

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, 2023
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 has filed a report on and attestation to its management's assessment of the effectiveness of its internal control over financial reporting under Section 404(b) of the Sarbanes-Oxley Act (15 U.S.C. 7262(b)) by the registered public accounting firm that prepared or issued its audit report

If securities are registered pursuant to Section 12(b) of the Act, indicate by check mark whether the financial statements of the registrant included in the filing reflect the correction of an error to previously issued financial statements

Indicate by check mark whether any of those error corrections are restatements that required a recovery analysis of incentive-based compensation received by any of the registrant's executive officers during the relevant recovery period pursuant to §240.10D-1(b)

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, 2022 was \$734,745,929, 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 11, 2023
Common Stock, no par value per share	24,844,203 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 2024 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, 2023

FORWARD-LOOKING STATEMENTS

Forward-looking statements are 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. Actual results could differ materially from those anticipated in these forward-looking statements as a result of a number of factors including, but not limited to the following factors, which are neither presented in order of importance nor weighted: macroeconomic conditions, including potential prolonged economic weakness, inflation and supply chain challenges, the failure to manage and implement the Company's organic growth strategy, credit risks involving the Company's larger customers and suppliers, changes in interest and exchange rates and regulatory regimes impacting the Company's international operations, economic weakness and inflation, risk to the Company's business from a cyberattack, a failure of the Company's IT systems, failure to hire and retain quality employees, loss of the Company's major customers, relationships with the Company's key suppliers and customers or a termination or a modification of the terms under which it operates with these key suppliers and customers, changes in the Company's operating strategy and the other factors set forth in "Risk Factors" contained herein.

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PART I

ITEM 1. Business.

ScanSource, Inc. (together with its subsidiaries referred to as the "Company" or "ScanSource" or "we") is a leading hybrid distributor connecting devices to the cloud and accelerating growth for customers across hardware, Software as a Service ("SaaS"), connectivity and cloud. ScanSource enables customers to deliver solutions for their end users to address changing buying and consumption patterns. ScanSource sells through multiple, specialized routes-to-market with hardware, SaaS, connectivity and cloud service offerings from the world's leading technology suppliers. We provide technology solutions and services from more than 500 leading suppliers of mobility, barcode, point-of-sale ("POS"), payments, physical security, networking, unified communications, collaboration (UCaaS, CCaaS), connectivity and cloud services.

ScanSource was incorporated in South Carolina in 1992 and serves approximately 30,000 customers. Net sales for fiscal year ended June 30, 2023 totaled \$3.79 billion. Our common stock trades on the NASDAQ Global Select Market under the symbol "SCSC."

Our customers are businesses of all sizes that sell to end-customers across many industries. Our customer channels include value-added resellers ("VARs"), customers 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 grow hybrid technology offerings for end-customers across almost every vertical market in the United States, Canada, Brazil and the United Kingdom ("UK").

In fiscal year 2021, we completed the sale of our product distribution businesses in Europe, the UK, Mexico, Colombia, Chile, Peru and our Miami-based export operations (the "Divestitures"). Management determined that the Company did not have sufficient scale 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 are 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.

Strategy

Our strategy is to drive sustainable, profitable growth by orchestrating hybrid technology solutions through a growing ecosystem of partners leveraging our people, processes, and tools. Our goal is to provide exceptional experiences for our partners, suppliers, and people, and we strive for operational excellence. Our hybrid distribution strategy relies on a channel sales model to offer hardware, SaaS, connectivity and cloud services from leading technology suppliers to customers that solve end users' challenges. ScanSource enables customers to deliver solutions for their end users to address changing buying and consumption patterns. Our solutions may include a combination of offerings from multiple suppliers or give our customers access to additional services. As a trusted adviser to our customers, we provide customized solutions through our strong understanding of end user needs.

Value Proposition

Our customer channels and supplier relationships serve as competitive advantages. From our pivotal position at the intersection of technology distribution trends, we provide robust value to both our customers and our suppliers. We make it easier for our sales partners and suppliers to deliver leading technology solutions that drive business outcomes for end users.

Value proposition for our customers/sales partners:

- Enable end-user consumption preferences
- Provide pre-sale engineering
- Make it easier to sell the technology stack
- Inventory availability
- Offer training, education and marketing services
- Provide custom configuration, services, platforms and digital tools
- Offer innovative financial solutions for our customers

Value proposition for our suppliers:

- Expand reach at a variable cost
- Provide access to multiple routes to market
- Lower customer acquisition cost
- Recruit and train new sales partners
- Manage channel credit

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 operate our business under a management structure that enhances our technology focus and hybrid distribution growth strategy. Our segments operate in the United States, Canada, Brazil and the UK and consist of the following:

- Specialty Technology Solutions
- Modern Communications & Cloud

Specialty Technology Solutions Segment

The Specialty Technology Solutions portfolio includes enterprise mobile computing, data capture, barcode printing, POS, payments, networking, electronic physical security, cybersecurity 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 and intrusion-related devices. Our networking products include wireless and networking infrastructure products. This segment also includes recurring revenue from hardware rentals and other SaaS offerings.

Modern Communications & Cloud Segment

The Modern Communications & Cloud portfolio of solutions includes communications technologies and services for voice, video conferencing, wireless, data networking, cybersecurity, 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. This segment includes recurring revenue from our Intelisys and intY businesses.

Customers

Our customers, or sales partners, are businesses of all sizes that sell to end users across industries ranging from manufacturing, warehouse and distribution, retail and e-commerce, hospitality, transportation and logistics, government, education and healthcare, among others. Our customers provide us with multiple, specialized routes-to-market through various channels, including: VARs, agents, ISOs and ISVs. No single customer accounted for more than 4% of our total net sales for the fiscal year ended June 30, 2023.

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, AT&T, Aruba/HPE, Avaya, Axis, Cisco, Comcast Business, Datalogic, Dell, Elo, Epson, Equinix, Extreme, F5, Five9, Fortinet, Genesys, Granite, GTT, Hanwha, Honeywell, Ingenico, Jabra, Logitech, Lumen, Microsoft, MetTel, Mitel, NCR, NICE CXone, Poly HP, RingCentral, Spectrum, Toshiba Global Commerce Solutions, Trend Micro, Ubiquiti, Verifone, Verizon, VMWare, Windstream, Zebra Technologies and Zoom.

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, 2023.

- We have three non-exclusive agreements with Cisco. One agreement covers the distribution of Cisco products in the United States and has a two year term. The second agreement covers the 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 these agreements upon 30 days' notice to the other party. The third agreement is an agency contract for North America and has a two year term. Either party may terminate this agreement upon 60 days' prior written notice.
- We have three non-exclusive agreements with Zebra. 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. 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

We currently market over 65,000 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 the Brazilian states of Paraná, Espírito Santo and Santa Catarina. We provide some of our digital products, which include SaaS and subscriptions, through our digital tools and platforms. See "Risk Factors" for a discussion of the risks related to our foreign operations.

Our offerings to our customers include hardware, software, services and connectivity across premise, hybrid and cloud environments. We believe that customers want to offer end users complete technology solutions that solve end-user challenges and deliver positive outcomes. We align our people, processes and tools to help our sales partners grow by providing more hybrid 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 additional services, including configuration, key injection, integration support and others to deliver solutions.

We provide our customers and suppliers with 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 customers 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 willingness to provide the extra level of services that keeps both our sales partners and 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, barcode 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 healthcare.
- *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, 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 and Networking:* We provide electronic physical security solutions that include identification, access control, video surveillance and intrusion-related products. 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. Our networking products include wireless and networking infrastructure products.
- *Communications and Collaboration:* We offer communications and collaboration solutions, delivered in the cloud, on-premise or hybrid, such as voice, video, integration of communication platforms and contact center solutions. These offerings combine voice, video and data with computers, telecommunications and the internet to deliver communications solutions on-premise. Software and hardware products include IP-based telephony platforms, Voice over Internet Protocol systems, private branch exchanges, call center applications, video conferencing, desk phones, headsets and cloud-enabled 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.
- *Connectivity and Cloud 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. Through our digital tools and platforms, we offer sales partners another way to grow their recurring revenue practices, and take the friction out of acquiring, provisioning and managing SaaS offerings. We have contracts with more than 200 of the world’s leading telecom carriers and cloud services providers.

People and Culture

As a people-first organization, respecting and protecting our people and our partners are our top priorities. From ensuring and supporting an inclusive and diverse workforce and partner base; providing a safe, healthy work environment; and working with suppliers and partners that share this commitment, we are dedicated to doing what is right for our employees, channel partners and end customers.

General

Our real competitive advantage is our people, working together to help our customers and partners grow their businesses. The foundation of ScanSource has always been based on strong values and culture with the clear vision of people first. In a changing environment, ScanSource is investing in new infrastructure, tools and programs to ensure a "productivity anywhere" outcome, in the new hybrid working world. In 2023, the Company was named one of the Best Places to Work in South Carolina for the eighth consecutive year.

As of June 30, 2023, we have approximately 2,300 employees, of which approximately 1,500 are in the United States and 800 are located internationally in Canada, Brazil and the UK. We have no organized labor or trade unions in the United States. As of June 30, 2023 we have 10 office locations in the U.S. and three distribution centers, eight office locations outside of the U.S., and have a remote employee presence.

Professional Development

We want to help our employees succeed—both personally and professionally. We focus heavily on the intellectual and professional development of our employees, and we strive to create an immersive working environment for them. To promote personal and professional growth, we also encourage our employees to pursue ongoing training and career development opportunities, and we provide tuition assistance and reimbursement for certain pre-approved continuing education programs and professional certifications. We enhanced our learning management system, The Hub, to provide a modernized and engaging user experience for our global employees at all levels. The ScanSource Leadership Institute ("SLI") is another

important program that focuses on identifying and helping to develop the next wave of senior leaders for the Company. The SLI program brings together twelve hand-selected leaders from our global offices for a two-week program of intensive training and development. While this provides a tool for an individual's education and growth, it also nurtures cross-functional collaboration with colleagues through a unique social capability.

Benefits

We offer a comprehensive benefits package which includes traditional health insurance, as well as telemedicine alternatives, life insurance, disability insurance and work-life balance resources. The financial future of our employees is important to us, which is why we have a 401(k) program with a market-competitive employer match, performance-based bonus program and employee ownership opportunities for a meaningful portion of our employees through our Employee Stock Purchase Plan, as well as our equity incentive grants. We partner with Fidelity to provide employees access to knowledge and tools to help manage or plan for student loan debt. To expand our financial wellness offerings, we offer workshops and webinars focused on student debt and general debt-counselling services.

Health and Safety

We care about our employees' overall well-being and encourage them to have a healthy lifestyle, both physically and mentally. That's why we offer dedicated resources to help foster a work/life balance. We have implemented a work-from-home policy for all employees across geographies, outside of our distribution centers. We are pleased with how our employees have adjusted to this new way of doing business, maintaining an extremely high level of productivity and performance. With a largely remote workforce, it is critical that we continue to focus on our employees' health. We continue to build our 360you program, which provides employees with extensive education and training/coaching opportunities, wellness and fitness challenges, and other valuable resources.

Diversity and Inclusion

One of our core values is to promote an environment that respects and values the diverse backgrounds, interests and talents of our employees. ScanSource is committed to a diverse and inclusive workplace with our comprehensive Diversity & Inclusion (D&I) program, led by our first Chief Diversity Officer ("CDO") and an internal D&I Advisory Council. The Council is an employee-led group focused on sharing insights, ideas, and opinions from our employee base to assist in the implementation of our DEI plan. To support our goal of becoming a more inclusive workplace, our DEI strategic plan focuses on awareness and education, workforce representation, partner diversity, and community relations. Additionally, initiatives including a D&I book and movie club, educational DEI opportunities, and global employee resource groups are allowing interested employees to broaden their knowledge on various topics in this space.

Board Role in People and Culture Management

Our Board of Directors believes that people and culture management is an important component of our continued growth and success and is essential for our ability to attract, retain and develop talented and skilled employees. We pride ourselves on a culture that respects co-workers and values concern for others. Our Board provides oversight of the Company's policies and strategies relating to talent including corporate culture, diversity and inclusion, and employee development, as well as the Company's compensation principles and practices. Our Board, through the Compensation Committee, evaluates and approves the Company's compensation plans, policies, and programs applicable to our senior executives. Our Board also engages in an active succession planning process.

Digital Workplace

Employee outreach and engagement remain critical to the continued success and growth of ScanSource. Inclusion, participation, and appreciation are key components in retaining talent, maintaining our culture, and keeping employees engaged. In support of that, in 2023, we launched a new global digital workplace, The Bridge, as our new corporate intranet. We are excited to enhance global communication, increase employee recognition, and celebrate milestones through this engaging new platform.

Employee Feedback

We foster opportunities for employee engagement and have multiple avenues for communication, which allows all full-time employees to anonymously give us feedback on our workplace culture, employee programs, and more. We also implement employee engagement surveys globally to gather feedback and build the best environment possible for 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 users. In addition, our competitors include resellers that sell to franchisees, third-party dealers and end users. 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 Specialty Technology Solutions segment, we compete with broad-line distributors, such as Ingram Micro and TD Synnex, in most geographic areas, and more specialized security distributors, such as ADI and Wesco. We also compete against other smaller, more specialized AIDC and POS distributors, such as BlueStar. In our Modern Communications & Cloud segment, we compete against broad-line distributors, such as Ingram Micro and TD Synnex, and more specialized distributors, such as Jenne. Additionally, for Intelisys' technology services, we compete against other smaller, technology services distributors, 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 customers.

Sales

Our sales organization consists of inside and field sales representatives located in the United States, Canada, the UK 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 our customers with solutions to meet their end-customer's needs. Our sales teams are advocates for and trusted advisers to our customers. 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 customers. 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 customers with online ordering, API, EDI and other information systems, allowing customers 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 customers and suppliers - ensuring we help our partners create, deliver and manage solutions for end users 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 customers and employees rely on our information systems for online, 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 our sales partners' 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 customers. These sales terms allow us to compete within our specific geographic areas to facilitate our growth plans. We believe these options reduce the customer'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 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. These factors are neither presented in order of importance nor weighted. 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 and 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.

Risk Factors Related to our Operations

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

Our operating results could be adversely affected by increased competition for employees, difficulty in recruiting 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 and attract new ones, we have to provide a satisfying work environment and competitive compensation and benefits.

Acquisitions - Our growth strategy includes acquisitions of companies that complement or expand our existing business. Acquisitions involve unique risks and uncertainties, including difficulty in identifying and completing potential acquisitions.

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.

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.

We may be unable to identify acquisitions or strategic relationships we deem suitable. Even if we do, we may be unable to successfully complete any such transactions on favorable terms or at all, or to successfully integrate an acquired business, facilities, technologies, or products into our business or retain any key personnel, suppliers, or customers. Furthermore, even if we complete such transactions and effectively integrate the newly acquired business or strategic alliance into our existing operations, we may fail to realize the anticipated returns and/or fail to capture the expected benefits, such as strategic or operational synergies or cost savings.

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, information systems and website for product information, including availability, pricing and placing orders. Our systems were disrupted during our recent ransomware incident, and there can be no assurance that our systems will not fail or experience disruptions again in the future, and any significant failure or disruption of these systems could prevent us from making sales, ordering and delivering products and otherwise conducting our business.

Supply Chain issues, include a shortage of products, may increase our costs or cause a delay in fulfilling customer orders, completing services or purchasing products and services needed to support our internal operations, resulting in an adverse impact on our financial results.

Our business depends on the timely supply of products in order to meet the demands of our customers.

Manufacturing interruptions or delays, including as a result of the financial instability or bankruptcy of manufacturers, significant labor disputes such as strikes, natural disasters, political or social unrest, pandemics or other public health crises or other adverse occurrences affecting any of our suppliers' facilities, could further disrupt our supply chain. We could experience product constraints due to the failure of suppliers to accurately forecast customer demand or to manufacture sufficient quantities of product to meet customer demand (including as a result of shortages of product components), among other reasons.

Our supply chain is also exposed to risks related to international operations. While we purchase our products primarily in the markets we serve (for example, products for United States customers are primarily sourced in the United States), our vendor partners manufacture or purchase a significant portion of the products we sell outside of the United States, primarily in Asia. Political, social or economic instability in Asia, or in other regions in which our vendor partners purchase or manufacture the products we sell, could cause disruptions in trade, including exports to the United States.

Supply chain issues, including a shortage of technology products and available services, may increase our costs or cause a delay in purchasing technology products needed to support our internal systems and infrastructure or operations, resulting in an impact on our operations and availability of our systems, which could result in a materially adverse effect on our operations and financial results.

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

A significant component of our growth strategy is to expand our channels 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 models. Our failure to effectively manage our organic growth could have an adverse effect on our business, financial condition and results of operations.

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; we also provide financing to some Intelisys customers based on their future commission flows. 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.

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 and transit losses due to a congested supply chain. Increases in our shipping costs or transit losses may adversely affect our financial results if we are unable to pass on these higher costs to our customers.

In Brazil, we use third parties to provide warehousing and logistics services in order to provide cost-effective operations and scale in certain regions. The failure or inability of one or more of these third parties to deliver products from suppliers to us, or products from us to our customers, for any reason could disrupt our business and harm our reputation and operating results. We work closely with our third-party logistics and warehousing providers to anticipate issues, and also review public information regarding their financial health. However, issues may not be identified 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, financial condition and results of operations.

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. Some of our supplier agreements and certain manufacturers' policies have some price protection and stock rotation opportunities with respect to slow-moving or obsolete inventory items; however, these protections are becoming less standard, subject to change, 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 and results of operations.

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

Our future success is highly dependent on our relationships with our suppliers. 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, revenue 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. In addition, our supplier agreements typically are short-term and may be terminated without cause on short notice. 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. Specifically, shortages of computer chips may lead to product constraints and adversely affect our sales volumes and product availability. 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. In addition, suppliers may face liquidity or solvency issues that in turn could negatively affect our business and operating results. 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 decrease the 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 on 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 3.50:1.00 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 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, inflation, rising interest rates 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 fail or suffer bankruptcy or similar restructuring.

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 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. Economic recession, higher interest rates and inflation could result in some of our customers shuttering their businesses, thus negatively impacting our business.

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 or our officers and directors 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 any dispute that we are a party to. See Item 3. "Legal Proceedings" for further discussion of our material legal matters.

Fair value measurement of 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 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 has in the past and may in the future require us to recognize an impairment to the carrying value of goodwill and other intangible assets attendant to those operations. As of June 30, 2023, the Specialty Technology Solutions and Modern Communications & Cloud reporting units' goodwill balances are \$16.4 million and \$200.3 million, respectively. The fair value of the reporting units exceeded its carrying value by 2% and 13%, respectively, as of the annual goodwill impairment testing date. 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.

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. For fiscal year ending June 30, 2023, approximately 9.4% of our revenue is derived from our international operations outside of the United States and Canada. These operations are subject to a variety of risks that are different from the risks that we face domestically or are similar risks but with potentially greater exposure. These risks include:

- Fluctuations of foreign currency and exchange rates, which can impact sales, costs of the goods we sell and the reporting of our results and assets on our financial statements;
- Changes in international trade laws, trade agreements, or trading relationships affecting our import and export activities, including export license requirements, restrictions on the export of certain technology and tariff changes, or the imposition of new or increased trade sanctions;
- Difficulties in collecting accounts receivable and longer collection periods;
- Changes in, or expiration of, various foreign incentives that provide economic benefits to us;
- Labor laws or practices that impact our ability and costs to hire, retain and discharge employees;
- Difficulties in staffing and managing operations in foreign countries;
- Changes in the interpretation and enforcement of laws (in particular related to items such as duty and taxation), and laws related to data privacy such as GDPR and other similar privacy laws that impact our IT systems and processes;
- Global economic and financial market instability;
- 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, UK 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 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 foreign 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.

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 operations, while our Brazilian and UK 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, prolonged inclement weather, 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.

Risk Factors Related to our Industry

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, reduce our prices in response to actions of our competitors, or withdraw from geographical markets 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.

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 some 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 revenue. 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.

General Risk Factors

Cybersecurity risk - If we are the subject of a ransomware or other cyberattack, we could lose valuable financial and operational data, we could be prevented from processing customer orders, ordering and tracking inventory, and efficiently operating our business, and we could lose revenue and profits and incur significant costs. In addition, we could be subject to legal claims in the event of the loss, disclosure or misappropriation of, or access to, our customer's or business partners' or our own information.

We make extensive use of online services and integrated information systems, 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, and may have a serious impact on our reputation and may adversely affect our businesses, operating results and financial condition.

In May 2023, we learned that we had been the subject of a ransomware attack. The attacker encrypted files that, in turn, made certain of our systems inaccessible until they were restored. This attack interrupted our ability to accept and process orders for approximately nine business days and resulted in the disclosure on the "dark web" of various information from our systems. Although substantially all of the restoration is complete, there can be no assurance that we will not be a victim of a ransomware or other cyberattack again in the future.

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.

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.

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.

Economic weakness - Economic weakness, including recession and inflation, 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.

ITEM 1B. Unresolved Staff Comments.

Not applicable.

ITEM 2. Properties.

Our fixed assets include office space and warehouses. Our principal locations and/or properties as of June 30, 2023, were as follows:

Location	Approximate Square Footage	Type of Interest	Description of Use
<i>United States</i>			
Greenville, SC	174,000	Owned	Headquarters - Principal Executive and Sales Offices
Greenville, SC	7,600	Leased	Sales and Administration Offices
Southaven, MS	741,000	Leased	Warehouse
Sacramento, CA	53,000	Leased	Sales and Administration Offices and Warehouse
Louisville, KY	22,000	Leased	Warehouse
<i>Brazil</i>			
São José 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 174,000 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 Brazil. 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 and 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 20, 2023, there were approximately 735 holders of record of our common stock.

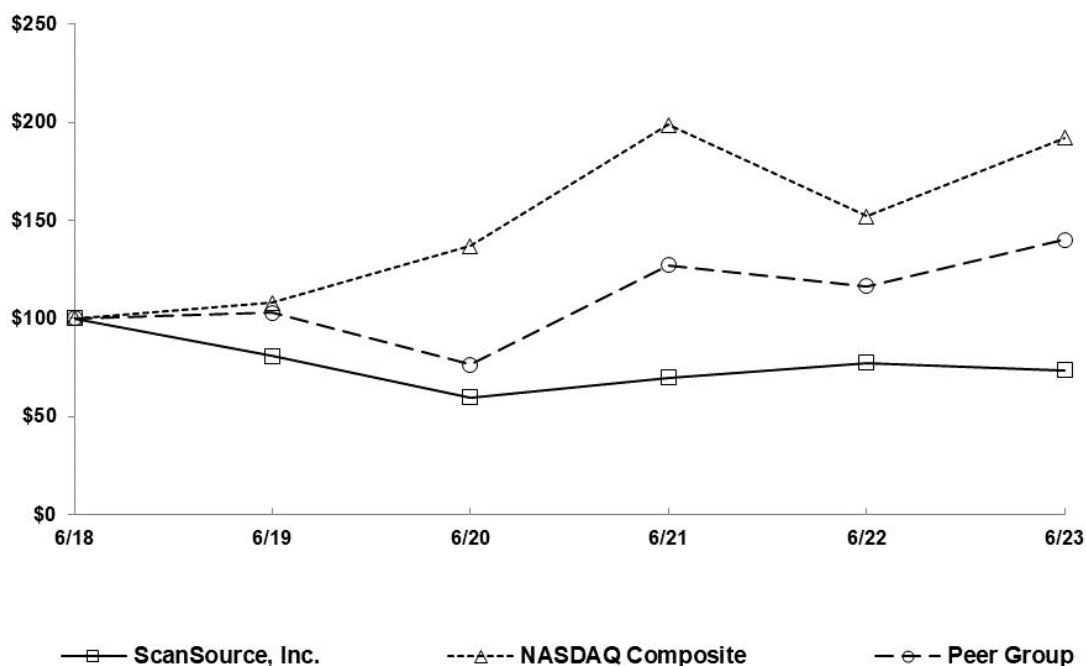
Stock Performance Chart

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, 2018.

	2018	2019	2020	2021	2022	2023
ScanSource, Inc.	\$ 100	\$ 81	\$ 60	\$ 70	\$ 77	\$ 73
NASDAQ Composite	\$ 100	\$ 108	\$ 137	\$ 199	\$ 152	\$ 192
SIC Code 5045 – Computers & Peripheral Equipment	\$ 100	\$ 103	\$ 76	\$ 127	\$ 116	\$ 140

COMPARISON OF 5 YEAR CUMULATIVE TOTAL RETURN*

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



*\$100 invested on 6/30/18 in stock or index, including reinvestment of dividends.
Fiscal year ending June 30.

Share Repurchases

In August 2021, our Board of Directors authorized a \$100 million share repurchase program. The authorization does not have any time limit. In fiscal year 2023, we repurchased 524,108 shares totaling \$15.8 million under the share repurchase program.

The following table shows the share-repurchase activity for the quarter ended June 30, 2023 (in thousands except share and per share data):

Period	Total number of shares purchased ⁽¹⁾	Average price paid per share	Total number of shares purchased as part of the publicly announced plan or program	Approximate dollar value of shares that may yet be purchased under the plan or program
April 1, 2023 through April 30, 2023	107,639	\$28.79	107,639	\$67,802,877
May 1, 2023 through May 31, 2023	60,000	\$27.43	60,000	\$66,157,077
June 1, 2023 through June 30, 2023	992	\$30.14	—	\$66,157,077
Total	168,631		167,639	

⁽¹⁾ Includes 992 shares withheld from employees' stock-based awards to satisfy required tax withholding obligations for the month of June 2023. There were no shares withheld during the months of April and May 2023.

Dividends

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

ITEM 6. [Reserved].

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

Overview

ScanSource is a leading hybrid distributor connecting devices to the cloud and accelerating growth for customers across hardware, SaaS, connectivity and cloud. We provide technology solutions and services from more than 500 leading suppliers of mobility and barcode, POS and payments, physical security and networking, communications and collaboration, connectivity and cloud services to our approximately 30,000 customers located in the United States, Canada, Brazil, the UK and Europe.

We operate our business under a management structure that enhances our technology focus and hybrid distribution growth strategy. Our segments operate in the United States, Canada, Brazil and the UK and consist of the following:

- Specialty Technology Solutions
- Modern Communications & Cloud

We sell hardware, SaaS, connectivity and cloud solutions and services through channel partners to end users. We operate distribution facilities that support our United States and Canada business in Mississippi, California and Kentucky. Brazil distribution facilities are located in the Brazilian states of Paraná, Espírito Santo and Santa Catarina. We provide some of our digital products, which include SaaS and subscriptions, through our digital tools and platforms.

Our key suppliers include 8x8, AT&T, Aruba/HPE, Avaya, Axis, Cisco, Comcast Business, Datalogic, Dell, Elo, Epson, Equinix, Extreme, F5, Five9, Fortinet, Genesys, Granite, GTT, Hanwha, Honeywell, Ingenico, Jabra, Logitech, Lumen, Microsoft, MetTel, Mitel, NCR, NICE CXone, Poly HP, RingCentral, Spectrum, Toshiba Global Commerce Solutions, Trend Micro, Ubiquiti, Verifone, Verizon, VMWare, Windstream, Zebra Technologies and Zoom.

Recent Developments

Cybersecurity Incident

On May 14, 2023, we discovered that we were subject to a cybersecurity attack perpetrated by unauthorized third parties that affected our IT systems. Upon detection, we took immediate steps to address the incident, engaged third-party experts, and notified law enforcement. We have cyber insurance and are working with our insurance carriers on claims to recover costs incurred. On May 26, 2023, we substantially recovered our operations and completed the restoration of our pertinent IT systems. We have taken actions to strengthen our existing IT security infrastructure and will continue to implement additional measures to prevent unauthorized access to, or manipulation of, our systems and data.

Impact of the Macroeconomic Environment, Including Inflation and Supply Chain Constraints

The macroeconomic environment, including the economic impacts of supply chain constraints, rising interest rates and inflation continues to create significant uncertainty and may adversely affect our consolidated results of operations. We are actively monitoring changes to the global macroeconomic environment and assessing the potential impacts these challenges may have on our financial condition, results of operations and liquidity. We are also mindful of the potential impact these conditions could have on our customers and suppliers.

In spite of these challenges and uncertainties, we believe we have managed the supply chain requirements of our customers and suppliers effectively to date. While we are unable to predict the ultimate impact these factors will have on our business, certain technologies have benefited from the widespread adoption to a work-from-anywhere business model, as well as the accelerated shift to digitize and automate processes.

Our Strategy

Our strategy is to drive sustainable, profitable growth by orchestrating hybrid technology solutions through a growing ecosystem of partners leveraging our people, processes and tools. Our goal is to provide exceptional experiences for our partners, suppliers and employees, and we strive for operational excellence. Our hybrid distribution strategy relies on a channel sales model to offer hardware, SaaS, connectivity and cloud services from leading technology suppliers to customers that solve end users' challenges. ScanSource enables customers to deliver solutions for their end users to address changing buying and

consumption patterns. Our solutions may include a combination of offerings from multiple suppliers or give our customers access to additional services. As a trusted adviser to our customers, we provide customized solutions through our strong understanding of end user needs.

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,		
	2023	2022	2021
Statement of income data:			
Net sales	100.0 %	100.0 %	100.0 %
Cost of goods sold	88.1	87.9	88.9
Gross profit	11.9	12.1	11.1
Selling, general and administrative expenses	7.5	7.8	7.9
Depreciation expense	0.3	0.3	0.4
Intangible amortization expense	0.4	0.5	0.6
Restructuring and other charges	0.0	0.0	0.3
Operating income	3.6	3.5	2.0
Interest expense	0.5	0.2	0.2
Interest income	(0.2)	(0.1)	(0.1)
Other (income) expense, net	0.0	0.0	0.0
Income from continuing operations before income taxes	3.2	3.4	1.8
Provision for income taxes	0.9	0.8	0.4
Net income from continuing operations	2.3	2.5	1.4
Net income (loss) from discontinued operations	0.0	0.0	(1.1)
Net income	2.4 %	2.5 %	0.3 %

Comparison of Fiscal Years Ended June 30, 2023 and 2022

Below is a discussion of fiscal years ended June 30, 2023 and 2022. Please refer to our form 10-K for the fiscal year ended June 30, 2022 for a discussion of fiscal year ended June 30, 2021.

Net Sales

We have two reportable segments, which are based on technology. The following table summarizes our net sales results by business segment and by geographic location for the comparable fiscal years ended June 30, 2023 and 2022.

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

	<u>2023</u>	<u>2022</u>	<u>\$ Change</u>	<u>% Change</u>	
	<i>(in thousands)</i>				
Sales by Segment:					
Specialty Technology Solutions	\$ 2,331,030	\$ 2,082,321	\$ 248,709	11.9 %	11.9 %
Modern Communications & Cloud	1,456,691	1,447,614	9,077	0.6 %	0.4 %
Total net sales	<u>\$ 3,787,721</u>	<u>\$ 3,529,935</u>	<u>\$ 257,786</u>	7.3 %	7.2 %
Sales by Geography Category:					
United States	\$ 3,432,074	\$ 3,173,694	\$ 258,380	8.1 %	8.1 %
International	355,647	356,241	(594)	(0.2)%	(1.4)%
Total net sales	<u>\$ 3,787,721</u>	<u>\$ 3,529,935</u>	<u>\$ 257,786</u>	7.3 %	7.2 %

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

Our sales during our fourth quarter were adversely impacted by the cybersecurity attack that we discovered on May 14, 2023. Until the appropriate restoration was completed, we generally were not able to use our core systems to accept orders or ship products. Because some of the lost sales may simply have been deferred, we do not yet have a complete estimate of the ultimate impact. We have business interruption insurance that should cover a portion of the lost profits attributable to any lost sales.

Specialty Technology Solutions

The Specialty Technology Solutions segment consists of sales to customers in North America and Brazil. During fiscal year 2023, net sales for this segment increased \$248.7 million, or 11.9%, compared to fiscal year 2022. Excluding the foreign exchange positive impact of \$0.9 million, adjusted net sales for fiscal year 2023 increased \$247.8 million, or 11.9%, compared to the prior year. The increase in net sales and in adjusted net sales is primarily due to strong growth in key technologies in North America.

Modern Communications & Cloud

The Modern Communications & Cloud segment consists of sales to customers in North America, Brazil, Europe and the UK. During fiscal year 2023, net sales for this segment increased \$9.1 million, or 0.6%, compared to fiscal year 2022. Excluding the foreign exchange positive impact of \$3.5 million, adjusted net sales increased \$5.6 million, or 0.4%, compared to the prior year. The increase in net sales and adjusted net sales is primarily due to increased networking sales, partially offset by lower sales volumes in our communications hardware.

Intelisys connectivity and cloud net sales for fiscal year 2023 increased 7.0% year-over-year. For our Intelisys business, net sales reflect the net commissions received from suppliers after paying sales partner commissions. For fiscal year 2023, Intelisys net billings, which are amounts billed by suppliers to end users and represents annual recurring revenue, totaled approximately \$2.47 billion. The fiscal year 2023 Intelisys net billings resulted in Intelisys net sales of approximately \$79.5 million.

Gross Profit

The following table summarizes our gross profit for the fiscal years ended June 30, 2023 and 2022:

	2023	2022	\$ Change	% Change	% of Sales June 30,	
					2023	2022
	<i>(in thousands)</i>					
Specialty Technology Solutions	\$ 224,239	\$ 205,757	\$ 18,482	9.0 %	9.6 %	9.9 %
Modern Communications & Cloud	225,000	220,767	4,233	1.9 %	15.4 %	15.3 %
Total gross profit	<u>\$ 449,239</u>	<u>\$ 426,524</u>	<u>\$ 22,715</u>	5.3 %	11.9 %	12.1 %

Our gross profit is primarily affected by sales volume and gross margin mix. Gross margin mix is impacted by multiple factors, which include sales mix (proportion of sales of higher margin products or services relative to total sales), vendor program recognition (consisting of volume rebates, inventory price changes and purchase discounts) and freight costs. Increases in vendor program recognition decrease cost of goods sold, thereby increasing gross profit. Net sales derived from our Intelisys business contribute 100% to our gross profit dollars and margin as they have no associated cost of goods sold.

Specialty Technology Solutions

For the Specialty Technology Solutions segment, gross profit dollars increased \$18.5 million. Higher sales volume, after considering the associated cost of goods sold, contributed \$24.6 million to the growth of gross profit dollars. Gross margin mix negatively impacted gross profit by \$6.1 million, largely from a less favorable sales mix. For the year ended June 30, 2023, the gross profit margin decreased 26 basis points over the prior-year to 9.6%.

Modern Communications & Cloud

For the Modern Communications & Cloud segment, gross profit dollars increased \$4.2 million. Higher sales volume, after considering the associated cost of goods sold, contributed \$1.4 million to the growth of gross profit dollars. Gross margin mix positively impacted gross profit by \$2.8 million, largely from a more favorable sales mix, partially offset by lower vendor program recognition. For the year ended June 30, 2023, the gross profit margin increased 20 basis points over the prior year to 15.4%.

Operating expenses

The following table summarizes our operating expenses for the periods ended June 30, 2023 and 2022:

	2023	2022	\$ Change	% Change	% of Sales June 30,	
					2023	2022
	<i>(in thousands)</i>					
Selling, general and administrative expenses	\$ 285,695	\$ 275,442	\$ 10,253	3.7 %	7.5 %	7.8 %
Depreciation expense	10,912	11,062	(150)	(1.4)%	0.3 %	0.3 %
Intangible amortization expense	16,746	17,853	(1,107)	(6.2)%	0.4 %	0.5 %
Operating expenses	<u>\$ 313,353</u>	<u>\$ 304,357</u>	<u>\$ 8,996</u>	3.0 %	8.3 %	8.6 %

Selling, general and administrative expenses ("SG&A") increased \$10.3 million for the fiscal year ended June 30, 2023 compared to the prior year. The increase in SG&A expenses is primarily attributable to higher employee costs, partially offset by net tax recoveries of \$3.0 million related to prior periods.

SG&A includes approximately \$1.5 million in costs attendant to the cybersecurity attack. We have cyber-related insurance that should cover a portion (or all) of these expenses. While we continuously try to improve our cybersecurity, the nature of the particular attack did not suggest a broad problem with our cybersecurity efforts, and we do not expect a significant increase in ongoing cybersecurity-related expenses.

Intangible amortization expense decreased \$1.1 million for the fiscal year ended June 30, 2023 compared to the prior year. Amortization expense decreased during fiscal year 2023 due to certain trade name and non-compete intangibles becoming fully amortized in the current year.

Operating Income

The following table summarizes our operating income for the periods ended June 30, 2023 and 2022:

	2023	2022	\$ Change	% Change	% of Sales June 30,	
					2023	2022
	<i>(in thousands)</i>					
Specialty Technology Solutions	\$ 75,688	\$ 66,686	\$ 9,002	13.5 %	3.2 %	3.2 %
Modern Communications & Cloud	61,658	55,511	6,147	11.1 %	4.2 %	3.8 %
Corporate	(1,460)	(30)	(1,430)	*nm	— %	— %
Total operating income	<u>\$ 135,886</u>	<u>\$ 122,167</u>	<u>\$ 13,719</u>	11.2 %	3.6 %	3.5 %

*nm - not meaningful

Specialty Technology Solutions

For the Specialty Technology Solutions segment, operating income increased \$9.0 million, and operating margin increased 5 basis points to 3.2% for the fiscal year ended June 30, 2023, compared to the prior year. The increase in operating income and operating margin is primarily due to higher gross profits.

Modern Communications & Cloud

For the Modern Communications & Cloud segment, operating income increased \$6.1 million and the operating margin increased 40 basis points to 4.2% for the fiscal year ended June 30, 2023, compared to the prior year. The increase in operating income and margin is largely due to higher gross profits.

Corporate

The fiscal year ended June 30, 2023 Corporate operating loss of \$1.5 million represents cyberattack restoration charges. Corporate incurred less than \$0.1 million in divestiture costs during the fiscal year ended June 30, 2022.

Total Other (Income) Expense

The following table summarizes our total other (income) expense for the fiscal years ended June 30, 2023 and 2022:

	2023	2022	\$ Change	% Change	% of Sales June 30,	
	<i>(in thousands)</i>				2023	2022
Interest expense	\$ 19,786	\$ 6,523	\$ 13,263	203.3 %	0.5 %	0.2 %
Interest income	(7,414)	(4,333)	(3,081)	71.1 %	(0.2)%	(0.1)%
Net foreign exchange losses	2,168	2,078	90	4.3 %	0.1 %	0.1 %
Other, net	(504)	(724)	220	(30.4)%	— %	— %
Total other (income) expense	<u>\$ 14,036</u>	<u>\$ 3,544</u>	<u>\$ 10,492</u>	296.0 %	0.4 %	0.1 %

Interest expense consists primarily of interest incurred on borrowings, non-utilization fees charged on the revolving credit facility and amortization of debt issuance costs. Interest expense increased in fiscal 2023 as compared to 2022 primarily from higher interest rates and higher average borrowings on our multi-currency revolving credit facility.

Interest income for the year ended June 30, 2023 and 2022 was generated on interest-bearing investments in Brazil and customer receivables.

Net foreign exchange gains and losses consist of foreign currency transactional and functional currency re-measurements, offset by net foreign exchange forward contracts 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 Canadian dollar versus the U.S. dollar, the euro versus the U.S. dollar, and the British pound versus the U.S. dollar. We partially offset foreign currency exposure with the use of foreign exchange contracts to hedge against these exposures. The costs associated with foreign exchange contracts are included in the net foreign exchange losses.

Provision for Income Taxes

Income tax expense for continuing operations was \$33.8 million and \$29.9 million for the fiscal years ended June 30, 2023 and 2022, respectively, reflecting effective tax rates of 27.7% and 25.2%, respectively. The increase in the effective tax rate for fiscal year 2023 compared to fiscal year 2022 is primarily the result of an increase in global intangible low taxed income. Subsequent to the 2023 fiscal year end, the IRS issued Notice 2023-55, which provides taxpayers with Brazilian subsidiaries temporary relief from the final foreign tax credit regulations. As a result, we anticipate recognizing a \$1.5 million tax benefit for the 2023 fiscal year as a discrete item in the first quarter of the 2024 fiscal year.

We expect the fiscal year 2024 effective tax rate from continuing operations to be approximately 26.6% to 27.6%. See Note 13 - *Income Taxes* in the Notes to Consolidated Financial Statements for further discussion including an effective tax rate reconciliation.

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; adjusted earnings before interest expense, income taxes, depreciation, and amortization ("adjusted EBITDA"); adjusted return on invested capital ("adjusted 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.

Adjusted Return on Invested Capital

Adjusted 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 adjusted ROIC provides useful information to investors and is an additional relevant comparison of our performance during the year.

Adjusted EBITDA starts with net income and adds back interest expense, income tax expense, depreciation expense, amortization of intangible assets, changes in fair value of contingent consideration, non-cash share-based compensation expense and other non-GAAP adjustments. Since adjusted EBITDA excludes some non-cash costs of investing in our business and people, we believe that adjusted EBITDA shows the profitability from our business operations more clearly. The presentation for adjusted EBITDA for all periods presented has been recast to reflect this change to enhance comparability between periods.

We calculate adjusted ROIC as 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 adjusted ROIC for the fiscal years ended June 30, 2023 and 2022.

	<u>2023</u>	<u>2022</u>
Adjusted return on invested capital ratio	<u>14.6 %</u>	<u>17.0 %</u>

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

	<u>Fiscal Year Ended June 30,</u>	
	<u>2023</u>	<u>2022</u>
	<i>(in thousands)</i>	
<i>Reconciliation of net income to adjusted EBITDA:</i>		
Net income from continuing operations (GAAP)	\$ 88,092	\$ 88,698
Plus: Interest expense	19,786	6,523
Plus: Income taxes	33,758	29,925
Plus: Depreciation and amortization	28,614	29,884
EBITDA (non-GAAP)	<u>170,250</u>	<u>155,030</u>
Plus: Share-based compensation	11,219	11,663
Plus: Tax recovery	(2,986)	—
Plus: Cyberattack restoration costs	1,460	—
Plus: Divestiture costs ^(a)	—	30
Adjusted EBITDA (numerator for adjusted ROIC) (non-GAAP)	<u>179,943</u>	<u>166,723</u>

	Fiscal Year Ended June 30,	
	2023	2022
	<i>(in thousands)</i>	
Invested capital calculations:		
Equity – beginning of the year	\$ 806,528	\$ 731,191
Equity – end of the year	905,298	806,528
Plus: Share-based compensation, net	8,326	8,709
Plus: Divestiture costs ^(a)	—	30
Plus: Cyberattack restoration costs, net	1,092	—
Plus: Tax recovery, net	(3,985)	—
Plus: Impact of discontinued operations, net	(1,717)	(100)
Average equity	<u>857,771</u>	<u>773,179</u>
Average funded debt ^(b)	<u>372,235</u>	<u>209,114</u>
Invested capital (denominator for adjusted ROIC) (non-GAAP)	<u><u>\$ 1,230,006</u></u>	<u><u>\$ 982,293</u></u>

(a) Includes divestiture costs for the year ended June 30, 2022. Divestiture costs are generally non-deductible for tax purposes.

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

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 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 acquisitions:

Net Sales by Segment:

	Fiscal Year Ended June 30,		\$ Change	% Change
	2023	2022		
	<i>(in thousands)</i>			
Specialty Technology Solutions:				
Net sales, reported	\$ 2,331,030	\$ 2,082,321	\$ 248,709	11.9 %
Foreign exchange impact ^(a)	(923)	—		
Non-GAAP net sales, constant currency	<u>\$ 2,330,107</u>	<u>\$ 2,082,321</u>	\$ 247,786	11.9 %
Modern Communications & Cloud:				
Net sales, reported	\$ 1,456,691	\$ 1,447,614	\$ 9,077	0.6 %
Foreign exchange impact ^(a)	(3,492)	—		
Non-GAAP net sales, constant currency	<u>\$ 1,453,199</u>	<u>\$ 1,447,614</u>	\$ 5,585	0.4 %
Consolidated:				
Net sales, reported	\$ 3,787,721	\$ 3,529,935	\$ 257,786	7.3 %
Foreign exchange impact ^(a)	(4,415)	—		
Non-GAAP net sales, constant currency	<u>\$ 3,783,306</u>	<u>\$ 3,529,935</u>	\$ 253,371	7.2 %

(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, 2023 into U.S. dollars using the average foreign exchange rates for the year ended June 30, 2022.

Net Sales by Geography:

	Fiscal Year Ended June 30,			
	2023	2022	\$ Change	% Change
United States and Canada:	<i>(in thousands)</i>			
Net sales, as reported	<u>\$ 3,432,074</u>	<u>\$ 3,173,694</u>	\$ 258,380	8.1 %
International:				
Net sales, reported	\$ 355,647	\$ 356,241	\$ (594)	(0.2)%
Foreign exchange impact ^(a)	<u>(4,415)</u>	<u>—</u>		
Non-GAAP net sales, constant currency	<u>\$ 351,232</u>	<u>\$ 356,241</u>	\$ (5,009)	(1.4)%
Consolidated:				
Net sales, reported	\$ 3,787,721	\$ 3,529,935	\$ 257,786	7.3 %
Foreign exchange impact ^(a)	<u>(4,415)</u>	<u>—</u>		
Non-GAAP net sales, constant currency	<u>\$ 3,783,306</u>	<u>\$ 3,529,935</u>	\$ 253,371	7.2 %

(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, 2023 into U.S. dollars using the average foreign exchange rates for the year ended June 30, 2022.

Operating Income by Segment:

	Fiscal year ended June 30,				% of Net Sales June 30,	
	2023	2022	\$ Change	% Change	2023	2022
Specialty Technology Solutions:	<i>(in thousands)</i>					
GAAP operating income	\$ 75,688	\$ 66,686	\$ 9,002	13.5 %	3.2 %	3.2 %
Adjustments:						
Amortization of intangible assets	5,136	6,005	(869)			
Non-GAAP operating income	<u>\$ 80,824</u>	<u>\$ 72,691</u>	<u>\$ 8,133</u>	11.2 %	3.5 %	3.5 %
Modern Communications & Cloud:						
GAAP operating income	\$ 61,658	\$ 55,511	\$ 6,147	11.1 %	4.2 %	3.8 %
Adjustments:						
Amortization of intangible assets	11,610	11,848	(238)			
Tax recovery	(2,986)	—	(2,986)			
Non-GAAP operating income	<u>\$ 70,282</u>	<u>\$ 67,359</u>	<u>\$ 2,923</u>	4.3 %	4.8 %	4.7 %
Corporate:						
GAAP operating loss	\$ (1,460)	\$ (30)	\$ (1,430)	nm*	nm*	nm*
Adjustments:						
Divestiture costs	—	30	(30)			
Cyberattack restoration costs	1,460	—	1,460			
Non-GAAP operating income	<u>\$ —</u>	<u>\$ —</u>	<u>\$ —</u>	nm*	nm*	nm*
Consolidated:						
GAAP operating income	\$ 135,886	\$ 122,167	\$ 13,719	11.2 %	3.6 %	3.5 %
Adjustments:						
Amortization of intangible assets	16,746	17,853	(1,107)			
Cyberattack restoration costs	1,460	—	1,460			
Divestiture costs	—	30	(30)			
Tax recovery	(2,986)	—	(2,986)			
Non-GAAP operating income	<u>\$ 151,106</u>	<u>\$ 140,050</u>	<u>\$ 11,056</u>	7.9 %	4.0 %	4.0 %

Additional Non-GAAP Metrics

To evaluate current period performance on a more consistent basis with prior periods, we disclose non-GAAP SG&A expenses, non-GAAP operating income, non-GAAP pre-tax income, non-GAAP net income and non-GAAP diluted earnings per share. Non-GAAP results exclude amortization of intangible assets related to acquisitions, changes in fair value of contingent consideration, acquisition and divestiture costs, restructuring costs, impact of Divestitures and other non-GAAP adjustments. These year-over-year metrics include the translation impact of changes in foreign currency exchange rates. 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:

Year ended June 30, 2023

	GAAP Measure	Intangible amortization expense	Tax recovery	Divestiture costs	Cyberattack restoration costs	Non-GAAP measure
	<i>(in thousands, except per share data)</i>					
SG&A expenses	\$ 285,695	\$ —	\$ 2,986	\$ —	\$ (1,460)	\$ 287,221
Operating income	135,886	16,746	(2,986)	—	1,460	151,106
Pre-tax income	121,850	16,746	(2,986)	—	1,460	137,070
Net income	88,092	12,489	(3,985)	—	1,092	97,688
Diluted EPS	\$ 3.47	\$ 0.49	\$ (0.16)	\$ —	\$ 0.04	\$ 3.85

Year ended June 30, 2022

	GAAP Measure	Intangible amortization expense	Tax recovery	Divestiture costs	Cyberattack restoration costs	Non-GAAP measure
	<i>(in thousands, except per share data)</i>					
SG&A expenses	\$ 275,442	\$ —	\$ —	\$ (30)	\$ —	\$ 275,412
Operating income	122,167	17,853	—	30	—	140,050
Pre-tax income	118,623	17,853	—	30	—	136,506
Net income	88,698	13,412	—	30	—	102,140
Diluted EPS	\$ 3.44	\$ 0.52	\$ —	\$ —	\$ —	\$ 3.97

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, supplier incentives and goodwill. 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 adopted ASU 2016-13, *Financial Instruments - Credit Losses (ASC Topic 326)* effective July 1, 2020. The adoption did not have a material impact on our consolidated financial statements. Our policy for estimating allowances for doubtful accounts receivable is described below.

We maintain an allowance for uncollectible accounts receivable for estimated future expected credit losses resulting from customers' failure to make payments on accounts receivable due us. Management determines the estimate of the allowance for doubtful accounts receivable by considering a number of factors, including: (i) historical experience, (ii) aging of the accounts receivable, (iii) specific information obtained by us on the financial condition and the current creditworthiness of its customers, (iv) the current economic and country specific environment and (v) reasonable and supportable forecasts about collectability. Expected credit losses are estimated on a pool basis when similar risk characteristics exist using an age-based reserve model. Receivables that do not share risk characteristics are evaluated on an individual basis. Estimates of expected credit losses on trade receivables are recorded at inception and adjusted over the contractual life.

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, Specialty Technology Solutions and Modern Communications & Cloud. 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 ASC 350, 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, 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. As of June 30, 2023, the Specialty Technology and Modern Communications & Cloud reporting units' goodwill balances are \$16.4 million and \$200.3 million, respectively. The fair value of the reporting units exceeded its carrying value by 2% and 13%, respectively, as of the annual goodwill impairment testing date. 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 WACC: We utilized a WACC relative to each reporting unit's respective geography and industry as the discount rate for estimated future cash flows. The WACC is intended to represent a rate of return that would be expected by a market place participant in each respective geography.
- Operating income: We utilized historical and expected revenue growth rates, gross margins and operating expense percentages, which varied based on the projections of each reporting unit being evaluated.
- Cash flows from working capital changes: We utilized a projected cash flow impact pertaining to expected changes in working capital as each of our goodwill reporting units grow.

While we believe our assumptions are appropriate, they are subject to uncertainty and by nature include judgments and estimates regarding future events, including projected growth rates, margin percentages and operating efficiencies. Key assumptions used in determining fair value include projected growth and operating margin, working capital requirements and discount rates. During fiscal years 2023 and 2022, we completed our annual impairment test as of April 30th and determined that our goodwill was not impaired.

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.

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 \$36.2 million and \$38.0 million at June 30, 2023 and 2022, respectively, of which \$31.0 million and \$35.0 million was held outside of the United States as of June 30, 2023 and 2022, respectively. Checks released but not yet cleared from these accounts in the amounts of \$8.0 million and \$18.0 million are classified as accounts payable as of June 30, 2023 and 2022, respectively.

We conduct business in many locations throughout the world where we generate and use cash. We provide for United States income taxes from the earnings of our Canadian and Brazilian subsidiaries. See Note 13 - *Income Taxes* in the Notes to the Consolidated Financial Statements for further discussion.

Our net investment in working capital increased \$160.7 million to \$870.3 million at June 30, 2023 from \$709.5 million at June 30, 2022, primarily from increases in inventory. 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 and payments to vendors. For the fiscal year ended June 30, 2023, our working capital investment increased to support our 7.3% year-over-year net sales growth, as well as impacts from supply chain constraints and the cybersecurity incident.

Cash (used in) provided by:	Year ended	
	June 30, 2023	June 30, 2022
	<i>(in thousands)</i>	
Operating activities of continuing operations	\$ (35,769)	\$ (124,354)
Investing activities of continuing operations	(8,262)	(3,724)
Financing activities of continuing operations	39,531	108,106

Net cash used in operating activities was \$35.8 million and \$124.4 million for the years ended June 30, 2023 and 2022, respectively. Cash used in operating activities for the year ended June 30, 2023 is primarily due to increases in inventory, which increased 23.2% compared to the beginning of the year, partially offset by earnings from operations. Cash used in operating activities for the year ended June 30, 2022 is primarily due to increases in accounts receivable and inventory, which increased 28.2% and 30.8%, respectively, compared to the beginning of the prior year period.

Operating cash flows are subject to variability period over period as a result of the timing of payments related to accounts receivable, accounts payable and other working capital items.

The number of days sales outstanding ("DSO") was 72 at June 30, 2023, compared to 68 at June 30, 2022. The increase in DSO for fiscal year 2023 is driven by a 3.3% increase in net receivables at period end and a 1.8% decrease in fourth quarter average daily sales compared to the prior fiscal year. Throughout the current fiscal year, DSO ranged from 69 to 72. Inventory turnover was 4.4 times during the fourth quarter of the current fiscal year, compared to 5.6 times in the fourth quarter of fiscal year 2022. Throughout fiscal year 2023, inventory turnover ranged from 4.1 to 5.1 times.

Cash used in investing activities was \$8.3 million and \$3.7 million for the years ended June 30, 2023 and 2022, respectively. Cash used in investing activities for fiscal year 2023 and 2022 represents capital expenditures, partially offset by proceeds from the sale of our discontinued operations.

Management expects capital expenditures for fiscal year 2024 to range from \$6.0 million to \$8.0 million, primarily for IT investments and facility improvements.

Cash provided by financing activities totaled \$39.5 million and \$108.1 million for the fiscal years ended June 30, 2023 and 2022, respectively, primarily from net borrowings on the revolving line of credit.

Share Repurchase Program

In August 2021, our Board of Directors authorized a \$100 million share repurchase program. The authorization does not have any time limit. In fiscal year 2023, we repurchased 524,108 shares totaling \$15.8 million.

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 (as amended, the “Amended Credit Agreement”). On September 28, 2022, we amended and restated our Amended Credit Agreement, which includes (i) a five-year, \$350 million multicurrency senior secured revolving credit facility and (ii) a five-year \$150 million senior secured term loan facility. The amendment extended the revolving credit facility maturity date to September 28, 2027. In addition, pursuant to an “accordion feature,” we may increase our borrowings up to an additional \$250 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. Borrowings under the Amended Credit Agreement are guaranteed by substantially all of our domestic assets and our domestic subsidiaries. Under the terms of the revolving credit facility, the payment of cash dividends is restricted. We incurred debt issuance costs of \$1.4 million in connection with the amendment and restatement of the Amended Credit Agreement. These costs were capitalized to other non-current assets on the Condensed Consolidated Balance Sheets and added to the unamortized debt issuance costs from the previous credit facility.

Loans denominated in U.S. dollars, other than swingline loans, bear interest at a rate per annum equal to, at our option, (i) the adjusted term SOFR or adjusted daily simple SOFR plus an additional margin ranging from 1.00% to 1.75% depending upon our ratio of (A) total consolidated debt less up to \$30 million of unrestricted domestic cash ("Credit Facility Net Debt") to (B) trailing four-quarter consolidated EBITDA measured as of the end of the most recent year or quarter, as applicable (Credit Facility EBITDA"), for which financial statements have been delivered to the Lenders (the “leverage ratio”); or (ii) the alternate base rate plus an additional margin ranging from 0% to 0.75%, depending upon our leverage ratio, plus, if applicable, certain mandatory costs. All swingline loans denominated in U.S. dollars bear interest based upon the adjusted daily simple SOFR plus an additional margin ranging from 1.00% to 1.75% depending upon our leverage ratio, or such other rate as agreed upon with the applicable swingline lender. The adjusted term SOFR and adjusted daily simple SOFR include a fixed credit adjustment of 0.10% over the applicable SOFR reference rate. Loans denominated in foreign currencies bear interest at a rate per annum equal to the applicable benchmark rate set forth in the Amended Credit Agreement plus an additional margin ranging from 1.00% to 1.75%, depending upon our leverage ratio plus, if applicable, certain mandatory costs.

During the fiscal year ended June 30, 2023, our borrowings under the credit facility were U.S. dollar loans. The spread in effect as of June 30, 2023 was 1.50%, plus a 0.10% credit spread adjustment for SOFR-based loans and 0.50% for alternate base rate loans. The commitment fee rate in effect as of June 30, 2023 was 0.25%. 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 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. We were in compliance with all covenants under the Amended Credit Agreement as of June 30, 2023.

The average daily balance on the revolving credit facility, excluding the term loan facility, was \$223.5 million and \$69.0 million during the fiscal years ended June 30, 2023 and 2022, respectively. There was \$171.0 million and \$214.2 million available for additional borrowings as of June 30, 2023 and 2022, respectively. There were no letters of credit issued under the multi-currency revolving credit facility as of June 30, 2023 and 2022.

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, 2023, based upon the calculation of our Credit Facility Net Debt relative to our Credit Facility EBITDA, there was \$171.0 million available for borrowing. While we were in compliance with the financial covenants contained in the Credit Facility as of June 30, 2023, 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.

Contractual Obligations

At June 30, 2023, we had \$179.0 million outstanding under our revolving credit facility. We also had \$147.2 million outstanding under our term loan facility, \$6.6 million of which matures in fiscal year 2024. Our revolving credit facility and our term loan facility have a maturity date September 28, 2027. The remaining principal debt payments on our industrial development revenue bond, which total \$3.7 million, have maturity dates in 2024 through 2032. See Footnote 8 - *Short Term Borrowings and Long Term Debt*.

We also had a non-cancelable operating lease agreement of \$13.7 million at June 30, 2023, of which \$4.8 million is expected to be paid within the next 12 months. Remaining amounts are expected to be paid through 2028. See Footnote 14 - *Leases*.

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. We also believe that our longer-term working capital, planned expenditures and other general funding requirements will be satisfied through cash flows from operations and, to the extent necessary, from our borrowing facilities.

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 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 \$2.5 million and \$1.1 million increase or decrease in pre-tax income for the fiscal year ended June 30, 2023 and 2022, respectively.

We evaluate our interest rate risk and utilize interest rate swaps to mitigate the risk of interest rate fluctuations associated with our current and long-term debt. At June 30, 2023 and 2022, we had \$329.9 million and \$271.2 million, respectively, in variable rate debt.

We entered into an interest rate swap on April 30, 2019, which was amended on September 28, 2022. The interest rate swap 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. We entered into an additional interest rate swap on March 31, 2023 to lock into a fixed SOFR interest rate. The interest rate swap has notional amount of \$25 million and a maturity date of March 31, 2028.

The purpose of these interest rate swaps 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 and the UK. 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 \$2.7 million and \$2.2 million increase or decrease in pre-tax income for fiscal years ended June 30, 2023 and 2022, 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, 2023 and 2022, the fair value of our currency forward contracts were a net asset or payable of less than \$0.1 million.

ITEM 8. Financial Statements and Supplementary Data.

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All schedules and exhibits not included are not applicable, not required or would contain information 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, 2023 and 2022, the related consolidated statements of income, comprehensive income (loss), shareholders’ equity, and cash flows for each of the three years in the period ended June 30, 2023, and the related notes (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, 2023 and 2022, and the results of its operations and its cash flows for each of the three years in the period ended June 30, 2023, 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, 2023, based on criteria established in the *2013 Internal Control—Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (“COSO”), and our report dated August 22, 2023 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

Critical audit matters are matters arising from the current period audit of the financial statements that were communicated or required to be communicated to the audit committee and that: (1) relate to accounts or disclosures that are material to the financial statements and (2) involved our especially challenging, subjective, or complex judgments. We determined that there are no critical audit matters.

/s/ Grant Thornton LLP

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

Columbia, South Carolina
August 22, 2023

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, 2023, 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, 2023, 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, 2023, and our report dated August 22, 2023 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. 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.

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 22, 2023

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

	June 30, 2023	June 30, 2022
<u>Assets</u>		
Current assets:		
Cash and cash equivalents	\$ 36,178	\$ 37,987
Accounts receivable, less allowance of \$15,480 at June 30, 2023 and \$16,806 at June 30, 2022	753,236	729,442
Inventories	757,574	614,814
Prepaid expenses and other current assets	110,087	141,562
Total current assets	1,657,075	1,523,805
Property and equipment, net	37,379	37,477
Goodwill	216,706	214,435
Identifiable intangible assets, net	68,495	84,427
Deferred income taxes	17,764	15,668
Other non-current assets	70,750	61,616
Total assets	\$ 2,068,169	\$ 1,937,428
<u>Liabilities and Shareholders' Equity</u>		
Current liabilities:		
Accounts payable	\$ 691,119	\$ 714,177
Accrued expenses and other current liabilities	78,892	88,455
Income taxes payable	9,875	34
Current portion of long-term debt	6,915	11,598
Total current liabilities	786,801	814,264
Deferred income taxes	3,816	3,144
Long-term debt, net of current portion	144,006	123,733
Borrowings under revolving credit facility	178,980	135,839
Other long-term liabilities	49,268	53,920
Total liabilities	1,162,871	1,130,900
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, 24,844,203 and 25,187,351 shares issued and outstanding at June 30, 2023 and June 30, 2022, respectively	58,241	64,297
Retained earnings	936,678	846,869
Accumulated other comprehensive loss	(89,621)	(104,638)
Total shareholders' equity	905,298	806,528
Total liabilities and shareholders' equity	\$ 2,068,169	\$ 1,937,428

See accompanying notes to consolidated financial statements.

ScanSource, Inc. and Subsidiaries
Consolidated Income Statements
Years Ended June 30, 2023, 2022 and 2021
(in thousands, except per share information)

	<u>2023</u>	<u>2022</u>	<u>2021</u>
Net sales	\$ 3,787,721	\$ 3,529,935	\$ 3,150,806
Cost of goods sold	<u>3,338,482</u>	<u>3,103,411</u>	<u>2,800,090</u>
Gross profit	449,239	426,524	350,716
Selling, general and administrative expenses	285,695	275,442	247,438
Depreciation expense	10,912	11,062	12,533
Intangible amortization expense	16,746	17,853	19,488
Restructuring and other charges	—	—	9,258
Change in fair value of contingent consideration	—	—	516
Operating income	<u>135,886</u>	<u>122,167</u>	<u>61,483</u>
Interest expense	19,786	6,523	6,929
Interest income	(7,414)	(4,333)	(3,097)
Other expense, net	<u>1,664</u>	<u>1,354</u>	<u>116</u>
Income before income taxes	<u>121,850</u>	<u>118,623</u>	<u>57,535</u>
Provision for income taxes	<u>33,758</u>	<u>29,925</u>	<u>12,146</u>
Net income from continuing operations	<u>88,092</u>	<u>88,698</u>	<u>45,389</u>
Net income (loss) from discontinued operations	<u>1,717</u>	<u>100</u>	<u>(34,594)</u>
Net income	<u>\$ 89,809</u>	<u>\$ 88,798</u>	<u>\$ 10,795</u>
Per share data:			
Net income from continuing operations per common share, basic	\$ 3.50	\$ 3.48	\$ 1.79
Net income (loss) from discontinued operations per common share, basic	<u>0.07</u>	<u>—</u>	<u>(1.36)</u>
Net income per common share, basic	<u>\$ 3.57</u>	<u>\$ 3.48</u>	<u>\$ 0.42</u>
Weighted-average shares outstanding, basic	<u>25,142</u>	<u>25,504</u>	<u>25,423</u>
Net income from continuing operations per common share, diluted	\$ 3.47	\$ 3.44	\$ 1.78
Net income (loss) from discontinued operations per common share, diluted	<u>0.07</u>	<u>—</u>	<u>(1.36)</u>
Net income per common share, diluted	<u>\$ 3.54</u>	<u>\$ 3.45</u>	<u>\$ 0.42</u>
Weighted-average shares outstanding, diluted	<u>25,362</u>	<u>25,758</u>	<u>25,518</u>

See accompanying notes to consolidated financial statements.

ScanSource, Inc. and Subsidiaries
Consolidated Statements of Comprehensive Income (Loss)
Years Ended June 30, 2023, 2022 and 2021
(in thousands)

	<u>2023</u>	<u>2022</u>	<u>2021</u>
Net income	\$ 89,809	\$ 88,798	\$ 10,795
Unrealized gain on hedged transaction, net of tax	2,254	5,833	2,249
Foreign currency translation adjustment	12,763	(12,338)	20,778
Realized foreign currency loss from discontinued operations	—	—	11,635
Comprehensive income	<u>\$ 104,826</u>	<u>\$ 82,293</u>	<u>\$ 45,457</u>

See accompanying notes to these consolidated financial statements.

ScanSource, Inc. and Subsidiaries
Consolidated Statements of Shareholders' Equity
Years Ended June 30, 2023, 2022 and 2021
(in thousands, except share information)

	Common Stock (Shares)	Common Stock (Amount)	Retained Earnings	Accumulated Other Comprehensive Loss	Total
Balance at June 30, 2020	25,361,298	\$ 63,765	\$ 747,276	\$ (132,795)	\$ 678,246
Net income	—	—	10,795	—	10,795
Unrealized gain on hedged transaction, net of tax	—	—	—	2,249	2,249
Foreign currency translation adjustment	—	—	—	20,778	20,778
Realized foreign currency loss from discontinued operations	—	—	—	11,635	11,635
Exercise of stock options and shares issued under share-based compensation plans, net of shares withheld for employee taxes	138,167	(585)	—	—	(585)
Share-based compensation	—	8,073	—	—	8,073
Balance at June 30, 2021	<u>25,499,465</u>	<u>71,253</u>	<u>758,071</u>	<u>(98,133)</u>	<u>731,191</u>
Net income	—	—	88,798	—	88,798
Unrealized gain on hedged transaction, net of tax	—	—	—	5,833	5,833
Foreign currency translation adjustment	—	—	—	(12,338)	(12,338)
Exercise of stock options and shares issued under share-based compensation plans, net of shares withheld for employee taxes	238,080	(450)	—	—	(450)
Common stock repurchased	(550,194)	(18,203)	—	—	(18,203)
Share-based compensation	—	11,697	—	—	11,697
Balance at June 30, 2022	<u>25,187,351</u>	<u>64,297</u>	<u>846,869</u>	<u>(104,638)</u>	<u>806,528</u>
Net income	—	—	89,809	—	89,809
Unrealized gain on hedged transaction, net of tax	—	—	—	2,254	2,254
Foreign currency translation adjustment	—	—	—	12,763	12,763
Exercise of stock options and shares issued under share-based compensation plans, net of shares withheld for employee taxes	180,960	(1,553)	—	—	(1,553)
Common stock repurchased	(524,108)	(15,753)	—	—	(15,753)
Share-based compensation	—	11,250	—	—	11,250
Balance at June 30, 2023	<u>24,844,203</u>	<u>\$ 58,241</u>	<u>\$ 936,678</u>	<u>\$ (89,621)</u>	<u>\$ 905,298</u>

See accompanying notes to consolidated financial statements.

ScanSource, Inc. and Subsidiaries
Consolidated Statements of Cash Flows
Years Ended June 30, 2023, 2022 and 2021
(in thousands)

	<u>2023</u>	<u>2022</u>	<u>2021</u>
Cash flows from operating activities:			
Net income	\$ 89,809	\$ 88,798	\$ 10,795
Net income (loss) from discontinued operations	1,717	100	(34,594)
Net income from continuing operations	<u>88,092</u>	<u>88,698</u>	<u>45,389</u>
Adjustments to reconcile net income to net cash (used in) provided by operating activities of continuing operations:			
Depreciation and amortization	28,614	29,884	33,507
Amortization of debt issue costs	577	417	417
Provision for doubtful accounts	2,785	1,514	338
Share-based compensation	11,219	11,663	8,039
Deferred income taxes	(1,496)	5,737	2,916
Change in fair value of contingent consideration	—	—	516
Contingent consideration payments excess	—	—	(5,457)
Finance lease interest	44	34	119
Changes in operating assets and liabilities, net of acquisitions:			
Accounts receivable	(17,368)	(165,939)	(118,859)
Inventories	(138,313)	(145,962)	(12,301)
Prepaid expenses and other assets	32,653	(27,371)	(18,753)
Other non-current assets	(7,582)	1,123	9,948
Accounts payable	(30,656)	82,969	175,120
Accrued expenses and other liabilities	(14,195)	(4,869)	(493)
Income taxes payable	9,857	(2,252)	(3,679)
Net cash (used in) provided by operating activities of continuing operations	<u>(35,769)</u>	<u>(124,354)</u>	<u>116,767</u>
Cash flows from investing activities of continuing operations:			
Capital expenditures	(9,979)	(6,849)	(2,363)
Cash received for business disposal	1,717	3,125	34,356
Net cash (used in) provided by investing activities of continuing operations	<u>(8,262)</u>	<u>(3,724)</u>	<u>31,993</u>
Cash flows from financing activities of continuing operations:			
Borrowings on revolving credit, net of expenses	2,499,166	2,166,409	1,881,679
Repayments on revolving credit, net of expenses	(2,456,025)	(2,030,569)	(1,949,392)
Debt issuance costs	(1,407)	—	—
Borrowings (repayments) on long-term debt, net	15,590	(7,843)	(7,839)
Repayments of finance lease obligations	(589)	(1,238)	(1,294)
Contingent consideration payments	—	—	(41,393)
Exercise of stock options	910	2,304	451
Taxes paid on settlement of equity awards	(2,463)	(2,754)	(1,036)
Repurchase of common stock	(15,651)	(18,203)	—
Net cash provided by (used in) financing activities of continuing operations	<u>39,531</u>	<u>108,106</u>	<u>(118,824)</u>

	<u>2023</u>	<u>2022</u>	<u>2021</u>
		<i>(continued)</i>	
Cash flows from discontinued operations:			
Net cash flows provided by operating activities of discontinued operations	—	—	24,173
Net cash flows used in investing activities of discontinued operations	—	—	(58)
Net cash flows used in financing activities of discontinued operations	—	—	(29,494)
Net cash flows used in by discontinued operations	—	—	(5,379)
Effect of exchange rate changes on cash and cash equivalents	2,691	(4,759)	3,706
(Decrease) increase in cash and cash equivalents	(1,809)	(24,731)	28,263
Cash and cash equivalents at beginning of period	37,987	62,718	34,455
Cash and cash equivalents at end of period	36,178	37,987	62,718
Cash and cash equivalents of discontinued operations	—	—	—
Cash and cash equivalents of continuing operations	\$ 36,178	\$ 37,987	\$ 62,718
Supplemental disclosure of consolidated cash flow information:			
Interest paid during the year	\$ 18,789	\$ 6,066	\$ 6,412
Income taxes paid during the year	\$ 28,547	\$ 29,418	\$ 12,002

See accompanying notes to consolidated financial statements.

SCANSOURCE, INC. AND SUBSIDIARIES
Notes to Consolidated Financial Statements
June 30, 2023

(1) Business and Summary of Significant Accounting Policies

Business Description

ScanSource, Inc. (together with its subsidiaries referred to as “the Company” or “ScanSource”) is a leading hybrid distributor connecting devices to the cloud and accelerating growth for partners across hardware, Software as a Service ("SaaS"), connectivity and cloud. The Company brings technology solutions and services from the world's leading suppliers of mobility and barcode, point-of-sale ("POS"), payments, networking, physical security, unified communications and collaboration, telecom and cloud services to market. The Company operates in the United States, Canada, Brazil and the UK. The Company's two operating segments, Specialty Technology Solutions and Modern Communications & Cloud, are based on technology type and are generally related to technology devices and communication, connectivity and cloud services, respectively.

Cybersecurity Incident

On May 14, 2023, the Company discovered it was subject to a cybersecurity attack perpetrated by unauthorized third parties that affected its IT systems. Upon detection, the Company took immediate steps to address the incident, engaged third-party experts, and notified law enforcement. The Company has cyber insurance and is working with its insurance carriers on claims to recover costs incurred. On May 26, 2023, the Company substantially recovered its operations and completed the restoration of its pertinent IT systems. The Company has taken actions to strengthen its existing IT security infrastructure and continues to implement additional measures to prevent unauthorized access to, or manipulation of, its systems and data.

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. 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, 2023, 2022 and 2021.

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, asset impairments, inventory reserves, purchase price allocations, goodwill and intangibles 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.

SCANSOURCE, INC. AND SUBSIDIARIES
Notes to Consolidated Financial Statements—(Continued)
June 30, 2023

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: (i) historical experience, (ii) aging of the accounts receivable, (iii) specific information obtained by the Company on the financial condition and the current creditworthiness of its customers, (iv) the current economic and country-specific environment and (v) reasonable and supportable forecasts about collectability. 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 (i) identify the acquired assets and liabilities assumed, (ii) estimate the fair value of these assets, (iii) estimate the useful life of the assets and (iv) assess the appropriate method for recognizing depreciation or amortization expense over the assets' useful life.

(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 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.

SCANSOURCE, INC. AND SUBSIDIARIES
Notes to Consolidated Financial Statements—(Continued)
June 30, 2023

(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 \$8.0 million and \$18.0 million are classified as accounts payable as of June 30, 2023 and 2022, 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 or other insured limits. Cash and cash equivalents held outside of the United States totaled \$31.0 million and \$35.0 million as of June 30, 2023 and 2022, respectively.

Concentration of Credit Risk

The Company sells to a large base of customers throughout the United States, Canada, Brazil and the UK. 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 any one customer were less than 10% of the Company's net sales for fiscal years 2023, 2022 and 2021.

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. 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, 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 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

SCANSOURCE, INC. AND SUBSIDIARIES
Notes to Consolidated Financial Statements—(Continued)
June 30, 2023

currency exposure are accounted for on an accrual basis with gains or losses on these contracts recorded in income in the period in which their value changes, with the offsetting entry for unsettled positions reflected in either other assets or other liabilities.

The Company's earnings are affected by changes in interest rates due to the impact those changes have on interest expense from floating rate debt instruments. To manage the exposure, the Company has an interest rate swap agreement and has designated this instrument as a hedge of the cash flows on certain variable rate debt. To the extent the derivative instrument was effective in offsetting the variability of the hedged cash flows, changes in the fair value of the derivative instrument were not included in current earnings, but were reported as other comprehensive income (loss). There was no ineffective portion recorded as an adjustment to earnings for the years ended June 30, 2023, 2022 and 2021.

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 \$28.2 million and \$25.2 million as of June 30, 2023 and June 30, 2022, 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 \$3.5 million and \$2.6 million at June 30, 2023 and June 30, 2022, 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 net sales. 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, 2023

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 years ended June 30, 2023, 2022 and 2021.

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

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

SCANSOURCE, INC. AND SUBSIDIARIES
Notes to Consolidated Financial Statements—(Continued)
June 30, 2023

discounted cash flow method required the Company to estimate future cash flows and discount those amounts to present value. The key assumptions utilized in determining fair value included:

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

No goodwill impairment charges were recognized for the fiscal years ended June 30, 2023, 2022 and 2021. 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 4 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. No intangible asset or other long-lived asset impairment charges were recognized for the fiscal years ended June 30, 2023, 2022 and 2021. 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*.

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.

SCANSOURCE, INC. AND SUBSIDIARIES
Notes to Consolidated Financial Statements—(Continued)
June 30, 2023

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 a Company 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 3 - *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, 2023, 2022 and 2021. Deferred advertising costs for each of these three fiscal years were also not significant.

Foreign Currency

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

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 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 estimates 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.

SCANSOURCE, INC. AND SUBSIDIARIES
Notes to Consolidated Financial Statements—(Continued)
June 30, 2023

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.

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.

Recent Accounting Pronouncements

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

(2) Trade Accounts and Notes Receivable, Net

The Company maintains an allowance for doubtful accounts receivable for estimated future expected credit losses resulting from customers' failure to make payments on accounts receivable due to the Company. The Company has notes receivable with certain customers, which are included in "Accounts receivable, less allowance" in the Condensed Consolidated Balance Sheets.

Management determines the estimate of the allowance for doubtful accounts receivable by considering a number of factors, including: (i) historical experience, (ii) aging of the accounts receivable, (iii) specific information obtained by the Company on the financial condition and the current creditworthiness of its customers, (iv) the current economic and country-specific environment and (v) reasonable and supportable forecasts about collectability. Expected credit losses are estimated on a pool basis when similar risk characteristics exist using an age-based reserve model. Receivables that do not share risk characteristics are evaluated on an individual basis. Estimates of expected credit losses on trade receivables are recorded at inception and adjusted over the contractual life.

The changes in the allowance for doubtful accounts for the fiscal years ended June 30, 2023, 2022 and 2021 are set forth in the tables below.

Description	Balance at Beginning of Period	Amounts Charged to Expense	Write-offs	Other ⁽¹⁾	Balance at End of Period
			<i>(in thousands)</i>		
Allowance for doubtful accounts:					
Year ended June 30, 2021	\$ 21,906	338	(4,556)	1,653	\$ 19,341
Year ended June 30, 2022	\$ 19,341	1,514	(1,751)	(2,298)	\$ 16,806
Year ended June 30, 2023	\$ 16,806	2,785	(2,062)	(2,049)	\$ 15,480

(1) "Other" amounts include recoveries and the effect of foreign currency fluctuations for the fiscal years ended June 30, 2023, 2022 and 2021, respectively.

SCANSOURCE, INC. AND SUBSIDIARIES
Notes to Consolidated Financial Statements—(Continued)
June 30, 2023

(3) Revenue Recognition

The Company provides technology solutions and services from the world's leading suppliers of mobility, barcode, POS, payments, networking, physical security, unified communications, collaboration, 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 hardware, and certain software services. The Company considers itself the principal in those transactions where it has control of the product or service before it is transferred to the customer. The Company recognizes the principal-associated 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. The Intelisys business operates under an agency model.

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 the amount of variable consideration for rebates and incentives by using the expected value 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. The Company estimates returns allowance based on historical experience and reduces revenue accordingly.

Contract Balances

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

Practical Expedients & Accounting Policy Elections

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

SCANSOURCE, INC. AND SUBSIDIARIES
Notes to Consolidated Financial Statements—(Continued)
June 30, 2023

Disaggregation of Revenue

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

Fiscal year ended June 30, 2023			
	Specialty Technology Solutions	Modern Communications & Cloud	Total
Revenue by product/service type:	<i>(in thousands)</i>		
Hardware, software and cloud (excluding Intelisys)	\$ 2,331,030	\$ 1,377,185	\$ 3,708,215
Intelisys connectivity and cloud	—	79,506	79,506
	\$ 2,331,030	\$ 1,456,691	\$ 3,787,721

Fiscal year ended June 30, 2022			
	Specialty Technology Solutions	Modern Communications & Cloud	Total
Revenue by product/service type:	<i>(in thousands)</i>		
Hardware, software and cloud (excluding Intelisys)	\$ 2,082,321	\$ 1,373,342	\$ 3,455,663
Intelisys connectivity and cloud	—	74,272	74,272
	\$ 2,082,321	\$ 1,447,614	\$ 3,529,935

Fiscal year ended June 30, 2021			
	Specialty Technology Solutions	Modern Communications & Cloud	Total
Revenue by product/service type:	<i>(in thousands)</i>		
Hardware, software and cloud (excluding Intelisys)	\$ 1,815,933	\$ 1,269,930	\$ 3,085,863
Intelisys connectivity and cloud	—	64,943	64,943
	\$ 1,815,933	\$ 1,334,873	\$ 3,150,806

(4) 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.

SCANSOURCE, INC. AND SUBSIDIARIES
Notes to Consolidated Financial Statements—(Continued)
June 30, 2023

	Fiscal year ended June 30,		
	2023	2022	2021
	<i>(in thousands, except per share data)</i>		
Numerator:			
Net income from continuing operations	\$ 88,092	\$ 88,698	\$ 45,389
Net income (loss) from discontinued operations	1,717	100	(34,594)
Net income	\$ 89,809	\$ 88,798	\$ 10,795
Denominator:			
Weighted-average shares, basic	25,142	25,504	25,423
Dilutive effect of share-based payments	220	254	95
Weighted-average shares, diluted	25,362	25,758	25,518
Net income from continuing operations per common share, basic	\$ 3.50	\$ 3.48	\$ 1.79
Net income (loss) from discontinued operations per common share, basic	0.07	—	(1.36)
Net income per common share, basic	\$ 3.57	\$ 3.48	\$ 0.42
Net income from continuing operations per common share, diluted	\$ 3.47	\$ 3.44	\$ 1.78
Net income (loss) from discontinued operations per common share, diluted	0.07	—	(1.36)
Net income per common share, diluted	\$ 3.54	\$ 3.45	\$ 0.42

For the years ended June 30, 2023, 2022 and 2021, weighted-average shares outstanding excluded from the computation of diluted earnings per share because their effect would have been antidilutive were 1,135,984, 926,286 and 1,297,214, respectively.

(5) Property and Equipment

Property and equipment is comprised of the following:

	June 30,	
	2023	2022
	<i>(in thousands)</i>	
Land	\$ 2,143	\$ 2,999
Buildings and leasehold improvements	20,326	19,838
Computer software and equipment	77,673	72,289
Furniture, fixtures and equipment	17,895	15,223
Construction in progress	919	209
Rental equipment	10,734	9,539
	129,690	120,097
Less accumulated depreciation	(92,311)	(82,620)
	\$ 37,379	\$ 37,477

Depreciation expense recorded as selling, general and administrative costs in the accompanying Consolidated Income Statements was \$10.9 million, \$11.1 million and \$12.5 million for the fiscal years ended June 30, 2023, 2022 and 2021, respectively. Depreciation expense recorded as cost of goods sold in the accompanying Consolidated Income Statements was \$1.0 million, \$1.0 million and \$1.5 million for the fiscal years ended June 30, 2023, 2022 and 2021, respectively.

SCANSOURCE, INC. AND SUBSIDIARIES
Notes to Consolidated Financial Statements—(Continued)
June 30, 2023

(6) Other Assets and Liabilities, Current and Noncurrent

The table below details prepaid expenses and other current assets.

	June 30,	
	2023	2022
	<i>(in thousands)</i>	
Other receivables	\$ 72,539	\$ 70,105
Prepaid expense	14,547	51,013
Other taxes receivable	7,500	5,177
Other current assets	15,501	15,267
	\$ 110,087	\$ 141,562

The table below details accrued expenses and other current liabilities.

	June 30,	
	2023	2022
	<i>(in thousands)</i>	
Deferred warranty revenue	\$ 8,640	\$ 9,640
Accrued compensation	24,403	25,180
Other taxes payable	5,848	10,852
Accrued marketing expense	7,878	7,697
Accrued freight	3,428	3,421
Short-term operating lease liability	4,355	4,499
Other accrued liabilities	24,341	27,166
	\$ 78,893	\$ 88,455

(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, Specialty Technology Solutions and Modern Communications & Cloud. The testing includes the determination of each reporting unit's fair value using a discounted cash flows model compared to each reporting unit's carrying value. Key assumptions used in determining fair value include projected growth and operating margin, working capital requirements and discount rates. During fiscal years ended June 30, 2023, 2022 and 2021, no impairment charges related to goodwill were recorded. The fair value of the Specialty Technology Solutions and Modern Communications & Cloud reporting units exceeded its carrying value by 2% and 13%, respectively, as of the annual goodwill impairment testing date.

Changes in the carrying amount of goodwill for the years ended June 30, 2023 and 2022, by reportable segment, are set forth in the table below.

SCANSOURCE, INC. AND SUBSIDIARIES
Notes to Consolidated Financial Statements—(Continued)
June 30, 2023

	Specialty Technology Solutions	Modern Communications & Cloud	Total
	<i>(in thousands)</i>		
Balance at June 30, 2021	\$ 16,370	\$ 202,507	\$ 218,877
Unrealized loss on foreign currency translation	—	(4,442)	(4,442)
Balance at June 30, 2022	\$ 16,370	\$ 198,065	\$ 214,435
Unrealized gain on foreign currency translation	—	2,271	2,271
Balance at June 30, 2023	<u>\$ 16,370</u>	<u>\$ 200,336</u>	<u>\$ 216,706</u>

The following table shows the Company's identifiable intangible assets as of June 30, 2023 and 2022, respectively.

	June 30, 2023			June 30, 2022		
	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	\$ 138,574	\$ 90,650	\$ 47,924	\$ 137,366	\$ 79,147	\$ 58,219
Trade names	19,562	14,109	5,453	19,480	12,469	7,011
Non-compete agreements	2,410	2,410	—	2,410	2,396	14
Supplier partner program	4,085	2,481	1,604	4,085	2,051	2,034
Encryption key library	19,900	14,718	5,182	19,900	12,230	7,670
Developed technology	14,262	5,930	8,332	13,865	4,386	9,479
Total intangibles	<u>\$ 198,793</u>	<u>\$ 130,298</u>	<u>\$ 68,495</u>	<u>\$ 197,106</u>	<u>\$ 112,679</u>	<u>\$ 84,427</u>

The weighted-average amortization period for all intangible assets was approximately 10 years for the fiscal years ended June 30, 2023, 2022 and 2021. Amortization expense for continuing operations for the years ended June 30, 2023, 2022 and 2021 was \$16.7 million, \$17.9 million and \$19.5 million, respectively, all of which relates to selling, general and administrative costs, not the cost of selling goods, and has been presented as such in the accompanying Consolidated Income Statements.

Estimated future amortization expense is as follows:

	Amortization Expense
	<i>(in thousands)</i>
Year Ended June 30,	
2024	\$ 16,783
2025	16,783
2026	12,882
2027	6,674
2028	5,317
Thereafter	10,056
Total	<u>\$ 68,495</u>

SCANSOURCE, INC. AND SUBSIDIARIES
Notes to Consolidated Financial Statements—(Continued)
June 30, 2023

(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, 2023 and 2022, respectively.

	June 30,	
	2023	2022
	<i>(in thousands)</i>	
Current portion of long-term debt	\$ 6,915	\$ 11,598
Mississippi revenue bond, net of current portion	3,381	3,733
Senior secured term loan facility, net of current portion	140,625	120,000
Borrowings under revolving credit facility	178,980	135,839
Total debt	\$ 329,901	\$ 271,170

Credit Facility

The Company has a multi-currency senior secured credit facility (as amended, the "Amended Credit Agreement") with JPMorgan Chase Bank N.A., as administrative agent, and a syndicate of banks (collectively the "Lenders"). On September 28, 2022, the Company amended and restated the Amended Credit Agreement, which includes (i) a five-year, \$350 million multicurrency senior secured revolving credit facility and (ii) a five-year \$150 million senior secured term loan facility. The Amended Credit Agreement extended the credit facility maturity date to September 28, 2027. In addition, pursuant to an "accordion feature," the Company may increase its borrowings up to an additional \$250 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. Borrowings under the Amended Credit Agreement are guaranteed by substantially all of the domestic assets of the Company and its domestic subsidiaries. Under the terms of the revolving credit facility, the payment of cash dividends is restricted. The Company incurred debt issuance costs of \$1.4 million in connection with the amendment and restatement of the Amended Credit Agreement. These costs were capitalized to other non-current assets on the Condensed Consolidated Balance Sheets and added to the unamortized debt issuance costs from the previous credit facility.

Loans denominated in U.S. dollars, other than swingline loans, bear interest at a rate per annum equal to, at the Company's option, (i) the adjusted term Secured Overnight Financing Rate ("SOFR") or adjusted daily simple SOFR plus an additional margin ranging from 1.00% to 1.75% depending upon the Company's ratio of (A) total consolidated debt less up to \$30 million of unrestricted domestic cash to (B) trailing four-quarter consolidated EBITDA measured as of the end of the most recent year or quarter, as applicable, for which financial statements have been delivered to the Lenders (the "leverage ratio"); or (ii) the alternate base rate plus an additional margin ranging from 0% to 0.75%, depending upon the Company's leverage ratio, plus, if applicable, certain mandatory costs. All swingline loans denominated in U.S. dollars bear interest based upon the adjusted daily simple SOFR plus an additional margin ranging from 1.00% to 1.75% depending upon the Company's leverage ratio, or such other rate as the Company and the applicable swingline lender may agree. The adjusted term SOFR and adjusted daily simple SOFR include a fixed credit adjustment of 0.10% over the applicable SOFR reference rate. Loans denominated in foreign currencies bear interest at a rate per annum equal to the applicable benchmark rate set forth in the Amended Credit Agreement plus an additional margin ranging from 1.00% to 1.75%, depending upon the Company's leverage ratio plus, if applicable, certain mandatory costs.

During the fiscal year ended June 30, 2023, the Company's borrowings under the credit facility were U.S. dollar loans. The spread in effect as of June 30, 2023 was 1.50%, plus a 0.10% credit spread adjustment for SOFR-based loans and 0.50% for alternate base rate loans. The commitment fee rate in effect as of June 30, 2023 was 0.25%. 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, 2023.

SCANSOURCE, INC. AND SUBSIDIARIES
Notes to Consolidated Financial Statements—(Continued)
June 30, 2023

The average daily balance outstanding on the revolving credit facility, excluding the term loan facility, was \$223.5 million and \$69.0 million during the fiscal year ended June 30, 2023 and 2022, respectively. There was \$171.0 million and \$214.2 million available for additional borrowings as of June 30, 2023 and 2022, respectively. There were no letters of credit issued under the multi-currency revolving credit facility as of June 30, 2023 and 2022.

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 one-month term SOFR plus 0.10% plus the applicable margin 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, 2023, the Company was in compliance with all covenants under this bond. The interest rates at June 30, 2023 and 2022 were 6.11% and 1.97%, respectively.

Scheduled maturities of the Company's short-term borrowings, revolving credit facility and long-term debt at June 30, 2023 are as follows:

	Revolving Credit Facility	Term Loan Facility	Mississippi Bond
	<i>(in thousands)</i>		
Fiscal year:			
2024	\$ —	\$ 6,563	\$ 352
2025	—	7,500	357
2026	—	7,500	361
2027	—	10,313	366
2028	178,980	115,312	371
Thereafter	—	—	1,926
Total principal payments	\$ 178,980	\$ 147,188	\$ 3,733

Debt Issuance Costs

As of June 30, 2023, 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. See Note 1- *Business and Summary of Significant Accounting Policies* for more information regarding the Company's policy on derivative financial instruments.

SCANSOURCE, INC. AND SUBSIDIARIES
Notes to Consolidated Financial Statements—(Continued)
June 30, 2023

The Company had contracts outstanding with notional amounts of \$34.3 million and \$34.5 million for the exchange of foreign currencies as of June 30, 2023 and 2022, 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,		
	2023	2022	2021
	<i>(in thousands)</i>		
Net foreign exchange derivative contract losses (gains)	\$ 3,928	\$ (304)	\$ 3,462
Net foreign currency transactional and re-measurement (gains) losses	(1,760)	2,382	(2,617)
Net foreign currency losses	\$ 2,168	\$ 2,078	\$ 845

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, the British pound versus the euro, and the Canadian dollar versus the U.S. dollar.

Interest Rates – The Company’s earnings are also affected by changes in interest rates due to the impact those changes have on interest expense from floating rate debt instruments. The Company manages its exposure to changes in interest rates by using interest rate swaps to hedge this exposure and to achieve a desired proportion of fixed versus floating rate debt.

On April 30, 2019, the Company entered into an interest rate swap agreement to lock into a fixed LIBOR interest rate, which was amended on September 28, 2022, to change the reference rate from LIBOR to SOFR. 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.

On March 31, 2023, the Company entered into an interest rate swap agreement to lock into a fixed SOFR interest rate with a notional amount of \$25 million and a maturity date of March 31, 2028.

These interest rate swap agreements are 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, 2023, 2022 and 2021.

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,		
	2023	2022	2021
	<i>(in thousands)</i>		
Net interest (income) expense recognized as a result of interest rate swap	\$ (1,553)	\$ 2,088	\$ 2,250
Unrealized gain in fair value of interest swap rates	4,554	5,748	731
Net increase in accumulated other comprehensive income (loss)	3,001	7,836	2,981
Income tax effect	747	2,003	732
Net increase in accumulated other comprehensive income, net of tax	\$ 2,254	\$ 5,833	\$ 2,249

The Company has the following derivative instruments for continuing operations located on the Consolidated Balance Sheets as of June 30, 2023, utilized for the risk management purposes detailed above:

SCANSOURCE, INC. AND SUBSIDIARIES
Notes to Consolidated Financial Statements—(Continued)
June 30, 2023

		June 30, 2023	
Balance Sheet Location		Fair Value of Derivatives Designated as Hedge Instruments	Fair Value of Derivatives Not Designated as Hedge Instruments
		<i>(in thousands)</i>	
Derivative assets:			
Foreign exchange contracts	Prepaid expenses and other current assets	\$ —	\$ 1
Interest rate swap agreement	Other current assets	\$ 4,687	\$ —
Foreign currency hedge	Other current assets	\$ 100	\$ —

The Company has the following derivative instruments located on the Consolidated Balance Sheets as of June 30, 2022, utilized for the risk management purposes detailed above:

		June 30, 2022	
Balance Sheet Location		Fair Value of Derivatives Designated as Hedge Instruments	Fair Value of Derivatives Not Designated as Hedge Instruments
		<i>(in thousands)</i>	
Derivative assets:			
Interest rate swap agreement	Other current assets	\$ 1,686	\$ —
Derivative liabilities:			
Foreign exchange contracts	Accrued expenses and other current liabilities	\$ —	\$ 5
Foreign currency hedge	Other current liabilities	\$ 93	\$ —

(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, foreign currency hedge agreements, 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).

SCANSOURCE, INC. AND SUBSIDIARIES
Notes to Consolidated Financial Statements—(Continued)
June 30, 2023

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, 2023:

	Total	Quoted prices in active markets (Level 1)	Significant other observable inputs (Level 2)
	<i>(in thousands)</i>		
Assets:			
Deferred compensation plan investments, current and non-current portion	\$ 28,209	\$ 28,209	\$ —
Forward foreign currency exchange contracts	1	—	1
Interest rate swap agreement	4,687	—	4,687
Foreign currency hedge	100	—	100
Total assets at fair value	<u>\$ 32,997</u>	<u>\$ 28,209</u>	<u>\$ 4,788</u>
Liabilities:			
Deferred compensation plan investments, current and non-current portion	\$ 28,229	\$ 28,229	\$ —
Total liabilities at fair value	<u>\$ 28,229</u>	<u>\$ 28,229</u>	<u>\$ —</u>

The following table presents assets and liabilities measured at fair value on a recurring basis as of June 30, 2022:

	Total	Quoted prices in active markets (Level 1)	Significant other observable inputs (Level 2)
	<i>(in thousands)</i>		
Assets:			
Deferred compensation plan investments, current and non-current portion	\$ 25,178	\$ 25,178	\$ —
Interest rate swap agreement	1,686	—	1,686
Total assets at fair value	<u>\$ 26,864</u>	<u>\$ 25,178</u>	<u>\$ 1,686</u>
Liabilities:			
Deferred compensation plan investments, current and non-current portion	\$ 25,178	\$ 25,178	\$ —
Forward foreign currency exchange contracts	5	—	5
Foreign currency hedge	93	—	93
Total liabilities at fair value	<u>\$ 25,276</u>	<u>\$ 25,178</u>	<u>\$ 98</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 liabilities, respectively.

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

SCANSOURCE, INC. AND SUBSIDIARIES
Notes to Consolidated Financial Statements—(Continued)
June 30, 2023

(11) Share-Based Compensation

Share-Based Compensation Plans

The Company has awards outstanding from two share-based compensation plans (the 2013 Long-Term Incentive Plan and the 2021 Long-Term Incentive Plan). The 2021 Long-Term Incentive Plan was approved at the annual meeting of the shareholders on January 27, 2022. The 2021 Plan permits the grant of any or all of the following types of awards to grantees: stock options, including non-qualified options and ISOs; SARs; restricted stock ("RSA"); deferred stock and restricted stock units ("RSU"); performance units ("PU") and performance shares; dividend equivalents; and other stock-based awards. Eligible grantees include employees, officers, non-employee consultants and non-employee directors of the Company and its affiliates. Awards are currently only being granted under the 2021 Long-Term Incentive Plan. As of June 30, 2023, there were 1,270,781 shares available for future grant under the 2021 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. 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. A PU represents the right to receive shares of common stock in the future contingent on performance against predetermined objectives over a specified performance period.

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,		
	2023	2022	2021
	<i>(in thousands)</i>		
Share-based compensation related to:			
Equity classified stock options	\$ 1,426	\$ 1,848	\$ 1,332
Equity classified restricted stock	9,793	9,815	6,707
Total share-based compensation	\$ 11,219	\$ 11,663	\$ 8,039

Stock Options

The Company did not grant stock options during the fiscal year ended June 30, 2023 or June 30, 2022. The Company granted stock options for 640,782 shares during the fiscal year ended June 30, 2021 that vest annually over 3 years and have a 10-year contractual life. These options were granted with an exercise price that is no less than 100% of the fair market value of the underlying shares on the date of the grant.

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

SCANSOURCE, INC. AND SUBSIDIARIES
Notes to Consolidated Financial Statements—(Continued)
June 30, 2023

The Company used the following weighted-average assumptions for the options granted in fiscal year ended June 30, 2021:

	<u>Fiscal Year Ended June 30,</u> <u>2021</u>
Expected term	5 years
Expected volatility	42.78%
Risk-free interest rate	0.36%
Dividend yield	0.00%
Weighted-average fair value per option	\$9.01

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:

	<u>Fiscal Year Ended June 30, 2023</u>			
	<u>Options</u>	<u>Weighted-Average Exercise Price</u>	<u>Weighted-Average Remaining Contractual Life</u>	<u>Aggregate Intrinsic Value</u>
Outstanding, beginning of year	1,123,099	\$ 32.23		
Granted during the period	—	—		
Exercised during the period	(36,435)	25.00		
Canceled, forfeited, or expired during the period	(59,993)	27.70		
Outstanding, end of year	<u>1,026,671</u>	32.76	4.57	\$ 2,113,985
Vested and expected to vest at June 30, 2023	<u>1,026,460</u>	32.76	4.57	\$ 2,112,871
Exercisable, end of year	<u>855,834</u>	\$ 34.28	4.01	\$ —

The aggregate intrinsic value was calculated using the market price of the Company's stock on June 30, 2023, 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, 2023, 2022 and 2021 was \$0.2 million, \$0.6 million and less than \$0.1 million, respectively.

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

	<u>Fiscal Year Ended June 30, 2023</u>		
	<u>Options</u>	<u>Weighted Average Exercise Price</u>	<u>Weighted Average Grant Date Fair Value</u>
Unvested, beginning of year	384,638	\$ 25.16	\$ 9.08
Granted	—	—	—
Vested	(171,926)	25.11	9.06
Canceled or forfeited	(41,875)	25.51	9.30
Unvested, end of year	<u>170,837</u>	\$ 25.12	\$ 9.06

SCANSOURCE, INC. AND SUBSIDIARIES
Notes to Consolidated Financial Statements—(Continued)
June 30, 2023

As of June 30, 2023, there was approximately \$0.6 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 0.38 years. The total fair value of options vested during the fiscal years ended June 30, 2023, 2022 and 2021 is \$1.6 million, \$1.9 million and \$0.3 million, respectively. The following table summarizes information about stock options outstanding and exercisable as of June 30, 2023:

Range of Exercise Prices	Options Outstanding			Options Exercisable	
	Shares Outstanding	Weighted Average Remaining Contractual Life	Weighted Average Exercise Price	Number Exercisable	Weighted Average Exercise Price
\$22.27 - \$26.38	363,233	7.38	24.53	231,673	24.55
\$26.38 - \$30.49	119,021	7.40	27.14	79,744	27.14
\$30.49 - \$34.60	57,799	4.44	34.35	57,799	34.35
\$34.60 - \$38.71	207,169	2.83	37.71	207,169	37.71
\$38.71 - \$42.82	279,449	1.02	41.83	279,449	41.83
	<u>1,026,671</u>	<u>4.57</u>	<u>\$ 32.76</u>	<u>855,834</u>	<u>\$ 34.28</u>

The Company issues shares to satisfy the exercise of options.

Restricted Stock

Grants of Restricted Shares

During the fiscal year ended June 30, 2023, the Company granted 518,987 shares of restricted stock to employees and non-employee directors, all of which were issued in the form of RSUs:

	Fiscal Year Ended June 30, 2023			
	Shares granted	Date granted	Grant date fair value	Vesting period
<i>Employees</i>				
Certain employees based on performance	346,059	August 26, 2022	\$ 28.66	Annually over 4 years
Certain employees based on performance	58,323	August 26, 2022	\$ 28.66	Annually over 3 years
Certain employees based on performance	58,323	August 26, 2022	\$ 27.92	Annually over 3 years
Certain employees based on performance	815	December 1, 2022	\$ 30.70	Annually over 4 years
Certain employees based on hire	13,067	June 1, 2023	\$ 28.70	Annually over 4 years
<i>Non-Employee Directors</i>				
Certain Directors	42,400	August 26, 2022	\$ 28.66	12 months

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

	Fiscal Year Ended June 30, 2023	
	Shares	Weighted-Average Grant Date Fair Value
Outstanding, beginning of year	639,342	\$ 32.04
Granted during the period	518,987	28.58
Vested during the period	(224,062)	30.56
Cancelled, forfeited, or expired during the period	(44,357)	31.29
Outstanding, end of year	<u>889,910</u>	<u>\$ 30.43</u>

SCANSOURCE, INC. AND SUBSIDIARIES
Notes to Consolidated Financial Statements—(Continued)
June 30, 2023

As of June 30, 2023, there was approximately \$18.4 million of unrecognized compensation cost related to unvested performance units and restricted stock units granted, which is expected to be recognized over a weighted-average period of 1.31 years. The Company withheld 79,537 shares for income taxes during the fiscal year ended June 30, 2023.

(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 50% of each participant's contribution, up to a maximum of 6% of the participant's eligible compensation. Employer contributions are vested based upon tenure over a five-year period.

	Fiscal Year Ended June 30,		
	2023	2022	2021
	<i>(in thousands)</i>		
Matching contributions	\$ 3,270	\$ 2,929	\$ 1,262

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

(13) Income Taxes

As of the fiscal year ended June 30, 2023, the Company maintains the ability to access the earnings of foreign subsidiaries. The Company considered recording a deferred tax liability related to federal, state and withholding tax and determined that no liability should be recorded. There is no certainty as to the timing of the distributions of such earnings to the U.S. in whole or in part.

Income tax expense (benefit) consists of:

	Fiscal Year Ended June 30,		
	2023	2022	2021
	<i>(in thousands)</i>		
Current:			
Federal	\$ 25,034	\$ 16,895	\$ 9,132
State	6,455	5,238	1,261
Foreign	4,507	3,896	874
Total current	35,996	26,029	11,267
Deferred:			
Federal	(2,991)	3,429	207
State	(541)	129	(1,297)
Foreign	1,294	338	1,969
Total deferred	(2,238)	3,896	879
Provision for income taxes	\$ 33,758	\$ 29,925	\$ 12,146

A reconciliation is provided below of the U.S. Federal income tax expense for the fiscal years ended June 30, 2023, June 30, 2022 and June 30, 2021 with the applicable statutory rate of 21%.

SCANSOURCE, INC. AND SUBSIDIARIES
Notes to Consolidated Financial Statements—(Continued)
June 30, 2023

	Fiscal Year Ended June 30,		
	2023	2022	2021
	<i>(in thousands)</i>		
U.S. statutory rate	21.0 %	21.0 %	21.0 %
U.S. Federal income tax at statutory rate	\$ 25,588	\$ 24,911	\$ 12,082
Increase (decrease) in income taxes due to:			
State and local income taxes, net of Federal benefit	4,559	4,265	996
Tax credits	(909)	(796)	(170)
Valuation allowance	1,087	(200)	3,472
Effect of varying statutory rates in foreign operations, net	2,751	1,145	1,051
Stock compensation	37	(121)	1,094
Disallowed interest	—	—	86
Earnings from foreign subsidiaries	957	928	124
Losses on dispositions	—	—	(2,897)
Global intangible low taxed income tax	1,551	630	(45)
Nontaxable income	(3,189)	(2,050)	(1,628)
Notional interest deduction on net equity	(733)	(780)	(568)
Other	2,059	1,993	(1,451)
Provision for income taxes	<u>\$ 33,758</u>	<u>\$ 29,925</u>	<u>\$ 12,146</u>

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

	June 30,	
	2023	2022
	<i>(in thousands)</i>	
Deferred tax assets derived from:		
Allowance for accounts receivable	\$ 5,811	\$ 3,630
Inventories	3,326	3,510
Nondeductible accrued expenses	7,561	7,859
Net operating loss carryforwards	596	705
Tax credits	8,430	6,410
Deferred compensation	7,173	6,548
Stock compensation	4,718	4,001
Capital loss carryforwards	7,348	7,831
Timing of amortization deduction from intangible assets	6,170	5,676
Total deferred tax assets	<u>51,133</u>	46,170
Valuation allowance	<u>(14,397)</u>	(13,181)
Total deferred tax assets, net of allowance	36,736	32,989
Deferred tax liabilities derived from:		
Timing of depreciation and other deductions from building and equipment	(1,533)	(3,035)
Timing of amortization deduction from goodwill	(10,886)	(5,693)
Timing of amortization deduction from intangible assets	(10,369)	(11,737)
Total deferred tax liabilities	<u>(22,788)</u>	(20,465)
Net deferred tax assets	<u>\$ 13,948</u>	<u>\$ 12,524</u>

SCANSOURCE, INC. AND SUBSIDIARIES
Notes to Consolidated Financial Statements—(Continued)
June 30, 2023

The components of pretax earnings are as follows:

	Fiscal Year Ended June 30,		
	2023	2022	2021
	<i>(in thousands)</i>		
Domestic	\$ 94,994	\$ 93,586	\$ 39,511
Foreign	26,856	25,037	18,024
Worldwide pretax earnings	<u>\$ 121,850</u>	<u>\$ 118,623</u>	<u>\$ 57,535</u>

As of June 30, 2023, there were (i) gross net operating loss carryforwards of approximately \$1.3 million for U.S. federal income tax purposes; (ii) gross state net operating loss carryforwards of approximately \$1.5 million; (iii) foreign gross net operating loss carryforwards of approximately \$1.1 million; (iv) state income tax credit carryforwards of approximately \$3.0 million that began to expire in the 2022 tax year; (v) withholding tax credits of approximately \$5.0 million; (vi) foreign tax credits of \$1.0 million, and (vii) gross capital loss carryovers of \$29.2 million. The Company maintains a valuation allowance of \$0.1 million for U.S. federal net operating losses, \$7.3 million for capital loss carryforwards, \$0.2 million for foreign net operating losses, a less than \$0.1 million valuation allowance for state net operating losses, a \$5.1 million valuation allowance for withholding tax credits, a \$1.0 million valuation allowance for foreign tax credits, and a \$0.6 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 recognizes excess tax benefits and tax deficiencies as income tax expense or benefit for stock award settlements in accordance with ASU 2016-09. The Company recognized net tax benefit of less than \$0.1 million for the fiscal year ended June 30, 2023, net tax benefit of \$0.3 million for the fiscal year ended June 30, 2022 and net tax expense of \$1.1 million for the fiscal year ended June 30, 2021.

As of June 30, 2023, 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 an increase of less than \$0.1 million on a gross basis over the prior fiscal year. The Company does not expect that the total amounts of unrecognized tax benefits will significantly increase or decrease within the next twelve months.

The Company recognizes interest and penalties related to unrecognized tax benefits within the income tax expense line in the accompanying Consolidated Income Statement. Accrued interest and penalties are included within the related tax liability line in the Consolidated Balance Sheet. The total amount of interest and penalties accrued, but excluded from the table below, were \$1.2 million, \$1.2 million and \$1.1 million for the fiscal years ended June 30, 2023, 2022 and 2021, respectively. A reconciliation of the beginning and ending amount of unrecognized tax benefits is as follows:

	June 30,		
	2023	2022	2021
	<i>(in thousands)</i>		
Beginning Balance	\$ 1,065	\$ 1,121	\$ 1,156
Additions based on tax positions related to the current year	123	139	68
Reduction for tax positions of prior years	(16)	(195)	(103)
Ending Balance	<u>\$ 1,172</u>	<u>\$ 1,065</u>	<u>\$ 1,121</u>

A court ruling issued in Brazil in June 2023 confirmed that Brazilian state-provided tax benefits are not subject to income tax. The Company recorded, discrete to the June 30, 2023 quarter, an income tax benefit of \$2.2 million related to the confirmation of the recovery of state-provided tax benefits.

Subsequent to the 2023 fiscal year-end, the IRS issued Notice 2023-55 which provides taxpayers with Brazilian subsidiaries temporary relief from the final foreign tax credit regulations. This Notice will apply to the Company's fiscal year ended June 30, 2023 and the resulting tax benefit of approximately \$1.5 million will be recognized as a discrete item in the first quarter of the June 30, 2024 fiscal year.

SCANSOURCE, INC. AND SUBSIDIARIES
Notes to Consolidated Financial Statements—(Continued)
June 30, 2023

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, 2018.

(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 through fiscal year 2027. 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, 2023 and 2022.

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 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, 2023 and 2022:

Operating leases	Balance Sheet location	June 30, 2023	June 30, 2022
		<i>(in thousands)</i>	
Operating lease right-of-use assets	Other non-current assets	\$ 12,539	\$ 16,217
Current operating lease liabilities	Accrued expenses and other current liabilities	4,355	4,499
Long-term operating lease liabilities	Other long-term liabilities	9,329	13,085

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 years ended June 30, 2023, 2022 and 2021. 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,		
	2023	2022	2021
	<i>(in thousands)</i>		
Operating lease cost	\$ 5,224	\$ 5,239	\$ 5,256
Variable lease cost	1,460	1,208	1,068
	\$ 6,684	\$ 6,447	\$ 6,324

SCANSOURCE, INC. AND SUBSIDIARIES
Notes to Consolidated Financial Statements—(Continued)
June 30, 2023

Supplemental cash flow information related to the Company's operating leases for the fiscal years ended June 30, 2023, 2022 and 2021 are presented in the table below:

	Fiscal year ended June 30,		
	2023	2022	2021
	<i>(in thousands)</i>		
Cash paid for amounts in the measurement of lease liabilities	\$ 5,463	\$ 5,182	\$ 5,456
Right-of-use assets obtained in exchange for lease obligations	897	2,313	—

The weighted-average remaining lease term and discount rate at June 30, 2023 and 2022 are presented in the table below:

	June 30, 2023	June 30, 2022
Weighted-average remaining lease term	3.62	4.37
Weighted-average discount rate	4.30 %	3.98 %

The following table presents the maturities of the Company's operating lease liabilities at June 30, 2023:

	Operating leases
	<i>(in thousands)</i>
2024	\$ 4,836
2025	3,577
2026	3,038
2027	2,678
2028	632
Thereafter	—
Total future payments	<u>14,761</u>
Less: amounts representing interest	<u>1,077</u>
Present value of lease payments	<u>\$ 13,684</u>

(15) Commitments and Contingencies

A majority of the Company's net revenues in fiscal years 2023, 2022 and 2021 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 and results of operations.

Capital Projects

The Company expects total capital expenditures to range from \$6.0 million to \$8.0 million during fiscal year 2024 primarily for IT investments and facility improvements.

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Notes to Consolidated Financial Statements—(Continued)
June 30, 2023

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. There were no deposits into the escrow account and \$1.2 million was released from the escrow account during the fiscal year ended June 30, 2023. There were no deposits into, or releases from the escrow account during the fiscal year ended June 30, 2022. The amount available after the impact of foreign currency translation, as of June 30, 2023 and 2022, for future pre-acquisition contingency settlements or to be released to the sellers was \$3.4 million and \$4.1 million, respectively.

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

	<u>June 30, 2023</u>	<u>June 30, 2022</u>
	<i>(in thousands)</i>	
Assets		
Prepaid expenses and other assets (current)	\$ 16	\$ 15
Other assets (noncurrent)	\$ 4,150	\$ 3,818
Liabilities		
Other current liabilities	\$ 16	\$ 15
Other long-term liabilities	\$ 4,150	\$ 3,818

The amount of reasonably possible undiscounted pre-acquisition contingencies as of June 30, 2023 is estimated to range from \$4.2 million to \$16.9 million at this time, of which all exposures are indemnifiable under the share purchase agreement.

SCANSOURCE, INC. AND SUBSIDIARIES
Notes to Consolidated Financial Statements—(Continued)
June 30, 2023

(16) Segment Information

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

Specialty Technology Solutions Segment

The Specialty Technology Solutions segment includes the Company's business in mobility and barcode, POS, payments, security and networking technologies. Mobility and barcode solutions include mobile computing, barcode scanners and imagers, radio frequency identification devices, barcode printing and related services. POS and payments solutions include POS systems, integrated POS software platforms, self-service kiosks including self-checkout, payment terminals and mobile payment devices. Security solutions include video surveillance and analytics, video management software and access control. Networking solutions include switching, routing and wireless products and software. The Company has business operations within this segment in the United States, Canada and Brazil.

Modern Communications & Cloud Segment

The Modern Communications & Cloud segment includes the Company's business in communications and collaboration, connectivity and cloud services. Communications and collaboration solutions, delivered in the cloud, on-premise or hybrid, include voice, video, integration of communication platforms and contact center solutions. The Intelisis connectivity and cloud marketplace offers telecom, cable, Unified Communications as a Service ("UCaaS"), Contact Center as a Service ("CCaaS"), Infrastructure as a Service, Software-Defined Wide-Area Network and other cloud services. This segment includes SaaS and subscription services, which the Company offers using digital tools and platforms. The Company has business operations within this segment in the United States, Canada, Brazil and the UK.

SCANSOURCE, INC. AND SUBSIDIARIES
Notes to Consolidated Financial Statements—(Continued)
June 30, 2023

Selected financial information for each business segment is presented below:

	Fiscal Year Ended June 30,		
	2023	2022	2021
	<i>(in thousands)</i>		
Sales:			
Specialty Technology Solutions	\$ 2,331,030	\$ 2,082,321	\$ 1,815,933
Modern Communications & Cloud	1,456,691	1,447,614	1,334,873
	<u>\$ 3,787,721</u>	<u>\$ 3,529,935</u>	<u>\$ 3,150,806</u>
Depreciation and amortization:			
Specialty Technology Solutions	\$ 10,838	\$ 11,754	\$ 13,193
Modern Communications & Cloud	14,901	15,110	17,287
Corporate	2,875	3,020	3,027
	<u>\$ 28,614</u>	<u>\$ 29,884</u>	<u>\$ 33,507</u>
Change in fair value of contingent consideration:			
Specialty Technology Solutions	\$ —	\$ —	\$ —
Modern Communications & Cloud	—	—	516
	<u>\$ —</u>	<u>\$ —</u>	<u>\$ 516</u>
Operating income:			
Specialty Technology Solutions	\$ 75,688	\$ 66,686	\$ 29,566
Modern Communications & Cloud	61,658	55,511	43,551
Corporate ⁽¹⁾	(1,460)	(30)	(11,634)
	<u>\$ 135,886</u>	<u>\$ 122,167</u>	<u>\$ 61,483</u>
Capital expenditures:			
Specialty Technology Solutions	\$ (3,966)	\$ (1,667)	\$ (1,282)
Modern Communications & Cloud	(6,013)	(5,182)	(1,067)
Corporate	—	—	(14)
	<u>\$ (9,979)</u>	<u>\$ (6,849)</u>	<u>\$ (2,363)</u>
Sales by Geography Category:			
United States	\$ 3,443,561	\$ 3,178,829	\$ 2,854,179
International	355,647	356,241	310,075
Less intercompany sales	(11,487)	(5,135)	(13,448)
	<u>\$ 3,787,721</u>	<u>\$ 3,529,935</u>	<u>\$ 3,150,806</u>

⁽¹⁾ For the year ended June 30, 2023, the amounts shown above include cyberattack restoration costs. For the year ended June 30, 2022, the amounts shown above include divestiture costs. For the year ended June 30, 2021, the amounts shown above include acquisition, divestiture, and restructuring.

SCANSOURCE, INC. AND SUBSIDIARIES
Notes to Consolidated Financial Statements—(Continued)
June 30, 2023

	June 30, 2023	June 30, 2022
	<i>(in thousands)</i>	
Assets:		
Specialty Technology Solutions	\$ 1,104,103	\$ 1,030,538
Modern Communications & Cloud	964,066	906,890
Corporate	—	—
	\$ 2,068,169	\$ 1,937,428
Property and equipment, net by Geography Category:		
United States	\$ 27,323	\$ 32,715
International	10,056	4,762
	\$ 37,379	\$ 37,477

(17) Accumulated Other Comprehensive Income

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

	Fiscal Years Ended June 30,		
	2023	2022	2021
	<i>(in thousands)</i>		
Currency translation adjustment	\$ (93,136)	\$ (105,899)	\$ (93,561)
Unrealized loss on fair value of interest rate swap, net of tax	3,515	1,261	(4,572)
Accumulated other comprehensive loss	\$ (89,621)	\$ (104,638)	\$ (98,133)

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

	Fiscal years ended June 30,		
	2023	2022	2021
	<i>(in thousands)</i>		
Tax expense	\$ 737	\$ 1,741	\$ 2,084

(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, (the "Divestitures"), as these businesses were performing below management's expectations. The Company continues to operate its digital business in these countries. Management determined that the Company did not have sufficient scale in these markets to maximize the value-added model for product distribution, leading the Company to focus and invest in its higher-growth, higher margin businesses. Results from the Divestitures were included within each reportable segment, which includes the Specialty Technology Solutions and Modern Communications & Cloud segments.

The Company signed an agreement on July 23, 2020 with Intcomex for its businesses located in Latin America, outside of Brazil. The Company finalized the sale of the Latin America businesses on October 30, 2020. The Company also finalized the sale of the Europe and UK businesses on November 12, 2020. Total cash received for the sale of the Divestitures was \$39.2 million.

During the fiscal year ended June 30, 2021, the Company recorded a pre-tax loss on disposal group of \$34.5 million, which was primarily attributable to a reduction in the net proceeds realized at closing for the Divestitures. The Company received cash for the sale of Divestitures totaling \$34.4 million during the fiscal year ended June 30, 2021.

SCANSOURCE, INC. AND SUBSIDIARIES
Notes to Consolidated Financial Statements—(Continued)
June 30, 2023

During the fiscal year ended June 30, 2022, the Company received a second payment of \$3.1 million for its businesses in Latin America, outside of Brazil, related to working capital adjustments and in accordance with the Share Purchase Agreement between Intcomex and the Company. The receipt of payment resulted in a gain on disposal group of \$0.1 million.

During the fiscal year ended June 30, 2023, the Company received a third payment related to a tax settlement of \$1.7 million for its businesses in Latin America, outside of Brazil. The receipt of payment resulted in a gain on disposal group of \$1.7 million.

Major components of net loss from discontinued operations for the years ended June 30, 2023, 2022 and 2021 were as follows:

	Fiscal Year Ended June 30,		
	2023	2022	2021
	<i>(in thousands)</i>		
Net sales	\$ —	\$ —	\$ 213,373
Cost of goods sold	—	—	198,512
Gross profit	—	—	14,861
Selling, general and administrative expenses	—	—	17,291
Operating loss	—	—	(2,430)
Interest expense, net	—	—	394
(Gain) loss on held for sale classification	(1,717)	(100)	34,597
Other expense, net	—	—	310
Income (loss) from discontinued operations before taxes	1,717	100	(37,731)
Income tax (benefit) expense	—	—	(3,137)
Net income (loss) from discontinued operations	\$ 1,717	\$ 100	\$ (34,594)

Significant non-cash operating items and capital expenditures reflected in the cash flows from discontinued operations for the fiscal years ended June 30, 2023, 2022 and 2021 were as follows:

	Fiscal Year Ended June 30,		
	2023	2022	2021
	<i>(in thousands)</i>		
Loss on held for sale classification	\$ —	\$ —	\$ 34,597
Capital expenditures	—	—	(58)

SCANSOURCE, INC. AND SUBSIDIARIES
Notes to Consolidated Financial Statements—(Continued)
June 30, 2023

(19) Restructuring

In July 2020, as part of a strategic review of organizational structure and operations, the Company announced a global cost reduction and restructuring program. The Company also closed its Canpango business, a Salesforce implementation and consulting business. There has been limited adoption by the Company's partner community of the services Canpango offers. These actions included entering into severance and termination agreements with employees, legal fees to execute the reduction in force and costs associated with lease terminations.

There were no restructuring or severance costs incurred during the fiscal years ended June 30, 2023 or 2022. The following table presents the restructuring and severance costs incurred for the fiscal year ended June 30, 2021:

	Fiscal year ended June 30, 2021
	<i>(in thousands)</i>
Severance and benefit costs	\$ 8,824
Other	434
Total restructuring and other charges	<u>\$ 9,258</u>

For the fiscal year ended June 30, 2021, all restructuring costs are recognized in the Corporate reporting unit and have not been allocated to the Modern Communications & Cloud or Specialty Technology Solutions segment.

There were no accrued restructuring and severance costs as of June 30, 2023.

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, 2023, 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, 2023. In making this assessment, we used the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission 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, 2023.

The effectiveness of our internal control over financial reporting as of June 30, 2023 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, 2023 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

ITEM 9B. Other Information.

During the three months ended June 30, 2023, none of our directors or officers (as defined in Rule 16a-1(f) of the Securities Exchange Act of 1934, as amended) adopted or terminated a Rule 10b5-1 trading arrangement or non-Rule 10b5-1 trading arrangement (as such terms are defined in Item 408 of Regulation S-K of the Securities Act of 1933).

ITEM 9C. Disclosure Regarding Foreign Jurisdictions that Prevent Inspections.

Not applicable.

PART III

Information called for by Part III (Items 10, 11, 12, 13 and 14) of this Annual Report on Form 10-K has been omitted as we intend to file with the SEC not later than 120 days after the end of our fiscal year ended June 30, 2023, an amendment to this Form 10-K or a definitive Proxy Statement relating to the 2024 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.

ITEM 16. FORM 10-K SUMMARY

None

SIGNATURES

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

SCANSOURCE, INC.

Date: August 22, 2023

By /s/ MICHAEL L. BAUR

Michael L. Baur

Chairman and Chief Executive Officer

(Principal Executive Officer)

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

<u>Signature</u>	<u>Title</u>	<u>Date</u>
<u>/s/ MICHAEL L. BAUR</u> Michael L. Baur	Chairman and Chief Executive Officer (Principal Executive Officer)	August 22, 2023
<u>/s/ STEVE JONES</u> Steve Jones	Senior Executive Vice President and Chief Financial Officer (Principal Financial Officer)	August 22, 2023
<u>/s/ BRANDY FORD</u> Brandy Ford	Senior Vice President and Chief Accounting Officer (Principal Accounting Officer)	August 22, 2023
<u>/s/ PETER C. BROWNING</u> Peter C. Browning	Lead Independent Director	August 22, 2023
<u>/s/ FRANK E. EMORY, JR.</u> Frank E. Emory, Jr.	Director	August 22, 2023
<u>/s/ CHARLES A. MATHIS</u> Charles A. Mathis	Director	August 22, 2023
<u>/s/ DOROTHY F. RAMONEDA</u> Dorothy F. Ramoneda	Director	August 22, 2023
<u>/s/ JEFFREY R. RODEK</u> Jeffrey R. Rodek	Director	August 22, 2023
<u>/s/ ELIZABETH O. TEMPLE</u> Elizabeth O. Temple	Director	August 22, 2023
<u>/s/ CHARLES R. WHITCHURCH</u> Charles R. Whitchurch	Director	August 22, 2023

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	+ Sale and Purchase Agreement, dated November 12, 2020, by and among ScanSource Europe C.V. and SSE Services Holdings, LLC		8-K	2.1	11/13/2020
3.1	Second Amended and Restated Articles of Incorporation and Articles of Amendment		8-K	3.1	1/27/2022
3.2	Amended and Restated Bylaws		8-K	3.2	1/27/2022
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	ScanSource, Inc. Nonqualified Deferred Compensation Plan, as Amended and Restated Effective January 1, 2021		10-Q	10.3	5/10/2021
10.2	2013 Long-Term Incentive Plan		S-8	99	12/5/2013
10.3	ScanSource, Inc. 2021 Omnibus Incentive Compensation Plan	X			
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	ScanSource, Inc. Management Incentive Plan	X			
10.8	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
10.9	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
10.10	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
10.11	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
10.12	Form of Other Stock Based Award Certificate under ScanSource, Inc. 2013 Long-Term Incentive Plan		10-K	10.33	8/28/2014
10.13	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
10.14	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
10.15	Form of Restricted Stock Unit Award (Service-Based) under the 2013 Long-Term Incentive Plan (2017 version)		8-K	10.2	12/8/2017

Exhibit Number	Description	Filed herewith	Form	Exhibit	Filing Date
10.16	Form of Non-Qualified Stock Option Agreement under the 2013 Long-Term Incentive Plan (2017 version)		8-K	10.3	12/8/2017
10.17	Form of Incentive Stock Option Agreement under the 2013 Long-Term Incentive Plan (2017 version)		8-K	10.4	12/8/2017
10.18	Amended and Restated Employment Agreement, effective as of July 1, 2017, of Michael L. Baur		8-K	10.1	6/21/2017
10.19	Employment Letter, dated September 17, 2019 of John Eldh		10-K	10.26	8/24/2021
10.20	Severance Plan for John C. Eldh		10-K	10.27	8/24/2021
10.21	Employment Letter, dated November 16, 2020, of Stephen Jones		10-Q	10.1	2/2/2021
10.22	Employment Letter, dated May 6, 2021 of Rachel Hayden		10-K	10.29	8/24/2021
10.23	ScanSource, Inc. 2022 Board of Directors Compensation Program		10-K	10.28	8/23/2022
10.24	First Amendment to Nonqualified Deferred Compensation Plan		8-K	10.1	11/30/2018
10.25	Form of Director Restricted Stock Award Certificate for grants on or after January 1, 2019 under the ScanSource, Inc. 2013 Long-Term Incentive Plan		8-K	10.2	11/30/2018
10.26	Form of Director Restricted Stock Unit Certificate for grants on or after January 1, 2019 under the ScanSource, Inc. 2013 Long-Term Incentive Plan		8-K	10.3	11/30/2018
10.27	Form of Director Restricted Stock Award Certificate under the ScanSource, Inc. 2013 Long-Term Incentive Plan		8-K	10.4	11/30/2018
10.28	Form of Restricted Stock Unit Award Certificate under the ScanSource, Inc. 2013 Long-Term Incentive Plan		8-K	10.5	11/30/2018
10.29	Form of Restricted Stock Unit Award Certificate under the ScanSource, Inc. 2013 Long-Term Incentive Plan		8-K	10.1	1/30/2020
10.30	Form of Restricted Stock Unit Award Certificate under the ScanSource, Inc. 2013 Long-Term Incentive Plan		10-K/A	10.37	10/26/2021
10.31	Form of Restricted Stock Unit Award Certificate under the ScanSource, Inc. 2013 Long-Term Incentive Plan		10-K	10.38	8/24/2021
10.32	Form of Employee Restricted Stock Award Certificate under the 2021 Omnibus Incentive Compensation Plan		8-K	10.2	1/27/2022
10.33	Form of Director Restricted Stock Award Certificate under the 2021 Omnibus Incentive Compensation Plan		8-K	10.3	1/27/2022
10.34	Form of Restricted Stock Award Certificate (Service-Based) under the 2021 Omnibus Incentive Compensation Plan		8-K	10.4	1/27/2022
10.35	Form of Director Restricted Stock Award Certificate (Service-Based) under the 2021 Omnibus Incentive Compensation Plan		8-K	10.5	1/27/2022
10.36	Form of Employee Restricted Stock Award Certificate (Performance and Service-Based) under the 2021 Omnibus Incentive Compensation Plan		8-K	10.6	1/27/2022
10.37	Form of Incentive Stock Option Award Certificate under the 2021 Omnibus Incentive Compensation Plan		8-K	10.7	1/27/2022

Exhibit Number	Description	Filed herewith	Form	Exhibit	Filing Date
10.38	Form of Non-Qualified Stock Option Award Certificate under the 2021 Omnibus Incentive Compensation Plan		8-K	10.8	1/27/2022
10.39	Form of Director Stock Award Certificate (Stock) under the 2021 Omnibus Incentive Compensation Plan		8-K	10.9	1/27/2022
	Bank Agreements				
10.40	Third Amended and Restated Credit Agreement		8-K	10.1	9/29/2022
	Other Agreements				
10.41	+ Industrial Lease Agreement dated April 27, 2007 between Registrant and Industrial Developments International, Inc.		10-K	10.40	8/24/2021
10.42	+ Third Amendment to Industrial Lease Agreement between Registrant and Industrial Developments International, Inc.		10-K	10.41	8/24/2021
10.43	Fourth Amendment to Industrial Lease Agreement		10-Q	10.1	5/9/2019
10.44	+ Nonexclusive Value Added Distributor Agreement between ScanSource, Inc. and Cisco Systems, Inc.		10-K	10.38	8/22/2019
10.45	+ Amendment No. 3 to Cisco Nonexclusive Value Added Distributor Agreement		10-K	10.39	8/22/2019
10.46	+ Amendment No. 5 to Cisco Nonexclusive Value Added Distributor Agreement		10-K	10.40	8/22/2019
10.47	+ Amendment No. 6 to Cisco Nonexclusive Value Added Distributor Agreement		10-K	10.41	8/22/2019
10.48	+ Amendment No. 7 to Cisco Nonexclusive Value Added Distributor Agreement		10-K	10.42	8/22/2019
10.49	Amendment No. 9 to Cisco Nonexclusive Value Added Distributor Agreement		10-K	10.43	8/22/2019
10.50	+ Amendment No. 11 to Cisco Nonexclusive Value Added Distributor Agreement		10-K	10.44	8/22/2019
10.51	Amendment No. 12 to Cisco Nonexclusive Value Added Distributor Agreement		10-K	10.45	8/22/2019
10.52	Amendment No. 13 to Cisco Nonexclusive Value Added Distributor Agreement		10-K	10.46	8/22/2019
10.53	Amendment No. 14 to Cisco Nonexclusive Value Added Distributor Agreement		10-K	10.47	8/22/2019
10.54	Amendment No. 16 to Cisco Nonexclusive Value Added Distributor Agreement		10-Q	10.1	5/10/2021
10.55	Amendment No. 17 to Cisco Nonexclusive Value Added Distributor Agreement		10-Q	10.2	5/10/2021
10.56	Amendment No. 18 to the Nonexclusive Value Added Distributor Agreement		10-Q	10.1	5/09/2023
10.57	Amendment No. 19 to the Nonexclusive Value Added Distributor Agreement		10-Q	10.2	5/09/2023
10.58	Amendment No. 20 to the Nonexclusive Value Added Distributor Agreement	X			
10.59	Amendment No. 21 to the Nonexclusive Value Added Distributor Agreement	X			
10.60	+ Addendum to Cisco Nonexclusive Value Added Distributor Agreement dated March 25, 2019		10-K	10.48	8/22/2019
10.61	+ Addendum to Cisco Nonexclusive Value Added Distributor Agreement dated March 2, 2015		10-K	10.49	8/22/2019
10.62	+ Affiliate Agreement under Cisco Nonexclusive Value Added Distributor Agreement		10-K	10.50	8/22/2019
10.63	+ Distribution Agreement with US Motorola (f/k/a Symbol Technologies, Inc.)		10-K	10.58	8/24/2021
10.64	+ Amendment to PartnerEmpower Distribution Agreement with Zebra		10-K	10.59	8/24/2021

Exhibit Number	Description	Filed herewith	Form	Exhibit	Filing Date
10.65	Participation Agreement Relating to Distribution Agreement with Zebra		10-K	10.51	8/29/2016
10.66	+ Amendment to PartnerConnect EVM Distributor Agreement		10-K	10.61	8/24/2021
10.67	+ Addendum to Zebra PartnerConnect Distributor Agreement		10-Q	10.2	5/9/2019
10.68	Letter of Agreement to PartnerConnect EVM Distributor Agreement		10-K	10.55	8/31/2020
10.69	Addendum to Zebra PartnerConnect EVM Distributor Agreement		10-K	10.64	8/24/2021
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			
	The following materials from our Annual Report on Form 10-K for the year ended June 30, 2023, formatted in Inline XBRL (eXtensible Business Reporting Language): (i) the Consolidated Balance Sheets as of June 30, 2023 and June 30, 2022, (ii) the Consolidated Income Statements for the years ended June 30, 2023, June 30, 2022 and June 30, 2021, (iii) the Consolidated Statements of Shareholders' Equity for the years ended June 30, 2023, June 30, 2022 and June 30, 2021, (iv) the Consolidated Statements of Cash Flows for the years ended June 30, 2023, June 30, 2022 and June 30, 2021, 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.				
101		X			
104	Cover page Inline XBRL File (Included in Exhibit 101)	X			

+ Portions of this exhibit have been omitted pursuant to Item 601(b) 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.