

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

FORM 10-K

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

For the fiscal year ended June 30, 2020

OR

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

For the transition period from ____ to ____

Commission File Number: 000-26926



ScanSource, Inc.
South Carolina
(State of incorporation)

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

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

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

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

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

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes No
Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes No
Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No
Indicate by check mark whether the registrant has submitted electronically on its corporate Web site, if any, every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit such files). Yes No
Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company" and "emerging growth company" in Rule 12b-2 of the Exchange Act.

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

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

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

The aggregate market value of the voting common stock of the Registrant held by non-affiliates of the Registrant at December 31, 2019 was \$25,417,550, as computed by reference to the closing price of such stock on such date.

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

| Class | Outstanding at August 26, 2020 |
|--------------------------------------|--------------------------------|
| Common Stock, no par value per share | 25,361,298 shares |

DOCUMENTS INCORPORATED BY REFERENCE

The registrant has incorporated by reference into Part III of this report certain portions of either an amendment to this Form 10-K or its proxy statement for its 2021 Annual Meeting of Shareholders, which are expected to be filed within 120 days after the end of the registrant's fiscal year ended June 30, 2020.

FORWARD-LOOKING STATEMENTS

The forward-looking statements included in the "Business," "Risk Factors," "Legal Proceedings," "Management's Discussion and Analysis of Financial Condition and Results of Operations," and "Quantitative and Qualitative Disclosures About Market Risk" sections and elsewhere herein. Words such as "expects," "anticipates," "believes," "intends," "plans," "hopes," "forecasts," "seeks," "estimates," "goals," "projects," "strategy," "future," "likely," "may," "should," and variations of such words and similar expressions generally identify such forward-looking statements. Any forward-looking statement made by us in this Form 10-K is based only on information currently available to us and speaks only as of the date on which it is made. Except as may be required by law, we expressly disclaim any obligation to update these forward-looking statements to reflect events or circumstances after the date of this Annual Report on Form 10-K, except as required by law. Actual results could differ materially from those anticipated in these forward-looking statements as a result of a number of factors including, but not limited to, changes in interest and exchange rates and regulatory regimes impacting our overseas operations, the failure of acquisitions to meet our expectations, the failure to manage and implement our organic growth strategy, credit risks involving our larger customers and suppliers, termination of our relationship with key suppliers or a significant modification of the terms under which we operate with a key supplier, the decline in demand for the products and services that we provide, reduced prices for the products and services that we provide due both to competitor and customer actions, the impact of the COVID-19 pandemic on our operations and financial condition, the timing and terms of our planned divestitures and the other factors set forth in "Risk Factors" contained herein.

TABLE OF CONTENTS

| | <u>Page</u> |
|--|-------------|
| <u>PART I</u> | 1 |
| Item 1. Business | 1 |
| Item 1A. Risk Factors | 7 |
| Item 1B. Unresolved Staff Comments | 16 |
| Item 2. Properties | 16 |
| Item 3. Legal Proceedings | 17 |
| Item 4. Mine Safety Disclosures | 17 |
| <u>PART II</u> | 18 |
| Item 5. Market for Registrant’s Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities | 18 |
| Item 6. Selected Financial Data | 19 |
| Item 7. Management’s Discussion and Analysis of Financial Condition and Results of Operations | 20 |
| Item 7A. Quantitative and Qualitative Disclosures About Market Risk | 44 |
| Item 8. Financial Statements and Supplementary Data | 46 |
| Item 9. Changes in and Disagreements With Accountants on Accounting and Financial Disclosure | 97 |
| Item 9A. Controls and Procedures | 97 |
| Item 9B. Other Information | 97 |
| <u>PART III</u> | 98 |
| Item 10. Directors, Executive Officers and Corporate Governance | 98 |
| Item 11. Executive Compensation | 98 |
| Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters | 98 |
| Item 13. Certain Relationships and Related Transactions, and Director Independence | 98 |
| Item 14. Principal Accountant Fees and Services | 98 |
| <u>PART IV</u> | 99 |
| Item 15. Exhibits and Financial Statement Schedules | 99 |
| Item 16. Form 10-K Summary | 99 |
| <u>Signatures</u> | 100 |

PART I

ITEM 1. Business.

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

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

On August 20, 2019, the Company announced plans to divest our product distribution businesses in Europe, the UK, Mexico, Colombia, Chile, Peru and our Miami-based export operations (the “Divestitures”) as these businesses have been performing below management's expectations. The Company will continue to operate its digital business in these countries. Management determined that the Company did not have sufficient scale to in these markets to maximize our value-added model for physical product distribution, leading us to focus and invest in our higher margin businesses. The Divestitures have been classified as held for sale and reported as discontinued operations within this Form 10-K. Unless otherwise indicated, descriptions of our business and amounts reported in this Form 10-K pertain to continuing operations only.

ScanSource was incorporated in South Carolina in 1992 and serves approximately 30,000 customers. Net sales for fiscal year ending June 30, 2020 totaled \$3.0 billion. Our common stock trades on the NASDAQ Global Select Market under the symbol “SCSC.”

Strategy

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

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

Part of our strategy is to expand in higher margin and adjacent markets to help our sales partners offer more products and services while building recurring revenue opportunities. In fiscal 2020, we acquired intY and its CASCADE cloud services distribution platform. With the CASCADE solution, we are providing our sales partners with another route to market to enable key strategic cloud services. In fiscal 2018, we acquired POS Portal, a leading provider of payments devices and services primarily to the small and medium-sized (“SMB”) business segment. POS Portal added to our offerings industry-leading services and capabilities in serving the U.S. payments channel. In fiscal 2017, we acquired Intelisys, an industry-leading technology services provider (also called a master agent) of business telecommunications and cloud services. Using a master agent business model, Intelisys acts as an intermediary connecting sales partners with service providers and suppliers who offer services to end-customers. Intelisys' sales partners earn commission payments from those service providers or suppliers on end-customer sales, typically multi-year contracts. Intelisys earns a percentage of the commission streams, building more predictable, recurring revenues. Net sales reported for Intelisys reflect net commissions, which is the commissions on supplier billings after payment of commission earned to Intelisys' sales partners. Since our Intelisys business is a services model, the working capital requirements are very low and require no inventories.

Value Proposition

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

Value proposition for our customers/sales partners:

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

Value proposition for our suppliers:

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

Financial Strength

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

Business Segments

We segment our business into two technology-focused areas that operate in the United States, Canada, Brazil and the UK:

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

Worldwide Barcode, Networking & Security Segment

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

Worldwide Communications & Services Segment

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

Customers

Our customers, or sales partners, are businesses of all sizes that sell to end-customers across industries ranging from manufacturing, warehouse and distribution, retail and e-commerce, hospitality, transportation and logistics, government, education and health care, among others. Our customers provide us with multiple routes-to-market through various channels, including: VARs, agents, ISOs, and ISVs. No single customer accounted for more than 6% of our total net sales for the fiscal year ended June 30, 2020.

VARs

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

Agents

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

Independent Sales Organizations

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

Independent Software Vendors

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

Suppliers

We provide products and services from approximately 500 suppliers, including 8x8, ACC Business, AT&T, Aruba/HPE, Axis, AudioCodes, Avaya, Barco, Bematech, CenturyLink, Cisco, Comcast Business, Datalogic, Dell, Dialogic, Elo, Epson, Extreme, Fortinet, Hanwha, Honeywell, HID, Ingenico, Jabra, March Networks, Masergy, Microsoft, Mitel, NCR, NICE inContact, Oracle, Panasonic, Poly, RingCentral, Samsung, Sony, Spectralink, Spectrum, Toshiba Global Commerce Solutions, TPx, Ubiquiti, Verifone, Verizon, Windstream, Zebra Technologies and Zoom. We also offer customers significant choices in cloud services through our Intelisys business, including offerings in contact center, infrastructure and unified communications.

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

Products from two suppliers, Cisco and Zebra, each constituted more than 10% of our net sales for the fiscal year ended June 30, 2020.

- We have two non-exclusive agreements with Cisco. One agreement covers the distribution of Cisco products in the United States and has a two year term. The other agreement covers distribution of products in Brazil and has a two year term. Each of these agreements must be renewed by written agreement. Either party may terminate the agreement upon 30 days' notice to the other party.
- We have three non-exclusive agreements with Zebra for our continuing operations. One agreement covers sales of Zebra Enterprise Visibility & Mobility ("EVM") products in North America and Brazil, while the other two agreements cover

sales of Zebra Asset Intelligence & Tracking (“AIT”) products in North America and Brazil respectively. The Zebra agreements each have a one year term that automatically renews for additional one year terms. Either party may terminate the EVM agreement upon 30 days' notice to the other party. Either party may terminate the AIT agreement for North America upon 60 days' notice to the other party. Either party may terminate the AIT agreement for Brazil upon 90 days' notice to the other party.

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

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

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

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

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

Offerings and Markets

For our continuing operations, we currently market over 100,000 products from approximately 500 hardware, software and service suppliers to approximately 30,000 customers. We sell products and services to the United States and Canada from our facilities located in Mississippi, California and Kentucky; into Brazil from facilities located within Brazil. We provide digital products and services from our CASCADE platform. See "Risk Factors," for a discussion of the risks related to our foreign operations. We also have drop-shipment arrangements with some of our suppliers, which allow us to offer products to customers without taking physical delivery at our facilities. These drop-shipment arrangements represent approximately 19% of fiscal year 2020 net sales.

Our offerings to our customers include hardware, software, services and connectivity across premise, hybrid and cloud environments. With our CASCADE platform, we also offer customers SaaS and subscription services from leading technology suppliers. We believe that sales partners want to offer end-customers complete technology solutions that solve end-user challenges and deliver positive outcomes. We align our teams, tools, and processes to help our sales partners grow by providing more complete solutions through a better understanding of end-customer needs. We are able to provide a combination of offerings from multiple suppliers or give our sales partners access to a number of additional services, including configuration, key injection, integration support and others to deliver solutions.

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

We offer technology solutions and services that include the following:

- *Mobility and Barcode:* We offer automatic identification and data capture (“AIDC”) technology that incorporates the capabilities for electronic identification and data processing without the need for manual input. These solutions consists of a wide range of products that include portable data collection terminals, wireless products, bar code label printers and scanners. As AIDC technology has become more pervasive, applications have evolved from traditional uses, such as inventory control, materials handling, distribution, shipping and warehouse management, to more advanced applications, such as health care.
- *POS:* We provide POS solutions for retail, grocery and hospitality environments to efficiently manage in-store sales and operations. POS solutions include computer-based terminals, tablets, monitors, payment processing solutions, receipt printers, pole displays, cash drawers, keyboards, peripheral equipment and fully integrated processing units. These solutions may include self-service checkout, kiosks and products that attach to the POS network in the store, including network access points, routers and digital signage.
- *Payments:* We offer payment terminals, comprehensive key injection services, reseller partner branding, extensive key libraries, ability to provide point-to-point encryption (“P2PE”), and redundant key injection facilities. We have the resources to deliver secure payment devices that are preconfigured and ready for use. In addition, we partner with ISVs to deliver to merchants integrated tablet POS solution hardware that a merchant may purchase outright or “as a service,” and which includes merchant hardware support and next-day replacement of tablets, terminals and peripherals.
- *Physical Security:* We provide electronic physical security solutions that include identification, access control, video surveillance and intrusion-related products and networking infrastructure. Physical security products are used every day across every vertical market to protect lives, property and information. These technology solutions require specialized knowledge to deploy effectively, and we offer in-depth training and education to our sales partners to enable them to maintain the appropriate skill levels.
- *Unified Communications and Collaboration:* We provide unified communications and collaboration capabilities, such as voice, video, audio conferencing, web conferencing and messaging. These offerings combine voice, data, fax and speech technologies with computers, telecommunications and the internet to deliver communications solutions on-premise, from the cloud and as a hybrid. Software and hardware products include IP-based telephony platforms, Voice over Internet Protocol (“VoIP”) systems, private branch exchanges (“PBXs”), call center applications, video conferencing, desk phones and other endpoints. Cloud-delivered services, such as unified communications, contact center and video conferencing, enable end-customers to consume and pay for communications services typically on a monthly subscription basis.
- *Cloud and Telecom Services:* We offer business communications services, including voice, data, access, cable collaboration, wireless and cloud. We focus on empowering and educating sales partners so they can advise end-customers in making informed choices about services, technology and cost savings. With the CASCADE cloud services distribution platform, we offer sales partners another way to grow their recurring revenue practices. CASCADE takes the friction out of acquiring, provisioning and managing SaaS offerings. We have contracts with more than 150 of the world’s leading telecom carriers and cloud services providers.

Our People

The strength of our Company is our people, working together to help our customers grow their businesses. Within our continuing operations, we have approximately 2,200 employees, of which approximately 1,500 are in the United States and 700 are located internationally in Canada, Brazil and the UK. Within our discontinued operations, we have approximately 400 employees. We have no organized labor or trade unions in the United States. We pride ourselves on our strong relationships with our employees.

Competition

We believe we are a leader in the specialty markets we serve. The market for technology products and solutions is highly competitive, both in the United States and internationally. Competitive factors include price, product availability, speed and accuracy of delivery, effectiveness of sales and marketing programs, credit availability, ability to tailor specific solutions to customer needs, quality and breadth of product lines and services, and availability of technical and product information.

Our competitors include local, regional, national and international distributors, as well as suppliers that sell directly to resellers and to end-customers. In addition, our competitors include master resellers that sell to franchisees, third-party dealers and end-customers. Competition has increased over the last several years as broad line and other value-added distributors have entered

into the specialty technology markets. Such competition could also result in price reductions, reduced margins and loss of market share.

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

Sales

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

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

Marketing

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

Operations

Information Technology Systems

Our information systems are scalable and capable of supporting numerous operational functions including purchasing, receiving, order processing, shipping, inventory management and accounting. Our sales partners and employees rely on our information systems for on-line, real-time information on pricing, inventory availability and reservation and order status. Our warehouse operations use bar code technology for receiving and shipping and automated systems for freight processing and shipment tracking, each of which is integrated with our multiple information systems. The customer service and technical support departments employ systems for documentation and faster processing of sales partner inquiries. To ensure that adequate inventory levels are maintained, our buyers depend on the system's purchasing and receiving functions to track inventory on a perpetual basis.

Warehouse and Shipping Strategy

We operate a 741,000 square foot distribution center in Southaven, Mississippi, which is located near the FedEx hub facility in Memphis, Tennessee, and primarily serves North America. We also acquired warehouses in California and Kentucky through our POS Portal acquisition. Our principal warehouses for our Brazil operations are located in the Brazilian states of Paraná, Espírito Santo and Santa Catarina. Our objective is to ship all orders on the same day, using technology to expedite shipments and minimize shipping errors. We offer reduced freight rates and flexible delivery options to minimize a sales partner's need for inventory.

Financial Services

Our sales terms include trade credit, various third-party financing options, which include leasing, flooring and other secured financing for qualified sales partners. These sales terms allow us to compete within our specific geographic areas to facilitate our growth plans. We believe these options reduce the sales partner's need to establish multiple credit relationships.

Trade and Service Marks

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

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

Additional Information

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

ITEM 1A. Risk Factors.

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

COVID-19 - COVID-19 is expected to have a significant and adverse impact upon our business.

In early March 2020, the World Health Organization characterized COVID-19 as a pandemic. The rapid spread of COVID-19 since December 2019 has resulted in the implementation of numerous measures to contain the virus worldwide, such as travel bans and restrictions, quarantines, shelter-in-place orders and business shutdowns. The pandemic and these containment measures have had, and are expected to continue to have, a substantial impact on our business, suppliers' businesses and sales partners' businesses. We are unable at this time to predict the ultimate impact that COVID-19 will have on our business due to the inability to predict the duration or magnitude of the virus' impacts. However, we have experienced decreased revenue and increased employee-related healthcare and prevention costs. Our revenues could further decrease significantly if our suppliers are not able to supply us products in a timely manner, our distribution centers may not be able to maintain staffing levels and therefore shipments, and our cash flows could suffer. Overall, we expect COVID-19 to adversely impact our results of operations for at least the next two quarters if not longer, while we have had, and will likely continue to make, adjustments to our operating practices as appropriate, it is unlikely that these measures will be sufficient to fully offset the adverse impacts.

To the extent the COVID-19 pandemic continues, the mitigation efforts and the resulting economic impact adversely affect many aspects of our business. COVID-19 may also have the effect of heightening many of the other risk factors disclosed herein, such

as those relating to our growth strategies, credit exposure, liquidity and capital resources, people, volatility of stock price and economic weakness.

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

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

The economic weakness brought about by COVID-19 may result in prolonged recession, which has the potential to disproportionately impact our business depending on which sectors of the economy and which geographies are most impacted.

Divestitures - There is no guarantee we will sell our Divestitures on favorable terms or at all.

In August 2019, we announced plans to divest our operations in Latin America, outside of Brazil, and our products distribution operations located in Europe and the UK. The sales process has taken longer than anticipated and there can be no guarantee that we will complete any sale of these businesses, or that the terms of the sale will be favorable. We have agreed to sell the Latin America business, outside of Brazil, to Intcomex. The Latin America transaction is expected to close on or around September 30, 2020 and is subject to customary closing conditions. We have identified potential buyers for our Europe business, however any sale is subject to further negotiation, completion of due diligence, execution of a definitive purchase agreement and certain divestitures are conditioned by regulatory approvals. A failure to complete these transactions in a timely fashion and on favorable terms would negatively impact our financial condition. In addition, our failure to effectively complete a sale transaction could result in significant expenses to wind-down our operations and our business operations and financial condition, including our results of operations, cash flows and stock price may be adversely impacted.

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

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

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

We are in the process of divesting our operations in Latin American countries, outside of Brazil, and our distribution operations in Europe, as well as winding down our Canpango business. Reorienting our business and redeploying capital to focus on higher margin opportunities in our United States, Canadian and Brazilian businesses are designed to lead to longer-term value creation for our shareholders. If we are not successful in exiting our operations in those countries in a cost-effective manner, our revenues, results of operations and financial condition may be adversely impacted. If we fail to effectively reinvest capital in our continuing operations and execute on our anticipated next phase of growth our financial results could be negatively impacted.

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

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

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

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

As we implement our plan to sell our operations in Latin American countries outside of Brazil and in Europe, with the exception of our digital businesses, we may face a heightened risk of credit losses in those geographies that could negatively impact our performance.

As customers continue to face the negative economic impacts of COVID-19, we may face heightened credit losses not otherwise experienced before the pandemic.

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

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

- Disproportionate negative impact from COVID-19 in a foreign location;
- Fluctuations of foreign currency and exchange rates, which can impact sales, costs of the goods we sell and the reporting of our results and assets on our financial statements;
- Changes in international trade laws, trade agreements, or trading relationships affecting our import and export activities, including export license requirements, restrictions on the export of certain technology and tariff changes, or the imposition of new or increased trade sanctions;
- Difficulties in collecting accounts receivable and longer collection periods;
- Changes in, or expiration of, various foreign incentives that provide economic benefits to us;
- Labor laws or practices that impact our ability and costs to hire, retain and discharge employees;
- Difficulties in staffing and managing operations in foreign countries;
- Changes in the interpretation and enforcement of laws (in particular related to items such as duty and taxation), and laws related to data privacy such as GDPR and other similar privacy laws that impact our IT systems and processes;
- Global economic and financial market instability related to the U.K.'s referendum withdrawal from the E.U., as well as instability from the possibility of withdrawal of other E.U. member states;
- Potential political and economic instability and changes in governments;
- Compliance with foreign and domestic import and export regulations and anti-corruption laws, including the Iran Threat Reduction and Syria Human Rights Act of 2012, U.S. Foreign Corrupt Practices Act, U.K. Bribery Act, and similar laws of other jurisdictions, governing our business activities outside the United States, the violation of which could result in severe penalties, including monetary fines, criminal proceedings and suspension of export or import privileges; and
- Terrorist or military actions that result in destruction or seizure of our assets or suspension or disruption of our operations or those of our customers, suppliers or service providers.

We currently transact business in the UK, where we also have offices and a distribution center, and in key E.U. markets. The UK has formally exited the E.U. ("Brexit") and is in a transition period until the end of 2020. Negotiations are ongoing to determine the future terms of the UK's relationship with the E.U., including the terms of trade between the UK and the E.U. and the rest of the world. The effects of Brexit will depend on any agreements the UK makes to retain access to E.U. markets either during a transitional period or more permanently. The measures could potentially disrupt the markets we serve and the tax jurisdictions in which we operate and adversely change tax benefits or liabilities in these or other jurisdictions. Changes resulting from these measures, including access to free trade agreements, tariffs and customs and currency fluctuations may cause us to lose customers, suppliers and employees and adversely affect our financial condition.

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

In addition, competition in developing markets is increasing. If we cannot successfully increase our business, our product sales, financial condition and results of operations could be adversely affected. As we plan to exit our products distribution business in Latin America, outside of Brazil and Europe, our presence in international countries will substantially decrease upon completion of that exit. Before we exit, we are still subject to all risks associated with operating in those countries.

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

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

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

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

We are highly dependent upon a variety of computer and telecommunication systems to operate our business, including our enterprise resource planning systems. As we are dependent upon our ability to gather and promptly transmit accurate information to key decision makers, our business, results of operations and financial condition may be adversely affected if our information systems do not allow us to transmit accurate information, even for a short period of time. Failure to properly or adequately address these issues could impact our ability to perform necessary business operations, which could adversely affect our reputation, competitive position, business, financial condition and results of operations.

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

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

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

People - If we cannot continue to hire and retain high quality employees, our business and financial results may be negatively affected.

Our operating results could be adversely affected by increased competition for employees, higher employee turnover or increased compensation and benefit costs. Our employees are important to our success and we are dependent in part on our ability to retain the services of our employees in key roles. We have built our business on a set of core values, and we attempt to hire and retain employees who are committed to these values and our culture of providing exceptional service to our customers and suppliers. In order to compete and to continue to grow, we must attract, retain and motivate employees, including those in executive, senior management, sales, marketing, logistics, technical support and other operating positions.

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

We recently announced actions to address the business impacts of the COVID-19 pandemic and prepare for the next phase of growth. These actions include an approximate \$30 million expense reduction plan, which includes a workforce reduction in North America, excluding the Intelisys business. These actions are designed to better align the cost structure for our wholesale distribution business with lower sales volumes as a result of the COVID-19 pandemic. As part of the plan, we will continue to invest in our higher growth agency business, Intelisys. Customer relationships and operational performance could be negatively impacted by the recent workforce reduction if such reduction was excessive or if roles are eliminated or not replaced.

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

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

Customer consolidation also may lead to changes in the nature and terms of relationships with our customers. The loss or deterioration of a major customer relationship could adversely affect our business, financial condition and results of operations. COVID-19's widespread negative economic impacts could result in some of our customers shuttering their businesses, thus negatively impacting our revenues.

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

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

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

Our ability to obtain particular products or product lines in the required quantities and our ability to fulfill customer orders on a timely basis is critical to our success. Our suppliers have experienced product supply shortages from time to time due to the inability of certain of their suppliers to supply products on a timely basis. In addition, our dependence on a limited number of suppliers leaves us vulnerable to having an inadequate supply of required products, price increases, late deliveries and poor product quality. As a result, we have experienced, and may in the future continue to experience, short-term shortages of specific products or be unable to purchase our desired volume of products. Suppliers that currently distribute their products through us, may decide to shift to or substantially increase their existing distribution with other distributors, their own dealer networks, or directly to resellers or end-customers. Suppliers have, from time to time, made efforts to reduce the number of distributors with which they do business. This could result in more intense competition as distributors strive to secure distribution rights with these suppliers, which could have an adverse impact on our operating results. We cannot provide any assurances that suppliers will maintain an adequate supply of products to fulfill all of our customer orders on a timely basis. Our reputation, sales and profitability may suffer if suppliers are not able to provide us with an adequate supply of products to fulfill our customer orders on a timely basis or if we cannot otherwise obtain particular products or product lines.

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

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

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

In addition, the cost of borrowings under our existing sources of capital and any potential new sources of capital as a result of variable interest rates and the transition away from LIBOR may increase, which could have an adverse effect on our financial condition. Changes in how lenders rate our credit worthiness, as well as macroeconomic factors such as an economic downturn and global economic instability may restrict our ability to raise capital in adequate amounts or on terms acceptable to us, and the failure to do so could harm our ability to operate our business.

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

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

Our markets are fiercely competitive. We compete on the basis of price, product and service availability, speed and accuracy of delivery, effectiveness of sales and marketing programs, credit availability and terms, ability to tailor solutions to the needs of our customers, quality and breadth of product line and services, and availability of technical and product information. Our competitors include local, regional, national and international distributors as well as hardware and service suppliers that sell directly to resellers and to end-customers. In addition, we compete with resellers and master agents that sell to franchisees, third-party dealers and end-customers. Certain of our current and potential competitors have greater financial, technical, marketing and other resources than we have and may be able to respond more quickly to new or emerging technologies and changes in customer requirements. Certain smaller, regional competitors, that are specialty two-tier or mixed model master resellers, may be able to

respond more quickly to new or emerging technologies and changes in customer requirements in their regions. Competition has increased for our sales units as broad line and other value-added distributors have entered into the specialty technology markets. Such competition could result in price reductions, reduced margins and loss of our market share.

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

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

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

We have substantial goodwill. On at least an annual basis, we are required to assess our goodwill and other intangible assets, including but not limited to customer relationships, trademarks, and trade names, for impairment. This includes continuously monitoring events and circumstances that could trigger an impairment test outside of our annual impairment testing date in the fourth quarter of each year. Testing goodwill and other intangibles for impairment requires the use of significant estimates and other inputs outside of our control. If the carrying value of goodwill in any of our goodwill reporting units or other intangible assets is determined to exceed their respective fair values, we may be required to record significant impairment charges. In addition, our decision to dispose of certain of our operations may require us to recognize an impairment to the carrying value of goodwill and other intangible assets attendant to those operations. We recognized significant goodwill and intangible asset impairment in the fiscal year ended June 30, 2020. Any declines resulting in a goodwill impairment or long-lived asset impairment may result in material non-cash charges to our earnings. Impairment charges would also reduce our consolidated shareholders' equity and increase our debt-to-total-capitalization ratio, which could negatively impact our credit rating and access to the public debt and equity markets.

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

The market for some of our products and services is subject to rapid technological change, evolving industry standards and changes in customer demand, which can contribute to the decline in value or obsolescence of inventory. Although most of our suppliers provide us with certain protections from the loss in value of inventory (such as price protection and certain return rights), we cannot be sure that such protections will fully compensate for any loss in value, or that the suppliers will choose to, or be able to, honor such agreements.

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

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

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

Our personnel, systems, procedures and controls may not be adequate to effectively manage our future operations, especially as we employ personnel in multiple domestic and international locations. We may not be able to hire, train, retain and manage the personnel required to address our growth. Failure to effectively manage our acquisition opportunities could damage our reputation, limit our future growth, and adversely affect our business, financial condition and operating results.

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

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

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

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

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

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

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

In order to be as efficient as possible, we centralize a number of critical functions. For instance, we currently distribute products to the majority of North America from a single warehouse. Similarly, for the primary business operations, we utilize a single

information system based in the United States for the majority of our North American, Latin American and European operations, while our Brazilian operations have separate systems. While we have backup systems and business continuity plans, any significant or lengthy interruption of our ability to provide these centralized functions as a result of natural disasters, security breaches or otherwise would significantly impair our ability to continue normal business operations. In addition, the centralization of these functions increases our exposure to local risks, such as the availability of qualified employees and the lessening of competition for critical services, such as freight and communications.

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

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

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

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

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

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

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

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

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

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

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

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

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

ITEM 1B. Unresolved Staff Comments.

Not applicable.

ITEM 2. Properties.

Our fixed assets include office space and warehouses. Our principal locations and/or properties for our continuing operations as of June 30, 2020, were as follows:

| Location | Approximate Square Footage | Type of Interest | Description of Use |
|--------------------------------------|-----------------------------------|-------------------------|--|
| <i>United States</i> | | | |
| Greenville, SC | 180,000 | Owned | Headquarters - Principal Executive and Sales Offices |
| Greenville, SC | 45,000 | Leased | Sales and Administration Offices |
| Southaven, MS | 741,000 | Leased | Warehouse |
| Sacramento, CA | 41,000 | Leased | Sales and Administration Offices and Warehouse |
| Louisville, KY | 22,000 | Leased | Warehouse |
| <i>International</i> | | | |
| Sao Jose dos Pinhais, Paraná, Brazil | 24,000 | Leased | Sales Office and Warehouse |
| Serra, Espírito Santo, Brazil | 31,000 | Leased | Sales Office and Warehouse |
| Itajai, Santa Catarina, Brazil | 164,000 | Leased | Sales Office and Warehouse |

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

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

ITEM 3. Legal Proceedings.

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

ITEM 4. Mine Safety Disclosures.

Not applicable.

PART II

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

Our common stock is quoted on the NASDAQ Global Select Market under the symbol "SCSC." As of August 26, 2020, there were approximately 680 holders of record of our common stock.

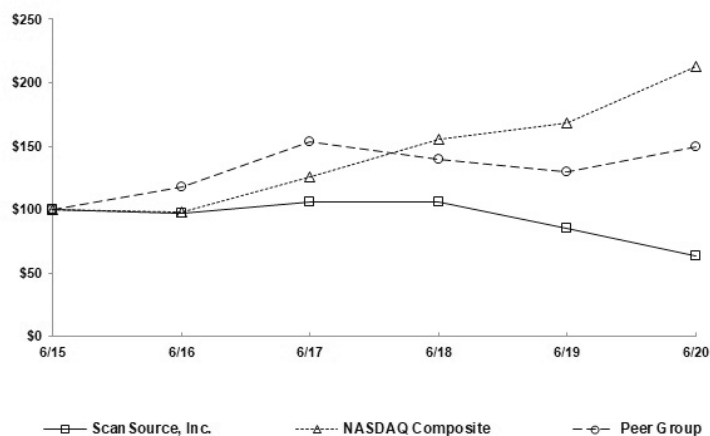
Stock Performance Chart

The following stock performance graph compares cumulative total shareholder return on our common stock over a five-year period with the Nasdaq Market Index and with the Standard Industrial Classification ("SIC") Code Index (SIC Code 5045 – Wholesale Computers and Peripheral Equipment and Software) for the same period. Total shareholder return represents stock price changes and assumes the reinvestment of dividends. The graph assumes the investment of \$100 on June 30, 2015.

| | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 |
|--|--------|--------|--------|--------|--------|--------|
| ScanSource, Inc. | \$ 100 | \$ 98 | \$ 106 | \$ 106 | \$ 86 | \$ 63 |
| NASDAQ Composite | \$ 100 | \$ 98 | \$ 126 | \$ 156 | \$ 168 | \$ 213 |
| SIC Code 5045 – Computers & Peripheral Equipment | \$ 100 | \$ 118 | \$ 153 | \$ 139 | \$ 130 | \$ 149 |

COMPARISON OF 5 YEAR CUMULATIVE TOTAL RETURN*

Among ScanSource, Inc., the NASDAQ Composite Index,
and a Peer Group



* \$100 invested on 6/30/15 in stock or index, including reinvestment of dividends.
Fiscal year ending June 30.

Unregistered Sales of Equity Securities and Use of Proceeds

In August 2016, the Board of Directors' ("BOD") authorized a three-year \$120 million share repurchase program. The share repurchase program expired in August 2019. No share repurchases occurred under the BOD authorization for the year ended June 30, 2018. During the year ended June 30, 2019, we repurchased 323,832 shares for \$10.1 million under the program. During the quarter ended September 30, 2019, we repurchased 168,068 shares for \$5.4 million under the program before it expired. There was no share-repurchase activity, including shares withheld from employees for stock based awards, for the quarter ended June 30, 2020.

ITEM 6. Selected Financial Data.

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

FIVE YEAR FINANCIAL SUMMARY

| | Fiscal Year Ended June 30, | | | | |
|--|--|--------------|--------------|--------------|--------------|
| | 2020 | 2019 | 2018 | 2017 | 2016 |
| | <i>(in thousands, except per share data)</i> | | | | |
| Statement of income data: | | | | | |
| Net sales | \$ 3,047,734 | \$ 3,249,799 | \$ 3,164,709 | \$ 2,963,366 | \$ 2,886,938 |
| Cost of goods sold | 2,692,165 | 2,856,996 | 2,795,403 | 2,649,364 | 2,608,261 |
| Gross profit | 355,569 | 392,803 | 369,306 | 314,002 | 278,677 |
| Selling, general and administrative expenses | 260,139 | 252,948 | 232,291 | 203,545 | 182,133 |
| Depreciation expense | 13,033 | 12,028 | 12,286 | 8,322 | 5,955 |
| Intangible amortization expense | 19,953 | 17,893 | 18,680 | 13,522 | 7,491 |
| Impairment charges | 120,470 | — | — | — | — |
| Change in fair value of contingent consideration | 6,941 | 15,200 | 37,043 | 6,279 | 415 |
| Operating (loss) income | (64,967) | 94,734 | 69,006 | 82,334 | 82,683 |
| Interest expense | 12,224 | 13,162 | 9,121 | 3,010 | 1,912 |
| Interest income | (5,826) | (1,818) | (3,710) | (5,359) | (3,383) |
| Other (income) expense, net | 411 | (247) | 546 | (11,388) | 999 |
| (Loss) Income before income taxes | (71,776) | 83,637 | 63,049 | 96,071 | 83,155 |
| Provision for income taxes | 7,451 | 18,778 | 27,593 | 31,760 | 30,176 |
| Net (loss) income from continuing operations | (79,227) | 64,859 | 35,456 | 64,311 | 52,979 |
| Net (loss) income from discontinued operations | (113,427) | (7,262) | (2,303) | 4,935 | 10,640 |
| Net (loss) income | \$ (192,654) | \$ 57,597 | \$ 33,153 | \$ 69,246 | \$ 63,619 |
| Per share data: | | | | | |
| Net (loss) income from continuing operations per common share, basic | \$ (3.12) | \$ 2.53 | \$ 1.39 | \$ 2.55 | \$ 2.00 |
| Net (loss) income from discontinued operations per common share, basic | (4.47) | (0.28) | (0.09) | 0.19 | 0.40 |
| Net (loss) income per common share, basic | \$ (7.59) | \$ 2.25 | \$ 1.30 | \$ 2.74 | \$ 2.40 |
| Weighted-average shares outstanding, basic | 25,378 | 25,642 | 25,522 | 25,318 | 26,472 |
| Net (loss) income from continuing operations per common share, diluted | \$ (3.12) | \$ 2.52 | \$ 1.38 | \$ 2.52 | \$ 1.98 |
| Net (loss) income from discontinued operations per common share, diluted | (4.47) | (0.28) | (0.09) | 0.19 | 0.40 |
| Net (loss) income per common share, diluted | \$ (7.59) | \$ 2.24 | \$ 1.29 | \$ 2.71 | \$ 2.38 |
| Weighted-average shares outstanding, diluted | 25,378 | 25,734 | 25,624 | 25,515 | 26,687 |

| | As of June 30, | | | | |
|---------------------------------------|-----------------------|-------------|-------------|-------------|-------------|
| | 2020 | 2019 | 2018 | 2017 | 2016 |
| | <i>(in thousands)</i> | | | | |
| Balance sheet data: | | | | | |
| Working capital | \$ 484,460 | \$ 776,429 | \$ 651,851 | \$ 624,748 | \$ 643,793 |
| Total assets | 1,692,094 | 2,067,261 | 1,945,295 | 1,718,303 | 1,491,185 |
| Total debt (of continuing operations) | 218,728 | 327,489 | 249,429 | 97,300 | 76,856 |
| Total shareholders' equity | \$ 678,246 | \$ 914,129 | \$ 866,376 | \$ 837,145 | \$ 774,496 |

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

Overview

ScanSource is at the center of the technological solution delivery channel, connecting businesses and institutions and providing solutions for their complex needs. We provide technology solutions and services from leading suppliers of mobility and barcode, point-of-sale (POS), payments, physical security, unified communications and collaboration, telecom and cloud services to our customers. We serve approximately 30,000 customers located in the United States, Canada, Brazil, the UK and Europe and provide solutions and services from approximately 500 technology suppliers.

We operate our business under a management structure that enhances our technology market focus and growth strategy. We segment our business into two technology-focused areas that each operate in the United States, Canada, Brazil, and the UK:

- 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 Brazil primarily from facilities located in the Brazilian states of Paraná, Espírito Santo and Santa Catarina. Some of our digital products and services are provided from our CASCADE platform. 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 8x8, ACC Business, AT&T, Aruba/HPE, Axis, AudioCodes, Avaya, Barco, Bematech, CenturyLink, Cisco, Comcast Business, Datalogic, Dell, Dialogic, Elo, Epson, Extreme, Fortinet, Hanwha, Honeywell, HID, Ingenico, Jabra, March Networks, Masergy, Microsoft, Mitel, NCR, NICE inContact, Oracle, Panasonic, Poly, RingCentral, Samsung, Sony, Spectralink, Spectrum, Toshiba Global Commerce Solutions, TPx, Ubiquiti, Verifone, Verizon, Windstream, Zebra Technologies and Zoom. We also offer customers significant choices in cloud services through our Intelisys business, including offerings in contact center, infrastructure and unified communications.

Recent Developments

Impact of COVID-19 on our Business Environment

In early March 2020, the World Health Organization characterized COVID-19 as a pandemic. The rapid spread of COVID-19 since December 2019 has resulted in the implementation of numerous measures to contain the virus worldwide, such as travel bans and restrictions, quarantines, shelter-in-place orders and business shutdowns. The pandemic and these containment measures have had, and are expected to continue to have, a substantial impact on businesses around the world and on global, regional and national economies.

During the COVID-19 pandemic, our top priority is protecting the health and safety of our employees. We moved quickly to transition our employees, where possible, to a fully remote working environment. We have taken a number of measures to ensure our teams feel secure in their jobs and have the flexibility and resources they need to stay safe and healthy.

We have activated our contingency plans. We have deployed teams to monitor the rapidly evolving situation and recommend risk mitigation actions; we have implemented travel restrictions; and we are following social distancing guidelines. We are following global guidance from authorities and health officials including, but not limited to, checking the temperature of associates when entering our facilities, requiring associates to wear masks and other protective clothing as appropriate, and implementing additional cleaning and sanitation routines. In addition, nearly all office-based employees around the world are working remotely.

We saw a significant impact from COVID-19 pandemic during the fourth quarter of our fiscal year, with a 21.6% decline year-over-year for quarterly GAAP net sales and a 19.3% decline year-over-year for quarterly non-GAAP net sales, excluding the negative impact of foreign currency translation.

In July 2020, we announced actions to address the business impacts of the COVID-19 pandemic and prepare for the next phase of growth. These actions include an approximate \$30 million annualized expense reduction plan, partially offset by approximately \$8 to \$9 million in severance and employee benefits for those employees who left the Company. These actions are designed to better align the cost structure for our wholesale distribution business with lower sales volumes as a result of the COVID-19 pandemic. As part of the plan, we will continue to invest in our higher growth agency business, Intelisys. Strong growth for the Intelisys business has continued, even with the COVID-19 pandemic.

See "Risk Factors" for information on additional impacts of COVID-19 as well as other matters that could have a material adverse effect on our results of operations and financial condition.

Closure of the Canpango Professional Services Business

In July 2020, we initiated actions to close Canpango, our salesforce implementation and consulting business. In August 2018, we acquired Canpango to help partners build out their customer relationship management capabilities as part of a CCaaS solution. There has been limited adoption by our partner community. As a result of closing the Canpango business we recorded a pre-tax non-cash charge of approximately \$2 million at June 30, 2020. We expect to complete existing contracts over the next few months.

Divestitures

An agreement was signed on July 23, 2020, subsequent to our fiscal year end, to sell our product distribution business located in Mexico, Colombia, Chile, Peru and our Miami-based export operations to Intcomex. We expect to finalize the sale of Latin America divestitures, outside of Brazil, on or around September 30, 2020. The Company is actively working on sales opportunities for our divestitures in Europe and the UK and expects to finalize a sale within twelve months from the current reporting period.

Our Strategy

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

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

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

Profitability

Our operating income is driven by gross profits and by control of operating expenses. Our operations feature scalable information systems, streamlined management and centralized distribution, enabling us to achieve the economies of scale necessary for cost-effective solution selling. In order to continue to grow in our markets, we have continued to invest in new technologies and increased marketing efforts to recruit new customers.

Results of Operations from Continuing Operations

The following table sets forth for the periods indicated certain income and expense items as a percentage of net sales. Totals may not sum due to rounding.

| | Fiscal Year Ended June 30, | | |
|--|----------------------------|---------|---------|
| | 2020 | 2019 | 2018 |
| Statement of income data: | | | |
| Net sales | 100.0 % | 100.0 % | 100.0 % |
| Cost of goods sold | 88.3 | 87.9 | 88.3 |
| Gross profit | 11.7 | 12.1 | 11.7 |
| Selling, general and administrative expenses | 8.5 | 7.8 | 7.3 |
| Depreciation expense | 0.4 | 0.4 | 0.4 |
| Intangible amortization expense | 0.7 | 0.6 | 0.6 |
| Impairment charges | 4.0 | 0.0 | 0.0 |
| Change in fair value of contingent consideration | 0.2 | 0.5 | 1.2 |
| Operating (loss) income | (2.1) | 2.9 | 2.2 |
| Interest expense | 0.4 | 0.4 | 0.3 |
| Interest income | (0.2) | (0.1) | (0.1) |
| Other (income) expense, net | 0.0 | 0.0 | 0.0 |
| (Loss) Income from continuing operations before income taxes | (2.4) | 2.6 | 2.0 |
| Provision for income taxes | 0.2 | 0.6 | 0.9 |
| Net (loss) income from continuing operations | (2.6) | 2.0 | 1.1 |
| Net (loss) from discontinued operations | (3.7) | (0.2) | (0.1) |
| Net (loss) income | (6.3)% | 1.8 % | 1.0 % |

Comparison of Fiscal Years Ended June 30, 2020, 2019 and 2018

Below is a discussion of fiscal years ended June 30, 2020, 2019 and 2018 for our continuing operations.

Net Sales

Fiscal year 2020 compared to fiscal year 2019

We have two reportable segments, which are based on the technologies provided to customers. The following table summarizes our net sales results by business segment and by geographic location for the comparable fiscal years ending June 30, 2020, 2019 and 2018.

**% Change Constant
Currency, Excluding
Divestitures and
Acquisitions ^(a)**

| | <u>2020</u> | <u>2019</u> | <u>\$ Change</u> | <u>% Change</u> | |
|--|---------------------------|--------------------|--------------------|-----------------|---------|
| | <i>(in thousands)</i> | | | | |
| Sales by Segment: | | | | | |
| Worldwide Barcode, Networking & Security | \$2,093,217 | \$2,141,896 | \$ (48,679) | (2.3)% | (1.8)% |
| Worldwide Communications & Services | 954,517 | 1,107,903 | (153,386) | (13.8)% | (11.9)% |
| Total net sales | <u>\$3,047,734</u> | <u>\$3,249,799</u> | <u>\$(202,065)</u> | (6.2)% | (5.2)% |
| Sales by Geography Category: | | | | | |
| United States | \$2,755,134 | \$2,917,780 | \$(162,646) | (5.6)% | (5.7)% |
| International | 292,600 | 332,019 | (39,419) | (11.9)% | (1.4)% |
| Total net sales | <u>\$3,047,734</u> | <u>\$3,249,799</u> | <u>\$(202,065)</u> | (6.2)% | (5.2)% |

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

Worldwide Barcode, Networking & Security

The Worldwide Barcode, Networking & Security segment consists of sales to technology customers in North America and Brazil. During fiscal year 2020, net sales for this segment decreased \$48.7 million, or 2.3%, compared to fiscal year 2019. Excluding the foreign exchange negative impact of \$10.4 million, adjusted net sales for fiscal year 2020 decreased \$38.3 million, or 1.8%, compared to the prior year. The decrease in net sales and adjusted net sales is primarily due to lower sales volume across North America and Brazil, with the exception of our payments business which grew year-over-year. Lower sales volume are largely a result of the negative impacts of the COVID-19 pandemic.

Worldwide Communications & Services

The Worldwide Communications & Services segment consists of sales to technology customers in North America, Brazil, Europe and the UK. During fiscal year 2020, net sales for this segment decreased \$153.4 million or 13.8% compared to fiscal year 2019 largely as a result of the negative impacts of the COVID-19 pandemic. Excluding the foreign exchange negative impact of \$29.8 million and sales from fiscal 2020 and 2019 acquisitions, adjusted net sales decreased \$131.7 million, or 11.9%, compared to the prior year. The decrease in adjusted net sales is primarily due to lower sales volumes in the premise-based communications business in North America and the negative impacts of the COVID-19 pandemic. This impact was partially offset by sales growth in local currency in Brazil and increases in net sales for our master agency business, Intelisys.

Fiscal year 2019 compared to fiscal year 2018

| | <u>2019</u> | <u>2018</u> | <u>\$ Change</u> | <u>% Change</u> | <u>% Change Constant Currency, Excluding Divestitures and Acquisitions (a)</u> |
|--|----------------------------|----------------------------|-------------------------|-----------------|--|
| | <i>(in thousands)</i> | | | | |
| Sales by Segment: | | | | | |
| Worldwide Barcode, Networking & Security | \$ 2,141,896 | \$ 2,143,135 | \$ (1,239) | (0.1)% | 0.3 % |
| Communications & Services | <u>1,107,903</u> | <u>1,021,574</u> | <u>86,329</u> | 8.5 % | 11.6 % |
| Total net sales | <u>\$ 3,249,799</u> | <u>\$ 3,164,709</u> | <u>\$ 85,090</u> | 2.7 % | 4.0 % |
| Sales by Geography Category: | | | | | |
| United States | \$ 2,917,780 | \$ 2,847,196 | \$ 70,584 | 2.5 % | 1.9 % |
| International | <u>332,019</u> | <u>317,513</u> | <u>14,506</u> | 4.6 % | 22.0 % |
| Total net sales | <u>\$ 3,249,799</u> | <u>\$ 3,164,709</u> | <u>\$ 85,090</u> | 2.7 % | 4.0 % |

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

Worldwide Barcode, Networking & Security

During fiscal year 2019, net sales for this segment decreased \$1.2 million, or 0.1%, compared to fiscal year 2018 due to the negative impact of foreign exchange. Excluding the foreign exchange negative impact of \$16.2 million and sales from the POS Portal acquisition for the first quarter of fiscal years 2019 and 2018, adjusted net sales for fiscal year 2019 increased \$6.0 million, or 0.3%, compared to the prior year. The increase in adjusted net sales is primarily due to increased sales volume in our diversified technologies in North America.

Worldwide Communications & Services

During fiscal year 2019, net sales for this segment increased \$86.3 million or 8.5% compared to fiscal year 2018. Excluding the foreign exchange negative impact of \$39.3 million and sales from fiscal 2019 acquisitions, adjusted net sales for fiscal year 2019 increased \$118.6 million, or 11.6%, compared to the prior year. The increase in net sales and adjusted net sales is primarily due to sales growth in our Brazil and our North America communications business.

Gross Profit

Fiscal year 2020 compared to fiscal year 2019

The following table summarizes our gross profit for the fiscal years ended June 30, 2020 and 2019:

| | | | | | <u>% of Sales June 30,</u> | |
|--|-----------------------|-------------------|--------------------|-----------------|--------------------------------|-------------|
| | <u>2020</u> | <u>2019</u> | <u>\$ Change</u> | <u>% Change</u> | <u>2020</u> | <u>2019</u> |
| | <i>(in thousands)</i> | | | | | |
| Worldwide Barcode, Networking & Security | \$ 180,582 | \$ 209,243 | \$ (28,661) | (13.7)% | 8.6 % | 9.8 % |
| Worldwide Communications & Services | <u>174,988</u> | <u>183,560</u> | <u>(8,572)</u> | (4.7)% | 18.3 % | 16.6 % |
| Total gross profit | <u>\$ 355,570</u> | <u>\$ 392,803</u> | <u>\$ (37,233)</u> | (9.5)% | 11.7 % | 12.1 % |

During the 2020 fiscal year, we undertook a conversion to a new inventory management system in our Southaven, Mississippi distribution center. That software did not perform up to expectations, and during the third quarter, we incurred a \$4.5 million expense for inventory charges. That charge increased our cost of goods sold, which lowered gross profit for the quarter ended March 31, 2020. We implemented an inventory action plan to address the warehouse inventory discrepancies and were back to typical warehouse operations during the fourth quarter.

Worldwide Barcode, Networking & Security

For the Worldwide Barcode, Networking & Security segment, gross profit dollars decreased \$28.7 million and gross profit margin decreased to 8.6% for fiscal year 2020 compared to the prior year. The decrease is primarily due to lower sales volume, higher vendor program recognition in the prior year, and higher inventory charges during the third quarter following the conversion to a new inventory management system.

Worldwide Communications & Services

For the Worldwide Communications & Services segment, gross profit dollars decreased \$8.6 million due to lower sales volume. Gross profit margin increased to 18.3% for fiscal year 2020 compared to 16.6% in the prior year primarily due to a more favorable sales mix, including results contributed by our Intelisys recurring revenue business and the addition of the intY SaaS business.

Fiscal year 2019 compared to fiscal year 2018

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

| | 2019 | 2018 | \$ Change | % Change | % of Sales June 30, | |
|--|-------------------|-------------------|------------------|----------|------------------------|--------|
| | | | | | 2019 | 2018 |
| <i>(in thousands)</i> | | | | | | |
| Worldwide Barcode, Networking & Security | \$ 209,243 | \$ 198,716 | \$ 10,527 | 5.3 % | 9.8 % | 9.3 % |
| Worldwide Communications & Services | 183,560 | 170,590 | 12,970 | 7.6 % | 16.6 % | 16.7 % |
| Total gross profit | <u>\$ 392,803</u> | <u>\$ 369,306</u> | <u>\$ 23,497</u> | 6.4 % | 12.1 % | 11.7 % |

Worldwide Barcode, Networking & Security

For the Worldwide Barcode, Networking & Security segment, gross profit dollars increased \$10.5 million and gross profit margin increased to 9.8% for fiscal year 2019 compared to the prior year primarily due to higher vendor program recognition.

Worldwide Communications & Services

For the Worldwide Communications & Services segment, gross profit dollars increased \$13.0 million due to increased sales volume. Gross profit margin decreased slightly to 16.6% for fiscal year 2019 compared to the prior year primarily due to a less favorable sales mix.

Operating expenses

Fiscal year 2020 compared to fiscal year 2019

The following table summarizes our operating expenses for the periods ended June 30, 2020 and 2019:

| | 2020 | 2019 | \$ Change | % Change | % of Sales June 30, | |
|--|-------------------|-------------------|-------------------|----------|------------------------|-------|
| | | | | | 2020 | 2019 |
| <i>(in thousands)</i> | | | | | | |
| Selling, general and administrative expenses | \$ 260,139 | \$ 252,948 | \$ 7,191 | 2.8 % | 8.5 % | 7.8 % |
| Depreciation expense | 13,033 | 12,028 | 1,005 | 8.4 % | 0.4 % | 0.4 % |
| Intangible amortization expense | 19,953 | 17,893 | 2,060 | 11.5 % | 0.7 % | 0.6 % |
| Impairment charges | 120,470 | — | 120,470 | 100.0 % | 4.0 % | — % |
| Change in fair value of contingent | 6,941 | 15,200 | (8,259) | (54.3)% | 0.2 % | 0.5 % |
| Operating expenses | <u>\$ 420,536</u> | <u>\$ 298,069</u> | <u>\$ 122,467</u> | 41.1 % | 13.8 % | 9.2 % |

Selling, general and administrative expenses ("SG&A") increased \$7.2 million for the fiscal year ending June 30, 2020 compared to the prior year. The increase in SG&A expenses is primarily due to increased employee-related expenses in North America, partially offset by a tax recovery in Brazil. In July 2020, we announced an expense reduction plan designed to better align the cost structure for our wholesale distribution business with lower sales volumes as a result of the COVID-19 pandemic.

Depreciation expense increased \$1.0 million for the fiscal year ending June 30, 2020 primarily due to additional expense on capitalized IT investments.

Intangible amortization expense increased \$2.1 million for the fiscal year ending June 30, 2020 largely due to intangible amortization expense for assets acquired in the intY acquisition.

Impairment charges include \$119.0 million in goodwill impairment charges for our Worldwide Barcode, Networking and Security segment and \$1.4 million in intangible asset impairment charges for our Canpango business. The Company has initiated actions to close the Canpango business.

We have elected to present changes in fair value of the contingent consideration owed to former shareholders of businesses we acquire separately from other SG&A expenses. In fiscal 2020, we have recorded a \$6.9 million expense from change in fair value of contingent consideration, all of which related to Intelisys. The expense is largely from recurring amortization of the unrecognized fair value discount and a reduction in the discount rate for the Intelisys liability.

Fiscal year 2019 compared to fiscal year 2018

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

| | <u>2019</u> | <u>2018</u> | <u>\$ Change</u> | <u>% Change</u> | <u>% of Sales June 30,</u> | |
|--|-----------------------|-------------------|-------------------|-----------------|--------------------------------|-------------|
| | | | | | <u>2019</u> | <u>2018</u> |
| | <i>(in thousands)</i> | | | | | |
| Selling, general and administrative expenses | \$ 252,948 | \$ 232,291 | \$ 20,657 | 8.9 % | 7.8 % | 7.3 % |
| Depreciation expense | 12,028 | 12,286 | (258) | (2.1)% | 0.4 % | 0.4 % |
| Intangible amortization expense | 17,893 | 18,680 | (787) | (4.2)% | 0.6 % | 0.6 % |
| Change in fair value of contingent consideration | 15,200 | 37,043 | (21,843) | (59.0)% | 0.5 % | 1.2 % |
| Operating expenses | <u>\$ 298,069</u> | <u>\$ 300,300</u> | <u>\$ (2,231)</u> | (0.7)% | 9.2 % | 9.5 % |

Selling, general and administrative expenses ("SG&A") increased \$20.7 million for the fiscal year ending June 30, 2019 compared to the prior year primarily due to increased employee-related expenses in North America.

Depreciation expense and intangible amortization expense decreased \$0.3 million and \$0.8 million, respectively, for the fiscal year ending June 30, 2019. The decrease in intangible amortization expense is due to trade names and non-compete agreements that became fully amortized during the current year, partially offset by additional expense related to assets acquired through fiscal year 2019 acquisitions.

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

Operating Income

Fiscal year 2020 compared to fiscal year 2019

The following table summarizes our operating income for the periods ended June 30, 2020, 2019 and 2018:

| | <u>2020</u> | <u>2019</u> | <u>\$ Change</u> | <u>% Change</u> | <u>% of Sales June 30,</u> | |
|--|-----------------------|------------------|--------------------|-----------------|--------------------------------|-------------|
| | | | | | <u>2020</u> | <u>2019</u> |
| | <i>(in thousands)</i> | | | | | |
| Worldwide Barcode, Networking & Security | \$ (83,515) | \$ 57,019 | \$(140,534) | (246.5)% | (4.0)% | 2.7 % |
| Worldwide Communications & Services | 22,548 | 38,933 | (16,385) | (42.1)% | 2.4 % | 3.5 % |
| Corporate | (4,000) | (1,218) | (2,782) | 228.4 % | — % | — % |
| Total operating (loss) income | <u>\$ (64,967)</u> | <u>\$ 94,734</u> | <u>\$(159,701)</u> | (168.6)% | (2.1)% | 2.9 % |

Worldwide Barcode, Networking & Security

For the Worldwide Barcode, Networking & Security segment, the operating income decrease reflects the goodwill impairment charges. Excluding goodwill impairment charges of \$119.0 million, adjusted operating income decreased \$21.5 million compared to the prior year and adjusted operating margin decreased to 1.7% for the fiscal year June 30, 2020. The decrease in adjusted operating margin is largely due to the lower gross profits.

Worldwide Communications & Services

For the Worldwide Communications & Services segment, operating income decreased \$16.4 million compared to the prior year, and the operating margin decreased to 2.4% for the fiscal year ended June 30, 2020. The decrease is largely due to lower gross profits from lower sales volume and increased employee-related expenses, which includes additional expenses from the fiscal year 2020 intY acquisition.

Corporate

Corporate incurred \$4.0 million in acquisition and divestiture costs for fiscal year ended June 30, 2020, compared to \$1.2 million in acquisition costs for the years ended June 30, 2019.

Fiscal year 2019 compared to fiscal year 2018

| | | | | % of Sales June 30, | | |
|--|-----------------------|------------------|------------------|--------------------------------|-------------|-------------|
| | 2019 | 2018 | \$ Change | % Change | 2019 | 2018 |
| | <i>(in thousands)</i> | | | | | |
| Worldwide Barcode, Networking & Security | \$ 57,019 | \$ 49,313 | \$ 7,706 | 15.6 % | 2.7 % | 2.3 % |
| Worldwide Communications & Services | 38,933 | 19,865 | 19,068 | 96.0 % | 3.5 % | 1.9 % |
| Corporate | (1,218) | (172) | (1,046) | 608.1 % | — % | — % |
| Total operating income | <u>\$ 94,734</u> | <u>\$ 69,006</u> | <u>\$ 25,728</u> | 37.3 % | 2.9 % | 2.2 % |

Worldwide Barcode, Networking & Security

For the Worldwide Barcode, Networking & Security segment, operating income increased \$7.7 million and operating margin increased to 2.7% for the fiscal year ended June 30, 2019 compared to the prior year. The increase in operating income and operating margin is primarily attributable to higher gross margins, partially offset by increased employee-related expenses.

Worldwide Communications & Services

For the Worldwide Communications & Services segment, operating income increased \$19.1 million and operating margin increased to 3.5% for the fiscal year ended June 30, 2019 compared to the prior year. Operating margin in the prior year was impacted by significant expense related to the change in fair value of contingent consideration for Network1. Excluding change in fair value of contingent consideration for each comparable year, adjusted operating income decreased \$2.7 million and adjusted operating margin decreased to 4.9% compared to 5.6% in the prior-year, largely due to increased employee-related expenses, partially offset by increased sales volume.

Corporate

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

Total Other (Income) Expense

Fiscal year 2020 compared to fiscal year 2019

The following table summarizes our total other (income) expense for the fiscal years ended June 30, 2020 and 2019:

| | <u>2020</u> | <u>2019</u> | <u>\$ Change</u> | <u>% Change</u> | <u>% of Sales June 30,</u> | |
|-------------------------------------|-----------------------|------------------|-------------------|-----------------|--------------------------------|-------------|
| | | | | | <u>2020</u> | <u>2019</u> |
| | <i>(in thousands)</i> | | | | | |
| Interest expense | \$ 12,224 | \$ 13,162 | \$ (938) | (7.1)% | 0.4 % | 0.4 % |
| Interest income | (5,826) | (1,818) | (4,008) | 220.5 % | (0.2)% | (0.1)% |
| Net foreign exchange losses (gains) | 525 | 635 | (110) | (17.3)% | — % | — % |
| Other, net | (114) | (882) | 768 | (87.1)% | — % | — % |
| Total other (income) expense | <u>\$ 6,809</u> | <u>\$ 11,097</u> | <u>\$ (4,288)</u> | (38.6)% | 0.2 % | 0.3 % |

Interest expense reflects interest incurred on borrowings, non-utilization fees from our revolving credit facility and amortization of debt issuance costs. Interest expense decreased in fiscal 2020 as compared to 2019 principally from reduced borrowings on our multi-currency revolving credit facility.

Interest income for the year ended June 30, 2020 and 2019 was generated on interest-bearing customer receivables and interest earned on cash and cash equivalents, principally in Brazil. In fiscal year 2020, we recognized interest income of \$2.7 million related to a tax recovery in Brazil.

Net foreign exchange gains and losses consist of foreign currency transactional and functional currency re-measurements, offset by net foreign currency exchange contract gains and losses. Foreign exchange gains and losses are generated as the result of fluctuations in the value of the U.S. dollar versus the Brazilian real, the U.S. dollar versus the euro, the British pound versus the euro, the Canadian dollar versus the U.S. dollar and other currencies versus the U.S. dollar. We partially offset foreign currency exposure with the use of foreign exchange forward contracts to hedge against these exposures. The costs associated with foreign exchange forward contracts are included in the net foreign exchange loss. Foreign exchange losses decreased during fiscal year 2020 compared to the prior year from the lower cost of hedging.

Fiscal year 2019 compared to fiscal year 2018

| | <u>2019</u> | <u>2018</u> | <u>\$ Change</u> | <u>% Change</u> | <u>% of Sales June 30,</u> | |
|-------------------------------------|-----------------------|-----------------|------------------|-----------------|--------------------------------|-------------|
| | | | | | <u>2020</u> | <u>2019</u> |
| | <i>(in thousands)</i> | | | | | |
| Interest expense | \$ 13,162 | \$ 9,121 | \$ 4,041 | 44.3 % | 0.4 % | 0.3 % |
| Interest income | (1,818) | (3,710) | 1,892 | (51.0)% | (0.1)% | (0.1)% |
| Net foreign exchange losses (gains) | 635 | 1,178 | (543) | (46.1)% | — % | — % |
| Other, net | (882) | (632) | (250) | 39.6 % | — % | — % |
| Total other (income) expense | <u>\$ 11,097</u> | <u>\$ 5,957</u> | <u>\$ 5,140</u> | 86.3 % | 0.3 % | 0.2 % |

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

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

Net foreign exchange losses decreased during fiscal year 2019 compared to the prior year, primarily from hedging costs.

Provision for Income Taxes

Income tax expense for continuing operations was \$7.5 million, \$18.8 million and \$27.6 million for the fiscal years ended June 30, 2020, 2019, and 2018, respectively, reflecting an effective tax rate of (10.4)%, 22.5% and 43.8%, respectively. The decrease in the effective tax rate for fiscal year 2020 compared to fiscal year 2019 is primarily the result of impairment charges, most of which are not deductible for tax purposes. The decrease in the effective tax rate for fiscal year 2019 as compared to fiscal year 2018 is primarily due to significant discrete tax items recognized in the prior year associated with U.S. tax reform that did not recur in the current year.

We expect the fiscal year 2021 effective tax rate from continuing operations to be approximately 28.5% to 29.5%. See Note 13 - *Income Taxes* in the Notes to Consolidated Financial Statements for further discussion including an effective tax rate reconciliation.

Quarterly Results

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

| | Three Months Ended | | | | | | | |
|--|--|-----------------|-----------------|------------------|-----------------|-----------------|-----------------|------------------|
| | Fiscal 2020 | | | | Fiscal 2019 | | | |
| | Jun. 30 2020 | Mar. 31 2020 | Dec. 31 2019 | Sept. 30 2019 | Jun. 30 2019 | Mar. 31 2019 | Dec. 31 2018 | Sept. 30 2018 |
| | <i>(in thousands, except per share data)</i> | | | | | | | |
| Net sales | \$ 636,450 | \$ 744,584 | \$ 823,999 | \$ 842,701 | \$ 811,432 | \$ 752,799 | \$ 872,348 | \$ 813,220 |
| Cost of goods sold | 562,303 | 660,006 | 725,680 | 744,176 | 714,789 | 657,043 | 768,926 | 716,239 |
| Gross profit | \$ 74,147 | \$ 84,578 | \$ 98,319 | \$ 98,525 | \$ 96,643 | \$ 95,756 | \$ 103,422 | \$ 96,981 |
| Impairment charges | \$ 120,470 | \$ — | \$ — | \$ — | \$ — | \$ — | \$ — | \$ — |
| Change in fair value of contingent consideration | \$ 674 | \$ 618 | \$ 3,176 | \$ 2,472 | \$ 3,666 | \$ 5,101 | \$ 1,850 | \$ 4,584 |
| Net (loss) income from continuing operations | \$(108,859) | \$ 5,715 | \$ 11,626 | \$ 12,291 | \$ 15,996 | \$ 13,455 | \$ 19,758 | \$ 15,649 |
| Net (loss) income from discontinued operations | (108,403) | (4,003) | (260) | (761) | (4,418) | (1,740) | 224 | (1,327) |
| Net (loss) income | \$(217,262) | 1,712 | 11,366 | 11,530 | \$ 11,578 | \$ 11,715 | \$ 19,982 | \$ 14,322 |
| Net (loss) income from continuing operations per common share, basic | \$ (4.29) | \$ 0.23 | \$ 0.46 | \$ 0.48 | \$ 0.62 | \$ 0.53 | \$ 0.77 | \$ 0.61 |
| Net (loss) income from discontinued operations per common share, basic | (4.28) | (0.16) | (0.01) | (0.03) | (0.17) | (0.07) | 0.01 | (0.05) |
| Net (loss) income per common share, basic | \$ (8.57) | \$ 0.07 | \$ 0.45 | \$ 0.45 | \$ 0.45 | \$ 0.46 | \$ 0.78 | \$ 0.56 |
| Weighted-average shares outstanding, basic | 25,353 | 25,346 | 25,274 | 25,539 | 25,627 | 25,704 | 25,640 | 25,599 |
| Net (loss) income from continuing operations per common share, diluted | \$ (4.29) | \$ 0.23 | \$ 0.46 | \$ 0.48 | \$ 0.62 | \$ 0.52 | \$ 0.77 | \$ 0.61 |
| Net (loss) income from discontinued operations per common share, diluted | (4.28) | (0.16) | (0.01) | (0.03) | (0.17) | (0.07) | 0.01 | (0.05) |
| Net (loss) income per common share, diluted | \$ (8.57) | \$ 0.07 | \$ 0.45 | \$ 0.45 | \$ 0.45 | \$ 0.45 | \$ 0.78 | \$ 0.56 |
| Weighted-average shares outstanding, diluted | 25,353 | 25,363 | 25,358 | 25,617 | 25,691 | 25,762 | 25,750 | 25,755 |

Non-GAAP Financial Information

Evaluating Financial Condition and Operating Performance

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

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

Return on Invested Capital

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

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

We calculate ROIC as earnings before interest expense, income taxes, depreciation and amortization, plus change in fair value of contingent consideration and other non-GAAP adjustments ("adjusted EBITDA"), divided by invested capital. Invested capital is defined as average equity plus average daily funded interest-bearing debt for the period. The following table summarizes annualized ROIC for the fiscal years ended June 30, 2020 and 2019, respectively.

| | <u>2020</u> | <u>2019</u> |
|----------------------------------|--------------|---------------|
| Return on invested capital ratio | <u>7.5 %</u> | <u>12.1 %</u> |

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

| | <u>Fiscal Year Ended June 30,</u> | |
|--|-----------------------------------|-------------------|
| | <u>2020</u> | <u>2019</u> |
| | <i>(in thousands)</i> | |
| <i>Reconciliation of net income to EBITDA:</i> | | |
| Net (loss) income from continuing operations (GAAP) | \$ (79,227) | \$ 64,859 |
| Plus: Interest expense | 12,224 | 13,162 |
| Plus: Income taxes | 7,451 | 18,778 |
| Plus: Depreciation and amortization | <u>35,328</u> | <u>33,652</u> |
| EBITDA (non-GAAP) | (24,224) | 130,451 |
| Plus: Change in fair value of contingent consideration | 6,941 | 15,200 |
| Plus: Acquisition and divestiture costs ^(a) | 4,000 | 1,218 |
| Plus: Restructuring costs | 604 | — |
| Plus: Impairment charges | 120,470 | — |
| Plus: Tax recovery, net | <u>(10,744)</u> | <u>—</u> |
| Adjusted EBITDA (numerator for ROIC) (non-GAAP) | <u>\$ 97,047</u> | <u>\$ 146,869</u> |

Invested capital calculations

| | Fiscal Year Ended June 30, | |
|--|-----------------------------------|----------------------------|
| | 2020 | 2019 |
| | <i>(in thousands)</i> | |
| <i>Invested capital calculations:</i> | | |
| Equity – beginning of the year | \$ 914,129 | \$ 866,376 |
| Equity – end of the year | 678,246 | 914,129 |
| Plus: Change in fair value of contingent consideration, net of tax | 5,247 | 11,294 |
| Plus: Acquisition and divestiture costs ^(a) | 4,000 | 1,218 |
| Plus: Restructuring, net of tax | 449 | — |
| Plus: Impairment charges, net of tax | 114,398 | — |
| Plus: Tax recovery, net | (8,001) | (3,110) |
| Plus: Impact of discontinued operations, net of tax | 98,794 | (16,557) |
| Average equity | <u>903,631</u> | <u>886,675</u> |
| Average funded debt ^(b) | <u>390,709</u> | <u>329,473</u> |
| Invested capital (denominator for ROIC) (non-GAAP) | <u>\$ 1,294,340</u> | <u>\$ 1,216,148</u> |

^(a) Includes acquisition and divestitures costs for the year ended June 30, 2020 and acquisition costs for the fiscal year ended June 30, 2019. Acquisition and divestiture costs are generally non-deductible for tax purposes.

^(b) Average funded debt, which includes both continuing operations and discontinued operations, is calculated as the daily average amounts outstanding on our short-term and long-term interest-bearing debt.

Net Sales in Constant Currency, Excluding Acquisitions and Divestitures

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 and the impact of Divestitures in order to show net sales results on an organic basis. This information is provided to analyze underlying trends without the translation impact of fluctuations in foreign currency rates and the impact of acquisitions. Below we show organic growth by providing a non-GAAP reconciliation of net sales in constant currency, excluding acquisition:

Net Sales by Segment:

| | Fiscal Year Ended June 30, | | <u>\$ Change</u> | <u>% Change</u> |
|---|----------------------------|-----------------------|------------------|-----------------|
| | <u>2020</u> | <u>2019</u> | | |
| Worldwide Barcode, Networking & Security: | | <i>(in thousands)</i> | | |
| Non-GAAP net sales, including Divestitures | \$ 2,511,666 | \$ 2,589,837 | \$ (78,171) | (3.0)% |
| Divestitures | <u>(418,449)</u> | <u>(447,941)</u> | | |
| Net sales, reported | <u>2,093,217</u> | 2,141,896 | (48,679) | (2.3)% |
| Foreign exchange impact ^(a) | <u>10,395</u> | — | | |
| Non-GAAP net sales, constant currency excluding Divestitures and acquisitions | <u>\$ 2,103,612</u> | <u>\$ 2,141,896</u> | \$ (38,284) | (1.8)% |
| Worldwide Communications & Services: | | | | |
| Non-GAAP net sales, including Divestitures | \$ 1,097,564 | \$ 1,283,274 | \$ (185,710) | (14.5)% |
| Divestitures | <u>(143,047)</u> | <u>(175,371)</u> | | |
| Net sales, reported | <u>954,517</u> | 1,107,903 | (153,386) | (13.8)% |
| Foreign exchange impact ^(a) | <u>29,829</u> | — | | |
| Less: Acquisitions | <u>(9,122)</u> | <u>(1,026)</u> | | |
| Non-GAAP net sales, constant currency excluding Divestitures and acquisitions | <u>\$ 975,224</u> | <u>\$ 1,106,877</u> | \$ (131,653) | (11.9)% |
| Consolidated: | | | | |
| Non-GAAP net sales, including Divestitures | \$ 3,609,230 | \$ 3,873,111 | \$ (263,881) | (6.8)% |
| Divestitures | <u>(561,496)</u> | <u>(623,312)</u> | | |
| Net sales, reported | <u>3,047,734</u> | 3,249,799 | (202,065) | (6.2)% |
| Foreign exchange impact ^(a) | <u>40,224</u> | — | | |
| Less: Acquisitions | <u>(9,122)</u> | <u>(1,026)</u> | | |
| Non-GAAP net sales, constant currency excluding Divestitures and acquisitions | <u>\$ 3,078,836</u> | <u>\$ 3,248,773</u> | \$ (169,937) | (5.2)% |

(a) Year-over-year net sales growth rate excluding the translation impact of changes in foreign currency exchange rates. Calculated by translating the net sales for the year ended June 30, 2020 into U.S. dollars using the average foreign exchange rates for the year ended June 30, 2019.

Net sales by segment

| | Fiscal Year Ended June 30, | | | |
|---|-----------------------------------|---------------------|------------------|-----------------|
| | 2019 | 2018 | \$ Change | % Change |
| Worldwide Barcode, Networking & Security: | <i>(in thousands)</i> | | | |
| Non-GAAP net sales, including Divestitures | \$ 2,589,837 | \$ 2,628,988 | \$ (39,151) | (1.5)% |
| Divestitures | <u>(447,941)</u> | <u>(485,853)</u> | | |
| Net sales, reported | 2,141,896 | 2,143,135 | (1,239) | (0.1)% |
| Foreign exchange impact ^(a) | 16,196 | — | | |
| Less: Acquisitions | <u>(23,465)</u> | <u>(14,553)</u> | | |
| Non-GAAP net sales, constant currency excluding Divestitures and acquisitions | <u>\$ 2,134,627</u> | <u>\$ 2,128,582</u> | \$ 6,045 | 0.3 % |
| Worldwide Communications & Services: | | | | |
| Non-GAAP net sales, including Divestitures | \$ 1,283,274 | \$ 1,217,272 | \$ 66,002 | 5.4 % |
| Divestitures | <u>(175,371)</u> | <u>(195,698)</u> | | |
| Net sales, reported | 1,107,903 | 1,021,574 | 86,329 | 8.5 % |
| Foreign exchange impact ^(a) | 39,274 | — | | |
| Less: Acquisitions | <u>(7,052)</u> | <u>—</u> | | |
| Non-GAAP net sales, constant currency excluding Divestitures and acquisitions | <u>\$ 1,140,125</u> | <u>\$ 1,021,574</u> | \$ 118,551 | 11.6 % |
| Consolidated: | | | | |
| Non-GAAP net sales, including Divestitures | \$ 3,873,111 | \$ 3,846,260 | \$ 26,851 | 0.7 % |
| Divestitures | <u>(623,312)</u> | <u>(681,551)</u> | | |
| Net sales, reported | 3,249,799 | 3,164,709 | 85,090 | 2.7 % |
| Foreign exchange impact ^(a) | 55,470 | — | | |
| Less: Acquisitions | <u>(30,517)</u> | <u>(14,553)</u> | | |
| Non-GAAP net sales, constant currency excluding Divestitures and acquisitions | <u>\$ 3,274,752</u> | <u>\$ 3,150,156</u> | \$ 124,596 | 4.0 % |

(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 year ended June 30, 2019 into U.S. dollars using the average foreign exchange rates for the year ended June 30, 2018.

Net Sales by Geography:

| | Fiscal Year Ended June 30, | | <u>\$ Change</u> | <u>% Change</u> |
|---|----------------------------|---------------------|------------------|-----------------|
| | <u>2020</u> | <u>2019</u> | | |
| United States and Canada: | <i>(in thousands)</i> | | | |
| Net sales, as reported | \$ 2,755,134 | \$ 2,917,780 | \$ (162,646) | (5.6)% |
| Less: Acquisitions | <u>(3,542)</u> | <u>(1,062)</u> | | |
| Net sales, excluding acquisitions | <u>\$ 2,751,592</u> | <u>\$ 2,916,718</u> | \$ (165,126) | (5.7)% |
| International: | | | | |
| Non-GAAP net sales, including Divestitures | \$ 854,096 | \$ 955,331 | \$ (101,235) | (10.6)% |
| Divestitures | <u>(561,496)</u> | <u>(623,312)</u> | | |
| Net sales, reported | <u>292,600</u> | <u>332,019</u> | (39,419) | (11.9)% |
| Foreign exchange impact ^(a) | 40,224 | — | | |
| Less: Acquisitions | <u>(5,580)</u> | <u>36</u> | | |
| Net sales, constant currency excluding Divestitures and acquisitions (non-GAAP) | <u>\$ 327,244</u> | <u>\$ 332,055</u> | \$ (4,811) | (1.4)% |
| Consolidated: | | | | |
| Non-GAAP net sales, including Divestitures | \$ 3,609,230 | \$ 3,873,111 | \$ (263,881) | (6.8)% |
| Divestitures | <u>(561,496)</u> | <u>(623,312)</u> | | |
| Net sales, reported | <u>3,047,734</u> | <u>3,249,799</u> | (202,065) | (6.2)% |
| Foreign exchange impact ^(a) | 40,224 | — | | |
| Less: Acquisitions | <u>(9,122)</u> | <u>(1,026)</u> | | |
| Net sales, constant currency excluding Divestitures and acquisitions (non-GAAP) | <u>\$ 3,078,836</u> | <u>\$ 3,248,773</u> | \$ (169,937) | (5.2)% |

(a) Year-over-year net sales growth rate excluding the translation impact of changes in foreign currency exchange rates. Calculated by translating the net sales for the year ended June 30, 2020 into U.S. dollars using the average foreign exchange rates for the year ended June 30, 2019.

Net Sales by Geography:

| | Fiscal Year Ended June 30, | | \$ Change | % Change |
|---|----------------------------|---------------------|-------------|----------|
| | 2019 | 2018 | | |
| United States and Canada: | <i>(in thousands)</i> | | | |
| Net sales, as reported | \$ 2,917,780 | \$ 2,847,197 | \$ 70,583 | 2.5 % |
| Less: Acquisitions | (30,517) | (14,553) | | |
| Net sales, excluding acquisitions | <u>\$ 2,887,263</u> | <u>\$ 2,832,644</u> | \$ 54,619 | 1.9 % |
| International: | | | | |
| Non-GAAP net sales, including Divestitures | \$ 955,331 | \$ 999,063 | \$ (43,732) | (4.4)% |
| Divestitures | (623,312) | (681,551) | | |
| Net sales, reported | <u>332,019</u> | <u>317,512</u> | 14,507 | 4.6 % |
| Foreign exchange impact ^(a) | 55,459 | — | | |
| Less: Acquisitions | — | — | | |
| Net sales, constant currency excluding Divestitures and acquisitions (non-GAAP) | <u>\$ 387,478</u> | <u>\$ 317,512</u> | \$ 69,966 | 22.0 % |
| Consolidated: | | | | |
| Non-GAAP net sales, including Divestitures | \$ 3,873,111 | \$ 3,846,260 | \$ 26,851 | 0.7 % |
| Divestitures | (623,312) | (681,551) | | |
| Net sales, reported | <u>3,249,799</u> | <u>3,164,709</u> | 85,090 | 2.7 % |
| Foreign exchange impact ^(a) | 55,470 | — | | |
| Less: Acquisitions | <u>(30,517)</u> | <u>(14,553)</u> | | |
| Net sales, constant currency excluding Divestitures and acquisitions (non-GAAP) | <u>\$ 3,274,752</u> | <u>\$ 3,150,156</u> | \$ 124,596 | 4.0 % |

(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 year ended June 30, 2019 into U.S. dollars using the average foreign exchange rates for the year ended June 30, 2018.

Income Statement Non-GAAP Metrics

To evaluate current period performance on a more consistent basis with prior periods, we disclose non-GAAP net sales, non-GAAP gross profit, non-GAAP operating income, non-GAAP net other expense, non-GAAP pre-tax income, non-GAAP net income and non-GAAP diluted earnings per share. Non-GAAP results exclude amortization of intangible assets related to acquisitions, changes in fair value of contingent consideration, acquisition and divestiture costs, restructuring costs, impact of Divestitures and other non-GAAP adjustments. These metrics 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 the aforementioned metrics adjusted for the costs and charges mentioned above:

Operating Income by Segment:

| | Fiscal year ended June 30, | | | % Change | % of Net Sales June 30, | |
|--|----------------------------|--------------------------|---------------------------|----------|----------------------------|-------|
| | 2020 | 2019 | \$ Change | | 2020 | 2019 |
| Worldwide Barcode, Networking & Security: | | | | | | |
| | <i>(in thousands)</i> | | | | | |
| GAAP operating (loss) income | (83,515) | 57,019 | (140,534) | (246.5)% | (4.0)% | 2.7 % |
| Adjustments: | | | | | | |
| Amortization of intangible assets | 7,871 | 8,099 | (228) | | | |
| Tax recovery | (5,480) | — | (5,480) | | | |
| Impairment charges | 119,037 | — | 119,037 | | | |
| Non-GAAP operating income | <u><u>\$ 37,913</u></u> | <u><u>\$ 65,118</u></u> | <u><u>\$ (27,205)</u></u> | (41.8)% | 1.8 % | 3.0 % |
| Worldwide Communications & Services: | | | | | | |
| GAAP operating income | 22,548 | 38,933 | (16,385) | (42.1)% | 2.4 % | 3.5 % |
| Adjustments: | | | | | | |
| Amortization of intangible assets | 12,082 | 9,794 | 2,288 | | | |
| Change in fair value of contingent consideration | 6,941 | 15,200 | (8,259) | | | |
| Restructuring costs | 604 | — | 604 | | | |
| Tax recovery | (2,583) | — | (2,583) | | | |
| Impairment charges | 1,433 | — | 1,433 | | | |
| Non-GAAP operating income | <u><u>\$ 41,025</u></u> | <u><u>\$ 63,927</u></u> | <u><u>\$ (22,902)</u></u> | (35.8)% | 4.3 % | 5.8 % |
| Corporate: | | | | | | |
| GAAP operating loss | \$ (4,000) | \$ (1,218) | \$ (2,782) | nm* | nm* | nm* |
| Adjustments: | | | | | | |
| Acquisition and divestiture costs | 4,000 | 1,218 | 2,782 | | | |
| Non-GAAP operating income | <u><u>\$ —</u></u> | <u><u>\$ —</u></u> | <u><u>\$ —</u></u> | nm* | nm* | nm* |
| Consolidated: | | | | | | |
| GAAP operating (loss) income | (64,967) | 94,734 | (159,701) | (168.6)% | (2.1)% | 2.9 % |
| Adjustments: | | | | | | |
| Amortization of intangible assets | 19,953 | 17,893 | 2,060 | | | |
| Change in fair value of contingent consideration | 6,941 | 15,200 | (8,259) | | | |
| Acquisition and divestiture costs | 4,000 | 1,218 | 2,782 | | | |
| Restructuring costs | 604 | — | 604 | | | |
| Tax recovery | (8,063) | — | (8,063) | | | |
| Impairment charges | 120,470 | — | 120,470 | | | |
| Non-GAAP operating income | <u><u>\$ 78,938</u></u> | <u><u>\$ 129,045</u></u> | <u><u>\$ (50,107)</u></u> | (38.8)% | 2.6 % | 4.0 % |

Year ended June 30, 2020

| | GAAP Measure | Intangible amortization expense | Change in fair value of contingent consideration | Acquisition, divestiture and restructuring costs ^(a) | Tax recovery, net | Impairment charges | Non-GAAP measure |
|--|--------------|---------------------------------|--|---|-------------------|--------------------|------------------|
| | | | <i>(in thousands, except per share data)</i> | | | | |
| Net sales | \$ 3,047,734 | \$ — | \$ — | \$ — | \$ — | \$ — | \$ 3,047,734 |
| Gross profit | 355,569 | — | — | — | — | — | 355,569 |
| Operating (loss) income | (64,967) | 19,953 | 6,941 | 4,604 | (8,063) | 120,470 | 78,938 |
| Other expense, net | 6,809 | — | — | — | 2,681 | — | 9,490 |
| Pre-tax (loss) income | (71,776) | 19,953 | 6,941 | 4,604 | (10,744) | 120,470 | 69,448 |
| Net (loss) income from continuing operations | (79,227) | 15,091 | 5,247 | 4,449 | (8,001) | 114,398 | 51,957 |
| Diluted EPS from continuing operations | \$ (3.12) | \$ 0.59 | \$ 0.21 | \$ 0.18 | \$ (0.32) | \$ 4.51 | \$ 2.05 |

^(a) Acquisition and divestiture costs totaled \$4.0 million for the fiscal year ended June 30, 2020 and are generally nondeductible for tax purposes. Restructuring costs totaled \$0.6 million for the fiscal year ended June 30, 2020.

Year ended June 30, 2019

| | GAAP Measure | Intangible amortization expense | Change in fair value of contingent consideration | Acquisition, divestiture and restructuring costs ^(a) | Tax recovery, net | Impairment charges | Non-GAAP measure |
|--|--------------|---------------------------------|--|---|-------------------|--------------------|------------------|
| | | | <i>(in thousands, except per share data)</i> | | | | |
| Net sales | \$ 3,249,799 | \$ — | \$ — | \$ — | \$ — | \$ — | \$ 3,249,799 |
| Gross profit | 392,803 | — | — | — | — | — | 392,803 |
| Operating income | 94,734 | 17,893 | 15,200 | 1,218 | — | — | 129,045 |
| Other expense, net | 11,097 | — | — | — | — | — | 11,097 |
| Pre-tax income | 83,637 | 17,893 | 15,200 | 1,218 | — | — | 117,948 |
| Net income from continuing operations | 64,859 | 13,484 | 11,294 | 1,218 | (3,110) | — | 87,745 |
| Diluted EPS from continuing operations | \$ 2.52 | \$ 0.52 | \$ 0.44 | \$ 0.05 | \$ (0.12) | \$ — | \$ 3.41 |

^(a) Acquisition and divestiture costs totaled \$1.2 million for the fiscal year ended June 30, 2019 and are generally nondeductible for tax purposes.

Critical Accounting Policies and Estimates

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

Allowances for Trade and Notes Receivable

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

Inventory Reserves

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

Supplier Programs

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

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

Goodwill

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

Under Accounting Standards Update ("ASU") 2017-04 if fair value of goodwill fair value is determined to be less than carrying value, an impairment loss is recognized for the amount of the carrying value that exceeds the amount of the reporting units' fair value, not to exceed the total amount of goodwill allocated to the reporting unit. Additionally, we would consider income tax effects from any tax deductible goodwill on the carrying amount of the reporting unit when measuring the goodwill impairment loss, if applicable. We also assess the recoverability of goodwill if facts and circumstances indicate goodwill may be impaired. In our most recent annual test, we estimated the fair value of our reporting units primarily based on the income approach utilizing the discounted cash flow method. We also utilized fair value estimates derived from the market approach utilizing the public company market multiple method to validate the results of the discounted cash flow method, which required us to make assumptions about the applicability of those multiples to our reporting units. The discounted cash flow method requires us to estimate future cash flows and discount those amounts to present value. The key assumptions utilized in determining fair value included:

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

While we believe our assumptions are appropriate, they are subject to uncertainty and by nature include judgments and estimates regarding future events, including projected growth rates, margin percentages and operating efficiencies. Key assumptions used in determining fair value include projected growth and operating margin, working capital requirements and discount rates. During fiscal year 2020, we completed our annual impairment test as of April 30th and determined that goodwill for our Worldwide Barcode, Networking and Security reporting unit was impaired and we recorded an impairment charge of \$119.0 million accordingly. It became apparent to management during the fourth quarter of the current fiscal year that the negative impacts of the COVID-19 pandemic would drive year-over-year revenue losses for the current quarter and next fiscal year. Such losses resulted in reduced cash flow projections for this reporting unit that were not expected during the previous quarter as COVID-19 was just beginning to impact the United States. In addition, we saw an unanticipated and sustained reduction in our stock price compared to historical values as we progressed further through the fourth quarter. The fair value of our Worldwide Communications & Services reporting unit exceeds its carrying value of assets by approximately 12%.

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

Liability for Contingent Consideration

In addition to the initial cash consideration paid to former shareholders of Intelisys, Network1 and POS Portal, we agreed to make additional earnout payments based on future results through a specified date based on a multiple of the subsidiary's pro forma earnings as defined in the respective purchase agreements. We paid annual earnout payments to the former shareholders of Intelisys in fiscal years 2018, 2019 and 2020. We paid the final earnout payment to the former shareholders of Network1 during fiscal year 2019. We also made a single earnout payment to the former shareholders of POS Portal during fiscal year 2018 in accordance with the share purchase agreement.

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

Off-Balance Sheet Arrangements

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

Accounting Standards Recently Issued

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

Liquidity and Capital Resources

Our primary sources of liquidity are cash flows from operations and borrowings under the \$350 million revolving credit facility. Our business requires significant investment in working capital, particularly accounts receivable and inventory, partially financed through our accounts payable to suppliers. In general, as our sales volumes increase, our net investment in working capital typically increases, which typically results in decreased cash flow from operating activities. Conversely, when sales volumes decrease, our net investment in working capital typically decreases, which typically results in increased cash flow from operating activities.

Cash and cash equivalents totaled \$29.5 million, \$19.3 million and \$23.5 million at June 30, 2020, 2019 and 2018, respectively, of which \$23.6 million, \$14.1 million and \$18.3 million was held outside of the United States as of June 30, 2020, 2019 and 2018 respectively. Checks released but not yet cleared from these accounts in the amounts of \$15.4 million, \$7.4 million and \$5.6 million are classified as accounts payable as of June 30, 2020, 2019 and 2018 respectively.

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

Our net investment in working capital decreased \$150.0 million to \$431.3 million at June 30, 2020 from \$581.2 million at June 30, 2019, primarily from decreases in accounts receivable and inventory, partially offset by decreases in accounts payable. Our net investment in working capital totaled \$490.9 million at June 30, 2018. Decreases in accounts receivable, inventory, and accounts payable in the current year are due to lower sales volumes as a result of the COVID-19 pandemic. Our net investment in working capital is affected by several factors such as fluctuations in sales volume, net income, timing of collections from customers, increases and decreases to inventory levels, payments to suppliers, as well as cash generated or used by other financing and investing activities.

| | Year ended | | |
|---|-----------------------|---------------|---------------|
| | June 30, 2020 | June 30, 2019 | June 30, 2018 |
| Cash provided by (used in): | <i>(in thousands)</i> | | |
| Operating activities of continuing operations | \$ 182,033 | \$ 16,032 | \$ 31,447 |
| Investing activities of continuing operations | (55,308) | (37,958) | (150,766) |
| Financing activities of continuing operations | (152,686) | 31,314 | 100,920 |

Net cash provided by operating activities was \$182.0 million for the year ended June 30, 2020, compared to \$16.0 million and \$31.4 million provided by operating activities for the years ended June 30, 2019 and 2018. Operating cash flows for the year ended June 30, 2020 is primarily attributable to reduced inventory and accounts receivable balances and earnings from operations adjusted for non-cash items. Operating cash flows for the year ended June 30, 2019 is primarily attributable to earnings from operations adjusted for non-cash items, partially offset by increased inventory. Operating cash flows for the year ended June 30, 2018 is primarily attributable to earnings from operations adjusted for non-cash items, partially offset by overall increases in cash used for working capital needs.

Excluding the master agency business, the number of days sales outstanding ("DSO") was 63 at June 30, 2020, compared to 58 at June 30, 2019 and 56 at June 30, 2018. The increase in DSO is primarily a result of changes in the aging portfolio of North America. Throughout the current fiscal year, DSO ranged from 56 to 63. Inventory turnover was 4.5 times during the fourth quarter of the current fiscal year, compared to 4.9 and 6.4 times in the fourth quarter of fiscal years 2019 and 2018, respectively. Throughout the current fiscal year, inventory turnover ranged from 4.5 to 5.6 times.

Cash used in investing activities was \$55.3 million, \$38.0 million and \$150.8 million for the years ended June 30, 2020, 2019, and 2018, respectively. Cash used in investing activities is primarily attributable to cash used to purchase IntY in fiscal year 2020, RPM and Canpango in fiscal year 2019, and POS Portal in fiscal year 2018.

Cash used in financing activities for the year ended June 30, 2020 totaled to \$152.7 million, compared to cash provided by financing activities of \$31.3 million and \$100.9 million in fiscal years 2019 and 2018, respectively. For fiscal year 2020, cash used in financing activities is primarily attributable to net debt repayments and contingent consideration payments. For both fiscal years 2019 and 2018, cash provided by financing activities is primarily attributable to net debt borrowings, partially offset by contingent consideration payments.

Share Repurchase Program

In August 2016, the Board of Directors authorized a three year \$120 million share repurchase program. The share repurchase program expired in August 2019. Since the inception of the program, we repurchased 1.1 million shares totaling \$35.9 million, of which 0.2 million totaling \$5.4 million were repurchased during the year ended June 30, 2020.

Credit Facility

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

At our option, loans denominated in U.S. dollars under the Amended Credit Agreement, other than swingline loans, bear interest at a rate equal to a spread over the LIBOR or alternate base rate depending upon the Company's net leverage ratio, calculated as total debt less up to \$15 million of unrestricted domestic cash to trailing four-quarter adjusted earnings before interest expense, taxes, depreciation and amortization ("EBITDA") (the "Leverage Ratio"). This spread ranges from 1.00% to 1.750% for LIBOR-based loans and 0.00% to 0.750% for alternate base rate loans. The Amended Credit Agreement provides for the substitution of a new interest rate benchmark upon the transition from LIBOR, subject to agreement between the Company and the administrative agent. The Amended Credit Agreement contains customary yield protection provisions. Additionally, the Company is assessed commitment fees ranging from 0.15% to 0.30%, depending upon the Leverage Ratio, on non-utilized borrowing availability, excluding swingline loans. Borrowings under the Amended Credit Agreement are guaranteed by substantially all of the domestic assets of the Company and a pledge of up to 65% of capital stock or other equity interest in certain foreign subsidiaries determined to be either material or a subsidiary borrower as defined in the Amended Credit Agreement.

The Amended Credit Agreement includes customary representations, warranties, and affirmative and negative covenants, including financial covenants. Specifically, our Leverage Ratio must be less than or equal to 3.50 to 1.00 at all times. In addition, our Interest Coverage Ratio (as such term is defined in the Amended Credit Agreement) must be at least 3.00:1.00 as of the end of each fiscal quarter. In the event of a default, customary remedies are available to the lenders, including acceleration and

increased interest rates. We were in compliance with all covenants under the credit facility as of June 30, 2020. Including borrowings for both continuing and discontinued operations, there was \$92.4 million, \$200.8 million, and \$244.0 million outstanding on the revolving credit facility at June 30, 2020, 2019 and 2018 respectively.

Including borrowings for both continuing and discontinued operations, the average daily balance on the revolving credit facility, excluding the term loan facility, was \$235.4 million, \$296.4 million and \$269.5 million for the years ended June 30, 2020, 2019 and 2018, respectively. There were letters of credit issued under the multi-currency revolving credit facility for the discontinued operations of \$0.3 million as of June 30, 2020. There were no letters of credit issued as of June 30, 2019 and June 30, 2018. Taking into consideration outstanding borrowings on the multi-currency revolving credit facility for both continuing and discontinued operations, there was \$257.3 million and \$149.2 million available for additional borrowings as of June 30, 2020 and 2019, respectively. Availability to use this borrowing capacity depends upon, among other things, the levels of our Leverage Ratio and Interest Coverage Ratio, which, in turn, will depend upon (1) our Credit Facility Net Debt relative to our EBITDA, and (2) Credit Facility EBITDA relative to total interest expense respectively. As a result, our availability will increase if EBITDA increases (subject to the limit of the facility) and decrease if EBITDA decreases. At June 30, 2020, based upon the calculation of our Credit Facility Net Debt relative to our Credit Facility EBITDA, there was \$132.1 million available for borrowing. While we were in compliance with the financial covenants contained in the Credit Facility as of June 30, 2020, and currently expect to continue to maintain such compliance, should we encounter difficulties, our historical relationship with our Credit Facility lending group has been strong and we anticipate their continued support of our long-term business.

Earnout Payments

As of June 30, 2020, we are obligated to pay one final earnout payment to the former shareholders of Intelisys related to their acquisition on August 29, 2016. See Note 10 - *Fair Value of Financial Instruments* for a discussion on the liabilities recorded. We paid the final earnout payment to the former shareholders of Network1 in fiscal year 2019. We made a single earnout payment to the former shareholders of POS Portal in fiscal year 2018. The future earnout payment for Intelisys is expected to be funded by cash from operations and our existing revolving credit facility.

Summary

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

Commitments

At June 30, 2020, we had contractual obligations in the form of non-cancelable operating leases, a capital lease (including interest payments), debt (including interest payments) and the contingent consideration for the earnout pertaining to the Intelisys acquisition. See Notes 8, 10 and 14 of the Notes to the Consolidated Financial Statements. The following table summarizes our future contractual obligations:

| | Payments Due by Period | | | | |
|--|-------------------------------|------------------|------------------|-------------------|---------------------------------|
| | Total | Year 1 | Years 2-3 | Years 4-5 | Greater than 5 Years |
| | <i>(in thousands)</i> | | | | |
| Contractual Obligations | | | | | |
| Non-cancelable operating leases ⁽¹⁾ | \$ 28,464 | \$ 5,430 | \$ 9,643 | \$ 7,414 | \$ 5,977 |
| Capital lease | 2,631 | 1,228 | 1,403 | — | — |
| Principal debt payments | 151,014 | 7,839 | 19,441 | 120,709 | 3,025 |
| Revolving credit facility ⁽²⁾ | 67,714 | — | — | 67,714 | — |
| Contingent consideration ⁽³⁾ | 46,334 | 46,334 | — | — | — |
| Other ⁽⁴⁾ | — | — | — | — | — |
| Total obligations | \$ 296,157 | \$ 60,831 | \$ 30,487 | \$ 195,837 | \$ 9,002 |

- (1) Amounts to be paid in future periods for real estate taxes, insurance and other operating expenses applicable to the properties pursuant to the respective operating leases have been excluded from the table above as the amounts payable in future periods are generally not specified in the lease agreements and are dependent upon amounts which are not known at this time. Such amounts were not material in the current fiscal year.
- (2) The Company has \$24.7 million outstanding under the revolving credit facility classified as long term liabilities held for sale in the Consolidated Balance Sheets for our discontinued operations that is not included in the chart above.
- (3) Amounts disclosed regarding future Intelisys earnout payments are presented at their discounted fair value. Estimated future, undiscounted earnout payments for Intelisys could range as high as \$46.9 million as of June 30, 2020.
- (4) Amounts totaling \$27.2 million of deferred compensation, which are included in accrued expenses and other current liabilities and other long-term liabilities in our Consolidated Balance Sheets as of June 30, 2020, have been excluded from the table above due to the uncertainty of the timing of the payment of these obligations, which are generally at the discretion of the individual employees or upon death of the former employee, respectively.

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

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

Interest Rate Risk

We are exposed to changes in interest rates primarily as a result of our borrowing activities, which include revolving credit facilities with a group of banks used to maintain liquidity and fund our business operations. The nature and amount of our debt may vary as a result of future business requirements, market conditions and other factors. A hypothetical 100 basis point increase or decrease in interest rates on total borrowings (continuing and discontinued operations) on our revolving credit facility and variable rate long-term debt, net of the impact of the interest rate swap, would have resulted in approximately a \$2.9 million and \$2.3 million increase or decrease in pre-tax income for the fiscal year ended June 30, 2020 and 2019, respectively.

We evaluate our interest rate risk and may use interest rate swaps to mitigate the risk of interest rate fluctuations associated with our current and long-term debt. At June 30, 2020 and 2019 we had \$247.0 million and \$360.5 million, respectively, in variable rate debt for both continuing and discontinued operations. 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 with a notional amount of \$100.0 million, with a \$50.0 million tranche scheduled to mature on April 30, 2024 and a \$50.0 million tranche scheduled to mature April 30, 2026. The purpose of the interest rate swap is to manage or hedge our exposure to floating rate debt and achieve a desired proportion of fixed versus floating rate debt. Our use of derivative instruments have the potential to expose us to certain market risks including the possibility of (1) our hedging activities not being as effective as anticipated in reducing the volatility of our cash flows, (2) the counterparty not performing its obligations under the applicable hedging arrangement, (3) the hedging arrangement being imperfect or ineffective or (4) the terms of the swap or associated debt changing. We seek to lessen such risks by having established a policy to identify, control and manage market risks which may arise from changes in interest rates, as well as limiting our counterparties to major financial institutions.

Foreign Currency Exchange Rate Risk

We are exposed to foreign currency risks that arise from our foreign operations in Canada, Brazil, the UK and Europe. These risks include transactions denominated in non-functional currencies and intercompany loans with foreign subsidiaries. In the normal course of the business, foreign exchange risk is managed by the use of currency options and forward contracts to hedge these exposures as well as balance sheet netting of exposures. In addition, exchange rate fluctuations may cause our international results to fluctuate significantly when translated into U.S. dollars. A hypothetical 10% increase or decrease in foreign exchange rates would have resulted in approximately a \$1.1 million and \$1.3 million increase or decrease in pre-tax income for fiscal years ended June 30, 2020 and 2019, 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, British pounds and Canadian dollars. At June 30, 2020 and 2019 the fair value of our currency forward contracts were a net payable of less than \$0.1 million.

ITEM 8. Financial Statements and Supplementary Data.

Index to Financial Statements

| | <u>Page</u> |
|--|--------------------|
| Financial Statements | |
| Report of Grant Thornton LLP Independent Registered Public Accounting Firm | 47 |
| Report Report of Grant Thornton LLP Independent Registered Public Accounting Firm on Internal Control Over Financial Reporting | 50 |
| Consolidated Balance Sheets | 52 |
| Consolidated Income Statements | 53 |
| Consolidated Statements of Comprehensive (Loss) Income | 54 |
| Consolidated Statements of Shareholders' Equity | 55 |
| Consolidated Statements of Cash Flows | 56 |
| Notes to Consolidated Financial Statements | 58 |

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

Report of Independent Registered Public Accounting Firm

Board of Directors and Shareholders
ScanSource, Inc.:

Opinion on the financial statements

We have audited the accompanying consolidated balance sheets of ScanSource, Inc. (a South Carolina corporation) and subsidiaries (the “Company”) as of June 30, 2020 and 2019, the related consolidated statements of income, comprehensive (loss) income, shareholders’ equity, and cash flows for each of the three years in the period ended June 30, 2020, and the related notes and financial statement schedule included under Item 15(a)(2) (collectively referred to as the “financial statements”). In our opinion, the financial statements present fairly, in all material respects, the financial position of the Company as of June 30, 2020 and 2019, and the results of its operations and its cash flows for each of the three years in the period ended June 30, 2020, in conformity with accounting principles generally accepted in the United States of America.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (“PCAOB”), the Company’s internal control over financial reporting as of June 30, 2020, based on criteria established in the 2013 *Internal Control—Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (“COSO”), and our report dated August 31, 2020 expressed an unqualified opinion.

Basis for opinion

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

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

Critical Audit Matters

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

Supplier Incentives

As described in Note 1 to the consolidated financial statements, the Company has incentive agreements with many of its suppliers. Supplier rebates can be in the form of instant rebates or achievement-based rebates. Instant rebate programs reduce the Company’s inventory cost so that the Company can reduce the ultimate sales price to the customer or provide additional margin to the

Company. Achievement-based rebates are earned by achieving certain sales or purchase targets on a periodic basis. We identified supplier incentives as a critical audit matter.

We identified supplier incentives as a critical audit matter due to the large volume of transactions subject to rebates that are earned under varying contract terms, and the related estimates made by management. The Company determines whether, among other items, all qualifying sales and purchases are considered in calculating the rebates and cash receipts or credit memos received are appropriately applied. The determination of achievement-based rebates requires management to make estimates about future purchases and sales. For both instant and achievement-based rebates, there is a risk that the rebates are not accounted for consistent with the terms of the current contracts, which requires a high degree of auditor judgment in designing and executing audit procedures to respond to this risk.

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

Europe Held for Sale and Discontinued Operations Classification in the Absence of an Executed Sales Agreement

As described in Note 18 to the consolidated financial statements, during the fourth quarter of fiscal 2020, the Company classified the product distribution businesses in Europe, the UK (collectively, "Europe"), Mexico, Colombia, Chile, Peru, and the Miami-based export operations (collectively, "Latin America") as assets held for sale and discontinued operations. As of June 30, 2020, the Company measured these businesses at the lower of carrying value or fair value less costs to sell, resulting in a pre-tax loss of \$88.9 million, recorded within loss from discontinued operations for the year ended June 30, 2020.

We identified the Europe held for sale treatment as a critical audit matter due to the complexities and judgments involved in making the accounting treatment determination. There are subjective and complex judgments in the following areas: determination of whether the sale of Europe is probable, that the transfer of assets are a completed sale within one year from June 30, 2020, and the determination of an estimated sales price since there is no signed purchase agreement in place as of the date the 10-K was filed. There were also complexities in determining the proper treatment of deferred taxes related to currency translation adjustments previously recorded.

Our audit procedures related to held for sale and discontinued operations classification of Europe included the following, among others. We audited management's held for sale evaluation for Europe by comparing the relevant guidance against management's conclusions. We tested the Company's judgments in determining the estimated sales price of Europe based on review of correspondence with potential buyers. We audited management's calculation of the loss on held for sale classification, and the applicable deferred tax impact associated with currency translation adjustments. We evaluated the adequacy of the Company's disclosures on held for sale treatment and discontinued operations against the requirements of the accounting framework and tested the completeness and accuracy of the prior year financial presentation. We tested the design and operating effectiveness of controls established to identify, authorize and approve, account for and disclose the discontinued operations in the consolidated financial statements.

Goodwill Valuation

As described in Note 7 to the consolidated financial statements, as of June 30, 2020, goodwill recorded in the Worldwide Barcode, Networking and Security reporting unit (“Barcode”) was \$16.4 million and goodwill recorded in the Worldwide Communications and Services (“Communications”) reporting unit was \$197.9 million. Goodwill is tested by the Company’s management for impairment at least annually at the reporting unit level and more frequently when indicators of potential impairment are identified. During the fourth quarter of fiscal 2020, management performed a quantitative impairment test of goodwill. This test resulted in impairment charges of \$119.0 million for the Barcode reporting unit. No impairment was recorded in the Communications reporting unit.

We identified goodwill valuation as a critical audit matter because of the significant judgments made by management to estimate the fair value of goodwill in each reporting unit. Estimates of future performance and market conditions used to arrive at the net present value of future cash flows, which is used within the goodwill impairment analysis, are subjective in nature. In particular, the Company’s fair value estimate was sensitive to assumptions including the discount rate and revenue growth rates, which are affected by expectations about future market or economic conditions. There were also complexities in determining the allocation of the identified goodwill impairment charges to legal jurisdictions for tax purposes.

Our audit procedures related to goodwill valuation include the following, among other procedures. We compared the significant assumptions used by management to current industry and economic trends. We assessed the historical accuracy of management’s estimates and performed sensitivity analyses of significant assumptions to evaluate the changes in the fair value of the Barcode and Communications reporting units which would result from changes in assumptions. With the assistance of our valuation specialists, we assessed the Company’s methodologies and tested the significant assumptions and underlying data used by the Company in its valuation analysis. With the assistance of our tax specialists, we evaluated whether the allocation of the goodwill impairment for income taxes purposes was appropriate. We evaluated the adequacy of the Company’s disclosures on goodwill valuation against the requirements of the accounting framework. We obtained an understanding, evaluated the design, and tested the operating effectiveness of controls over the Company’s goodwill impairment review process. This includes controls over management’s review of the significant assumptions described above.

/s/ Grant Thornton LLP

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

Columbia, South Carolina
August 31, 2020

Report of Independent Registered Public Accounting Firm

Board of Directors and Shareholders
ScanSource, Inc.:

Opinion on internal control over financial reporting

We have audited the internal control over financial reporting of ScanSource, Inc. (a South Carolina corporation) and subsidiaries (the “Company”) as of June 30, 2020, based on criteria established in the 2013 *Internal Control—Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (“COSO”). In our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of June 30, 2020, based on criteria established in the 2013 *Internal Control—Integrated Framework* issued by COSO.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (“PCAOB”), the consolidated financial statements of the Company as of and for the year ended June 30, 2020, and our report dated August 31, 2020 expressed an unqualified opinion on those financial statements.

Basis for opinion

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

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

Our audit of, and opinion on, the Company’s internal control over financial reporting does not include the internal control over financial reporting of intY Holdings (“intY”), a wholly-owned subsidiary, whose financial statements reflect total assets and revenues from continuing operations constituting 3.5 percent and less than 1 percent, respectively, of the related consolidated financial statement amounts as of and for the year ended June 30, 2020. As indicated in Management’s Report, intY was acquired during the year ended June 30, 2020. Management’s assertion on the effectiveness of the Company’s internal control over financial reporting excluded internal control over financial reporting of intY.

Definition and limitations of internal control over financial reporting

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

reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

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

/s/ Grant Thornton LLP

Columbia, South Carolina
August 31, 2020

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

| | June 30, 2020 | June 30, 2019 |
|--|--------------------------|--------------------------|
| <u>Assets</u> | | |
| Current assets: | | |
| Cash and cash equivalents | \$ 29,485 | \$ 19,305 |
| Accounts receivable, less allowance of \$21,906 at June 30, 2020 and \$27,521 at June 30, 2019 | 443,185 | 523,424 |
| Inventories | 454,885 | 554,080 |
| Prepaid expenses and other current assets | 94,681 | 83,753 |
| Current assets held for sale | 181,231 | 296,753 |
| Total current assets | 1,203,467 | 1,477,315 |
| Property and equipment, net | 55,641 | 60,570 |
| Goodwill | 214,288 | 310,715 |
| Identifiable intangible assets, net | 121,547 | 121,214 |
| Deferred income taxes | 24,630 | 15,447 |
| Other non-current assets | 72,521 | 52,921 |
| Non-current assets held for sale | — | 29,079 |
| Total assets | \$ 1,692,094 | \$ 2,067,261 |
| Liabilities and Shareholders' Equity | | |
| Current liabilities: | | |
| Accounts payable | \$ 454,240 | \$ 488,291 |
| Accrued expenses and other current liabilities | 76,686 | 64,629 |
| Current portion of contingent consideration | 46,334 | 38,393 |
| Income taxes payable | 5,886 | 3,956 |
| Current portion of long-term debt | 7,839 | 4,085 |
| Current liabilities held for sale | 128,022 | 101,532 |
| Total current liabilities | 719,007 | 700,886 |
| Deferred income taxes | 3,884 | — |
| Long-term debt, net of current portion | 143,175 | 151,014 |
| Borrowings under revolving credit facility | 67,714 | 172,390 |
| Long-term portion of contingent consideration | — | 39,532 |
| Other long-term liabilities | 80,068 | 57,153 |
| Long-term liabilities held for sale | — | 32,157 |
| Total liabilities | 1,013,848 | 1,153,132 |
| 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, 25,361,298 and 25,408,397 shares issued and outstanding at June 30, 2020 and June 30, 2019, respectively | 63,765 | 64,287 |
| Retained earnings | 747,276 | 939,930 |
| Accumulated other comprehensive loss | (132,795) | (90,088) |
| Total shareholders' equity | 678,246 | 914,129 |
| Total liabilities and shareholders' equity | \$ 1,692,094 | \$ 2,067,261 |

See accompanying notes to consolidated financial statements.

ScanSource, Inc. and Subsidiaries
Consolidated Income Statements
Years Ended June 30, 2020, 2019 and 2018
(in thousands, except per share information)

| | <u>2020</u> | <u>2019</u> | <u>2018</u> |
|--|---------------------|------------------|------------------|
| Net sales | \$ 3,047,734 | \$ 3,249,799 | \$ 3,164,709 |
| Cost of goods sold | <u>2,692,165</u> | <u>2,856,996</u> | <u>2,795,403</u> |
| Gross profit | 355,569 | 392,803 | 369,306 |
| Selling, general and administrative expenses | 260,139 | 252,948 | 232,291 |
| Depreciation expense | 13,033 | 12,028 | 12,286 |
| Intangible amortization expense | 19,953 | 17,893 | 18,680 |
| Impairment charges | 120,470 | — | — |
| Change in fair value of contingent consideration | <u>6,941</u> | <u>15,200</u> | <u>37,043</u> |
| Operating (loss) income | (64,967) | 94,734 | 69,006 |
| Interest expense | 12,224 | 13,162 | 9,121 |
| Interest income | (5,826) | (1,818) | (3,710) |
| Other expense (income), net | <u>411</u> | <u>(247)</u> | <u>546</u> |
| (Loss) income before income taxes | (71,776) | 83,637 | 63,049 |
| Provision for income taxes | <u>7,451</u> | <u>18,778</u> | <u>27,593</u> |
| Net (loss) income from continuing operations | (79,227) | 64,859 | 35,456 |
| Net loss from discontinued operations | <u>(113,427)</u> | <u>(7,262)</u> | <u>(2,303)</u> |
| Net (loss) income | <u>\$ (192,654)</u> | <u>\$ 57,597</u> | <u>\$ 33,153</u> |
| Per share data: | | | |
| Net (loss) income from continuing operations per common share, basic | \$ (3.12) | \$ 2.53 | \$ 1.39 |
| Net loss from discontinued operations per common share, basic | (4.47) | (0.28) | (0.09) |
| Net (loss) income per common share, basic | <u>\$ (7.59)</u> | <u>\$ 2.25</u> | <u>\$ 1.30</u> |
| Weighted-average shares outstanding, basic | <u>25,378</u> | <u>25,642</u> | <u>25,522</u> |
| Net (loss) income from continuing operations per common share, diluted | \$ (3.12) | \$ 2.52 | \$ 1.38 |
| Net loss from discontinued operations per common share, diluted | (4.47) | (0.28) | (0.09) |
| Net (loss) income per common share, diluted | <u>\$ (7.59)</u> | <u>\$ 2.24</u> | <u>\$ 1.29</u> |
| Weighted-average shares outstanding, diluted | <u>25,378</u> | <u>25,734</u> | <u>25,624</u> |

See accompanying notes to consolidated financial statements.

ScanSource, Inc. and Subsidiaries
Consolidated Statements of Comprehensive (Loss) Income
Years Ended June 30, 2020, 2019 and 2018
(in thousands)

| | <u>2020</u> | <u>2019</u> | <u>2018</u> |
|--|---------------------|------------------|------------------|
| Net (loss) income | \$ (192,654) | \$ 57,597 | \$ 33,153 |
| Unrealized (loss) gain on hedged transaction, net of tax | (4,646) | (3,277) | 1,089 |
| Foreign currency translation adjustment | (38,061) | (2,634) | (12,062) |
| Comprehensive (loss) income | <u>\$ (235,361)</u> | <u>\$ 51,686</u> | <u>\$ 22,180</u> |

See accompanying notes to these consolidated financial statements.

ScanSource, Inc. and Subsidiaries
Consolidated Statements of Shareholders' Equity
Years Ended June 30, 2020, 2019 and 2018
(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 | — | — | 33,153 | — | 33,153 |
| Unrealized gain on hedged transaction, net of tax | — | — | — | 1,089 | 1,089 |
| Foreign currency translation adjustment | — | — | — | (12,062) | (12,062) |
| Exercise of stock options and shares issued under share-based compensation plans, net of shares withheld for employee taxes | 161,277 | 636 | — | — | 636 |
| Share based compensation | — | 6,415 | — | — | 6,415 |
| Balance at June 30, 2018 | <u>25,593,122</u> | <u>68,220</u> | <u>882,333</u> | <u>(84,177)</u> | <u>866,376</u> |
| Net income | — | — | 57,597 | — | 57,597 |
| Unrealized loss on hedged transaction, net of tax | — | — | — | (3,277) | (3,277) |
| Foreign currency translation adjustment | — | — | — | (2,634) | (2,634) |
| Exercise of stock options and shares issued under share-based compensation plans, net of shares withheld for employee taxes | 139,107 | 103 | — | — | 103 |
| Common stock repurchased | (323,832) | (10,129) | — | — | (10,129) |
| Share based compensation | — | 6,093 | — | — | 6,093 |
| Balance at June 30, 2019 | <u>25,408,397</u> | <u>64,287</u> | <u>939,930</u> | <u>(90,088)</u> | <u>914,129</u> |
| Net loss | — | — | (192,654) | — | (192,654) |
| Unrealized loss on hedged transaction, net of tax | — | — | — | (4,646) | (4,646) |
| Foreign currency translation adjustment | — | — | — | (38,061) | (38,061) |
| Exercise of stock options and shares issued under share-based compensation plans, net of shares withheld for employee taxes | 120,969 | (599) | — | — | (599) |
| Common stock repurchased | (168,068) | (5,432) | — | — | (5,432) |
| Share based compensation | — | 5,509 | — | — | 5,509 |
| Balance at June 30, 2020 | <u>25,361,298</u> | <u>\$ 63,765</u> | <u>\$ 747,276</u> | <u>\$ (132,795)</u> | <u>\$ 678,246</u> |

See accompanying notes to consolidated financial statements.

ScanSource, Inc. and Subsidiaries
Consolidated Statements of Cash Flows
Years Ended June 30, 2020, 2019 and 2018
(in thousands)

| | <u>2020</u> | <u>2019</u> | <u>2018</u> |
|--|------------------|-----------------|------------------|
| Cash flows from operating activities: | | | |
| Net (loss) income | \$ (192,654) | \$ 57,597 | \$ 33,153 |
| Net loss from discontinued operations | <u>(113,427)</u> | <u>(7,262)</u> | <u>(2,303)</u> |
| Net (loss) income from continuing operations | (79,227) | 64,859 | 35,456 |
| Adjustments to reconcile net income to net cash provided by operating activities of continuing operations: | | | |
| Depreciation and amortization | 35,328 | 33,652 | 34,493 |
| Amortization of debt issue costs | 417 | 350 | 326 |
| Provision for doubtful accounts | 1,621 | 1,712 | 6,127 |
| Share-based compensation | 5,478 | 6,045 | 6,379 |
| Impairment charges | 120,470 | — | — |
| Deferred income taxes | (12,193) | (2,757) | (20,908) |
| Change in fair value of contingent consideration | 6,941 | 15,200 | 37,043 |
| Contingent consideration payments excess | (3,050) | (10,190) | (3,066) |
| Finance lease interest | 85 | — | — |
| Changes in operating assets and liabilities, net of acquisitions: | | | |
| Accounts receivable | 57,477 | (5,490) | (35,881) |
| Inventories | 86,177 | (85,862) | (53,209) |
| Prepaid expenses and other assets | (13,880) | (10,091) | (14,951) |
| Other non-current assets | (13,563) | (2,438) | (6,818) |
| Accounts payable | (20,846) | 16,134 | 37,319 |
| Accrued expenses and other liabilities | 11,239 | 2,377 | (4,733) |
| Income taxes payable | (441) | (7,469) | 13,870 |
| Net cash provided by operating activities of continuing operations | <u>182,033</u> | <u>16,032</u> | <u>31,447</u> |
| Cash flows from investing activities of continuing operations: | | | |
| Capital expenditures | (6,387) | (5,797) | (6,998) |
| Cash paid for business acquisitions, net of cash acquired | <u>(48,921)</u> | <u>(32,161)</u> | <u>(143,768)</u> |
| Net cash used in investing activities of continuing operations | <u>(55,308)</u> | <u>(37,958)</u> | <u>(150,766)</u> |
| Cash flows from financing activities of continuing operations: | | | |
| Borrowings on revolving credit, net of expenses | 2,085,918 | 2,061,090 | 2,301,443 |
| Repayments on revolving credit, net of expenses | (2,190,595) | (2,132,702) | (2,149,313) |
| Borrowings on long-term debt, net | (4,085) | 149,670 | — |
| Repayments of finance lease obligations | (1,765) | (662) | (591) |
| Debt issuance costs | — | (1,096) | (296) |
| Contingent consideration payments | (35,482) | (35,606) | (50,959) |
| Exercise of stock options | 754 | 1,509 | 2,273 |
| Taxes paid on settlement of equity awards | (1,353) | (1,406) | (1,637) |
| Repurchase of common stock | (6,078) | (9,483) | — |
| Net cash (used in) provided by financing activities of continuing operations | <u>(152,686)</u> | <u>31,314</u> | <u>100,920</u> |

| | 2020 | 2019 | 2018 |
|--|------------------|--------------------|----------------|
| | | <i>(continued)</i> | |
| Cash flows from discontinued operations: | | | |
| Net cash flows provided by (used in) operating activities of discontinued operations | 44,238 | (43,159) | (6,641) |
| Net cash flows used in by investing activities of discontinued operations | (77) | (1,416) | (1,161) |
| Net cash flows (used in) provided by financing activities of discontinued operations | (3,921) | 32,917 | (347) |
| Net cash flows provided by (used in) discontinued operations | 40,240 | (11,658) | (8,149) |
| Effect of exchange rate changes on cash and cash equivalents | (3,642) | 558 | (4,016) |
| Increase (decrease) in cash and cash equivalents | 10,637 | (1,712) | (30,564) |
| Cash and cash equivalents at beginning of period | 23,818 | 25,530 | 56,094 |
| Cash and cash equivalents at end of period | 34,455 | 23,818 | 25,530 |
| Cash and cash equivalents of discontinued operations | 4,970 | 4,513 | 2,085 |
| Cash and cash equivalents of continuing operations | \$ 29,485 | \$ 19,305 | \$ 23,445 |
| Supplemental disclosure of consolidated cash flow information: | | | |
| Interest paid during the year | \$ 11,959 | \$ 13,162 | \$ 8,614 |
| Income taxes paid during the year | \$ 16,869 | \$ 30,610 | \$ 36,021 |

See accompanying notes to consolidated financial statements.

SCANSOURCE, INC. AND SUBSIDIARIES
Notes to Consolidated Financial Statements
June 30, 2020

(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 providing technology solutions. The Company brings technology solutions and services from leading suppliers of mobility and barcode, point-of-sale (POS), payments, physical security, unified communications and collaboration, and telecom and cloud services to market. The Company operates in the United States, Canada, Brazil, additional Latin American countries, the UK and Europe. However, the Company is in the process of divesting its products distribution business in the UK, Europe and Latin America, outside of Brazil. See Note 18 - *Discontinued Operations* for more information regarding the Company's divestitures. The Company's two operating segments, Worldwide Barcode, Networking & Security and Worldwide Communications & Services, are based on product, customer, and service type.

COVID-19

In early March 2020, the World Health Organization characterized COVID-19 as a pandemic. The rapid spread of COVID-19 since December 2019 has resulted in the implementation of numerous measures to contain the virus worldwide, such as travel bans and restrictions, quarantines, shelter-in-place orders and business shutdowns. The Company moved quickly to transition our employees, where possible, to a fully remote working environment. The Company took steps to deploy teams to monitor the rapidly evolving situation and recommend risk mitigation actions; implement travel restrictions; and employees are following social distancing practices. The Company is following guidance from authorities and health officials including, but not limited to, checking the temperature of associates when entering our facilities, requiring associates to wear masks and other protective clothing as appropriate, and implementing additional cleaning and sanitation routines.

The pandemic and these containment measures have had, and are expected to continue to have, a substantial impact on businesses around the world, including our own, and on global, regional and national economies. The Company is unable to predict the ultimate impact that COVID-19 will have on our business due to the inability to predict the duration or magnitude of the virus' impacts. However, we have experienced decreased revenue and increased employee-related healthcare and prevention costs. Overall, the Company expects COVID-19 to adversely impact our results of operations for at least the next two quarters if not longer, while the Company has made adjustments, including implementing an annualized expense reduction plan for fiscal year 2021, and will likely continue to make adjustments, to our operating practices as appropriate, it is unlikely that these measures will be sufficient to fully offset the adverse impacts.

Basis of Presentation

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

The Company has reclassified certain prior year amounts for the results of discontinued operations to conform to the current year presentation. Unless otherwise indicated, amounts provided in these Notes pertain to continuing operations only.

Related Party Transactions

A related party is generally defined as (i) any person that holds 10% or more of the Company's securities and their immediate families, (ii) the Company's management, (iii) someone that directly or indirectly controls, is controlled by or is under common control with the Company or (iv) anyone who can significantly influence the financial and operating decisions of the Company. A transaction is considered to be a related party transaction when there is a transfer of resources or obligations between related parties. There were no material related party transactions for the fiscal years ended June 30, 2020, 2019 and 2018.

Use of Estimates

The preparation of financial statements in conformity with US GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. On an ongoing basis, management evaluates its estimates, including those related to the allowance for uncollectible accounts receivable, contingent consideration,

SCANSOURCE, INC. AND SUBSIDIARIES
Notes to Consolidated Financial Statements—(Continued)
June 30, 2020

asset impairments, inventory reserves and supplier incentives. Management bases its estimates on assumptions that management believes to be reasonable under the circumstances, the results of which form a basis for making judgments about the carrying value of assets and liabilities that are not readily available from other sources. Actual results may differ from these estimates under different assumptions or conditions; however, management believes that its estimates, including those for the above-described items, are reasonable and that the actual results will not vary significantly from the estimated amounts.

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

(a) Allowances for Trade and Notes Receivable

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

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

(b) Inventory Reserves

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

(c) Purchase Price Allocations

The Company accounts for business combinations in accordance with the Financial Accounting Standards Board ("FASB") Accounting Standards Codification ("ASC") 805, *Business Combinations*. For each acquisition, the Company allocates the purchase price to assets acquired, liabilities assumed and goodwill and intangibles. The Company recognizes assets and liabilities acquired at their estimated fair values. Management uses judgment to (1) identify the acquired assets and liabilities assumed, (2) estimate the fair value of these assets, (3) estimate the useful life of the assets and (4) assess the appropriate method for recognizing depreciation or amortization expense over the assets' useful life. See Note 6 - *Acquisitions* for further discussion of the Company's business combinations.

(d) Goodwill and Intangible Asset Fair Value

The Company estimates the fair value of its goodwill reporting units, as well as its finite lived intangible assets primarily based on the income approach utilizing the discounted cash flow method. The Company also utilizes fair value estimates derived from the market approach utilizing the public company market multiple method to validate the results of the discounted cash flow method for fair value of goodwill, which requires it to make assumptions about the applicability of those multiples to its reporting units. The discounted cash flow method requires the Company to estimate future cash flows, using key assumptions such as the weighted average cost of capital, revenue growth rates, projected gross margin and

SCANSOURCE, INC. AND SUBSIDIARIES
Notes to Consolidated Financial Statements—(Continued)
June 30, 2020

operating margin percentage growth, expected working capital changes and a related cash flow impact from working capital changes, and then discount those amounts at an appropriate discount rate to present value.

(e) Supplier Incentives

The Company receives incentives from suppliers as achievement-based supplier rebates that require management to make certain estimates about the amount of supplier consideration that will be received. Achievement-based supplier rebates are earned by achieving certain sales or purchase targets on a periodic basis. The Company determines whether, among other items, all qualifying sales and purchases are considered in calculating the rebates and cash receipts or credit memos received are appropriately applied. The determination of achievement-based rebates requires management to make assumptions about future purchases and sales. Estimates are based on the terms of the incentive program and historical experiences.

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 \$15.4 million and \$7.4 million are classified as accounts payable as of June 30, 2020 and 2019, respectively.

The Company maintains its cash with various financial institutions globally that are monitored regularly for credit quality, although it may hold amounts in excess of Federal Deposit Insurance Corporation ("FDIC") or other insured limits. Cash and cash equivalents held outside of the United States for our continuing operations totaled \$23.6 million and \$14.1 million as of June 30, 2020 and 2019, respectively.

Concentration of Credit Risk

The Company sells to a large base of customers throughout the United States, Canada, Brazil, the UK and Europe. The Company performs ongoing credit evaluations of its customers' financial condition. In certain cases, the Company will accept tangible assets as collateral to increase the trade credit of its customers. Sales to individual customers were less than 10% of the Company's net sales for fiscal years 2020, 2019 and 2018.

In the event that the Company does not collect payment on accounts receivable within the established trade terms for certain customers, the Company may establish arrangements for longer-term financing. The Company accounts for these arrangements by recording them at their historical cost less specific allowances at balance sheet dates. Interest income is recognized in the period earned and is recorded as interest income in the Consolidated Income Statement.

Derivative Financial Instruments

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

The Company's exposure to changes in foreign currency exchange rates results from foreign currency denominated assets and liabilities, purchasing and selling internationally in several foreign currencies and from intercompany loans with foreign subsidiaries, including subsidiaries included in discontinued operations. The Company's objective is to preserve the economic value of non-functional currency denominated cash flows. The Company's foreign currencies are denominated primarily in Brazilian reais, euros, British pounds and Canadian dollars.

The Company may reduce its exposure to fluctuations in foreign exchange rates by creating offsetting positions through the use of derivative financial instruments. The market risk related to the foreign exchange agreements is offset by changes in the valuation of the underlying items. These contracts are generally for a duration of 90 days or less. The Company has elected not

SCANSOURCE, INC. AND SUBSIDIARIES
Notes to Consolidated Financial Statements—(Continued)
June 30, 2020

to designate its foreign currency contracts as hedging instruments. They are, therefore, marked-to-market with changes in their fair value recorded in the Consolidated Income Statement each period. Derivative financial instruments related to foreign currency exposure are accounted for on an accrual basis with gains or losses on these contracts recorded in income in the period in which their value changes, with the offsetting entry for unsettled positions reflected in either other assets or other liabilities.

The Company's earnings are affected by changes in interest rates due to the impact those changes have on interest expense from floating rate debt instruments. To manage the exposure, the Company has an interest rate swap agreement and has designated this instrument as a hedge of the cash flows on certain variable rate debt. To the extent the derivative instrument was effective in offsetting the variability of the hedged cash flows, changes in the fair value of the derivative instrument were not included in current earnings, but were reported as other comprehensive (loss) income. There was no ineffective portion recorded as an adjustment to earnings for the year ended June 30, 2020.

Investments

The Company has investments that are held in a grantor trust formed by the Company related to the ScanSource, Inc. Nonqualified Deferred Compensation Plan and founder's Supplemental Executive Retirement Plan. The Company has classified these investments as trading securities, and they are recorded at fair value with unrealized gains and losses included in the accompanying Consolidated Income Statements. The Company's obligations under this deferred compensation plan change in concert with the performance of the investments along with contributions to and withdrawals from the plan. The fair value of these investments and the corresponding deferred compensation obligation was \$27.2 million and \$25.8 million as of June 30, 2020 and June 30, 2019, respectively. These investments are classified as either prepaid expenses and current assets or other non-current assets in the Consolidated Balance Sheets depending on the timing of planned disbursements. The deferred compensation obligation is classified either within accrued expenses and other current liabilities or other long-term liabilities as well. The amounts of these investments classified as current assets with corresponding current liabilities were \$2.6 million and \$1.6 million at June 30, 2020 and June 30, 2019, respectively.

Inventories

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

Supplier Programs

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

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

SCANSOURCE, INC. AND SUBSIDIARIES
Notes to Consolidated Financial Statements—(Continued)
June 30, 2020

Supplier Concentration

The Company sells products from many suppliers; however, sales of products supplied by Cisco and Zebra each constituted more than 10% of the Company's net sales for the year ended June 30, 2020 and 2019. Avaya, Cisco, and Zebra each constituted more than 10% of the Company's net sales for the year ended June 30, 2018.

Product Warranty

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

Property and Equipment

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

Capitalized Software

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

Goodwill

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

Under Accounting Standards Update ("ASU") 2017-04, if fair value of goodwill is determined to be less than carrying value, an impairment loss is recognized for the amount of the carrying value that exceeds the amount of the reporting units' fair value, not to exceed the total amount of goodwill allocated to the reporting unit. Additionally, the Company would consider income tax effects from any tax deductible goodwill on the carrying amount of the reporting unit when measuring the goodwill impairment loss, if applicable. The Company also assesses the recoverability of goodwill if facts and circumstances indicate goodwill may be impaired. In its most recent annual test, the Company estimated the fair value of its reporting units primarily based on the income approach utilizing the discounted cash flow method. The Company also corroborated the fair value estimates derived

SCANSOURCE, INC. AND SUBSIDIARIES
Notes to Consolidated Financial Statements—(Continued)
June 30, 2020

from the income approach by considering the implied market multiples of comparable transactions and companies. The discounted cash flow method required the Company to estimate future cash flows and discount those amounts to present value. The key assumptions utilized in determining fair value included:

- Industry weighted-average cost of capital ("WACC"): The Company utilized a WACC relative to each reporting unit's respective geography and industry as the discount rate for estimated future cash flows. The WACC is intended to represent a rate of return that would be expected by a market participant in each respective geography.
- Operating income: The Company utilized historical and expected revenue growth rates, gross margins and operating expense percentages, as well as the expected impact of COVID-19 and the Company's annualized expense reduction plan, which varied based on the projections of each reporting unit being evaluated.
- Other cash flow adjustments: The Company utilized a projected cash flow impact pertaining to depreciation, capital expenditures and expected changes in working capital as each of its goodwill reporting units grow.

Goodwill impairment charges totaled \$119.0 million for the Worldwide Barcode, Networking and Security segment reporting units for the fiscal year ended June 30, 2020 and are included in the impairment charges line item in the Consolidated Income Statements. No goodwill impairment charges were recognized for the years ended June 30, 2019 and 2018. See Note 7 - *Goodwill and Other Identifiable Intangible Assets* for more information regarding goodwill and the results of our testing.

Intangible Assets

Intangible assets consist of customer relationships, trade names, distributor agreements, supplier partner programs, developed technology, non-compete agreements and an encryption key library. Customer relationships, trade names, supplier partner programs, developed technology and the encryption key library are amortized using the straight-line method over their estimated useful lives, which range from 3 to 19 years. Non-compete agreements are amortized over their contract life.

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

Impairment of Long-Lived Assets

The Company reviews its long-lived assets for impairment whenever events or changes in circumstances indicate that the carrying amount of the asset or asset group may not be recoverable. Tests for recoverability of a long-lived asset to be held and used are measured by comparing the carrying amount of the long-lived asset to the sum of the estimated future undiscounted cash flows expected to be generated by the asset. In estimating the future undiscounted cash flows, the Company uses projections of cash flows directly associated with, and which are expected to arise as a direct result of, the use and eventual disposition of the assets. If it is determined that a long-lived asset is not recoverable, an impairment loss would be calculated equal to the excess of the carrying amount of the long-lived asset over its fair value. Intangible asset impairment charges totaled \$1.4 million for our continuing operations for the fiscal year ended June 30, 2020 and are included in the impairment charges line item in the Consolidated Income Statements. No intangible asset or other long-lived asset impairment charges were recognized for the fiscal years ended June 30, 2019 and 2018. See Note 7 - *Goodwill and Other Identifiable Intangible Assets* for more information regarding intangible asset impairment charges.

Fair Value of Financial Instruments

The fair value of financial instruments is the amount at which the instrument could be exchanged in a current transaction between willing parties. The carrying values of financial instruments such as accounts receivable, accounts payable, accrued liabilities, borrowings under the revolving credit facility and subsidiary lines of credit approximate fair value based upon either short maturities or variable interest rates of these instruments. For additional information related to the fair value of derivatives, please see Note 10 - *Fair Value of Financial Instruments*.

Liability for Contingent Consideration

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

SCANSOURCE, INC. AND SUBSIDIARIES
Notes to Consolidated Financial Statements—(Continued)
June 30, 2020

2019. The Company also made a single earnout payment to the former shareholders of POS Portal during fiscal year 2018 in accordance with the share purchase agreement.

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

Contingencies

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

Revenue Recognition

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

Advertising Costs

The Company defers advertising-related costs until the advertising is first run in trade or other publications or, in the case of brochures, until the brochures are printed and available for distribution or posted online. Advertising costs, net of supplier reimbursement, are included in selling, general and administrative expenses and were not significant in any of the three fiscal years ended June 30, 2020, 2019 and 2018. Deferred advertising costs for each of these three fiscal years were also not significant.

Foreign Currency

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

Income Taxes

Income taxes are accounted for under the asset and liability method. Deferred income taxes reflect tax consequences on future years of differences between the tax bases of assets and liabilities and their financial reporting amounts. In accordance with ASC 740, *Accounting for Income Taxes*, valuation allowances are provided against deferred tax assets when it is more likely than not that an asset will not be realized. Additionally, the Company maintains reserves for uncertain tax provisions. See Note 13 - *Income Taxes* for further discussion and the impact of the Tax Cut and Jobs Act (the "Tax Act") enacted by the U.S. government on December 22, 2017.

SCANSOURCE, INC. AND SUBSIDIARIES
Notes to Consolidated Financial Statements—(Continued)
June 30, 2020

Share-Based Payments

The Company accounts for share-based compensation using the provisions of ASC 718, *Accounting for Stock Compensation*, which requires the recognition of the fair value of share-based compensation. Furthermore, the Company adopted ASU 2016-09, which simplified several aspects of the accounting for share-based compensation, including income tax effects, forfeitures, statutory withholding requirements and cash flow statement classifications. Share-based compensation is estimated at the grant date based on the fair value of the awards. Since this compensation cost is based on awards ultimately expected to vest, it has been reduced for estimated forfeitures. ASU 2016-09 allows companies to elect an accounting policy either to continue to estimate the total number of awards for which the requisite service period will not be rendered or to account for forfeitures when they occur. The Company has elected to maintain its current accounting policy, estimate the total number of awards expected to be forfeited at the time of grant and revise such estimates, if necessary, in subsequent periods if actual forfeitures differ. The Company has elected to expense grants of awards with graded vesting on a straight-line basis over the requisite service period for each separately vesting portion of the award.

Common stock repurchases

Repurchases of common stock are accounted for at cost, which includes brokerage fees, and are included as a component of shareholder's equity on the Consolidated Balance Sheets. The Company's share repurchase authorization expired in August 2019, as such all repurchases were completed in the first quarter of fiscal year 2020.

Comprehensive Income

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

Reclassifications

Reclassifications have been made on the Consolidated Balance Sheets, Consolidated Income Statements and Consolidated Statements of Cash Flows in the prior years in connection with reporting discontinued operations. These reclassifications had no effect on consolidated financial results.

Recent Accounting Pronouncements

In February 2016, the FASB issued ASU 2016-02, *Leases* (ASC 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 are 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 is 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. This ASU was effective for the Company beginning in the first quarter of fiscal 2020. Entities are required to use the modified retrospective approach of adoption, with the option of applying the requirements of the standard either (1) retrospectively to each prior comparative reporting period presented or (2) retrospectively at the beginning of the period of adoption. The Company adopted the standard on July 1, 2019 and applied it at the beginning of the period of adoption. Therefore, upon adoption, financial information and disclosures are not updated for comparative reporting periods under the new standard. Additionally, the Company has elected the transition package of practical expedients upon adoption which, among other things, allows an entity to not reassess the historical lease classification. Upon adoption, the Company recognized right-of-use assets and corresponding lease liabilities for both operating and finance leases of approximately \$37 million on the Condensed Consolidated Balance Sheets. The adoption of this standard was not material to the Company's Condensed Consolidated Income Statements. See *Note 14 - Leases* for additional lease disclosures.

SCANSOURCE, INC. AND SUBSIDIARIES
Notes to Consolidated Financial Statements—(Continued)
June 30, 2020

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 has evaluated the need for a change in our methodology for calculating allowance for trade and notes receivable in accordance with the guidance and has determined no change is necessary. The adoption of this standard is not expected to be material to the Company's consolidated financial statements.

In August 2018, the FASB issued ASU 2018-13, *Fair Value Measurement (ASC 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 March 2020, the FASB issued ASU No. 2020-04, *Reference Rate Reform (Topic 848): Facilitation of the Effects of Reference Rate Reform on Financial Reporting* ("ASU No. 2020-04"), which provides optional guidance to ease the potential burden in accounting for reference rate reform on financial reporting. The new guidance provides optional expedients and exceptions for applying generally accepted accounting principles to transactions affected by reference rate reform if certain criteria are met. The company is currently evaluating the potential impact of this guidance on its consolidated financial statements.

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.

SCANSOURCE, INC. AND SUBSIDIARIES
Notes to Consolidated Financial Statements—(Continued)
June 30, 2020

(2) Revenue Recognition

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

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

Variable Considerations

For certain transactions, products are sold with a right of return and the Company 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.

SCANSOURCE, INC. AND SUBSIDIARIES
Notes to Consolidated Financial Statements—(Continued)
June 30, 2020

- *Significant financing components* - The Company has elected not to adjust the promised amount of consideration for the effects of a significant financing component as the Company expects, at contract inception, that the period between when the entity transfers a promised good or service to a customer and when the customer pays for that good or service will generally be one year or less.
- *Sales tax and other related taxes* - Sales and other tax amounts collected from customers for remittance to governmental authorities are excluded from revenue.

Disaggregation of Revenue

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

| Fiscal year ended June 30, 2020 | | | |
|--|---|--|---------------------|
| <i>(in thousands)</i> | | | |
| | Worldwide Barcode, Networking & Security Segment | Worldwide Communications & Services Segment | Total |
| Revenue by product/service: | | | |
| Technology solutions | \$ 2,093,217 | \$ 892,814 | \$ 2,986,031 |
| Master agency and professional services ^(a) | — | 61,703 | 61,703 |
| | \$ 2,093,217 | \$ 954,517 | \$ 3,047,734 |

| Fiscal year ended June 30, 2019 | | | |
|--|---|--|---------------------|
| <i>(in thousands)</i> | | | |
| | Worldwide Barcode, Networking & Security Segment | Worldwide Communications & Services Segment | Total |
| Revenue by product/service: | | | |
| Technology solutions | \$ 2,141,896 | \$ 1,052,854 | \$ 3,194,750 |
| Master agency and professional services ^(a) | — | 55,049 | 55,049 |
| | \$ 2,141,896 | \$ 1,107,903 | \$ 3,249,799 |

| Fiscal year ended June 30, 2018 | | | |
|--|---|--|---------------------|
| <i>(in thousands)</i> | | | |
| | Worldwide Barcode, Networking & Security Segment | Worldwide Communications & Services Segment | Total |
| Revenue by product/service: | | | |
| Technology solutions | \$ 2,143,135 | \$ 979,262 | \$ 3,122,397 |
| Master agency and professional services ^(a) | — | 42,312 | 42,312 |
| | \$ 2,143,135 | \$ 1,021,574 | \$ 3,164,709 |

^(a) Includes Intelisys Communications, Inc., Canpango, and Intelisys Global Ltd.

SCANSOURCE, INC. AND SUBSIDIARIES
Notes to Consolidated Financial Statements—(Continued)
June 30, 2020

(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.

| | Fiscal year ended June 30, | | |
|--|--|------------------|------------------|
| | 2020 | 2019 | 2018 |
| | <i>(in thousands, except per share data)</i> | | |
| Numerator: | | | |
| Net (loss) income from continuing operations | \$ (79,227) | \$ 64,859 | \$ 35,456 |
| Net loss from discontinued operations | <u>(113,427)</u> | <u>(7,262)</u> | <u>(2,303)</u> |
| Net (loss) income | <u>\$ (192,654)</u> | <u>\$ 57,597</u> | <u>\$ 33,153</u> |
| Denominator: | | | |
| Weighted-average shares, basic | 25,378 | 25,642 | 25,522 |
| Dilutive effect of share-based payments | <u>—</u> | <u>92</u> | <u>102</u> |
| Weighted-average shares, diluted ⁽¹⁾ | <u>25,378</u> | <u>25,734</u> | <u>25,624</u> |
| Net (loss) income from continuing operations per common share, basic | \$ (3.12) | \$ 2.53 | \$ 1.39 |
| Net loss from discontinued operations per common share, basic | <u>(4.47)</u> | <u>(0.28)</u> | <u>(0.09)</u> |
| Net (loss) income per common share, basic | <u>\$ (7.59)</u> | <u>\$ 2.25</u> | <u>\$ 1.30</u> |
| Net (loss) income from continuing operations per common share, diluted | \$ (3.12) | \$ 2.52 | \$ 1.38 |
| Net loss from discontinued operations per common share, diluted | <u>(4.47)</u> | <u>(0.28)</u> | <u>(0.09)</u> |
| Net (loss) income per common share, diluted | <u>\$ (7.59)</u> | <u>\$ 2.24</u> | <u>\$ 1.29</u> |

⁽¹⁾ The Company calculates weighted average shares of common stock in accordance with *ASC 260, Earnings per Share*. The Company's diluted weighted average shares for the year ended June 30, 2020 are the same as basic weighted average shares due to net loss from continuing operations.

For the years ended June 30, 2020, 2019 and 2018, weighted-average shares outstanding excluded from the computation of diluted earnings per share because their effect would have been antidilutive were 1,040,226, 582,856 and 551,320, respectively.

(4) Property and Equipment

Property and equipment is comprised of the following:

SCANSOURCE, INC. AND SUBSIDIARIES
Notes to Consolidated Financial Statements—(Continued)
June 30, 2020

| | June 30, | |
|--------------------------------------|-----------------------|------------------|
| | 2020 | 2019 |
| | <i>(in thousands)</i> | |
| Land | \$ 3,331 | \$ 3,331 |
| Buildings and leasehold improvements | 21,791 | 18,122 |
| Computer software and equipment | 75,008 | 68,575 |
| Furniture, fixtures and equipment | 17,775 | 19,442 |
| Construction in progress | 476 | 2,751 |
| Rental equipment | 10,207 | 12,056 |
| | 128,588 | 124,277 |
| Less accumulated depreciation | (72,947) | (63,707) |
| | \$ 55,641 | \$ 60,570 |

Depreciation expense recorded as selling, general and administrative costs in the accompanying Consolidated Income Statements was \$13.0 million, \$12.0 million and \$12.3 million for the fiscal years ended June 30, 2020, 2019 and 2018, respectively. Depreciation expense recorded as cost of goods sold in the accompanying Consolidated Income Statements was \$2.3 million, \$3.7 million and \$3.5 million for the fiscal year ended June 30, 2020, 2019 and 2018, respectively.

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

The table below details prepaid expenses and other current assets.

| | June 30, | |
|------------------------|-----------------------|------------------|
| | 2020 | 2019 |
| | <i>(in thousands)</i> | |
| Other receivables | \$ 56,266 | \$ 53,047 |
| Prepaid expense | 16,660 | 10,976 |
| Other taxes receivable | 5,258 | 7,382 |
| Other current assets | 16,497 | 12,348 |
| | \$ 94,681 | \$ 83,753 |

The table below details accrued expenses and other current liabilities.

| | June 30, | |
|--------------------------------------|-----------------------|------------------|
| | 2020 | 2019 |
| | <i>(in thousands)</i> | |
| Deferred warranty revenue | \$ 12,101 | \$ 13,829 |
| Accrued compensation | 13,616 | 13,326 |
| Other taxes payable | 15,756 | 11,700 |
| Accrued marketing expense | 5,667 | 3,813 |
| Accrued freight | 2,886 | 3,383 |
| Short-term operating lease liability | 4,476 | — |
| Other accrued liabilities | 22,184 | 18,578 |
| | \$ 76,686 | \$ 64,629 |

SCANSOURCE, INC. AND SUBSIDIARIES
Notes to Consolidated Financial Statements—(Continued)
June 30, 2020

The table below details other long-term liabilities.

| | June 30, | |
|---|-----------------------|------------------|
| | 2020 | 2019 |
| | <i>(in thousands)</i> | |
| Long-term deferred warranty revenue | \$ 4,031 | \$ 5,624 |
| Long-term deferred compensation liability | 24,572 | 24,224 |
| Interest rate swap | 9,433 | 3,504 |
| Long-term income taxes payable | 6,674 | 7,376 |
| Long-term operating lease liability | 20,760 | — |
| Other long-term liabilities | 14,598 | 16,425 |
| | \$ 80,068 | \$ 57,153 |

(6) Acquisitions

intY

On July 1, 2019, the Company acquired all of the outstanding shares of intY and its CASCADE cloud services distribution platform. The purchase price of this acquisition, net of cash acquired, was approximately \$48.9 million. The purchase price was allocated to the assets acquired and liabilities assumed based on their estimated fair values on the transaction date. Intangible assets acquired include trade names, customer relationships, and developed technology. Goodwill recognized on this acquisition is not deductible for tax purposes. See Note 7 - *Goodwill and Other Identifiable Intangible Assets* for the amounts of goodwill and intangible assets recognized in connection with this acquisition. The impact of this acquisition was not material to the consolidated financial statements. The Company recognized \$0.3 million for each of the fiscal years ended June 30, 2020 and 2019 in acquisition-related costs included in selling, general and administrative expenses on the Condensed Consolidated Income Statements in connection with this acquisition. This acquisition is included in the Worldwide Communications & Services segment.

RPM, Canpango and Intelisys Global

During the quarter ended December 31, 2018, the Company acquired the assets of RPM Software ("RPM"), a business process software developer with focus in the telecom channel business for calculating and paying agency commissions in an automated cloud-based system. During the quarter ended September 30, 2018, the Company completed the acquisition of Canpango, a global Salesforce implementation and consulting business with deep knowledge of customer relationship management and integration with telecom systems. Intelisys Global was also acquired during the quarter ended September 30, 2018. The total combined purchase price for all companies, net of cash acquired, was approximately \$32.2 million. The purchase price of these collective acquisitions was allocated to the assets acquired and liabilities assumed based on their estimated fair values on the transaction date. Intangible assets acquired include trade names, customer relationships, non-compete agreements and developed technology. Goodwill recognized on these acquisitions is expected to be deductible for tax purposes. See Note 7 - *Goodwill and Other Identifiable Intangible Assets* for the amount of goodwill and intangible assets recognized in connection with these acquisitions. The impact of these acquisitions was not material to the consolidated financial statements. In connection with these acquisitions during fiscal 2019, the Company recognized \$0.9 million in acquisition-related costs included in selling, general and administrative expenses on the Consolidated Income Statements.

The Company has initiated plans to close Canpango, its Salesforce implementation and consulting business. See Note 19 - *Subsequent Events* for more information.

SCANSOURCE, INC. AND SUBSIDIARIES
Notes to Consolidated Financial Statements—(Continued)
June 30, 2020

(7) Goodwill and Other Identifiable Intangible Assets

In accordance with ASC 350, *Intangibles - Goodwill and Other Intangible Assets*, the Company performs its annual goodwill impairment test during the fourth quarter of each fiscal year, or whenever indicators of impairment are present. The reporting units utilized for goodwill impairment tests align directly with our operating segments, Worldwide Barcode, Networking & Security and Worldwide Communications & Services. The testing includes the determination of each reporting unit's fair value using a discounted cash flows model compared to each reporting unit's carrying value. Key assumptions used in determining fair value include projected growth and operating margin, working capital requirements and discount rates. The Company's projected growth and operating margins have been impacted by the worldwide economic hardships created by COVID-19 and as such recognized a goodwill impairment charge of \$119.0 million for our Worldwide, Barcode, Networking and Security reporting unit for the fiscal year ended June 30, 2020 which is recorded to the impairment charges line item in the Consolidated Income Statements. The fair value of our Worldwide Communications & Services reporting unit exceeds its carrying value of assets by approximately 12%. During fiscal years ended June 30, 2019 and 2018, no impairment charges related to goodwill were recorded.

Changes in the carrying amount of goodwill for the years ended June 30, 2020 and 2019, by reportable segment, are set forth in the table below. Additions to goodwill for fiscal years 2020 and 2019 are due to the recent acquisitions.

| | Worldwide Barcode, Networking & Security Segment | Worldwide Communications & Services Segment | Total |
|---|---|--|-------------------|
| | <i>(in thousands)</i> | | |
| Balance at June 30, 2018 | \$ 135,954 | \$ 152,769 | \$ 288,723 |
| Additions | — | 21,854 | 21,854 |
| Unrealized loss on foreign currency translation | 11 | 127 | 138 |
| Balance at June 30, 2019 | \$ 135,965 | \$ 174,750 | \$ 310,715 |
| Additions | — | 30,445 | 30,445 |
| Goodwill impairment charges | (119,037) | — | (119,037) |
| Unrealized loss on foreign currency translation | (558) | (7,277) | (7,835) |
| Balance at June 30, 2020 | \$ 16,370 | \$ 197,918 | \$ 214,288 |

The following table shows the Company's identifiable intangible assets as of June 30, 2020 and 2019, respectively.

| | June 30, 2020 | | | June 30, 2019 | | |
|------------------------------|--------------------------------------|-------------------------------------|-------------------------------|--------------------------------------|-------------------------------------|-------------------------------|
| | Gross Carrying Amount | Accumulated Amortization | Net Book Value | Gross Carrying Amount | Accumulated Amortization | Net Book Value |
| | <i>(in thousands)</i> | | | | | |
| Amortized intangible assets: | | | | | | |
| Customer relationships | \$ 137,146 | \$ 56,107 | \$ 81,039 | \$ 131,263 | \$ 45,707 | \$ 85,556 |
| Trade names | 19,509 | 7,617 | 11,892 | 21,546 | 9,451 | 12,095 |
| Non-compete agreements | 2,410 | 1,711 | 699 | 2,586 | 1,209 | 1,377 |
| Supplier partner program | 4,085 | 1,191 | 2,894 | 3,583 | 815 | 2,768 |
| Encryption key library | 19,900 | 7,255 | 12,645 | 19,900 | 4,768 | 15,132 |
| Developed technology | 14,004 | 1,626 | 12,378 | 4,512 | 226 | 4,286 |
| Total intangibles | \$ 197,054 | \$ 75,507 | \$ 121,547 | \$ 183,390 | \$ 62,176 | \$ 121,214 |

During fiscal year 2020, the Company acquired customer relationships, trade names and developed technology related to the acquisition of intY. During fiscal year 2019, the Company acquired customer relationships, trade names and developed technology related to the acquisition of RPM. In addition, during fiscal year 2019, the Company acquired customer relationships, trade names and non-compete agreements related to the acquisition of Canpango, which were subsequently impaired in fiscal

SCANSOURCE, INC. AND SUBSIDIARIES
Notes to Consolidated Financial Statements—(Continued)
June 30, 2020

year 2020, totaling \$1.4 million in impairment charges. This charge is included in the impairment charges line item in the Consolidated Income Statements. The Company also disposed of fully amortized trade names and non-compete agreements from prior acquisitions. No impairment charges were recognized in fiscal years ended June 30, 2019 and 2018.

The weighted-average amortization period for all intangible assets was approximately 10 years for the year ended June 30, 2020, compared to 9 years for the year ended June 30, 2019 and 10 years for the year ended June 30, 2018. Amortization expense for continuing operations for the years ended June 30, 2020, 2019 and 2018 was \$20.0 million, \$17.9 million and \$18.7 million, respectively, all of which relates to selling, general and administrative costs, not the cost of selling goods, and has been presented as such in the accompanying Consolidated Income Statements.

Estimated future amortization expense is as follows:

| | Amortization Expense |
|----------------------------|---------------------------------|
| | <i>(in thousands)</i> |
| Year Ended June 30, | |
| 2021 | \$ 19,313 |
| 2022 | 17,677 |
| 2023 | 16,737 |
| 2024 | 16,633 |
| 2025 | 16,633 |
| Thereafter | 34,554 |
| Total | \$ 121,547 |

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

The following table shows the Company's short-term and long-term debt as of June 30, 2020 and 2019, respectively.

| | June 30, | |
|---|-----------------------|-------------|
| | 2020 | 2019 |
| | <i>(in thousands)</i> | |
| Current portion of long-term debt | \$ 7,839 | \$ 4,085 |
| Mississippi revenue bond, net of current portion | 4,425 | 4,764 |
| Senior secured term loan facility, net of current portion | 138,750 | 146,250 |
| Borrowings under revolving credit facility ^(a) | 67,714 | 172,390 |
| Total debt | \$ 218,728 | \$ 327,489 |

(a) Borrowing under the revolving credit facility classified as held for sale in the Consolidated Balance Sheets for our discontinued operations totaled \$24.7 million and \$28.4 million for the fiscal years ended June 30, 2020 and 2019, respectively.

Credit Facility

The Company has a multi-currency senior secured credit facility with JPMorgan Chase Bank N.A., as administrative agent, and a syndicate of banks. On April 30, 2019, the Company amended this credit facility to expand the borrowing capacity and extend its maturity to April 30, 2024. The Amended Credit Agreement includes (i) a five-year \$350 million multi-currency senior secured revolving credit facility and (ii) a five-year \$150 million senior secured term loan facility. Pursuant to an "accordion feature," the Company may increase its borrowings up to an additional \$250 million for a total of up to \$750 million, subject to obtaining additional credit commitments from the lenders participating in the increase. The Amended Credit Agreement allows for the issuance of up to \$50 million for letters of credit, subject to obtaining additional credit commitments from the lenders participating in the increase. The Company incurred debt issuance costs of \$1.1 million in connection with the amendments to the Amended Credit Agreement on April 30, 2019. These costs were capitalized to other non-current assets on the Consolidated Balance Sheets and added to the unamortized debt issuance costs from the previous credit facility.

SCANSOURCE, INC. AND SUBSIDIARIES
Notes to Consolidated Financial Statements—(Continued)
June 30, 2020

At the Company's option, loans denominated in U.S. dollars under the Amended Credit Agreement, other than swingline loans, bear interest at a rate equal to a spread over the LIBOR or alternate base rate depending upon the Company's net leverage ratio, calculated as total debt less up to \$15 million of unrestricted domestic cash ("Credit Facility Net Debt") to trailing four-quarter adjusted earnings before interest expense, taxes, depreciation and amortization ("Credit Facility EBITDA") (the "Leverage Ratio"). This spread ranges from 1.00% to 1.75% for LIBOR-based loans and 0.00% to 0.75% for alternate base rate loans. Additionally, the Company is charged commitment fees ranging from 0.15% to 0.30%, depending upon the Leverage Ratio, on non-utilized borrowing availability, excluding swingline loans. The Amended Credit Agreement provides for the substitution of a new interest rate benchmark upon the transition from LIBOR, subject to agreement between the Company and the administrative agent. Borrowings under the Amended Credit Agreement are secured by substantially all of the domestic assets of the Company and a pledge of up to 65% of capital stock or other equity interest in certain foreign subsidiaries determined to be either material or a subsidiary borrower as defined in the Amended Credit Agreement. Under the terms of the revolving credit facility, the payment of cash dividends is restricted.

The spread in effect as of June 30, 2020 was 1.75% for LIBOR-based loans and 0.75% for alternate base rate loans. The commitment fee rate in effect as of June 30, 2020 was 0.30%. The Amended Credit Agreement includes customary representations, warranties, and affirmative and negative covenants, including financial covenants. Specifically, the Company's Leverage Ratio must be less than or equal to 3.50 to 1.00 at all times. In addition, the Company's Interest Coverage Ratio (as such term is defined in the Amended Credit Agreement) must be at least 3.00 to 1.00 as of the end of each fiscal quarter. In the event of a default, customary remedies are available to the lenders, including acceleration and increased interest rates. The Company was in compliance with all covenants under the Amended Credit Agreement as of June 30, 2020.

Including borrowings for both continuing and discontinued operations, the average daily balance on the revolving credit facility, excluding the term loan facility, during the fiscal years ended June 30, 2020 and 2019 was \$235.4 million and \$296.4 million, respectively. Taking into consideration outstanding borrowings on the multi-currency revolving credit facility for both continuing and discontinued operations, there was \$257.3 million and \$149.2 million available for additional borrowings as of June 30, 2020 and 2019, respectively. At June 30, 2020, based upon the Leverage Ratio calculations, there was \$132.1 million available for additional borrowings. There were letters of credit issued under the multi-currency revolving credit facility for the discontinued operations of \$0.3 million as of June 30, 2020. There were no letters of credit issued as of June 30, 2019.

Mississippi Revenue Bond

On August 1, 2007, the Company entered into an agreement with the State of Mississippi in order to provide financing for the acquisition and installation of certain equipment to be utilized at the Company's Southaven, Mississippi facility through the issuance of an industrial development revenue bond. The bond matures on September 1, 2032 and accrues interest at a rate equal to 30-day LIBOR plus a spread of 0.85%. The terms of the bond allow for payment of interest only for the first 10 years of the agreement and then, starting on September 1, 2018 through 2032, principal and interest payments are due until the maturity date or the redemption of the bond. The agreement also provides the bondholder with a put option, exercisable only within 180 days of each 5th anniversary of the agreement, requiring the Company to pay back the bonds at 100% of the principal amount outstanding. As of June 30, 2020, the Company was in compliance with all covenants under this bond. The interest rate at June 30, 2020 and 2019 was 1.03% and 3.28%, respectively.

Scheduled maturities of the Company's short-term borrowings, revolving credit facility from continuing operations and long-term debt at June 30, 2020 are as follows:

SCANSOURCE, INC. AND SUBSIDIARIES
Notes to Consolidated Financial Statements—(Continued)
June 30, 2020

| | Revolving Credit Facility | Term Loan Facility | Mississippi Bond |
|--------------------------|--|-------------------------------|-----------------------------|
| | <i>(in thousands)</i> | | |
| Fiscal year: | | | |
| 2021 | \$ — | \$ 7,500 | \$ 339 |
| 2022 | — | 7,500 | 343 |
| 2023 | — | 11,250 | 348 |
| 2024 | 67,714 | 120,000 | 352 |
| 2025 | — | — | 357 |
| Thereafter | — | — | 3,025 |
| Total principal payments | <u>\$ 67,714</u> | <u>\$ 146,250</u> | <u>\$ 4,764</u> |

Debt Issuance Costs

As of June 30, 2020, net debt issuance costs associated with the credit facility and bonds totaled \$1.6 million and are being amortized on a straight-line basis through the maturity date of each respective debt instrument.

(9) Derivatives and Hedging Activities

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

Foreign Currency Derivatives – The Company conducts a portion of its business internationally in a variety of foreign currencies and is exposed to market risk for changes in foreign currency exchange rates. The Company attempts to hedge transaction exposures with natural offsets to the fullest extent possible and once these opportunities have been exhausted the Company uses currency options and forward contracts or other hedging instruments with third parties. These contracts will periodically hedge the exchange of various currencies, including the U.S. dollar, Brazilian real, euro, British pound and Canadian dollar for continuing operations. See Note 1- *Business and Summary of Significant Accounting Policies* for more information regarding the Company's policy on derivative financial instruments.

The Company had contracts outstanding with notional amounts of \$16.6 million and \$25.3 million for the exchange of foreign currencies as of June 30, 2020 and 2019, respectively. To date, the Company has chosen not to designate these derivatives as hedging instruments, and accordingly, these instruments are adjusted to fair value through earnings in other income and expense. Summarized financial information related to these derivative contracts and changes in the underlying value of the foreign currency exposures are as follows:

| | Fiscal year ended June 30, | | |
|--|-----------------------------------|---------------|-----------------|
| | 2020 | 2019 | 2018 |
| | <i>(in thousands)</i> | | |
| Net foreign exchange derivative contract (gain) loss | \$ (3,975) | \$ 235 | \$ (436) |
| Net foreign currency transactional and re-measurement loss | 4,500 | 400 | 1,614 |
| Net foreign currency loss | <u>\$ 525</u> | <u>\$ 635</u> | <u>\$ 1,178</u> |

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

SCANSOURCE, INC. AND SUBSIDIARIES
Notes to Consolidated Financial Statements—(Continued)
June 30, 2020

Interest Rates – The Company’s earnings are also affected by changes in interest rates due to the impact those changes have on interest expense from floating rate debt instruments. The Company manages its exposure to changes in interest rates by using interest rate swaps to hedge this exposure and to achieve a desired proportion of fixed versus floating rate debt. The Company entered into an interest rate swap agreement, which was subsequently settled, and entered into a new amended agreement on April 30, 2019. The swap agreement has a notional amount of \$100.0 million, with a \$50.0 million tranche scheduled to mature on April 30, 2024 and a \$50.0 million tranche scheduled to mature April 30, 2026. This swap agreement is designated as a cash flow hedge to hedge the variable rate interest payments on the revolving credit facility. Interest rate differentials paid or received under the swap agreement are recognized as adjustments to interest expense. To the extent the swap is effective in offsetting the variability of the hedged cash flows, changes in the fair value of the swap are not included in current earnings but are reported as other comprehensive income (loss). There was no ineffective portion to be recorded as an adjustment to earnings for fiscal years ended June 30, 2020 and 2019.

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

| | Fiscal Year Ended June 30, | | |
|--|-----------------------------------|-------------|-------------|
| | 2020 | 2019 | 2018 |
| | <i>(in thousands)</i> | | |
| Net interest expense (income) recognized as a result of interest rate swap | \$ 799 | \$ (233) | \$ 161 |
| Unrealized (loss) gain in fair value of interest swap rates | (6,900) | (4,159) | 1,422 |
| Net increase in accumulated other comprehensive (loss) income | (6,101) | (4,392) | 1,583 |
| Income tax effect | 1,455 | 1,115 | (494) |
| Net increase in accumulated other comprehensive (loss) income, net of tax | \$ (4,646) | \$ (3,277) | \$ 1,089 |

The Company has the following derivative instruments for continuing operations located on the Consolidated Balance Sheets as of June 30, 2020, utilized for the risk management purposes detailed above:

| | | June 30, 2020 | |
|-------------------------------|--|--|-------|
| Balance Sheet Location | Fair Value of Derivatives Designated as Hedge Instruments | Fair Value of Derivatives Not Designated as Hedge Instruments | |
| | <i>(in thousands)</i> | | |
| Derivative liabilities: | | | |
| Foreign exchange contracts | Accrued expenses and other current liabilities | \$ — | \$ 26 |
| Interest rate swap agreement | Other current liabilities | \$ 9,433 | \$ — |

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

SCANSOURCE, INC. AND SUBSIDIARIES
Notes to Consolidated Financial Statements—(Continued)
June 30, 2020

June 30, 2019

| Balance Sheet Location | | Fair Value of Derivatives Designated as Hedge Instruments | Fair Value of Derivatives Not Designated as Hedge Instruments |
|-------------------------------|--|--|--|
| <i>(in thousands)</i> | | | |
| Derivative liabilities: | | | |
| Foreign exchange contracts | Accrued expenses and other current liabilities | \$ — | \$ 21 |
| Interest rate swap agreement | Other current liabilities | \$ 3,504 | \$ — |

(10) Fair Value of Financial Instruments

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

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

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

The following table summarizes the valuation of the Company's remaining assets and liabilities measured at fair value on a recurring basis as of June 30, 2020:

SCANSOURCE, INC. AND SUBSIDIARIES
Notes to Consolidated Financial Statements—(Continued)
June 30, 2020

| | Total | Quoted prices in active markets (Level 1) | Significant other observable inputs (Level 2) | Significant unobservable inputs (Level 3) |
|---|------------------|---|---|--|
| <i>(in thousands)</i> | | | | |
| Assets: | | | | |
| Deferred compensation plan investments, current and non-current portion | \$ 27,159 | \$ 27,159 | \$ — | \$ — |
| Total assets at fair value | <u>\$ 27,159</u> | <u>\$ 27,159</u> | <u>\$ —</u> | <u>\$ —</u> |
| Liabilities: | | | | |
| Deferred compensation plan investments, current and non-current portion | \$ 27,159 | \$ 27,159 | \$ — | \$ — |
| Forward foreign currency exchange contracts | 26 | — | 26 | — |
| Interest rate swap agreement | 9,433 | — | 9,433 | — |
| Liability for contingent consideration | 46,334 | — | — | 46,334 |
| Total liabilities at fair value | <u>\$ 82,952</u> | <u>\$ 27,159</u> | <u>\$ 9,459</u> | <u>\$ 46,334</u> |

The following table presents assets and liabilities measured at fair value on a recurring basis as of June 30, 2019:

| | Total | Quoted prices in active markets (Level 1) | Significant other observable inputs (Level 2) | Significant unobservable inputs (Level 3) |
|---|-------------------|---|---|--|
| <i>(in thousands)</i> | | | | |
| Assets: | | | | |
| Deferred compensation plan investments, current and non-current portion | \$ 25,787 | \$ 25,787 | \$ — | \$ — |
| Total assets at fair value | <u>\$ 25,787</u> | <u>\$ 25,787</u> | <u>\$ —</u> | <u>\$ —</u> |
| Liabilities: | | | | |
| Deferred compensation plan investments, current and non-current portion | \$ 25,787 | \$ 25,787 | \$ — | \$ — |
| Forward foreign currency exchange contracts | 21 | — | 21 | — |
| Interest rate swap agreement | 3,504 | — | 3,504 | — |
| Liability for contingent consideration, current and non-current | 77,925 | — | — | 77,925 |
| Total liabilities at fair value | <u>\$ 107,237</u> | <u>\$ 25,787</u> | <u>\$ 3,525</u> | <u>\$ 77,925</u> |

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

Derivative instruments, such as foreign currency forward contracts, are measured using the market approach on a recurring basis considering foreign currency spot rates and forward rates quoted by banks or foreign currency dealers and interest rates quoted by banks (Level 2). Fair values of interest rate swaps are measured using standard valuation models with inputs that can be derived from observable market transactions, including LIBOR spot and forward rates (Level 2). Foreign currency contracts and

SCANSOURCE, INC. AND SUBSIDIARIES
Notes to Consolidated Financial Statements—(Continued)
June 30, 2020

interest rate swap agreements are classified in the Consolidated Balance Sheet as prepaid expenses and other current assets or accrued expenses and other current liabilities, depending on the respective instruments' favorable or unfavorable positions. See Note 9 - *Derivatives and Hedging Activities*.

The Company recorded contingent consideration liabilities at the acquisition date of Network1 and Intelisys representing the amounts payable to former shareholders, as outlined under the terms of the applicable purchase agreements, based upon the achievement of a projected earnings measure, net of specific pro forma adjustments. The current and non-current portions of these obligations are reported separately on the Consolidated Balance Sheets. The fair value of the contingent considerations (Level 3) are determined using a form of a probability weighted discounted cash flow model. Subsequent changes in the fair value of the contingent consideration liabilities are recorded to the change in fair value of contingent consideration line item in the Consolidated Income Statements. Fluctuations due to foreign currency translation are captured in other comprehensive income through the changes in foreign currency translation adjustments line item as seen in Note 17 - *Accumulated Other Comprehensive (Loss) Income*.

Network1 and Intelisys are part of the Company's Worldwide Communications & Services segment. The final earnout payment due to former shareholders of Network1 was paid during the fiscal year ended June 30, 2019. The table below provides a summary of the changes in fair value of the Company's contingent considerations for the Intelisys earnout, which is measured at fair value on a recurring basis using significant unobservable inputs (Level 3) for the fiscal year ended June 30, 2020.

| | June 30, 2020 | |
|-----------------------------------|--|----------|
| | Worldwide Communications & Services Segment | |
| | <i>(in thousands)</i> | |
| Fair value at beginning of period | \$ | 77,925 |
| Payments | | (38,532) |
| Change in fair value | | 6,941 |
| Fair value at end of period | \$ | 46,334 |

The table below provides a summary of the changes in fair value of the Company's contingent consideration for the Network1 and Intelisys earnouts for the fiscal year ended June 30, 2019. The final earnout payment due to former shareholders of Network1 was paid during the fiscal year ended June 30, 2019.

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

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

- estimated future results, net of pro forma adjustments set forth in the purchase agreements;
- the probability of achieving these results; and

SCANSOURCE, INC. AND SUBSIDIARIES
Notes to Consolidated Financial Statements—(Continued)
June 30, 2020

- a discount rate reflective of the Company's creditworthiness and market risk premium associated with the United States market.

A change in any of these unobservable inputs can significantly change the fair value of the contingent consideration. Valuation techniques and significant observable inputs used in recurring Level 3 fair value measurements for our contingent consideration liabilities as of June 30, 2020 and 2019 were as follows.

| Reporting Period | Valuation Technique | Significant Unobservable Inputs | Weighted Average Rates ^(a) |
|------------------|----------------------|----------------------------------|---------------------------------------|
| June 30, 2020 | Discounted cash flow | Weighted average cost of capital | 3.0 % |
| June 30, 2019 | Discounted cash flow | Weighted average cost of capital | 14.2 % |
| | | Adjusted EBITDA growth rate | 21.5 % |

^(a) Weighted average rates identified for each significant unobservable input relate to the valuation of the Intelisys contingent consideration. Since the earnout period for Intelisys closed on June 30, 2020 the weighted average cost of capital represents the cost the debt. There is no EBITDA growth to report in the current year.

Intelisys

The fair value of the liability for the contingent consideration related to Intelisys recognized at June 30, 2020 was \$46.3 million, all of which is classified as current. The expense from the change in fair value of the contingent consideration recognized in the Condensed Consolidated Income Statement totaled \$6.9 million for the fiscal year ended June 30, 2020. The change in fair value for the fiscal year is primarily driven by the recurring amortization of the unrecognized fair value discount and a reduction in the discount rate. Although there is no contractual limit, total future undiscounted contingent consideration payments are anticipated to range up to \$46.9 million, based on the Company's best estimate of the earnout calculated on a multiple of adjusted earnings.

The fair value of the liability for the contingent consideration related to Intelisys recognized at June 30, 2019 was \$77.9 million, of which \$38.4 million is classified as current. The expense from the change in fair value of the contingent consideration recognized in the Condensed Consolidated Income Statements totaled \$12.7 million for the fiscal year ended June 30, 2019, which was primarily due to the recurring amortization of the unrecognized fair value discount and improved projected results.

Network1

The final earnout payment was paid to the former shareholders of Network1 during the fiscal year ended June 30, 2019. The change in fair value of the contingent consideration for the fiscal year ended June 30, 2019 recognized in the Condensed Consolidated Income Statements contributed a loss of \$2.5 million for agreed upon adjustments in the final payments.

(11) Share-Based Compensation

Share-Based Compensation Plans

The Company has awards outstanding from two share-based compensation plans (the 2002 Long-Term Incentive Plan and the 2013 Long-Term Incentive Plan). Awards are currently only being granted under the 2013 Long-Term Incentive Plan. As of June 30, 2020, there were 1,536,626 shares available for future grant under the 2013 Long-Term Incentive Plan. All of the Company's share-based compensation plans are shareholder approved, and it is the Company's belief that such awards align the interests of its employees and directors with those of its shareholders. Under the plans, the Company is authorized to award officers, employees, consultants and non-employee members of the Board of Directors various share-based payment awards, including options to purchase common stock and restricted stock. Restricted stock can be in the form of a restricted stock award ("RSA"), restricted stock unit ("RSU") or a performance unit ("PU"). An RSA is common stock that is subject to risk of forfeiture or other restrictions that lapse upon satisfaction of specified conditions. An RSU represents the right to receive shares of common stock in the future with the right to future delivery of the shares subject to risk of forfeiture or other restrictions that lapse upon satisfaction of specified conditions.

SCANSOURCE, INC. AND SUBSIDIARIES
Notes to Consolidated Financial Statements—(Continued)
June 30, 2020

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

| | Fiscal Year Ended June 30, | | |
|--------------------------------------|-----------------------------------|-----------------|-----------------|
| | 2020 | 2019 | 2018 |
| | <i>(in thousands)</i> | | |
| Share-based compensation related to: | | | |
| Equity classified stock options | \$ 508 | \$ 868 | \$ 1,184 |
| Equity classified restricted stock | 4,970 | 5,177 | 5,195 |
| Total share-based compensation | \$ 5,478 | \$ 6,045 | \$ 6,379 |

Stock Options

During the fiscal year ended June 30, 2020, the Company did not grant stock options. Stock options granted in fiscal years ended June 30, 2019 and 2018 vest annually over 3 years and have a 10-year contractual life. These options were granted with an exercise price that is no less than 100% of the fair market value of the underlying shares on the date of the grant.

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

The Company used the following weighted-average assumptions for the options granted in fiscal years ended June 30, 2019 and 2018:

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

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

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

SCANSOURCE, INC. AND SUBSIDIARIES
Notes to Consolidated Financial Statements—(Continued)
June 30, 2020

| | Fiscal Year Ended June 30, 2020 | | | |
|---|--|--|--|----------------------------------|
| | Options | Weighted-Average Exercise Price | Weighted-Average Remaining Contractual Life | Aggregate Intrinsic Value |
| Outstanding, beginning of year | 850,695 | \$ 37.57 | | |
| Granted during the period | — | — | | |
| Exercised during the period | (29,174) | 25.81 | | |
| Canceled, forfeited, or expired during the period | (5,224) | 36.37 | | |
| Outstanding, end of year | 816,297 | 37.99 | 4.15 | \$ — |
| Vested and expected to vest at June 30, 2020 | 816,263 | 37.99 | 4.15 | \$ — |
| Exercisable, end of year | 781,383 | \$ 38.16 | 4.00 | \$ — |

The aggregate intrinsic value was calculated using the market price of the Company's stock on June 30, 2020, and the exercise price for only those options that have an exercise price that is less than the market price of our stock. This amount will change as the market price per share changes. The aggregate intrinsic value of options exercised during the fiscal years ended June 30, 2020, 2019 and 2018 was \$0.2 million, \$0.4 million and \$0.5 million, respectively.

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

| | Fiscal Year Ended June 30, 2020 | | |
|-----------------------------|--|--|---|
| | Options | Weighted Average Exercise Price | Weighted Average Grant Date Fair Value |
| Unvested, beginning of year | 102,432 | \$ 35.03 | \$ 10.78 |
| Granted | — | — | — |
| Vested | (63,011) | 35.43 | 10.88 |
| Canceled or forfeited | (4,507) | 35.90 | 11.00 |
| Unvested, end of year | 34,914 | \$ 34.19 | \$ 10.58 |

As of June 30, 2020, there was approximately \$0.2 million of total unrecognized compensation cost related to non-vested share-based compensation arrangements granted under the plans in the form of stock options. This cost is expected to be recognized over a weighted-average period of 0.47 years. The total fair value of options vested during the fiscal years ended June 30, 2020, 2019 and 2018 is \$0.7 million, \$1.1 million and \$1.3 million, respectively. The following table summarizes information about stock options outstanding and exercisable as of June 30, 2020:

| | Options Outstanding | | | Options Exercisable | |
|-------------------|----------------------------|--|--|----------------------------|--|
| | Shares Outstanding | Weighted Average Remaining Contractual Life | Weighted Average Exercise Price | Number Exercisable | Weighted Average Exercise Price |
| \$26.38 - \$30.49 | 18,731 | 2.44 | 29.80 | 18,731 | 29.80 |
| \$30.49 - \$34.60 | 146,948 | 5.83 | 34.16 | 112,529 | 34.16 |
| \$34.60 - \$38.71 | 371,169 | 3.67 | 37.04 | 370,674 | 37.04 |
| \$38.71 - \$42.82 | 279,449 | 4.02 | 41.83 | 279,449 | 41.83 |
| | 816,297 | 4.15 | \$ 37.99 | 781,383 | \$ 38.16 |

The Company issues shares to satisfy the exercise of options.

SCANSOURCE, INC. AND SUBSIDIARIES
Notes to Consolidated Financial Statements—(Continued)
June 30, 2020

Restricted Stock

Grants of Restricted Shares

During the fiscal year ended June 30, 2020, the Company granted 287,948 shares of restricted stock to employees and non-employee directors, all of which were issued in the form of RSUs or PUs:

| | Fiscal Year Ended June 30, 2020 | | | |
|---|--|---------------------|------------------------------|---|
| | Shares granted | Date granted | Grant date fair value | Vesting period |
| <i>Employees</i> | | | | |
| Certain employees based on performance | 204,524 | November 15, 2019 | \$ 35.25 | Annually over 3 years |
| Certain employees based upon hire | 14,225 | December 2, 2019 | \$ 35.15 | Annually over 3 years |
| Named executive officers based on performance | 42,199 | January 30, 2020 | \$ 35.19 | January 1, 2020 through December 31, 2022 |
| <i>Non-Employee Directors</i> | | | | |
| Certain Directors | 22,200 | November 15, 2019 | \$ 35.25 | 6 months |
| Certain Director based upon appointment | 700 | November 15, 2019 | \$ 35.25 | 6 months |
| Certain Director based upon appointment | 4,100 | May 14, 2020 | \$ 21.58 | 6 months |

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

| | Fiscal Year Ended June 30, 2020 | |
|--|--|---|
| | Shares | Weighted-Average Grant Date Fair Value |
| Outstanding, beginning of year | 320,885 | \$ 37.28 |
| Granted during the period | 287,948 | 35.04 |
| Vested during the period | (128,566) | 36.93 |
| Cancelled, forfeited, or expired during the period | (41,811) | 36.71 |
| Outstanding, end of year | <u>438,456</u> | <u>\$ 35.37</u> |

As of June 30, 2020, there was approximately \$8.2 million of unrecognized compensation cost related to unvested restricted stock awards and restricted stock units granted, which is expected to be recognized over a weighted-average period of 1.25 years. The Company withheld 36,771 shares for income taxes during the fiscal year ended June 30, 2020.

(12) Employee Benefit Plans

The Company maintains defined contribution plans that cover all employees located in the United States that meet certain eligibility requirements and provides a matching contribution equal to one-half of each participant's contribution, up to a maximum matching contribution per participant of \$800. Employer contributions are vested based upon tenure over a five-year period.

| | Fiscal Year Ended June 30, | | |
|-----------------------------|-----------------------------------|-----------------|-----------------|
| | 2020 | 2019 | 2018 |
| | <i>(in thousands)</i> | | |
| Matching contributions | \$ 1,214 | \$ 1,262 | \$ 1,130 |
| Discretionary contributions | — | 1,536 | 4,573 |
| Total contributions | <u>\$ 1,214</u> | <u>\$ 2,798</u> | <u>\$ 5,703</u> |

SCANSOURCE, INC. AND SUBSIDIARIES
Notes to Consolidated Financial Statements—(Continued)
June 30, 2020

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

SCANSOURCE, INC. AND SUBSIDIARIES
Notes to Consolidated Financial Statements—(Continued)
June 30, 2020

(13) Income Taxes

On December 22, 2017, the U.S. government enacted the Tax Cuts and Jobs Act. The Tax Act reduced the corporate federal tax rate from 35% to 21% effective January 1, 2018 and implemented a modified territorial tax system. As part of the Tax Act, U.S. companies are required to pay a one-time transition tax on the deemed repatriation of undistributed foreign earnings and to remeasure deferred tax assets and liabilities.

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

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

The Tax Act created a provision known as global intangible low-tax income ("GILTI") that imposes a tax on certain earnings of foreign subsidiaries. The GILTI tax became effective for the Company during fiscal year 2019 and an accounting policy election was made to treat the tax as a current period expense. The Company recognized GILTI tax of approximately \$0.1 million and \$0.4 million for the fiscal years ended June 30, 2020 and 2019, respectively.

Income tax expense (benefit) consists of:

| | Fiscal Year Ended June 30, | | |
|----------------------------|-----------------------------------|------------------|------------------|
| | 2020 | 2019 | 2018 |
| | <i>(in thousands)</i> | | |
| Current: | | | |
| Federal | \$ 13,892 | \$ 18,223 | \$ 38,476 |
| State | 3,244 | 4,459 | 3,504 |
| Foreign | 1,188 | (2,342) | 7,481 |
| Total current | <u>18,324</u> | <u>20,340</u> | <u>49,461</u> |
| Deferred: | | | |
| Federal | (8,526) | (4,913) | (10,336) |
| State | (2,667) | (945) | (2,025) |
| Foreign | 320 | 4,296 | (9,507) |
| Total deferred | <u>(10,873)</u> | <u>(1,562)</u> | <u>(21,868)</u> |
| Provision for income taxes | <u>\$ 7,451</u> | <u>\$ 18,778</u> | <u>\$ 27,593</u> |

A reconciliation is provided below of the U.S. Federal income tax expense at a statutory rate of 21% for the fiscal years ended June 30, 2020 and 2019 and a blended statutory rate of 28% for the fiscal year ended June 30, 2018 to actual income tax expense. Since the Company has a June 30th fiscal year-end, the lower tax rate resulted in a blended U.S. statutory federal rate of approximately 28% for the fiscal year ended June 30, 2018.

SCANSOURCE, INC. AND SUBSIDIARIES
Notes to Consolidated Financial Statements—(Continued)
June 30, 2020

| | Fiscal Year Ended June 30, | | |
|--|-----------------------------------|-------------|-------------|
| | 2020 | 2019 | 2018 |
| | <i>(in thousands)</i> | | |
| U.S. statutory rate | 21.0 % | 21.0 % | 28.0 % |
| U.S. Federal income tax at statutory rate | \$ (15,073) | \$ 17,564 | \$ 17,690 |
| Increase (decrease) in income taxes due to: | | | |
| State and local income taxes, net of Federal benefit | 1,316 | 2,864 | 1,968 |
| Tax credits | (1,419) | (1,324) | (1,825) |
| Valuation allowance | 1,699 | 57 | 1,304 |
| Effect of varying statutory rates in foreign operations, net | 1,374 | 1,938 | 320 |
| Stock compensation | 41 | 35 | 1,049 |
| Capitalized acquisition costs | 59 | 69 | 48 |
| Disallowed interest | 1,639 | 1,600 | 1,664 |
| Earnings from foreign subsidiaries | 1,661 | 50 | 120 |
| Net favorable recovery | (6,517) | (3,112) | — |
| Global intangible low taxed income (GILTI) tax | (128) | 365 | — |
| Non-deductible goodwill impairment | 20,180 | — | — |
| Nontaxable income | — | (822) | — |
| U.S. Tax Reform transition tax | — | (827) | 9,609 |
| U.S. Tax Reform impact of rate change on deferred taxes | — | — | (2,701) |
| Other jurisdictions impact of rate change on deferred taxes | — | (20) | — |
| Other | 2,619 | 341 | (1,653) |
| Provision for income taxes | \$ 7,451 | \$ 18,778 | \$ 27,593 |

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

SCANSOURCE, INC. AND SUBSIDIARIES
Notes to Consolidated Financial Statements—(Continued)
June 30, 2020

| | June 30, | |
|---|-----------------------|-------------|
| | 2020 | 2019 |
| | <i>(in thousands)</i> | |
| Deferred tax assets derived from: | | |
| Allowance for accounts receivable | \$ 6,466 | \$ 7,387 |
| Inventories | 3,226 | 3,255 |
| Nondeductible accrued expenses | 11,109 | 9,054 |
| Net operating loss carryforwards | 3,083 | 73 |
| Tax credits | 6,734 | 6,046 |
| Timing of amortization deduction from goodwill | 12,516 | 6,406 |
| Deferred compensation | 7,247 | 6,396 |
| Stock compensation | 3,034 | 3,034 |
| Timing of amortization deduction from intangible assets | 4,145 | 3,110 |
| Total deferred tax assets | 57,560 | 44,761 |
| Valuation allowance | (9,195) | (4,447) |
| Total deferred tax assets, net of allowance | 48,365 | 40,314 |
| Deferred tax liabilities derived from: | | |
| Timing of depreciation and other deductions from building and equipment | (3,347) | (6,618) |
| Timing of amortization deduction from goodwill | (7,390) | (3,742) |
| Timing of amortization deduction from intangible assets | (16,882) | (14,507) |
| Total deferred tax liabilities | (27,619) | (24,867) |
| Net deferred tax assets | \$ 20,746 | \$ 15,447 |

The components of pretax earnings are as follows:

| | Fiscal Year Ended June 30, | | |
|---------------------------|-----------------------------------|-------------|-------------|
| | 2020 | 2019 | 2018 |
| | <i>(in thousands)</i> | | |
| Domestic | \$ (83,517) | \$ 68,675 | \$ 63,185 |
| Foreign | 11,741 | 14,962 | (136) |
| Worldwide pretax earnings | \$ (71,776) | \$ 83,637 | \$ 63,049 |

As of June 30, 2020, there were (i) gross net operating loss carryforwards of approximately \$1.8 million for U.S. federal income tax purposes; (ii) gross state net operating loss carryforwards of approximately \$2.0 million; (iii) foreign gross net operating loss carryforwards of approximately \$8.2 million; (iv) state income tax credit carryforwards of approximately \$2.6 million that will begin to expire in the 2020 tax year; (v) withholding tax credits of approximately \$4.5 million; and (vi) foreign tax credits of \$0.1 million. The Company maintains a valuation allowance of \$0.4 million for U.S. federal income tax purposes, \$2.7 million for foreign currency translation adjustments on impairment charges, \$0.3 million for foreign net operating losses, a less than \$0.1 million valuation allowance for state net operating losses, a \$4.5 million valuation allowance for withholding tax credits, a \$0.1 million valuation allowance for foreign tax credits, and \$0.3 million valuation allowance for state income tax credits, where it was determined that, in accordance with ASC 740, it is more likely than not that they cannot be utilized.

The Company adopted ASU 2016-09 during fiscal year 2018 which required the Company to recognize excess tax benefits and tax deficiencies as income tax expense or benefit for stock award settlements that were previously recognized as additional paid-in-capital. As a result of these changes, the Company recognized net tax expense of less than \$0.1 million for the fiscal years ended June 30, 2020 and 2019 and \$1.0 million for fiscal year ended 2018, respectively.

As of June 30, 2020, the Company had gross unrecognized tax benefits of \$1.2 million, \$0.9 million of which, if recognized, would affect the effective tax rate. This reflects a decrease of less than \$0.1 million on a gross basis over the prior fiscal year.

SCANSOURCE, INC. AND SUBSIDIARIES
Notes to Consolidated Financial Statements—(Continued)
June 30, 2020

The Company does not expect that the total amounts of unrecognized tax benefits will significantly increase or decrease within the next twelve months.

The Company recognizes interest and penalties related to unrecognized tax benefits within the income tax expense line in the accompanying Consolidated Income Statement. Accrued interest and penalties are included within the related tax liability line in the Consolidated Balance Sheet. The total amount of interest and penalties accrued, but excluded from the table below, were \$1.1 million, \$1.0 million and \$1.2 million for the fiscal years ended June 30, 2020, 2019 and 2018, respectively. A reconciliation of the beginning and ending amount of unrecognized tax benefits is as follows:

| | June 30, | | |
|--|-----------------------|----------|----------|
| | 2020 | 2019 | 2018 |
| | <i>(in thousands)</i> | | |
| Beginning Balance | \$ 1,234 | \$ 1,703 | \$ 1,826 |
| Additions based on tax positions related to the current year | 137 | 69 | 157 |
| Additions for tax positions of prior years | — | — | — |
| Reduction for tax positions of prior years | (215) | (538) | (280) |
| Ending Balance | \$ 1,156 | \$ 1,234 | \$ 1,703 |

A Supplemental Law was issued in Brazil during the Company's fiscal year 2019 which affirmed that Brazilian state-provided benefits are not subject to income tax. The Company recorded, discrete to the June 30, 2019 quarter, an income tax benefit of \$3.1 million related to the confirmation of the recovery of state-provided tax benefits. During the fiscal year ended June 30, 2020, the Company determined that the Supplemental Law was applicable to prior periods. As a result, the Company recorded, discrete to the June 30, 2020 quarter, an income tax benefit of \$2.8 million related to the recovery of prior period state-provided tax benefits.

Discrete to the June 30, 2020 quarter, the Company recorded a tax benefit of \$3.7 million for the reversal of a contingency related to certain tax credits with respect to the calculation of PIS/COFINS gross receipts tax related to its Brazilian operations. This tax benefit is a result of several favorable court decisions issued regarding these credits.

The Company conducts business globally and, as a result, one or more of its subsidiaries files income tax returns in the United States federal, various state, local and foreign jurisdictions. In the normal course of business, the Company is subject to examination by taxing authorities in countries in which it operates. With certain exceptions, the Company is no longer subject to state and local, or non-United States income tax examinations by tax authorities for tax years before June 30, 2015.

(14) Leases

In accordance with ASC 842, *Leases*, at contract inception the Company determines if a contract contains a lease by assessing whether the contract contains an identified asset and whether the Company has the ability to control the asset. The Company also determines if the lease meets the classification criteria for an operating lease versus a finance lease under ASC 842. Substantially all of the Company's leases are operating leases for real estate, warehouse and office equipment ranging in duration from 1 year to 10 years. The Company has elected not to record short-term operating leases with an initial term of 12 months or less on the Condensed Consolidated Balance Sheets. Operating leases are recorded as other non-current assets, accrued expenses and other current liabilities and other long-term liabilities on the Condensed Consolidated Balance Sheets. The Company has finance leases for information technology equipment expiring in fiscal year 2022. Finance leases are recorded as property and equipment, net, accrued expenses and other current liabilities and other long-term liabilities on the Condensed Consolidated Balance Sheets. The gross amount of the balances recorded related to finance leases is immaterial to the financial statements at June 30, 2020 and 2019.

Operating lease right-of-use assets and lease liabilities are recognized at the commencement date based on the net present value of future minimum lease payments over the lease term. The Company generally is not able to determine the rate implicit in its leases and has elected to apply an incremental borrowing rate as the discount rate for the present value determination, which is based on the Company's cost of borrowings for the relevant terms of each lease and geographical economic factors. Certain operating lease agreements contain options to extend or terminate the lease. The lease term used is adjusted for these options when the Company is reasonably certain it will exercise the option. Operating lease expense is recognized on a straight-line basis

SCANSOURCE, INC. AND SUBSIDIARIES
Notes to Consolidated Financial Statements—(Continued)
June 30, 2020

over the lease term. Variable lease payments not based on a rate or index, such as costs for common area maintenance, are expensed as incurred. Further, the Company has elected the practical expedient to recognize all lease and non-lease components as a single lease component, where applicable.

The following table presents amounts recorded on the Condensed Consolidated Balance Sheet related to operating leases at June 30, 2020:

| Operating leases | Balance Sheet location | June 30, 2020 |
|---------------------------------------|--|-----------------------|
| | | (in thousands) |
| Operating lease right-of-use assets | Other non-current assets | \$ 23,581 |
| Current operating lease liabilities | Accrued expenses and other current liabilities | 4,476 |
| Long-term operating lease liabilities | Other long-term liabilities | 20,760 |

The following table presents amounts recorded in operating lease expense as part of selling general and administrative expenses on the Condensed Consolidated Income Statements during the fiscal year ended June 30, 2020. Operating lease costs contain immaterial amounts of short-term lease costs for leases with an initial term of 12 months or less.

| | Fiscal year ended |
|----------------------|--------------------------|
| | June 30, 2020 |
| | (in thousands) |
| Operating lease cost | \$ 6,135 |
| Variable lease cost | 1,485 |
| | <u>\$ 7,620</u> |

Supplemental cash flow information related to the Company's operating leases for the fiscal year ended June 30, 2020 are presented in the table below:

| | Fiscal year ended |
|--|--------------------------|
| | June 30, 2020 |
| | (in thousands) |
| Cash paid for amounts in the measurement of lease liabilities | \$ 5,773 |
| Right-of-use assets obtained in exchange for lease obligations | 1,672 |

The weighted-average remaining lease term and discount rate at June 30, 2020 are presented in the table below:

| | June 30, 2020 |
|---------------------------------------|----------------------|
| Weighted-average remaining lease term | 5.98 |
| Weighted-average discount rate | 4.14 % |

SCANSOURCE, INC. AND SUBSIDIARIES
Notes to Consolidated Financial Statements—(Continued)
June 30, 2020

The following table presents the maturities of the Company's operating lease liabilities at June 30, 2020:

| | Operating leases | |
|-------------------------------------|-------------------------|--------|
| | <i>(in thousands)</i> | |
| 2021 | \$ | 5,430 |
| 2022 | | 4,988 |
| 2023 | | 4,655 |
| 2024 | | 4,158 |
| 2025 | | 3,256 |
| Thereafter | | 5,977 |
| Total future payments | | 28,464 |
| Less: amounts representing interest | | 3,228 |
| Present value of lease payments | \$ | 25,236 |

(15) Commitments and Contingencies

A majority of the Company's net revenues in fiscal years 2020, 2019 and 2018 were received from the sale of products purchased from the Company's ten largest suppliers. The Company has entered into written agreements with substantially all of its major suppliers. While the Company's agreements with most of its suppliers contain standard provisions for periodic renewals, these agreements generally permit termination by either party without cause upon 30 to 120 days' notice.

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

Capital Projects

The Company expects total capital expenditures to range from \$3.0 million to \$6.0 million during fiscal year 2021 primarily for rental equipment investments, IT investments and facility improvements.

Pre-Acquisition Contingencies

During the Company's due diligence for the Network1 acquisition, several pre-acquisition contingencies were identified regarding various Brazilian federal and state tax exposures. The Company recorded indemnification receivables that are reported gross of the pre-acquisition contingency liabilities as the funds were escrowed as part of the acquisition. The sellers deposited \$6.4 million into the escrow account for the year ended June 30, 2019. In addition, \$25.3 million was released from the escrow account during the fiscal year ended June 30, 2019. There were no deposits into, or releases from the escrow account for the fiscal year ended June 30, 2020. The amount available after the impact of foreign currency translation, as of June 30, 2020 and 2019, for future pre-acquisition contingency settlements or to be released to the sellers was \$4.8 million and \$6.5 million, respectively.

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

SCANSOURCE, INC. AND SUBSIDIARIES
Notes to Consolidated Financial Statements—(Continued)
June 30, 2020

| | June 30, 2020 | June 30, 2019 |
|---|-----------------------|----------------------|
| | <i>(in thousands)</i> | |
| Assets | | |
| Prepaid expenses and other assets (current) | \$ 14 | \$ 761 |
| Other assets (noncurrent) | \$ 3,652 | \$ 5,219 |
| Liabilities | | |
| Other current liabilities | \$ 14 | \$ 761 |
| Other long-term liabilities | \$ 3,652 | \$ 5,219 |

The net decline in the value of pre-acquisition contingencies for Network1 is primarily due to the expiration of the statute of limitations for identified pre-acquisition contingencies. The amount of reasonably possible undiscounted pre-acquisition contingencies as of June 30, 2020 is estimated to range from \$3.7 million to \$14.8 million at this time, of which all exposures are indemnifiable under the share purchase agreement.

(16) Segment Information

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

Worldwide Barcode, Networking & Security Segment

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

Worldwide Communications & Services Segment

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

SCANSOURCE, INC. AND SUBSIDIARIES
Notes to Consolidated Financial Statements—(Continued)
June 30, 2020

Selected financial information for each business segment is presented below:

| | Fiscal Year Ended June 30, | | |
|--|-----------------------------------|---------------------|---------------------|
| | 2020 | 2019 | 2018 |
| | <i>(in thousands)</i> | | |
| Sales: | | | |
| Worldwide Barcode, Networking & Security | \$ 2,093,217 | \$ 2,141,896 | \$ 2,143,135 |
| Worldwide Communications & Services | 954,517 | 1,107,903 | 1,021,574 |
| | <u>\$ 3,047,734</u> | <u>\$ 3,249,799</u> | <u>\$ 3,164,709</u> |
| Depreciation and amortization: | | | |
| Worldwide Barcode, Networking & Security | \$ 16,910 | \$ 17,274 | \$ 17,958 |
| Worldwide Communications & Services | 15,239 | 12,891 | 13,041 |
| Corporate | 3,179 | 3,488 | 3,493 |
| | <u>\$ 35,328</u> | <u>\$ 33,653</u> | <u>\$ 34,492</u> |
| Change in fair value of contingent consideration: | | | |
| Worldwide Barcode, Networking & Security | \$ — | \$ — | \$ 69 |
| Worldwide Communications & Services | 6,941 | 15,200 | 36,974 |
| | <u>\$ 6,941</u> | <u>\$ 15,200</u> | <u>\$ 37,043</u> |
| Operating income: | | | |
| Worldwide Barcode, Networking & Security | \$ (83,515) | \$ 57,019 | \$ 49,313 |
| Worldwide Communications & Services | 22,548 | 38,933 | 19,865 |
| Corporate ⁽¹⁾ | (4,000) | (1,218) | (172) |
| | <u>\$ (64,967)</u> | <u>\$ 94,734</u> | <u>\$ 69,006</u> |
| Capital expenditures: | | | |
| Worldwide Barcode, Networking & Security | \$ 3,632 | \$ 3,660 | \$ 4,222 |
| Worldwide Communications & Services | 2,755 | 2,133 | 1,422 |
| Corporate | — | 4 | 1,354 |
| | <u>\$ 6,387</u> | <u>\$ 5,797</u> | <u>\$ 6,998</u> |
| Sales by Geography Category: | | | |
| United States | \$ 2,787,475 | \$ 2,949,725 | \$ 2,907,591 |
| International ⁽²⁾ | 292,600 | 332,019 | 317,513 |
| Less intercompany sales | (32,341) | (31,945) | (60,395) |
| | <u>\$ 3,047,734</u> | <u>\$ 3,249,799</u> | <u>\$ 3,164,709</u> |

⁽¹⁾ For the years ended June 30, 2020 the amounts shown above include acquisition and divestiture costs. For the years ended June 30, 2019 and 2018, the amounts shown above include acquisition costs.

⁽²⁾ For the years ended June 30, 2020 and 2018, there were no sales in excess of 10% of consolidated net sales to any single international country. Net sales to Brazil represented 10% of consolidated net sales for the year ended June 30, 2019.

SCANSOURCE, INC. AND SUBSIDIARIES
Notes to Consolidated Financial Statements—(Continued)
June 30, 2020

| | June 30, 2020 | June 30, 2019 |
|--|-----------------------|----------------------|
| | <i>(in thousands)</i> | |
| Assets: | | |
| Worldwide Barcode, Networking & Security | \$ 875,882 | \$ 1,097,207 |
| Worldwide Communications & Services | 757,148 | 905,439 |
| Corporate | 59,064 | 64,615 |
| | \$ 1,692,094 | \$ 2,067,261 |
| Property and equipment, net by Geography Category: | | |
| United States | \$ 53,083 | \$ 58,961 |
| International | 2,558 | 1,609 |
| | \$ 55,641 | \$ 60,570 |

(17) Accumulated Other Comprehensive Loss

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

| | Fiscal Years Ended June 30, | | |
|--|------------------------------------|--------------------|--------------------|
| | 2020 | 2019 | 2018 |
| | <i>(in thousands)</i> | | |
| Currency translation adjustment | \$ (125,974) | \$ (87,913) | \$ (85,279) |
| Unrealized (loss) gain on fair value of interest rate swap, net of tax | (6,821) | (2,175) | 1,102 |
| Accumulated other comprehensive loss | \$ (132,795) | \$ (90,088) | \$ (84,177) |

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

| | Fiscal years ended June 30, | | |
|-----------------------|------------------------------------|-------------------|-----------------|
| | 2020 | 2019 | 2018 |
| | <i>(in thousands)</i> | | |
| Tax expense (benefit) | \$ 1,025 | \$ (1,117) | \$ 2,059 |

(18) Discontinued Operations

On August 20, 2019, the Company announced plans to divest the product distribution businesses in Europe, the UK, Mexico, Colombia, Chile, Peru and the Miami-based export operations as these businesses have been performing below management's expectations. The Company will continue to operate its digital business in these countries. Management determined that the Company did not have sufficient scale in these markets to maximize our value-added model for product distribution, leading us to focus and invest in our higher-growth, higher margin businesses. Results from the Divestitures were included within each of our reportable segments; Worldwide Barcode, Networking & Security segment and Worldwide Communications & Services segment.

The Company actively marketed the sale these businesses during fiscal year 2020. An agreement was signed July 23, 2020, subsequent to our fiscal year end, with Intcomex for our divestitures located in Latin America, outside of Brazil. The Company expects to finalize the sale of the Latin America divestitures on or around September 30, 2020. The Company is actively working on sales opportunities for our divestitures in Europe and the UK and expects to finalize a sale within twelve months from the current reporting period.

Major components of net loss from discontinued operations for the years ended June 30, 2020, 2019 and 2018 were as follows:

SCANSOURCE, INC. AND SUBSIDIARIES
Notes to Consolidated Financial Statements—(Continued)
June 30, 2020

| | Fiscal Year Ended June 30, | | |
|--|-----------------------------------|-------------|-------------|
| | 2020 | 2019 | 2018 |
| | <i>(in thousands)</i> | | |
| Net sales | \$ 561,496 | \$ 623,312 | \$ 681,551 |
| Cost of goods sold | 513,003 | 563,543 | 614,731 |
| Gross profit | 48,493 | 59,769 | 66,820 |
| Selling, general and administrative expenses | 53,946 | 61,574 | 65,183 |
| Depreciation expense | 975 | 1,127 | 1,026 |
| Intangible amortization expense | 1,403 | 1,839 | 1,977 |
| Impairment charges | 13,747 | — | — |
| Operating loss | (21,578) | (4,771) | (1,366) |
| Interest expense, net | 1,399 | 195 | 24 |
| Loss on held for sale classification | 88,923 | — | — |
| Other expense, net | 1,124 | 763 | 733 |
| Loss from discontinued operations before taxes | (113,024) | (5,729) | (2,123) |
| Income tax expense | 403 | 1,533 | 180 |
| Net loss from discontinued operations | \$ (113,427) | \$ (7,262) | \$ (2,303) |

For fiscal year ended June 30, 2020, the Company allocated goodwill to our discontinued operations based on relative fair value of the discontinued operations compared to the consolidated reporting units and impaired such goodwill totaling \$1.0 million for the Worldwide Barcode, Networking & Security segment and \$7.5 million for the Worldwide Communications & Services segment. Identifiable intangible assets, including customer relationships and distributor agreements, were impaired for discontinued operations totaling \$5.2 million for fiscal year ended June 30, 2020. The impairment charges are included in net loss from discontinued operations in the Consolidated Income Statements.

The major classes of assets and liabilities classified as held-for-sale in the accompanying consolidated balance sheets, were as follows as of June 30, 2020 and 2019:

SCANSOURCE, INC. AND SUBSIDIARIES
Notes to Consolidated Financial Statements—(Continued)
June 30, 2020

| | June 30, 2020 | June 30, 2019 |
|---|-----------------------|----------------------|
| | <i>(in thousands)</i> | |
| Assets | | |
| Current assets: | | |
| Cash and cash equivalents | \$ 4,970 | \$ 4,513 |
| Accounts receivable, net | 117,200 | 131,560 |
| Inventories, net | 106,779 | 143,263 |
| Prepaid expenses and other current assets | 23,808 | 17,417 |
| Total current assets | 252,757 | 296,753 |
| Property and equipment, net | 1,833 | 2,793 |
| Goodwill | — | 8,823 |
| Identifiable intangible assets, net | — | 6,726 |
| Deferred income taxes | 9,349 | 9,277 |
| Other non-current assets | 6,215 | 1,460 |
| Total assets, before valuation allowance | 270,154 | 325,832 |
| Less: valuation allowance | (88,923) | — |
| Total assets, net of valuation allowance ⁽¹⁾ | \$ 181,231 | \$ 325,832 |
| Liabilities | | |
| Current liabilities: | | |
| Accounts payable | \$ 56,098 | \$ 69,810 |
| Accrued expenses and other current liabilities | 14,815 | 14,763 |
| Other taxes payable | 20,378 | 12,018 |
| Short-term borrowings | 3,524 | 4,590 |
| Income tax payable | 1,085 | 351 |
| Total current liabilities | 95,900 | 101,532 |
| Borrowings under revolving credit facility | 24,704 | 28,427 |
| Other long-term liabilities | 7,418 | 3,730 |
| Total liabilities ⁽¹⁾ | \$ 128,022 | \$ 133,689 |

(1) Total assets and liabilities of discontinued operations are classified in current assets and liabilities, respectively, in the Company's consolidated balance sheet as of June 30, 2020, as the discontinued operations are expected to be disposed of within twelve months of the balance sheet date. The assets and liabilities of discontinued operations are classified in their respective current and long-term classifications, respectively, in the Company's consolidated balance sheet as of June 30, 2019 in accordance with the nature and underlying classification of such assets and liabilities.

The Company has a bank overdraft facility with Bank of America used by its European subsidiaries recognized as Short-term borrowings. The facility allows the Company to disburse checks in excess of bank balances up to \$14.0 million U.S. dollar equivalent for up to seven days. Borrowings under the overdraft facility bear interest at a rate equal to a spread of 1.0% over the applicable currency's London Interbank Offered Rate ("LIBOR") with a zero percent floor. Since borrowings outstanding under the overdraft facility at June 30, 2020 were denominated in euros, which bore a negative LIBOR rate, the interest applicable to the Company was 1.0%.

Significant non-cash operating items and capital expenditures reflected in the cash flows from discontinued operations for the fiscal years ended June 30, 2020, 2019 and 2018 were as follows:

SCANSOURCE, INC. AND SUBSIDIARIES
Notes to Consolidated Financial Statements—(Continued)
June 30, 2020

| | Fiscal Year Ended June 30, | | |
|--------------------------------------|-----------------------------------|-------------|-------------|
| | 2020 | 2019 | 2018 |
| | <i>(in thousands)</i> | | |
| Loss on held for sale classification | \$ 88,923 | \$ — | \$ — |
| Impairment charges | 13,747 | — | — |
| Depreciation and amortization | 2,378 | 2,966 | 3,003 |
| Capital expenditures | (77) | (1,416) | (1,161) |

(19) Subsequent Events

In July 2020, the Company announced actions to address the business impacts of the COVID-19 pandemic and prepare for the next phase of growth. These actions include an approximate \$30 million annualized expense reduction plan, partially offset by approximately \$8 to \$9 million in severance and employee benefits for those employees who left the Company. These actions are designed to better align the cost structure for the wholesale distribution business with lower sales volumes as a result of the COVID-19 pandemic. As part of the plan, the Company will continue to invest in its higher growth agency business, Intelisys.

In July 2020, the Company also initiated actions to close Canpango, its salesforce implementation and consulting business. In August 2018, the Company acquired Canpango to help partners build out their customer relationship management capabilities as part of a CCaaS solution. There has been limited adoption by the Company's partner community. As a result of the closure of the Canpango business, the Company recorded a pre-tax non-cash charge of approximately \$2 million for the fiscal year ended June 30, 2020 which is recorded to the selling, general and administrative expenses and impairment charges line item in the Consolidated Income Statements. The Company expects to complete existing contracts over the next few months.

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

Not applicable.

ITEM 9A. Controls and Procedures.

(a) Evaluation of Disclosure Controls and Procedures

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

Based on their evaluation as of the end of the period covered by this Annual Report on Form 10-K, our Chief Executive Officer and Chief Financial Officer have concluded that our disclosure controls and procedures, as of June 30, 2020, were effective in providing reasonable assurance that the objectives of the disclosure controls and procedures are met.

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

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

We assessed the effectiveness of our internal control over financial reporting as of June 30, 2020. However, the intY acquired during the current fiscal year has been excluded from management's assessment of internal controls over financial reporting. The operations of intY acquired July 1, 2019 represent less than 1% of our consolidated revenues from continuing operations and approximately 3.5% of our consolidated total assets for the fiscal year ended June 30, 2020. In making this assessment, we used the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission ("COSO") in *2013 Internal Control – Integrated Framework*. Based on its assessment using those criteria, our management concluded that our internal control over financial reporting was effective as of June 30, 2020.

The effectiveness of our internal control over financial reporting as of June 30, 2020 has been audited by Grant Thornton LLP, an independent registered public accounting firm, as stated in their Report of Independent Registered Certified Public Accounting Firm on Internal Control Over Financial Reporting which is included with the Financial Statements in Part II, Item 8 of this Annual Report on Form 10-K and is incorporated herein by reference.

(c) Changes in Internal Control over Financial Reporting

There were no changes in our internal control over financial reporting that occurred during the fiscal year ended June 30, 2020 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

ITEM 9B. Other Information.

None.

PART III

Information called for by Part III (Items 10, 11, 12, 13 and 14) of this Annual Report on Form 10-K has been omitted as we intend to file with the SEC not later than 120 days after the end of our fiscal year ended June 30, 2020, an amendment to this Form 10-K or a definitive Proxy Statement relating to the 2021 Annual Meeting pursuant to Regulation 14A promulgated under the Exchange Act (the "Part III Filing"). Such information will be set forth in such Part III Filing and is incorporated herein by reference.

ITEM 10. Directors, Executive Officers and Corporate Governance.

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

ITEM 11. Executive Compensation.

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

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

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

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

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

ITEM 14. Principal Accountant Fees and Services.

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

PART IV

ITEM 15. Exhibits and Financial Statement Schedules.

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

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

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

(b) *Exhibits*. See Exhibit Index.

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

SCHEDULE II

SCANSOURCE, INC. AND SUBSIDIARIES

Valuation and Qualifying Accounts

(in thousands)

| Description | Balance at Beginning of Period | Amounts Charged to Expense | Reductions ⁽¹⁾ | Other ⁽²⁾ | Balance at End of Period |
|--|---|---|----------------------------------|-----------------------------|---|
| Allowance for bad debt: | | | | | |
| Year ended June 30, 2018 | \$ 34,246 | 6,127 | (5,297) | (1,233) | \$ 33,843 |
| Trade and current note receivable allowance | | | | | \$ 33,843 |
| Year ended June 30, 2019 | \$ 33,843 | 1,712 | (9,005) | 971 | \$ 27,521 |
| Trade and current note receivable allowance | | | | | \$ 27,521 |
| Year ended June 30, 2020 | \$ 27,521 | 1,621 | (5,176) | (2,060) | \$ 21,906 |
| Trade and current note receivable allowance | | | | | \$ 21,906 |

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

(2) "Other" amounts include recoveries and the effect of foreign currency fluctuations for years ended June 30, 2020, 2019 and 2018. The amount in 2020 includes less than \$0.1 million in accounts receivable reserves acquired with the intY acquisition on July 1, 2020. The amount in 2019 includes less than \$0.1 million in accounts receivable reserves acquired with the Canpango acquisition on August 20, 2018. The amount in 2018 includes \$0.1 million in accounts receivable reserves acquired with the POS Portal acquisition on July 31, 2017.

ITEM 16. FORM 10-K SUMMARY

None

SIGNATURES

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

SCANSOURCE, INC.

Date: August 31, 2020

By: /s/ MICHAEL L. BAUR

Michael L. Baur

Chairman, Chief Executive Officer and President

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

| <u>Signature</u> | <u>Title</u> | <u>Date</u> |
|---|---|-----------------|
| <u>/s/ MICHAEL L. BAUR</u> Michael L. Baur | Chairman, Chief Executive Officer and President (principal executive officer) | August 31, 2020 |
| <u>/s/ GERALD LYONS</u> Gerald Lyons | Senior Executive Vice President and Chief Financial Officer (principal financial officer and principal accounting officer) | August 31, 2020 |
| <u>/s/ PETER C. BROWNING</u> Peter C. Browning | Lead Independent Director | August 31, 2020 |
| <u>/s/ MICHAEL J. GRAINGER</u> Michael J. Grainger | Director | August 31, 2020 |
| <u>/s/ DOROTHY F. RAMONEDA</u> Dorothy F. Ramoneda | Director | August 31, 2020 |
| <u>/s/ JOHN P. REILLY</u> John P. Reilly | Director | August 31, 2020 |
| <u>/s/ JEFFREY R. RODEK</u> Jeffrey R. Rodek | Director | August 31, 2020 |
| <u>/s/ ELIZABETH O. TEMPLE</u> Elizabeth O. Temple | Director | August 31, 2020 |
| <u>/s/ CHARLES R. WHITCHURCH</u> Charles R. Whitchurch | Director | August 31, 2020 |

Exhibit Index

| Exhibit Number | Description | Filed herewith | Form | Exhibit | Filing Date |
|-----------------------|---|-----------------------|-------------|----------------|--------------------|
| 2.1 | Letter Agreement between Registrant and Intersmart Comércio Importação/Exportação de Equipamentos Eletrônicos, S.A., dated August 14, 2014 | | 8-K | 10.1 | 8/15/2014 |
| 2.2 | Share Purchase and Sale Agreement for Global Data Network LLP dated January 8, 2015 | | 10-Q | 2.1 | 2/3/2015 |
| 2.3+ | Asset Purchase Agreement for Intelisys, Inc. dated August 5, 2016 | | 10-Q | 10.1 | 11/7/2016 |
| 3.1 | Amended and Restated Articles of Incorporation and Articles of Amendment | | 10-Q | 3.1 | 2/3/2005 |
| 3.2 | Amended and Restated Bylaws | | 8-K | 3.1 | 11/30/2018 |
| 4.1 | Form of Common Stock Certificate | | SB-2 | 4.1 | 2/7/1994 |
| 4.2 | Description of Securities | | 10-K | 4.2 | 8/22/2019 |
| | Executive Compensation Plans and Arrangements | | | | |
| 10.1 | Nonqualified Deferred Compensation Plan, as amended and restated | | 10-Q | 10.1 | 2/3/2015 |
| 10.2 | Amended and Restated 2002 Long-Term Incentive Plan | | 8-K | 10.1 | 12/7/2009 |
| 10.3 | 2013 Long-Term Incentive Plan | | S-8 | 99 | 12/5/2013 |
| 10.4 | Employee Stock Purchase Plan | | S-8 | 99 | 12/5/2013 |
| 10.5 | Founder's Supplemental Executive Retirement Plan Agreement | | 10-Q | 10.2 | 5/6/2011 |
| 10.6 | Executive Severance Plan | | 8-K | 10.3 | 6/21/2017 |
| 10.7 | Form of Incentive Stock Option Award Certificate under the Amended and Restated 2002 Long-Term Incentive Plan for grants on or after December 3, 2009 | | 8-K | 10.3 | 12/7/2009 |
| 10.8 | Form of Incentive Stock Option Award Certificate under the Amended and Restated 2002 Long-Term Incentive Plan for grants on or after December 3, 2010 | | 10-Q | 10.2 | 2/4/2011 |
| 10.9 | Form of Non-Qualified Stock Option Award Certificate under the Amended and Restated 2002 Long-Term Incentive Plan for grants on or after December 3, 2009 | | 8-K | 10.4 | 12/7/2009 |
| 10.10 | Form of Non-Qualified Stock Option Award Certificate under the Amended and Restated 2002 Long-Term Incentive Plan for grants on or after December 3, 2010 | | 10-Q | 10.3 | 2/4/2011 |
| 10.11 | Form of Restricted Stock Unit Award Certificate under ScanSource, Inc. 2013 Long-Term Incentive Plan for grants on or after December 5, 2013 | | 10-Q | 10.1 | 2/6/2014 |
| 10.12 | Form of Director Restricted Stock Unit Award Certificate under ScanSource, Inc. 2013 Long-Term Incentive Plan for grants on or after December 5, 2013 | | 10-Q | 10.2 | 2/6/2014 |

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|--------|---|------|-------|------------|
| 10.13 | Form of Incentive Stock Option Award Certificate under ScanSource, Inc. 2013 Long-Term Incentive Plan for grants on or after December 5, 2013 | 10-Q | 10.3 | 2/6/2014 |
| 10.14 | Form of Non-Qualified Stock Option Award Certificate under ScanSource, Inc. 2013 Long-Term Incentive Plan for grants on or after December 5, 2013 | 10-Q | 10.4 | 2/6/2014 |
| 10.15 | Form of Other Stock Based Award Certificate under ScanSource, Inc. 2013 Long-Term Incentive Plan | 10-K | 10.33 | 8/28/2014 |
| 10.16 | Form of Performance and Service - Based Restricted Stock Unit Award Certificate under ScanSource Inc. 2013 Long-Term Incentive Plan | 10-K | 10.34 | 8/28/2014 |
| 10.17 | Form of Restricted Stock Unit Award (Performance and Service-Based) under the 2013 Long-Term Incentive Plan (2017 version) | 8-K | 10.1 | 12/8/2017 |
| 10.18 | Form of Restricted Stock Unit Award (Service-Based) under the 2013 Long-Term Incentive Plan (2017 version) | 8-K | 10.2 | 12/8/2017 |
| 10.19 | Form of Non-Qualified Stock Option Agreement under the 2013 Long-Term Incentive Plan (2017 version) | 8-K | 10.3 | 12/8/2017 |
| 10.20 | Form of Incentive Stock Option Agreement under the 2013 Long-Term Incentive Plan (2017 version) | 8-K | 10.4 | 12/8/2017 |
| 10.21 | Amended and Restated Employment Agreement, effective as of July 1, 2017, of Michael L. Baur | 8-K | 10.1 | 6/21/2017 |
| 10.22 | Amended and Restated Employment Agreement, dated June 25, 2014, of Gerald Lyons | 10-K | 10.24 | 8/28/2014 |
| 10.23 | First Amendment to Amended and Restated Employment Agreement, effective June 15, 2017, of Gerald Lyons | 8-K | 10.2 | 6/21/2017 |
| 10.24 | Employment Letter, dated August 23, 2017, of Gerald Lyons | 8-K | 10.1 | 8/24/2017 |
| 10.25 | Employment Letter, dated January 11, 2018 of Matthew Dean | 10-K | 10.27 | 8/22/2019 |
| 10.26 | Board of Directors Compensation Program effective July 1, 2018 | 10-K | 10.32 | 8/28/2018 |
| 10.27 | First Amendment to Nonqualified Deferred Compensation Plan | 8-K | 10.1 | 11/30/2018 |
| 10.28 | Form of Director Restricted Stock Award Certificate for grants on or after January 1, 2019 | 8-K | 10.2 | 11/30/2018 |
| 10.29 | Form of Director Restricted Stock Unit Certificate for grants on or after January 1, 2019 | 8-K | 10.3 | 11/30/2018 |
| 10.30 | Form of Director Restricted Stock Award Certificate | 8-K | 10.4 | 11/30/2018 |
| 10.31 | Form of Restricted Stock Unit Award Certificate | 8-K | 10.5 | 11/30/2018 |
| 10.32 | Form of Restricted Stock Unit Award Certificate | 8-K | 10.1 | 1/30/2020 |
| 10.33 | Bank Agreements Second Amended and Restated Credit Agreement | 8-K | 10.1 | 5/1/2019 |
| 10.34+ | Other Agreements Industrial Lease Agreement dated April 27, 2007 between Registrant and Industrial Developments International, Inc. | 10-K | 10.26 | 8/29/2007 |

| | | | | |
|---------|--|--------|-------|------------|
| 10.35+ | Third Amendment to Industrial Lease Agreement between Registrant and Industrial Developments International, Inc. | 10-K | 10.54 | 8/29/2016 |
| 10.36+ | Fourth Amendment to Industrial Lease Agreement | 10-Q | 10.1 | 5/9/2019 |
| 10.37++ | Nonexclusive Value Added Distributor Agreement between ScanSource, Inc. and Cisco Systems, Inc. | 10-K | 10.38 | 8/22/2019 |
| 10.38++ | Amendment No. 3 to Cisco Nonexclusive Value Added Distributor Agreement | 10-K | 10.39 | 8/22/2019 |
| 10.39++ | Amendment No. 5 to Cisco Nonexclusive Value Added Distributor Agreement | 10-K | 10.40 | 8/22/2019 |
| 10.40++ | Amendment No. 6 to Cisco Nonexclusive Value Added Distributor Agreement | 10-K | 10.41 | 8/22/2019 |
| 10.41++ | Amendment No. 7 to Cisco Nonexclusive Value Added Distributor Agreement | 10-K | 10.42 | 8/22/2019 |
| 10.42 | Amendment No. 9 to Cisco Nonexclusive Value Added Distributor Agreement | 10-K | 10.43 | 8/22/2019 |
| 10.43++ | Amendment No. 11 to Cisco Nonexclusive Value Added Distributor Agreement | 10-K | 10.44 | 8/22/2019 |
| 10.44 | Amendment No. 12 to Cisco Nonexclusive Value Added Distributor Agreement | 10-K | 10.45 | 8/22/2019 |
| 10.45 | Amendment No. 13 to Cisco Nonexclusive Value Added Distributor Agreement | 10-K | 10.46 | 8/22/2019 |
| 10.46 | Amendment No. 14 to Cisco Nonexclusive Value Added Distributor Agreement | 10-K | 10.47 | 8/22/2019 |
| 10.47++ | Addendum to Cisco Nonexclusive Value Added Distributor Agreement dated March 25, 2019 | 10-K | 10.48 | 8/22/2019 |
| 10.48++ | Addendum to Cisco Nonexclusive Value Added Distributor Agreement dated March 2, 2015 | 10-K | 10.49 | 8/22/2019 |
| 10.49++ | Affiliate Agreement under Cisco Nonexclusive Value Added Distributor Agreement | 10-K | 10.50 | 8/22/2019 |
| 10.50+ | Distribution Agreement with US Motorola (f/k/a Symbol Technologies, Inc.). | 10-Q/A | 10.1 | 10/24/2014 |
| 10.51+ | Amendment to PartnerEmpower Distribution Agreement with Zebra. | 10-K | 10.50 | 8/29/2016 |
| 10.52+ | Participation Agreement Relating to Distribution Agreement with Zebra | 10-K | 10.51 | 8/29/2016 |
| 10.53+ | Amendment to PartnerConnect EVM Distributor Agreement | 10-K | 10.51 | 8/29/2017 |
| 10.54++ | Addendum to Zebra Partnerconnect Distributor Agreement | 10-Q | 10.2 | 5/9/2019 |
| 10.55 | Letter of Agreement to PartnerConnect EVM Distributor Agreement | | | X |
| 21.1 | Subsidiaries of the Company | | | X |
| 23.1 | Consent of Grant Thornton LLP | | | X |
| 31.1 | Certification of the Chief Executive Officer | | | X |

| | | |
|------|--|---|
| 31.2 | Certification of the Chief Financial Officer | X |
| 32.1 | Certification of the Chief Executive Officer | X |
| 32.2 | Certification of the Chief Financial Officer | X |

101

The following materials from our Annual Report on Form 10-K for the year ended June 30, 2020, formatted in Inline XBRL (eXtensible Business Reporting Language): (i) the Consolidated Balance Sheets as of June 30, 2020 and June 30, 2019, (ii) the Consolidated Income Statements for the years ended June 30, 2020, June 30, 2019 and June 30, 2018, (iii) the Consolidated Statements of Shareholders' Equity for the years ended June 30, 2020, June 30, 2019 and June 30, 2018, (iv) the Consolidated Statements of Cash Flows for the years ended June 30, 2020, June 30, 2019 and June 30, 2018, and (v) the Notes to the Consolidated Financial Statements, tagged as blocks of text. The instance document does not appear in the Interactive Data File because XBRL tags are embedded within the Inline XBRL document. X

- + Confidential treatment has been requested or granted with respect to certain portions of this Exhibit, which portions have been omitted and filed separately with the Commission as part of an application for confidential treatment.
- ++ Portions of this exhibit have been omitted pursuant to Item 601(b)(10)(iv) of Regulation S-K.
Our SEC file number for documents filed with the SEC pursuant to the Securities Exchange Act of 1934, as amended, is 000-26926.

