# 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, 2023**

**OR**

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

**For the transition period from ____ to ____**

**Commission File Number: 000-26926**

---

## ScanSource, Inc.

**South Carolina**
**(State of Incorporation)**

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

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

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

| Title of each class: | Trading Symbol: | Name of 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, 2023 |
|---|---|
| **Common Stock, no par value per share** | **24,966,931 shares** |

**SCANSOURCE, INC.**
**INDEX TO FORM 10-Q**
**September 30, 2023**

## 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: 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 attack, a failure of the Company's IT systems, failure to hire and retain quality employees, loss of the Company's major customers, relationships with the Company's key suppliers and sales partners or a termination or a significant modification of the terms under which it operates with such suppliers and sales partners, 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, 2023.

## PART I. FINANCIAL INFORMATION

### Item 1. Financial Statements

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

| | September 30, 2023 | June 30, 2023 |
|---|---|---|
| Assets | | |
| Current assets: | | |
| Cash and cash equivalents | $ 42,647 | $ 36,178 |
| Accounts receivable, less allowance of $19,570 at September 30, 2023 and $15,480 at June 30, 2023 | 691,669 | 753,236 |
| Inventories | 656,170 | 757,574 |
| Prepaid expenses and other current assets | 116,949 | 110,087 |
| Total current assets | 1,507,435 | 1,657,075 |
| Property and equipment, net | 36,745 | 37,379 |
| Goodwill | 215,152 | 216,706 |
| Identifiable intangible assets, net | 63,675 | 68,495 |
| Deferred income taxes | 16,421 | 17,764 |
| Other non-current assets | 59,107 | 70,750 |
| Total assets | $ 1,898,535 | $ 2,068,169 |
| Liabilities and Shareholders' Equity | | |
| Current liabilities: | | |
| Accounts payable | $ 617,594 | $ 691,119 |
| Accrued expenses and other current liabilities | 67,138 | 78,892 |
| Income taxes payable | 8,108 | 9,875 |
| Current portion of long-term debt | 8,209 | 6,915 |
| Total current liabilities | 701,049 | 786,801 |
| Deferred income taxes | 3,679 | 3,816 |
| Long-term debt, net of current portion | 141,774 | 144,006 |
| Borrowings under revolving credit facility | 98,125 | 178,980 |
| Other long-term liabilities | 38,655 | 49,268 |
| Total liabilities | 983,282 | 1,162,871 |
| Commitments and contingencies | | |
| Shareholders' equity: | | |
| Preferred stock, no par value; 3,000,000 shares authorized, none issued | — | — |
| Common stock, no par value; 45,000,000 shares authorized, 24,960,231 and 24,844,203 shares issued and outstanding at September 30, 2023 and June 30, 2023, respectively | 59,501 | 58,241 |
| Retained earnings | 952,110 | 936,678 |
| Accumulated other comprehensive loss | (96,358) | (89,621) |
| Total shareholders' equity | 915,253 | 905,298 |
| Total liabilities and shareholders' equity | $ 1,898,535 | $ 2,068,169 |

June 30, 2023 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, 2023 | Quarter ended September 30, 2022 |
|---|---|---|
| Net sales | **$ 876,305** | $ 943,813 |
| Cost of goods sold | **769,797** | 830,328 |
| Gross profit | **106,508** | 113,485 |
| Selling, general and administrative expenses | **75,436** | 71,593 |
| Depreciation expense | **2,795** | 2,763 |
| Intangible amortization expense | **4,193** | 4,241 |
| Operating income | **24,084** | 34,888 |
| Interest expense | **5,585** | 3,448 |
| Interest income | **(1,325)** | (1,589) |
| Other expense, net | **677** | 746 |
| Income before income taxes | **19,147** | 32,283 |
| Provision for income taxes | **3,715** | 8,241 |
| Net income | **$ 15,432** | $ 24,042 |
| | | |
| Per share data: | | |
| Net income per common share, basic | **$ 0.62** | $ 0.95 |
| Weighted-average shares outstanding, basic | **24,886** | 25,201 |
| | | |
| Net income per common share, diluted | **$ 0.61** | $ 0.94 |
| Weighted-average shares outstanding, diluted | **25,178** | 25,451 |

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, 2023 | Quarter ended September 30, 2022 |
|---|---|---|
| Net income | **$ 15,432** | $ 24,042 |
| Unrealized gain on hedged transaction, net of tax | **153** | 1,879 |
| Foreign currency translation adjustment | **(6,890)** | (7,217) |
| Comprehensive income | **$ 8,695** | $ 18,704 |

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, 2023 | 24,844,203 | $ 58,241 | $ 936,678 | $ (89,621) | $ 905,298 |
| Net income | — | — | 15,432 | — | 15,432 |
| Unrealized gain on hedged transaction, net of tax | — | — | — | 153 | 153 |
| Foreign currency translation adjustment | — | — | — | (6,890) | (6,890) |
| Exercise of stock options and shares issued under share-based compensation plans, net of shares withheld for employee taxes | 116,028 | (1,510) | — | — | (1,510) |
| Share-based compensation | — | 2,770 | — | — | 2,770 |
| Balance at September 30, 2023 | 24,960,231 | $ 59,501 | $ 952,110 | $ (96,358) | $ 915,253 |

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 CASH FLOWS (UNAUDITED)**
**(In thousands)**

| | Quarter ended September 30, | |
|---|---|---|
| | **2023** | **2022** |
| Cash flows from operating activities: | | |
| Net income | **$ 15,432** | $ 24,042 |
| Adjustments to reconcile net income to net cash provided by (used in) operating activities: | | |
| Depreciation and amortization | **7,217** | 7,228 |
| Amortization of debt issue costs | **96** | 289 |
| Provision for doubtful accounts | **4,157** | 125 |
| Share-based compensation | **2,769** | 2,316 |
| Deferred income taxes | **1,303** | 2,274 |
| Finance lease interest | **15** | 2 |
| Changes in operating assets and liabilities: | | |
| Accounts receivable | **53,284** | (18,799) |
| Inventories | **99,630** | (62,192) |
| Prepaid expenses and other assets | **(7,743)** | 14,690 |
| Other non-current assets | **11,227** | (9,469) |
| Accounts payable | **(70,292)** | (1,053) |
| Accrued expenses and other liabilities | **(21,764)** | (13,168) |
| Income taxes payable | **(1,798)** | 5,256 |
| Net cash provided by (used in) operating activities | **93,533** | (48,459) |
| Cash flows from investing activities: | | |
| Capital expenditures | **(2,315)** | (684) |
| Net cash used in investing activities | **(2,315)** | (684) |
| Cash flows from financing activities: | | |
| Borrowings on revolving credit, net of expenses | **588,570** | 579,011 |
| Repayments on revolving credit, net of expenses | **(669,424)** | (542,147) |
| (Repayments) borrowings on long-term debt, net | **(938)** | 18,402 |
| Repayments on finance lease obligation | **(191)** | (303) |
| Debt issuance costs | **—** | (1,407) |
| Exercise of stock options | **72** | 10 |
| Taxes paid on settlement of equity awards | **(1,582)** | (596) |
| Net cash (used in) provided by financing activities | **(83,493)** | 52,970 |
| Effect of exchange rate changes on cash and cash equivalents | **(1,256)** | (1,342) |
| Increase in cash and cash equivalents | **6,469** | 2,485 |
| Cash and cash equivalents at beginning of period | **36,178** | 37,987 |
| Cash and cash equivalents at end of period | **$ 42,647** | $ 40,472 |

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, networking, physical security, unified communications and collaboration, telecom and cloud services to market. The Company operates in the United States, Canada, Brazil and the United Kingdom ("UK"). The Company's two operating segments, Specialty Technology Solutions and Modern Communications & Cloud, are based on technology type and are generally related to technology devices and communication, connectivity and cloud services, respectively.

*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, 2023 and June 30, 2023, the results of operations for the quarters ended September 30, 2023 and 2022, the condensed consolidated statements of comprehensive income for the quarters ended September 30, 2023 and 2022, the condensed consolidated statements of shareholders' equity for the quarters ended September 30, 2023 and 2022 and the condensed consolidated statements of cash flows for the quarters ended September 30, 2023 and 2022. The results of operations for the quarter ended September 30, 2023 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, 2023. Unless otherwise indicated, disclosures provided in the Notes pertain to continuing operations only.

*Summary of Significant Accounting Policies*

There have been no material changes to the Company’s significant accounting policies for the quarter ended September 30, 2023 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, 2023. 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, 2023.

*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 $10.3 million and $8.0 million are included in accounts payable on the condensed consolidated balance sheets at September 30, 2023 and June 30, 2023, 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 quarters ended September 30, 2023 and 2022. Depreciation expense reported as part of cost of goods sold on the condensed consolidated income statements totaled $0.2 million for the quarters ended September 30, 2023 and 2022. 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 quarters ended September 30, 2023 and 2022.

*Recent Accounting Pronouncements*

In July 2023, the Securities and Exchange Commission issued final rules that require new and enhanced disclosures on cybersecurity risk management, strategy, governance, and incident reporting. Under the final rules, companies must report material cybersecurity incidents within four business days of determining the incident is material on Form 8-K. As additional information about the material aspects of the previously reported incidents become available, a Form 8-K/A must be filed with the additional disclosures. These disclosure requirements on Form 8-K are effective beginning December 18, 2023. For fiscal years ending on or after December 15, 2023, companies must disclose their cybersecurity processes, management's role in cybersecurity governance, and cybersecurity oversight by the Board of Directors on Form 10-K.

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, 2023 are set forth in the table below.

| | June 30, 2023 | Amounts Charged to Expense | Write-offs | Other [(1)] | September 30, 2023 |
|---|---|---|---|---|---|
| | | | *(in thousands)* | | |
| Trade accounts and current notes receivable allowance | **$ 15,480** | **$ 4,157** | **$ (594)** | **$ 527** | **$ 19,570** |

(1) "Other" amounts include recoveries and the effect of foreign currency fluctuations for the three months ended September 30, 2023.

**(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 a 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, 2023 | | |
|---|---|---|---|
| | **Specialty Technology Solutions** | **Modern Communications & Cloud** | **Total** |
| | | ***(in thousands)*** | |
| Revenue by product/service | | | |
| Hardware, software and cloud (excluding Intelisys) | **$ 509,570** | **$ 346,232** | **$ 855,802** |
| Intelisys connectivity and cloud | **—** | **20,503** | **20,503** |
| | **$ 509,570** | **$ 366,735** | **$ 876,305** |

| | 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 |

**(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, | |
|---|---|---|
| | **2023** | **2022** |
| | *(in thousands, except per share data)* | |
| Numerator: | | |
| Net income | **$ 15,432** | $ 24,042 |
| Denominator: | | |
| Weighted-average shares, basic | **24,886** | 25,201 |
| Dilutive effect of share-based payments | **292** | 250 |
| Weighted-average shares, diluted | **25,178** | 25,451 |
| | | |
| Net income per common share, basic | **$ 0.62** | $ 0.95 |
| Net income per common share, diluted | **$ 0.61** | $ 0.94 |

For the quarters ended September 30, 2023 and 2022, weighted-average shares outstanding excluded from the computation of diluted earnings per share because their effect would be anti-dilutive were 854,893 and 1,128,445, respectively.

**(5) Accumulated Other Comprehensive Loss**

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

| | September 30, 2023 | June 30, 2023 |
|---|---|---|
| | *(in thousands)* | |
| Foreign currency translation adjustment | **$ (100,026)** | $ (93,136) |
| Unrealized gain on hedged transaction, net of tax | **3,668** | 3,515 |
| Accumulated other comprehensive loss | **$ (96,358)** | $ (89,621) |

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

| | Quarter ended September 30, | |
|---|---|---|
| | **2023** | **2022** |
| | *(in thousands)* | |
| Tax (benefit) expense | **$ (54)** | $ 414 |

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

The changes in the carrying amount of goodwill for the quarter ended September 30, 2023, by reporting segment, are set forth in the table below.

| | Specialty Technology Solutions | Modern Communications & Cloud | Total |
|---|---|---|---|
| | | *(in thousands)* | |
| Balance at June 30, 2023 | $ 16,370 | $ 200,336 | $ 216,706 |
| Foreign currency translation adjustment | — | (1,554) | (1,554) |
| Balance at September 30, 2023 | **$ 16,370** | **$ 198,782** | **$ 215,152** |

The following table shows changes in the amount recognized for net identifiable intangible assets for the three months ended September 30, 2023.

| | Net Identifiable Intangible Assets |
|---|---|
| | *(in thousands)* |
| Balance at June 30, 2023 | $ 68,495 |
| Amortization expense | (4,193) |
| Foreign currency translation adjustment | (627) |
| Balance at September 30, 2023 | **$ 63,675** |

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

The following table presents the Company's debt at September 30, 2023 and June 30, 2023.

| | September 30, 2023 | June 30, 2023 |
|---|---|---|
| | *(in thousands)* | |
| Current portion of long-term debt | **$ 8,209** | $ 6,915 |
| Mississippi revenue bond, net of current portion | **3,024** | 3,381 |
| Senior secured term loan facility, net of current portion | **138,750** | 140,625 |
| Borrowings under revolving credit facility | **98,125** | 178,980 |
| Total debt | **$ 248,108** | $ 329,901 |

*Credit Facility*

The Company has a multi-currency senior secured credit facility (as amended, the "Amended Credit Agreement") with JPMorgan Chase Bank N.A., as administrative agent, and a syndicate of banks (collectively the "Lenders"). On September 28, 2022, the Company amended and restated the Amended Credit Agreement, which includes (i) a five-year, $350 million multicurrency senior secured revolving credit facility and (ii) a five-year $150 million senior secured term loan facility. The Amended Credit Agreement extended the credit facility maturity date to September 28, 2027. In addition, pursuant to an "accordion feature," the Company may increase its borrowings up to an additional $250 million, subject to obtaining additional credit commitments from the lenders participating in the increase. The Amended Credit Agreement allows for the issuance of up to $50 million for letters of credit. Borrowings under the Amended Credit Agreement are guaranteed by substantially all of the domestic assets of the Company and its domestic subsidiaries. Under the terms of the revolving credit facility, the payment of cash dividends is restricted. The Company incurred debt issuance costs of $1.4 million in connection with the amendment and restatement of the Amended Credit Agreement. These costs were capitalized to other non-current assets on the Condensed Consolidated Balance Sheets and added to the unamortized debt issuance costs from the previous credit facility.

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

During the quarter ended September 30, 2023, the Company's borrowings under the credit facility were U.S. dollar loans. The spread in effect as of September 30, 2023 was 1.50%, plus a 0.10% credit spread adjustment for SOFR-based loans and 0.50% for alternate base rate loans. The commitment fee rate in effect at September 30, 2023 was 0.25%. The Amended Credit Agreement includes customary representations, warranties and affirmative and negative covenants, including financial covenants. Specifically, the Company's Leverage Ratio must be less than or equal to 3.50 to 1.00 at all times. In addition, the Company's Interest Coverage Ratio (as such term is defined in the Amended Credit Agreement) must be at least 3.00 to 1.00 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, 2023.

The average daily outstanding balance on the revolving credit facility, excluding the term loan facility, during the three month periods ended September 30, 2023 and 2022 was $200.9 million and $200.5 million, respectively. There was $251.9 million and $171.0 million available for additional borrowings as of September 30, 2023 and June 30, 2023, respectively. The effective interest rates for the revolving line of credit were 6.92% and 6.74% as of September 30, 2023 and June 30, 2023, respectively. There were no letters of credit issued under the multi-currency revolving credit facility at September 30, 2023 or June 30, 2023.

*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. The bond accrues interest at the one-month term SOFR plus an adjustment of 0.10% 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. 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, 2023, the Company was in compliance with all covenants under this bond. The interest rates at September 30, 2023 and June 30, 2023 were 6.28% and 6.11%, respectively.

*Debt Issuance Costs*

At September 30, 2023, net debt issuance costs associated with the credit facility and bond totaled $1.5 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 Condensed 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 $34.4 million and $34.3 million for the exchange of foreign currencies at September 30, 2023 and June 30, 2023, 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 quarter ended September 30, 2023 and 2022 are as follows:

| | Quarter ended September 30, | |
|---|---|---|
| | **2023** | **2022** |
| | ***(in thousands)*** | |
| Net foreign exchange derivative contract (gains) losses | **$ (368)** | $ 438 |
| Net foreign currency transactional and re-measurement losses | **1,064** | 484 |
| Net foreign currency exchange losses | **$ 696** | $ 922 |

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

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

On April 30, 2019, the Company entered into an interest rate swap agreement to lock into a fixed LIBOR interest rate, which was amended on September 28, 2022, to change the reference rate from LIBOR to SOFR. The swap agreement has a notional amount of $100.0 million, with a $50.0 million tranche scheduled to mature on April 30, 2024 and a $50.0 million tranche scheduled to mature April 30, 2026.

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

These interest rate swap agreements are designated as cash flow hedges to hedge the variable rate interest payments on the revolving credit facility. Interest rate differentials paid or received under the swap agreements are recognized as adjustments to interest expense. To the extent the swaps are effective in offsetting the variability of the hedged cash flows, changes in the fair value of the swaps are not included in current earnings but are reported as other comprehensive income (loss). There was no ineffective portion to be recorded as an adjustment to earnings for the quarter ended September 30, 2023 and 2022.

The components of the cash flow hedge included in the Condensed Consolidated Statement of Comprehensive Income for the quarter ended September 30, 2023 and 2022, are as follows:

| | Quarter ended September 30, | |
|---|---|---|
| | **2023** | **2022** |
| | ***(in thousands)*** | |
| Net interest (income) expense recognized as a result of interest rate swap | **$ (759)** | $ 32 |
| Unrealized gain in fair value of interest rate swap | **974** | 2,500 |
| Net increase in accumulated other comprehensive income | **215** | 2,532 |
| Income tax effect | **62** | 653 |
| Net increase in accumulated other comprehensive income, net of tax | **$ 153** | $ 1,879 |

The Company used the following derivative instruments at September 30, 2023 and June 30, 2023, reflected in its Condensed Consolidated Balance Sheets, for the risk management purposes detailed above:

Table of Contents

| | Balance Sheet Location | September 30, 2023 Fair Value of Derivatives Designated as Hedge Instruments | September 30, 2023 Fair Value of Derivatives Not Designated as Hedge Instruments | June 30, 2023 Fair Value of Derivatives Designated as Hedge Instruments | June 30, 2023 Fair Value of Derivatives Not Designated as Hedge Instruments |
|---|---|---|---|---|---|
| | | *(in thousands)* | | | |
| Derivative assets: | | | | | |
| Foreign exchange contracts | Prepaid expenses and other current assets | **—** | **$27** | — | $1 |
| Foreign currency hedge | Prepaid expenses and other current assets | **—** | **—** | $100 | — |
| Interest rate swap agreement | Other non-current assets | **$4,902** | **—** | $4,687 | — |
| Derivative liabilities: | | | | | |
| Foreign currency hedge | Accrued expenses and other current liabilities | **$108** | **—** | — | — |

**(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, 2023:

| | 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 | $ 28,773 | $ 28,773 | $ — |
| Forward foreign currency exchange contracts | 27 | — | 27 |
| Interest rate swap agreement | 4,902 | — | 4,902 |
| Total assets at fair value | $ 33,702 | $ 28,773 | $ 4,929 |
| **Liabilities:** | | | |
| Deferred compensation plan investments, current and non-current portion | $ 28,773 | $ 28,773 | $ — |
| Foreign currency hedge | 108 | — | 108 |
| Total liabilities at fair value | $ 28,881 | $ 28,773 | $ 108 |

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, 2023:

| | 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 | $ 28,209 | $ 28,209 | $ — |
| Forward foreign currency exchange contracts | 1 | — | 1 |
| Foreign currency hedge | 100 | — | 100 |
| Interest rate swap agreement | 4,687 | — | 4,687 |
| Total assets at fair value | $ 32,997 | $ 28,209 | $ 4,788 |
| **Liabilities:** | | | |
| Deferred compensation plan investments, current and non-current portion | $ 28,229 | $ 28,229 | $ — |
| Total liabilities at fair value | $ 28,229 | $ 28,229 | $ — |

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 SOFR 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 type.

*Specialty Technology Solutions Segment*

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

*Modern Communications & Cloud Segment*

The Modern Communications & Cloud segment includes the Company’s business in communications and collaboration, connectivity and cloud services. Communications and collaboration solutions, delivered in the cloud, on-premise or hybrid, include voice, video, integration of communication platforms and contact center solutions. The 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, 2023 | 2022 |
|---|---|---|
| | (in thousands) | |
| Sales: | | |
| Specialty Technology Solutions | **$ 509,570** | $ 576,329 |
| Modern Communications & Cloud | **366,735** | 367,484 |
| | **$ 876,305** | $ 943,813 |
| Depreciation and amortization: | | |
| Specialty Technology Solutions | **$ 2,756** | $ 2,702 |
| Modern Communications & Cloud | **3,741** | 3,649 |
| Corporate | **720** | 877 |
| | **$ 7,217** | $ 7,228 |
| Operating income (loss): | | |
| Specialty Technology Solutions | **$ 11,872** | $ 21,852 |
| Modern Communications & Cloud | **12,413** | 13,036 |
| Corporate | **(201)** | — |
| | **$ 24,084** | $ 34,888 |
| Capital expenditures: | | |
| Specialty Technology Solutions | **$ (1,261)** | $ (195) |
| Modern Communications & Cloud | **(1,054)** | (489) |
| | **$ (2,315)** | $ (684) |
| Sales by Geography Category: | | |
| United States and Canada | **$ 792,464** | $ 861,602 |
| International | **85,305** | 84,275 |
| Less intercompany sales | **(1,464)** | (2,064) |
| | **$ 876,305** | $ 943,813 |

| | September 30, 2023 | June 30, 2023 |
|---|---|---|
| | (in thousands) | |
| Assets: | | |
| Specialty Technology Solutions | **$ 1,016,749** | $ 1,104,103 |
| Modern Communications & Cloud | **881,786** | 964,066 |
| Corporate | **—** | — |
| | **$ 1,898,535** | $ 2,068,169 |
| Property and equipment, net by Geography Category: | | |
| United States and Canada | **$ 26,023** | $ 27,323 |
| International | **10,722** | 10,056 |
| | **$ 36,745** | $ 37,379 |

**(11) Leases**

In accordance with Accounting Standards Codification ("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 condensed consolidated financial statements at September 30, 2023 and the consolidated financial statements at June 30, 2023.

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 Sheets related to operating leases at September 30, 2023 and June 30, 2023:

| | | September 30, 2023 | June 30, 2023 |
|---|---|---|---|
| **Operating leases** | **Balance Sheet location** | *(in thousands)* | |
| Operating lease right-of-use assets | Other non-current assets | **$ 11,775** | $ 12,539 |
| Current operating lease liabilities | Accrued expenses and other current liabilities | **$ 4,270** | $ 4,355 |
| Long-term operating lease liabilities | Other long-term liabilities | **$ 8,569** | $ 9,329 |

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 quarter ended September 30, 2023 and 2022. 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, 2023 | Quarter ended September 30, 2022 |
|---|---|---|
| | *(in thousands)* | |
| Operating lease cost | **$ 1,209** | $ 1,286 |
| Variable lease cost | **383** | 344 |
| | **$ 1,592** | $ 1,630 |

Supplemental cash flow information related to the Company's operating leases for the three months ended September 30, 2023 and 2022 are presented in the table below:

| | Quarter ended September 30, 2023 | Quarter ended September 30, 2022 |
|---|---|---|
| | *(in thousands)* | |
| Cash paid for amounts in the measurement of lease liabilities | **$ 1,412** | $ 1,339 |
| Right-of-use assets obtained in exchange for lease obligations | **230** | 111 |

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

| | September 30, 2023 |
|---|---|
| Weighted-average remaining lease term | 3.41 years |
| Weighted-average discount rate | 4.58 % |

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

| | Operating leases |
|---|---|
| | *(in thousands)* |
| 2024 | $ 3,769 |
| 2025 | 3,677 |
| 2026 | 3,096 |
| 2027 | 2,678 |
| 2028 | 632 |
| Thereafter | — |
| Total future payments | 13,852 |
| Less: amounts representing interest | 1,013 |
| Present value of lease payments | $ 12,839 |

**(12) Commitments and Contingencies**

The Company is, from time to time, party 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 $3.4 million at September 30, 2023 and June 30, 2023.

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, 2023 and June 30, 2023:

| | September 30, 2023 | June 30, 2023 |
|---|---|---|
| | Network1 | |
| | *(in thousands)* | |
| **Assets** | | |
| Prepaid expenses and other current assets | **$ 16** | $ 16 |
| Other non-current assets | **$ 3,994** | $ 4,150 |
| **Liabilities** | | |
| Accrued expenses and other current liabilities | **$ 16** | $ 16 |
| Other long-term liabilities | **$ 3,994** | $ 4,150 |

**(13) Income Taxes**

Income taxes for the quarters ended September 30, 2023 and 2022 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, 2023, a discrete net tax benefit of $1.5 million was recorded for additional foreign tax credits permitted for the 2023 fiscal year as a result of the issuance of IRS Notice 2023-55. 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.

The Company’s effective tax rate of 19.4% for the quarter ended September 30, 2023, 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, state income taxes, and discrete items. The Company's effective tax rate was 25.5% for the quarter ended September 30, 2022.

As of September 30, 2023, 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, 2023, foreign subsidiaries did not repatriate cash 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 $1.2 million of total gross unrecognized tax benefits at September 30, 2023 and June 30, 2023. Of this total at September 30, 2023, approximately $1 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, 2023 and June 30, 2023, 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, 2018.

## 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 customers across hardware, SaaS, connectivity and cloud. We provide technology solutions and services from more than 500 leading suppliers of mobility, barcode, POS, payments, physical security, networking, unified communications, collaboration, connectivity and cloud services to our approximately 30,000 customers located in the United States, Canada, Brazil, the UK and Europe.

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

- Specialty Technology Solutions
- Modern Communications & Cloud

We sell hardware, SaaS, connectivity and cloud services from leading technology suppliers to customers that solve end users' challenges. 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 AT&T, Aruba/HPE, Avaya, Axis, Cisco, Comcast Business, Dell, Extreme, Five9, Hanwha, Honeywell, Ingenico, Lumen, Microsoft, NCR, Poly HP, RingCentral, Verifone, Verizon, Zebra Technologies and Zoom.

### Our Strategy

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

## Results of Operations

### *Net Sales*

We have two reportable segments, which are based on technology type. The following tables summarize our net sales results by business segment and by geographic location for the quarters ended September 30, 2023 and 2022:

| *Net Sales by Segment:* | Quarter ended September 30, 2023 | Quarter ended September 30, 2022 | $ Change | % Change | % Change, Constant Currency, Excluding Divestitures and Acquisitions [(a)] |
|---|---|---|---|---|---|
| | *(in thousands)* | | | | |
| Specialty Technology Solutions | **$ 509,570** | $ 576,329 | $ (66,759) | (11.6)% | (11.7)% |
| Modern Communications & Cloud | **366,735** | 367,484 | (749) | (0.2)% | (1.5)% |
| Total net sales | **$ 876,305** | $ 943,813 | $ (67,508) | (7.2)% | (7.7)% |

[(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, 2023, net sales for the Specialty Technology Solutions segment decreased $66.8 million, or 11.6%, compared to the prior-year period. Excluding the foreign exchange positive impact, adjusted net sales decreased $67.7 million, or 11.7% for the quarter ended September 30, 2023, compared to the prior-year period. The decrease in net sales and adjusted net sales is primarily due to lower sales volumes in mobility and barcoding, partially offset by increased networking and security sales.

***Modern Communications & Cloud***

The Modern Communications & Cloud segment consists of sales to customers in North America, Brazil and the UK. For the quarter ended September 30, 2023, net sales for the Modern Communications & Cloud segment decreased $0.7 million, or 0.2%, compared to the prior-year period. Excluding the foreign exchange positive impact, adjusted net sales decreased $5.4 million, or 1.5%, for the quarter ended September 30, 2023, compared to the prior-year period. The decrease in net sales and adjusted net sales for the quarter is primarily due to lower sales volumes in our communications hardware, partially offset by growth in Cisco products. Intelisys net billings increased to approximately $2.51 billion annualized, and Intelisys net sales for the quarter ended September 30, 2023 increased 8.8% year-over-year.

| *Net Sales by Geography:* | Quarter ended September 30, 2023 | Quarter ended September 30, 2022 | $ Change | % Change | % Change, Constant Currency, Excluding Divestitures and Acquisitions [(a)] |
|---|---|---|---|---|---|
| | *(in thousands)* | | | | |
| United States and Canada | **$ 791,000** | $ 859,538 | $ (68,538) | (8.0)% | (8.0)% |
| International | **85,305** | 84,275 | 1,030 | 1.2 % | (5.4)% |
| Total net sales | **$ 876,305** | $ 943,813 | $ (67,508) | (7.2)% | (7.7)% |

[(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, 2023 and 2022:

| | Quarter ended September 30, | | $ Change | % Change | % of Net Sales September 30, | |
|---|---|---|---|---|---|---|
| | **2023** | **2022** | | | **2023** | **2022** |
| | *(in thousands)* | | | | | |
| Specialty Technology Solutions | **$ 49,183** | $ 58,404 | $ (9,221) | (15.8)% | **9.7 %** | 10.1 % |
| Modern Communications & Cloud | **57,325** | 55,081 | 2,244 | 4.1 % | **15.6 %** | 15.0 % |
| Gross profit | **$ 106,508** | $ 113,485 | $ (6,977) | (6.1)% | **12.2 %** | 12.0 % |

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, 2023, gross profit dollars for the Specialty Technology Solutions segment decreased $9.2 million, or 15.8% compared to the prior year period. Lower sales volume, after considering the associated cost of goods sold, reduced gross profit dollars by $6.8 million. Gross profit margin decreased 48 basis points over the prior year to 9.7%. Gross margin mix negatively impacted gross profit by $2.5 million, largely from decreased vendor program recognition and a less favorable sales mix.

***Modern Communications & Cloud***

For the quarter ended September 30, 2023, gross profit dollars for the Modern Communications & Cloud segment increased $2.2 million, or 4.1%. Lower sales volume, after considering the associated cost of goods sold, reduced gross profit dollars by $0.1 million. Gross profit margin increased 64 basis points over the prior year to 15.6%. Gross margin mix positively impacted gross profit by $2.4 million, driven by higher vendor program recognition.

***Operating Expenses***

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

| | Quarter ended September 30, | | $ Change | % Change | % of Net Sales September 30, | |
|---|---|---|---|---|---|---|
| | **2023** | **2022** | | | **2023** | **2022** |
| | *(in thousands)* | | | | | |
| Selling, general and administrative expenses | **$ 75,436** | $ 71,593 | $ 3,843 | 5.4 % | **8.6 %** | 7.6 % |
| Depreciation expense | **2,795** | 2,763 | 32 | 1.2 % | **0.3 %** | 0.3 % |
| Intangible amortization expense | **4,193** | 4,241 | (48) | (1.1)% | **0.5 %** | 0.4 % |
| Operating expenses | **$ 82,424** | $ 78,597 | $ 3,827 | 4.9 % | **9.4 %** | 8.3 % |

Selling, general and administrative expenses ("SG&A") increased by $3.8 million, or 5.4%, for the quarter ended September 30, 2023, compared to the prior-year period. The increase for the quarter ended September 30, 2023 is primarily attributable to higher bad debt expense, due to increases in specific customer reserves.

***Operating Income***

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

| | Quarter ended September 30, | | | | % of Net Sales September 30, | |
|---|---|---|---|---|---|---|
| | 2023 | 2022 | $ Change | % Change | 2023 | 2022 |
| | (in thousands) | | | | | |
| Specialty Technology Solutions | **$ 11,872** | $ 21,852 | $ (9,980) | (45.7)% | **2.3 %** | 3.8 % |
| Modern Communications & Cloud | **12,413** | 13,036 | (623) | (4.8)% | **3.4 %** | 3.5 % |
| Corporate | **(201)** | — | (201) | nm* | **nm*** | nm* |
| Operating income | **$ 24,084** | $ 34,888 | $ (10,804) | (31.0)% | **2.7 %** | 3.7 % |

**nm - percentages are not meaningful*

***Specialty Technology Solutions***

For the Specialty Technology Solutions segment, operating income decreased $10.0 million, or 45.7% for the quarter ended September 30, 2023, compared to the prior-year period. Operating margin decreased to 2.3% for the quarter ended September 30, 2023. The decrease in operating income and margin for the quarter is primarily due to lower gross profits.

***Modern Communications & Cloud***

For the Modern Communications & Cloud segment, operating income decreased $0.6 million for the quarter ended September 30, 2023 compared to the prior-year period. Operating margin decreased to 3.4% for the quarter ended September 30, 2023. The decrease in operating income and margin is primarily attributable due to higher bad debt expense, due to increases in specific customer reserves.

***Corporate***

For the quarter ended September 30, 2023, Corporate operating loss of $0.2 million represents cyberattack restoration costs.

***Total Other (Income) Expense***

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

| | Quarter ended September 30, | | | | % of Net Sales September 30, | |
|---|---|---|---|---|---|---|
| | 2023 | 2022 | $ Change | % Change | 2023 | 2022 |
| | (in thousands) | | | | | |
| Interest expense | **$ 5,585** | $ 3,448 | $ 2,137 | 62.0 % | **0.6 %** | 0.4 % |
| Interest income | **(1,325)** | (1,589) | 264 | (16.6)% | **(0.2)%** | (0.2)% |
| Net foreign exchange losses | **696** | 922 | (226) | (24.5)% | **0.1 %** | 0.1 % |
| Other, net | **(19)** | (176) | 157 | (89.2)% | **(0.0)%** | (0.0)% |
| Total other expense, net | **$ 4,937** | $ 2,605 | $ 2,332 | 89.5 % | **0.6 %** | 0.3 % |

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, 2023 compared to the prior-year periods, primarily from higher interest rates and higher average borrowings on our multi-currency revolving credit facility.

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

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

***Provision for Income Taxes***

For the quarter ended September 30, 2023, income tax expense was $3.7 million reflecting an effective tax rate of 19.4%. In comparison, for the quarter ended September 30, 2022, income tax expense was $8.2 million, reflecting an effective tax rate of 25.5%. The decrease in the effective tax rate for the quarter is primarily due to discrete items. A discrete tax benefit of $1.5 million was recognized in the September 30, 2023 quarter, primarily attributable to the additional foreign tax credits permitted for the 2023 fiscal year as a result of the issuance of IRS Notice 2023-55. We expect the effective tax rate, excluding discrete items, for fiscal year 2024 to be approximately 26.6% to 27.6%. 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, 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, 2023 and 2022, respectively:

| | Quarter ended September 30, | |
|---|---|---|
| | **2023** | **2022** |
| Adjusted return on invested capital ratio, annualized (a) | **11.0 %** | 15.6 % |

(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, | |
|---|---|---|
| | 2023 | 2022 |
| | (in thousands) | |
| ***Reconciliation of net income to adjusted EBITDA:*** | | |
| Net income (GAAP) | **$ 15,432** | $ 24,042 |
| Plus: Interest expense | **5,585** | 3,448 |
| Plus: Income taxes | **3,715** | 8,241 |
| Plus: Depreciation and amortization | **7,217** | 7,228 |
| EBITDA (non-GAAP) | **31,949** | 42,959 |
| Plus: Share-based compensation | **2,769** | 2,316 |
| Plus: Cyberattack restoration costs | **201** | — |
| Adjusted EBITDA (numerator for adjusted ROIC) (non-GAAP) | **$ 34,919** | $ 45,275 |

| | Quarter ended September 30, | |
|---|---|---|
| | 2023 | 2022 |
| | (in thousands) | |
| ***Invested capital calculations:*** | | |
| Equity – beginning of the quarter | **$ 905,298** | $ 806,528 |
| Equity – end of the quarter | **915,253** | 827,004 |
| Plus: Share-based compensation, net | **2,068** | 1,718 |
| Plus: Cyberattack restoration costs, net | **150** | — |
| Average equity | **911,385** | 817,625 |
| Average funded debt [(a)] | **352,897** | 336,428 |
| Invested capital (denominator for adjusted ROIC) (non-GAAP) | **$ 1,264,282** | $ 1,154,053 |

(a) 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, | | | |
|---|---|---|---|---|
| | **2023** | **2022** | **$ Change** | **% Change** |
| **Specialty Technology Solutions:** | ***(in thousands)*** | | | |
| Net sales, reported | **$ 509,570** | $ 576,329 | $ (66,759) | (11.6)% |
| Foreign exchange impact [a] | **(934)** | — | | |
| Non-GAAP net sales, constant currency | **$ 508,636** | $ 576,329 | $ (67,693) | (11.7)% |
| | | | | |
| **Modern Communications & Cloud:** | | | | |
| Net sales, reported | **$ 366,735** | $ 367,484 | $ (749) | (0.2)% |
| Foreign exchange impact [a] | **(4,677)** | — | | |
| Non-GAAP net sales, constant currency | **$ 362,058** | $ 367,484 | $ (5,426) | (1.5)% |
| | | | | |
| **Consolidated:** | | | | |
| Net sales, reported | **$ 876,305** | $ 943,813 | $ (67,508) | (7.2)% |
| Foreign exchange impact [a] | **(5,611)** | — | | |
| Non-GAAP net sales, constant currency | **$ 870,694** | $ 943,813 | $ (73,119) | (7.7)% |

[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, 2023 into U.S. dollars using the average foreign exchange rates for the quarter ended September 30, 2022.

***Net Sales by Geography:***

| | Quarter ended September 30, | | | |
|---|---|---|---|---|
| | **2023** | **2022** | **$ Change** | **% Change** |
| **United States and Canada:** | ***(in thousands)*** | | | |
| Net sales, as reported | **$ 791,000** | $ 859,538 | $ (68,538) | (8.0)% |
| | | | | |
| **International:** | | | | |
| Net sales, reported | **$ 85,305** | $ 84,275 | $ 1,030 | 1.2 % |
| Foreign exchange impact [a] | **(5,611)** | — | | |
| Non-GAAP net sales, constant currency | **$ 79,694** | $ 84,275 | $ (4,581) | (5.4)% |
| | | | | |
| **Consolidated:** | | | | |
| Net sales, reported | **$ 876,305** | $ 943,813 | $ (67,508) | (7.2)% |
| Foreign exchange impact [a] | **(5,611)** | — | | |
| Non-GAAP net sales, constant currency | **$ 870,694** | $ 943,813 | $ (73,119) | (7.7)% |

[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, 2023 into U.S. dollars using the average foreign exchange rates for the quarter ended September 30, 2022.

***Operating Income by Segment:***

| | Quarter ended September 30, | | | | % of Net Sales September 30, | |
|---|---|---|---|---|---|---|
| | **2023** | **2022** | **$ Change** | **% Change** | **2023** | **2022** |
| **Specialty Technology Solutions:** | *(in thousands)* | | | | | |
| GAAP operating income | **$ 11,872** | $ 21,852 | $ (9,980) | (45.7)% | **2.3 %** | 3.8 % |
| Adjustments: | | | | | | |
| Amortization of intangible assets | **1,261** | 1,341 | (80) | | | |
| Non-GAAP operating income | **$ 13,133** | $ 23,193 | $ (10,060) | (43.4)% | **2.6 %** | 4.0 % |
| **Modern Communications & Cloud:** | | | | | | |
| GAAP operating income | **$ 12,413** | $ 13,036 | $ (623) | (4.8)% | **3.4 %** | 3.5 % |
| Adjustments: | | | | | | |
| Amortization of intangible assets | **2,932** | 2,900 | 32 | | | |
| Non-GAAP operating income | **$ 15,345** | $ 15,936 | $ (591) | (3.7)% | **4.2 %** | 4.3 % |
| **Corporate:** | | | | | | |
| GAAP operating loss | **$ (201)** | $ — | $ (201) | nm* | **nm*** | nm* |
| Adjustments: | | | | | | |
| Cyberattack restoration costs | **201** | — | 201 | | | |
| Non-GAAP operating income | **$ —** | $ — | $ — | nm* | **nm*** | nm* |
| **Consolidated:** | | | | | | |
| GAAP operating income | **$ 24,084** | $ 34,888 | $ (10,804) | (31.0)% | **2.7 %** | 3.7 % |
| Adjustments: | | | | | | |
| Amortization of intangible assets | **4,193** | 4,241 | (48) | | | |
| Cyberattack restoration costs | **201** | — | 201 | | | |
| Non-GAAP operating income | **$ 28,478** | $ 39,129 | $ (10,651) | (27.2)% | **3.2 %** | 4.1 % |

[a] Recovery of prior period withholding taxes in Brazil

*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, cyberattack restoration costs 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, 2023 | | | |
|---|---|---|---|---|
| | **GAAP Measure** | **Intangible amortization expense** | **Cyberattack restoration costs** | **Non-GAAP measure** |
| | *(in thousands, except per share data)* | | | |
| SG&A expenses | **$75,436** | **—** | **$(201)** | **$75,235** |
| Operating income | **24,084** | **4,193** | **201** | **28,478** |
| Pre-tax income | **19,147** | **4,193** | **201** | **23,541** |
| Net income | **15,432** | **3,146** | **150** | **18,728** |
| Diluted EPS | **$0.61** | **$0.12** | **$0.01** | **$0.74** |

| | Quarter ended September 30, 2022 | | | |
|---|---|---|---|---|
| | **GAAP Measure** | **Intangible amortization expense** | **Cyberattack restoration 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 |

**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 volume increases, our net investment in working capital increases, which typically results in decreased cash flow from operating activities. Conversely, when sales volume decreases, 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 $42.6 million at September 30, 2023, compared to $36.2 million at June 30, 2023, including $31.3 million and $31.0 million held outside of the United States at September 30, 2023 and June 30, 2023, respectively. Checks released but not yet cleared in the amounts of $10.3 million and $8.0 million are included in accounts payable at September 30, 2023 and June 30, 2023, respectively.

We conduct business in North America, Brazil, and the UK 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 decreased $63.9 million to $806.4 million at September 30, 2023 from $870.3 million at June 30, 2023, primarily from decreases in inventory attributable to lower sales volume and our multi-quarter working capital improvement plan. 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.

| | Quarter ended September 30, | |
|---|---|---|
| | **2023** | **2022** |
| | *(in thousands)* | |
| Cash provided by (used in): | | |
| Operating activities | **$ 93,533** | $ (48,459) |
| Investing activities | **(2,315)** | (684) |
| Financing activities | **(83,493)** | 52,970 |

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. Net cash provided by operating activities was $93.5 million for the quarter ended September 30, 2023, compared to $48.5 million used in operating activities in the prior-year quarter. Cash provided by operating activities for the quarter ended September 30, 2023 is attributable to decreases in inventory and accounts receivable, which decreased 13% and 8% respectively, compared to the beginning of the quarter. Cash used in operating activities for the quarter ended September 30, 2022 is primarily attributable to increases in inventory and accounts receivable, which increased 10% and 2%, respectively, compared to the beginning of the prior-year quarter.

The number of days sales outstanding ("DSO") was 71 days at September 30, 2023, compared to 72 days at June 30, 2023 and 71 days at September 30, 2022. Inventory turned 4.4 times during the quarter ended September 30, 2023, unchanged for the quarter ended June 30, 2023 and 5.1 times in the prior-year quarter ended September 30, 2022.

Cash used in investing activities for the quarter ended September 30, 2023 was $2.3 million, compared to $0.7 million used in investing activities in the prior-year quarter. Cash used in investing activities for the quarter ended September 30, 2023 and 2022 represents capital expenditures.

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

For the quarter ended September 30, 2023, cash used in financing activities totaled $83.5 million, compared to $53.0 million provided by financing activities for the prior-year quarter. Cash used in financing activities for the quarter ended September 30, 2023 is primarily attributable to net repayments on the revolving credit facility. Cash provided by financing activities for the quarter ended September 30, 2022 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 extended 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 $1.4 million in connection with the amendment and restatement of the Amended Credit Agreement. These costs were capitalized to other non-current assets on the Condensed Consolidated Balance Sheets and added to the unamortized debt issuance costs from the previous credit facility.

Loans denominated in U.S. dollars, other than swingline loans, bear interest at a rate per annum equal to, at our option, (i) the adjusted term SOFR or adjusted daily simple SOFR plus an additional margin ranging from 1.00% to 1.75% depending upon our ratio of (A) total consolidated debt less up to $30 million of unrestricted domestic cash 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. All swingline loans denominated in U.S. dollars bear interest based upon the adjusted daily simple SOFR plus an additional margin ranging from 1.00% to 1.75% depending upon our leverage ratio, or such other rate as agreed upon with the applicable swingline lender. The adjusted term SOFR and adjusted daily simple SOFR include a fixed credit adjustment of 0.10% over the applicable SOFR reference rate. Loans denominated in foreign currencies bear interest at a rate per annum equal to the applicable benchmark rate set forth in the Amended Credit Agreement plus an additional margin ranging from 1.00% to 1.75%, depending upon our leverage ratio plus, if applicable, certain mandatory costs.

During the quarter ended September 30, 2023, our borrowings under the credit facility were U.S. dollar loans. The spread in effect as of September 30, 2023 was 1.50% for SOFR-based loans and 0.50% for alternate base rate loans. The commitment fee rate in effect at September 30, 2023 was 0.25%. The Amended Credit Agreement includes customary representations, warranties and affirmative and negative covenants, including financial covenants. Specifically, our Leverage Ratio must be less than or equal to 3.50 to 1.00 at all times. In addition, our Interest Coverage Ratio (as such term is defined in the Amended Credit Agreement) must be at least 3.00 to 1.00 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, 2023.

The average daily outstanding balance on the revolving credit facility, excluding the term loan facility, during the quarters ended September 30, 2023 and 2022 was $200.9 million and $200.5 million, respectively. There was $251.9 million and $171.0 million available for additional borrowings as of September 30, 2023 and June 30, 2023, respectively. The effective interest rates for the revolving line of credit were 6.92% and 6.74% as of September 30, 2023 and June 30, 2023, respectively. There were no letters of credit issued under the multi-currency revolving credit facility at September 30, 2023 or June 30, 2023. 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, 2023, and currently expect to continue to maintain such compliance, should we encounter difficulties, our historical relationship with our Credit Facility lending group has been strong and we anticipate their continued support of our long-term business.

***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, 2023 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, 2023. No material changes have occurred to our market risks since June 30, 2023.

**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, 2023. Based on that evaluation, our management, including the CEO and CFO, concluded that our disclosure controls and procedures are effective at September 30, 2023. During the quarter ended September 30, 2023, 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 is, from time to time, party 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, 2023, which could materially affect our business, financial condition and/or future operating results.

There have been no material changes to the risk factors disclosed in Item 1A of our Annual Report on Form 10-K for the fiscal year ended June 30, 2023.

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

*Share Repurchases*

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, 2023 (in thousands except share and per share data):

| Period | Total number of shares purchased [1] | Average price paid per share | Total number of shares purchased as part of the publicly announced plan or program | Approximate dollar value of shares that may yet be purchased under the plan or program |
|---|---|---|---|---|
| July 1 - 31, 2023 | — | — | — | $ 66,157,077 |
| August 1 - 31, 2023 | 50,305 | $ 31.52 | — | $ 66,157,077 |
| September 1 - 30, 2023 | — | — | — | $ 66,157,077 |
| Total | 50,305 | | — | |

[1] Includes 50,305 shares withheld from employees' stock-based awards to satisfy required tax withholding obligations for the month of August 2023. There were no shares withheld during the months of July and September 2023.

*Dividends*

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

## Item 5. Other Information

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

On September 2, 2023, Michael Baur, our Chief Executive Officer and Chair of the Board of Directors, adopted a Rule 10b5-1 trading arrangement that is intended to satisfy the affirmative defense of Rule 10b5-1(c) and that provides for the sale of up to 427,001 shares of our common stock under Rule 144. The duration of such trading arrangement will be until November 20, 2024 (or earlier if all transactions under the trading arrangement had been completed or certain other events occurred).

**Item 6. Exhibits**

| Exhibit Number | Description |
|---|---|
| 10.1 | Amendment No. 20 to Cisco Nonexclusive Value Added Distributor Agreement |
| 10.2 | Amendment No. 21 to Cisco Nonexclusive Value Added Distributor Agreement |
| 10.3 | Separation Agreement and General Release, dated as of September 22, 2023, by and between the Company and John Eldh (incorporated by reference to Exhibit 10.1 to the Company's Form 8-K filed on September 26, 2023, File No. 000-26926) |
| 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. |
| 99.1 | Compensation Recovery Policy |
| 101 | The following materials from our Quarterly Report on Form 10-Q for the quarter ended September 30, 2023, formatted in Inline XBRL (eXtensible Business Reporting Language): (i) the Condensed Consolidated Balance Sheets at September 30, 2023 and June 30, 2023; (ii) the Condensed Consolidated Income Statements for the quarters ended September 30, 2023 and 2022; (iii) the Condensed Consolidated Statements of Comprehensive (Loss) Income for the quarters ended September 30, 2023 and 2022; (iv) the Condensed Consolidated Statements of Shareholder's Equity at September 30, 2023 and 2022; (v) the Condensed Consolidated Statements of Cash Flows for the quarters ended September 30, 2023 and 2022; 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 9, 2023 | /s/ MICHAEL L. BAUR |
| | | Michael L. Baur<br>Chairman and Chief Executive Officer<br>(Principal Executive Officer) |
| Date: | November 9, 2023 | /s/ STEVE JONES |
| | | Steve Jones<br>Senior Executive Vice President and Chief Financial Officer (Principal Financial Officer) |
| Date: | November 9, 2023 | /s/ BRANDY FORD |
| | | Brandy Ford<br>Senior Vice President and Chief Accounting Officer (Principal Accounting Officer) |

**Exhibit 10.1**

**AMENDMENT NO. 20 TO THE NONEXCLUSIVE VALUE ADDED DISTRIBUTOR AGREEMENT**

This Amendment No. 20 (the "Amendment") to the Nonexclusive Value Added Distributor Agreement by and between ScanSource, Inc., a South Carolina corporation with a place of business at 6 Logue Court, Greenville, South Carolina 29615 ("Distributor") and Cisco Systems, Inc., a Delaware corporation having its principal place of business at 170 West Tasman Drive, San Jose, California 95134 ("Cisco") is effective as of the date of last signature below (the "Amendment Effective Date").

WHEREAS, Cisco and Distributor have previously entered into the Nonexclusive Value Added Distributor Agreement dated January 22, 2007, as amended (the "Agreement"); and

WHEREAS, Cisco and Distributor would like to amend the Agreement to extend the term of the Agreement;

NOW THEREFORE, the parties agree to amend the Agreement as follows:

1. The term of the Agreement is hereby renewed until July 30, 2023, unless sooner terminated as provided for in the Agreement. If the Agreement expired prior to the Amendment Effective Date, any orders received, and Products and Services purchased, between the date of expiration and the Amendment Effective Date shall be in all respects deemed made under the Agreement as in effect prior to this Amendment. The parties further agree that if Distributor places Purchase Orders after the expiration of the Agreement, and Cisco accepts such Purchase Orders, then any such Purchase Orders shall be governed by the terms and conditions of the Agreement; provided, however, that acceptance by Cisco or any Purchase Order placed after the Agreement has expired will not be considered as an extension of the term of the Agreement nor a renewal thereof. Each party acknowledges that the Agreement shall always be interpreted as being limited in duration to a definite term and that the other party has made no commitments whatsoever regarding the renewal of the Agreement beyond those expressly agreed in writing.

2. To the extent that there is conflict between the Agreement and this Amendment, the terms of this Amendment shall take precedence over the terms and conditions of the Agreement with regards to the subject matter described herein.

3. Any terms not defined in this Amendment shall have the meaning stated in the Agreement. All other terms and conditions of the Agreement remain unchanged and in full force and effect.

(Signature page to follow)

**Exhibit 10.1**

IN WITNESS WHEREOF, the parties hereto have each duly executed this Amendment effective as of the Amendment Effective Date. Each party warrants and represents that its respective signatories whose signatures appear below have been and are, on the date of signature, authorized to execute this Amendment.

| | |
|---|---|
| ScanSource, Inc. | Cisco Systems, Inc. |
| (“Distributor”) | (“Cisco”) |
| /s/ Kristin Hill | /s/ Jennifer Pate |
| Authorized Signature | Authorized Signature |
| Kristin Hill | Jennifer Pate |
| Print Name | Print Name |
| Vice President | Authorized Signatory |
| Title | Title |
| 7/13/23 | July 17, 2023 |
| Date | Date |

**Exhibit 10.2**

**AMENDMENT NO. 21 TO THE NONEXCLUSIVE VALUE ADDED DISTRIBUTOR AGREEMENT**

This Amendment No. 21 (the “**Amendment**”) to the Nonexclusive Value Added Distributor Agreement by and between ScanSource, Inc., a South Carolina corporation with a place of business at 6 Logue Court, Greenville, South Carolina 29615 (“Distributor”) and Cisco Systems, Inc., a Delaware corporation having its principal place of business at 170 West Tasman Drive, San Jose, California 95134 (“Cisco”) is effective as of the date of last signature below (the “Amendment Effective Date”).

WHEREAS, Cisco and Distributor have previously entered into the Nonexclusive Value Added Distributor Agreement dated January 22, 2007, as amended (the “Agreement”); and

WHEREAS, Cisco and Distributor would like to amend the Agreement to extend the term of the Agreement and to reflect certain changes;

NOW THEREFORE, the parties agree to amend the Agreement as follows:

1. The term of the Agreement is hereby renewed for a period of two (2) years following the Amendment Effective Date, unless sooner terminated as provided for in the Agreement. If the Agreement expired prior to the Amendment Effective Date, any orders received, and Products and Services purchased, between the date of expiration and the Amendment Effective Date shall be in all respects deemed made under the Agreement as in effect prior to this Amendment. The parties further agree that if Distributor places Purchase Orders after the expiration of the Agreement, and Cisco accepts such Purchase Orders, then any such Purchase Orders shall be governed by the terms and conditions of the Agreement; provided, however, that acceptance by Cisco or any Purchase Order placed after the Agreement has expired will not be considered as an extension of the term of the Agreement nor a renewal thereof. Each party acknowledges that the Agreement shall always be interpreted as being limited in duration to a definite term and that the other party has made no commitments whatsoever regarding the renewal of the Agreement beyond those expressly agreed in writing.

2. The parties agree that only Products identified as eligible for stock rotation as published in the applicable, then-current Distribution Pricing Plus file located at https://tools.cisco.com/lpc/currentPL.faces?localeChanged=en_US are eligible for return pursuant to Section 12.0 (Inventory Balancing).

3. The Agreement is further amended by deleting Section 5.0 (Shipping and Delivery) in its entirety and replacing it with the following:

5.0 Shipping and Delivery

5.1 Scheduled shipping dates will be assigned by Cisco as close as practicable to Distributor’s requested date based on Cisco’s then-current lead times for the Products. Cisco will communicate scheduled shipping dates in the order acknowledgement or on Cisco.com.

5.2 Shipping options available as well as applicable shipment terms (per Incoterms 2010) are set forth in the Shipping Terms Exhibit available at https://www.cisco.com/web/fw/tools/commerce/ngorder/doc/Standard_Shipping_ Exhibit.pdf (the “Shipping Terms Exhibit”). The selected shipping option shall be indicated on the Purchase Order. Where applicable, Distributor shall pay the shipping and handling charges in addition to the purchase price for the Products, which will be included in remittance and/or commercial invoices issued by Cisco. Title and risk of loss shall transfer from Cisco to Distributor and delivery shall be deemed to occur in accordance with the Shipping Terms Exhibit. Distributor shall be responsible for all freight, handling, and insurance charges subsequent to delivery.

5.3 Where Distributor places orders on any Cisco Affiliate other than Cisco, Distributor shall pay any invoices issued by such entity with respect to such orders and the delivery terms agreed with such entity shall apply. Different shipping terms may apply to such Purchase Orders as set forth in the Shipping Terms Exhibit or otherwise as set out on Cisco.com.

5.4 Distributor shall assume responsibility for compliance with applicable export laws and regulations, including the preparation and filing of shipping documentation necessary for export clearance. This also applies in cases where Distributor requests in its Purchase Order delivery of Products to Distributor's forwarding agent or another representative in the country of shipment. Distributor agrees not to use any export licenses owned by Cisco or any of its Affiliates.

For shipments under FCA as per the Shipping Terms Exhibit, Distributor specifically agrees to provide Cisco with the complete name and address of each End User either (a) in the Purchase Order issued, or (b) in writing within five days of receiving a request by Cisco, and other information required under this Agreement or requested by Cisco. Export clearance will ensure utilizing Cisco’s general global export licenses or in the case a general global license does not include the listed End User destination, then individual export licenses must be obtained prior to export. Distributor accepts any additional delays caused by the export licensing process as well as delays to comply with conditions of the individual export license.

5.5 CISCO SHALL NOT BE LIABLE FOR ANY LOSS, DAMAGE, OR PENALTY FOR DELAY IN DELIVERY OR FOR FAILURE TO GIVE NOTICE OF ANY DELAY. EXCEPT IN ACCORDANCE WITH THE APPLICABLE SHIPPING TERMS SET FORTH IN THIS AGREEMENT, CISCO SHALL NOT HAVE ANY LIABILITY IN CONNECTION WITH SHIPMENT, NOR SHALL THE CARRIER BE DEEMED TO BE AN AGENT OF CISCO.

5.6 All sales are final. Except as provided in Cisco's warranty statements, Cisco does not accept returns unless (i) Cisco shipped a Product other than as specified in the Purchase Order, and (ii) such Product is unopened, and (iii) the Product is returned in accordance with Cisco's then-current RMA policy and procedures.

5.7 Carriers. Unless given written instructions by Distributor, Cisco shall select the carrier. Notwithstanding the foregoing, in no event shall Cisco have any liability in connection with shipment, nor shall the carrier be deemed an agent of Cisco. If Distributor requests delivery of Products to Distributor's forwarding agent or other representative in the country of shipment, Distributor shall assume responsibility for compliance with applicable export laws and regulations, including the preparation and filing of shipping documentation necessary for export clearance.

4. The Agreement is further amended by deleting Section 7.0 in its entirety and replacing it with the following:

7.1 Price Decreases. If Cisco puts into effect a general price decrease for any Product from the Wholesale Price List, or such other price list as Distributor may have ordered from, Cisco will provide to Distributor a price credit on any such Product on order, in transit, or in Distributor's inventory as of the effective date of the price decrease, provided that the price credit for such Product in inventory or in transit shall not exceed the dollar value of shipments of that Product (measured by the appropriate SKU) to Distributor over the preceding forty-five (45) days. Cisco will credit Distributor's account with an amount equal to the number of units of such Product in Distributor's inventory and in transit on the effective date of a price decrease multiplied by the difference between the net price paid and the new net price. Distributor will have thirty (30) days from the effective date of the price change to exercise protection under this program by issuing a request for credit memo with supporting documentation to Cisco. Claims for price protection submitted more than thirty (30) days from the effective date of a price decrease will be rejected, unless otherwise agreed by the parties. Notwithstanding the foregoing, Product on order will receive an automatic retroactive price credit. The only inventoried Product covered under this price protection clause is Product that has been identified by Distributor to Cisco in the monthly inventory reports required in Section 17 of the Agreement, excluding any Product not procured from an Approved Source as required by the Agreement. Cisco will use commercially reasonable efforts to notify Distributor of decreases in pricing.

7.2 Price Increases. If Cisco puts into effect a general price increase (the "Price Increase") for any Product from the Wholesale Price List, or such other Price List as Distributor may have ordered from, Cisco will debit Distributor for any overpayment of backend rebate claims as a result of the Price Increase.

5. The Agreement is further amended by adding new Section 11.4:

If Distributor acquires, uses, promotes, or resells Non-Genuine Products, Cisco may take one or more of the following actions, at Cisco's discretion: (i) invoice Distributor for all reasonable costs associated with any audit pursuant to Section 17.0 below, and/or (ii) require Distributor, within ten days of Cisco's request, to recall and destroy all Non-Genuine Products that Distributor has sold and replace such products with legitimate, equivalent Products at Distributor's expense, (iii) require Distributor, within five calendar days of receiving Cisco's written request, to provide Cisco with all details related to Distributor's acquisition of all Non-Genuine Products, including without limitation, its suppliers, shipping details, and all buyers to whom Distributor resold Non-Genuine Products, and (iv) terminate this Agreement by notice with immediate effect.

6. The Agreement is further amended by deleting Sections 17.1, 17.2, and 17.3 in their entirety, replacing them with the following, and adding new Section 17.4:

17.1 Reports by Cisco. Cisco shall, if requested by Distributor, render monthly reports to Distributor setting forth the separate Product, dollars invoiced for each Product, and total dollars invoiced to Distributor for the month, and such other information as Distributor may reasonably request.

17.2 Record-Keeping and Audit. Distributor will keep full, true, and accurate records and accounts, in accordance with generally accepted accounting principles, of each Product or Service distributed, by serial number, including information regarding compliance with Cisco marketing and sales programs, Software usage, and export or transfer. Distributor shall make these records available for audit by or on behalf of Cisco upon seven days' prior written notice, during regular business hours, at Distributor's principal place of business or such other of Distributor's locations where Distributor may maintain relevant records. For the purposes of ensuring compliance with the terms of this Agreement, Distributor shall allow Cisco access to all relevant premises owned, controlled, or used by Distributor. If Cisco requires information from an Authorized Channel to which Distributor asserts it has Resold Cisco Products or Services, Distributor agrees to use all reasonable efforts to assist Cisco to obtain such information. Distributor will also allow Cisco or its independent auditors to examine Distributor's inventories of Product for the purpose of verifying, to Cisco's satisfaction, that Distributor is performing its obligations under this Agreement.

Distributor additionally acknowledges that from time to time Cisco or its independent auditors may conduct additional specific audits with the purpose of monitoring and ensuring compliance by Distributor with Cisco's policies and applicable laws. Such audits may include, without limitation, investigations in order to prevent the acquisition, use, promotion or resale of Unauthorized or Non-

Genuine Products. When requested, Distributor shall cooperate with Cisco or its appointed auditors or investigators, and provide them with accurate and truthful information. In all cases, Distributor agrees to bear, and/or promptly repay to Cisco, all costs, fees and expenses, incurred by Cisco in the performance of any audit and/or investigation that discloses any breach of this Agreement by Distributor.

In conjunction with Cisco's policies, Cisco may perform audits of the Distributor's results and balances, including, but not limited to, Point-Of-Service (POS) data validation, POS recognition timing, physical inventory quantification, and reporting accuracy. Distributor will work with Cisco or its agent or designate and provide all appropriate information to conduct such audits.

17.3 Reporting.

Distributor will use best efforts to render daily sales out (point of sale or POS) reports through the DCA tool or through a mutually agreed upon B2B format, or as otherwise agreed upon with Cisco. Such reports must be rendered at least on a weekly basis, or as otherwise agreed upon with Cisco. Detailed reporting requirements are included in Exhibit K (Detailed Reporting Requirements), which is attached hereto and incorporated by reference into the Agreement.

Distributor will use best efforts to provide daily inventory reports in the same format as sales-out reports. Such reports must be rendered at least on a weekly basis, or as otherwise agreed upon with Cisco. Detailed reporting requirements are included in Exhibit K (Detailed Reporting Requirements). The provisions of Section 7.0 (Price Protection), Section 12.0 (Inventory Balancing), Section 18.8, and such other provisions expressly set forth in the attached Exhibits are contingent upon the receipt of regular, timely point-of-sale (POS) and inventory reports from Distributor. Cisco's obligation under these provisions is null and void if the reports required to validate Distributor's requests under those provisions are not provided to Cisco at the time of such request.

17.4 Forecasting. Distributor will provide detailed forecasting information on a weekly, monthly, and quarterly basis on new bookings and POS data.

7. The Agreement is further amended by adding new Section 28.4 as follows:

28.4 Incorrect Payments.

A. In a scenario where rebates were calculated and/or the rebate amount paid incorrectly, Cisco reserves the right to either request that Distributor return the rebate or reduce future rebates accordingly under any program in which Distributor is participating.

B. If bookings made in one quarter are booked or cancelled and credited in a subsequent quarter, those bookings or credits will decrease the total eligible bookings for that quarter and will result in a lower rebate payment. If in a subsequent quarter the total eligible bookings are negative because of bookings or credits, including in situations where rebates have previously been paid, Cisco will require Distributor to return those rebates, or reduce future rebates accordingly.

8. The Agreement is hereby further amended by adding the new Section 29.0 (Distributor Programs) to the Agreement:

29.0 Distributor Programs.

29.1 Invest Track (formerly Distributor Development Investment or DDI). Cisco provides to its distributors marketing development funding through which Cisco will compensate its distributors for mutually agreed upon activities aimed at the creation of demand for Cisco Products and Services. If approved by Cisco, marketing and demand-generation activities, partner onboarding and activation, enablement and training, infrastructure support, and strategic incentives are eligible to be funded by Cisco under the Invest Track. Cisco will reimburse up to one hundred percent (100%) of costs for approved activities or milestones. Distributor agrees to comply with all Invest Track terms and conditions located at: https://www.cisco.com/c/en/us/partners/distributors/distributor-program.html. Distributor acknowledges and agrees that Cisco may modify or terminate the Invest Track program at any time, with no less than thirty (30) days' notice to Distributor. Invest Track funds may not be available in all theatres and the funding reserved by Cisco as part of Invest Track may vary by theatre. Cisco will provide reimbursement to Distributor after Cisco's receipt and review of the required supporting documentation. Cisco shall provide the terms and conditions of the Invest Track program for a particular Territory to Distributor, as applicable.

29.2 Grow Track (formerly Distributor Incentive Rebates or DIR). An incentive program, Grow Track, will be available to support and reward Distributor's strategic alignment with Cisco. Grow Track is a growth program based on the attainment of key sales, financial, or operational metrics that have been previously agreed upon between Cisco and Distributor. Program payouts will vary by theatre. Distributor agrees to comply with all Grow Track program terms and conditions located at: https://www.cisco.com/c/en/us/partners/distributors/distributor-program.html.

Distributor acknowledges and agrees that Cisco may modify or terminate the Grow Track program at any time, with no less than thirty (30) days' notice to Distributor; provided, however, that any Grow Track program previously approved by Cisco shall remain in full force and effect until completed by Distributor and paid by Cisco.

The Grow Track program may not be available in all theatres. Cisco will make Grow Track program payouts available to Distributor within thirty (30) days after determination by Cisco of what Distributor's actual Grow Track program payout will be for any given period of time. The Grow Track Program terms and conditions are available at: https://www.cisco.com/c/en/us/partners/distributors/distributorprogram. html#~grow-track-growing-2t-partners. In order to be eligible for any Grow Track program payout in APJC or EMEAR, Distributor must meet the obligations noted in the Seal of Compliance, as well as the requirements outlined in the APJC Accreditation Playbook of either an Authorized, Accredited, or Specialized Distributor or the EMEAR Accreditation Playbook of Accredited Distributor, as applicable.

29.3 Distribution Sales Visibility ("DSV") Program. Exhibit L (Distribution Sales Visibility Program Terms and Conditions) attached hereto sets out the terms and conditions of Cisco's DSV program. Distributor must comply with the terms and conditions of the program in order to participate in the program.

29.4 Non-Stocking Order Programs. Distributor agrees that all non-stocking orders placed in the Territory must be transacted under the Net Pricing Program (as defined below) or using Cisco's Direct Value Add Distributor Program (also referred to as the "CBN" or Channels Booking Neutrality program) as described in Exhibit I.

i. Net Pricing Program. Cisco will make available a program for the purchase by Distributor of Products and Services to sell to Authorized Channels for resale to End Users where the Products will not be held by Distributor (or any other third party) for stocking purposes, as indicated on the applicable purchase order (the "Net Pricing Program"). Cisco will notify Distributor when the Net Pricing Program is available in the Territory.

A. Once the Net Pricing Program is available in the Territory, Distributor agrees to submit all non-stocking orders via the Net Pricing Program. Distributor purchases under the Net Pricing Program will be invoiced at the price listed on the applicable Price List less any applicable discounts. Orders must include the applicable Deal ID provided by Cisco. Any and all terms in the Agreement relating to back-end rebates, price protection, obsolete product returns, inventory balancing or stock rotation, and any associated Product return rights do not apply to Products and Services purchased through the Net Pricing Program. For the avoidance of doubt, the price invoiced under the Net Pricing Program is final, and Distributor is not eligible to receive any price adjustments through back-end rebates on purchases under the

Net Pricing Program.

B. Distributor shall not purchase Product under the Net Pricing Program for the purpose of stocking or replenishing inventory. Complete orders can be staged at Distributor's warehouse for no more than ninety (90) days but shall be kept physically separate from inventory ordered outside of the Net Pricing Program.

C. All sales made by Cisco under the Net Pricing Program are final. In addition, Distributor shall not fulfill Net Pricing Program orders from Distributor's inventory.

D. Products ordered by Distributor under the Net Pricing Program shall be reported separately and not be included in any reporting of Distributor inventory or Point of Sale reporting. Distributor agrees to submit to Cisco, upon request, documentation/reports related to any and all orders (including reporting of Products ordered under the Net Pricing Program held in Distributor warehouses for staging and sales-out reports) in the form and at the time(s) required by Cisco. Cisco reserves the right to request, and Distributor agrees to promptly furnish, any supporting documentation related to orders placed under the Net Pricing Program, including, without limitation, the purchase orders or purchase contracts between the Distributor and Reseller for the relevant Product contained in an order. Cisco's audit rights, as set forth in the Agreement, apply to purchases made by Distributor under the Net Pricing Program. If Cisco reasonably believes that Distributor has used the Net Pricing Program to procure inventory, or has otherwise abused the Net Pricing Program, Cisco may immediately terminate Distributor's participation in the Program. This termination right shall be in addition to any other rights and remedies of Cisco under the Agreement.

E. For each order submitted under the Net Pricing Program, Distributor shall, upon request from Cisco, submit to Cisco copies of the relevant shipping documents showing Distributor's shipment of the Product to either the applicable Authorized Channel or End User. Cisco acknowledges that, where Distributor is the importer of record, Distributor may need to perform staging activities as it relates to Product purchased under the Net Pricing Program.

F. Cisco will only accept returns for Products purchased via the Net

Pricing Program as described in Section 5.5 (Warranty Support) of Exhibit B. For the avoidance of doubt, for any returns accepted by Cisco pursuant to Section 5.5 (Warranty Support) of Exhibit B, Distributor must provide Cisco with original sales order details, the serial number, and any other necessary information, so that Cisco can verify net price accuracy prior to issuing Distributor credit for the return.

G. Participation in the Program is at Distributor's expense. Cisco will not be responsible for any costs incurred by Distributor as a result of the Program.

H. To the extent of any conflict between terms elsewhere in the Agreement and this Section 29.4, this Section 29.4 shall prevail
with respect to the subject matter described herein.

I. Distributor acknowledges and agrees that Cisco may modify or terminate the Net Pricing Program at any time with no less than thirty (30) days' advance notice to Distributor.To the extent that there is conflict between the Agreement and this Amendment, the terms of this Amendment shall take precedence over the terms and conditions of the Agreement with regards to the subject matter described herein.

9. The Agreement is amended by deleting Exhibit B (Value Added Distributor Support Exhibit) in its entirety and replacing it with new Exhibit B (Distributor Support and Services Resale) as attached to this Amendment.

10. The Agreement is hereby amended by deleting Exhibit H (Distribution to Federal Government Terms) in its entirety and replacing it with new Exhibit H (Distribution to U.S. Federal Government) attached hereto.

11. The Agreement is hereby amended by deleting Exhibit I (Direct Value Add Distributor ("DVAD") Program Terms and Conditions) in its entirety and replacing it with new Exhibit I (Direct Value Add Distributor ("DVAD") Program Terms and Conditions) attached hereto.

12. Any terms not defined in this Amendment shall have the meaning stated in the Agreement. All other terms and conditions of the Agreement remain unchanged and in full force and effect.

(Signature page to follow)

IN WITNESS WHEREOF, the parties hereto have each duly executed this Amendment effective as of the Amendment Effective Date. Each party warrants and represents that its respective signatories whose signatures appear below have been and are, on the date of signature, authorized to execute this Amendment.

| | |
|---|---|
| ScanSource, Inc. | Cisco Systems, Inc. |
| (“Distributor”) | (“Cisco”) |
| | |
| /s/Kristin Hill | /s/ Jennifer Pate |
| Authorized Signature | Authorized Signature |
| Kristin Hill | Jennifer Pate |
| Print Name | Print Name |
| Vice President- Cisco | Authorized Signatory |
| Title | Title |
| 07/26/2023 | July 26, 2023 |
| Date | Date |

**EXHIBIT B**
**Distributor Support and Services Resale**

1. Definitions

Capitalized terms used in this Error! Reference source not found. have the meanings assigned to those terms in the Agreement. Additional capitalized terms and the definitions assigned to those terms in this Error! Reference source not found. are as follows:

“Advanced Services” means those Services, as set forth in the Service Description(s) found at https://www.cisco.com/c/en/us/about/legal/service-descriptions.html selected by Distributor or as described in the SOW executed between Cisco and the Authorized Channel.

“Cisco.com” (http://www.cisco.com) is the Cisco website for its suite of online services and information.

“Cisco Branded Services” means those service offerings identified as Technical Services and Advanced Services, as set forth in the Service Description(s) found at https://www.cisco.com/c/en/us/about/legal/service-descriptions.html selected by Distributor or as described in the SOW executed between Cisco and the Authorized Channel.

“Collaborative Services” means those service offerings identified as Collaborative Technical Support and Collaborative Professional Services as set forth in the Service Description(s) found at https://www.cisco.com/c/en/us/about/legal/service-descriptions.html and made available for resale to those Authorized Channels that meet the appropriate eligibility requirements for each Collaborative Services offer.

“Data Collection Tools” means Hardware or Software tools that support Cisco's ability to provide troubleshooting on critical cases, data analysis, and report generation capabilities as part of the Advanced Services, as applicable.

“Deliverable” means, with respect to each Service Description or SOW, the items specified as deliverables in the Service Description or SOW, if any.

“Documentation” means user manuals, training materials, product descriptions and specifications, technical manuals, license agreements, supporting materials and other information relating to Products or Advanced Services offered by Cisco, whether distributed in print, electronic, CD-ROM or video format.

“Equipment List” means the list of Hardware and/or Software for which Cisco provides Services.

“End User Obligations” means the obligations End Users must comply with when purchasing Services in addition to End User responsibilities set out in the Services Descriptions. The End User Obligations are posted at http://www.cisco.com/go/servicedescriptions/ and incorporated herein by reference.

“Expired Service Contract” means Authorized Channel Partner has not renewed a Service contract that has expired.

“Intellectual Property” means any and all tangible and intangible: (i) rights associated with works of authorship throughout the world, including but not limited to copyrights, neighboring rights, moral rights, and mask works, and all derivative works thereof, (ii) trademark and trade name rights and similar rights, (iii) trade secret rights, (iv) patents, designs, algorithms and other industrial property rights, (v) all other intellectual and industrial property rights (of every kind and nature throughout the world and however designated) whether arising by operation of law, contract, license, or otherwise, and (vi) all registrations, initial applications, renewals, extensions, continuations, divisions or reissues thereof now or hereafter in force (including any rights in any of the foregoing).

“Maintenance Contract Number” means the reference number assigned by Cisco for each Service purchased from Cisco.

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

“Milestone” means a specific goal, objective or event pertaining to Advanced Services described under the terms of the Service Description or SOW, as applicable.

“Milestone Certification of Completion (MCC)” means the document provided by Cisco to obtain acceptance of Advanced Services performed.

“Minor Release” means an incremental release of Cisco Software that provides maintenance fixes and additional Software features. Minor Releases are designated by Cisco as a change in the tenths digit(s) of the Software version number [x.(x).x] and/or [x.x(x)].

“Ordering Tools” means a tool that Distributor may use to order Service detailed herein via Cisco.com.

“Service Descriptions” mean the detailed description of the Cisco Branded and Collaborative Services identified at https://www.cisco.com/c/en/us/about/legal/service-descriptions.html purchased by Distributor which are incorporated in the Agreement by reference.

“Services” mean the Technical Services and Advanced Services available for purchase and distribution by Distributor.

“SOW-based Services” means the project related or consultancy Advanced Services provided under a Statement of Work (a “SOW”), agreed upon by Cisco and Authorized Channel that defines any custom Advanced Services to be provided by Cisco.

“TAC” means Cisco’s Technical Assistance Center.

“Technical Services” means Services that provide both essential proactive and reactive operation and maintenance support identified as Technical Services at
https://www.cisco.com/c/en/us/about/legal/service-descriptions.html

“Uncovered” means Authorized Channel has not sold a Service Contract for a Product sold to an End- User customer.

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

“Written Notice” means notice given either by Cisco or Authorized Channel to the other party via facsimile, electronic mails, or using Cisco.com.

2. Scope

This Exhibit describes the terms and conditions for (a) Distributor’s purchase and distribution of Services to Authorized Channel, (b) Cisco’s direct delivery of the Services to Authorized Channel of End Users, as applicable, (c) Cisco’s Support to Distributor and (d) Distributor’s support to Authorized Channel or End User. At all times, Cisco shall perform the Services on Distributor’s and their Authorized Channel’s behalf. In no event will Distributor be deemed to be an agent of Cisco.

3. Cisco Services Resale

3.1 Procedure to Order and Distribute Technical Services. Distributor is authorized on a nonexclusive basis to purchase and distribute Technical Services to Authorized Channel in accordance with the Agreement and this Exhibit.

a. Distributor will initiate its purchase request by providing Cisco with the following information, but not limited to, via the Ordering Tools:

i. Authorized Channel/Reseller and End User information:

A. Reseller name

B. Reseller address
C. Reseller city
D. Reseller state, province, county or region
E. Reseller country
F. End user name
G. End user address
H. End user city
I. End user state, province, county or region
J. End-user country

ii. a preliminary Equipment List that includes all of the End-User's Product information to be covered by the Services, including Cisco serial numbers; and

iii. a valid Purchase Order from Distributor to Cisco

b. Upon Cisco's receipt of the information in Section 0 above, Cisco will:

i. validate Product model(s), price and serial numbers, and availability of the service level, and partner eligibility for the service, if applicable;

ii. provide an Equipment List and Maintenance Contract Number to Distributor;

iii. schedule to start providing Services on the date stated in the services contract, which may be up to thirty (30) days following the date of the Purchase Order acceptance by Cisco.

3.2 Procedure to Order and Distribute Advanced Services. Distributor is authorized on a nonexclusive basis to purchase and distribute Advanced Services to Authorized Channel in accordance with the Agreement and this Exhibit. Distributor may request such Services as follows:

a. Distributor will initiate its request for Advanced Services by requesting a written price quotation (a "Quote") for the Advanced Services from Cisco, or Distributor shall place an order online for Advanced Services, indicating the partner for the requested Advanced Services, the requested start date, End User name, End User location (location of Advanced Services) and primary contact information for End User.

b. Distributor shall issue a valid Purchase Order (a "PO") from Distributor to Cisco. For any SOW-based Services, each PO issued by Distributor will include the following information:

i. SOW/Project ID Number, AS Project ID Number
ii. Services Part No., Quantity, Price
iii. Travel and Expense Part No., Price, (if applicable as a separate line item)
iv. Total Purchase Price
v. Bill-to, and Ship-to (Authorized Channel) addresses
vi. Requested Services Start Date
vii. Tax Exempt Certification (if applicable)

c. Cisco will not proceed with performing the Advanced Services until Distributor has issued a valid PO to Cisco, Cisco has accepted the Purchase Order and scheduled the start of Advanced Services. Cisco may have a lead time for the start of Advanced Services for up to thirty (30) days following Purchase Order acceptance by Cisco. The term of the Advanced Services shall commence on the date specified in the Purchase Order and continue: (i) until completion of the specified Service in the event a MCC is not required; or(ii) until the MCC has been signed off by End User in the event a MCC is required.
d. Changes to Advanced Services ordered by Distributor will require a new Quote from Cisco and a new valid PO issued by Distributor in accordance with the process defined above. The new PO must reference the Authorized Channel's updated statement of work document.
e. Any additional costs incurred by Cisco, which Cisco is unable to mitigate, that are associated with either Authorized Channel's failure to meet responsibilities associated with the applicable Advanced Services order, or project schedule delays outside of Cisco's control shall result in a new Quote provided by Cisco to Distributor.
f. The Advanced Services will be provided by Cisco. Cisco may use subcontractors (under separate contract to Cisco) to perform the Advanced Services, or portion(s) thereof.

4. Cisco's Rights and Obligations

4.1 Resale of Services. Cisco will make the Services listed at https://www.cisco.com/c/en/us/about/legal/service-descriptions.html, Partner Support Services (https://www.cisco.com/c/dam/en_us/about/doing_business/legal/service_descriptions/docs/Partner_Support_Services.pdf), or those SOW-based Services, described in a SOW in response to Distributor's request for proposal, available for resale by Distributor. The Services are available for Distributor's redistribution to identified eligible Authorized Channels. Services are subject to the geographic limitations shown at http://tools.cisco.com/apidc/sam/search.do or as specified in each Service Description and/or Quote.

4.2 Services to Be Provided. Cisco shall provide to End User on behalf of Distributor or Authorized Channel, as applicable, the Services described in the applicable Service Description for each Service purchased by Distributor under this Exhibit. In the event of CPS or SOW-based Services, Cisco shall provide the Advanced Services to Authorized Channel on behalf of Distributor.

4.3 Unless specified otherwise, the following services are provided solely to Distributor as backup to its technical support staff. Cisco shall have no obligation to furnish any assistance, information or documentation to Authorized Channel or End Users with respect to the Product.

a. Cisco.com Access. Cisco will provide Distributor with partner-level access to Cisco.com.
b. Technical Support. Cisco shall provide to Distributor access to Cisco's TAC via phone, electronic mail and facsimile.
c. Updates. During the Cisco warranty period, Cisco will provide Updates to Distributor as follows:

i. When required, Cisco will provide Updates to Distributor to correct a problem, or provide a network-bootable Software image, as determined by Cisco. This service is limited to supported Software releases. Cisco supports each New Release in accordance with Cisco's current published End of Life policy, which policy may be viewed at http://www.cisco.com/go/eol. Cisco, in meeting support obligations, may require Distributor, Authorized Channel or an End User to upgrade to a supported release.
ii. Duplication and Distribution Rights. Cisco grants to Distributor the non-exclusive, nonassignable, non-transferable, royalty-free right to duplicate Updates and Minor Releases and redistribute such Updates and Minor Releases to Authorized Channel and End Users in the Territory, provided (a) that Authorized Channel or End User to which Distributor redistributes an Update or Minor Release shall previously have purchased, directly or indirectly from Distributor a license to use (for End Users) or redistribute (for Authorized Channel) the Software Product that the Update or Minor Release modifies; and (b) the Update or Minor Release shall not, as of the date on which Distributor redistributes such Update or Minor Release, already have been incorporated by Cisco into a Major Release Cisco has made available for license and redistribution by a Cisco-authorized distributor or Authorized Channel.

5. Distributor Rights and Obligations

5.1 Prior to accepting a Purchase Order from an Authorized Channel, Distributor shall:
a. Validate Authorized Channel's eligibility to purchase the requested Services, if applicable;
b. Refer Authorized Channel to https://www.cisco.com/c/en/us/about/legal/servicedescriptions.html where the relevant Service Description and End User Obligations are posted and instruct Authorized Channel to provide a current copy of such documents to End User, as applicable; and
c. Ensure Authorized Channel is fully aware of its obligations in the context of any Collaborative Professional Services intended for purchase under which Cisco provides services directly to Authorized Channel.

5.2 Distributor shall not make or pass on, and shall take all measures necessary to ensure that neither it nor its agents nor employees shall make or pass on any warranty or representation on behalf of Cisco to any Authorized Channel, other Cisco-authorized distributor, customer End User, or third party, other than Cisco's standard, published Product warranty for hardware and software, Service Description or applicable warranty for Services.

5.3 Equipment List.

a. Distributor shall ensure that all Products (including serial numbers) for which Services are being provided are listed in the Equipment List(s).

b. Equipment List(s) may be revised for new Product, service level upgrades and Product configuration changes by submission of a Purchase Order to Cisco that requests such revisions, and Cisco's acceptance thereof (based on availability). For such changes, Cisco will charge the pro-rated difference from the date upon which the change is requested to the end of the impacted Equipment List's term.

5.4 DOA Product Replacement Process.

a. Credit for Replacement. During the applicable Cisco warranty period for a particular Product, Distributor may return failed Product to Cisco. Cisco will credit Distributor with the current list price of the returned Product.

b. Replacement of DOA Products. In the event an Authorized Channel or End User reports receiving a DOA Product to Distributor, Distributor will use all reasonable efforts to ship a replacement product from its inventory of Products. In the event Distributor is unable to provide a replacement Product, Distributor may so notify Cisco and Cisco will use all commercially reasonable efforts to ship a replacement Product to an Authorized Channel or End User identified by Distributor within two (2) business days following Cisco's receipt of a purchase order from Distributor which specifies that it is an order submitted to replace a DOA Product. After the end of the warranty period, replacement products or parts will be charged at Cisco's then-current rates.

5.5 Warranty Support. When requested by its Authorized Channel, Distributor shall provide, at no charge, all warranty service for the shorter of (a) one year, or (b) the warranty period set out in the printed warranty provided with the Product. Warranty service will consist of Software and Hardware replacement service as follows:

a. Software Support. Distributor will use reasonable efforts to provide work-around solutions or implement a Cisco-provided patch.

b. Hardware Advance Replacement. For the shorter of (a) one year, or (b) the warranty period set out in the printed warranty provided with a Product, Distributor will ship a replacement Product or replacement parts for such product in accordance with Cisco's then-current published Product warranty applicable to the particular Product.

c. Returns Coordination. Distributor shall comply with the following, as well as the guidance provided at: http://www.cisco.com/en/US/docs/rma/3582.html.

d. Distributor shall coordinate the return of all failed parts, freight and insurance prepaid, to the Cisco repair center specified by Cisco.

e. Distributor shall comply with the following RMA procedure:

i. Distributor will ensure all Products are properly packaged prior to being shipped, and will provide to Cisco during each month of the term of the Agreement a written description of the type of return being submitted, Product returned to Cisco will conform in quantity to the RMA request. With each Product returned, Distributor will provide to Cisco a copy of the original packing slip with each shipment.

ii. Distributor shall tag each shipment of Products returned with the RMA transaction number and a classification of the problem.

iii. Cisco will not accept any Product returned which is not accompanied by an RMA number.

iv. Notwithstanding the expiration or termination of the Agreement, Distributor's right to return failed products and failed parts shall extend for sixty (60) days beyond the date on which the Agreement expires or terminates.

f. Title and risk of loss to failed Product and parts transfers to Cisco upon delivery to the Cisco repair center specified by Cisco.

6. Price, Invoice, and Payment Terms

6.1 Pricing. Prices for Services shall be those specified in Cisco's then-current Global Price List, less any applicable discount at the time of Cisco's acceptance of Distributor's Purchase Order or those set forth in a Quote submitted by Cisco.

6.2 Payment. All Purchase Orders will be subject to credit approval by Cisco. Payment terms shall be net thirty (30) days from the date of invoice. Unless otherwise agreed by Cisco, all payments shall be made in the currency used by the Cisco Systems entity with which Distributor has placed its Purchase Order. Any sum not paid by Distributor when due shall bear interest from the due date until paid at a rate of: (i) ten (10) per cent per annum or (ii) the maximum rate permitted by law, whichever is less.

6.3 Invoicing. Unless otherwise agreed by the parties, Cisco will invoice for Services performed under a Service Description either in advance of performance of such Services or upon receipt of a Milestone Certificate of Completion if required under the Service Description or SOW, as applicable. Such Milestone Certificate of Completion will be provided to Distributor by Cisco upon receipt of corresponding Milestone Certification of Completion received by Cisco from Authorized Channel for Services performed by Cisco. In the event, Cisco has not received the corresponding MCC from Authorized Channel within five (5) business days from Cisco's notification to Authorized Channel of Cisco's completion of Service, Services shall have been deemed accepted and Cisco shall provide the MCC to Distributor.

7. General

7.1 Software License. Distributor acknowledges that it may receive Software as a result of services provided under this Exhibit. Distributor agrees that it is licensed to distribute such Software only on Product covered under the Services and subject to the terms and conditions of this Agreement and the Software license granted with the original Software acquired. Except as otherwise specified in this Exhibit, Distributor shall not copy, in whole or in part, Software or documentation; modify the Software, reverse compile or reverse assemble all or any portion of the Software; or rent, lease, distribute, sell or create derivative works of the Software.

7.2 Third Party Services. Cisco reserves the right to subcontract the provision of all or part of the Services to a third party.

7.3 Independent Contractors. The relationship of Cisco and Distributor established by this Exhibit is that of independent contractors, and nothing contained in this Exhibit shall be construed to (a) give either party the power to direct and control the day-to-day activities of the other, (b) constitute the parties as joint ventures, co-owners or otherwise as participants in a joint or common undertaking, or (c) allow Distributor to create or assume any obligation on behalf of Cisco for any purpose whatsoever. All financial obligations associated with Distributor's business are the sole responsibility of Distributor. All sales and other agreements between Distributor and its Authorized Channel are Distributor's exclusive responsibility and shall have no effect on Distributor's obligations under this Agreement. Distributor shall be solely responsible for, and shall indemnify and hold Cisco free and harmless from, any and all claims, damages or lawsuits (including Cisco's attorneys' fees) arising out of the acts of Distributor, its employees or its agents.

8. Uncovered and Expired Service Contracts

8.1 Cisco, or its authorized agents, may send reminders to attach Service contracts after initial Product purchase to Distributor, Authorized Channel or its End User; and upon request by Cisco, Distributor will reconfirm the End User’s identity of the uncovered product(s) with the Authorized Channel. Distributor will (i) initiate the coverage process with its Authorized Channel, who will initiate the sale of a Service with the End User and forward to Cisco, via the Distributor, the completed Purchase Order or (ii) notify Cisco of Authorized Channel’s intent not to attach Services.

8.2 Cisco, or its authorized agents, may send reminders to renew expiring Service contracts to Distributor, Authorized Channel or its End User; and upon request by Cisco, Distributor will reconfirm the End User’s identity and service contract numbers of the expiring service contract(s) with the Authorized Channel. Distributor will (i) initiate the renewal process with its Authorized Channel, who will renew the Service with the End User and forward to Cisco, via Distributor, the completed Purchase Order or (ii) notify Cisco of Authorized Channel’s intent not to renew Services.

8.3 If, upon 90 days after initial product sale, Cisco has not received a purchase order for the coverage of Services from Distributor, Cisco working with Distributor may contact the End User to arrange for reassigning of the Service contract

coverage opportunity for the subject Equipment to another Cisco-authorized reseller.
8.4 If, upon the expiration date of Cisco services contract for the Equipment, Cisco has not received a Purchase Order for the renewal from Distributor within thirty (30) days, Cisco working with Distributor may contact the End User to arrange for reassigning of the Service contract renewal
for the subject Equipment to another Cisco-authorized reseller.

9. Warranty

NOTHING IN THIS EXHIBIT WILL AFFECT THE WARRANTIES PROVIDED WITH ANY HARDWARE PURCHASED OR SOFTWARE LICENSED BY DISTRIBUTOR AND/OR END USER. ANY AND ALL SERVICES PROVIDED HEREUNDER WILL BE PERFORMED IN A WORKMANLIKE MANNER. ACCESS TO THE DATA COLLECTION TOOLS AND DELIVERABLES AND OTHER INFORMATION PROVIDED IN CONNECTION WITH THE SERVICES, ARE PROVIDED ON AN “AS IS” BASIS. EXCEPT AS SPECIFIED IN THIS SECTION, ALL EXPRESS OR IMPLIED CONDITIONS, REPRESENTATIONS, AND WARRANTIES INCLUDING, WITHOUT LIMITATION, ANY IMPLIED WARRANTIES OR CONDITIONS OF MERCHANTABILITY, FITNESS FOR A PARTICULAR PURPOSE (EVEN IF THE PURPOSE IS KNOWN TO CISCO), SATISFACTORY QUALITY, AGAINST INFRINGEMENT OR ARISING FROM A COURSE OF DEALING, USAGE, OR TRADE PRACTICE, ARE HEREBY EXCLUDED TO THE GREATEST EXTENT ALLOWED BY APPLICABLE LAW. DISTRIBUTOR MUST NOTIFY CISCO PROMPTLY OF ANY CLAIMED BREACH OF ANY WARRANTIES. DISTRIBUTOR’S SOLE AND EXCLUSIVE REMEDY FOR BREACH OF WARRANTY WILL BE, AT CISCO’S OPTION, RE-PERFORMANCE OF THE SERVICES; OR TERMINATION OF THE APPLICABLE SERVICE ON THE EQUIPMENT LIST AND RETURN OF THE UNUSED PORTION OF THE FEES PAID TO CISCO BY DISTRIBUTOR FOR SUCH NON-CONFORMING SERVICES. THIS DISCLAIMER AND EXCLUSION WILL APPLY EVEN IF THE EXPRESS WARRANTY AND LIMITED REMEDY SET FORTH ABOVE FAILS OF ITS ESSENTIAL PURPOSE. THE WARRANTY PROVIDED IS SUBJECT TO THE LIMITATION OF LIABILITY SET FORTH IN THIS EXHIBIT. DISTRIBUTOR SHALL NOT MAKE ANY WARRANTY COMMITMENT, WHETHER WRITTEN OR ORAL, ON CISCO’S BEHALF.

10. Change in Scope

Cisco reserves the right to make changes to the scope and content of this Exhibit, including terminating the availability of a given Service, at any time upon ninety (90) days prior Written Notice. If Distributor does not agree with a change of scope or content, Distributor may terminate this Exhibit in accordance
with Section 18.0 (Term and Termination) of the Agreement.

11. Licenses

11.1 Nothing in any Service Description shall alter or amend the intellectual property licenses provided with any purchase of Cisco hardware and license of Cisco software products. The provisions in Attachment A to Error! Reference source not found. apply only to those Advanced Services, Deliverables and other Intellectual Property detailed in any Service Description or SOW, as applicable. No title to Intellectual Property rights in any Product, Documentation, Services, Deliverables, Data Collection Tools or other Intellectual Property provided or developed by Cisco, or a third party on Cisco's behalf, is transferred to Authorized Channel by Cisco or Distributor.

11.2 Distributor hereby agrees to provide a copy of the terms and conditions in Attachment A to Error! Reference source not found. (or substantially similar terms and conditions) to Authorized Channel and have Authorized Channel agree to be bound by such terms and conditions pursuant to a legally enforceable written agreement. Distributor agrees that it will be liable to Cisco for any breach of such terms and conditions by Authorized Channel.

11.3 Except as otherwise set forth in a separate written agreement with Cisco, Cisco hereby grants Distributor a limited, non-exclusive, non-transferable right to distribute solely to other Ciscoauthorized distributors or Authorized Channels (who may redistribute only to Authorized Channels or End Users, as applicable, except as otherwise expressly agreed to by the parties):

(i) Software provided as a result of Advanced Services, if any, (ii) the Deliverables specified in Service Descriptions (in object code form if Software), if any, and (iii) Data Collection Tools, if any.

12. Ownership

Cisco shall at all times retain all right, title and interest in and to all pre-existing Intellectual Property owned by Cisco as of the Effective Date and all Intellectual Property in and to the Advanced Services, Products, Deliverables and Data Collection Tools or other Intellectual Property provided or developed by Cisco or a third party on Cisco's behalf thereafter. Distributor shall at all times retain all right, title and interest in and to all pre-existing Intellectual Property owned by Distributor as of the Effective Date and all Intellectual Property that is developed by Distributor or by a third party on Distributor's behalf thereafter without the benefit of any of Cisco's Intellectual Property. Third party products shall at all times be owned by the applicable third party.

13. Contracting with U.S. Federal Government

To the extent Services engagements relate to a U.S. Federal Government contract, Cisco's Service offerings are "commercial item" as that term is defined under FAR 2.101. Cisco offers and/or provides these services upon a competitive basis and in substantial quantities in the commercial marketplace based upon established market prices for specific tasks performed under standard commercial terms and conditions.

**Attachment A to Error! Reference source not found.**
**License Rights**

1. Licensee shall mean either End User (in the case of Advanced Services intended for resale to End User) or Authorized Channel, in the case of Collaborative Professional Services.

1. Cisco grants to Licensee a worldwide, non-exclusive and non-transferable license to use for Licensee's internal business use only: (i) Software provided as a result of Advanced Services, if any, (ii) the Deliverables (in object code form if Software), if any, and (iii) Data Collection Tools, if any With respect to Deliverables provided by Cisco under Collaborative Professional Services, subject to the terms and conditions herein, Cisco grants to Authorized Channel a limited, revocable, non-exclusive, non-transferable license (a) to use, display, reproduce, modify, and distribute
Deliverables; and (b) create, use, reproduce, and distribute derivative works of the Deliverables. The license herein for Collaborative Professional Services is granted solely for Authorized Channel's support of End Users during the term of the Agreement and solely for use with Cisco products. This license grant does not include the right to sublicense.

2. This license shall be governed by: (i) the terms and conditions attached to the Software or in the absence of such terms by the license posted at http://www.cisco.com/go/warranty and (ii) this Exhibit and the Agreement.

3. Licensee agrees that it is licensed to use Software: (1) only on Hardware; or (2) in the case of Application Software, on third party hardware, (except as otherwise authorized in the Software Documentation); or (3) in the case of Data Collection Tools, in object code form only, on the Data Collection Tool on which such Software is provided.

4. The license is perpetual, provided Licensee is not in breach of this Attachment. Notwithstanding the above, the license for Data Collection Tools is valid until the earlier of: (i) the expiration or termination of the Advanced Services under which the Data Collection Tool was provided; or (ii) Cisco's request to Licensee that the Data Collection Tool(s) be returned to Cisco.

5. Except as expressly authorized, Licensee shall (nor permit a third party to): download more than one copy of the Software, copy, in whole or in part, any Software, Deliverable or Data Collection Tool, make error corrections or otherwise modify, decompile, decrypt, reverse engineer, disassemble or otherwise reduce all or any portion of any Software, Deliverable or Data Collection Tool which is software to human-readable form; or transfer, sublicense, rent, lease, distribute, sell, or create derivative works of any Deliverables.

6. When Licensee updates or upgrades a copy of Software to a new release, Licensee shall not use

(except for a limited period of parallel testing) the new Software release and the corresponding copy of the previous Software release concurrently. Under no circumstances shall the previous release be re-used or transferred to any other device(s).

7. U.S. Government End User Purchasers. The Software and Documentation qualify as “commercial items,” as that term is defined at Federal Acquisition Regulation (“FAR”) (48 C.F.R.) 2.101, consisting of “commercial computer software” and “commercial computer software documentation” as such terms are used in FAR 12.212. Consistent with FAR 12.212, FAR 52.227-19 Commercial Computer Software—Restricted Rights and DoD FAR Supp. 227.7202-1 through 227.7202-4, and notwithstanding any other FAR or other contractual clause to the contrary in any agreement into which this Attachment may be incorporated, Customer may provide to Government end user or, if this Attachment is direct, Government end user will acquire, the Software and Documentation with only those rights set forth in this Attachment. Use of either the Software or Documentation or both constitutes agreement by the Government that the Software and Documentation are “commercial computer software” and “commercial computer software documentation,” and constitutes acceptance of the rights and restrictions herein.

**EXHIBIT H**
**DISTRIBUTION TO U.S. FEDERAL GOVERNMENT**

In addition to the requirements set forth elsewhere in this Agreement for resale of Products and Services generally, the following additional requirements shall apply to Distributor’s resale of Products and Services to Authorized Channels who resell such Product and Services to the U.S. Federal Government:

1.0 Distributor shall maintain a separate government sales team, which shall include sales specialists with an understanding of U.S. Government regulations and U.S. Government contract terms and conditions, to support Authorized Channels in the federal government marketplace.

2.0 Distributor shall maintain a configuration facility for systems integration and testing in support of federal government specific contracts and opportunities for Authorized Channels.

3.0 Except as otherwise agreed between the Parties in this Agreement, Distributor will not distribute Products or Services under this Agreement through a General Services Administration (GSA) schedule contract, California Multiple Award Schedule (CMAS), or other schedule contracts. Except as otherwise agreed between the Parties in a separate written agreement, this Agreement shall not be construed by Distributor as a representation that Cisco will furnish supplies needed by Distributor to fulfill any of Distributor’s GSA, CMAS or similar contract obligations under any schedule contract.

4.0 The federal government contract flowdown provisions set forth in Section 8.0 of this Exhibit are applicable to Purchase Orders for U.S. Federal Government End Users. Cisco does not accept any additional or modified flowdown provisions including but not limited to Federal Acquisition Regulation (FAR), Department of Defense FAR Supplement, or NASA FAR Supplement provisions, notwithstanding existence of such provisions on Distributor's Purchase Orders or supplementary documentation or Cisco's acceptance of such Purchase Orders or documentation.

5.0 Point-of-Sales (POS) Reports. In addition to the reporting requirements set forth in Section 7.0 of this Agreement, Distributor shall provide the following additional information in the regular POS reports it submits to Cisco for all sales made to Authorized Channels for resale to the U.S. Federal Government:

5.1 Authorized Channel contract type (e.g., GSA (non-schedule contract), Indefinite Delivery/Indefinite Quantity, 8(a));
5.2 End User (Government Agency) name, agency department;
5.3 Government Agency, Cabinet level/specific procuring office;
5.4 Ship to address (street, city, state, country and zip/postal code);
5.5 Prime Federal Government Contract number, when available; and
5.6 Distributor's invoice number and sales order number to the Authorized Channel.

6.0 Distributor acknowledges that the Trade Agreements Act, 19 U.S.C. Section 2511 et seq., and its implementing regulations governs the ability of the Federal Government to purchase items produced outside the United States and certain designated countries. Distributor acknowledges that not all Cisco items are produced in the United States or designated countries and that only certain items specifically identified by Cisco ("Designated Country Items") as being produced in the United States or designated countries. If Distributor undertakes to sell items other than Designated Country Items to the Authorized Channels, Distributor accepts sole responsibility for ensuring that such sales comply with the Federal Government's requirements.

7.0 Distributor will ensure that prior to providing a quote to an Authorized Channel for a U.S. Federal Government opportunity, that the Authorized Channel requesting the quote is at minimum a Cisco Registered Partner enrolled in the Federal Authorization Program (the "Program"). If the requesting Authorized Channel is not enrolled in the Program, Distributor will require Authorized Channel to complete the enrollment (to include training), prior to providing quote(s) to the Authorized Channel.

8.0 This Agreement pertains to the sale of "commercial items" as that term is defined under FAR 2.101 and FAR Part 12. Notwithstanding any other clause in the prime contract, only those clauses identified in 52.212-5(e) and 52.244-6 are required to be in subcontract agreements for commercial items or commercial components (see further, FAR 12.502(b), 44.402(b)). The most recent version
of the following FAR clauses, identified in 52.212-5(e) and 52.244-6 are hereby incorporated by reference, with the same force and effect as if they were given in full.

For purposes of this Agreement, when appropriate in adopting the terminology of all the following FAR clauses, the term “contract’ shall mean this Agreement; the term “Contractor” shall mean Cisco; the term “Government: and “Contracting Officer” shall mean Distributor.

FAR 52.203-13 Contractor Code of Business Ethics and Conduct

FAR 52.203-15 Whistleblower Protection Under the ARRA

FAR 52.203-19 Prohibition on Requiring Certain Internal Confidentiality Agreements or Statements

FAR 52.204-21 Basic Safeguarding of Covered Contractor Information Systems

FAR 52.204-23 Prohibition on Contracting for Hardware, Software, and Services Developed or Provided by Kaspersky Lab and Other Covered Entities

FAR 52.204-25 Prohibition on Contracting for Certain Telecommunications and Video Surveillance Services or Equipment.

FAR 52.219-8 Utilization of Small Business Concerns

FAR 52.222-17 Nondisplacement of Qualified Workers

FAR 52.222-21 Prohibition of Segregated Facilities

FAR 52.222-26 Equal Opportunity (E.O. 11246)

FAR 52.222-35 Equal Opportunity for Veterans

FAR 52.222-36 Equal Opportunity for Workers with Disabilities

FAR 52.222-37 Employments Reports on Veterans (38 U.S.C. 4212).

FAR 52.222-40 Notification of Employee Rights Under the National Labor Relations Act (E.O. 13496).

FAR 52.222-41 Service Contract Act of 1965

FAR 52.222-50 Combating Trafficking in Persons

FAR 52.222-51 Exemption from Application of the Service Contract Act to Contracts for Maintenance, Calibration, or Repair of Certain Equipment-Requirements

FAR 52.222-53 Exemption from Application of the Service Contract Act to Contracts for Certain Services-Requirements

FAR 52.222-54 Employment Eligibility Verification

FAR 52.222-55 Minimum Wages Under Executive Order 13658

FAR 52.222-62 Paid Sick Leave Under Executive Order 13706

FAR 52.224-3 Privacy Training

FAR.52.225-26 Contractors Performing Private Security Functions Outside the U.S

FAR 52.232-40 Providing Accelerated Payments to Small Business Subcontractors

FAR 52.247-64 Preference for Privately Owned U.S. Flag Commercial Vessels

**Exhibit I**
**Direct Value Add Distributor (“DVAD”) Program Terms and Conditions**

1. The Program is focused on establishing new business practices between Cisco and its distribution base for high-value project-based business, as defined herein. The parties agree that Distributor may participate in the Program in the Territory, subject to the terms and conditions of these Terms and Conditions. Distributor agrees to comply at all times with the then-current DVAD Program (also referred) to as the “CBN” or Channels Booking Neutrality program) guidelines and policies published by Cisco from time to time at https://www.cisco.com/c/dam/en_us/partners/distributor/Distribution-CBN-Policyrev201810.pdf.

2. In order to participate in the Program, Distributor must create a separate purchase account, to be used solely for Distributor’s issuance of Purchase Orders (“Orders”) to Cisco, for Cisco-branded Products under the Program. All invoice and payment transactions related to the Program will occur under this separate purchase account. Further, Distributor shall implement a separate process management system in dealing such Product and shall ensure that all Products ordered under the Program are kept physically separate from other inventory, including having separate bin locations for easy locating and identification of CBN-ordered products. All pricing for Orders will be based on Cisco’s Price List.

3. Order Qualification Requirements: Each Order submitted under the Program must meet the following criteria:

3.1 The Order must be “deal-based” and placed in its entirety on Cisco as either a single Order or as multiple Orders and must represent a single project. For the purposes of these Terms and Conditions, “deal-based” means that the Order is made under an assigned Cisco Deal ID for a specified Authorized Channel and End User related to a specific project;

3.2 Distributor's purchases under the Program are limited to the following Cisco offer types:

a. SaaS products restricted from Distribution Sales Visibility (DSV) or the Net Pricing Program;

b. Enterprise Agreements (EAs);

c. Hardware Orders when combined with one or both of the above offer types and where the End User and Authorized Channel are willing to await delivery based on Cisco lead times.

3.3 No transactional claims (back-end rebates via the Grow Track program or any other Cisco rebate program) will be permitted on the CBN Orders. The Order must reflect net-pricing (e.g., discounting to be applied 'up-front' and reflected in net price on order) and must include the applicable Deal ID provided to Distributor by Cisco; and

3.4 The Order must identify and include the relevant End User and Authorized Channel information.

4. Distributor shall not purchase Product under the Program for the purpose of stocking or replenishing inventory. Complete CBN orders can be staged at Distributor's warehouse for not more than 30 days but shall be kept physically separate from regular inventory (i.e. inventory ordered outside of the Program). All sales made by Cisco under the Program are final. In addition, Distributor shall not fulfill Program Orders from Distributor's inventory. For purposes of clarity, any and all terms in the Agreement relating to price protection, obsolete product returns, inventory or stock balancing, and associated Product return rights do not apply to Product purchased through the Program. Cisco reserves the right to request, and Distributor agrees to promptly furnish, any supporting documentation related to Orders placed under the Program, including, without limitation, the purchase orders or purchase contracts between the Distributor and Authorized Channel for the relevant Product contained in an Order. If Cisco reasonably believes that Distributor has used the Program to procure inventory, or has otherwise abused the Program, Cisco may immediately terminate Distributor's participation in the Program. This termination right shall be in addition to any other rights and remedies of Cisco under the Agreement.

5. Products ordered by Distributor under the Program shall be reported separately and not be included in any reporting of Distributor inventory or Point of Sale ("POS") reporting. Distributor agrees to submit to Cisco, upon request, documentation/reports related to any and all Program Orders (including reporting of Products ordered under the Program held in Distributor warehouses and sales-out reports) in the form and at the time(s) required by Cisco. Cisco's audit rights, as set forth in the Agreement, apply to purchases made by Distributor under the Program.

6. For each Order submitted under the Program, Distributor shall, upon request from Cisco, submit to Cisco copies of the relevant shipping documents showing Distributor's

shipment of the Product to either the applicable Authorized Channel or End User. Cisco acknowledges that, where Distributor is the importer of record, Distributor may need to perform staging activities as it relates to Product purchased under the Program.

7. Participation in the Program does not entitle Distributor to any of the benefits provided under Cisco's Channel Programs to Cisco Direct Value Add Resellers ("DVARs") or any other Authorized Channel.

8. Term: These Terms and Conditions are coterminous with the Agreement. Cisco is under no obligation to develop any kind of program, or modify any ordering processes, as a result of the Program. Participation in the Program is at Distributor's expense. Cisco will not be responsible for any costs incurred by Distributor as a result of the Program. Distributor further acknowledges and agrees that Cisco may modify or terminate the DVAD Program at any time, with no less than thirty (30) days
advance notice to Distributor.

**Exhibit K**
**Detailed Reporting Requirements**

Point of Sale & Inventory Requirements
Distributor must submit Point of Sale (POS) and inventory via the DCA tool or a mutually agreed upon B2B format, or as otherwise agreed upon with Cisco.

Point of Sale ("POS") and inventory information must be in the format as shown on the templates postedat the following URL: https://www.cisco.com/c/dam/en_us/partners/distributor/pos_inventory_reporting_templates-201810.xlsx
Data must be clean (without foreign characters, extra spaces, etc.) and accurate.

In order for a POS or an Inventory file to be valid, it must be submitted in strict accordance with any and all of the following conditions. Any POS or Inventory not respecting these conditions shall be automatically invalid and thus refused by Cisco.

Detailed POS Requirements

Definition of POS:

In order for POS to be valid and true, it must be invoiced and shipped to a third party (reseller or end user) prior to being submitted. Any Distributor submitting weekly as opposed to daily (such daily reports to be submitted every working day of the week, wherein non-working days are consolidated into the next working day daily report) should ensure that their Monday POS submissions only take into account sales
made between and including the previous Sunday to the previous Saturday.

Submissions:

Deadline (frequency and timeline) for Distributor to submit POS to Cisco should be daily, including claim reference details and End User information, or as otherwise agreed to between local geographies of Cisco and Distributor.

Any and all POS must be submitted by Distributor via Cisco's DCA tool, as mutually agreed upon locally, or a mutually agreed upon B2B format.

POS Template under the "Submission Template" Link of the DCA tool website should be used to submit the POS data that is provided through the DCA tool, unless the parties have agreed in writing to a variation of such Submission Templates. Any changes to the Submission Templates that are currently in use must be made by mutual written agreement of the parties.

Of the fields in the POS Template, there are both mandatory and conditional fields. Detailed information on Cisco's POS and Inventory required fields can be found here:
https://www.cisco.com/c/dam/en_us/partners/distributor/pos_inventory_reporting_templates-201810.xlsx

The end user name and address fields (including city, state, and country) must be populated. Names such as SMB, Dummy, end user, Dealer, or Authorized Channel, not willing, and internal use, etc. will not be accepted and must instead be populated with the correct end user name of where the Cisco Product
will be sold, or following Cisco's specific local POS reporting requirements.

Negative POS:

Negative POS lines must only be submitted for product returns (excluding stock rotation or Dead on Arrival ("DOA") product) or cancelled sales where POS has previously been submitted. The original invoice number or Original Sales Order number must be provided when there is an RMA, if this information is reasonably available from Distributor. Under no circumstances is negative POS to be submitted for reseller or end user changes unless otherwise agreed to in writing by the parties. Each
POS submission should be final and should therefore not require any correction. Corrections will only be accepted if the POS transaction date is less than twenty one (21) days old at the time of the request for corrections. Distributor must submit a corrected POS and a negative POS to cancel the previous POS
submission that is being corrected.

Negative POS submitted must be valued at the purchase price from Cisco (Wholesale Price List, if applicable) less any rebate claims already received from Cisco for that specific purchase, if this information is reasonably available from Distributor. Distributor agrees to reimburse Cisco for all agreed upon rebate claims previously paid by Cisco to Distributor, associated with Negative POS submissions. Cisco reserves the right to audit the accuracy or the value used in conjunction with Negative POS submissions. Distributor reserves the right to dispute the accuracy of any audit. Any discrepancies will be handled as part of the specific methodology agreed upon for the applicable country or region.

Distributor-to-Distributor (D2D) transactions:

All POS transactions for which the reseller name field is a distributor or the reseller is reselling to a Cisco distributor are flagged as D2D by Cisco. However, the distributor sourcing from another distributor for the purpose of selling on would be entitled to claim a rebate against this line

.

Transactions flagged as D2D are not available for claiming rebates and are not allocated to Cisco Account Managers. This is without prejudice to any Authorized Channel being entitled to source from and resell to any other Authorized Channel.
If a distributor is selling for its own internal use, then the reseller field should mention "distributor internal use" or, as applicable, Distributor's own name (Distributor should follow local protocol).

Inventory Submissions:

Definition of Inventory:
This includes all inventory held by the distributor as at a particular point in time, which has neither been invoiced to a reseller, nor submitted as POS information to Cisco.

Submissions:

Deadline (frequency and timeline) for Distributor to submit inventory to Cisco should be separately agreed to between local geographies of Cisco and Distributor. Inventory data submissions should, at a minimum, be as frequent as POS data submissions.
Any and all inventory must be submitted by Distributor via Cisco's DCA tool, or as otherwise agreed uponwith Cisco.
Of the fields in the Inventory Template, there are both mandatory and conditional fields. Detailed information on Cisco's POS and Inventory required fields can be found on Cisco's Distribution Central at: https://www.cisco.com/c/dam/en_us/partners/distributor/pos_inventory_reporting_templates-201810.xlsx

Penalty for Failure to Submit POS and Inventory Reports:

If Distributor has not submitted Inventory for two weeks running, without providing prior warning to Cisco, Cisco has the right to place a hold on all future rebate payments until full and complete and correct Inventory has been submitted.

Balancing Calculations:

Further to timely submissions of POS and Inventory, Cisco may require Distributor to submit a balancing calculation (otherwise known as inventory reconciliation or inventory roll-forward) at summary level as needed. This will include shipment received, inventory, POS, and returns information for the previous week and should balance with the detail of the Inventory and POS reports submitted

Shipments received:

This should be a total of all shipments received from Cisco, whether logged as Inventory or shipped out directly as back to back orders during the previous week. For D2D transactions, the source vendor would be the initial distributor.

Goods in Transit (Intra Distributor Transfers)

This should be the total of all products removed from the main warehouse's inventory but not yet logged in the branch's inventory (or products removed from a branch's inventory and not yet logged in the main warehouse's inventory, or products removed from one branch's inventory and not yet logged in another
branch's inventory). This report needs to include all product ID, quantity, Price List, price, purchase order numbers, sales order numbers, and serial numbers as provided by Cisco.

Rebate Claims Terms and Conditions
In order for a claim to be valid under any current and/or future promotional offer or program, it must be submitted in strict accordance with any, and all of the following conditions. Any claim not respecting these conditions shall be automatically invalid and thus refused. In such case, no rebate shall be issued by Cisco.

Rebate Claim Submission

Distributor must claim the promotional value as a back end rebate. All rebate claims must be submitted through the DCA tool. In order to be valid, all claims must be submitted to Cisco by the 10th business day of each month, following the month of sale.
All claims submitted to Cisco more than 30 days after the date
of sale will be automatically rejected by Cisco and Cisco will have no liability to honor
such claim.

End user details must be quoted on POS and all claims submitted.

All POS reports must include serial numbers associated with the serialized products sold, if they exist.

Cisco will endeavor to notify distributors at least two weeks in advance of any change to any current and/or future promotional offer or program. Cisco reserves the right to add, modify, change, improve, or discontinue any product or promotion without notice.

If Cisco re-instates a promotion, which has previously expired, those sales reported between the promotion end date and the re-instated date will not be eligible for a rebate claim against such promotion.

It is Distributor’s responsibility to realize the risk of placing orders for products to be covered by a specific promotion towards the end of a promotion period. Claims can only be accepted on products that have a POS date prior to the end of the promotional period. If Distributor believes a claim has been rejected in error, Distributor should contact Cisco for assistance.

Claim Rejection

It is Distributor’s responsibility to correct and re-submit any claims that are rejected by DCA because they require correction. Corrected claims must be resubmitted within thirty (30) days of rejection by DCA.

Cisco’s determination regarding corrected claims is final and at its discretion. Once a corrected claim has been rejected, no further action will be taken.
Claims that have been rejected by Cisco with the correction action “Entitlement error” means no action is required, as the claim has been rejected for a reason that cannot be corrected. However, if a distributor wishes to dispute a claim that has been rejected due to an entitlement error, this must be addressed with Cisco within 30 days of rejection by Cisco. The final decision of entitlement will be decided by Cisco only.

Validation Guidelines

Upon acceptance of the Claim, Cisco shall issue a credit/debit memo within thirty (30) days of the claim being submitted to Cisco error free. Error free submission is when a POS or Claim line submitted through DCA does not require any further correction on the Distributor's part. If applicable, credit memo numbers shall be available on DCA within two (2) days following due date.

**EXHIBIT L**
**DISTRIBUTION SALES VISIBILITY (“DSV”) PROGRAM**
**TERMS AND CONDITIONS**

1. This program is focused on establishing new business practices between Cisco and its distribution base for all business, as described herein. The parties agree that Distributor may participate in the DSV Program (“DSV Program”) in the Territory, where available, subject to the terms and conditions in this Exhibit L. Distributor agrees to comply at all times with the then-current DSV Program guidelines and policies published by Cisco from time to time at https://www.cisco.com/c/en/us/partners/distributors/sales-visibility.html. To participate in the DSV Program, Distributor must make a separate daily report of orders (the “DSV Order Report”) that have been collected from Resellers using the DSV Booking Template (https://www.cisco.com/c/dam/en_us/partners/distributor/

dsv-booking-template-v1-3- 20170428.xlsx). To submit orders under this report, orders must have passed all order holds withinDistributor's sales order entry system.

2. Order Qualification Requirements: Each order submitted under the DSV Program must meet the following criteria:

   a. The DSV Order Report must contain a partner purchase order number and a valid Cisco part number, must be reported at the net price, and must contain any approved special pricing agreements (e.g., Deal IDs).

   b. Ship dates on Distributor's sales orders submitted to Cisco cannot exceed 90 days from the Distributor's acceptance of the order.

   c. No transactional claims will be permitted on the orders. Orders must reflect net pricing (e.g., final price after all discounts and expected back-end rebates are considered) and include the applicable DART or Deal ID.

   d. Orders must identify and include the relevant End User and Cisco-authorized reseller information.

   e. Any changes to or cancellations of an order must be submitted to Cisco by Distributor on the same business day that Distributor is notified of the change or cancellation.

3. Distributor agrees to submit to Cisco, upon request, documentation/reports related to any and all DSV Program orders (including reporting of Products ordered under the DSV Program held in Distributor warehouses). For avoidance of doubt, Cisco's audit rights, as set forth in Section 15.2 of the Agreement, apply to transactions made by Distributor as part of the DSV Program.

4. For each order submitted under the DSV Program, Distributor shall, upon request from Cisco, submit to Cisco copies of the relevant shipping documents showing Distributor's shipment of the Product to either the applicable Reseller or End User.

5. Participation in the DSV Program does not entitle Distributor to any of the benefits provided under Cisco's Channel Programs to Cisco Direct Value Add Resellers ("DVARs") or any other Ciscoauthorized Resellers.

6. Participation in the DSV Program is at Distributor's expense. Cisco will not be responsible for any costs incurred by Distributor as a result of the DSV Program.

7. Distributor further acknowledges and agrees that Cisco may modify or terminate the DSV Programat any time, with no less than thirty (30) days advance notice to Distributor.

**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 9, 2023

**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 9, 2023

**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, 2023 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 9, 2023

/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, 2023 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 9, 2023

/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.

# SCANSOURCE, INC.

## COMPENSATION RECOVERY POLICY

The Compensation Committee (the "Compensation Committee") of the Board of Directors (the "Board") of ScanSource, Inc. (the "Company") has adopted the following Compensation Recovery Policy (this "Policy") effective as of December 1, 2023 for compensation Received on or after October 2, 2023 (the "Effective Date").

1. **Purpose**. The purpose of this Policy is to provide for the recoupment of certain incentive compensation pursuant to Section 954 of the Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010, in the manner required by Section 10D of the Securities Exchange Act of 1934, as amended (the "Exchange Act"), Rule 10D-1 promulgated thereunder, and the Applicable Listing Standards (as defined below) (collectively, the "Dodd-Frank Rules").

2. **Administration**. This Policy shall be administered by the Compensation Committee. Any determinations made by the Compensation Committee shall be final and binding on all affected individuals.

3. **Definitions**. For purposes of this Policy, the following capitalized terms shall have the meanings set forth below.

   a. "***Accounting Restatement***" shall mean an accounting restatement of the Company's financial statements due to the material noncompliance of the Company with any financial reporting requirement under the securities laws, including any required accounting restatement (i) to correct an error in previously issued financial statements that is material to the previously issued financial statements (*i.e.,* a "Big R" restatement), or (ii) that would result in a material misstatement if the error were corrected in the current period or left uncorrected in the current period (*i.e.,* a "little r" restatement).

   b. "***Applicable Exchange***" shall mean The Nasdaq Stock Market.

   c. "***Applicable Listing Standards***" shall mean Nasdaq Listing Rule 5608.

   d. "***Clawback Eligible Incentive Compensation***" shall mean Incentive-Based Compensation Received by a Covered Executive (i) on or after the Effective Date, (ii) after beginning service as a Covered Executive, (iii) if such individual served as a Covered Executive at any time during the performance period for such Incentive-Based Compensation (irrespective of whether such individual continued to serve as a Covered Executive upon or following the Restatement Trigger Date), (iv) while the Company has a class of securities listed on a national securities exchange or a national securities association, and (v) during the applicable Clawback Period. For the avoidance of doubt, Incentive-Based Compensation Received by a Covered Executive on or after the Effective Date could, by the terms of this Policy, include amounts approved, awarded, or granted prior to such date.

   e. "***Clawback Period***" shall mean the three completed fiscal years of the Company immediately preceding the date that the Company is required to prepare an Accounting Restatement.

   f. "***Company Group***" shall mean the Company and its subsidiaries.

g. “***Covered Executive***” shall mean any “executive officer” of the Company as defined under the Dodd-Frank Rules and, for the avoidance of doubt, includes each individual identified as an executive officer of the Company in accordance with Item 401(b) of Regulation S-K under the Exchange Act.

h. “***Erroneously Awarded Compensation***” shall mean, in the event of an Accounting Restatement, the amount of Clawback Eligible Incentive Compensation that exceeds the amount of Incentive-Based Compensation that otherwise would have been Received had it been determined based on the restated amounts, computed without regard to any taxes paid.

i. “***Financial Reporting Measures***” shall mean measures that are determined and presented in accordance with the accounting principles used in preparing the Company’s financial statements, and all other measures that are derived wholly or in part from such measures. Stock price and total shareholder return (and any measures that are derived wholly or in part from stock price or total shareholder return) shall for purposes of this Policy be considered Financial Reporting Measures. For the avoidance of doubt, a measure need not be presented in the Company’s financial statements or included in a filing with the U.S. Securities and Exchange Commission (the “SEC”) in order to be considered a Financial Reporting Measure.

j. “***Incentive-Based Compensation***” shall mean any compensation from the Company Group that is granted, earned or vested based wholly or in part upon the attainment of a Financial Reporting Measure.

k. “***Received***” shall mean the deemed receipt of Incentive-Based Compensation. Incentive-Based Compensation shall be deemed received for this purpose in the Company’s fiscal period during which the Financial Reporting Measure specified in the applicable Incentive-Based Compensation award is attained, even if payment or grant of the Incentive-Based Compensation occurs after the end of that period.

l. “***Restatement Trigger Date***” shall mean the earlier to occur of (i) the date the Board, a committee of the Board, or the officer(s) of the Company authorized to take such action if Board action is not required, concludes, or reasonably should have concluded, that the Company is required to prepare an Accounting Restatement, or (ii) the date a court, regulator or other legally authorized body directs the Company to prepare an Accounting Restatement.

4. **Recoupment of Erroneously Awarded Compensation**. Upon the occurrence of a Restatement Trigger Date, the Company shall recoup Erroneously Awarded Compensation reasonably promptly, in the manner described below.

   a. ***Process.*** The Compensation Committee shall use the following process for recoupment:

      i. First, the Compensation Committee will determine the amount of any Erroneously Awarded Compensation for each Covered Executive in connection with such Accounting Restatement. For Incentive-Based Compensation based on (or derived from) stock price or total shareholder return where the amount of Erroneously Awarded Compensation is not subject to mathematical recalculation directly from the information in the applicable Accounting Restatement, the amount shall be determined by the Compensation Committee based on a reasonable estimate of the effect of the Accounting Restatement on the stock price or total shareholder return upon which the Incentive-Based Compensation was Received (in which case, the Company shall maintain documentation of such determination of that reasonable estimate and provide such documentation to the Applicable Exchange).

ii. Second, the Compensation Committee will provide each affected Covered Executive with a written notice stating the amount of the Erroneously Awarded Compensation, a demand for recoupment, and the means of recoupment that the Company will accept.

b. ***Means of Recoupment.*** The Compensation Committee shall have discretion to determine the appropriate means of recoupment of Erroneously Awarded Compensation, which may include without limitation: (i) recoupment of cash or shares of Company stock, (ii) forfeiture of unvested cash or equity awards (including those subject to service-based and/or performance-based vesting conditions), (iii) cancellation of outstanding vested cash or equity awards (including those for which service-based and/or performance-based vesting conditions have been satisfied), (iv) to the extent consistent with Section 409A of the Internal Revenue Code of 1986, as amended ("Section 409A"), offset of other amounts owed to the Covered Executive or forfeiture of deferred compensation, (v) reduction of future compensation, and (vi) any other remedial or recovery action permitted by law. Notwithstanding the foregoing, the Company Group makes no guarantee as to the treatment of such amounts under Section 409A, and shall have no liability with respect thereto. For the avoidance of doubt, appropriate means of recoupment may include amounts approved, awarded, or granted prior to the Effective Date. Except as set forth in Section 4(d) below, in no event may the Company Group accept an amount that is less than the amount of Erroneously Awarded Compensation in satisfaction of a Covered Executive's obligations hereunder.

c. ***Failure to Repay.*** To the extent that a Covered Executive fails to repay all Erroneously Awarded Compensation to the Company Group when due (as determined in accordance with Section 4(a) above), the Company shall, or shall cause one or more other members of the Company Group to, take all actions reasonable and appropriate to recoup such Erroneously Awarded Compensation from the applicable Covered Executive.

d. ***Exceptions.*** Notwithstanding anything herein to the contrary, the Company shall not be required to recoup Erroneously Awarded Compensation if one of the following conditions is met and the Compensation Committee determines that recoupment would be impracticable:

i. The direct expense paid to a third party to assist in enforcing this Policy against a Covered Executive would exceed the amount to be recouped, after the Company has made a reasonable attempt to recoup the applicable Erroneously Awarded Compensation, documented such attempts, and provided such documentation to the Applicable Exchange;

ii. Recoupment would violate home country law where that law was adopted prior to November 28, 2022, provided that, before determining that it would be impracticable to recoup any amount of Erroneously Awarded Compensation based on violation of home country law, the Company has obtained an opinion of home country counsel, acceptable to the Applicable Exchange, that recoupment would result in such a violation and a copy of the opinion is provided to the Applicable Exchange; or

iii. Recoupment would likely cause an otherwise tax-qualified retirement plan, under which benefits are broadly available to employees, to fail to meet the requirements of 26 U.S.C. 401(a)(13) or 26 U.S.C. 411(a) and regulations thereunder.

5. **Reporting and Disclosure**. The Company shall file all disclosures with respect to this Policy in accordance with the requirements of the Dodd-Frank Rules.

6. **Indemnification Prohibition**. No member of the Company Group shall be permitted to indemnify any current or former Covered Executive against (i) the loss of any Erroneously Awarded Compensation that is recouped pursuant to the terms of this Policy, or (ii) any claims relating to the Company Group's enforcement of its rights under this Policy. The Company may not pay or reimburse any Covered Executive for the cost of third-party insurance purchased by a Covered Executive to fund potential recoupment obligations under this Policy.

7. **Interpretation**. The Compensation Committee is authorized to interpret and construe this Policy and to make all determinations necessary, appropriate, or advisable for the administration of this Policy. The Compensation Committee intends that this Policy be interpreted consistent with the Dodd-Frank Rules.

8. **Amendment**; **Termination**. The Compensation Committee may amend or terminate this Policy from time to time in its discretion, including as and when it determines that it is legally required to do so by any federal securities laws, SEC rule or the rules of any national securities exchange or national securities association on which the Company's securities are listed.

9. **Other Recoupment Rights**. The Compensation Committee intends that this Policy be applied to the fullest extent of the law. The Compensation Committee may require that any employment agreement, equity award, cash incentive award, or any other agreement entered into be conditioned upon the Covered Executive's agreement to abide by the terms of this Policy. This Policy supersedes that certain Compensation Recovery Policy, effective as of March 21, 2014, but only to the extent this Policy covers the Incentive-Based Compensation award in question. Other than as set forth in the immediately preceding sentence, any right of recoupment under this Policy is in addition to, and not in lieu of, any other remedies or rights of recoupment that may be available to the Company Group, whether arising under applicable law, regulation or rule, pursuant to the terms of any other policy of the Company Group, pursuant to any employment agreement, equity award, cash incentive award, or other agreement applicable to a Covered Executive, or otherwise (the "Separate Clawback Rights"). Notwithstanding the foregoing, there shall be no duplication of recovery of the same Erroneously Awarded Compensation under this Policy and the Separate Clawback Rights, unless required by applicable law.

10. **Successors**. This Policy shall be binding and enforceable against all Covered Executives and their beneficiaries, heirs, executors, administrators or other legal representatives.