27,845	$ 1,879	6.7 %	**3.3%**	3.1%

nm* - not meaningful

Operating Income by Segment:

	Nine months ended March 31,				% of Net Sales March 31,	
	2019	2018	$ Change	% Change	2019	2018
Worldwide Barcode, Networking & Security:						
GAAP operating income	**$ 48,974**	$ 41,143	$ 7,831	19.0 %	**2.5%**	2.1%
Adjustments:						
Amortization of intangible assets	**6,131**	6,393	(262)			
Change in fair value of contingent consideration	**—**	69	(69)			
Restructuring Costs	**708**	—	708			
Non-GAAP operating income	**$ 55,813**	$ 47,605	$ 8,208	17.2 %	**2.9%**	2.4%
Worldwide Communications & Services:						
GAAP operating income	**$ 21,956**	$ 6,909	$ 15,047	217.8 %	**2.3%**	0.8%
Adjustments:						
Amortization of intangible assets	**8,577**	9,207	(630)			
Change in fair value of contingent consideration	**11,535**	28,526	(16,991)			
Restructuring costs	**1,212**	—	1,212			
Legal settlement	**—**	952	(952)			
Non-GAAP operating income	**$ 43,280**	$ 45,594	$ (2,314)	(5.1)%	**4.5%**	5.0%
Corporate:						
GAAP operating income	**$ (988)**	$ (172)	$ (816)	nm*	**nm***	nm*
Adjustments:						
Acquisition costs	**988**	172	816			
Non-GAAP operating income	**$ —**	**$** —	$ —	nm*	**nm***	nm*
Consolidated:						
GAAP operating income	**$ 69,942**	$ 47,880	$ 22,062	46.1 %	**2.4%**	1.7%
Adjustments:						
Amortization of intangible assets	**14,708**	15,600	(892)			
Change in fair value of contingent consideration	**11,535**	28,595	(17,060)			
Acquisition costs	**988**	172	816			
Restructuring costs	**1,920**	—	1,920			
Legal settlement	**—**	952	(952)			
Non-GAAP operating income	**99,093**	93,199	$ 5,894	6.3 %	**3.4%**	3.3%

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 quarters ended March 31, 2019 and 2018 , respectively:

	Quarter ended March 31,	
	2019	**2018**
Return on invested capital ratio, annualized (a)	**11.1%**	11.2%

(a) The annualized EBITDA amount is divided by days in the quarter times 365 days per year. There were 90 days in the current and prior-year quarter.

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

	Quarter ended March 31,			
	2019		**2018**	
	(in thousands)			
Reconciliation of net income to EBITDA:				
Net income (GAAP)	**$**	**11,715**	$	10,649
Plus: Interest expense		**3,670**		2,784
Plus: Income taxes		**4,080**		5,143
Plus: Depreciation and amortization (a)		**9,363**		9,438
EBITDA (non-GAAP)		**28,828**		28,014
Plus: Change in fair value of contingent consideration		**5,101**		4,801
Plus: Acquisition costs (b)		**222**		—
Plus: Restructuring costs (a)		**456**		—
Adjusted EBITDA (numerator for ROIC) (non-GAAP)	**$**	**34,607**	$	32,815

	Quarter ended March 31,			
	2019		**2018**	
	(in thousands)			
Invested capital calculations:				
Equity – beginning of the quarter	**$**	**899,503**	$	860,787
Equity – end of the quarter		**911,063**		877,796
Plus: Change in fair value of contingent consideration, net of tax		**3,619**		3,272
Plus: Acquisition costs (b)		**222**		—
Plus: Restructuring, net of tax (a)		**334**		—
Average equity		**907,371**		870,928
Average funded debt (c)		**357,443**		315,872
Invested capital (denominator for ROIC) (non-GAAP)	**$**	**1,264,814**	$	1,186,800

(a) 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.

(b) Acquisition costs are generally nondeductible for tax purposes.

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

Liquidity and Capital Resources

Our primary sources of liquidity are cash flows from operations and borrowings under our $400 million revolving credit facility. Our business requires significant investment in working capital, particularly accounts receivable and inventory, partially financed through our accounts payable to vendors, cash generated from operations and revolving lines of credit. In general, as our sales volumes increase, our net investment in working capital increases, which typically results in decreased cash flow from operating activities. Conversely, when sales volumes decrease, our net investment in working capital typically decreases, which typically results in increased cash flow from operating activities.

Our cash and cash equivalents balance totaled $20.4 million at March 31, 2019 , compared to $25.5 million at June 30, 2018 , including $13.9 million and $20.3 million held outside of the United States at March 31, 2019 and June 30, 2018 , respectively. Checks released but not yet cleared in the amounts of $16.8 million and $5.7 million are included in accounts payable as of March 31, 2019 and June 30, 2018 , respectively.

We conduct business in many locations throughout the world where we generate and use cash. We provide for U.S. income taxes for the earnings of our Canadian subsidiary. Earnings from all other geographies will continue to be considered retained indefinitely for reinvestment. Due to recent tax legislation in the United States, we are required to estimate a one-time transition tax on repatriation of foreign earnings during the nine months ended March 31, 2018 . See Note 12 - *Income Taxes* in the Notes to the Consolidated Financial Statements for further discussion.

Our net investment in working capital at March 31, 2019 was $752.7 million compared to $651.9 million at June 30, 2018 and $699.4 million at March 31, 2018 . Our net investment in working capital is affected by several factors such as fluctuations in sales volume, net income, timing of collections from customers, increases and decreases to inventory levels, payments to vendors, as well as cash generated or used by other financing and investing activities.

	Nine months ended March 31,	
	2019	**2018**
Cash provided by (used in):	*(in thousands)*	
Operating activities	**$ (24,547)**	$ (6,230)
Investing activities	**(43,138)**	(149,075)
Financing activities	**62,278**	133,325
Effect of exchange rate change on cash and cash equivalents	**277**	1,247
Decrease in cash and cash equivalents	**$ (5,130)**	$ (20,733)

Net cash used in operating activities was $24.5 million for the nine months ended March 31, 2019 , compared to $6.2 million used in operating activities in the prior-year period. Cash used in operating activities for the nine months ended March 31, 2019 is primarily attributable to increases in inventory, partially offset by decreases in accounts receivable, increases in accounts payable and cash from net income. Cash used in operating activities for the nine months ended March 31, 2018 is primarily attributable to increased inventory and accounts receivable balances, as well as lower accounts payable balances, partially offset by cash from net income. Changes in working capital balances for the nine months ended March 31, 2019 and 2018 exclude balances acquired from RPM, Canpango and POS Portal at acquisition, respectively.

The number of days sales outstanding ("DSO"), excluding Intelisys, was 60 days at March 31, 2019 , compared to 59 days at June 30, 2018 and 64 days at March 31, 2018 . Inventory turned 4.3 times, during the third quarter of fiscal year 2019 compared to 5.4 for the previous quarter, and 5.5 times in the prior-year quarter. Inventory turns decreased due to strategic inventory purchases and lower than planned sales in the third fiscal quarter.

Cash used in investing activities for the nine months ended March 31, 2019 was $43.1 million , compared to $149.1 million used in the prior year period. Cash used in investing activities for the nine months ended March 31, 2019 primarily represents cash used to acquire Canpango, Intelisys Global and RPM. Cash used in investing activities for the nine months ended March 31, 2018 primarily represents the cash used to acquire POS Portal.

Management expects capital expenditures for fiscal year 2019 to range from $10 million to $12 million , primarily for information technology investments.

For the nine months ended March 31, 2019 , cash provided by financing activities totaled $62.3 million compared to $133.3 million provided in the prior-year period. Cash provided by financing activities for the nine months ended March 31, 2019 was primarily from net borrowings on the revolving credit facility, partially offset by cash used to pay contingent consideration payments to the former shareholders of Intelisys and Network1. Cash provided by financing activities for the nine months ended March 31, 2018 was primarily from net borrowings on the revolving credit facility, partially offset by cash used to pay contingent consideration payments to the former shareholders of Network1, Intelisys and POS Portal.

We have a multi-currency senior secured credit facility with JP Morgan Chase Bank, N.A., as administrative agent, and a syndicate of banks. On April 30, 2019 we amended and restated the credit facility as described in Note 13. The Second Amended Credit Agreement established (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, with a maturity date of April 30, 2024. The Second Amended Credit Agreement allows for the issuance of up to $50 million for letters of credit, of which $15 million is currently committed, and has a $250 million accordion feature that allows the Company to increase the aggregate commitments to $750 million , subject to obtaining additional credit commitments from the lenders participating in the increase.

Loans denominated in U.S. dollars under the Second Amended Credit Agreement, other than swingline loans, bear interest at a rate equal to a spread over the London Interbank Offered Rate ("LIBOR") or alternate base rate depending upon the our net leverage ratio, calculated as total debt less up to $15 million of unrestricted domestic cash to trailing four-quarter adjusted EBITDA.

This spread ranges from 1.00% to 1.75% for LIBOR-based loans and 0.00% to 0.75% for alternate base rate loans. The secured term loan facility will amortize based on the percentage of original principal amount with 2.5% in Year 1, 5.0% in Year 2, 5.0% in Year 3, 7.5% in Year 4 and 10.0% in Year 5. Borrowings under the Second Amended Credit Agreement are secured by substantially all of the assets of our domestic subsidiaries and a pledge of up to 65% of capital stock or other equity interest in each foreign subsidiary held by ScanSource or any domestic subsidiary.

We were in compliance with all covenants under the credit facility as of March 31, 2019 . There was $342.6 million and $244.0 million in outstanding borrowings on our revolving credit facility as of March 31, 2019 and June 30, 2018 , respectively.

On a gross basis, we borrowed $1,603 million and repaid $1,504 million on our revolving credit facility in the nine months ended March 31, 2019 . In the prior-year period, on a gross basis, we borrowed $1,735 million and repaid $1,550 million . The average daily balances during the nine month periods ended March 31, 2019 and 2018 were $313.6 million and $277.3 million , respectively. There were no stand-by letters of credit issued under the multi-currency revolving credit facility as of March 31, 2019 and June 30, 2018 . There was $57.4 million and $156.0 million available for additional borrowings as of March 31, 2019 and June 30, 2018 , respectively.

As of March 31, 2019 , we were obligated to pay certain earnout payments to the former shareholders of Intelisys related to the acquisition on August 29, 2016. We paid the final earnout payment to the former sharesholders of Network1 in the current quarter. See Note 9 - *Fair Value of Financial Instruments* for a discussion on the liabilities recorded. 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 the present and future working capital and cash requirements for at least the next twelve months.

Off-Balance Sheet Arrangements and Contractual Obligations

We have no off-balance sheet arrangements that have or are reasonably likely to have a current or future effect 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.

As of March 31, 2019 , we have made adjustments to our contingent consideration owed to the former shareholders of Intelisys. See Note 9 - *Fair Value of Financial Instruments* for a discussion on the liabilities recorded. There have been no other material changes in our contractual obligations and commitments disclosed in our Annual Report on Form 10-K filed on August 28, 2018.

Accounting Standards Recently Issued

See Note 1 of the Notes to Condensed Consolidated Financial Statements for a full description of recent accounting pronouncements, including the anticipated dates of adoption and the effects on our consolidated financial position and results of operations.

Critical Accounting Policies and Estimates

Critical accounting policies are those that are important to our financial condition and require management's most difficult, subjective or complex judgments. Different amounts would be reported under different operating conditions or under alternative assumptions. See Management's Discussion and Analysis of Financial Condition and Results from Operations in our Annual Report on Form 10-K for the year ended June 30, 2018 for a complete discussion.

Item 3. 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 $3.1 million and $2.3 million increase or decrease annually in pre-tax income for the periods ending March 31, 2019 and June 30, 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 March 31, 2019 and June 30, 2018 we had $347.7 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 with a notional amount of $50 million to receive interest at a floating rate LIBOR and pay interest at a fixed rate. Our use of derivative instruments has 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, Latin America, Brazil, Europe and South Africa. 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 $0.9 million and $0.4 million increase or decrease in pre-tax income from translation for periods ending March 31, 2019 and June 30, 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, Colombian pesos, Chilean pesos, Peruvian nuevos soles and South African rand. At March 31, 2019 , the fair value of our currency forward contracts outstanding was a net payable of $0.5 million. At June 30, 2018 the fair value of our currency forward contracts outstanding was a net receivable of less than $0.1 million. We do not utilize financial instruments for trading or other speculative purposes.

Item 4. Controls and Procedures

An evaluation was carried out under the supervision and with the participation of the Company’s management, including its Chief Executive Officer ("CEO") and Chief Financial Officer ("CFO") of the effectiveness of the Company’s disclosure controls and procedures as of March 31, 2019 . Based on that evaluation, the Company’s management, including the CEO and CFO, concluded that the Company’s disclosure controls and procedures are effective as of March 31, 2019 . During the quarter ended March 31, 2019 , there was no change in the Company’s internal control over financial reporting that has materially affected, or is reasonably likely to materially affect, the Company’s internal control over financial reporting.

PART II. OTHER INFORMATION

Item 1. Legal Proceedings

The Company and its subsidiaries are, from time to time, parties to lawsuits arising out of operations. Although there can be no assurance, based upon information known to 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. For a description of our material legal proceedings, see Note 11 - *Commitments and Contingencies* in the notes to the condensed consolidated financial statements, which is incorporated herein by reference.

Item 1A. Risk Factors

In addition to the risk factors discussed in our other reports and statements that we file with the SEC, you should carefully consider the factors discussed in Part I, Item 1A. "Risk Factors" in our Annual Report on Form 10-K for the year ended June 30, 2018 , which could materially affect our business, financial condition and/or future operating results.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

On August 29, 2016, we announced a Board of Directors ("BOD") authorization to repurchase shares up to $120 million of our common stock over three years. The following table presents the share-repurchase activity for the quarter ended March 31, 2019 .

Period	Total number of shares purchased [(a)]	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
January 1, 2019 through January 31, 2019	—	$ —	—	$ 99,356,839
February 1, 2019 through February 28, 2019	58	$ 38.05	—	$ 99,356,839
March 1, 2019 through March 31, 2019	—	$ —	—	$ 99,356,839
Total	58	$ 38.05	—	$ 99,356,839

(a) Total number of shares purchased represents shares withheld from employees for stock-based awards in order to satisfy the required tax withholding obligations for the quarter ended March 31, 2019 .

We have never declared or paid a cash dividend. Under the terms of our credit facility, the payment of cash dividends is restricted.

Item 6. Exhibits

Exhibit Number	**Description**
10.1	Fourth Amendment to Industrial Lease Agreement, dated March 25, 2019, by and between GPT 8650 Commerce Drive Owner LLC and 8650 Commerce Drive LLC
10.2	Addendum to Zebra PartnerConnect Distributor Agreement, dated February 4, 2019, between Zebra Technologies International, LLC, Zebra Technologies do Brasil- Comercio de Productos de Informatica Ltda. Xplore Technologies Corporation of America and ScanSource, Inc.*
31.1	Certification of the Chief Executive Officer, Pursuant to Rule 13a-14(a)/15d-14(a) of the Securities Exchange Act of 1934, as amended, as Adopted Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.2	Certification of the Chief Financial Officer, Pursuant to Rule 13a-14(a)/15d-14(a) of the Securities Exchange Act of 1934, as amended, as Adopted Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32.1	Certification of the Chief Executive Officer, Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
32.2	Certification of the Chief Financial Officer, Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
101	The following materials from our Quarterly Report on Form 10-Q for the quarter ended March 31, 2019, formatted in XBRL (eXtensible Business Reporting Language): (i) the Condensed Consolidated Balance Sheets as of March 31, 2019 and June 30, 2018; (ii) the Condensed Consolidated Statement of Shareholder's Equity as of March 31, 2019 and 2018 (iii) the Condensed Consolidated Income Statement for the quarter and nine months ended March 31, 2019 and 2018; (iv) the Condensed Consolidated Statements of Comprehensive Income for the quarter and nine months ended March 31, 2019 and 2018; (v) the Condensed Consolidated Statements of Cash Flows for the nine months ended March 31, 2019 and 2018; and (vi) the Notes to the Condensed Consolidated Financial Statements.

* Portions of these exhibits have been omitted pursuant to Item 601(b)(10)(iv) of Regulation S-K.

SIGNATURES

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

		ScanSource, Inc.
		/s/ MICHAEL L. BAUR
		Michael L. Baur
Date:	May 9, 2019	Chairman and Chief Executive Officer (Principal Executive Officer)
		/s/ GERALD LYONS
		Gerald Lyons
Date:	May 9, 2019	Executive Vice President and Chief Financial Officer (Principal Financial Officer)

FOURTH AMENDMENT TO INDUSTRIAL LEASE AGREEMENT

This Fourth Amendment to Industrial Lease Agreement (" ***Fourth Amendment*** ") is entered into effective as of March 25, 2019 (the " ***Effective Date*** "), by and between GPT 8650 Commerce Drive Owner LLC, a Delaware limited liability company (" ***Landlord*** "), whose address is set forth in Section 2 below, as successor in interest to US INDUSTRIAL REIT III - CONTAINER, a Texas real estate investment trust (" ***Prior Landlord*** "), as successor in interest to Industrial Developments International, Inc., a Delaware corporation (" ***IDI*** "), and 8650 COMMERCE DRIVE, LLC, a Mississippi limited liability company (" ***Tenant*** "), whose address is 6 Logue Court, Greenville, SC 29615.

WHEREAS, under that certain Amended and Restated Industrial Lease Agreement dated as of December 27, 2007, by and between IDI and Tenant, as amended by that certain First Amendment to Industrial Lease Agreement dated as of February 1, 2012, by and between Prior Landlord and Tenant, as amended by that certain Second Amendment to Industrial Lease Agreement dated as of August 1, 2013, by and between Prior Landlord and Tenant, as amended by that certain Third Amendment to Industrial Lease Agreement dated as of July 1, 2016 (the " ***Third Amendment*** "), by and between Prior Landlord and Tenant, and as affected by the Consent to Sublease dated June 15, 2017, by and between Landlord and Tenant (" ***Consent*** "; collectively, the " ***Lease*** "), Tenant leases approximately 592,956 square feet of space (the " ***Existing Premises*** ") known as 8650 Commerce Drive, Suite 100 of the building known as Building F in Stateline Business Park, Southaven, DeSoto County, Mississippi, as more particularly described in the Lease; and

WHEREAS, Landlord and Tenant desire to amend the Lease upon the terms and conditions more particularly set forth below.

NOW THEREFORE, in consideration of the agreements set forth herein, and the rentals to be paid and the covenants and agreements to be kept and performed by both parties hereto. Landlord and Tenant hereby agree to amend the Lease as follows:

1. Removal of Demising Wall . Notwithstanding anything in the Lease to the contrary, on or before March 1, 2020, Tenant shall remove the demising wall between the Existing Premises and the Expansion Premises (as defined in the Third Amendment; the " ***Tenant Improvements*** "). Within thirty (30) days following the Effective Date, Landlord shall pay Tenant an amount equal to $54,500.00 to construct to Tenant Improvements. The Tenant Improvements shall be considered alterations and shall be constructed in accordance with the provisions of Section 18 of the Lease.

2. New Landlord Notice Addresses . The notice addresses of Landlord shall hereafter be as follows:

LANDLORD: GPT 8650 Commerce Drive Owner LLC
220 Commerce Dr., Suite 400
Fort Washington, Pennsylvania 19034
Attention: Lease Administration

With a required copy to:
GPT 8650 Commerce Drive Owner LLC
90 Park Avenue, 32 nd Floor
New York, New York 10016
Attention: General Counsel

3. New Landlord Address for Rental Payments . The address of Landlord for rental payments shall hereafter be as follows:
LANDLORD: GPT 8650 Commerce Drive Owner LLC
220 Commerce Dr., Suite 400
Fort Washington, Pennsylvania 19034
Attention: Lease Administration

4. Entire Agreement; Amendments . The Lease, as amended by this Fourth Amendment, constitutes the entire agreement of the parties relating to the subject matter of the Lease, and it supersedes all other oral or written agreements relating

thereto. No term of the Lease, as amended by this Fourth Amendment, may be modified, amended, waived, or discharged, in whole or in part, except by written agreement between the parties.

5. Authorization . Each party represents that all necessary action has been taken to authorize the execution, delivery and performance by such party of this Fourth Amendment.

6. Counterparts . This Fourth Amendment may be executed in counterparts, each of which shall be deemed an original. Facsimile copies or PDF copies sent by email of this Fourth Amendment and any signatures thereon shall be considered for all purposes as originals.

Landlord and Tenant each has caused this Fourth Amendment to be duly executed and delivered by its office thereunto duly authorized as of the date first above written.

LANDLORD

GPT 8650 Commerce Drive Owner LLC,
a Delaware limited liability company

By: /s/ Sonya A. Huffman

Name: Sonya A. Huffman

Title: Managing Director/Vice President

TENANT

8650 COMMERCE DRIVE, LLC,

a Mississippi limited liability company

By: /s/ Matt Dean

Name: Matt Dean

Title: Senior Executive Vice President, General Counsel

Scansource, Inc. (" **Guarantor** "), as guarantor of Tenant's obligations under the Lease pursuant to that certain Guaranty dated December 21, 2007 (the " **Guaranty** "), hereby executes this Fourth Amendment for purposes of consenting to the terms hereof, ratifying such Guaranty and confirming that same is in full force and effect.

GUARANTOR :

SCANSOURCE, INC.,
a South Carolina corporation

By: /s/ Matt Dean

Name: Matt Dean

Title: Senior Executive Vice President, General Counsel

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 [*****].

ZEBRA® PARTNERCONNECT PROGRAM

ADDENDUM TO

ZEBRA® PARTNERCONNECT DISTRIBUTOR AGREEMENT

THIS ADDENDUM (“Addendum”) is made on the 4th day of February 2019 (“ **Effective Date** ”) between the following parties:

Zebra Technologies International, LLC , with an office at 3 Overlook Point, Lincolnshire IL 60069 (“ **Zebra** ”);

Zebra Technologies do Brasil - Comércio de Produtos de Informâtica Ltda ., a company incorporated and organized under the laws of Brazil, with offices at Av. Magalhäes de Castro, 4800, sala 72-A, Cidade Jardim, CEP 05676-120, Säo Paulo, sp (" **Zebra Brazil** ")

Xplore Technologies Corporation of America , a company with its principal place of business at 8601 RR 2222, Building 2, Suite #100, Austin, Texas 78730, U.S.A. (“ **Xplore** ”);

(collectively " **Zebra** ")

AND

ScanSource, Inc ., a company incorporated in South Carolina, with its registered office at 6 Logue Court, Greenville, South Carolina 29615 (" **ScanSource** ").

ScanSource Latin America, Inc . a ScanSource Affiliate incorporated in Florida, whose registered business address is 1935 NW 87 Avenue, Miami, Florida 33172 (" **ScanSource Latin America** ")

ScanSource Brazil Distribuidora de Technologias, Ltda., a ScanSource Affiliate incorporated and organized under the laws of Brazil, with offices in the City of Säo José dos Pinhais, State of Paranå, at Avenida Rui Barbosa, 2529, Modulos 11 and 12, Bairro Jardim Ipé, CEP: 83055-320, enrolled with the Taxpayer Register (CNPJ/MF) under No. 05.607.657/0001-35 (" **ScanSource Brazil** ")

SCANSOURCE DE MEXICO S. DE R.L. DE C.V., a ScanSource Affiliate incorporated in Mexico, whose registered business address is Calle 4 No. 298, Colonia Franccionamiento Industrial Alce Blanco, Naucalpan de Juarez, Estado de México 53370 (" **ScanSource Mexico** ")

(Collectively " **Distributor** ')

" **Zebra** " and the " **Distributor** " are referred to collectively as ' **Parties** " and individually as a " **Party** ".

WHEREAS:

(A) On February 12, 2014 the Parties entered into an agreement that was renamed, as of April 11, 2016, to: PartnerConnect ™ EVM Distribution Agreement, (as amended) ("Distribution Agreement"), which relates to Zebra Enterprise Visibility and Mobility ('EVM") products and services, and which, as acknowledged by the Parties by entering into this Amendment, is in full force and effect and valid as when this Amendment is executed;

(B) Distributor purchases Products from Zebra under the Distributor Agreement;

(C) Zebra has recently completed the acquisition of Xplore, which transaction closed on August 14, 2018;

(D) Zebra has expanded its products portfolio by adding the product families listed in **Exhibit A** , that as of the Effective Date hereof are branded Xplore or Motion Computing, thereto (“ **Xplore Products** ”);

(E) Xplore, now a Zebra Affiliate, is the seller of Xplore Products;

(F) Xplore wishes to sell Xplore Products to Distributor and Distributor wishes to purchase such products from Xplore pursuant to the terms and conditions of the Distributor Agreement by entering into this Addendum; and

(G) The Parties desire to amend the Distributor Agreement by adding Xplore Products and authorizing Distributor to purchase such products from Xplore for further resale to members of the Zebra PartnerConnect Program in the Market or Territory.

THEREFORE, in consideration of the mutual covenants and promises, and subject to the terms and conditions of the Distributor Agreement, the Parties agree as follows:

1. Expressions used in this Addendum shall have the same meanings given to them in the Distributor Agreement, unless the context requires otherwise.

2. This Addendum automatically incorporates any future amendments to the Distributor Agreement and such amendments will be made part of this Addendum to the extent that the amendments do not conflict therewith, unless otherwise agreed in writing by the Parties.

3. Commencing on the Effective Date hereof, Xplore Products will be considered for all intents and purposes of the Distributor Agreement as Products and the purchase and sale thereof will be conducted in accordance with, and be subject to the terms and conditions of the Distributor Agreement, unless otherwise set out in this section:

   a. The actual sale of Xplore Products (or any part thereof) is subject to Zebra obtaining the relevant regulatory approvals for the sale of Xplore Products in and into the Market or Territory (or any portion thereof) and shall commence only upon the attainment of such approvals.

   b. Zebra Consolidated Global Limited Warranty posted at **www.zebra.com/partnerconnect-tc** or any equivalent website thereof, will not apply to Xplore Products which shall carry the warranty posted at: https://support.xploretech.com/us/support/warranty-specifications/.

   c. Certain operational aspects relating to the purchase of Xplore Products, will be governed by the terms and conditions of **Exhibit B** , attached to this Addendum and incorporated therein by this reference. The terms of the Distribution Agreement will apply to all areas not covered by Exhibit B.

4. By signing this Addendum, Xplore hereby agrees to be bound by the terms of the Distributor Agreement as a party thereto for the sole purpose of selling Xplore Products to Distributor. With the exception of the sale of Xplore Products, Xplore does not assume any obligations (prior, current or future) of Zebra under the Distributor Agreement.

5. In the event of a conflict between the Distributor Agreement with this Addendum, the terms of this Addendum shall take precedence.

6. Signature Counterparts. This Addendum and any additional amendments of addenda to the Distribution Agreement may be executed in two or more of counterparts, each of which shall be an original, but all of which together shall constitute one instrument. A facsimile copy or Computer image, such as a PDF or tiff image, of a signature shall be treated as and shall have the same effect as an original signature. In addition, a true and correct facsimile copy or computer image of this Addendum and any additional amendments of addenda thereto shall be treated as and shall have the same effect as an original signed copy of this document.

7. Term and Termination . This Addendum may be terminated at any time by either Party in accordance with the termination provisions of the Distribution Agreement. The Addendum shall not have an Initial Period.

8. Governing Law and Dispute Resolution. The terms of the Governing Law and Dispute Resolution provisions of the Distribution Agreement will apply to this Addendum.

IN WITNESS HEREOF , the Parties have executed this Addendum on the dates specified herein.

ZEBRA TECHNOLOGIES INTERNATIONAL, LLC		**SCANSOURCE, INC.**	
By:	/s/ Alex Castaneda	By:	/s/ Brenda McCurry
Name:	Alex Castaneda	Name:	Brenda McCurry
Title:	VP NA Territory and Channel Sales	Title:	Vice President, Supplier Services
Date:	May 7, 2019	Date:	1/29/2019

ZEBRA TECHNOLOGIES DO BRASIL- COMÉRCIO DE PRODUTOS DE INFORMÁTICA LTDA.		**SCANSOURCE LATIN AMERICA, INC.**	
By:		By:	/s/ Marcelo Hirsch
Name:	Vanderlei Ferreira	Name:	Marcelo Hirsch
Title:	Director	Title:	Managing Director
Date:	May 8, 2019	Date:	2/7/2019

XPLORE TECHNOLOGIES CORPORATION OF AMERICA		**SCANSOURCE DE MEXICO S. DE R.L. DE C.V.**	
By:	/s/ Alex Castaneda	By:	/s/ Victor Perez
Name:	Alex Castaneda	Name:	Victor Perez
Title:	VP NA Territory and Channel Sales	Title:	Country Manager
Date:	May 7, 2019	Date:	26/2/19

SCANSOURCE BRASIL DISTRIBUIDORA DE TECHNOLOGIAS LTDA.

By:	/s/ Paulo Roberto Ferreira
Name:	Paulo Roberto Ferreira
Title:	Executive Director
Date:	22/02/19

EXHIBIT A

Xplore Products and Distributor Upfront Discounts off List Price therefore

[*****]	[*****]	[*****]
L10	[*****]	[*****]
R12	[*****]	[*****]
F5	[*****]	[*****]
C5	[*****]	[*****]
B10	[*****]	[*****]
D10	[*****]	[*****]
Bobcat	[*****]	[*****]
XC6	[*****]	[*****]
M60	[*****]	[*****]
Accessories & Services	[*****]	[*****]

EXHIBIT B

Operational Terms for Purchase of Xplore Products

ARTICLE I. PURCHASE ORDERS AND STOCK ON HAND

1. Issuance and Acceptance of Purchase Order. To order the Xplore Products, Distributor shall place a purchase order via sending an email to xpldistributors@zebra.com . Each purchase order shall specify the bill-to address, ship-to address, quantity and description of each Xplore Product ordered, the unit price for each Xplore Product, the requested ship date, the preferred means of delivery, and tax-exempt certifications, if any. Orders received without this information or which contain any discrepancy may be returned to Distributor for completion or revision as applicable. Each purchase order placed by Distributor, as well as each invoice sent by Xplore, shall be governed by the terms of this Addendum and the Distribution Agreement and any additional or different terms within the purchase order or invoice shall have no effect. Each purchase order for the Xplore Products shall be subject to Xplore's acceptance and, upon acceptance, Xplore shall confirm the purchase order and the Estimated Shipping Date with Distributor. Notwithstanding such acceptance, Xplore reserves the right where necessary to amend the Orders including without limitation part numbers, special pricing and Estimated Shipping Date, and may at its sole discretion require an amended Order from Distributor incorporating such changes. For the purposes of this Exhibit B, "Estimated Shipping Date" shall mean the estimated shipping date of an accepted purchase order.

2. Purchase Order Rescheduling, Cancellation and Modification . Distributor has the right to cancel, reschedule or modify all or any portion of a purchase order that has been accepted by Xplore at no cost to Distributor *only if* such cancellation or modification request is made within **[*****]** business days of PO acceptance or rescheduling request is made at least **[*****]** business days prior to the most current Estimated Shipping Date for that purchase order. Distributor has the right to change the destination of all or any portion of a purchase order that has been accepted by Xplore at no cost to Distributor *only if* such change in destination request is made at least **[*****]** business days prior to the most current Estimated Shipping Date for that purchase order. Except as set forth above, purchase orders are non-changeable and non-cancellable by Distributor, once accepted by Xplore.

   Certain purchase orders, determined at Xplore's sole discretion, and generally of large volume and/or extended lead times, may be subject to alternative rescheduling, cancellation, and modification rights. Should such purchase orders be subject to alternative rights, Xplore shall inform Distributor of alternative rights prior to order acceptance. Distributor will then have **[*****]** business days to accept, or reject, the alternative terms of Xplore for that certain purchase order. If Distributor rejects such alternative terms, the purchase order will not be accepted by Xplore.

3. Product Allocation . If for any reason, Xplore's production is not on schedule, Xplore may, at its sole and absolute discretion, allocate available inventory to Distributor and make shipments in accordance with Zebra's then current processes.

4. Stock on Hand . Distributor shall use commercially reasonable efforts to maintain thirty (30) days of stock in Distributor's inventory to support sales. Xplore acknowledges that from time to time, Distributor's inventory levels may fall below the thirty (30) days goal that is agreed upon by both Parties. If inventory levels fall below the thirty (30) day goal for more than sixty (60) consecutive days, Xplore, upon written notice to Distributor, shall replenish the stock to an amount agreed by both Parties.

5. Product Return and Stock Rotation .
The terms of Section 3 of Schedule 2 of the Distribution Agreement will apply to Xplore Products, provided however that stock rotation allowance for Xplore Products will be based on the net dollar value of Distributor's purchases in each calendar quarter of Xplore Products and such allowance will be calculated separate and apart from all other Products purchased by Distributor during such period.

ARTICLE II. DELIVERY OF PRODUCTS

1. Shipping Terms . Notwithstanding anything to the contrary contained in the Distribution Agreement, and unless notified by Xplore otherwise, shipping terms for Xplore Products will be Delivery Duty Paid (DDP) INCOTERMS® 2010, whereby Distributor's price, includes all costs of delivery, insurance, import and / or export duties and tariffs. Such prices are exclusive of all federal, state, municipal or other government excise, sales, use, occupational or like taxes in force, and any such taxes shall be assumed and paid for by Distributor in addition to its payment for the Xplore Products. Title and risk of loss to Xplore Products shall pass to Distributor upon delivery to Distributor, as indicated in the Proof of Delivery (PoD) documents. **[*****]**

1. At Distributor's request, Xplore may deliver Xplore Products directly to Program Members or their respective End Users on behalf of Distributor, and in such instances title and risk of loss will pass to Distributor upon delivery to the applicable recipients, as indicated on the PoD documents. Some exclusions may apply, including countries not served by Xplore shipping and importing methods, and/or countries where Xplore Products, are not certified for resale and/or use.

1. Proof of Delivery ("POD"). Xplore shall provide to Distributor, at no charge, a means for confirming proof of delivery for Xplore Product shipments when requested by Distributor. Xplore shall provide packing slips for all shipments.

Exhibit 31.1

Certification Pursuant to Rule 13a-14(a) or 15d-14(a)

of the Exchange Act, as adopted Pursuant to Section 302 of the
Sarbanes-Oxley Act of 2002

I, Michael L. Baur, certify that:

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

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

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

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

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

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

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

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

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

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

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

/s/ Michael L. Baur

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

Date: May 9, 2019

Exhibit 31.2

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

I, Gerald Lyons, certify that:

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

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

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

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

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

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

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

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

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

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

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

/s/ Gerald Lyons

Gerald Lyons, Executive Vice President and Chief Financial Officer (Principal Financial Officer)

Date: May 9, 2019

Exhibit 32.1

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

In connection with the quarterly report of ScanSource, Inc. (the "Company") on Form 10-Q for the quarter and nine months ended March 31, 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:	May 9, 2019	/s/ Michael L. Baur
		Michael L. Baur,
		Chairmen and Chief Executive Officer
		(Principal Executive Officer)

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

Exhibit 32.2

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

In connection with the quarterly report of ScanSource, Inc. (the “Company”) on Form 10-Q for the quarter and nine months ended March 31, 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: May 9, 2019

/s/ Gerald Lyons
Gerald Lyons
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.