

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

FORM 10-Q

- QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended December 31, 2018
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: 001-38028

Presidio, Inc.

(Exact name of registrant as specified in its charter)

Delaware

(State or other jurisdiction of
incorporation or organization)

47-2398593

(I.R.S. Employer
Identification Number)

**One Penn Plaza, Suite 2832
New York, New York 10119
(212) 652-5700**

(Address, including zip code, and telephone number, including area code, of registrant's principal executive offices)

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 and posted 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 and post 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.

- | | |
|--|---|
| <input type="checkbox"/> Large accelerated filer | <input checked="" type="checkbox"/> Accelerated filer |
| <input type="checkbox"/> Non-accelerated filer | <input type="checkbox"/> Smaller reporting company |
| <input type="checkbox"/> Emerging growth company | |

If an emerging growth company, indicate by check mark whether 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

As of January 31, 2019, there were 82,518,278 shares of common stock, \$0.01 par value, outstanding.

PRESIDIO, INC.
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PART I - FINANCIAL INFORMATION

Item 1. Financial Statements

PRESIDIO, INC.
Consolidated Balance Sheets
(in millions, except share data)
(unaudited)

	As of June 30, 2018 (as adjusted)	As of December 31, 2018
Assets		
Current Assets		
Cash and cash equivalents	\$ 37.0	\$ 30.9
Accounts receivable, net	608.7	644.5
Unbilled accounts receivable, net	171.5	189.0
Financing receivables, current portion	88.3	93.0
Inventory	27.7	22.8
Prepaid expenses and other current assets	112.5	101.3
Total current assets	1,045.7	1,081.5
Property and equipment, net	35.9	37.1
Financing receivables, less current portion	116.8	143.4
Goodwill	803.7	803.7
Identifiable intangible assets, net	700.3	662.6
Other assets	33.9	65.1
Total assets	\$ 2,736.3	\$ 2,793.4
Liabilities and Stockholders' Equity		
Current Liabilities		
Current maturities of long-term debt	\$ —	\$ —
Accounts payable – trade	457.7	476.6
Accounts payable – floor plan	210.6	195.9
Accrued expenses and other current liabilities	228.2	276.6
Discounted financing receivables, current portion	85.2	87.8
Total current liabilities	981.7	1,036.9
Long-term debt, net of debt issuance costs and current maturities	671.2	781.4
Discounted financing receivables, less current portion	108.6	127.8
Deferred income tax liabilities	180.5	177.5
Other liabilities	34.0	48.1
Total liabilities	1,976.0	2,171.7
Commitments and contingencies (Note 11)		
Stockholders' Equity		
Preferred stock:		
\$0.01 par value; 100 shares authorized and zero shares issued and outstanding at December 31, 2018 and June 30, 2018	—	—
Common stock:		
\$0.01 par value; 250,000,000 shares authorized, 82,338,143 shares issued and outstanding at December 31, 2018 and 92,853,983 shares issued and outstanding at June 30, 2018	0.9	0.8
Additional paid-in capital	644.3	492.0
Retained earnings	115.1	128.9
Total stockholders' equity	760.3	621.7
Total liabilities and stockholders' equity	\$ 2,736.3	\$ 2,793.4

See Notes to the Consolidated Financial Statements.

PRESIDIO, INC.
Consolidated Statements of Operations
(in millions, except share and per-share data)
(unaudited)

	Three months ended December 31,		Six months ended December 31,	
	2017	2018	2017	2018
	(as adjusted)		(as adjusted)	
Revenue				
Product	\$ 525.0	\$ 647.2	\$ 1,129.7	\$ 1,266.9
Service	124.3	120.6	250.8	250.9
Total revenue	649.3	767.8	1,380.5	1,517.8
Cost of revenue				
Product	416.3	517.1	890.5	1,002.7
Service	95.4	96.1	196.1	201.4
Total cost of revenue	511.7	613.2	1,086.6	1,204.1
Gross margin	137.6	154.6	293.9	313.7
Operating expenses				
Selling expenses	65.2	75.2	130.4	146.1
General and administrative expenses	26.0	27.4	51.7	57.2
Transaction costs	1.7	9.0	2.1	14.4
Depreciation and amortization	21.1	21.5	41.7	43.0
Total operating expenses	114.0	133.1	225.9	260.7
Operating income	23.6	21.5	68.0	53.0
Interest and other (income) expense				
Interest expense	12.7	13.1	25.2	24.3
Loss on extinguishment of debt	0.7	0.5	1.4	1.0
Other (income) expense, net	(0.1)	(0.2)	(0.1)	(0.2)
Total interest and other (income) expense	13.3	13.4	26.5	25.1
Income before income taxes	10.3	8.1	41.5	27.9
Income tax expense (benefit)	(89.1)	2.5	(77.7)	7.5
Net income	\$ 99.4	\$ 5.6	\$ 119.2	\$ 20.4
Earnings per share:				
Basic	\$ 1.08	\$ 0.07	\$ 1.30	\$ 0.24
Diluted	\$ 1.03	\$ 0.07	\$ 1.24	\$ 0.23
Weighted-average common shares outstanding:				
Basic	91,712,178	82,333,605	91,440,895	86,590,211
Diluted	96,678,815	85,793,035	96,504,207	90,174,933
Cash dividends per common share	\$ —	\$ 0.04	\$ —	\$ 0.08

See Notes to the Consolidated Financial Statements.

PRESIDIO, INC.
Consolidated Statements of Cash Flows
(in millions)
(unaudited)

	Six months ended December 31,	
	2017	2018
	(as adjusted)	
Cash flows from operating activities:		
Net income	\$ 119.2	\$ 20.4
Adjustments to reconcile net income to net cash provided by operating activities		
Amortization of intangible assets	37.2	37.7
Depreciation of property and equipment in operating expenses	4.5	5.3
Depreciation of property and equipment in cost of revenue	2.9	2.3
Provision for sales returns and credit losses	0.9	0.7
Amortization of debt issuance costs	2.6	1.8
Loss on extinguishment of debt	1.4	1.0
Noncash lease income	(2.2)	(3.5)
Share-based compensation expense	2.6	4.7
Deferred income tax benefit	(88.7)	(3.0)
Other	0.1	—
Change in assets and liabilities, net of acquisitions and dispositions:		
Unbilled and accounts receivable	(5.9)	(49.4)
Inventory	(2.2)	4.9
Prepaid expenses and other assets	(7.2)	(23.9)
Accounts payable – trade	80.7	18.9
Accrued expenses and other liabilities	(21.3)	58.1
Net cash provided by operating activities	<u>124.6</u>	<u>76.0</u>
Cash flows from investing activities:		
Acquisition of businesses, net of cash and cash equivalents acquired	(9.5)	—
Proceeds from collection of escrow related to acquisition of business	0.2	—
Additions of equipment under sales-type and direct financing leases	(49.7)	(82.9)
Proceeds from collection of financing receivables	2.2	2.7
Additions to equipment under operating leases	(1.2)	(0.1)
Proceeds from disposition of equipment under operating leases	0.7	0.1
Purchases of property and equipment	(7.2)	(8.3)
Net cash used in investing activities	<u>(64.5)</u>	<u>(88.5)</u>
Cash flows from financing activities:		
Proceeds from issuance of common stock under share-based compensation plans	4.5	1.5
Common stock repurchased	—	(158.6)
Dividends paid	—	(3.3)
Proceeds from the discounting of financing receivables	47.0	91.1
Retirements of discounted financing receivables	(2.5)	(17.4)
Deferred financing costs	(0.6)	(0.3)
Borrowings of term loans, net of original issue discount	—	158.1
Repayments of term loans	(50.0)	(50.0)
Net change in accounts payable — floor plan	(65.3)	(14.7)
Net cash provided by (used in) financing activities	<u>(66.9)</u>	<u>6.4</u>
Net decrease in cash and cash equivalents	<u>(6.8)</u>	<u>(6.1)</u>
Cash and cash equivalents:		
Beginning of the period	27.5	37.0
End of the period	<u>\$ 20.7</u>	<u>\$ 30.9</u>
Supplemental disclosures of cash flow information:		
Cash paid during the period for:		
Interest	\$ 22.6	\$ 20.3
Income taxes, net of refunds	\$ 22.9	\$ 14.3
Reduction of discounted lease assets and liabilities	\$ 55.1	\$ 57.3

See Notes to the Consolidated Financial Statements.

PRESIDIO, INC.
Consolidated Statements of Stockholders' Equity
(in millions, except share data)
(unaudited)

Three months ended December 31, 2017

	Preferred stock		Common stock		Additional paid-in capital	Retained earnings	Total
	Shares	Amount	Shares	Amount			
Balance, September 30, 2017 (as adjusted)	—	\$ —	91,528,701	\$ 0.9	\$ 629.0	\$ 1.0	\$ 630.9
Common stock issued under share-based compensation plans	—	—	292,943	—	1.6	—	1.6
Net income	—	—	—	—	—	99.4	99.4
Share-based compensation expense	—	—	—	—	1.7	—	1.7
Balance, December 31, 2017 (as adjusted)	—	\$ —	91,821,644	\$ 0.9	\$ 632.3	\$ 100.4	\$ 733.6

Three months ended December 31, 2018

	Preferred stock		Common stock		Additional paid-in capital	Retained earnings	Total
	Shares	Amount	Shares	Amount			
Balance, September 30, 2018	—	\$ —	82,298,312	\$ 0.8	\$ 488.9	\$ 126.6	\$ 616.3
Common stock issued under share-based compensation plans	—	—	39,831	—	0.6	—	0.6
Common stock cash dividend declared	—	—	—	—	—	(3.3)	(3.3)
Net income	—	—	—	—	—	5.6	5.6
Share-based compensation expense	—	—	—	—	2.5	—	2.5
Balance, December 31, 2018	—	\$ —	82,338,143	\$ 0.8	\$ 492.0	\$ 128.9	\$ 621.7

Six months ended December 31, 2017

	Preferred stock		Common stock		Additional paid-in capital	Retained earnings (deficit)	Total
	Shares	Amount	Shares	Amount			
Balance, June 30, 2017 (as adjusted)	—	\$ —	90,969,919	\$ 0.9	\$ 625.3	\$ (18.8)	\$ 607.4
Common stock issued under share-based compensation plans	—	—	851,725	—	4.4	—	4.4
Net income	—	—	—	—	—	119.2	119.2
Share-based compensation expense	—	—	—	—	2.6	—	2.6
Balance, December 31, 2017 (as adjusted)	—	\$ —	91,821,644	\$ 0.9	\$ 632.3	\$ 100.4	\$ 733.6

Six months ended December 31, 2018

	Preferred stock		Common stock		Additional paid-in capital	Retained earnings	Total
	Shares	Amount	Shares	Amount			
Balance, June 30, 2018 (as adjusted)	—	\$ —	92,853,983	\$ 0.9	\$ 644.3	\$ 115.1	\$ 760.3
Common stock issued under share-based compensation plans	—	—	234,160	—	1.5	—	1.5
Common stock repurchased	—	—	(10,750,000)	(0.1)	(158.5)	—	(158.6)
Common stock cash dividend declared	—	—	—	—	—	(6.6)	(6.6)
Net income	—	—	—	—	—	20.4	20.4
Share-based compensation expense	—	—	—	—	4.7	—	4.7
Balance, December 31, 2018	—	\$ —	82,338,143	\$ 0.8	\$ 492.0	\$ 128.9	\$ 621.7

See Notes to the Consolidated Financial Statements.

PRESIDIO, INC.
Notes to the Consolidated Financial Statements
(unaudited)

Note 1. Nature of Business and Significant Accounting Policies

Description of the Company

Presidio, Inc., a Delaware corporation, through its subsidiaries (collectively, the “Company”, “we” and “our”) is a leading provider of information technology (“IT”) solutions to its clients in North America. We enable business transformation through our expertise in IT solutions for agile, secure infrastructure solution sets, with a specific focus on Digital Infrastructure, Cloud and Security solutions. Our solutions are delivered through a broad suite of professional services, including strategy, consulting, design and implementation. We complement our professional services with project management, technology acquisition, managed services, maintenance and support to offer a full lifecycle model. Our services-led, lifecycle model leads to ongoing client engagement.

The Company is headquartered in New York, New York and all of its direct and indirect subsidiaries are located in the United States.

Public Offerings

On September 20, 2018, the Company completed a secondary public offering of 3,000,000 shares of the Company’s common stock by AP VIII Aegis Holdings, L.P. (“Aegis LP”), an affiliate of investment funds managed by affiliates of Apollo Global Management, LLC at a price of \$15.24 per share. The Company did not sell any shares and did not receive any proceeds from the offering. In conjunction with this secondary offering, the Company incurred \$0.3 million of expenses, which is presented within transaction costs on the consolidated statement of operations for the six months ended December 31, 2018.

Share Repurchase

On September 6, 2018, the Company, entered into a stock repurchase agreement (the “Stock Repurchase Agreement”) with Aegis LP. Pursuant to the Stock Repurchase Agreement, the Company agreed to repurchase 10,750,000 shares of our common stock from Aegis LP for aggregate consideration of \$158.6 million, representing a purchase price of \$14.75 per share of common stock (the “Repurchase”). The Stock Repurchase Agreement, the Repurchase and the related transactions were approved by the Company’s Board of Directors and a committee of independent directors. On September 13, 2018, the Repurchase was completed using the net proceeds of \$160 million of incremental term loans that were issued on terms substantially identical to the existing term loans outstanding under our credit agreement (except with respect to issue price).

Dividend

On February 6, 2019, the Company declared a quarterly cash dividend of \$0.04 per share of common stock. The dividend is payable on April 5, 2019 to stockholders of record as of the close of business on March 27, 2019.

Basis of Presentation

The accompanying consolidated financial statements have been prepared in conformity with accounting principles generally accepted in the United States of America (“U.S. GAAP”) and Securities and Exchange Commission (“SEC”) rules and regulations for interim reporting periods. The consolidated financial statements do not include all disclosures normally made in annual financial statements. These consolidated financial statements should be read in conjunction with the audited consolidated financial statements included within the Company’s Annual Report on Form 10-K for the fiscal year ended June 30, 2018. All financial information presented in the financial statements and notes herein is presented in millions except for share and per-share information and percentages.

In management’s opinion, all adjustments necessary for a fair presentation of the results of operations, financial position and cash flows for the periods shown have been made. All other adjustments are of a normal recurring nature.

The Company has evaluated subsequent events through the issue date of these consolidated financial statements.

PRESIDIO, INC.
Notes to the Consolidated Financial Statements
(unaudited)

Revenue Recognition

The Company's revenue is generally derived from the sale of IT solutions to customers. The solutions we sell include products manufactured by third-parties including IT hardware equipment, software and support service contracts, as well as, services that are delivered directly by the Company or via third-party providers. The Company's sales of IT solutions to customers are recognized in accordance with Accounting Standards Codification ("ASC") Topic 606, *Revenue from Contracts with Customers*, which was adopted on July 1, 2018.

Under ASC 606, the Company recognizes revenue when it has a contract with a customer and when, or as, it satisfies the performance obligations in the arrangement. Revenue for each performance obligation is recognized either at a point in time or over a period of time in a manner that depicts the transfer of control of the goods or services to the customer at an amount that reflects the consideration that the Company expects to be entitled to in exchange for those goods or services, net of sales taxes collected from customers, which are subsequently remitted to governmental entities. Such recognition requires the Company to use its judgment in accordance with ASC 606 and other applicable rules.

The Company has a contract with a customer when there is an agreement that creates legally enforceable rights and obligations that includes: the approval of the parties to the contract, the identification of each party's rights regarding the goods or services to be transferred, the establishment of payment terms for the goods or services to be transferred, the existence of commercial substance of the contract and the determination that it is probable that the Company will collect substantially all of the consideration to which it will be entitled in the arrangement. Generally, the Company determines it has a legally enforceable contract with the customer when it has a valid purchase order from the customer or it has a confirmatory customer approval of a quote, statement of work, or other binding agreement that individually, or in combination with other arrangements with the customer, satisfies the criteria above.

As a provider of third-party products and services, the Company must assess whether it has promised to provide the customer the specific goods or services itself (as a principal) in which case revenue is recognized on a gross basis, or to arrange for those specified goods and services to be provided by another party (as an agent) in which revenue is recognized on a net basis. In applying the principal versus agent accounting guidance, the Company considers several factors and indicators including an assessment of the Company's role in fulfilling the promise to provide the specific goods or services, the Company's inventory risk before or after the goods and services are transferred to the customer and the Company's discretion in establishing prices for the specified goods or services. The Company may be a principal in the fulfillment of some goods and services and an agent for other goods and services within the same contract.

The Company's solutions may consist of a combination of performance obligations including third-party products along with services delivered by the Company and/or third-parties. Contracts that contain multiple performance obligations may have revenue recognized at different times or over different periods of time as discussed in the policies below. For contracts that contain multiple performance obligations, the total transaction price of the contract is allocated to the separate performance obligations based on each performance obligation's relative standalone selling price. To determine standalone selling prices of the Company's performance obligations, the Company generally applies a cost-plus margin approach to determine a range of reasonable prices for each performance obligation.

When a contract includes variable consideration such as usage-based or user-based fees, service level agreements, or volume-based pricing, the Company estimates the amount which the Company believes it will be entitled in exchange for transferring the promised goods or services to the customer. The Company uses either the expected value method or the most likely amount method to estimate variable consideration based on the facts and circumstances in each contract. The Company updates its estimates as facts and circumstances change throughout the contract.

Revenue for each performance obligation is recognized as control of the performance obligation is transferred to the customer. For performance obligations satisfied at a point in time, the Company determines when control has been transferred based on an evaluation of the following indicators: the Company has a present right to payment, the customer has legal title, the Company has transferred physical possession, the customer has the significant risk and rewards of ownership and the customer has accepted the assets. For performance obligations satisfied over a period of time, the Company recognizes revenue using an appropriate method to estimate the progress toward complete satisfaction of the performance obligation.

PRESIDIO, INC.
Notes to the Consolidated Financial Statements
(unaudited)

The Company generally does not provide customers with payment terms that would result in the existence of a significant financing component within the transaction price.

Revenue for hardware and general software - Revenue from the sale of third-party hardware and general software products is recognized on a gross basis with the associated transaction price recorded as product revenue and the acquisition cost of the product recorded as cost of product revenue, net of vendor rebates. Hardware and general software can be delivered to customers in a variety of ways including drop-shipped by the vendor or supplier, or shipped through one of the Company's staging warehouses or via electronic delivery for general software licenses.

Regardless of the delivery method, revenue from the sale of hardware is recognized at a point in time based on the shipping terms specified in the contract which is when title and the risk of loss are passed to the customer. Our standard shipping terms are freight on board ("FOB") origin and accordingly, we generally recognize revenue when product ships from our vendor or supplier. In transactions where the shipping terms are FOB destination, revenue is recognized when the promised hardware is delivered to the customer's specified location.

For general software that is pre-installed on hardware products, revenue is recognized at a point in time based on the shipping terms specified in the contract; while general software that is delivered to the customer via electronic download is recognized at a point in time when the information the customer needs to download and install the software has been provided to the customer.

Revenue for software as a service ("SaaS"), enterprise license agreements ("ELAs") or software sold with critical software assurance - In certain software arrangements, we recognize the related revenue on a net basis, with product revenue being equal to the gross margin on the transaction. Third-party software products that are recognized on a net basis include: SaaS to customers whereby the customer receives the right to access software directly from the vendor; ELAs that provide customers with access to manage their software license needs; and software that is accompanied by third-party delivered software assurance that is deemed to be critical or essential to the core functionality of the software license. As we are under no obligation to perform additional services, such as post-customer support or upgrades, revenue is recognized at a point in time as opposed to over the life of the software license. Revenue from these software products is recognized on a net basis at a point in time when the Company has satisfied its agency obligation which is generally when the Company has arranged for the delivery of the software from the third-party to the customer.

Revenue for third-party support service contracts - Revenue from the sale of third-party support service contracts is recognized on a net basis, with product revenue being equal to the gross margin on the transaction. As we are under no obligation to perform additional services, revenue is recognized at a point in time as opposed to over the life of the third-party support agreement. Revenue is recognized at a point in time when the Company has satisfied its agency obligation which is generally when the Company has arranged for the support service contract on the customer's behalf with the third-party.

Revenue for professional services - Revenue from professional services is recognized over a period of time as the services are performed and recorded as service revenue with the associated cost recorded as service cost of revenue. For time and material contracts, where the Company has the right to invoice for work performed as completed, the Company recognizes revenue using the "right to invoice" practical expedient as the amount that can be invoiced directly corresponds with satisfaction of the performance obligation. For time and material contracts and fixed priced contracts where invoicing is linked to the achievement of milestones, the Company uses an input based percentage of completion method based on labor hours completed compared to the total estimated hours for the scope of work with revenue accrued or deferred as appropriate. Management bases its estimates on the scope of work being performed, our historical experience performing similar work and the risks and uncertainties surrounding that work. These estimates are adjusted throughout the performance of the contract as work is completed.

Revenue for managed services - Revenue from managed services are recognized over a period of time using a time-lapsed method and recorded as service revenue with the associated cost recorded as service cost of revenue. The Company's managed services are considered to be a series of distinct services due to the services performed being either repetitive on a recurring basis or for being a stand-ready obligation and accordingly are accounted for as a single performance obligation. Accordingly, the Company believes that using a time-based method for recognition is the most appropriate as the services are satisfied evenly over the stated period of performance.

PRESIDIO, INC.
Notes to the Consolidated Financial Statements
(unaudited)

Sales returns and credit losses

A customer's ability to return goods and services is considered a form of variable consideration. The Company maintains an estimate for sales returns at the most likely amount based on historical experience. The Company also maintains an estimate for credit losses for uncollectible accounts which is based on historical experience.

Warranties

Our vendor partners provide warranties to our customers on equipment sold and, as such, we have not estimated a warranty reserve or deferred revenue for potential warranty work. These manufacturer warranties are assurance-type warranties that ensure that products will conform to manufacturer's specifications and are not considered separate performance obligations. Extended warranties sold separately by manufacturers are considered to be separate performance obligations and are accounted for as third-party support service contracts described above.

Contract assets and liabilities

Revenue recognized in excess of the amount the Company has invoiced the customer is recorded as unbilled receivables or other assets on the consolidated balance sheet. Unbilled receivables are primarily comprised of professional services with milestone invoicing and contracts with bill in-full invoicing provisions.

Payments received from customers in advance of transferring goods or services to customers is recorded as unearned revenue within accrued and other current liabilities or other liabilities on the consolidated balance sheet. Unearned revenue is primarily comprised of payments for professional and managed services which are being provided over a period of time.

Freight

The Company considers freight billed to its customers as part of the transaction price in the arrangement which is allocated to the product performance obligations in the arrangement. Freight costs are recorded as a cost of product revenue. The Company does not consider shipping to be a separate performance obligation.

Contract costs

Generally, the only incremental costs of obtaining a contract that the Company incurs are sales commissions paid to our employees. The Company's sales commission structures are complex and a majority of our sales commission are based on substantive operating metrics in addition to obtaining the contract. Sales commissions that are solely associated with obtaining a contract are capitalized when the amortization period would be one-year or greater, which primarily occurs in sales commissions paid on our managed services contracts. Capitalized sales commissions are amortized over the period they are expected to contribute directly or indirectly to future cash flows. Sales commissions paid on new managed services arrangements are amortized over a period that includes anticipated renewals while sales commissions paid on renewal services are amortized over the contract period.

The Company may incur costs to fulfill a contract associated with our professional or managed services, including, but not limited to, turn-up services, purchasing support service contracts and software licenses. These costs are initially deferred as prepaid expenses or other assets and expensed over the period that services are being provided.

Principles of Consolidation

The Company's consolidated financial statements include the accounts of Presidio, Inc. and its subsidiaries. All significant intercompany accounts and transactions have been eliminated in consolidation.

PRESIDIO, INC.
Notes to the Consolidated Financial Statements
(unaudited)

Use of Estimates

The preparation of the Company's consolidated financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, disclosure of contingent assets and liabilities at the date of the financial statements, and reported amounts of revenue and expenses during the reporting period. Estimates are used when accounting for items and matters including, but not limited to, revenue recognition, asset residual values, vendor rebates and consideration, goodwill, identifiable intangibles, measurement of income tax assets and liabilities and provisions for doubtful accounts, credit losses, inventory obsolescence, and other contingencies. Actual results could differ from management's estimates.

Other Comprehensive Income

The Company did not have any components of other comprehensive income for any of the periods presented.

Recent Accounting Pronouncements Adopted

In May 2014, the FASB issued ASU 2014-09, *Revenue from Contracts with Customers (Topic 606)*, along with subsequent clarifying ASUs, which outline a single, comprehensive model for accounting for revenue from contracts with customers. Under the standard, revenue is to be recognized upon the transfer of promised goods or services to a customer, in an amount that reflects the consideration the entity expects to receive in exchange for those goods or services. In addition, the standard requires disclosure of the nature, amount, timing, and uncertainty of revenue and cash flows arising from contracts with customers. See "Revenue Recognition" above for additional information regarding the Company's revenue recognition policies.

On July 1, 2018, the Company adopted ASC 606 utilizing the full retrospective method. The adoption of ASC 606 impacted the Company's results as follows (in millions, except per-share data):

	Three months ended December 31, 2017			Six months ended December 31, 2017		
	As Reported	ASU 2014-09 Adjustment	As Adjusted	As Reported	ASU 2014-09 Adjustment	As Adjusted
Revenue						
Product	\$ 540.3	\$ (15.3)	\$ 525.0	\$ 1,168.9	\$ (39.2)	\$ 1,129.7
Service	121.3	3.0	124.3	257.7	(6.9)	250.8
Total revenue	661.6	(12.3)	649.3	1,426.6	(46.1)	1,380.5
Cost of revenue						
Product	431.6	(15.3)	416.3	929.7	(39.2)	890.5
Service	92.6	2.8	95.4	203.2	(7.1)	196.1
Total cost of revenue	524.2	(12.5)	511.7	1,132.9	(46.3)	1,086.6
Gross margin	\$ 137.4	\$ 0.2	\$ 137.6	\$ 293.7	\$ 0.2	\$ 293.9
Selling expenses	\$ 65.3	\$ (0.1)	\$ 65.2	\$ 130.7	\$ (0.3)	\$ 130.4
Operating income	\$ 23.3	\$ 0.3	\$ 23.6	\$ 67.5	\$ 0.5	\$ 68.0
Income tax benefit	\$ (89.2)	\$ 0.1	\$ (89.1)	\$ (77.9)	\$ 0.2	\$ (77.7)
Net income	\$ 99.2	\$ 0.2	\$ 99.4	\$ 118.9	\$ 0.3	\$ 119.2
Earnings per share:						
Basic	\$ 1.08	\$ —	\$ 1.08	\$ 1.30	\$ —	\$ 1.30
Diluted	\$ 1.03	\$ —	\$ 1.03	\$ 1.23	\$ 0.01	\$ 1.24

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	As of June 30, 2018		
	As Reported	ASU 2014-09 Adjustment	As Adjusted
Accounts receivable, net	\$ 613.3	\$ (4.6)	\$ 608.7
Unbilled accounts receivable, net	\$ 156.7	\$ 14.8	\$ 171.5
Prepaid expenses and other current assets	\$ 80.7	\$ 31.8	\$ 112.5
Total assets	\$ 2,694.3	\$ 42.0	\$ 2,736.3
Accrued expenses and other current liabilities	\$ 193.2	\$ 35.0	\$ 228.2
Deferred income tax liabilities	\$ 177.7	\$ 2.8	\$ 180.5
Total liabilities	\$ 1,938.2	\$ 37.8	\$ 1,976.0
Retained earnings	\$ 110.9	\$ 4.2	\$ 115.1
Total stockholders' equity	\$ 756.1	\$ 4.2	\$ 760.3
Total liabilities and stockholders' equity	\$ 2,694.3	\$ 42.0	\$ 2,736.3

The adoption of ASC 606 impacted net income, as noted above, as well as elements of working capital. Total cash flows from operating activities, investing activities and financing activities remained unchanged for the six months ended December 31, 2017.

Recent Accounting Pronouncements Not Yet Adopted

The Company is still evaluating the impact of the following additional accounting pronouncement not yet adopted as of December 31, 2018.

In February 2016, the FASB issued ASU 2016-02, *Leases (Topic 842)*, which changes the accounting for leases in order to increase transparency and comparability among organizations by recognizing lease assets and lease liabilities on the balance sheet and disclosing key information about leasing arrangements. The standard has an effective date for fiscal years beginning after December 15, 2018 and interim periods within those fiscal years, with early adoption permitted. The Company is currently evaluating the impact that the standard will have on the consolidated financial statements. The adoption of the standard is not expected to have a material impact on the Company's leasing business from a lessor perspective.

In June 2016, the FASB issued ASU 2016-13, *Financial Instruments - Credit Losses (Topic 326)*, which changes the current incurred loss impairment methodology with a methodology that reflects expected credit losses and requires consideration of a broader range of reasonable and supportable information. This standard requires a modified-retrospective adoption approach and has an effective date for fiscal years beginning after December 15, 2019. The Company does not believe this standard will have a material impact on the consolidated financial statements.

In August 2017, the FASB issued ASU 2017-12, *Derivatives and Hedging (Topic 815)*, which changes the accounting for derivatives and hedging to better align an entity's risk management activities and financial reporting for hedging relationships through changes to both the designation and measurement guidance for qualifying hedging relationships and the presentation of hedge results. The standard has an effective date for fiscal years beginning after December 15, 2018 and interim periods within those fiscal years, with early adoption permitted. The Company does not believe this standard will have a material impact on the consolidated financial statements.

Along with ASU 2017-12, in October 2018, the FASB issued ASU 2018-16, *Derivatives and Hedging (Topic 815)*, which provides guidance on the eligible benchmark interest rates. The amendments in this ASU permit the use of the Overnight Index Swap ("OIS") rate based on the Secured Overnight Financing Rate ("SOFR") as the benchmark interest rate for hedge accounting purposes under Topic 815, in addition to the Treasury obligations of the U.S. government ("UST"), the LIBOR swap rate, the OIS rate based on the Fed Funds Effective Rate and the Securities Industry and Financial Markets Association ("SIFMA") Municipal Swap Rate. The amendments in this Update are required to be adopted concurrently with the amendments in ASU 2017-12. The Company does not believe this standard will have a material impact on the consolidated financial statements.

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Note 2. Revenue Recognition

Contract Assets and Liabilities – Contract assets consist of revenue recognized in excess of the amount the Company has the right to invoice a customer. Contract assets primarily relate to the Company's current and long-term unbilled receivables. As of December 31, 2018 and June 30, 2018, the current unbilled receivables balance was \$189.0 million and \$171.5 million, respectively. As of December 31, 2018 and June 30, 2018, the long-term unbilled receivables balance was \$45.9 million and \$28.3 million, respectively.

Contract liabilities consist of payments received from customers, or such consideration that is contractually due, in advance of providing the product or performing services. Contract liabilities primarily relate to the Company's current and long-term unearned revenue. As of December 31, 2018 and June 30, 2018, the current unearned revenue balance was \$79.1 million and \$73.0 million, respectively. As of December 31, 2018 and June 30, 2018, the long-term unearned revenue balance was \$3.2 million and \$3.8 million, respectively. During the six months ended December 31, 2018, the Company recognized \$48.5 million of revenue related to its contract liabilities.

For contracts greater than one year, the table below discloses the aggregate amount of the transaction price allocated to performance obligations that are unsatisfied (or partially unsatisfied) as of December 31, 2018 and when the Company expects to recognize this revenue, by fiscal year. These performance obligations primarily relate to managed service and public cloud contracts.

(in millions)	Years ending June 30,	
2019 (remaining six months)	\$	63.1
2020		97.9
2021		76.7
2022		19.9
2023		4.6
2024 and thereafter		1.3
Total	\$	<u>263.5</u>

Disaggregation of revenue

Refer to Note 16 for additional information detailing disaggregation of revenue for the three and six months ended December 31, 2018 and 2017.

Note 3. Prepaid Expenses and Other Current Assets

Prepaid expenses and other current assets consisted of the following (in millions):

	June 30, 2018	December 31, 2018
Deferred product costs	\$ 29.5	\$ 16.9
Partner incentive program receivable	32.7	19.7
Prepaid professional services	25.8	36.7
Prepaid reserved instances	2.0	8.1
Prepaid income taxes	4.9	3.5
Other prepaid expenses and current assets	17.6	16.4
Total prepaid expenses and other current assets	<u>\$ 112.5</u>	<u>\$ 101.3</u>

Note 4. Financing Receivables and Operating Leases

The Company records the lease receivables related to sales-type or direct financing leases as financing receivables, and the related liability resulting from discounting customer payment streams as discounted financing receivables, in the Company's consolidated balance sheets. Discounted customer payment streams are typically collateralized by a security interest in the underlying assets being leased.

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Financing receivables – The assets and related liabilities for discounted and not discounted sales-type and direct financing leases to financial institutions were as follows as of June 30, 2018 (in millions):

	Discounted to financial institutions	Not discounted to financial institutions	Total
Financing receivables:			
Minimum lease payments	\$ 207.5	\$ 2.7	\$ 210.2
Estimated net residual values	—	7.6	7.6
Unearned income	(11.4)	(0.9)	(12.3)
Provision for credit losses	—	(0.4)	(0.4)
Total, net	<u>\$ 196.1</u>	<u>\$ 9.0</u>	<u>\$ 205.1</u>
Reported as:			
Current	\$ 85.4	\$ 2.9	\$ 88.3
Long-term	110.7	6.1	116.8
Total, net	<u>\$ 196.1</u>	<u>\$ 9.0</u>	<u>\$ 205.1</u>
Discounted financing receivables:			
Nonrecourse	\$ 192.6	\$ —	\$ 192.6
Recourse	—	—	—
Total	<u>\$ 192.6</u>	<u>\$ —</u>	<u>\$ 192.6</u>
Reported as:			
Current	\$ 84.5	\$ —	\$ 84.5
Long-term	108.1	—	108.1
Total	<u>\$ 192.6</u>	<u>\$ —</u>	<u>\$ 192.6</u>

The assets and related liabilities for discounted and not discounted sales-type and direct financing leases to financial institutions were as follows as of December 31, 2018 (in millions):

	Discounted to financial institutions	Not discounted to financial institutions	Total
Financing receivables:			
Minimum lease payments	\$ 244.1	\$ 1.8	\$ 245.9
Estimated net residual values	—	6.3	6.3
Unearned income	(14.6)	(0.9)	(15.5)
Provision for credit losses	—	(0.3)	(0.3)
Total, net	<u>\$ 229.5</u>	<u>\$ 6.9</u>	<u>\$ 236.4</u>
Reported as:			
Current	\$ 90.8	\$ 2.2	\$ 93.0
Long-term	138.7	4.7	143.4
Total, net	<u>\$ 229.5</u>	<u>\$ 6.9</u>	<u>\$ 236.4</u>
Discounted financing receivables:			
Nonrecourse	\$ 214.8	\$ —	\$ 214.8
Recourse	—	—	—
Total	<u>\$ 214.8</u>	<u>\$ —</u>	<u>\$ 214.8</u>
Reported as:			
Current	\$ 87.3	\$ —	\$ 87.3
Long-term	127.5	—	127.5
Total	<u>\$ 214.8</u>	<u>\$ —</u>	<u>\$ 214.8</u>

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The discounted financing receivables associated with sales-type and direct financing type leases are presented in the consolidated balance sheets together with the discounted financing receivables associated with operating leases which is discussed below.

Operating leases – Equipment under operating leases and accumulated depreciation are reported as part of other assets in the consolidated balance sheets and were as follows (in millions):

	June 30, 2018	December 31, 2018
Equipment under operating leases	\$ 3.4	\$ 3.0
Accumulated depreciation	(1.9)	(1.8)
Total equipment under operating leases, net	\$ 1.5	\$ 1.2

Depreciation expense associated with equipment under operating leases that is included in cost of product revenue within the Company's consolidated statements of operations was \$0.3 million and \$0.4 million for the three months ended December 31, 2018 and 2017, respectively, and \$0.6 million and \$0.7 million for the six months ended December 31, 2018 and 2017, respectively.

Liabilities for discounted operating leases to financial institutions were as follows (in millions):

	June 30, 2018	December 31, 2018
Discounted operating leases:		
Current	\$ 0.7	\$ 0.5
Noncurrent	0.5	0.3
Total	\$ 1.2	\$ 0.8

The discounted financing receivables associated with operating leases are presented on the consolidated balance sheets together with the discounted financing receivables associated with sales-type and direct financing type leases which are discussed above.

Note 5. Property and Equipment

Property and equipment and accumulated depreciation and amortization were as follows (in millions):

	Estimated useful lives	June 30, 2018	December 31, 2018
Furniture and fixtures	3 to 7 years	\$ 8.4	\$ 9.2
Equipment	3 to 7 years	28.5	30.9
Software	3 years	24.4	26.6
Leasehold improvements	Life of lease	16.4	18.6
Total property and equipment		77.7	85.3
Accumulated depreciation and amortization		(41.8)	(48.2)
Total property and equipment, net		\$ 35.9	\$ 37.1

Depreciation and amortization associated with property and equipment that is included in depreciation and amortization within the Company's consolidated statements of operations was \$2.7 million and \$2.3 million for the three months ended December 31, 2018 and 2017, respectively, and \$5.3 million and \$4.5 million for the six months ended December 31, 2018 and 2017, respectively.

Depreciation and amortization expense associated with property and equipment directly utilized in support of managed services and cloud services that is included in cost of service revenue within the Company's consolidated statements of operations was \$0.8 million and \$1.1 million for the three months ended December 31, 2018 and 2017, respectively, and \$1.7 million and \$2.2 million for the six months ended December 31, 2018 and 2017, respectively.

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Note 6. Goodwill and Identifiable Intangible Assets

Goodwill

From June 30, 2018 through the date of the consolidated financial statements, no significant events have occurred that would lead us to believe that goodwill was more likely than not impaired.

Identifiable Intangible Assets

Identifiable intangible assets consisted of the following as of June 30, 2018 (in millions):

	Range of life (years)	Gross amount	Accumulated amortization	Total, net
Finite-lived intangible assets:				
Customer relationships	5 – 10	\$ 724.2	\$ (231.4)	\$ 492.8
Developed technology	5	3.6	(2.3)	1.3
Trade names	2	1.8	(0.6)	1.2
Indefinite-lived intangible assets:				
Trade names	Indefinite	205.0	—	205.0
Total intangible assets		\$ 934.6	\$ (234.3)	\$ 700.3

Identifiable intangible assets consisted of the following as of December 31, 2018 (in millions):

	Range of life (years)	Gross amount	Accumulated amortization	Total, net
Finite-lived intangible assets:				
Customer relationships	5 – 10	\$ 724.2	\$ (268.2)	\$ 456.0
Developed technology	5	3.6	(2.7)	0.9
Trade names	2	1.8	(1.1)	0.7
Indefinite-lived intangible assets:				
Trade names	Indefinite	205.0	—	205.0
Total intangible assets		\$ 934.6	\$ (272.0)	\$ 662.6

Amortization associated with intangible assets was \$18.9 million and \$18.8 million for the three months ended December 31, 2018 and 2017, respectively, and \$37.7 million and \$37.2 million for the six months ended December 31, 2018 and 2017, respectively. The weighted-average remaining useful life of the finite-lived intangible assets was 6.1 years and 6.6 years as of December 31, 2018 and June 30, 2018, respectively.

Based on the finite-lived intangible assets recorded at December 31, 2018, the future amortization expense is expected to be as follows (in millions):

	Years ending June 30,
2019 (remaining six months)	\$ 37.6
2020	74.3
2021	73.6
2022	73.5
2023	72.9
2024 and thereafter	125.7
Total	\$ 457.6

Note 7. Accounts Payable – Floor Plan

The accounts payable – floor plan balances on the consolidated balance sheets relate to an agreement with a financial institution that provides an indirect wholly-owned subsidiary of the Company with funding for discretionary inventory purchases from approved vendors. Payables are due within 90 days and are noninterest bearing, provided they are paid when due. In accordance with the agreement, the financial institution has been granted a senior security interest in the indirect wholly-owned subsidiary's inventory purchased under the agreement and accounts receivable arising from the sale thereof. Payments on the facility are guaranteed by Presidio LLC and subsidiaries. As of December 31, 2018 and June 30, 2018, the aggregate availability for purchases under the floor plan was the lesser of \$325.0 million or the liquidation value of the pledged assets. The balances outstanding under the accounts payable - floor plan facility were \$195.9 million and \$210.6 million as of December 31, 2018 and June 30, 2018, respectively.

Note 8. Accrued Expenses and Other Current Liabilities

Accrued expenses and other current liabilities consisted of the following (in millions):

	June 30, 2018	December 31, 2018
	(as adjusted)	
Accrued compensation	\$ 54.1	\$ 50.4
Accrued equipment purchases/vendor expenses	67.9	101.5
Accrued income taxes	5.1	—
Accrued interest	8.3	10.4
Dividend payable	—	3.3
Stay, retention and earnout bonuses	5.8	18.6
Unearned revenue	73.0	79.1
Other accrued expenses and current liabilities	14.0	13.3
Total accrued expenses and other current liabilities	<u>\$ 228.2</u>	<u>\$ 276.6</u>

Note 9. Long-Term Debt and Credit Agreements

Long-term debt consisted of the following (in millions):

	June 30, 2018	December 31, 2018
Revolving credit facility	\$ —	\$ —
Receivables securitization facility	—	—
Term loan facility, due February 2024	686.6	796.6
Total long-term debt	686.6	796.6
Unamortized debt issuance costs	(15.4)	(15.2)
Total long-term debt, net of debt issuance costs	<u>\$ 671.2</u>	<u>\$ 781.4</u>
Reported as:		
Current	\$ —	\$ —
Long-term	671.2	781.4
Total long-term debt, net of debt issuance costs	<u>\$ 671.2</u>	<u>\$ 781.4</u>

Receivables Securitization Facility

As of December 31, 2018 and June 30, 2018, there were no outstanding borrowings under the receivables securitization facility. The Company had \$250.0 million available under the receivables securitization facility based on the collateral available as of December 31, 2018.

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Credit Agreement

As of December 31, 2018 and June 30, 2018, there were no borrowings outstanding under the Company's revolving credit facility and \$1.8 million in letters of credit outstanding, in each case under the Company's existing credit agreement (the "Credit Agreement"). As of December 31, 2018, the Company was in compliance with the covenants in its Credit Agreement and had \$48.2 million available for revolver borrowings thereunder.

As of December 31, 2018, there were \$796.6 million of Term Loans outstanding under the Credit Agreement. During the six months ended December 31, 2018, the Company made aggregate voluntary prepayments of \$50.0 million on the term loan facility under the Credit Agreement, resulting in a \$1.0 million loss on extinguishment of debt in the Company's consolidated statements of operations associated with the write-off of debt issuance costs.

Note 10. Fair Value Measurements

For certain of the Company's financial instruments, including cash and cash equivalents, accounts and unbilled receivables, accounts payable – trade, accounts payable – floor plan, and other accrued liabilities, the carrying amount approximates fair value due to the short-term maturities of these instruments. Additionally, the Company's financing receivables were measured at their respective fair values upon initial recognition.

The fair value hierarchy for the Company's financial liabilities measured at fair value were as follows as of June 30, 2018 (in millions):

	Carrying value	Fair value measurement		
		Level 1	Level 2	Level 3
Term loans	\$ 686.6	\$ —	\$ 684.1	\$ —

The fair value hierarchy for the Company's financial assets and liabilities measured at fair value were as follows as of December 31, 2018 (in millions):

	Carrying value	Fair value measurement		
		Level 1	Level 2	Level 3
Term loans	\$ 796.6	\$ —	\$ 752.8	\$ —

The fair value of the Company's term loans are estimated based on quoted market prices for the debt which is traded in over-the-counter secondary markets that are not considered active. The carrying value of the Company's term loans exclude unamortized debt issuance costs.

For certain of the Company's nonfinancial assets, including goodwill, intangible assets, and property and equipment, the Company may be required to assess the fair values of these assets, on a recurring or nonrecurring basis, and record an impairment if the carrying value exceeds the fair value. In determining the fair value of these assets, the Company may use a combination of valuation methods which include Level 3 inputs. For the periods presented, there were no impairments charges.

Note 11. Commitments and Contingencies

Claims and assessments- In the normal course of business, the Company is subject to certain claims and assessments that arise in the ordinary course of business. The Company records a liability when the Company believes that it is both probable that a loss has been incurred and the amount can be reasonably estimated. Significant judgment is required to determine the outcome and the estimated amount of a loss related to such matters. Management believes that there are no claims or assessments outstanding which would materially affect the consolidated results of operations or financial position of the Company.

Note 12. Share-based Compensation

During the six months ended December 31, 2018, the Company granted 2,303,035 service-based non-qualified stock options that vest in four equal installments on each of the first four anniversaries of the grant date, all of which were issued pursuant to the Company's 2017 Long-Term Incentive Plan (the "2017 LTIP"). During the six months ended December 31, 2018, 75,000 service-based restricted stock units vested and there were 75,000 service-based restricted stock units unvested and outstanding as of December 31, 2018.

During the six months ended December 31, 2018, there were 81,707 service-based and rolled options exercised and 120,206 service-based and rolled options expired or forfeited. As of December 31, 2018, 7,476,386 service-based and rolled options were outstanding, of which 2,424,954 were vested.

During the six months ended December 31, 2018, there were 96,214 performance-based and market-based options forfeited. As of December 31, 2018, the performance condition for these options was deemed met; however, as the market condition for vesting had not yet been realized, the total balance of 2,929,754 options outstanding were unvested.

As of December 31, 2018, there were 1,197,111 remaining shares available for issuance under the Presidio, Inc. Employee Stock Purchase Plan (the "ESPP"). On September 5, 2018, the Compensation Committee of the Board of Directors determined to increase the purchase price discount under the ESPP from 5% to 10%. The Company enacted this change for all ESPP offering periods beginning on or after October 1, 2018. On December 31, 2018, the Company held \$0.9 million of contributions made by employees that were used to purchase 76,245 shares under the ESPP on January 2, 2019.

Share-Based Compensation Expense

The following table summarizes the share-based compensation expense recorded in our operating expenses, as follows (in millions):

	Three months ended December 31,		Six months ended December 31,	
	2017	2018	2017	2018
Selling expenses	\$ 0.3	\$ 0.5	\$ 0.7	\$ 1.1
General and administrative expenses	1.4	2.0	1.9	3.6
Total	\$ 1.7	\$ 2.5	\$ 2.6	\$ 4.7

As of December 31, 2018, there was \$14.3 million of unrecognized share-based compensation expense, \$14.0 million of which relates to service-based awards from the 2015 LTIP and 2017 LTIP grants and \$0.3 million of which relates to the restricted stock unit grants.

Note 13. Earnings Per Share

The following is a reconciliation of the weighted-average number of shares used to compute basic and diluted earnings per share (in millions, except share and per-share data):

	Three months ended December 31,		Six months ended December 31,	
	2017	2018	2017	2018
	(as adjusted)		(as adjusted)	
Numerator:				
Earnings	\$ 99.4	\$ 5.6	\$ 119.2	\$ 20.4
Denominator:				
Weighted-average shares – basic	91,712,178	82,333,605	91,440,895	86,590,211
Effect of dilutive securities:				
Share-based awards	4,966,637	3,459,430	5,063,312	3,584,722
Weighted-average shares – diluted	96,678,815	85,793,035	96,504,207	90,174,933
Earnings per share:				
Basic	\$ 1.08	\$ 0.07	\$ 1.30	\$ 0.24
Diluted	\$ 1.03	\$ 0.07	\$ 1.24	\$ 0.23

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Potentially dilutive securities that have been excluded from the computation of diluted weighted-average common shares outstanding because their inclusion would have been anti-dilutive consisted of the following:

	Three months ended December 31,		Six months ended December 31,	
	2017	2018	2017	2018
Share-based awards excluded from EPS because of anti-dilution	1,949,689	5,065,775	1,949,689	5,065,775
Share-based awards excluded from EPS because performance or market condition had not been met	—	—	—	—
Total share-based awards excluded from EPS	1,949,689	5,065,775	1,949,689	5,065,775

Note 14. Income Taxes

The Company recorded income tax expense of \$2.5 million and \$7.5 million for the three and six months ended December 31, 2018, respectively, compared to an income tax benefit of \$89.1 million and \$77.7 million for the three and six months ended December 31, 2017, respectively. The Company's effective tax rates for the three months ended December 31, 2018 and 2017 were 30.9% and (865.0)%, respectively, and 26.9% and (187.2)% for the six months ended December 31, 2018 and 2017, respectively. The Company's effective tax rates for both periods differed from the U.S. federal statutory tax rate primarily due to the impact of state taxes, permanent differences, and the impact of favorable excess tax benefit deduction related to share-based compensation, as well as, the impact of the legislative tax changes described below.

The lower effective tax rate for the three and six months ended December 31, 2017 is primarily due to the impact of the revaluation of deferred tax assets and liabilities as a result of the Tax Cuts and Jobs Act ("TCJA") enacted on December 22, 2017 that was recorded on a provisional basis in the three and six months ended December 31, 2017. The TCJA, among other things, reduced the U.S. federal corporate income tax rate from 35% to 21%. As the Company has a June 30 fiscal year-end, the U.S. federal corporate tax rate for our fiscal year ended June 30, 2019 and 2018 were 21.0% and 28.1%, respectively.

The Company's analysis for the accounting of all income tax effects of the TCJA has been completed and the financial statements for the three and six months ended December 31, 2018 include those effects, which were not material.

Note 15. Related Party Transactions

Apollo Global Management, LLC (together with its subsidiaries, "Apollo") is a leading global alternative investment management firm which owns and operates businesses across a variety of industries. The Company recorded revenue to parties affiliated with Apollo or our directors of \$3.6 million and \$0.3 million for the three months ended December 31, 2018 and 2017, respectively, and \$4.4 million and \$0.9 million for the six months ended December 31, 2018 and 2017, respectively. The outstanding receivables associated with parties affiliated with Apollo or our directors were \$6.6 million and \$1.7 million at December 31, 2018 and June 30, 2018, respectively.

The Company leases an office that is owned by members of the Company's management. The office location was carried over from a prior acquisition and the Company has continued to renew the lease. Rent expense for the office was \$0.1 million for both the three months ended December 31, 2018 and 2017, respectively, and \$0.2 million for both the six months ended December 31, 2018 and 2017, respectively.

Note 16. Segment and Disaggregation of Revenue Information

Since October 22, 2015, the Company has operated as one reportable segment based on our assessment of how our chief operating decision maker allocates resources and assesses performance across the Company.

Geographic Areas

Revenue earned by the Company from customers outside of the United States is not material for any of the periods presented. Additionally, the Company does not have long-lived assets outside of the United States.

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Disaggregation of Revenue

We disaggregate our revenue in a number of different ways. The following table presents total revenue disaggregated into recurring and all other revenue (in millions):

	Three months ended December 31,		Six months ended December 31,	
	2017	2018	2017	2018
Recurring revenue	\$ 38.7	\$ 49.3	\$ 73.1	\$ 92.0
All other revenue	610.6	718.5	1,307.4	1,425.8
Total revenue	<u>\$ 649.3</u>	<u>\$ 767.8</u>	<u>\$ 1,380.5</u>	<u>\$ 1,517.8</u>

The following table presents revenue recognized at a point-in-time and revenue recognized over a period of time (in millions):

	Three months ended December 31,		Six months ended December 31,	
	2017	2018	2017	2018
Revenue recognized at a point-in-time	\$ 520.0	\$ 631.5	\$ 1,122.1	\$ 1,243.0
Revenue recognized over a period of time	129.3	136.3	258.4	274.8
Total revenue	<u>\$ 649.3</u>	<u>\$ 767.8</u>	<u>\$ 1,380.5</u>	<u>\$ 1,517.8</u>

The following table presents total revenue by solution area (in millions):

	Three months ended December 31,		Six months ended December 31,	
	2017	2018	2017	2018
	(as adjusted)		(as adjusted)	
Cloud	\$ 103.6	\$ 120.2	\$ 235.4	\$ 230.7
Security	76.3	82.2	167.2	176.7
Digital Infrastructure	469.4	565.4	977.9	1,110.4
Total revenue	<u>\$ 649.3</u>	<u>\$ 767.8</u>	<u>\$ 1,380.5</u>	<u>\$ 1,517.8</u>

The type of solution sold by the Company to its customers is based upon internal classifications.

The following table presents total revenue by customer horizontal (in millions):

	Three months ended December 31,		Six months ended December 31,	
	2017	2018	2017	2018
Government	\$ 79.0	\$ 128.9	\$ 187.3	\$ 256.5
Large	127.5	148.6	223.9	274.9
Mid-market	442.8	490.3	969.3	986.4
Total revenue	<u>\$ 649.3</u>	<u>\$ 767.8</u>	<u>\$ 1,380.5</u>	<u>\$ 1,517.8</u>

Note 17. Supplemental Consolidating Information

The following financial statements set forth condensed consolidating financial information for the Company. The condensed consolidating financial information presents Presidio, Inc. on a standalone basis, Presidio Holdings Inc. and subsidiaries on a consolidated basis as guarantors of the Credit Agreement and the consolidating intercompany adjustments between the entities.

The following condensed consolidating financing information was prepared on the same basis as the consolidated financial statements (in millions):

PRESIDIO, INC.
Notes to the Consolidated Financial Statements
(unaudited)

Condensed Consolidating Balance Sheet
As of June 30, 2018
(as adjusted)

	<u>Presidio, Inc.</u>	<u>Presidio Holdings Inc. & Subsidiaries</u>	<u>Intercompany Adjustments</u>	<u>Consolidated</u>
Assets				
Current Assets				
Cash and cash equivalents	\$ 0.1	\$ 36.9	\$ —	\$ 37.0
Accounts receivable, net	—	608.7	—	608.7
Unbilled accounts receivable, net	—	171.5	—	171.5
Financing receivables, current portion	—	88.3	—	88.3
Inventory	—	27.7	—	27.7
Prepaid expenses and other current assets	2.9	111.4	(1.8)	112.5
Total current assets	3.0	1,044.5	(1.8)	1,045.7
Property and equipment, net	—	35.9	—	35.9
Deferred tax asset	1.5	—	(1.5)	—
Financing receivables, less current portion	—	116.8	—	116.8
Goodwill	—	803.7	—	803.7
Identifiable intangible assets, net	—	700.3	—	700.3
Other assets	755.8	33.9	(755.8)	33.9
Total assets	\$ 760.3	\$ 2,735.1	\$ (759.1)	\$ 2,736.3
Liabilities and Stockholders' Equity				
Current Liabilities				
Accounts payable – trade	\$ —	\$ 457.7	\$ —	\$ 457.7
Accounts payable – floor plan	—	210.6	—	210.6
Accrued expenses and other current liabilities	—	230.0	(1.8)	228.2
Discounted financing receivables, current portion	—	85.2	—	85.2
Total current liabilities	—	983.5	(1.8)	981.7
Long-term debt, net of debt issuance costs and current maturities	—	671.2	—	671.2
Discounted financing receivables, less current portion	—	108.6	—	108.6
Deferred income tax liabilities	—	182.0	(1.5)	180.5
Other liabilities	—	34.0	—	34.0
Total liabilities	—	1,979.3	(3.3)	1,976.0
Total stockholders' equity	760.3	755.8	(755.8)	760.3
Total liabilities and stockholders' equity	\$ 760.3	\$ 2,735.1	\$ (759.1)	\$ 2,736.3

PRESIDIO, INC.
Notes to the Consolidated Financial Statements
(unaudited)

Condensed Consolidating Balance Sheet
As of December 31, 2018

	Presidio, Inc.	Presidio Holdings Inc. & Subsidiaries	Intercompany Adjustments	Consolidated
Assets				
Current Assets				
Cash and cash equivalents	\$ 0.2	\$ 30.7	\$ —	\$ 30.9
Accounts receivable, net	—	644.5	—	644.5
Unbilled accounts receivable, net	—	189.0	—	189.0
Financing receivables, current portion	—	93.0	—	93.0
Inventory	—	22.8	—	22.8
Prepaid expenses and other current assets	5.7	96.1	(0.5)	101.3
Total current assets	5.9	1,076.1	(0.5)	1,081.5
Property and equipment, net	—	37.1	—	37.1
Deferred tax asset	1.4	—	(1.4)	—
Financing receivables, less current portion	—	143.4	—	143.4
Goodwill	—	803.7	—	803.7
Identifiable intangible assets, net	—	662.6	—	662.6
Other assets	617.8	65.1	(617.8)	65.1
Total assets	\$ 625.1	\$ 2,788.0	\$ (619.7)	\$ 2,793.4
Liabilities and Stockholders' Equity				
Current Liabilities				
Accounts payable – trade	\$ —	\$ 476.6	\$ —	\$ 476.6
Accounts payable – floor plan	—	195.9	—	195.9
Accrued expenses and other current liabilities	3.4	273.7	(0.5)	276.6
Discounted financing receivables, current portion	—	87.8	—	87.8
Total current liabilities	3.4	1,034.0	(0.5)	1,036.9
Long-term debt, net of debt issuance costs and current maturities	—	781.4	—	781.4
Discounted financing receivables, less current portion	—	127.8	—	127.8
Deferred income tax liabilities	—	178.9	(1.4)	177.5
Other liabilities	—	48.1	—	48.1
Total liabilities	3.4	2,170.2	(1.9)	2,171.7
Total stockholders' equity	621.7	617.8	(617.8)	621.7
Total liabilities and stockholders' equity	\$ 625.1	\$ 2,788.0	\$ (619.7)	\$ 2,793.4

PRESIDIO, INC.
Notes to the Consolidated Financial Statements
(unaudited)

Condensed Consolidating Statement of Operations
Three months ended December 31, 2017
(as adjusted)

	Presidio, Inc.	Presidio Holdings Inc. & Subsidiaries	Intercompany Adjustments	Consolidated
Total revenue	\$ —	\$ 649.3	\$ —	\$ 649.3
Total cost of revenue	—	511.7	—	511.7
Gross margin	—	137.6	—	137.6
Operating expenses				
Selling, general and administrative, and transaction costs	1.0	91.9	—	92.9
Depreciation and amortization	—	21.1	—	21.1
Total operating expenses	1.0	113.0	—	114.0
Operating income (loss)	(1.0)	24.6	—	23.6
Interest and other (income) expense				
Interest expense	—	12.7	—	12.7
Loss on extinguishment of debt	—	0.7	—	0.7
Other income, net	(101.0)	(0.1)	101.0	(0.1)
Total interest and other (income) expense	(101.0)	13.3	101.0	13.3
Income before income taxes	100.0	11.3	(101.0)	10.3
Income tax expense (benefit)	0.6	(89.7)	—	(89.1)
Net income	\$ 99.4	\$ 101.0	\$ (101.0)	\$ 99.4

Condensed Consolidating Statement of Operations
Three months ended December 31, 2018

	Presidio, Inc.	Presidio Holdings Inc. & Subsidiaries	Intercompany Adjustments	Consolidated
Total revenue	\$ —	\$ 767.8	\$ —	\$ 767.8
Total cost of revenue	—	613.2	—	613.2
Gross margin	—	154.6	—	154.6
Operating expenses				
Selling, general and administrative, and transaction costs	0.2	111.4	—	111.6
Depreciation and amortization	—	21.5	—	21.5
Total operating expenses	0.2	132.9	—	133.1
Operating income (loss)	(0.2)	21.7	—	21.5
Interest and other (income) expense				
Interest expense	—	13.1	—	13.1
Loss on extinguishment of debt	—	0.5	—	0.5
Other income, net	(5.7)	(0.2)	5.7	(0.2)
Total interest and other (income) expense	(5.7)	13.4	5.7	13.4
Income before income taxes	5.5	8.3	(5.7)	8.1
Income tax expense (benefit)	(0.1)	2.6	—	2.5
Net income	\$ 5.6	\$ 5.7	\$ (5.7)	\$ 5.6

PRESIDIO, INC.
Notes to the Consolidated Financial Statements
(unaudited)

Condensed Consolidating Statement of Operations
Six months ended December 31, 2017
(as adjusted)

	Presidio, Inc.	Presidio Holdings Inc. & Subsidiaries	Intercompany Adjustments	Consolidated
Total revenue	\$ —	\$ 1,380.5	\$ —	\$ 1,380.5
Total cost of revenue	—	1,086.6	—	1,086.6
Gross margin	—	293.9	—	293.9
Operating expenses				
Selling, general and administrative, and transaction costs	1.1	183.1	—	184.2
Depreciation and amortization	—	41.7	—	41.7
Total operating expenses	1.1	224.8	—	225.9
Operating income (loss)	(1.1)	69.1	—	68.0
Interest and other (income) expense				
Interest expense	—	25.2	—	25.2
Loss on extinguishment of debt	—	1.4	—	1.4
Other income, net	(120.9)	(0.1)	120.9	(0.1)
Total interest and other (income) expense	(120.9)	26.5	120.9	26.5
Income before income taxes	119.8	42.6	(120.9)	41.5
Income tax expense (benefit)	0.6	(78.3)	—	(77.7)
Net income	\$ 119.2	\$ 120.9	\$ (120.9)	\$ 119.2

Condensed Consolidating Statement of Operations
Six months ended December 31, 2018

	Presidio, Inc.	Presidio Holdings Inc. & Subsidiaries	Intercompany Adjustments	Consolidated
Total revenue	\$ —	\$ 1,517.8	\$ —	\$ 1,517.8
Total cost of revenue	—	1,204.1	—	1,204.1
Gross margin	—	313.7	—	313.7
Operating expenses				
Selling, general and administrative, and transaction costs	1.5	216.2	—	217.7
Depreciation and amortization	—	43.0	—	43.0
Total operating expenses	1.5	259.2	—	260.7
Operating income (loss)	(1.5)	54.5	—	53.0
Interest and other (income) expense				
Interest expense	—	24.3	—	24.3
Loss on extinguishment of debt	—	1.0	—	1.0
Other income, net	(21.5)	(0.2)	21.5	(0.2)
Total interest and other (income) expense	(21.5)	25.1	21.5	25.1
Income before income taxes	20.0	29.4	(21.5)	27.9
Income tax expense (benefit)	(0.4)	7.9	—	7.5
Net income	\$ 20.4	\$ 21.5	\$ (21.5)	\$ 20.4

PRESIDIO, INC.
Notes to the Consolidated Financial Statements
(unaudited)

Condensed Consolidating Statement of Cash Flows
Six months ended December 31, 2017
(as adjusted)

	Presidio, Inc.	Presidio Holdings Inc. & Subsidiaries	Intercompany Adjustments	Consolidated
Net cash provided by (used in) operating activities)	\$ (2.0)	\$ 126.6	\$ —	\$ 124.6
Cash flows from investing activities:				
Acquisition of businesses, net of cash and cash equivalents acquired	—	(9.5)	—	(9.5)
Proceeds from collection of escrow related to acquisition of business	—	0.2	—	0.2
Additions of equipment under sales-type and direct financing leases	—	(49.7)	—	(49.7)
Proceeds from collection of financing receivables	—	2.2	—	2.2
Additions to equipment under operating leases	—	(1.2)	—	(1.2)
Proceeds from disposition of equipment under operating leases	—	0.7	—	0.7
Purchases of property and equipment	—	(7.2)	—	(7.2)
Net cash used in investing activities	—	(64.5)	—	(64.5)
Cash flows from financing activities:				
Proceeds from issuance of common stock under share-based compensation plans	2.3	2.2	—	4.5
Proceeds from the discounting of financing receivables	—	47.0	—	47.0
Retirements of discounted financing receivables	—	(2.5)	—	(2.5)
Deferred financing cost on receivables securitization facility	—	(0.6)	—	(0.6)
Repayments of term loans	—	(50.0)	—	(50.0)
Net change in accounts payable — floor plan	—	(65.3)	—	(65.3)
Net cash provided by (used in) financing activities	2.3	(69.2)	—	(66.9)
Net increase (decrease) in cash and cash equivalents	0.3	(7.1)	—	(6.8)
Cash and cash equivalents:				
Beginning of the period	0.7	26.8	—	27.5
End of the period	\$ 1.0	\$ 19.7	\$ —	\$ 20.7

PRESIDIO, INC.
Notes to the Consolidated Financial Statements
(unaudited)

Condensed Consolidating Statement of Cash Flows
Six months ended December 31, 2018

	Presidio, Inc.	Presidio Holdings Inc. & Subsidiaries	Intercompany Adjustments	Consolidated
Net cash provided by (used in) operating activities	\$ (1.4)	\$ 77.4	\$ —	\$ 76.0
Cash flows from investing activities:				
Return of capital from subsidiary	158.6	—	(158.6)	—
Dividends received	3.3	—	(3.3)	—
Additions to equipment under operating leases	—	(0.1)	—	(0.1)
Proceeds from disposition of equipment under operating leases	—	0.1	—	0.1
Additions of equipment under sales-type and direct financing leases	—	(82.9)	—	(82.9)
Proceeds from collection of financing receivables	—	2.7	—	2.7
Purchases of property and equipment	—	(8.3)	—	(8.3)
Net cash provided by (used in) investing activities	161.9	(88.5)	(161.9)	(88.5)
Cash flows from financing activities:				
Proceeds from issuance of common stock under share-based compensation plans	1.5	—	—	1.5
Common stock repurchased	(158.6)	—	—	(158.6)
Return of capital to parent	—	(158.6)	158.6	—
Dividends paid	(3.3)	(3.3)	3.3	(3.3)
Proceeds from the discounting of financing receivables	—	91.1	—	91.1
Retirements of discounted financing receivables	—	(17.4)	—	(17.4)
Deferred financing costs	—	(0.3)	—	(0.3)
Borrowings on term loans, net of original issue discount	—	158.1	—	158.1
Repayments of term loans	—	(50.0)	—	(50.0)
Net change in accounts payable — floor plan	—	(14.7)	—	(14.7)
Net cash provided by (used in) financing activities	(160.4)	4.9	161.9	6.4
Net increase (decrease) in cash and cash equivalents	0.1	(6.2)	—	(6.1)
Cash and cash equivalents:				
Beginning of the period	0.1	36.9	—	37.0
End of the period	\$ 0.2	\$ 30.7	\$ —	\$ 30.9

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

Unless otherwise indicated or the context otherwise requires, as used in this "Management's Discussion and Analysis of Financial Condition and Results of Operations," the terms "we," "us," "the Company," "our," "Presidio," and similar terms refer to Presidio, Inc. and its subsidiaries. You should read the following discussion in conjunction with the historical consolidated financial statements of Presidio, Inc. and its subsidiaries and the related notes included elsewhere in this Quarterly Report on Form 10-Q and our Annual Report on Form 10-K for the fiscal year ended June 30, 2018. This discussion contains forward-looking statements and involves numerous risks and uncertainties, including, but not limited to, those described in "Part I, Item 1A. Risk Factors" of our Annual Report on Form 10-K for the fiscal year ended June 30, 2018. Our actual results may differ materially from those contained in any forward-looking statements.

Cautionary Statements Concerning Forward-Looking Statements

This quarterly report contains "forward-looking statements" that involve risks and uncertainties. You can identify forward-looking statements because they contain words such as "believes," "expects," "may," "will," "should," "would," "could," "seeks," "approximately," "intends," "plans," "estimates," or "anticipates" or similar expressions that relate to our strategy, plans or intentions. All statements we make relating to our estimated and projected earnings, margins, costs, expenditures, cash flows, growth rates, and financial results or to our expectations regarding future industry trends are forward-looking statements. In addition, we, through our senior management, from time to time make forward-looking public statements concerning our expected future operations and performance and other developments. These forward-looking statements are subject to risks and uncertainties that may change at any time and, therefore, our actual results may differ materially from those that we expected. We derive many of our forward-looking statements from our operating budgets and forecasts, which are based upon many detailed assumptions. While we believe that our assumptions are reasonable, we caution that it is very difficult to predict the impact of known factors and it is impossible for us to anticipate all factors that could affect our actual results. All forward-looking statements are based upon information available to us on the date of this quarterly report.

Important factors that could cause actual results to differ materially from our expectations, which we refer to as "cautionary statements," are disclosed under "Part I, Item 1A. Risk Factors" of our Annual Report on Form 10-K for the fiscal year ended June 30, 2018 and elsewhere in this quarterly report. All forward-looking information in this quarterly report and subsequent written and oral forward-looking statements attributable to us, or to persons acting on our behalf, are expressly qualified in their entirety by the cautionary statements. Some of the factors that we believe could affect our results include:

- general economic conditions;
- a reduced demand for our information technology solutions;
- a decrease in spending on technology products by our federal and local government clients;
- the availability of products from vendor partners and maintenance of vendor relationships;
- the role of rapid innovation and the introduction of new products in our industry;
- our ability to compete effectively in a competitive industry;
- the termination of our client contracts;
- the failure to effectively develop, maintain and operate our information technology systems;
- our inability to adequately maintain the security of our information technology systems and clients' confidential information;
- unsuccessful investments in new services and technologies;
- the costs of litigation and losses if we infringe on the intellectual property rights of third parties;
- inaccurate estimates of pricing terms with our clients;
- failure to comply with the terms of our public sector contracts;
- any failures by third-party contractors upon whom we rely to provide our services;
- any failures by third-party commercial delivery services;
- our inability to retain or hire skilled technology professionals and key personnel;
- the disruption to our supply chain if suppliers fail to provide products;
- the risks associated with accounts receivables and inventory exposure;
- the failure to realize the entire investment in leased equipment;
- our inability to realize the full amount of our backlog;
- the failure to achieve the expectations we have for our acquisitions;
- fluctuations in our operating results;
- potential litigation and claims;
- changes in accounting rules, tax legislation and other legislation;

- the potential impact on our suppliers of possible new taxes on imports and new tariffs and trade restrictions and changes in tariff rates and trade restrictions;
- increased costs of labor and benefits;
- our inability to focus our resources, maintain our business structure and manage costs effectively;
- the failure to deliver technical support services of sufficient quality;
- the failure to meet our growth objectives and strategies;
- ineffectiveness of our internal controls;
- the risks pertaining to our substantial level of indebtedness;
- the ability to manage cybersecurity risks; and
- other risks and uncertainties described in Part I, Item 1A. "Risk Factors," in our Annual Report on Form 10-K for the fiscal year ended June 30, 2018 and, from time to time, in our other reports filed with the SEC.

We caution you that the foregoing list of important factors may not contain all of the material factors that are important to you. In addition, in light of these risks and uncertainties, the matters referred to in the forward-looking statements contained in this quarterly report may not, in fact, occur. Moreover, we operate in a rapidly changing and competitive environment. New risk factors emerge from time to time, and it is not possible for management to predict all such risk factors. Accordingly, investors should not place undue reliance on those statements. We undertake no obligation to publicly update or revise any forward-looking statement as a result of new information, future events or otherwise, except as otherwise required by law.

Overview

Presidio is a leading provider of IT solutions to its customers in North America. We enable business transformation through our expertise in IT solutions for agile, secure infrastructure solution sets, with a specific focus on Digital Infrastructure, Cloud and Security solutions. Our solutions are delivered through a broad suite of professional services, including strategy, consulting, design and implementation. We complement our professional services with project management, technology acquisition, managed services, maintenance and support to offer a full lifecycle model. Our services-led, lifecycle model leads to ongoing client engagement. As of June 30, 2018, we served approximately 8,000 middle-market, large, and government organizations across a diverse range of industries.

We develop and maintain our long-term client relationships through a localized direct sales force of approximately 500 employees based in over 60 offices across the United States as of June 30, 2018. As a strategic partner and trusted advisor to our clients, we provide the expertise to implement new solutions, as well as optimize and better leverage existing IT resources. We provide strategy, consulting, design, customized deployment, integration and lifecycle management through our team of over 1,600 engineers as of June 30, 2018, enabling us to architect and manage the ideal IT solutions for our clients. Our local delivery model, combining relationship managers and expert engineering teams, allows us to win, retain and expand our client relationships.

Our clients are increasingly dependent on Presidio to develop best of breed, vendor-agnostic agile, secure infrastructure solution sets comprised of Digital Infrastructure, Cloud, and Security solutions. Through our increasing focus on agile, secure infrastructure sets, we believe we are well positioned to benefit from the rapid growth in demand for Digital Infrastructure, Cloud and Security technologies. Within our three solutions areas, we offer customers enterprise-class solutions that are critical to driving digital transformation and expanding business capabilities. Examples of such solutions include advanced networking, IoT, data analytics, data center modernization, hybrid and multi-cloud, cyber risk management and enterprise mobility. These solutions are enabled by our expertise in foundational technologies, built upon our investments in network, data center, security, collaboration and mobility.

The middle market is a highly attractive segment of the IT services market, and we are differentiated by our strategic focus on this attractive segment. The increasing potential and complexity of emerging technologies and digital transformation are creating more demand for our solutions and services. Customers in the middle market are usually large enough to have substantial technology needs but typically have fewer IT resources and lack the broad expertise required to develop the necessary solutions as compared to larger companies. As a trusted solutions provider, our clients rely on us for IT investment decisions. We simplify IT for them by building solutions utilizing what we view as the best possible technologies. Since many large-scale IT service providers focus on larger enterprises, and because many resellers are unable to provide end-to-end solutions, we believe the middle market has remained under-penetrated and under-served.

Factors Affecting Our Operating Performance

We believe that the financial performance of our business and our future success are dependent upon many factors, including those highlighted in this section. Our operating performance will depend upon many variables, including the success of our growth strategies and the timing and size of investments and expenditures that we choose to undertake, as well as market growth and other factors that are not within our control.

Macroeconomic environment: Weak economic conditions generally, U.S. federal or other government spending cuts, a rising interest rate environment, uncertain tax and regulatory policies, weakening business confidence or a tightening of credit markets could cause our clients and potential clients to postpone or reduce spending on technology solutions, products or services. Our clients are diverse, including both public and private sector parties, but any long-term, severe or sustained economic downturn may adversely affect all of our clients.

Competitive markets: We believe that we are uniquely positioned to take advantage of the markets in which we operate because of our expertise and specialization. We focus on the middle-market segment of the IT services market. Since most large-scale IT service providers focus on larger enterprises and because smaller regional competitors are typically unable to provide end-to-end solutions, we believe the middle market is under-penetrated and under-served. Strategic and investment decisions by our competitors may affect our operating performance.

Delivery of complex technology solutions: Our vendor agnostic approach to the market allows us to develop optimal IT solutions for our clients based on what we view as the best mix of technologies. We deliver our end-to-end solutions through a full lifecycle model, which combines consulting, engineering, managed services, and technology to give us a significant competitive advantage compared to other IT providers. Our ability to effectively manage project engagements, including logistics, product availability, client requirements, engineering resources, and service levels, will affect our financial performance.

Vendor relationships: We are focused on developing and strengthening our relationships with OEMs. We partner with OEMs to deploy product offerings. Pricing and incentive programs are subject to change, and the loss of, change in business relationship with or change in the behavior, including the timing of fulfillment, of any key vendor partners, or the diminished availability of their products, may impact the timing of our sales or could reduce the supply and increase the cost of the products we sell. While we maintain existing relationships with large vendors, there is no guarantee that our vendor partners will continue to develop or produce information technology products that are popular with our clients. We maintain the ability to evolve our vendor relationships as necessary to respond to market trends.

Seasonality: Our results may be affected by slight variances as a result of seasonality we may experience across our business. This seasonality is typically driven by budget cycles and spending patterns across our diverse client base. For example, our local, state and federal government clients operate on an annual budget cycle, most often on the basis of a fiscal year that begins October 1. Our private sector clients operate on an annual budget cycle, most often on the basis of a fiscal year that begins January 1. It is not uncommon to experience a higher level of contract awards, funding actions and overall government and private demand for services in the final months and weeks of the government and private fiscal years, respectively. Consequently, our revenue in the first and second quarters of our fiscal year may be greater than revenue recognized in the third and fourth quarters of our fiscal year.

Components of Results of Operations

There are a number of factors that impact the revenue and margin profile of the solutions we provide, including, but not limited to, solution and technology complexity, technical expertise requiring the combination of products and value-added services provided, as well as other elements that may be specific to a particular engagement.

Revenue and cost of revenue: Revenue from the sale of our solutions is primarily comprised of the sale of third-party products, software, and third-party support service contracts along with the sale of Company and third-party services. We separately present product revenue and service revenue, along with the associated cost of revenue, in our consolidated statements of operations.

Product revenue: Our product revenue includes:

Revenue for hardware and general software: Revenue from the sale of hardware and general software products is generally recognized on a gross basis with the selling price to the client recorded as revenue and the acquisition cost of the product recorded as cost of revenue, net of vendor rebates. Hardware and general software items can be delivered to clients

in a variety of ways including drop-shipped by the vendor or supplier, or shipped through one of the Company's staging warehouse or via electronic delivery for general software licenses. Hardware revenue and pre-installed general software revenue is normally recognized when the title and risk of loss are passed to the client while revenue for general software delivered electronically is normally recognized when the client has the information needed to download and install the software.

Revenue for software as a service ("SaaS"), enterprise license agreements ("ELA") or software sold with critical software assurance: The Company sells: (i) SaaS to customers whereby the customer receives the right to access software directly from the vendor; (ii) ELAs that provide customers with access to manage their software license needs; and (iii) software that is accompanied by third-party delivered software assurance that is deemed to be critical or essential to the core functionality of the software license; and in each case the Company is acting as an agent and therefore recognizes revenue from these transactions on a net basis. As the Company is under no obligation to perform additional services, such as post-customer support or upgrades, revenue is recognized at the time the Company has arranged for the delivery of the software from the third-party to the customer.

Revenue for third-party support service contracts: Revenue from the sale of third-party support service contracts is recognized net of the related cost of revenue. In a third-party support service contract, all services are provided by our third-party providers and as a result, we are acting as an agent and recognize revenue on a net basis, with revenue being equal to the gross margin on the transaction, when the Company has arranged for the support service contract on the customer's behalf with the third-party.

Revenue from leasing arrangements: Revenue recognition for information technology hardware and software products leased to clients is based on the type of the lease. Each lease is classified as either a direct financing lease, sales-type lease or operating lease. The majority of our leases are sales-type leases. At the inception of a sales-type lease, the present value of the non-cancelable rentals is recorded as revenue and equipment costs, less the present value of the estimated residual values, are recorded in cost of revenue. At the inception of an operating lease, the equipment assigned to the lease is recorded at cost as equipment under operating leases presented within other assets in our consolidated balance sheets and is depreciated on a straight-line basis over its useful life. Monthly payments are recorded as revenue within our consolidated statements of operations, with the depreciation expense associated with the equipment recorded in cost of product revenue.

Service revenue: Our service revenue includes consulting and integration services, project management, managed services, and support services and includes:

Revenue for professional services: Revenue for professional services is generally recognized as the services are performed. For time and material service contracts, revenue is recognized at the contractual hourly rates for the hours performed during the period using the right to invoice practical expedient. For fixed price service contracts and time and material contracts with milestone invoicing, revenue is recognized on a percentage of completion basis based on the labor hours completed compared to the total estimated hours for the scope of work under contract with revenue accrued or deferred as appropriate. Cost of revenue associated with professional services includes the compensation, benefits, and other costs associated with our delivery and project management engineering team, as well as costs charged by subcontractors. In addition, the Company performs professional service engagements that include subcontractors performing the services. Revenue is recognized over the period of performance using an appropriate input method aligned with when control transfers to the customer.

Revenue for managed services: Revenue for managed services is generally recognized on a straight-line basis over the term of the arrangement. We may incur upfront costs associated with managed services including, but not limited to, purchasing third-party support service arrangements and software licenses. These costs are initially deferred as prepaid expenses or other assets and expensed over the period that services are being provided as cost of revenue. In addition, cost of revenue includes the compensation, benefits and other costs associated with our managed services engineering team, costs charged by subcontractors, and depreciation of the software used to deliver our managed services and managed cloud contracts.

Gross margin: Our product gross margin is impacted by the types of technology sold in our solutions, as well as the mix of hardware, software, and third-party support service contracts. As described previously, SaaS, ELAs and software with critical assurance, as well as, our third-party support service sales are recognized on a net basis, resulting in the gross margin being recognized as revenue. Accordingly, a higher proportion of solutions sold including SaaS, ELAs, software with critical assurance or support services is expected to have a favorable impact on our gross margin percentage.

Our service gross margin is primarily impacted by our ability to deliver on fixed price professional services engagements within scope, the ability to keep our delivery engineers utilized and the hourly bill rate charged to clients. The complexity of the solutions sold to our clients may require specialized engineering capabilities that can favorably impact the bill rate we charge. Our service revenue and cost of revenue also includes third-party services. Generally, a higher mix of professional services delivered by our delivery engineers has a favorable impact on service gross margin. In addition, our managed services gross margins are

favorably impacted by our ability to negotiate longer contracts with our clients, as well as renewing contracts at a high rate, which improves our operating efficiency. Generally, a higher percentage of our overall revenue relates to services sold to our clients when the technology complexity of our solutions increases. Accordingly, our gross margins are favorably impacted by our ability to deliver more complex solutions, which include professional and managed services.

Operating expenses: Our operating expenses include selling expenses, general and administrative expenses, transaction costs, and depreciation and amortization.

Selling expenses are comprised of compensation (including share-based compensation), variable incentive pay, and benefits related to our sales personnel along with travel expenses and other employee related costs. Variable incentive pay is largely driven by our gross margin performance. We expect selling expenses to increase over time as a result of higher gross margin, as well as continued investment in our direct and indirect sales resources.

General and administrative expenses are comprised of compensation (including share-based compensation) and benefits of administrative and operational support personnel, including variable incentive pay and other administrative costs such as facilities expenses, professional fees, and bad debt expense. We expect general and administrative expenses to increase over time due to our growth.

Transaction costs include acquisition-related expenses (such as stay, retention and earnout bonuses), advisory and diligence fees, transaction-related legal, accounting, and tax fees, as well as professional fees and related out-of-pocket expenses associated with refinancing of debt and credit agreements and securities offerings.

Depreciation and amortization primarily includes the amortization of acquired intangible assets associated with our acquisitions and depreciation associated with our property and equipment.

Total interest and other (income) expense: Total interest and other (income) expense primarily includes interest expense associated with our outstanding debt. In addition, we include losses on extinguishment of debt and other noncash gains or losses within total interest and other (income) expense.

Key Business Metrics

Our management regularly monitors certain financial measures to track the progress of our business against internal goals and targets. In addition to financial information presented in accordance with GAAP, our management uses Adjusted EBITDA and Adjusted Net Income (each which are non-GAAP measures defined below) in its evaluation of past performance and prospects for the future. Our non-GAAP measures should be considered in addition to, not as a substitute for, or superior to, financial measures calculated in accordance with GAAP. They are not measurements of our financial performance under GAAP and should not be considered as alternatives to net income or revenue, as applicable, or any other performance measures derived in accordance with GAAP and may not be comparable to other similarly titled measures of other businesses. These non-GAAP measures have limitations as analytical tools and you should not consider them in isolation or as a substitute for analysis of our operating results as reported under GAAP and they include adjustments for items that may occur in future periods. However, we believe these adjustments are appropriate because the amounts recognized can vary significantly from period to period, do not directly relate to the ongoing operations of our business and complicate comparisons of our internal operating results and operating results of other peer companies over time.

We believe that the most important GAAP and non-GAAP measures include (in millions, except percentages):

	Three months ended December 31,		Six months ended December 31,	
	2017	2018	2017	2018
	(as adjusted)		(as adjusted)	
Total revenue	\$ 649.3	\$ 767.8	\$ 1,380.5	\$ 1,517.8
Gross margin	137.6	154.6	293.9	313.7
Net income	99.4	5.6	119.2	20.4
Adjusted EBITDA	49.7	57.8	117.4	120.4
Adjusted EBITDA margin	7.7%	7.5%	8.5%	7.9%
Adjusted Net Income	\$ 28.5	\$ 33.1	\$ 63.4	\$ 71.0

Adjusted EBITDA – Adjusted EBITDA is a non-GAAP financial measure. We believe Adjusted EBITDA provides helpful information with respect to our operating performance as viewed by our management, including a view of our business that is not dependent on (a) the impact of our capitalization structure and (b) items that are not part of our day-to-day operations. We define Adjusted EBITDA as net income *plus* (i) total depreciation and amortization, (ii) interest and other (income) expense, and (iii) income tax expense, as further adjusted to eliminate noncash share-based compensation expense, purchase accounting adjustments, transaction costs and other non-recurring costs. We define Adjusted EBITDA margin as the ratio of Adjusted EBITDA to total revenue.

The reconciliation of Adjusted EBITDA from Net income for each of the periods presented is as follows (in millions):

	Three months ended December 31,		Six months ended December 31,	
	2017	2018	2017	2018
	(as adjusted)		(as adjusted)	
Adjusted EBITDA reconciliation:				
Net income	\$ 99.4	\$ 5.6	\$ 119.2	\$ 20.4
Total depreciation and amortization ⁽¹⁾	22.6	22.6	44.6	45.3
Interest and other (income) expense	13.3	13.4	26.5	25.1
Income tax expense	(89.1)	2.5	(77.7)	7.5
EBITDA	46.2	44.1	112.6	98.3
Adjustments:				
Share-based compensation expense	1.8	2.5	2.6	4.7
Purchase accounting adjustments ⁽²⁾	—	—	0.1	0.1
Transaction costs ⁽³⁾	1.7	9.0	2.1	14.4
Other costs ⁽⁴⁾	—	2.2	—	2.9
Total adjustments	3.5	13.7	4.8	22.1
Adjusted EBITDA	\$ 49.7	\$ 57.8	\$ 117.4	\$ 120.4

- (1) “Total depreciation and amortization” equals the sum of (i) depreciation and amortization included within total operating expenses and (ii) depreciation and amortization recorded as part of cost of revenue within our consolidated financial statements.
- (2) “Purchase accounting adjustments” include charges associated with noncash adjustments to acquired assets and liabilities in connection with purchase accounting for acquisitions.
- (3) “Transaction costs” (i) of \$1.7 million for the three months ended December 31, 2017 includes acquisition-related expenses of \$0.7 million related to stay and retention bonuses and \$1.0 million related to transaction-related advisory and diligence fees; (ii) of \$9.0 million for the three months ended December 31, 2018 includes acquisition-related expenses of \$8.9 million related to stay, retention and earnout bonuses and \$0.1 million related to transaction-related advisory and diligence fees; (iii) of \$2.1 million for the six months ended December 31, 2017 includes acquisition-related expenses of \$1.0 million related to stay and retention bonuses, \$1.0 million related to transaction-related advisory and diligence fees and \$0.1 million related to transaction-related legal, accounting and tax fees; and (iv) of \$14.4 million for the six months ended December 31, 2018 includes acquisition-related expenses of \$13.1 million related to stay, retention and earnout bonuses, \$1.2 million related to transaction-related advisory and diligence fees and \$0.1 million related to transaction-related legal, accounting and tax fees.
- (4) “Other costs” (i) of \$2.2 million for the three months ended December 31, 2018 includes \$1.6 million related to a one-time inventory write-off and \$0.6 million related to non-recurring cost-optimization expenses, and (iv) of \$2.9 million for the six months ended December 31, 2018 includes \$1.6 million related to a one-time inventory write-off and \$1.3 million of costs related to non-recurring cost-optimization expenses.

Adjusted Net Income – Adjusted Net Income is a non-GAAP measure, which management uses to provide additional information regarding our operating performance while considering the interest expense associated with our outstanding debt, as well as the impact of depreciation on our fixed assets and income taxes. We define Adjusted Net Income as net income adjusted to exclude (i) amortization of intangible assets, (ii) amortization of debt issuance costs, (iii) losses on extinguishment of debt, (iv) noncash share-based compensation expense, (v) purchase accounting adjustments, (vi) transaction costs, (vii) other costs and (viii) the income tax impact associated with the foregoing items to arrive at an appropriate effective tax rate on Adjusted Net

Income and adjusted for (1) the impact of permanently nondeductible expenses and (2) the impact of tax-deductible goodwill and intangible assets resulting from certain historical acquisitions and further adjusted for discrete tax items.

The reconciliation of Adjusted Net Income from Net Income for each of the periods presented is as follows (in millions):

	Three months ended December 31,		Six months ended December 31,	
	2017	2018	2017	2018
	(as adjusted)		(as adjusted)	
Adjusted Net Income reconciliation:				
Net income	\$ 99.4	\$ 5.6	\$ 119.2	\$ 20.4
Adjustments:				
Amortization of intangible assets	18.8	18.8	37.2	37.7
Amortization of debt issuance costs	1.3	0.9	2.6	1.8
Loss on extinguishment of debt	0.7	0.5	1.4	1.0
Share-based compensation expense	1.8	2.5	2.6	4.7
Purchase accounting adjustments	—	—	0.1	0.1
Transaction costs	1.7	9.0	2.1	14.4
Other costs	—	2.2	—	2.9
Revaluation of federal deferred taxes	(89.2)	—	(89.2)	—
Income tax impact of adjustments ⁽¹⁾	(6.0)	(6.4)	(12.6)	(12.0)
Total adjustments	(70.9)	27.5	(55.8)	50.6
Adjusted Net Income	\$ 28.5	\$ 33.1	\$ 63.4	\$ 71.0

- (1) “Income tax impact of adjustments” includes an estimated tax impact of the adjustments to net income at our average statutory rate to arrive at an appropriate effective tax rate on Adjusted Net Income, except for (i) the adjustment of certain transaction costs that are permanently nondeductible for tax purposes and (ii) the impact of tax-deductible goodwill and intangible assets resulting from certain historical acquisitions and further adjusted for discrete tax items such as the remeasurement of deferred tax liabilities due to state rate changes or the excess tax benefit related to share-based compensation activity.

Results of Operations - Three Months Ended December 31, 2018 compared to the Three Months Ended December 31, 2017

(in millions)	Three months ended December 31,		Change	
	2017	2018	\$	%
	(as adjusted)			
Revenue				
Product	\$ 525.0	\$ 647.2	\$ 122.2	23.3 %
Service	124.3	120.6	(3.7)	(3.0)%
Total revenue	649.3	767.8	118.5	18.3 %
Cost of revenue				
Product	416.3	517.1	100.8	24.2 %
Service	95.4	96.1	0.7	0.7 %
Total cost of revenue	511.7	613.2	101.5	19.8 %
Gross margin	137.6	154.6	17.0	12.4 %
Product gross margin	108.7	130.1	21.4	19.7 %
Service gross margin	28.9	24.5	(4.4)	(15.2)%
Product gross margin %	20.7%	20.1%		(0.6)%
Service gross margin %	23.3%	20.3%		(3.0)%
Total gross margin %	21.2%	20.1%		(1.1)%
Operating expenses				
Selling expenses	65.2	75.2	10.0	15.3 %
General and administrative expenses	26.0	27.4	1.4	5.4 %
Transaction costs	1.7	9.0	7.3	n.m.
Depreciation and amortization	21.1	21.5	0.4	1.9 %
Total operating expenses	114.0	133.1	19.1	16.8 %
<i>Selling, general and administrative expenses % of total revenue</i>	<i>14.0%</i>	<i>13.4%</i>		<i>(0.6)%</i>
Operating income	23.6	21.5	(2.1)	(8.9)%
Interest and other (income) expense				
Interest expense	12.7	13.1	0.4	3.1 %
Loss on extinguishment of debt	0.7	0.5	(0.2)	(28.6)%
Other (income) expense, net	(0.1)	(0.2)	(0.1)	100.0 %
Total interest and other (income) expense	13.3	13.4	0.1	0.8 %
Income before income taxes	10.3	8.1	(2.2)	(21.4)%
Income tax expense (benefit)	(89.1)	2.5	91.6	(102.8)%
Net income	\$ 99.4	\$ 5.6	\$ (93.8)	(94.4)%
Adjusted EBITDA	\$ 49.7	\$ 57.8	\$ 8.1	16.3 %
Adjusted Net Income	\$ 28.5	\$ 33.1	\$ 4.6	16.1 %

Revenue

(in millions)	Three months ended December 31,		Change	
	2017	2018	\$	%
	(as adjusted)			
Revenue				
Product	\$ 525.0	\$ 647.2	\$ 122.2	23.3 %
Service	124.3	120.6	(3.7)	(3.0)%
Total revenue	\$ 649.3	\$ 767.8	\$ 118.5	18.3 %

Total revenue increased \$118.5 million, or 18.3%, to \$767.8 million for the three months ended December 31, 2018, compared to total revenue of \$649.3 million for the three months ended December 31, 2017. We experienced growth in all of our

solutions areas led by strong Digital Infrastructure solution sales and all of our client segments led by 63% growth in government clients. Recurring revenue was up 27.4% over the prior year driven by our public cloud offerings. We continued to experience accelerating growth in our backlog orders believed to be firm, which totaled \$724 million as of December 31, 2018 and increased 23% compared to the prior year period. We saw our backlog of contracted recurring revenue grow 86% over the prior year period.

Revenue from sales of product increased \$122.2 million, or 23.3%, to \$647.2 million for the three months ended December 31, 2018, compared to product revenue of \$525.0 million for the three months ended December 31, 2017. The increase in product revenue was driven by growth in networking infrastructure, public cloud offerings, and collaboration technologies.

Revenue from sales of services decreased \$3.7 million, or 3.0%, to \$120.6 million for the three months ended December 31, 2018, compared to service revenue of \$124.3 million for the three months ended December 31, 2017. The decrease in service revenue was driven by lower revenue recognition on hours worked in the period associated with the lengthening of client engagements. Accordingly, the lower revenue recognized, as well as, accelerated delivery in product for the period has led to strong growth in services backlog of 9% over the prior year.

(in millions)	Three months ended December 31,		Change	
	2017	2018	\$	%
	(as adjusted)			
Revenue by solution area				
Cloud	\$ 103.6	\$ 120.2	\$ 16.6	16.0%
Security	76.3	82.2	5.9	7.7%
Digital Infrastructure	469.4	565.4	96.0	20.5%
Total revenue	\$ 649.3	\$ 767.8	\$ 118.5	18.3%

Cloud revenue increased \$16.6 million, or 16.0%, to \$120.2 million in the three months ended December 31, 2018, compared to \$103.6 million for the three months ended December 31, 2017, driven by increased interest in our multi-cloud offerings led by public cloud, driving a shift of cloud revenue from a point in time model to a recurring model. We also see growth in our hyperconverged offerings as clients look to move to a multi-cloud model leveraging both on-prem and hyperscalers offerings. The growth in Cloud revenue occurred with our middle-market clients, driven by information technology, and media and entertainment sectors. We also experienced growth with our government clients including both state and local, and federal sectors.

Security revenue increased \$5.9 million, or 7.7%, to \$82.2 million in the three months ended December 31, 2018, compared to \$76.3 million in the three months ended December 31, 2017, driven by the increase in managed security services especially around security incident & event management along with security architecture and technology solutions. Our customers are increasingly turning to Presidio to help navigate the complex world of security and the increasing number of vendors. During the quarter, we experienced strong demand for Security solutions from middle-market and government clients. In the middle-market growth was driven by healthcare and information technology customers. In the government sector, state and local clients drove the demand.

Digital Infrastructure revenue increased \$96.0 million, or 20.5%, to \$565.4 million in the three months ended December 31, 2018 compared to \$469.4 million in the three months ended December 31, 2017, as we continue to see increased traction for next generation software defined infrastructure with automation and analytics leading to greater client demand for network upgrades. Software defined infrastructure is led by our customers move to both increasing adoption of software defined networking ("SDN") technologies in the local network and also using software defined wide area network ("SDWAN") for their remote offices. The increase was led by infrastructure sales across all of our market segments with strong growth led by government clients. In the government sector, growth in the quarter was driven by state and local government clients, as well as federal clients. In the large client market, growth was driven by financial services and energy and utilities; while in the middle-market we saw robust growth with healthcare clients.

Gross Margin

(in millions)	Three months ended December 31,		Change	
	2017	2018	\$	%
	(as adjusted)			
Gross margin				
Product gross margin	\$ 108.7	\$ 130.1	\$ 21.4	19.7 %
Service gross margin	28.9	24.5	(4.4)	(15.2)%
Gross margin	\$ 137.6	\$ 154.6	\$ 17.0	12.4 %
Product gross margin %	20.7%	20.1%		(0.6)%
Service gross margin %	23.3%	20.3%		(3.0)%
Total gross margin %	21.2%	20.1%		(1.1)%

Total gross margin increased \$17.0 million, or 12.4%, to \$154.6 million for the three months ended December 31, 2018, as compared to \$137.6 million for the three months ended December 31, 2017, due to the 18.3% increase in total revenue, partially offset by a decline in both service and product margins. As a percentage of total revenue, total gross margin decreased 110 basis points to 20.1% for the three months ended December 31, 2018, down from 21.2% of revenue for the three months ended December 31, 2017.

Product gross margin increased \$21.4 million, or 19.7%, to \$130.1 million for the three months ended December 31, 2018, as compared to \$108.7 million for the three months ended December 31, 2017. Product gross margin as a percentage of product revenue was 20.1% for the three months ended December 31, 2018, down 60 basis points compared to the prior year period. During the period, we recorded a \$1.6 million one-time inventory write-off associated with product determined to be end of life, this negatively impacted product margins by approximately 25 basis points. In addition, the strong growth in Digital Infrastructure solutions with a lower margin profile contributed to the decline in product margins.

Service gross margin decreased \$4.4 million, or 15.2%, to \$24.5 million for the three months ended December 31, 2018, as compared to \$28.9 million for the three months ended December 31, 2017. Services gross margin as a percentage of revenue was 20.3% for the three months ended December 31, 2018, a decrease of 300 basis points from 23.3% for the three months ended December 31, 2017. The primary driver of the decline in total service margins was lower revenue recognition compounded by high inflationary costs of attracting and retaining our engineering talent.

Operating Expenses

(in millions)	Three months ended December 31,		Change	
	2017	2018	\$	%
	(as adjusted)			
Operating expenses				
Selling expenses	\$ 65.2	\$ 75.2	\$ 10.0	15.3 %
General and administrative expenses	26.0	27.4	1.4	5.4 %
Selling, general and administrative expenses	91.2	102.6	11.4	12.5 %
Transaction costs	1.7	9.0	7.3	n.m.
Depreciation and amortization	21.1	21.5	0.4	1.9 %
Total operating expenses	\$ 114.0	\$ 133.1	\$ 19.1	16.8 %
<i>Selling, general and administrative expenses % of total revenue</i>	<i>14.0%</i>	<i>13.4%</i>		<i>(0.6)%</i>

We define selling, general and administrative expenses (“SG&A”) as the sum of selling expenses and general and administrative expenses. SG&A increased \$11.4 million, or 12.5%, to \$102.6 million during the three months ended December 31, 2018, as compared to \$91.2 million for the three months ended December 31, 2017. The overall increase in SG&A was primarily related to increased commissions driven by the 12.4% growth in gross margin, an investment in sales personnel paid for through the benefit of tax reform, the additional SG&A related to acquisitions completed during the fiscal year ended June 30, 2018, and an increase in share-based compensation. For the quarter, SG&A as a percentage of revenue decreased 60 basis points from 14.0%

of revenue for the three months ended December 31, 2017 to 13.4% for three months ended December 31, 2018, as a result of the strong 18.3% revenue growth.

Transaction costs increased \$7.3 million to \$9.0 million in the three months ended December 31, 2018 due to higher expenses related to certain stay, retention and earnout bonuses associated with the performance of businesses acquired during the fiscal year ended June 30, 2018.

Interest and Other (Income) Expense

(in millions)	Three months ended December 31,		Change	
	2017	2018	\$	%
Interest and other (income) expense				
Interest expense	\$ 12.7	\$ 13.1	\$ 0.4	3.1 %
Loss on extinguishment of debt	0.7	0.5	(0.2)	(28.6)%
Other (income) expense, net	(0.1)	(0.2)	(0.1)	100.0 %
Total interest and other (income) expense	\$ 13.3	\$ 13.4	\$ 0.1	0.8 %

Interest and other (income) expense increased \$0.1 million, or 0.8%, to \$13.4 million for the three months ended December 31, 2018, from \$13.3 million in the three months ended December 31, 2017 due to lower interest expense resulting from lower interest rates on outstanding debt offset by higher debt balances outstanding.

Income Tax Expense

(in millions)	Three months ended December 31,		Change	
	2017	2018	\$	%
	(as adjusted)			
Income before income taxes	\$ 10.3	\$ 8.1	\$ (2.2)	(21.4)%
Income tax expense (benefit)	(89.1)	2.5	91.6	(102.8)%
Net income	\$ 99.4	\$ 5.6	\$ (93.8)	(94.4)%

The income tax expense was \$2.5 million in the three months ended December 31, 2018, compared to an income tax benefit of \$89.1 million in the three months ended December 31, 2017. The effective tax rate was 30.9% in the three months ended December 31, 2018 compared to (865.0%) in the three months ended December 31, 2017. The effective tax rate for the three months ended December 31, 2018 is driven by the reduction of the U.S. federal corporate income tax rate from 35% to 21%, as prescribed in the enacted tax legislation of TCJA on December 22, 2017. The effective tax rate for the three months ended December 31, 2017 included \$89 million benefit associated with the revaluation of deferred income assets and liabilities as a result of the TCJA. The TCJA tax legislation change was provisionally recorded in the period ended December 31, 2017.

Adjusted EBITDA

Adjusted EBITDA increased \$8.1 million, or 16.3%, to \$57.8 million for the three months ended December 31, 2018, from \$49.7 million for the three months ended December 31, 2017, driven by strong revenue growth that were slightly offset by contracting gross margins. Adjusted EBITDA margin was 7.5% for the three months ended December 31, 2018 compared to 7.7% for the three months ended December 31, 2017.

Adjusted Net Income

Adjusted Net Income increased \$4.6 million, or 16.1%, to \$33.1 million for the three months ended December 31, 2018, from \$28.5 million in the three months ended December 31, 2017, in line with adjusted EBITDA growth for the period.

Results of Operations - Six Months Ended December 31, 2018 compared to the Six Months Ended December 31, 2017

(in millions)	Six months ended December 31,		Change	
	2017	2018	\$	%
Revenue				
Product	\$ 1,129.7	\$ 1,266.9	\$ 137.2	12.1 %
Service	250.8	250.9	0.1	— %
Total revenue	1,380.5	1,517.8	137.3	9.9 %
Cost of revenue				
Product	890.5	1,002.7	112.2	12.6 %
Service	196.1	201.4	5.3	2.7 %
Total cost of revenue	1,086.6	1,204.1	117.5	10.8 %
Gross margin	293.9	313.7	19.8	6.7 %
Product gross margin	239.2	264.2	25.0	10.5 %
Service gross margin	54.7	49.5	(5.2)	(9.5)%
Product gross margin %	21.2%	20.9%		(0.3)%
Service gross margin %	21.8%	19.7%		(2.1)%
Total gross margin %	21.3%	20.7%		(0.6)%
Operating expenses				
Selling expenses	130.4	146.1	15.7	12.0 %
General and administrative expenses	51.7	57.2	5.5	10.6 %
Transaction costs	2.1	14.4	12.3	585.7 %
Depreciation and amortization	41.7	43.0	1.3	3.1 %
Total operating expenses	225.9	260.7	34.8	15.4 %
<i>Selling, general and administrative expenses % of total revenue</i>	<i>13.2%</i>	<i>13.4%</i>		<i>0.2 %</i>
Operating income	68.0	53.0	(15.0)	(22.1)%
Interest and other (income) expense				
Interest expense	25.2	24.3	(0.9)	(3.6)%
Loss on extinguishment of debt	1.4	1.0	(0.4)	(28.6)%
Other (income) expense, net	(0.1)	(0.2)	(0.1)	100.0 %
Total interest and other (income) expense	26.5	25.1	(1.4)	(5.3)%
Income before income taxes	41.5	27.9	(13.6)	(32.8)%
Income tax expense (benefit)	(77.7)	7.5	85.2	(109.7)%
Net income	\$ 119.2	\$ 20.4	\$ (98.8)	(82.9)%
Adjusted EBITDA	\$ 117.4	\$ 120.4	\$ 3.0	2.6 %
Adjusted Net Income	\$ 63.4	\$ 71.0	\$ 7.6	12.0 %

Revenue

(in millions)	Six months ended December 31,		Change	
	2017	2018	\$	%
Revenue				
Product	\$ 1,129.7	\$ 1,266.9	\$ 137.2	12.1%
Service	250.8	250.9	0.1	—%
Total revenue	\$ 1,380.5	\$ 1,517.8	\$ 137.3	9.9%

Total revenue increased \$137.3 million, or 9.9%, to \$1,517.8 million for the six months ended December 31, 2018, compared to total revenue of \$1,380.5 million for the six months ended December 31, 2017. Revenue growth was driven by growth

in product primarily associated with Digital Infrastructure and Security solutions. We experienced overall growth with government clients, however sales to the federal government declined as compared to the prior year period. In addition, our backlog believed to be firm increased 23% compared to the prior year.

Revenue from sales of product increased \$137.2 million, or 12.1%, to \$1,266.9 million for the six months ended December 31, 2018, compared to product revenue of \$1,129.7 million for the six months ended December 31, 2017. The increase in product revenue was driven by growth in networking infrastructure, public cloud offerings, and security products.

Revenue from sales of services increased \$0.1 million to \$250.9 million for the six months ended December 31, 2018, compared to service revenue of \$250.8 million for the six months ended December 31, 2017. Services revenue growth was not as strong as the growth in product revenue due to lengthening of our client engagements. However, we did see strong activity with clients as services revenue backlog grew 9% compared to the prior year.

(in millions)	Six months ended December 31,		Change	
	2017	2018	\$	%
Revenue by solution area				
Cloud	\$ 235.4	\$ 230.7	\$ (4.7)	(2.0)%
Security	167.2	176.7	9.5	5.7 %
Digital Infrastructure	977.9	1,110.4	132.5	13.5 %
Total revenue	\$ 1,380.5	\$ 1,517.8	\$ 137.3	9.9 %

Cloud revenue decreased \$4.7 million, or 2.0%, to \$230.7 million in the six months ended December 31, 2018, compared to \$235.4 million for the six months ended December 31, 2017, driven by increased interest in our multi-cloud offerings led by public cloud, driving a shift of cloud revenue from a point in time model to a recurring model. We also see growth in our hyperconverged offerings as clients look to move to a multi-cloud model leveraging both on-prem and hyperscalers offerings. Despite our strong performance in the second quarter, the six months ended December 31, 2018 declined as we lapped a very strong first quarter fiscal 2018 where we achieved 29% growth driven by a number of large non-recurring data center modernization projects.

Security revenue increased \$9.5 million, or 5.7%, to \$176.7 million in the six months ended December 31, 2018, compared to \$167.2 million in the six months ended December 31, 2017, driven by increase in Managed Security Services especially around Security Incident & Event Management along with Security Architecture and Technology solutions. Our customers are increasingly turning to Presidio to help navigate the complex world of security and the increasing number of vendors. We experienced strong demand for Security solutions from middle-market and government clients. In the middle-market growth was driven by healthcare and information technology clients. In the government sector, non-profit financial services and state and local clients drove the demand.

Digital Infrastructure revenue increased \$132.5 million, or 13.5%, to \$1,110.4 million in the six months ended December 31, 2018 compared to \$977.9 million in the six months ended December 31, 2017, as we continue to see increased traction for next generation software defined infrastructure which included greater adoption of SDWAN and SDN technologies. The increase was led by infrastructure sales across all of our market sectors, led by government clients. In the government sector, state and local government clients drove the increase, which included a number of large projects. In the large client market, growth was driven by financial services and manufacturing and transportation; while in the middle-market, healthcare clients led the growth.

Gross Margin

(in millions)	Six months ended December 31,		Change	
	2017	2018	\$	%
Gross margin				
Product gross margin	\$ 239.2	\$ 264.2	\$ 25.0	10.5 %
Service gross margin	54.7	49.5	(5.2)	(9.5)%
Gross margin	\$ 293.9	\$ 313.7	\$ 19.8	6.7 %
Product gross margin %	21.2%	20.9%		(0.3)%
Service gross margin %	21.8%	19.7%		(2.1)%
Total gross margin %	21.3%	20.7%		(0.6)%

Total gross margin increased \$19.8 million, or 6.7%, to \$313.7 million for the six months ended December 31, 2018, as compared to \$293.9 million for the six months ended December 31, 2017, due to the 9.9% increase in total revenue, partially offset by a decline in both product and service margins. As a percentage of total revenue, total gross margin decreased 60 basis points to 20.7% for the six months ended December 31, 2018, down from 21.3% of revenue for the six months ended December 31, 2017.

Product gross margin increased \$25.0 million or 10.5%, to \$264.2 million for the six months ended December 31, 2018, as compared to \$239.2 million for the six months ended December 31, 2017. Product gross margin as a percentage of product revenue was 20.9% for the six months ended December 31, 2018, down from 21.2% of revenue for the six months ended December 31, 2017. The decline in product margin was driven by strong growth in infrastructure solution sales which outpaced both cloud and security sales, and had lower margin product profiles driven by networking hardware.

Service gross margin decreased \$5.2 million, or 9.5%, to \$49.5 million for the six months ended December 31, 2018, as compared to \$54.7 million for the six months ended December 31, 2017. Services gross margin as a percentage of revenue was 19.7% for the six months ended December 31, 2018, a decrease of 210 basis points from 21.8% for the six months ended December 31, 2017. The decline in total service margins was the result of a combination of lengthening of client projects and high inflationary costs of attracting and retaining our engineering talent.

Operating Expenses

(in millions)	Six months ended December 31,		Change	
	2017	2018	\$	%
Operating expenses				
Selling expenses	\$ 130.4	\$ 146.1	\$ 15.7	12.0%
General and administrative expenses	51.7	57.2	5.5	10.6%
Selling, general and administrative expenses	182.1	203.3	21.2	11.6%
Transaction costs	2.1	14.4	12.3	585.7%
Depreciation and amortization	41.7	43.0	1.3	3.1%
Total operating expenses	\$ 225.9	\$ 260.7	\$ 34.8	15.4%
<i>Selling, general and administrative expenses % of total revenue</i>	<i>13.2%</i>	<i>13.4%</i>		<i>0.2%</i>

We define selling, general and administrative expenses (“SG&A”) as the sum of selling expenses and general and administrative expenses. SG&A increased \$21.2 million, or 11.6%, to \$203.3 million during the six months ended December 31, 2018, as compared to \$182.1 million for the six months ended December 31, 2017. The overall increase in SG&A was primarily related to an investment in sales and administrative personnel paid for through the benefit of tax reform, increased incentive compensation driven by the 6.7% growth in gross margin, the additional SG&A related to acquisitions completed during the fiscal year ended June 30, 2018, and an increase in share-based compensation. SG&A as a percentage of revenue increased 20 basis points from 13.2% of revenue for the six months ended December 31, 2017 to 13.4% for six months ended December 31, 2018.

Transaction costs increased \$12.3 million to \$14.4 million in the six months ended December 31, 2018 primarily due to higher expenses related to certain stay, retention and earnout bonuses associated with the performance of businesses acquired during the fiscal year ended June 30, 2018.

Interest and Other (Income) Expense

(in millions)	Six months ended December 31,		Change	
	2017	2018	\$	%
Interest and other (income) expense				
Interest expense	\$ 25.2	\$ 24.3	\$ (0.9)	(3.6)%
Loss on extinguishment of debt	1.4	1.0	(0.4)	(28.6)%
Other (income) expense, net	(0.1)	(0.2)	(0.1)	100.0 %
Total interest and other (income) expense	\$ 26.5	\$ 25.1	\$ (1.4)	(5.3)%

Interest and other (income) expense decreased \$1.4 million, or 5.3%, to \$25.1 million for the six months ended December 31, 2018, from \$26.5 million in the six months ended December 31, 2017 due to lower interest expense resulting from lower interest rates on outstanding debt offset by higher debt balances outstanding. The \$0.9 million decline in interest expense for the six months ended December 31, 2018 primarily resulted from \$3.3 million of lower interest expense associated with the \$125.0 million redemption of the Company's 10.25% Senior Notes as part of the January 2018 refinancing transactions, offset by higher outstanding balances of term debt associated with both the January 2018 refinancing and additional borrowings of \$160 million in September 2018 used to complete the share repurchase.

Income Tax Expense

(in millions)	Six months ended December 31,		Change	
	2017	2018	\$	%
Income before income taxes	\$ 41.5	\$ 27.9	\$ (13.6)	(32.8)%
Income tax expense (benefit)	(77.7)	7.5	85.2	(109.7)%
Net income	\$ 119.2	\$ 20.4	\$ (98.8)	(82.9)%

Income tax expense was \$7.5 million in the six months ended December 31, 2018, compared to an income tax benefit of \$77.7 million in the six months ended December 31, 2017. The effective tax rate was 26.9% in the six months ended December 31, 2018, compared to (187.2)% in the six months ended December 31, 2017. The change in the effective tax rate is primarily due to the \$89 million revaluation of deferred income tax assets and liabilities that was recorded on a provisional basis in the six months ended December 31, 2017. In addition, the six months ended December 31, 2017 included the reduction of the U.S. federal corporate income tax rate from 35% to 28.1% for the six months ended December 31, 2017. The U.S. federal corporate income tax rate further declined to 21% for the six months ended December 31, 2018, as prescribed in the enacted tax legislation of TCJA.

Adjusted EBITDA

Adjusted EBITDA increased \$3.0 million, or 2.6%, to \$120.4 million for the six months ended December 31, 2018, from \$117.4 million for the six months ended December 31, 2017, driven by the higher gross margin partially offset by the increase in SG&A excluding share-based compensation expense, attributable to higher personnel costs largely attributable to acquisitions completed during the fiscal year ended June 30, 2018. Adjusted EBITDA margin was 7.9% for the six months ended December 31, 2018 compared to 8.5% for the six months ended December 31, 2017.

Adjusted Net Income

Adjusted Net Income increased \$7.6 million, or 12.0%, to \$71.0 million for the six months ended December 31, 2018, from \$63.4 million in the six months ended December 31, 2017 due to the increase in Adjusted EBITDA, as well as the favorable impact of tax reform and lower interest expense in the six months ended December 31, 2018.

Liquidity and Capital Resources

We fund our operations and capital expenditures through a combination of internally generated cash from operations and from borrowings under our various debt facilities. We believe that our current sources of funds will be sufficient to fund our cash operating requirements for at least the next fiscal year. In addition, we believe that, despite the uncertainty of future macroeconomic conditions, we have adequate sources of liquidity and funding available to meet our long-term needs. These long-term needs primarily include meeting debt service requirements, working capital requirements and capital expenditures. We may also pursue strategic acquisition opportunities that may impact our future cash requirements.

There are a number of factors that may negatively impact our available sources of funds in the future including the ability to generate cash from operations and borrow on debt facilities. The amount of cash generated from operations is dependent upon factors such as the successful execution of our business strategies and general economic conditions. The amount of cash available for borrowings under our various debt facilities is largely dependent on our ability to maintain sufficient collateral and general financial conditions in the marketplace.

Historical Sources and Uses of Cash

The following table summarizes our sources and uses of cash over the periods indicated (in millions):

	Six months ended December 31,	
	2017	2018
Net cash provided by (used in)		
Operating activities	\$ 124.6	\$ 76.0
Investing activities	(64.5)	(88.5)
Net change in accounts payable — floor plan	(65.3)	(14.7)
Other financing activities	(1.6)	21.1
Financing activities	(66.9)	6.4
Net decrease in cash and cash equivalents	\$ (6.8)	\$ (6.1)

Operating Activities

Net cash provided by operating activities consist of net income adjusted for noncash items, such as depreciation and amortization of property and equipment and intangible assets, deferred income taxes, share-based compensation, losses on extinguishment of debt or disposals of businesses and for changes in net working capital assets and liabilities. The cash impact of changes in deferred income taxes primarily relates to temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes. Generally, the most significant factor relates to nondeductible book amortization expense associated with intangible assets. The timing between the conversion of our billed and unbilled receivables into cash from our customers and disbursements to our vendors is the primarily driver of changes in our working capital.

Our net cash provided by operating activities for our historical periods includes the impact of tax-deductible goodwill and intangible assets resulting from certain historical acquisitions. The reductions in current tax expense associated with the tax-deductible goodwill and intangible assets were (in millions):

	Six months ended December 31,	
	2017	2018
Impact of tax deductible goodwill and intangible assets	\$ 5.1	\$ 4.5

Six months ended December 31, 2018: Net cash provided by operating activities for the six months ended December 31, 2018 was \$76.0 million. This was primarily attributed to net income of \$20.4 million adjusted for: \$37.7 million of intangible amortization expense, \$7.6 million of total property and equipment depreciation expense, \$4.7 million of share-based compensation expense, \$1.8 million of amortization of debt issuance costs, \$1.0 million of losses on extinguishment of debt, mostly offset by a \$8.6 million decrease in our working capital components. The net decrease in our working capital components was primarily driven by an increase in cash disbursements for accounts payable — trade, public cloud resale and managed services investments, and an increase in a partner incentive program receivable that is paid to us on a semi-annual basis in our second and fourth fiscal quarters.

Six months ended December 31, 2017: Net cash provided by operating activities for the six months ended December 31, 2017 was \$124.6 million. This was primarily attributed to net income of \$119.2 million adjusted for: \$37.2 million of intangible amortization expense, \$7.4 million for total property and equipment depreciation expense, \$2.6 million of amortization of debt issuance costs, \$1.4 million of losses on extinguishment of debt, \$2.6 million of share-based compensation, and a \$44.1 million decrease in our working capital components, partially offset by a \$88.7 million deferred income tax benefit. The net decrease in our working capital components was primarily driven by a decrease in cash disbursements for accounts payable - trade partially offset by an increase in cash disbursements for accrued expenses and an increase in a partner incentive program receivable that is paid to us on a semi-annual basis in our second and fourth fiscal quarters.

Investing Activities

Net cash flows from investing activities consist of the cash flows associated with acquisitions and/or dispositions, leasing activities and capital expenditures. During the periods presented all purchases of property and equipment were of a normal recurring nature. With respect to our leasing activities, we reduce our financial exposure and increase liquidity by partnering with various third-party lenders and discounting the customer lease financing receivables. This results in us carrying both a lease asset and an offsetting financial liability to the lenders on our balance sheet. Accordingly, the investment in leased assets appears in our investing activities and the funding we receive from third-party lenders is recognized in our financing activities, discussed below.

Six months ended December 31, 2018: Net cash used in investing activities for the six months ended December 31, 2018 was \$88.5 million, primarily related to investments in equipment under sales-type leases with customers of \$82.9 million, and the purchase of property and equipment of \$8.3 million.

Six months ended December 31, 2017: Net cash used in investing activities for the six months ended December 31, 2017 was \$64.5 million. Cash was primarily used for additional investments in discounted client equipment leases of \$49.7 million in support of our business, \$9.5 million related to an acquisition and the purchase of property and equipment of \$7.2 million.

Financing Activities

Net cash flows from financing activities is primarily associated with cash activity associated with our capitalization, including debt and equity activity, cash flow associated with discounting client leases and activity on our accounts payable floor plan facility.

Six months ended December 31, 2018: Net cash provided by financing activities for the six months ended December 31, 2018 was \$6.4 million, comprised of the \$14.7 million decrease in accounts payable — floor plan more than offset by \$21.1 million of cash inflows for other financing activities. The \$21.1 million of cash inflows in other financing activities was primarily the result of \$91.1 million in proceeds from discounting financing receivables, mostly offset by \$50.0 million in repayments on term loans, \$17.4 million of retirements of discounted financing receivables and \$3.3 million of dividends paid. The Company received \$158.1 million in proceeds from the issuance of incremental term loans in the period that were used to fund a share repurchase of \$158.6 million.

Six months ended December 31, 2017: Net cash used in financing activities for the six months ended December 31, 2017 was \$66.9 million, comprised of a \$65.3 million of net repayments on the accounts payable — floor plan facility and \$1.6 million of other financing activities. The \$1.6 million of other financing activities was primarily the result of \$47.0 million in proceeds from discounting financing receivables and \$4.5 million of proceeds from issuance of common stock under share-based compensation plans, more than offset by \$50.0 million in repayments on term loans and \$2.5 million of retirements of discounted financing receivables.

Liquidity

We generally fund our short- and long-term liquidity needs through the use of cash flows from operations, utilization of the extended payment terms on our accounts payable-floor plan facility and the available credit on our revolving credit facility, accounts receivable securitization facility and long-term debt.

Our management regularly monitors certain liquidity measures to monitor performance. We believe that the most important of those measures include net debt, net working capital ratio, available liquidity, and free cash flow.

(in millions, except ratio data)	June 30, 2018	December 31, 2018
Net debt	\$ 649.6	\$ 765.7
Net working capital ratio (as adjusted)	1.03x	1.01x
Available liquidity	\$ 333.2	\$ 329.1

(in millions)	Six months ended December 31,	
	2017	2018
Free cash flow	\$ 48.6	\$ 46.5

Net debt – We have a substantial amount of indebtedness, largely related to the capitalization of the Company in connection with our acquisition by funds associated with Apollo in February 2015. We believe net debt provides information about the utilization of our cash flows to de-lever our company. We define net debt as the total principal of debt outstanding, excluding discounts and issuance costs less cash and cash equivalents. The following table presents our calculation of net debt as of December 31, 2018 and June 30, 2018 (in millions):

	June 30, 2018	December 31, 2018
Total long-term debt, net of debt issuance costs	\$ 671.2	\$ 781.4
Unamortized debt issuance costs	15.4	15.2
Cash and cash equivalents	(37.0)	(30.9)
Net debt	\$ 649.6	\$ 765.7

Net working capital ratio – We experience periodic changes in our net working capital, defined as current assets from our consolidated balance sheet minus current liabilities from our consolidated balance sheet excluding cash and cash equivalents and current maturities of long-term debt. We define our net working capital ratio as our current assets excluding cash and cash equivalents divided by current liabilities excluding current maturities of long-term debt. Our net working capital ratio was 1.01x and 1.03x as of December 31, 2018 and June 30, 2018, respectively, and was consistent with our expectations.

Available liquidity – As previously discussed, we fund our short-term cash flow requirements through a combination of cash on hand, cash flows generated from operations and revolving credit facilities. We calculate our available liquidity as a sum of cash and cash equivalents from our consolidated balance sheet plus the amount available and unutilized on our revolving and accounts receivable securitization facilities.

The following table presents our calculation of available liquidity as of June 30, 2018 and December 31, 2018 (in millions):

	June 30, 2018	December 31, 2018
Cash and cash equivalents	\$ 37.0	\$ 30.9
Availability under the revolving credit facility	48.2	48.2
Availability under the receivables securitization facility	248.0	250.0
Available liquidity	\$ 333.2	\$ 329.1

Available liquidity decreased from \$333.2 million at June 30, 2018 to \$329.1 million at December 31, 2018 primarily as a result of lower cash on hand.

The following table presents amounts outstanding under our primary sources of liquidity as of December 31, 2018 and June 30, 2018 (in millions):

	June 30, 2018	December 31, 2018
Cash and cash equivalents	\$ 37.0	\$ 30.9
Accounts payable—floor plan facility	\$ 210.6	\$ 195.9
Long-term debt:		
Revolving credit facility	\$ —	\$ —
Receivables securitization facility	—	—
Term loan facility, due February 2024	686.6	796.6
Total long-term debt	\$ 686.6	\$ 796.6

Free cash flow – We define free cash flow as our net cash provided by operating activities adjusted to include: (i) the impact of net borrowings (repayments) on the floor plan facility, (ii) the aggregate net cash impact of our leasing business and (iii) the purchases of property and equipment.

The following table presents the aggregate net cash impact of our leasing business for the six months ended December 31, 2018 and 2017 (in millions):

	Six months ended December 31,	
	2017	2018
Additions of equipment under sales-type and direct financing leases	\$ (49.7)	\$ (82.9)
Proceeds from collection of financing receivables	2.2	2.7
Additions to equipment under operating leases	(1.2)	(0.1)
Proceeds from disposition of equipment under operating leases	0.7	0.1
Proceeds from the discounting of financing receivables	47.0	91.1
Retirements of discounted financing receivables	(2.5)	(17.4)
Aggregate net cash impact of leasing business	\$ (3.5)	\$ (6.5)

The following table presents reconciliation of free cash flow from net cash provided by operating activities for the six months ended December 31, 2018 and 2017 (in millions):

	Six months ended December 31,	
	2017	2018
Net cash provided by operating activities	\$ 124.6	\$ 76.0
Adjustments to reconcile to free cash flow:		
Net change in accounts payable — floor plan	(65.3)	(14.7)
Aggregate net cash impact of leasing business	(3.5)	(6.5)
Purchases of property and equipment	(7.2)	(8.3)
Total adjustments	(76.0)	(29.5)
Free cash flow	\$ 48.6	\$ 46.5

Commitments and Contingencies

See the information set forth in Note 11 (Commitments and Contingencies) to the accompanying consolidated financial statements included in Part I, Item 1 of this Quarterly Report on Form 10-Q.

Off-Balance Sheet Arrangements

We had \$1.8 million of outstanding letters of credit on our revolving credit facility as of both December 31, 2018 and June 30, 2018. We have no other off-balance sheet arrangements that have or are reasonably likely to have a material current or future effect on our financial condition, changes in financial condition, revenue or expenses, results of operations, liquidity, capital expenditures or capital resources.

Dividends

The following is a summary of the dividends declared by the Company to holders of common stock:

Declaration Date	Record Date	Payment Date	Amount Per Share
September 6, 2018	September 26, 2018	October 5, 2018	\$ 0.04
November 7, 2018	December 26, 2018	January 7, 2019	\$ 0.04
February 6, 2019	March 27, 2019	April 5, 2019	\$ 0.04

We intend to declare quarterly dividends to holders of common stock. However, any future declaration and payment of future dividends to holders of common stock will be at the discretion of the Board of Directors and will depend on many factors, including our financial condition, earnings, capital requirements, level of indebtedness, statutory and contractual restrictions applying to the payment of dividends, and other considerations that the Board of Directors deems relevant. Presidio, Inc., as a holding company, has no direct operations and our ability to pay dividends is limited to our available cash on hand and any funds received from subsidiaries. The terms of the indebtedness may restrict Presidio, Inc.'s ability to pay dividends, or may restrict the subsidiaries from paying dividends to Presidio, Inc. Under Delaware law, dividends may be payable only out of surplus, which is net assets minus liabilities and capital, or, if there is no surplus, out of net profits for the fiscal year in which the dividend is declared and/or the preceding fiscal year.

Critical Accounting Policies and Estimates

Except as described under Note 1 (Recent Accounting Pronouncements Adopted During the Fiscal Year) to the accompanying consolidated financial statements included in Part I, Item 1 of this Quarterly Report on Form 10-Q, our accounting policies have not changed from those reported in our Management's Discussion and Analysis of Financial Condition and Results of Operations section of the June 30, 2018 Annual Report on Form 10-K.

Recent Accounting Pronouncements

See the information set forth in Note 1 (Recent Accounting Pronouncements Not Yet Adopted) to the accompanying consolidated financial statements included in Part I, Item 1 of this Quarterly Report on Form 10-Q.

Impact of Inflation

Inflation has not had a material impact on our operating results. We generally have been able to pass along price increases to our customers, though certain economic factors and technological advances in recent years have tended to place downward pressure on pricing.

Item 3. Quantitative and Qualitative Disclosure About Market Risk

Interest Rate Risk

Our market risks relate primarily to changes in interest rates. The interest rates on the term loans and other borrowings, if any, under our Credit Agreement are floating and, therefore, are subject to fluctuations. To manage this risk, we may enter into interest rate swaps to add stability to interest expense and to manage our exposure to interest rate fluctuations.

Item 4. Controls and Procedures

Evaluation of Disclosure Controls and Procedures

The Company's management, with the participation of the Company's Chief Executive Officer and Chief Financial Officer, have evaluated the effectiveness of the Company's disclosure controls and procedures (as such term is defined in Rules 13a-15(e) or Rule 15d-15(e) under the Securities Exchange Act of 1934, as amended ("the Exchange Act")) as of the end of the period covered by this report. Based on such evaluation, the Company's Chief Executive Officer and Chief Financial Officer have concluded that, as of the end of such period, the Company's disclosure controls and procedures are effective in recording, processing, summarizing, and reporting, on a timely basis, information required to be disclosed by the Company in the reports that it files or submits under the Exchange Act, and that information is accumulated and communicated to the Chief Executive Officer and Chief Financial Officer, as appropriate, to allow timely discussions regarding required disclosure.

Changes in Internal Controls

There were no changes in the Company's internal controls over financial reporting during the period ended December 31, 2018 that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

PART II - OTHER INFORMATION

Item 1. Legal Proceedings

We are involved in various claims and legal actions that arise in the ordinary course of business. While it is impossible to determine with certainty the ultimate outcome of these matters, in the opinion of management the ultimate disposition of these matters will not have a material adverse effect on our financial position, results of operations, or liquidity. The information set forth in Note 11, Commitments and Contingencies, to the consolidated financial statements is incorporated by reference herein.

Item 1A. Risk Factors

There have been no material changes in our risk factors from those disclosed in our Annual Report on Form 10-K for the fiscal year ended June 30, 2018, other than as set forth below.

The failure by the U.S. Congress to approve budgets on a timely basis for the U.S. federal government agencies to which we provide services could delay procurement of our services and cause us to lose future revenue.

On an annual basis, the U.S. Congress must approve budgets that govern spending by the federal agencies that are our clients. In years when the U.S. Congress is not able to complete its budget process before the end of the U.S. federal government's fiscal year on September 30, the U.S. Congress typically funds government operations pursuant to a continuing resolution, which allows U.S. federal government agencies to operate at spending levels approved in the previous budget cycle. When the U.S. federal government operates under a continuing resolution, it may delay funding we expect to receive from clients on work we are already performing and often results in new initiatives being delayed or, in some cases, canceled. The U.S. federal government's failure to complete its budget process or to fund government operations pursuant to a continuing resolution may result in a U.S. federal government shutdown. U.S. federal government shutdowns may also occur, and have been threatened, in connection with other disputes and impasses in government policy.

We provide IT services to various federal government agencies. A shutdown of the U.S. federal government could cause us to have to delay work or limit the scope of our work, could lead to us being paid more slowly, and could result in our federal clients reducing their purchases and terminating their service contracts, which could adversely impact our business, financial condition or results of operations.

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

None.

Item 3. Defaults Upon Senior Securities

None.

Item 4. Mine Safety Disclosures

Not applicable.

Item 5. Other Information

None.

Item 6. Exhibits

See exhibits listed under the Exhibit Index below.

CERTIFICATION

I, Robert Cagnazzi, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q for the period ended December 31, 2018 of Presidio, 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 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
and
5. The registrant's other certifying officer 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 the 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.

Date: February 6, 2019

/s/ ROBERT CAGNAZZI

Robert Cagnazzi
Chief Executive Officer and Director
(Principal Executive Officer)

CERTIFICATION

I, Neil O. Johnston, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q for the period ended December 31, 2018 of Presidio, 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 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 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 the 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.

Date: February 6, 2019

/s/ NEIL O. JOHNSTON
Neil O. Johnston

Executive Vice President and Chief Financial Officer
(Principal Financial Officer)

**CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

In connection with the quarterly report on Form 10-Q of Presidio, Inc. (the "Company") for the period ended December 31, 2018 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), the undersigned, Robert Cagnazzi, Chief Executive Officer and Director of the Company, hereby certifies, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that to the best of my knowledge:

- (1) the Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; 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: February 6, 2019

/s/ ROBERT CAGNAZZI
Robert Cagnazzi

Chief Executive Officer and Director
(Principal Executive Officer)

**CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

In connection with the quarterly report on Form 10-Q of Presidio, Inc. (the "Company") for the period ended December 31, 2018 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), the undersigned, Neil O. Johnston, Executive Vice President and Chief Financial Officer of the Company, hereby certifies, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that to the best of my knowledge:

- (1) the Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- (2) the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

February 6, 2019

/s/ NEIL O. JOHNSTON
Neil O. Johnston

Executive Vice President and Chief Financial Officer
(Principal Financial Officer)