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

FORM 10-Q

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

☒

Quarterly period ended September 30, 2022

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

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

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§ 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit such files). Yes ☒ No ☐

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

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

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

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

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

Class	**Outstanding at November 1, 2022**
Common Stock, no par value per share	**25,245,216 shares**

SCANSOURCE, INC.
INDEX TO FORM 10-Q
September 30, 2022

FORWARD-LOOKING STATEMENTS

Forward-looking statements are included in the "Risk Factors," "Legal Proceedings," "Management’s Discussion and Analysis of Financial Condition and Results of Operations," and "Quantitative and Qualitative Disclosures About Market Risk" sections and elsewhere herein. Words such as "expects," "anticipates," "believes," "intends," "plans," "hopes," "forecasts," "seeks," "estimates," "goals," "projects," "strategy," "future," "likely," "may," "should," and variations of such words and similar expressions generally identify such forward-looking statements. Any forward-looking statement made by us in this Form 10-Q is based only on information currently available to us and speaks only as of the date on which it is made. Except as may be required by law, we expressly disclaim any obligation to update these forward-looking statements to reflect events or circumstances after the date of this Quarterly Report on Form 10-Q. 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: the impact of the COVID-19 pandemic, 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, risk to the Company's business from a cyber-security attack, a failure of the Company's IT systems, failure to hire and retain quality employees, loss of the Company's major customers, termination of the Company's relationship with key suppliers or a significant modification of the terms under which it operates with a key supplier, changes in the Company's operating strategy and other factors set forth in "Risk Factors" contained in our Annual Report on Form 10-K for the year ended June 30, 2022.

PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

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

	September 30, 2022	June 30, 2022
Assets		
Current assets:		
Cash and cash equivalents	**$ 40,472**	$ 37,987
Accounts receivable, less allowance of $13,942 at September 30, 2022 and $16,806 at June 30, 2022	**744,946**	729,442
Inventories	**675,798**	614,814
Prepaid expenses and other current assets	**126,484**	141,562
Total current assets	**1,587,700**	1,523,805
Property and equipment, net	**36,853**	37,477
Goodwill	**211,736**	214,435
Identifiable intangible assets, net	**78,724**	84,427
Deferred income taxes	**13,381**	15,668
Other non-current assets	**71,918**	61,616
Total assets	**$ 2,000,312**	$ 1,937,428
Liabilities and Shareholders' Equity		
Current liabilities:		
Accounts payable	**$ 710,919**	$ 714,177
Accrued expenses and other current liabilities	**73,760**	88,455
Income taxes payable	**5,274**	34
Current portion of long-term debt	**4,102**	11,598
Total current liabilities	**794,055**	814,264
Deferred income taxes	**2,882**	3,144
Long-term debt, net of current portion	**149,631**	123,733
Borrowings under revolving credit facility	**172,702**	135,839
Other long-term liabilities	**54,038**	53,920
Total liabilities	**1,173,308**	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, 25,225,902 and 25,187,351 shares issued and outstanding at September 30, 2022 and June 30, 2022, respectively	**66,069**	64,297
Retained earnings	**870,911**	846,869
Accumulated other comprehensive loss	**(109,976)**	(104,638)
Total shareholders' equity	**827,004**	806,528
Total liabilities and shareholders' equity	**$ 2,000,312**	$ 1,937,428

June 30, 2022 amounts are derived from audited consolidated financial statements.
See accompanying notes to these condensed consolidated financial statements.

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

	Quarter ended September 30,	
	2022	**2021**
Net sales	**$ 943,813**	$ 857,583
Cost of goods sold	**830,328**	756,011
Gross profit	**113,485**	101,572
Selling, general and administrative expenses	**71,593**	63,854
Depreciation expense	**2,763**	2,880
Intangible amortization expense	**4,241**	4,510
Operating income	**34,888**	30,328
Interest expense	**3,448**	1,660
Interest income	**(1,589)**	(1,026)
Other expense, net	**746**	263
Income before income taxes	**32,283**	29,431
Provision for income taxes	**8,241**	7,358
Net income	**$ 24,042**	$ 22,073
Per share data:		
Net income per common share, basic	**$ 0.95**	$ 0.87
Weighted-average shares outstanding, basic	**25,201**	25,512
Net income per common share, diluted	**$ 0.94**	$ 0.86
Weighted-average shares outstanding, diluted	**25,451**	25,696

See accompanying notes to these condensed consolidated financial statements.

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

	Quarter ended September 30, 2022	Quarter ended September 30, 2021
Net income	**$ 24,042**	$ 22,073
Unrealized gain on hedged transaction, net of tax	**1,879**	413
Foreign currency translation adjustment	**(7,217)**	(11,147)
Comprehensive income	**$ 18,704**	$ 11,339

See accompanying notes to these condensed consolidated financial statements.

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

	Common Stock (Shares)	Common Stock (Amount)	Retained Earnings	Accumulated Other Comprehensive Loss	Total
Balance at June 30, 2022	25,187,351	$ 64,297	$ 846,869	$ (104,638)	$ 806,528
Net income	—	—	**24,042**	—	**24,042**
Unrealized gain on hedged transaction, net of tax	—	—	—	**1,879**	**1,879**
Foreign currency translation adjustment	—	—	—	**(7,217)**	**(7,217)**
Exercise of stock options and shares issued under share-based compensation plans, net of shares withheld for employee taxes	**38,551**	**(586)**	—	—	**(586)**
Share-based compensation	—	**2,358**	—	—	**2,358**
Balance at September 30, 2022	**25,225,902**	**$ 66,069**	**$ 870,911**	**$ (109,976)**	**$ 827,004**

See accompanying notes to these condensed consolidated financial statements.

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

	Common Stock (Shares)	Common Stock (Amount)	Retained Earnings	Accumulated Other Comprehensive Loss	Total
Balance at June 30, 2021	25,499,465	$ 71,253	$ 758,071	$ (98,133)	$ 731,191
Net income	—	—	22,073	—	22,073
Unrealized gain on hedged transaction, net of tax	—	—	—	413	413
Foreign currency translation adjustment	—	—	—	(11,147)	(11,147)
Exercise of stock options and shares issued under share-based compensation plans, net of shares withheld for employee taxes	29,086	994	—	—	994
Share-based compensation	—	2,570	—	—	2,570
Balance at September 30, 2021	25,528,551	$ 74,817	$ 780,144	$ (108,867)	$ 746,094

See accompanying notes to these condensed consolidated financial statements.

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

	Three months ended September 30,	
	2022	**2021**
Cash flows from operating activities:		
Net income	$ **24,042**	$ 22,073
Adjustments to reconcile net income to net cash used in operating activities:		
Depreciation and amortization	**7,228**	7,650
Amortization of debt issue costs	**289**	104
Provision for doubtful accounts	**125**	(1,027)
Share-based compensation	**2,316**	2,570
Deferred income taxes	**2,274**	(183)
Finance lease interest	**2**	17
Changes in operating assets and liabilities, net of acquisitions:		
Accounts receivable	**(18,799)**	(26,714)
Inventories	**(62,192)**	(25,879)
Prepaid expenses and other assets	**14,690**	(1,174)
Other non-current assets	**(9,469)**	691
Accounts payable	**(1,053)**	(26,962)
Accrued expenses and other liabilities	**(13,168)**	(14,683)
Income taxes payable	**5,256**	6,558
Net cash used in operating activities	**(48,459)**	(56,959)
Cash flows from investing activities:		
Capital expenditures	**(1,758)**	(1,090)
Net cash used in investing activities	**(1,758)**	(1,090)
Cash flows from financing activities:		
Borrowings on revolving credit, net of expenses	**579,011**	526,637
Repayments on revolving credit, net of expenses	**(542,147)**	(470,237)
Borrowings (repayments) on long-term debt, net	**18,402**	(2,218)
Finance lease obligations	**771**	(316)
Debt issuance costs	**(1,407)**	—
Exercise of stock options	**10**	994
Taxes paid on settlement of equity awards	**(596)**	—
Net cash provided by financing activities	**54,044**	54,860
Effect of exchange rate changes on cash and cash equivalents	**(1,342)**	(4,038)
Increase (decrease) in cash and cash equivalents	**2,485**	(7,227)
Cash and cash equivalents at beginning of period	**37,987**	62,718
Cash and cash equivalents at end of period	$ **40,472**	$ 55,491

See accompanying notes to these condensed consolidated financial statements.

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

(1) Business and Summary of Significant Accounting Policies

Business Description

ScanSource, Inc. (together with its subsidiaries referred to as "the Company" or "ScanSource") is 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, 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.

Basis of Presentation

The accompanying unaudited condensed consolidated financial statements of the Company have been prepared by the Company's management in accordance with United States generally accepted accounting principles ("U.S. GAAP") for interim financial information and applicable rules and regulations of the Securities Exchange Act of 1934. Accordingly, they do not include all of the information and footnotes required by U.S. GAAP for annual financial statements. The unaudited condensed consolidated financial statements included herein contain all adjustments (consisting of normal recurring and non-recurring adjustments) that are, in the opinion of management, necessary to present fairly the financial position at September 30, 2022 and June 30, 2022, the results of operations for the quarters ended September 30, 2022 and 2021, the statements of comprehensive income for the quarters ended September 30, 2022 and 2021, the statements of shareholders' equity for the quarters ended September 30, 2022 and 2021 and the statements of cash flows for the three months ended September 30, 2022 and 2021. The results of operations for the quarters ended September 30, 2022 are not necessarily indicative of the results to be expected for a full year. These financial statements should be read in conjunction with the audited consolidated financial statements and notes thereto included in the Company's Annual Report on Form 10-K for the fiscal year ended June 30, 2022. Unless otherwise indicated, disclosures provided in the Notes pertain to continuing operations only.

The Company has reclassified certain prior-year amounts in the segment results to conform with current year presentation. The reclassifications had no effect on the condensed consolidated financial results.

Summary of Significant Accounting Policies

There have been no material changes to the Company's significant accounting policies for the three months ended September 30, 2022 from the policies described in the notes to the Company's consolidated financial statements included in the Annual Report on Form 10-K for the fiscal year ended June 30, 2022. For a discussion of the Company's significant accounting policies, please see the Company's Annual Report on Form 10-K for the fiscal year ended June 30, 2022.

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 $11.5 million and $18.0 million are included in accounts payable on the condensed consolidated balance sheets at September 30, 2022 and June 30, 2022, respectively.

Long-lived Assets

The Company presents depreciation expense and intangible amortization expense on the Condensed Consolidated Income Statements. The Company's depreciation expense related to selling, general and administrative costs totaled $2.8 million for the quarter ended September 30, 2022 and $2.9 million for the quarter ended September 30, 2021. Depreciation expense reported as part of cost of goods sold on the Condensed Consolidated Income Statements totaled $0.2 million for the quarter ended September 30, 2022 and $0.3 million for the quarter ended September 30, 2021. The Company's intangible amortization expense reported on the Condensed Consolidated Income Statements relates to selling, general and administrative costs, not the cost of selling goods. Intangible amortization expense totaled $4.2 million for the quarter ended September 30, 2022 and $4.5 million for the quarter ended September 30, 2021.

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 over the contractual life are recorded at inception and adjusted over the contractual life.

The changes in the allowance for doubtful accounts for the three months ended September 30, 2022 are set forth in the table below.

	June 30, 2022	Amounts Charged to Expense	Write-offs	Other [(1)]	September 30, 2022
			(in thousands)		
Trade accounts and current notes receivable allowance	$ 16,806	$ 125	$ (2,721)	$ (268)	$ 13,942

(1) "Other" amounts include recoveries and the effect of foreign currency fluctuations for the three months ended September 30, 2022.

(3) Revenue Recognition

The Company provides technology solutions and services from the world's leading suppliers of mobility, barcode, POS, payments, 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.

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 non-physical products.

Principal versus Agent Considerations

The Company is the principal for sales of all hardware and certain software and 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 may also provide other rebates or incentives, which are accounted for as variable consideration. The Company estimates returns allowance based on historical experience and reduces revenue accordingly. The Company estimates the amount of variable consideration for rebates and incentives by using the expected value to be given to the customer and reduces the revenue by those estimated amounts. These estimates are reviewed and updated as necessary at the end of each reporting period.

Contract Balances

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

Disaggregation of Revenue

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

	Quarter ended September 30, 2022		
	Specialty Technology Solutions	**Modern Communications & Cloud**	**Total**
		(in thousands)	
Revenue by product/service			
Hardware, software and cloud (excluding Intelisys)	**$ 576,329**	**$ 348,631**	**$ 924,960**
Intelisys connectivity and cloud	**—**	**18,853**	**18,853**
	$ 576,329	**$ 367,484**	**$ 943,813**

	Quarter ended September 30, 2021		
	Specialty Technology Solutions	**Modern Communications & Cloud**	**Total**
		(in thousands)	
Revenue by product/service			
Hardware, software and cloud (excluding Intelisys)	$ 501,711	$ 338,248	$ 839,959
Intelisys connectivity and cloud	—	17,624	17,624
	$ 501,711	$ 355,872	$ 857,583

(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.

	Quarter ended September 30,	
	2022	2021
	(in thousands, except per share data)	
Numerator:		
Net income	**$ 24,042**	$ 22,073
Denominator:		
Weighted-average shares, basic	**25,201**	25,512
Dilutive effect of share-based payments	**250**	184
Weighted-average shares, diluted	**25,451**	25,696
Net income per common share, basic	**$ 0.95**	$ 0.87
Net income per common share, diluted	**$ 0.94**	$ 0.86

For the quarters ended September 30, 2022 and 2021, weighted-average shares outstanding excluded from the computation of diluted earnings per share because their effect would be anti-dilutive were 1,128,445 and 1,213,398, respectively.

(5) Accumulated Other Comprehensive Loss

Accumulated other comprehensive loss consists of the following:

	September 30, 2022	June 30, 2022
	(in thousands)	
Foreign currency translation adjustment	**$ (113,116)**	$ (105,899)
Unrealized gain on hedged transaction, net of tax	**3,140**	1,261
Accumulated other comprehensive loss	**$ (109,976)**	$ (104,638)

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

	Quarter ended September 30,	
	2022	2021
	(in thousands)	
Tax expense	**$ 414**	$ 284

(6) Goodwill and Other Identifiable Intangible Assets

The changes in the carrying amount of goodwill for the three months ended September 30, 2022, by reporting segment, are set forth in the table below.

	Specialty Technology Solutions	Modern Communications & Cloud	Total
		(in thousands)	
Balance at June 30, 2022	$ 16,370	$ 198,065	$ 214,435
Foreign currency translation adjustment	—	(2,699)	(2,699)
Balance at September 30, 2022	**$ 16,370**	**$ 195,366**	**$ 211,736**

The following table shows changes in the amount recognized for net identifiable intangible assets for the three months ended September 30, 2022.

	Net Identifiable Intangible Assets
	(in thousands)
Balance at June 30, 2022	$ 84,427
Amortization expense	(4,241)
Foreign currency translation adjustment	(1,462)
Balance at September 30, 2022	**$ 78,724**

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

The following table presents the Company's debt at September 30, 2022 and June 30, 2022.

	September 30, 2022	June 30, 2022
	(in thousands)	
Current portion of long-term debt	**$ 4,102**	$ 11,598
Mississippi revenue bond, net of current portion	**3,381**	3,733
Senior secured term loan facility, net of current portion	**146,250**	120,000
Borrowings under revolving credit facility	**172,702**	135,839
Total debt	**$ 326,435**	$ 271,170

Credit Facility

The Company has a multi-currency senior secured credit facility with JPMorgan Chase Bank N.A., as administrative agent, and a syndicate of banks (as amended, the "Amended Credit Agreement"). On September 28, 2022, ScanSource, Inc. 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 extends 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 $1.5 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, shall bear interest at a rate per annum equal to, at the Company's option, (i) the adjusted Term SOFR or daily simple SOFR rate plus a fixed credit spread adjustment of 0.10%, 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. Loans denominated in foreign currencies shall bear interest at a rate per annum equal to the applicable benchmark rate set forth in the New 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. All swingline loans denominated in U.S. dollars shall bear interest based upon the adjusted daily simple SOFR, floating daily, 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.

During the quarter ended September 30, 2022, the Company's borrowings under the credit facility were U.S. dollar loans. The spread in effect as of September 30, 2022 was 1.50% for LIBOR and SOFR-based loans and 0.50% for alternate base rate loans. The commitment fee rate in effect at September 30, 2022 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 at the end of each fiscal quarter.

In the event of a default, customary remedies are available to the lenders, including acceleration and increased interest rates. The Company was in compliance with all covenants under the credit facility at September 30, 2022.

The average daily outstanding balance on the revolving credit facility, excluding the term loan facility, during the three month periods ended September 30, 2022 and 2021 was $200.5 million and $54.4 million, respectively. There was $177.3 million and $214.2 million available for additional borrowings as of September 30, 2022 and June 30, 2022, respectively. There were no letters of credit issued under the multi-currency revolving credit facility at September 30, 2022 or June 30, 2022.

Mississippi Revenue Bond

On August 1, 2007, the Company entered into an agreement with the State of Mississippi to provide financing for the acquisition and installation of certain equipment to be utilized at the Company's Southaven, Mississippi warehouse, through the issuance of an industrial development revenue bond. The bond matures on September 1, 2032 and accrues interest at the 30-day LIBOR rate plus a spread of 0.85%. The terms of the bond allow for payment of interest only for the first 10 years of the agreement, and then, starting on September 1, 2018 through 2032, principal and interest payments are due until the maturity date or the redemption of the bond. The agreement also provides the bondholder with a put option, exercisable only within 180 days of each fifth anniversary of the agreement, requiring the Company to pay back the bonds at 100% of the principal amount outstanding. At September 30, 2022, the Company was in compliance with all covenants under this bond. The interest rates at September 30, 2022 and June 30, 2022 were 3.21% and 1.97%, respectively.

Debt Issuance Costs

At September 30, 2022, net debt issuance costs associated with the credit facility and bond totaled $2.0 million and are being amortized on a straight-line basis through the maturity date of each respective debt instrument.

(8) 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.

The Company had contracts outstanding for purposes of managing cash flows with notional amounts of $35.9 million and $34.5 million for the exchange of foreign currencies at September 30, 2022 and June 30, 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 included in the Condensed Consolidated Income Statements for the quarters ended September 30, 2022 and 2021 are as follows:

	Quarter ended September 30,	
	2022	**2021**
	(in thousands)	
Net foreign exchange derivative contract losses (gains)	**$ 438**	$ (1,651)
Net foreign currency transactional and re-measurement losses	**484**	2,136
Net foreign currency exchange losses	**$ 922**	$ 485

Net foreign currency 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 currency exchange gains and losses are generated as the result of fluctuations in the value of the U.S. dollar versus the Brazilian real, the U.S. dollar versus the euro, British pound versus the euro and other currencies versus the U.S. dollar.

Interest Rates - The Company's earnings are also affected by changes in interest rates due to the impact those changes have on interest expense from floating rate debt instruments. The Company manages its exposure to changes in interest rates by using interest rate swaps to hedge this exposure and to achieve a desired proportion of fixed versus floating rate debt. On April 30, 2019, the Company entered into an interest rate swap agreement, 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. This swap agreement is designated as a cash flow hedge to hedge the variable rate interest payments on the revolving credit facility. Interest rate differentials paid or received under the swap agreement are recognized as adjustments to interest expense. To the extent the swap is effective in offsetting the variability of the hedged cash flows, changes in the fair value of the swap are not included in current earnings but are reported as other comprehensive income (loss). There was no ineffective portion to be recorded as an adjustment to earnings for the quarters ended September 30, 2022 and 2021.

The components of the cash flow hedge included in the Condensed Consolidated Statement of Comprehensive Income for the quarters ended September 30, 2022 and 2021, are as follows:

	Quarter ended September 30,	
	2022	**2021**
	(in thousands)	
Net interest expense recognized as a result of interest rate swap	**$ 32**	$ 580
Unrealized gain (loss) in fair value of interest rate swap	**2,500**	(15)
Net increase in accumulated other comprehensive income	**2,532**	565
Income tax effect	**653**	152
Net increase in accumulated other comprehensive income, net of tax	**$ 1,879**	$ 413

The Company used the following derivative instruments at September 30, 2022 and June 30, 2022, reflected in its Condensed Consolidated Balance Sheets, for the risk management purposes detailed above:

		September 30, 2022		June 30, 2022	
	Balance Sheet Location	**Fair Value of Derivatives Designated as Hedge Instruments**	**Fair Value of Derivatives Not Designated as Hedge Instruments**	**Fair Value of Derivatives Designated as Hedge Instruments**	**Fair Value of Derivatives Not Designated as Hedge Instruments**
		(in thousands)			
Derivative assets:					
Foreign exchange contracts	Prepaid expenses and other current assets	**$ —**	**$ 4**	$ —	$ —
Foreign currency hedge	Prepaid expenses and other current assets	**$ 8**	**$ —**	$ —	$ —
Interest rate swap agreement	Other non-current assets	**$ 4,218**	**$ —**	$ 1,686	$ —
Derivative liabilities:					
Foreign exchange contracts	Accrued expenses and other current liabilities	**$ —**	**$ —**	$ —	$ 5
Foreign currency hedge	Accrued expenses and other current liabilities	**$ —**	**$ —**	$ 93	$ —

(9) Fair Value of Financial Instruments

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

- Level 1 – Unadjusted quoted prices in active markets that are accessible at the measurement date for identical, unrestricted assets or liabilities;
- Level 2 – Quoted prices in markets that are not active, or inputs which are observable, either directly or indirectly, for substantially the full term of the asset or liability; and
- 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 and interest rate swap agreements. The carrying value of debt is considered to approximate fair value, as the Company's debt instruments are indexed to a variable rate using the market approach (Level 2).

The following table summarizes the valuation of the Company's remaining assets and liabilities measured at fair value on a recurring basis at September 30, 2022:

	Total	Quoted prices in active markets (Level 1)	Significant other observable inputs (Level 2)
		(in thousands)	
Assets:			
Deferred compensation plan investments, current and non-current portion	$ 25,674	$ 25,674	$ —
Forward foreign currency exchange contracts	4	—	4
Interest rate swap agreement	4,218	—	4,218
Foreign currency hedge	8	—	8
Total assets at fair value	$ 29,904	$ 25,674	$ 4,230
Liabilities:			
Deferred compensation plan investments, current and non-current portion	$ 25,674	$ 25,674	$ —
Total liabilities at fair value	$ 25,674	$ 25,674	$ —

The following table summarizes the valuation of the Company's remaining assets and liabilities measured at fair value on a recurring basis at June 30, 2022:

	Total	Quoted prices in active markets (Level 1)	Significant other observable inputs (Level 2)
		(in thousands)	
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	$ 26,864	$ 25,178	$ 1,686
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	$ 25,276	$ 25,178	$ 98

The investments in the deferred compensation plan are held in a "rabbi trust" and include mutual funds and cash equivalents for payment of non-qualified benefits for certain retired, terminated and active employees. These investments are recorded to prepaid expenses and other current assets or other non-current assets depending on their corresponding, anticipated distribution dates to recipients, which are reported in accrued expenses and other current liabilities or other long-term 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 Condensed Consolidated Balance Sheets as prepaid expenses and other non-current assets or accrued expenses and other long-term liabilities, depending on the respective instruments' favorable or unfavorable positions. See Note 8 - *Derivatives and Hedging Activities*.

(10) 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.

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 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 Intelisys 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.

Selected financial information for each business segment is presented below:

	Quarter ended September 30, 2022	2021
	(in thousands)	
Sales:		
Specialty Technology Solutions	$ 576,329	$ 501,711
Modern Communications & Cloud	367,484	355,872
	$ 943,813	$ 857,583
Depreciation and amortization:		
Specialty Technology Solutions	$ 2,702	$ 2,969
Modern Communications & Cloud	3,649	3,962
Corporate	877	719
	$ 7,228	$ 7,650
Operating income (loss):		
Specialty Technology Solutions	$ 21,852	$ 14,104
Modern Communications & Cloud	13,036	16,307
Corporate	—	(83)
	$ 34,888	$ 30,328
Capital expenditures:		
Specialty Technology Solutions	$ (502)	$ (117)
Modern Communications & Cloud	(1,256)	(973)
	$ (1,758)	$ (1,090)
Sales by Geography Category:		
United States and Canada	$ 861,602	$ 771,914
International	84,275	87,812
Less intercompany sales	(2,064)	(2,143)
	$ 943,813	$ 857,583

	September 30, 2022	June 30, 2022
	(in thousands)	
Assets:		
Specialty Technology Solutions	$ 1,059,022	$ 1,030,538
Modern Communications & Cloud	940,677	906,890
Corporate	613	—
	$ 2,000,312	$ 1,937,428
Property and equipment, net by Geography Category:		
United States and Canada	$ 31,685	$ 32,715
International	5,168	4,762
	$ 36,853	$ 37,477

(11) Leases

In accordance with ASC 842, 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 September 30, 2022 and June 30, 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 September 30, 2022 and June 30, 2022:

Operating leases	**Balance Sheet location**	**September 30, 2022** *(in thousands)*	**June 30, 2022**
Operating lease right-of-use assets	Other non-current assets	**$ 15,184**	$ 16,217
Current operating lease liabilities	Accrued expenses and other current liabilities	**$ 4,533**	$ 4,499
Long-term operating lease liabilities	Other long-term liabilities	**$ 11,962**	$ 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 quarters ended September 30, 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.

	Quarter ended September 30, 2022 *(in thousands)*	**2021**
Operating lease cost	**$ 1,286**	$ 1,243
Variable lease cost	**344**	322
	$ 1,630	$ 1,565

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

	Quarter ended September 30, 2022 *(in thousands)*	**2021**
Cash paid for amounts in the measurement of lease liabilities	**$ 1,339**	$ 1,294
Right-of-use assets obtained in exchange for lease obligations	**111**	362

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

	September 30, 2022
Weighted-average remaining lease term	4.17 years
Weighted-average discount rate	3.99 %

The following table presents the maturities of the Company's operating lease liabilities at September 30, 2022:

		Operating leases
		(in thousands)
2023	$	4,006
2024		4,543
2025		3,416
2026		2,878
2027		2,597
Thereafter		632
Total future payments		18,072
Less: amounts representing interest		1,577
Present value of lease payments	$	16,495

(12) Commitments and Contingencies

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

During the Company's due diligence for the Network1 acquisition, several pre-acquisition contingencies were identified regarding various Brazilian federal and state tax exposures. The Company recorded indemnification receivables that are reported gross of the pre-acquisition contingency liabilities as the funds were escrowed as part of the acquisition. The amount available after the impact of foreign currency translation for future pre-acquisition contingency settlements or to be released to the sellers was $4.1 million at September 30, 2022 and June 30, 2022.

The table below summarizes the balances and line item presentation of Network1's pre-acquisition contingencies and corresponding indemnification receivables in the Company's Condensed Consolidated Balance Sheets at September 30, 2022 and June 30, 2022:

		September 30, 2022		June 30, 2022
		Network1		
		(in thousands)		
Assets				
Prepaid expenses and other current assets	**$**	**14**	$	15
Other non-current assets	**$**	**3,699**	$	3,818
Liabilities				
Accrued expenses and other current liabilities	**$**	**14**	$	15
Other long-term liabilities	**$**	**3,699**	$	3,818

(13) Income Taxes

Income taxes for the quarters ended September 30, 2022 and 2021 have been included in the accompanying condensed consolidated financial statements using an estimated annual effective tax rate. In addition to applying the estimated annual effective tax rate to pre-tax income, the Company includes certain items treated as discrete events to arrive at an estimated overall tax provision. During the quarter ended September 30, 2022, a discrete net tax benefit of $0.5 million was recorded, which is primarily attributable to a notional interest deduction on the net equity of the Company's Brazilian subsidiary. There were no material discrete items during the quarter ended September 30, 2021.

The Company’s effective tax rate of 25.5% for the quarter ended September 30, 2022, differs from the current federal statutory rate of 21% primarily as a result of income derived from tax jurisdictions with varying income tax rates, nondeductible expenses and state income taxes. The Company's effective tax rate was 25.0% for the quarter ended September 30, 2021.

As of September 30, 2022, the Company is not permanently reinvested with respect to all earnings generated by foreign operations. The Company has determined that there is no material deferred tax liability for federal, state and withholding tax related to undistributed earnings. During the quarter ended September 30, 2022, foreign subsidiaries repatriated cash of $2.9 million to the United States. There is no certainty to the timing of any future distributions of such earnings to the U.S. in whole or in part.

The Company had approximately $1.1 million of total gross unrecognized tax benefits at September 30, 2022 and June 30, 2022. Of this total at September 30, 2022, approximately $0.9 million represents the amount of unrecognized tax benefits that are permanent in nature and, if recognized, would affect the annual effective tax rate. The Company does not believe that the total amount of unrecognized tax benefits will significantly increase or decrease within twelve months of the reporting date.

The Company’s policy is to recognize interest and penalties related to income tax matters in income tax expense. At September 30, 2022 and June 30, 2022, the Company had approximately $1.2 million accrued for interest and penalties.

The Company conducts business globally and one or more of its subsidiaries files income tax returns in the U.S. federal, various state, local and foreign jurisdictions. In the normal course of business, the Company is subject to examination by taxing authorities in countries and states in which it operates. With certain exceptions, the Company is no longer subject to federal, state and local or non-U.S. income tax examinations by tax authorities for the years before June 30, 2017.

(14) 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 ("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 business on November 12, 2020. Total cash received for the sale of divestitures was $37.5 million.

There were no components of net income or loss from discontinued operations for the quarters ended September 30, 2022 and 2021.

There were no assets or liabilities classified as held-for-sale in the accompanying consolidated balance sheets at September 30, 2022 and June 30, 2022.

There were no cash flows from discontinued operations for the three months ended September 30, 2022 and 2021.

Item 2. 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 partners 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 sales partners 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-customers. 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, Espirito 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, Lumen, Microsoft, MetTel, Mitel, NCR, NICE CXone, Poly, RingCentral, Spectrum, Toshiba Global Commerce Solutions, Trend Micro, Ubiquiti, Verifone, Verizon, VMWare, Windstream, Zebra Technologies and Zoom.

Recent Developments

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 sales partners that solve end-customers' challenges. ScanSource enables sales partners to deliver solutions for their customers to address changing end-customer buying and consumption patterns. Our solutions may include a combination of offerings from multiple suppliers or give our sales partners access to additional services. As a trusted adviser to our sales partners, we provide customized solutions through our strong understanding of end-customer needs.

Results of Operations

Net Sales

We have two reportable segments, which are based on technology. The following tables summarize our net sales results by business segment and by geographic location for the quarters ended September 30, 2022 and 2021:

Net Sales by Segment:	Quarter ended September 30, 2022	Quarter ended September 30, 2021	$ Change	% Change	% Change, Constant Currency, Excluding Divestitures and Acquisitions [(a)]
	(in thousands)				
Specialty Technology Solutions	**$ 576,329**	$ 501,711	$ 74,618	14.9 %	14.9 %
Modern Communications & Cloud	**367,484**	355,872	11,612	3.3 %	3.4 %
Total net sales	**$ 943,813**	$ 857,583	$ 86,230	10.1 %	10.1 %

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

Specialty Technology Solutions

The Specialty Technology Solutions segment consists of sales to customers in North America and Brazil. For the quarter ended September 30, 2022, net sales for the Specialty Technology Solutions segment increased $74.6 million, or 14.9%, compared to the prior-year period. The increase in net sales for the quarter is primarily due to strong growth across 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. For the quarter ended September 30, 2022, net sales for the Modern Communications & Cloud segment increased $11.6 million, or 3.3%. Excluding the foreign exchange negative impact, adjusted net sales increased $12.2 million, or 3.4%, for the quarter ended September 30, 2022 compared to the prior-year period. The increase in net sales and adjusted net sales for the quarter is primarily due to increased demand for our communications solutions. For our Intelisys business, net sales for the first quarter of fiscal year 2023 increased 7.0% year-over-year.

Net Sales by Geography:	Quarter ended September 30, 2022	Quarter ended September 30, 2021	$ Change	% Change	% Change, Constant Currency, Excluding Divestitures and Acquisitions [(a)]
	(in thousands)				
United States and Canada	**$ 859,538**	$ 769,771	$ 89,767	11.7 %	11.7 %
International	**84,275**	87,812	(3,537)	(4.0)%	(3.3)%
Total net sales	**$ 943,813**	$ 857,583	$ 86,230	10.1 %	10.1 %

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

Gross Profit

The following table summarizes our gross profit for the quarters ended September 30, 2022 and 2021:

	Quarter ended September 30,				% of Net Sales September 30,	
	2022	2021	$ Change	% Change	2022	2021
	(in thousands)					
Specialty Technology Solutions	**$ 58,404**	$ 45,694	$ 12,710	27.8 %	**10.1 %**	9.1 %
Modern Communications & Cloud	**55,081**	55,878	(797)	(1.4)%	**15.0 %**	15.7 %
Gross profit	**$ 113,485**	$ 101,572	$ 11,913	11.7 %	**12.0 %**	11.8 %

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 quarter ended September 30, 2022, gross profit dollars for the Specialty Technology Solutions segment increased $12.7 million, or 27.8%. Higher sales volume, after considering the associated cost of goods sold, contributed $6.8 million to the growth of gross profit dollars. Gross margin mix positively impacted gross profit by $5.9 million, largely from a more favorable sales mix. For the quarter ended September 30, 2022, the gross profit margin increased 103 basis points over the prior-year to 10.1%.

Modern Communications & Cloud

For the quarter ended September 30, 2022, the Modern Communications & Cloud segment gross profit decreased by $0.8 million, or 1.4%. Higher sales volume, after considering the associated cost of goods sold, positively contributed $1.8 million to gross profit dollars. Gross margin mix negatively impacted gross profit by $2.6 million, largely driven by a less favorable sales mix. For the quarter ended September 30, 2022, the gross profit margin decreased 71 basis points compared to the prior-year to 15.0%.

Operating Expenses

The following table summarizes our operating expenses for the quarters ended September 30, 2022 and 2021:

	Quarter ended September 30,				% of Net Sales September 30,	
	2022	2021	$ Change	% Change	2022	2021
	(in thousands)					
Selling, general and administrative expenses	**$ 71,593**	$ 63,854	$ 7,739	12.1 %	**7.6 %**	7.4 %
Depreciation expense	**2,763**	2,880	(117)	(4.1)%	**0.3 %**	0.3 %
Intangible amortization expense	**4,241**	4,510	(269)	(6.0)%	**0.4 %**	0.5 %
Operating expenses	**$ 78,597**	$ 71,244	$ 7,353	10.3 %	**8.3 %**	8.3 %

Selling, general and administrative expenses ("SG&A") increased $7.7 million for the quarter ended September 30, 2022 compared to the prior-year period. The increase is primarily attributable to higher employee costs.

Operating Income

The following table summarizes our operating income for the quarters ended September 30, 2022 and 2021:

	Quarter ended September 30,				% of Net Sales September 30,	
	2022	2021	$ Change	% Change	2022	2021
	(in thousands)					
Specialty Technology Solutions	**$ 21,852**	$ 14,104	$ 7,748	54.9 %	**3.8 %**	2.8 %
Modern Communications & Cloud	**13,036**	16,307	(3,271)	(20.1)%	**3.5 %**	4.6 %
Corporate	**—**	(83)	83	nm*	**nm***	nm*
Operating income	**$ 34,888**	$ 30,328	$ 4,560	15.0 %	**3.7 %**	3.5 %

**nm - percentages are not meaningful*

Specialty Technology Solutions

For the Specialty Technology Solutions segment, operating income increased $7.7 million for the quarter ended September 30, 2022 compared to the prior-year period. Operating margin increased to 3.8% for the quarter ended September 30, 2022. The increase in operating income and margin for the quarter is primarily due to higher gross profits.

Modern Communications & Cloud

For the Modern Communications & Cloud segment, operating income decreased $3.3 million for the quarter ended September 30, 2022, compared to the prior-year period. Operating margin decreased to 3.5% for the quarter ended September 30, 2022. The decrease in operating income and margin for the quarter is primarily due to higher employee costs.

Corporate

Corporate recognized no restructuring or divestiture expenses for the quarter ended September 30, 2022, compared to $0.1 million in the prior-year quarter.

Total Other (Income) Expense

The following table summarizes our total other (income) expense for the quarters ended September 30, 2022 and 2021:

	Quarter ended September 30,				% of Net Sales September 30,	
	2022	2021	$ Change	% Change	2022	2021
	(in thousands)					
Interest expense	**$ 3,448**	$ 1,660	$ 1,788	107.7 %	**0.4 %**	0.2 %
Interest income	**(1,589)**	(1,026)	(563)	(54.9)%	**(0.2)%**	(0.1)%
Net foreign exchange losses	**922**	485	437	90.1 %	**0.1 %**	0.1 %
Other, net	**(176)**	(222)	46	20.7 %	**(0.0)%**	(0.0)%
Total other expense, net	**$ 2,605**	$ 897	$ 1,708	190.4 %	**0.3 %**	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 for the quarter ended September 30, 2022 compared to the prior-year, primarily from higher borrowings and increases in interest rates on our multi-currency revolving credit facility.

Interest income for the quarter ended September 30, 2022 was generated on interest-bearing customer receivables principally in Brazil.

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

Provision for Income Taxes

For the quarter ended September 30, 2022, income tax expense was $8.2 million reflecting an effective tax rate of 25.5%. In comparison, for the quarter ended September 30, 2021, income tax expense was $7.4 million, reflecting an effective tax rate of 25.0%. The increase in the effective tax rate for the quarter is primarily due to an increase in non-deductible expenses and a decrease in creditable foreign taxes compared to the prior-year quarter. A discrete tax benefit of $0.5 million was recognized in the September 30, 2022 quarter, primarily attributable to the notional interest deduction on the net equity of the Company's Brazilian subsidiary. We expect the effective tax rate, excluding discrete items, for fiscal year 2023 to be approximately 26.4% to 27.4%. See Note 13 - *Income Taxes* to the Notes to Consolidated Financial Statements for further discussion.

Non-GAAP Financial Information

Evaluating Financial Condition and Operating Performance

In addition to disclosing results that are determined in accordance with United States generally accepted accounting principles ("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, share-based compensation expense, changes in fair value of contingent consideration, 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.
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 quarters ended September 30, 2022 and 2021, respectively:

	Quarter ended September 30,	
	2022	**2021**
Adjusted return on invested capital ratio, annualized [(a)]	**15.6 %**	17.5 %

(a) The annualized EBITDA amount is divided by days in the quarter times 365 days per year, or 366 days for leap year. There were 92 days in the current and prior-year quarter.

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

	Quarter ended September 30,	
	2022	2021
	(in thousands)	
Reconciliation of net income to adjusted EBITDA:		
Net income (GAAP)	**$ 24,042**	$ 22,073
Plus: Interest expense	**3,448**	1,660
Plus: Income taxes	**8,241**	7,358
Plus: Depreciation and amortization	**7,228**	7,650
EBITDA (non-GAAP)	**42,959**	38,741
Plus: Share-based compensation	**2,316**	2,570
Plus: Acquisition and divestiture costs [a]	**—**	83
Adjusted EBITDA (numerator for adjusted ROIC) (non-GAAP)	**$ 45,275**	$ 41,394

	Quarter ended September 30,	
	2022	2021
	(in thousands)	
Invested capital calculations:		
Equity – beginning of the quarter	**$ 806,528**	$ 731,191
Equity – end of the quarter	**827,004**	746,094
Plus: Share-based compensation, net	**1,718**	1,922
Plus: Acquisition and divestiture costs [a]	**—**	83
Average equity	**817,625**	739,645
Average funded debt [b]	**336,428**	197,406
Invested capital (denominator for adjusted ROIC) (non-GAAP)	**$ 1,154,053**	$ 937,051

(a) Acquisition and divestiture costs are generally nondeductible 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:

	Quarter ended September 30, 2022	2021	$ Change	% Change
Specialty Technology Solutions:	*(in thousands)*			
Net sales, reported	**$ 576,329**	$ 501,711	$ 74,618	14.9 %
Foreign exchange impact [a]	**60**	—		
Non-GAAP net sales, constant currency	**$ 576,389**	$ 501,711	$ 74,678	14.9 %
Modern Communications & Cloud:				
Net sales, reported	**$ 367,484**	$ 355,872	$ 11,612	3.3 %
Foreign exchange impact [a]	**613**	—		
Non-GAAP net sales, constant currency	**$ 368,097**	$ 355,872	$ 12,225	3.4 %
Consolidated:				
Net sales, reported	**$ 943,813**	$ 857,583	$ 86,230	10.1 %
Foreign exchange impact [a]	**673**	—		
Non-GAAP net sales, constant currency	**$ 944,486**	$ 857,583	$ 86,903	10.1 %

[a] Year-over-year net sales growth rate excluding the translation impact of changes in foreign currency exchange rates. Calculated by translating the net sales for the quarter ended September 30, 2022 into U.S. dollars using the average foreign exchange rates for the quarter ended September 30, 2021.

Net Sales by Geography:

	Quarter ended September 30, 2022	2021	$ Change	% Change
United States and Canada:	*(in thousands)*			
Net sales, as reported	**$ 859,538**	$ 769,771	$ 89,767	11.7 %
International:				
Net sales, reported	**$ 84,275**	$ 87,812	$ (3,537)	(4.0)%
Foreign exchange impact [a]	**673**	—		
Non-GAAP net sales, constant currency	**$ 84,948**	$ 87,812	$ (2,864)	(3.3)%
Consolidated:				
Net sales, reported	**$ 943,813**	$ 857,583	$ 86,230	10.1 %
Foreign exchange impact [a]	**673**	—		
Non-GAAP net sales, constant currency	**$ 944,486**	$ 857,583	$ 86,903	10.1 %

[a] Year-over-year net sales growth rate excluding the translation impact of changes in foreign currency exchange rates. Calculated by translating the net sales for the quarter ended September 30, 2022 into U.S. dollars using the average foreign exchange rates for the quarter ended September 30, 2021.

Operating Income by Segment:

	Quarter ended September 30,				% of Net Sales September 30,	
	2022	2021	$ Change	% Change	2022	2021
Specialty Technology Solutions:	*(in thousands)*					
GAAP operating income	**$ 21,852**	$ 14,104	$ 7,748	54.9 %	**3.8 %**	2.8 %
Adjustments:						
Amortization of intangible assets	**1,341**	1,531	(190)			
Non-GAAP operating income	**$ 23,193**	$ 15,635	$ 7,558	48.3 %	**4.0 %**	3.1 %
Modern Communications & Cloud:						
GAAP operating income	**$ 13,036**	$ 16,307	$ (3,271)	(20.1)%	**3.5 %**	4.6 %
Adjustments:						
Amortization of intangible assets	**2,900**	2,979	(79)			
Non-GAAP operating income	**$ 15,936**	$ 19,286	$ (3,350)	(17.4)%	**4.3 %**	5.4 %
Corporate:						
GAAP operating loss	**$ —**	$ (83)	$ 83	nm*	**nm***	nm*
Adjustments:						
Acquisition and divestiture costs	**—**	83	(83)			
Non-GAAP operating income	**$ —**	$ —	$ —	nm*	**nm***	nm*
Consolidated:						
GAAP operating income	**$ 34,888**	$ 30,328	$ 4,560	15.0 %	**3.7 %**	3.5 %
Adjustments:						
Amortization of intangible assets	**4,241**	4,510	(269)			
Acquisition and divestiture costs	**—**	83	(83)			
Non-GAAP operating income	**$ 39,129**	$ 34,921	$ 4,208	12.1 %	**4.1 %**	4.1 %

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:

	Quarter ended September 30, 2022			
	GAAP Measure	**Intangible amortization expense**	**Acquisition and divestiture costs**	**Non-GAAP measure**
	(in thousands, except per share data)			
SG&A expenses	**$ 71,593**	**$ —**	**$ —**	**$ 71,593**
Operating income	**34,888**	**4,241**	**—**	**39,129**
Pre-tax income	**32,283**	**4,241**	**—**	**36,524**
Net income	**24,042**	**3,161**	**—**	**27,203**
Diluted EPS	**$ 0.94**	**$ 0.12**	**$ —**	**$ 1.07**

	Quarter ended September 30, 2021			
	GAAP Measure	**Intangible amortization expense**	**Acquisition and divestiture costs**	**Non-GAAP measure**
	(in thousands, except per share data)			
SG&A expenses	$ 63,854	$ —	$ (83)	$ 63,771
Operating income	30,328	4,510	83	34,921
Pre-tax income	29,431	4,510	83	34,024
Net income	22,073	3,394	83	25,550
Diluted EPS	$ 0.86	$ 0.13	$ —	$ 0.99

Liquidity and Capital Resources

Our primary sources of liquidity are cash flows from operations and borrowings under our $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 vendors, cash generated from operations and revolving lines of credit. In general, as our sales volumes increase, our net investment in working capital increases, which typically results in decreased cash flow from operating activities. Conversely, when sales volumes decrease, our net investment in working capital typically decreases, which typically results in increased cash flow from operating activities.

Our cash and cash equivalents balance totaled $40.5 million at September 30, 2022, compared to $38.0 million at June 30, 2022, including $33.1 million and $35.0 million held outside of the United States at September 30, 2022 and June 30, 2022, respectively. Checks released but not yet cleared in the amounts of $11.5 million and $18.0 million are included in accounts payable at September 30, 2022 and June 30, 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 $84.1 million to $793.6 million at September 30, 2022 from $709.5 million at June 30, 2022, primarily from increases in accounts receivable and 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 quarter ended September 30, 2022, our working capital investment increased to support our 10.1% year-over-year net sales growth.

	Three months ended September 30,	
	2022	**2021**
	(in thousands)	
Cash (used in) provided by:		
Operating activities	**$ (48,459)**	$ (56,959)
Investing activities	**(1,758)**	(1,090)
Financing activities	**54,044**	54,860

Net cash used in operating activities was $48.5 million for the three months ended September 30, 2022, compared to $57.0 million used in operating activities in the prior-year period. Cash used in operating activities for the three months ended September 30, 2022 is attributable to increases in inventory and accounts receivable, which increased 10% and 2%, respectively, compared to the beginning of the three month period. Cash used in operating activities for the three months ended September 30, 2021 is primarily attributable to increases in accounts receivable and inventory, which increased 4% and 5%, respectively, compared to the beginning of the three month period. Also contributing to the decrease in operating cash flows for the three months ended September 30, 2021 were decreases in accounts payable, which decreased by 5% compared to the beginning of the three month 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 71 days at September 30, 2022, compared to 68 days at June 30, 2022 and 62 days at September 30, 2021. The increase in DSO for the quarter ended September 30, 2022 is primarily due to increased net receivables, driven by project specific customer terms and timing of sales near the end of the reporting period. Inventory turned 5.1 times during the quarter ended September 30, 2022, compared to 5.6 times for previous quarter ended June 30, 2022 and 6.3 times in the prior-year quarter ended September 30, 2021. The decrease in inventory turns for the quarter ended September 30, 2022 is primarily due to increased average inventory.

Cash used in investing activities for the three months ended September 30, 2022 was $1.8 million, compared to $1.1 million used in investing activities in the prior-year period. Cash used in investing activities for the three months ended September 30, 2022 and 2021 represent capital expenditures, primarily for IT investments.

Management expects capital expenditures for fiscal year 2023 to range from $6.5 million to $8.5 million, primarily for IT investments and facility improvements.

For the three months ended September 30, 2022, cash provided by financing activities totaled $54.0 million, compared to $54.9 million provided by financing activities for the prior-year period. Cash provided by financing activities for the three months ended September 30, 2022 and 2021 is primarily attributable to net borrowings on the revolving credit facility.

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 Amended Credit Agreement extends the 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 $1.5 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, shall bear interest at a rate per annum equal to, at our option, (i) the adjusted Term SOFR or daily simple SOFR rate plus a fixed credit spread adjustment of 0.10%, 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 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 our leverage ratio, plus, if applicable, certain mandatory costs. Loans denominated in foreign currencies shall bear interest at a rate per annum equal to the applicable benchmark rate set forth in the New Credit Agreement plus an additional margin ranging from 1.00% to 1.75%, depending upon our leverage ratio, plus, if applicable, certain mandatory costs. All swingline loans denominated in U.S. dollars shall bear interest based upon the adjusted daily simple SOFR, floating daily, 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.

During the quarter ended September 30, 2022, our borrowings under the credit facility were U.S. dollar loans. The spread in effect as of September 30, 2022 was 1.50% for LIBOR and SOFR-based loans and 0.50% for alternate base rate loans. The commitment fee rate in effect at September 30, 2022 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 at the end of each fiscal quarter. In the event of a default, customary remedies are available to the lenders, including acceleration and increased interest rates. We were in compliance with all covenants under the credit facility at September 30, 2022.

The average daily outstanding balance on the revolving credit facility, excluding the term loan facility, during the three month periods ended September 30, 2022 and 2021 was $200.5 million and $54.4 million, respectively. There was $177.3 million and $214.2 million available for additional borrowings as of September 30, 2022 and June 30, 2022, respectively. There were no letters of credit issued under the multi-currency revolving credit facility at September 30, 2022 or June 30, 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 Credit Facility 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. While we were in compliance with the financial covenants contained in the Credit Facility as of September 30, 2022, 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.

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.

Accounting Standards Recently Issued

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

Critical Accounting Policies and Estimates

Critical accounting policies are those that are important to our financial condition and require management's most difficult, subjective or complex judgments. Different amounts would be reported under different operating conditions or under alternative assumptions. See Management's Discussion and Analysis of Financial Condition and Results from Operations in our Annual Report on Form 10-K for the fiscal year ended June 30, 2022 for a complete discussion.

Item 3. Quantitative and Qualitative Disclosures About Market Risk

For a description of our market risks, see Part II, Item 7A. "Quantitative and Qualitative Disclosures About Market Risk" in our Annual Report on Form 10-K for the fiscal year ended June 30, 2022. No material changes have occurred to our market risks since June 30, 2022.

Item 4. Controls and Procedures

An evaluation was carried out under the supervision and with the participation of our management, including our Chief Executive Officer ("CEO") and Chief Financial Officer ("CFO") of the effectiveness of our disclosure controls and procedures at September 30, 2022. Based on that evaluation, our management, including the CEO and CFO, concluded that our disclosure controls and procedures are effective at September 30, 2022. During the quarter ended September 30, 2022, there was no change in our internal control over financial reporting that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

PART II. OTHER INFORMATION

Item 1. Legal Proceedings

The Company and our subsidiaries are, from time to time, parties to lawsuits arising out of operations. Although there can be no assurance, based upon information known to us, we believe that any liability resulting from an adverse determination of such lawsuits would not have a material adverse effect on our financial condition or results of operations. For a description of our material legal proceedings, see Note 12 - *Commitments and Contingencies* in the notes to the condensed consolidated financial statements, which is incorporated herein by reference.

Item 1A. Risk Factors

In addition to the risk factors discussed in our other reports and statements that we file with the SEC, you should carefully consider the factors discussed in Part I, Item 1A. "Risk Factors" in our Annual Report on Form 10-K for the year ended June 30, 2022, which could materially affect our business, financial condition and/or future operating results.

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

Purchases of Equity Securities by the Issuer

In August 2021, our Board of Directors authorized a $100 million share repurchase program. The authorization does not have any time limit. The following table presents the share-repurchase activity for the quarter ended September 30, 2022:

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
July 1 - 31, 2022	—	$ —	—	$ 81,814,854
August 1 - 31, 2022	20,822	$ 28.66	—	$ 81,814,854
September 1 - 30, 2022	—	$ —	—	$ 81,814,854
Total	20,822		—	

[1] Includes 20,822 shares withheld from employees' stock-based awards to satisfy required tax withholding obligations for the month of August 2022. There were no shares withheld during the months of July and September 2022.

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. Exhibits

Exhibit Number	Description
10.1	Third Amended and Restated Credit Agreement
31.1	Certification of the Chief Executive Officer, Pursuant to Rule 13a-14(a)/15d-14(a) of the Securities Exchange Act of 1934, as amended, as Adopted Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.2	Certification of the Chief Financial Officer, Pursuant to Rule 13a-14(a)/15d-14(a) of the Securities Exchange Act of 1934, as amended, as Adopted Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32.1	Certification of the Chief Executive Officer, Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
32.2	Certification of the Chief Financial Officer, Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
101	The following materials from our Quarterly Report on Form 10-Q for the quarter ended September 30, 2022, formatted in Inline XBRL (eXtensible Business Reporting Language): (i) the Condensed Consolidated Balance Sheets at September 30, 2022 and June 30, 2022; (ii) the Condensed Consolidated Income Statements for the quarters ended September 30, 2022 and 2021; (iii) the Condensed Consolidated Statements of Comprehensive (Loss) Income for the quarters ended September 30, 2022 and 2021; (iv) the Condensed Consolidated Statements of Shareholder's Equity at September 30, 2022 and 2021; (v) the Condensed Consolidated Statements of Cash Flows for the three months ended September 30, 2022 and 2021; and (vi) the Notes to the Condensed Consolidated Financial Statements. The instance document does not appear in the Interactive Data File because XBRL tags are embedded within the Inline XBRL
104	Cover page Inline XBRL File (Included in Exhibit 101)

SIGNATURES

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

		ScanSource, Inc.
Date:	November 8, 2022	/s/ MICHAEL L. BAUR
		Michael L. Baur Chairman and Chief Executive Officer (Principal Executive Officer)
Date:	November 8, 2022	/s/ STEVE JONES
		Steve Jones Senior Executive Vice President and Chief Financial Officer (Principal Financial Officer)

Exhibit 31.1

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

I, Michael L. Baur, certify that:

1. I have reviewed this quarterly report on Form 10-Q of ScanSource, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
   (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
   (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
   (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
   (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing equivalent functions):
   (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
   (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

/s/ MICHAEL L. BAUR

Michael L. Baur
Chairman and Chief Executive Officer
(Principal Executive Officer)

Date: November 8, 2022

Exhibit 31.2

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

I, Steve Jones, certify that:

1. I have reviewed this quarterly report on Form 10-Q of ScanSource, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
   (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
   (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
   (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
   (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing equivalent functions):
   (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
   (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

/s/ STEVE JONES

Steve Jones
Senior Executive Vice President and Chief Financial Officer
(Principal Financial Officer)

Date: November 8, 2022

Exhibit 32.1

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

In connection with the quarterly report of ScanSource, Inc. (the "Company") on Form 10-Q for the quarter ended September 30, 2022 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), the undersigned officer of the Company certifies, pursuant to 18 U.S.C. § 1350, as adopted pursuant to § 906 of the Sarbanes-Oxley Act of 2002, that:

1) The Report fully complies with the requirements of §13(a) or 15(d) of the Securities Exchange Act of 1934 (the "Exchange Act"); and

2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: November 8, 2022

/s/ MICHAEL L. BAUR

Michael L. Baur
Chairman and Chief Executive Officer
(Principal Executive Officer)

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

Exhibit 32.2

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

In connection with the quarterly report of ScanSource, Inc. (the "Company") on Form 10-Q for the quarter ended September 30, 2022 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), the undersigned officer of the Company certifies, pursuant to 18 U.S.C. § 1350, as adopted pursuant to § 906 of the Sarbanes-Oxley Act of 2002, that:

1) The Report fully complies with the requirements of §13(a) or 15(d) of the Securities Exchange Act of 1934 (the "Exchange Act"); and

2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: November 8, 2022

/s/ STEVE JONES

Steve Jones
Senior Executive Vice President and Chief Financial Officer
(Principal Financial Officer)

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