SCANSOURCE, INC.
Form 10-Q
February 05, 2019
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

Commission File Number: 000-26926

ScanSource, Inc.

South Carolina
(State of Incorporation)

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

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

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 x No ¨

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

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

Large accelerated filer	x	Smaller reporting company	¨
Accelerated filer	¨	Emerging growth company	¨
Non-accelerated filer	¨		

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

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

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

Class	Outstanding at February 1, 2019
Common Stock, no par value per share	25,702,342

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FORWARD-LOOKING STATEMENTS

Forward-looking statements are included in the "Risk Factors," "Legal Proceedings," "Management's Discussion and Analysis of Financial Condition and Results of Operations," and "Quantitative and Qualitative Disclosures About Market Risk" sections and elsewhere herein. Words such as "expects," "anticipates," "believes," "intends," "plans," "hopes," "forecasts," "seeks," "estimates," "goals," "projects," "strategy," "future," "likely," "may," "should," and variations of such words and similar expressions generally identify such forward-looking statements. Any forward-looking statement made by us in this Form 10-Q is based only on information currently available to us and speaks only as of the date on which it is made. Except as may be required by law, we expressly disclaim any obligation to update these forward-looking statements to reflect events or circumstances after the date of this Quarterly Report on Form 10-Q, except as required by law. Actual results could differ materially from those anticipated in these forward-looking statements as a result of a number of factors including, but not limited to, changes in interest and exchange rates and regulatory regimes impacting our overseas operations, the failure of acquisitions to meet our expectations, the failure to manage and implement our organic growth strategy, credit risks involving our larger customers and suppliers, termination of our relationship with key suppliers or a significant modification of the terms under which we operate with a key supplier, the decline in demand for the products and services that we provide, reduced prices for the products and services that we provide due both to competitor and customer actions and the other factors set forth in "Risk Factors" contained in our Annual Report on Form 10-K for the year ended June 30, 2018.

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PART I. FINANCIAL INFORMATION
Item 1. Financial Statements
SCANSOURCE, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED BALANCE SHEETS (UNAUDITED)
(In thousands, except share information)

	December 31, 2018	June 30, 2018
Assets		
Current assets:		
Cash and cash equivalents	$ 22,749	$ 25,530
Accounts receivable, less allowance of $45,240 at December 31, 2018 and $45,561 at June 30, 2018	708,531	678,940
Inventories	704,444	595,948
Prepaid expenses and other current assets	59,785	61,744
Total current assets	1,495,509	1,362,162
Property and equipment, net	73,354	73,042
Goodwill	326,675	298,174
Identifiable intangible assets, net	129,020	136,806
Deferred income taxes	20,448	22,199
Other non-current assets	50,727	52,912
Total assets	$ 2,095,733	$ 1,945,295
Liabilities and Shareholders' Equity		
Current liabilities:		
Accounts payable	$ 604,630	$ 562,564
Accrued expenses and other current liabilities	89,444	90,873
Current portion of contingent consideration	39,729	42,975
Income taxes payable	2,421	13,348
Current portion of long-term debt	335	551
Total current liabilities	736,559	710,311
Deferred income taxes	1,958	1,769
Long-term debt	4,764	4,878
Borrowings under revolving credit facility	367,311	244,000
Long-term portion of contingent consideration	32,157	65,258
Other long-term liabilities	53,481	52,703
Total liabilities	1,196,230	1,078,919
Commitments and contingencies		
Shareholders' equity:		
Preferred stock, no par value; 3,000,000 shares authorized, none issued	—	—
Common stock, no par value; 45,000,000 shares authorized, 25,702,342 and 25,593,122 shares issued and outstanding at December 31, 2018 and June 30, 2018, respectively	70,912	68,220
Retained earnings	916,636	882,333
Accumulated other comprehensive income (loss)	(88,045)	(84,177)
Total shareholders' equity	899,503	866,376
Total liabilities and shareholders' equity	$ 2,095,733	$ 1,945,295

June 30, 2018 amounts are derived from audited consolidated financial statements.
See accompanying notes to these condensed consolidated financial statements.

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

	Quarter ended December 31,		Six months ended December 31,	
	2018	2017	2018	2017
Net sales	$1,046,021	$1,032,212	$2,018,921	$1,956,771
Cost of goods sold	925,543	919,241	1,786,229	1,737,883
Gross profit	120,478	112,971	232,692	218,888
Selling, general and administrative expenses	80,950	74,763	158,880	147,950
Depreciation expense	3,272	3,467	6,538	6,707
Intangible amortization expense	4,700	5,487	9,703	10,498
Change in fair value of contingent consideration	1,850	6,913	6,434	23,794
Operating income	29,706	22,341	51,137	29,939
Interest expense	3,119	2,285	5,746	3,870
Interest income	(264)	(580)	(715)	(1,462)
Other expense, net	201	326	233	441
Income before income taxes	26,650	20,310	45,873	27,090
Provision for income taxes	6,668	12,341	11,570	14,974
Net income	$19,982	$7,969	$34,303	$12,116
Per share data:				
Net income per common share, basic	$0.78	$0.31	$1.34	$0.48
Weighted-average shares outstanding, basic	25,640	25,506	25,619	25,470
Net income per common share, diluted	$0.78	$0.31	$1.33	$0.47
Weighted-average shares outstanding, diluted	25,750	25,648	25,752	25,612

See accompanying notes to these condensed consolidated financial statements.

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

	Quarter ended December 31,		Six months ended December 31,	
	2018	2017	2018	2017
Net income	$19,982	$7,969	$34,303	$12,116
Unrealized (loss) gain on hedged transaction, net of tax	(615)	320	(469)	349
Foreign currency translation adjustment	1,362	(2,435)	(3,399)	7,450
Comprehensive income	$20,729	$5,854	$30,435	$19,915

See accompanying notes to these condensed consolidated financial statements.

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

	Six months ended December 31,	
	2018	2017
Cash flows from operating activities:		
Net income	$34,303	$ 12,116
Adjustments to reconcile net income to net cash (used in) provided by operating activities:		
Depreciation and amortization	18,203	18,766
Amortization of debt issuance costs	168	158
Provision for doubtful accounts	2,187	5,331
Share-based compensation	2,907	3,233
Deferred income taxes	1,835	(1,540)
Change in fair value of contingent consideration	6,434	23,794
Contingent consideration paid in excess of acquisition fair value	(7,444)	(3,066)
Changes in operating assets and liabilities, net of acquisitions:		
Accounts receivable	(32,864)	(72,975)
Inventories	(110,909)	(37,749)
Prepaid expenses and other assets	2,960	(10,081)
Other non-current assets	1,849	(4,775)
Accounts payable	43,853	(11,524)
Accrued expenses and other liabilities	(3,993)	(5,654)
Income taxes payable	(11,259)	(3,283)
Net cash (used in) operating activities	(51,770)	(87,249)
Cash flows from investing activities:		
Capital expenditures	(5,780)	(3,296)
Cash paid for business acquisitions, net of cash acquired	(32,183)	(143,768)
Net cash (used in) investing activities	(37,963)	(147,064)
Cash flows from financing activities:		
Borrowings on revolving credit	1,126,333	1,279,193
Repayments on revolving credit	(1,003,022)	(1,015,672)
Debt issuance costs	—	(296)
Repayments on long-term debt	(331)	—
Repayments on capital lease obligation	(330)	(281)
Contingent consideration payments	(35,616)	(50,959)
Exercise and issuance of equity awards	1,509	2,126
Taxes paid on settlement of equity awards	(1,404)	(1,616)
Repurchase of common stock	(308)	—
Net cash provided by financing activities	86,831	212,495
Effect of exchange rate changes on cash and cash equivalents	121	1,159
Decrease in cash and cash equivalents	(2,781)	(20,659)
Cash and cash equivalents at beginning of period	25,530	56,094
Cash and cash equivalents at end of period	$22,749	$ 35,435

See accompanying notes to these condensed consolidated financial statements.

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

(1) Business and Summary of Significant Accounting Policies

Business Description
ScanSource, Inc. (together with its subsidiaries referred to as “the Company” or “ScanSource”) is at the center of the solution delivery channel, connecting businesses and institutions, and providing technology solutions. The Company brings technology solutions and services from the world’s leading suppliers of point-of-sale (POS), payments, barcode, physical security, unified communications and collaboration, and telecom and cloud services to market. The Company operates in the United States, Canada, Latin America and Europe. The Company's two operating segments, Worldwide Barcode, Networking & Security and Worldwide Communications & Services, are based on product, customer and service type.

Basis of Presentation

The accompanying unaudited condensed consolidated financial statements of the Company have been prepared by the Company’s management in accordance with United States generally accepted accounting principles ("U.S. GAAP") for interim financial information and applicable rules and regulations of the Securities Exchange Act of 1934. Accordingly, they do not include all of the information and footnotes required by U.S. GAAP for annual financial statements. The unaudited condensed consolidated financial statements included herein contain all adjustments (consisting of normal recurring and non-recurring adjustments) that are, in the opinion of management, necessary to present fairly the financial position as of December 31, 2018 and June 30, 2018, the results of operations for the quarters and six months ended December 31, 2018 and 2017, the statements of comprehensive income for the quarters and six months ended December 31, 2018 and 2017 and the statements of cash flows for the six months ended December 31, 2018 and 2017. The results of operations for the quarters and six months ended December 31, 2018 and 2017 are not necessarily indicative of the results to be expected for a full year. These financial statements should be read in conjunction with the audited consolidated financial statements and notes thereto included in the Company’s Annual Report on Form 10-K for the fiscal year ended June 30, 2018.

Summary of Significant Accounting Policies

Except as described below, there have been no material changes to the Company’s significant accounting policies for the six months ended December 31, 2018 from the policies described in the notes to the Company’s consolidated financial statements included in the Annual Report on Form 10-K for the fiscal year ended June 30, 2018. For a discussion of the Company’s significant accounting policies, please see the Company’s Annual Report on Form 10-K for the fiscal year ended June 30, 2018.

Cash and Cash Equivalents

The Company considers all highly-liquid investments with original maturities of three months or less, when purchased, to be cash equivalents. The Company maintains zero-balance disbursement accounts at various financial institutions at which the Company does not maintain significant depository relationships. Due to the terms of the agreements governing these accounts, the Company generally does not have the right to offset outstanding checks written from these accounts against cash on hand, and the respective institutions are not legally obligated to honor the checks until sufficient funds are transferred to fund the checks. As a result, checks released but not yet cleared from these accounts in the amounts of $5.3 million and $5.7 million are included in accounts payable as of December 31, 2018 and June 30, 2018, respectively.

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Long-lived Assets

The Company presents depreciation expense and intangible amortization expense individually on the Condensed Consolidated Income Statements. The Company's depreciation expense related to selling, general and administrative costs totaled $3.3 million and $6.5 million for the quarter and six months ended December 31, 2018, respectively, and $3.5 million and $6.7 million for the quarter and six months ended December 31, 2017, respectively. Depreciation expense reported as part of cost of goods sold on the Condensed Consolidated Income Statements totaled $1.0 million and $2.0 million for the quarter and six months ended December 31, 2018, respectively, and $0.9 million and $1.6 million for the quarter and six months ended December 31, 2017, respectively. There was no depreciation expense reported as part of cost of goods sold prior to the acquisition of POS Portal on July 31, 2017. The Company's amortization expense reported on the Condensed Consolidated Income Statements relate to selling, general and administrative costs, not the cost of selling goods. Intangible amortization expense totaled $4.7 million and $9.7 million for the quarter and six months ended December 31, 2018, respectively, and $5.5 million and $10.5 million for the quarter and six months ended December 31, 2017, respectively.

Recent Accounting Pronouncements

In May 2014, the Financial Accounting Standards Board ("FASB") issued a comprehensive new revenue recognition standard for contracts with customers that will supersede most current revenue recognition guidance, including industry-specific guidance under Accounting Standards Update ("ASU") 2014-09, Revenue from Contracts with Customers (Topic 606). In March, April, May and December 2016 the FASB issued additional ASUs to provide supplemental adoption guidance and clarification to ASU 2014-09. The core principle of this standard is that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. To achieve this core principle, the standard provides a five-step analysis of transactions to determine when and how revenue is recognized. Other major provisions include the capitalization and amortization of certain contract costs, ensuring the time value of money is considered in the transaction price, and allowing estimates of variable consideration to be recognized before contingencies are resolved in certain circumstances. This guidance also requires enhanced disclosures regarding the nature, amount, timing and uncertainty of revenue and cash flows arising from an entity's contracts with customers. The Company adopted the standard on July 1, 2018 using the full retrospective method. The adoption of this standard had no material impact on the Company's consolidated financial statements. See Note 2 Revenue Recognition for additional information.

In February 2016, the FASB issued ASU 2016-02, Leases (Topic 842) requiring lessees to reflect most leases on their balance sheets and recognize expenses on their income statements in a manner similar to current guidance. Under the new guidance, lessees will be required to recognize a lease liability, which is a lessee's obligation to make lease payments arising from a lease, measured on a discounted basis, and a right-of-use asset, which is an asset that represents the lessee's right to use, or control the use of, a specified asset for the lease term. The asset will be measured at the lease liability amount, adjusted for lease prepayments, lease incentives received and the lessee's initial direct costs. For leases with a lease term of 12 months or less, as long as the lease does not include options to purchase the underlying assets, lessees can elect not to recognize a lease liability and right-of-use asset. Under the new guidance, lessor accounting is largely unchanged, and the accounting for sale and leaseback transactions is simplified. The standard is effective for fiscal years beginning after December 15, 2018, including interim periods within those fiscal years. This guidance will be applicable to the Company for the fiscal year beginning July 1, 2019. The guidance can be adopted using a modified retrospective approach or a cumulative-effect adjustment to the opening balance sheet of retained earnings in the period of adoption for leases that exist or are entered into after the beginning of the earliest comparative period in the financial statements. The Company has established a lease implementation team and is in the process of reviewing leases to determine an implementation approach. Currently, the Company is evaluating the impact on its consolidated financial statements upon the adoption of this new guidance.

In August 2016, the FASB issued ASU 2016-15, Statement of Cash Flows (Topic 230) intended to reduce diversity in practice of how certain cash receipts and cash payments are presented and classified in the statement of cash flows. The update addresses eight specific cash flow issues, with the treatment of contingent consideration payments made after a business combination being the most directly applicable to the Company. The update requires that cash payments made approximately three months or less after an acquisition's consummation date should be classified as cash outflows for investing activities. Payment made thereafter up to the amount of the original contingent consideration liability should be classified as cash outflows from financing activities. Payments made in excess of the amount of the original contingent consideration liability should be classified as cash outflows from operating activities. The standard is effective for fiscal years beginning after December 15, 2017, including interim periods within those fiscal years. The Company adopted the standard for the fiscal year beginning July 1, 2018 using the retrospective transition method. For fiscal year 2018, the Company classified the amount of the Network1 earnout payment paid in the six months that was in excess of the originally anticipated liability at the acquisition date as an operating cash outflow. For fiscal year 2019, the Company classified the amounts of the Intelisys and Network1 earnout payments in excess as an operating cash outflow.

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In August 2017, the FASB issued ASU 2017-12, Derivatives and Hedging (Topic 815) that amends and simplifies guidance related to hedge accounting to more accurately portray the economics of an entity's risk management activities in its financial statements. The standard is effective for fiscal years beginning after December 15, 2018, including interim periods within those fiscal years. Early adoption is permitted in any interim or annual period. This guidance will be applicable to the Company for the fiscal year beginning July 1, 2019. The guidance requires adoption using a modified retrospective approach. The presentation and disclosure requirements apply prospectively. The Company is currently evaluating the impact on its consolidated financial statements upon the adoption of this new guidance.

In August 2018, the FASB issued ASU 2018-13, Fair Value Measurement (Topic 820) Disclosure Framework – Changes to the Disclosure Requirements for Fair Value Measurement. The pronouncement eliminates, modifies and adds disclosure requirements for fair value measurements. This guidance is effective for fiscal years beginning after December 15, 2019, and for interim periods within those fiscal years, with early adoption permitted. This guidance is applicable to the Company's fiscal year beginning July 1, 2020. The Company is currently evaluating the potential impact of this guidance on its consolidated financial statements.

In August 2018, the SEC adopted a final rule that amends certain of its disclosure requirements "that have become redundant, duplicative, overlapping, outdated or superseded in light of changes in SEC requirements, U.S. GAAP or changes in the information environment." The rule requires registrants to include in the interim financial reporting an analysis of changes in stockholders' equity for the current and comparative year-to-date interim periods. The final rule was effective on November 5, 2018 with registrants required to provide interim reporting in the first period beginning after the effective date. The Company will provide an interim analysis of changes in stockholders' equity for the quarter ending March 31, 2019.

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

Reclassifications

Certain reclassifications have been made on the Consolidated Statements of Cash Flows to classify contingent consideration payments made in excess of the original contingent liability as an operating activity in accordance with ASU 2016-15. These reclassifications had no effect on consolidated financial results.

(2) Revenue Recognition

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

The Company adopted ASC 606 effective July 1, 2018 utilizing the full retrospective method. In determining the appropriate amount of revenue to recognize, the Company applies the following five-step model: (i) identify contracts with customers; (ii) identify performance obligations in the contracts; (iii) determine the transaction price; (iv) allocate the transaction price to the performance obligations per the contracts; and (v) recognize revenue when (or as) the Company satisfies a performance obligation. The Company recognizes revenue as control of products and services are transferred to customers, which is generally at the point of shipment. The Company delivers products to customers in several ways, including: (i) shipment from the Company's warehouse, (ii) drop-shipment directly from the supplier, or

(iii) electronic delivery for software licenses.

Significant Judgments:

Principal versus Agent Considerations

The Company is the principal for sales of all hardware, software and certain services, including self-branded warranty programs. The Company considers itself the principal in these transactions as it has control of the product or service before it is transferred to the customer. When the Company provides self-branded warranty programs, it engages a third party, generally the original equipment manufacturer, to cover the fulfillment of any obligations arising from these contracts. These revenues and associated third-party costs are amortized over the life of the contract on a straight-line basis. The Company recognizes the previously described revenue and cost of goods sold on a gross basis.

The Company is the agent for third-party service contracts, including product warranties and supplier-hosted software. These service contracts are sold separately from the products, and the Company often serves as the agent for the contract on behalf of the original equipment manufacturer. The Company's responsibility is to arrange for the provision of the specified service by the

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original equipment manufacturer and the Company does not control the specified service before it is transferred to the customer. Because the Company acts as an agent, revenue is recognized net of cost at the time of sale.

Related to the Company’s Intelisys business, the Company acts as a master agent partnering suppliers with sales agents to provide telecom and cloud services to end customers. Commission revenue received from the supplier is recognized net of cost associated with commissions the Company pays to sales agents at the time of sale.

Variable Considerations

For certain transactions, products are sold with a right of return and may also provide other rebates or incentives, which are accounted for as variable consideration. The Company estimates the amount of variable consideration by using the expected value or the most likely amount to be given to the customer and reduces the revenue by those estimated amounts. These estimates are reviewed and updated as necessary at the end of each reporting period.

Contract Balances

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

Practical Expedients & Accounting Policy Elections

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

Disaggregation of Revenue

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

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	Quarter ended December 31, 2018 (in thousands)		
	Worldwide Barcode, Networking & Security Segment	Worldwide Communications & Services Segment	Total
Revenue by product/service:			
Technology solutions	$701,639	$ 330,827	$1,032,466
Master agency and professional services	—	13,555	13,555
	$701,639	$ 344,382	$1,046,021

	Six months ended December 31, 2018 (in thousands)		
	Worldwide Barcode, Networking & Security Segment	Worldwide Communications & Services Segment	Total
Revenue by product/service:			
Technology solutions	$1,356,752	$ 635,602	$1,992,354
Master agency and professional services	—	26,567	26,567
	$1,356,752	$ 662,169	$2,018,921

	Quarter ended December 31, 2017 (in thousands)		
	Worldwide Barcode, Networking & Security Segment	Worldwide Communications & Services Segment	Total
Revenue by product/service:			
Technology solutions	$719,786	$ 302,072	$1,021,858
Master agency and professional services	—	10,354	10,354
	$719,786	$ 312,426	$1,032,212

	Six months ended December 31, 2017 (in thousands)		
	Worldwide Barcode, Networking & Security Segment	Worldwide Communications & Services Segment	Total
Revenue by product/service:			
Technology solutions	$1,340,114	$ 596,553	$1,936,667
Master agency and professional services	—	20,104	20,104
	$1,340,114	$ 616,657	$1,956,771

(3) Earnings Per Share

Basic earnings per share are computed by dividing net income by the weighted-average number of common shares outstanding. Diluted earnings per share are computed by dividing net income by the weighted-average number of common and potential common shares outstanding.

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	Quarter ended December 31,		Six months ended December 31,	
	2018	2017	2018	2017
	(in thousands, except per share data)			
Numerator:				
Net income	$19,982	$7,969	$34,303	$12,116
Denominator:				
Weighted-average shares, basic	25,640	25,506	25,619	25,470
Dilutive effect of share-based payments	110	142	133	142
Weighted-average shares, diluted	25,750	25,648	25,752	25,612
Net income per common share, basic	$0.78	$0.31	$1.34	$0.48
Net income per common share, diluted	$0.78	$0.31	$1.33	$0.47

For the quarter and six months ended December 31, 2018, weighted-average shares outstanding excluded from the computation of diluted earnings per share because their effect would be anti-dilutive were 573,475 and 433,993, respectively. For the quarter and six months ended December 31, 2017, there were 405,159 and 432,846, respectively, weighted-average shares outstanding excluded from the computation of diluted earnings per share because their effect would be anti-dilutive.

(4) Accumulated Other Comprehensive Income (Loss)

Accumulated other comprehensive income (loss) consists of the following:

	December 31, 2018	June 30, 2018
	(in thousands)	
Foreign currency translation adjustment	$(88,678)	$(85,279)
Unrealized gain (loss) on hedged transaction, net of tax	633	1,102
Accumulated other comprehensive income (loss)	$(88,045)	$(84,177)

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

	Quarter ended December 31,		Six months ended December 31,	
	2018	2017	2018	2017
	(in thousands)			
Tax expense (benefit)	$(141)	$ 75	$(598)	$379

(5) Acquisitions

RPM, Canpango and Intelisys Global

During the quarter ended December 31, 2018, the Company acquired the assets of RPM Software ("RPM"), a business process software developer with focus in the telecom channel business for calculating and paying agency commissions in an automated cloud-based system. During the quarter ended September 30, 2018, Company completed the acquisition of Canpango, a global Salesforce implementation and consulting business with deep knowledge of customer relationship management (CRM) and integration with telecom systems. Intelisys Global was also acquired during the quarter ended September 30, 2018. The total combined purchase price for all companies, net of cash

acquired, was approximately $32.2 million. The impact of these acquisitions was not material to the consolidated financial statements. The allocation of the purchase price to the assets and liabilities acquired, including the valuation of the identifiable intangible assets, has not been concluded as of the reporting date.

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POS Portal

On July 31, 2017, the Company acquired all of the outstanding shares of POS Portal, Inc. ("POS Portal"), a leading provider of payment devices and services primarily to the small and midsized ("SMB") market segment in the United States. POS Portal joined the Worldwide Barcode, Networking & Security segment.

Under the purchase agreement, the all-cash transaction included an initial purchase price of approximately $144.9 million paid in cash at closing. The Company paid an additional $3.4 million for customary closing adjustments during the six months ended December 31, 2017. The Company acquired $4.6 million in cash, net of debt payoff and other customary closing adjustments, resulting in $143.8 million net cash paid for POS Portal. The agreement also included a cash earn-out payment up to $13.2 million based on POS Portal's earnings before interest expense, taxes, depreciation and amortization (EBITDA) for the trailing twelve months (TTM) ending September 30, 2017, which was paid in full during the quarter ended December 31, 2017. A portion of the purchase price was placed into escrow to indemnify the Company for certain pre-acquisition damages. As of December 31, 2018, the balance available in escrow was $13.1 million.

The purchase price of this acquisition was allocated to the assets acquired and liabilities assumed based on their estimated fair values on the transaction date. Purchase accounting for this acquisition was finalized during the quarter ended December 31, 2017. The goodwill balance is primarily attributed to expanding the Company's high-value capabilities and market reach across all payment channels. Goodwill, identifiable intangible assets and the related deferred tax liability are not deductible for tax purposes. Pro forma results of operations have not been presented for the acquisition of POS Portal because such results are not material to our consolidated results.

	POS Portal (in thousands)
Receivables	$ 8,914
Inventory	8,352
Other current assets	917
Property and equipment	24,963
Goodwill	101,198
Identifiable intangible assets	57,000
Other non-current assets	100
	$ 201,444
Accounts payable	$ 10,897
Accrued expenses and other current liabilities	5,130
Contingent consideration	13,098
Other long-term liabilities	102
Long-term deferred taxes	28,449
Consideration transferred, net of cash acquired	143,768
	$ 201,444

Intangible assets acquired include trade names, customer relationships, non-compete agreements and an encryption key library. The weighted-average amortization period for these identified intangible assets after purchase accounting adjustments, other than goodwill, was 10 years.

(6) Goodwill and Other Identifiable Intangible Assets

The changes in the carrying amount of goodwill for the six months ended December 31, 2018, by reporting segment, are set forth in the table below. Additions to goodwill for the current year are due to recent acquisitions.

	Barcode, Networking & Security Segment	Communications & Services Segment	Total
	(in thousands)		
Balance as of June 30, 2018	$137,214	$ 160,960	$298,174
Additions	—	29,160	29,160
Foreign currency translation adjustment	(147)	(512)	(659)
Balance as of December 31, 2018	$137,067	$ 189,608	$326,675

The following table shows changes in the amount recognized for net identifiable intangible assets for the six months ended December 31, 2018.

	Net Identifiable Intangible Assets (in thousands)
Balance as of June 30, 2018	$ 136,806
Additions	2,250
Amortization expense	(9,703)
Foreign currency translation adjustment	(333)
Balance as of December 31, 2018	$ 129,020

The Company acquired customer relationships, trade names and non-compete agreements related to the Canpango acquisition. The allocation of the purchase price to the assets and liabilities acquired for the RPM acquisition, including the valuation of the identifiable intangible assets, has not been concluded as of the reporting date.

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

The following table presents the Company's debt as of December 31, 2018 and June 30, 2018.

	December 31, 2018	June 30, 2018
	(in thousands)	
Current portion of long-term debt	$335	$551
Long-term debt, net of current portion	4,764	4,878
Borrowings under revolving credit facility	367,311	244,000
Total debt	$372,410	$249,429

Revolving Credit Facility

The Company has a multi-currency senior secured revolving credit facility with JPMorgan Chase Bank N.A., as administrative agent, and a syndicate of banks (the "Amended Credit Agreement"). On April 3, 2017, the Company amended this credit facility to extend its maturity to April 3, 2022. On August 8, 2017, the Company amended the Amended Credit Agreement to increase the committed credit facility from $300 million to $400 million. The Amended Credit Agreement allows for the issuance of up to $50 million for letters of credit and has a $200 million accordion feature that allows the Company to increase the availability to $600 million, subject to obtaining additional credit commitments from the lenders participating in the increase. The Company incurred $0.9 million and $0.3 million in connection with the amendments to the Amended Credit Agreement on April 3, 2017 and August 8, 2017, respectively. These costs were capitalized to other assets on the Condensed Consolidated Balance Sheets and added to the unamortized debt issuance costs from the previous credit facility.

At the Company's option, loans denominated in U.S. dollars under the Amended Credit Agreement, other than swingline loans, bear interest at a rate equal to a spread over the London Interbank Offered Rate ("LIBOR") or alternate base rate depending upon the Company's ratio of total debt (excluding accounts payable and accrued liabilities), measured as of the end of the most recent quarter, to adjusted earnings before interest expense, income taxes, depreciation and amortization ("EBITDA") for the most recently completed four quarters (the "Leverage Ratio"). This spread ranges from 1.00% to 2.125% for LIBOR-based loans and 0.00% to 1.125% for alternate base rate loans. Additionally, the Company is assessed commitment fees ranging from 0.175% to 0.35%, depending upon the Leverage Ratio, on non-utilized borrowing availability, excluding swingline loans. Borrowings are guaranteed by substantially all of the domestic assets of the Company and a pledge of up to 65% of capital stock or other equity interest in certain foreign subsidiaries determined to be either material or a subsidiary borrower as defined in the Amended Credit Agreement.

At December 31, 2018, the spread in effect was 1.625% for LIBOR-based loans and 0.625% for alternate base rate loans. The commitment fee rate in effect as of December 31, 2018 was 0.25%. The Company was in compliance with all covenants under the credit facility as of December 31, 2018.

The average daily outstanding balance during the six month periods ended December 31, 2018 and 2017 was $296.1 million and $261.8 million, respectively. There was $32.8 million and $156.0 million available for additional borrowings as of December 31, 2018 and June 30, 2018, respectively. There were no letters of credit issued under the multi-currency revolving credit facility as of December 31, 2018 and June 30, 2018.

Long-Term Debt

On August 1, 2007, the Company entered into an agreement with the State of Mississippi to provide financing for the acquisition and installation of certain equipment to be utilized at the Company's Southaven, Mississippi warehouse, through the issuance of an industrial development revenue bond. The bond matures on September 1, 2032 and accrues interest at the 30-day LIBOR rate plus a spread of 0.85%. The terms of the bond allow for payment of interest only for the first 10 years of the agreement, and then, starting on September 1, 2018 through 2032, principal and interest payments are due until the maturity date or the redemption of the bond. The agreement also provides the bondholder with a put option, exercisable only within 180 days of each fifth anniversary of the agreement, requiring the Company to pay back the bonds at 100% of the principal amount outstanding. As of December 31, 2018, the Company was in compliance with all covenants under this bond. The interest rate at December 31, 2018 and June 30, 2018 was 3.229% and 2.855%, respectively.

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Debt Issuance Costs

As of December 31, 2018, net debt issuance costs associated with the credit facility and bond totaled $1.1 million and are being amortized on a straight-line basis through the maturity date of each respective debt instrument.

(8) Derivatives and Hedging Activities

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

Foreign Currency Derivatives – The Company conducts a portion of its business internationally in a variety of foreign currencies. The exposure to market risk for changes in foreign currency exchange rates arises from foreign currency-denominated assets and liabilities and transactions arising from non-functional currency financing or trading activities. The Company’s objective is to preserve the economic value of non-functional currency-denominated cash flows. The Company attempts to hedge transaction exposures with natural offsets to the fullest extent possible and, once these opportunities have been exhausted, through forward contracts or other hedging instruments with third parties. These contracts hedge the exchange of various currencies, including the U.S. dollar, Brazilian real, euro, British pound, Canadian dollar, Mexican peso, Chilean peso, Colombian peso, Peruvian nuevo sol and South African rand. While the Company utilizes foreign exchange contracts to hedge foreign currency exposure, the Company's foreign exchange policy prohibits the use of derivative financial instruments for speculative purposes.

The Company had contracts outstanding for purposes of managing cash flows with notional amounts of $91.8 million and $74.6 million for the exchange of foreign currencies as of December 31, 2018 and June 30, 2018, respectively. To date, the Company has chosen not to designate these derivatives as hedging instruments, and accordingly, these instruments are adjusted to fair value through earnings in other income and expense. Summarized financial information related to these derivative contracts and changes in the underlying value of the foreign currency exposures are as follows:

	Quarter ended December 31,		Six months ended December 31,	
	2018	2017	2018	2017
	(in thousands)			
Net foreign exchange derivative contract (gains) losses	$(964)	$121	$(948)	$942
Net foreign currency transactional and re-measurement (gains) losses	1,384	473	1,465	(160)
Net foreign currency (gains) losses	$420	$594	$517	$782

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

Interest Rates - The Company's earnings are affected by changes in interest rates due to the impact those changes have on interest expense from floating rate debt instruments. To manage the exposure, the Company has entered into an interest rate swap agreement with a notional amount of $50.0 million scheduled to mature on April 3, 2022. This swap

agreement is designated as a cash flow hedge to hedge the variable rate interest payments on the revolving credit facility. Interest rate differentials paid or received under the swap agreement are recognized as adjustments to interest expense. To the extent the swap is effective in offsetting the variability of the hedged cash flows, changes in the fair value of the swap are not included in current earnings but are reported as other comprehensive income (loss). There was no ineffective portion to be recorded as an adjustment to earnings for the quarter and six months ended December 31, 2018 and 2017.

The components of the cash flow hedge included in accumulated other comprehensive income (loss), net of income taxes, in the Condensed Consolidated Balance Sheets, are as follows:

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	Quarter ended December 31,		Six months ended December 31,	
	2018	2017	2018	2017
	(in thousands)			
Net interest (income) expense recognized as a result of interest rate swap	$(57)	$64	$(83)	$133
Unrealized gain (loss) in fair value of interest rate swap	(751)	447	(533)	424
Net increase (decrease) in accumulated other comprehensive income (loss)	$(808)	$511	$(616)	$557
Income tax effect	(193)	191	(147)	208
Net increase (decrease) in accumulated other comprehensive income (loss), net of tax	$(615)	$320	$(469)	$349

The Company used the following derivative instruments as of December 31, 2018 and June 30, 2018, reflected in its Condensed Consolidated Balance Sheets, for the risk management purposes detailed above:

		December 31, 2018		June 30, 2018	
	Balance Sheet Location	Fair Value of Derivatives Designated as Hedge Instruments	Fair Value of Derivatives Not Designated as Hedge Instruments	Fair Value of Derivatives Designated as Hedge Instruments	Fair Value of Derivatives Not Designated as Hedge Instruments
		(in thousands)			
Derivative assets:					
Foreign exchange contracts	Prepaid expenses and other current assets	$—	$ 190	$—	$ 157
Interest rate swap agreement	Other non-current assets	$988	$ —	$1,604	$ —
Derivative liabilities:					
Foreign exchange contracts	Accrued expenses and other current liabilities	$—	$ 300	$—	$ 156

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(9) Fair Value of Financial Instruments

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

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

The assets and liabilities maintained by the Company that are required to be measured or disclosed at fair value on a recurring basis include the Company's various debt instruments, deferred compensation plan investments, outstanding forward foreign currency exchange contracts, interest rate swap agreements and contingent consideration owed to the previous owners of Network1 and Intelisys. The carrying value of debt is considered to approximate fair value, as the Company's debt instruments are indexed to a variable rate using the market approach (Level 2 criteria).

The following table summarizes the valuation of the Company's remaining assets and liabilities measured at fair value on a recurring basis as of December 31, 2018:

	Total	Quoted prices in active markets (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)
	(in thousands)			
Assets:				
Deferred compensation plan investments, current and non-current portion	$23,057	$23,057	$ —	$ —
Forward foreign currency exchange contracts	190	—	190	—
Interest rate swap agreement	988	—	988	—
Total assets at fair value	$24,235	$23,057	$ 1,178	$ —
Liabilities:				
Deferred compensation plan investments, current and non-current portion	$23,056	$23,056	$ —	$ —
Forward foreign currency exchange contracts	300	—	300	—
Liability for contingent consideration, current and non-current portion	71,886	—	—	71,886
Total liabilities at fair value	$95,242	$23,056	$ 300	$ 71,886

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The following table summarizes the valuation of the Company's remaining assets and liabilities measured at fair value on a recurring basis as of June 30, 2018:

	Total	Quoted prices in active markets (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)
	(in thousands)			
Assets:				
Deferred compensation plan investments, current and non-current portion	$23,352	$23,352	$ —	$ —
Forward foreign currency exchange contracts	157	—	157	—
Interest rate swap agreement	1,604	—	1,604	—
Total assets at fair value	$25,113	$23,352	$ 1,761	$ —
Liabilities:				
Deferred compensation plan investments, current and non-current portion	$23,352	$23,352	$ —	$ —
Forward foreign currency exchange contracts	156	—	156	—
Liability for contingent consideration, current and non-current portion	108,233	—	—	108,233
Total liabilities at fair value	$131,741	$23,352	$ 156	$ 108,233

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

Derivative instruments, such as foreign currency forward contracts, are measured using the market approach on a recurring basis considering foreign currency spot rates and forward rates quoted by banks or foreign currency dealers and interest rates quoted by banks (Level 2). See Note 8 - Derivatives and Hedging Activities. Fair values of interest rate swaps are measured using standard valuation models with inputs that can be derived from observable market transactions, including LIBOR spot and forward rates (Level 2). Foreign currency contracts and interest rate swap agreements are classified in the Condensed Consolidated Balance Sheets as prepaid expenses and other current assets or accrued expenses and other current liabilities, depending on the respective instruments' favorable or unfavorable positions.

The Company recorded contingent consideration liabilities at the acquisition date of Network1, Intelisys and POS Portal representing the amounts payable to former shareholders, as outlined under the terms of the purchase agreements, based upon the achievement of a projected earnings measure, net of specific pro forma adjustments. The contingent consideration due to the former shareholders of Network1 was paid in full during the quarter ended December 31, 2018. The contingent consideration for POS Portal was paid in full during the quarter ended December 31, 2017. The current and non-current portions of these obligations are reported separately on the Condensed Consolidated Balance Sheets. The fair value of the contingent considerations (Level 3) are determined using a form of a probability weighted discounted cash flow model. Subsequent changes in the fair value of the contingent consideration liabilities are recorded to the change in fair value of contingent consideration line item in the Condensed Consolidated Income Statements. Fluctuations due to foreign currency translation are captured in other comprehensive income through the changes in foreign currency translation adjustments line item as seen in Note 4 - Accumulated Other Comprehensive Income (Loss).

POS Portal is part of the Company's Worldwide Barcode, Networking & Security Segment. Network1 and Intelisys are part of the Company's Worldwide Communications & Services segment.

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The table below provides a summary of the changes in fair value of the Company’s contingent considerations (Level 3) for the Network1 and Intelisys earnouts for the quarter and six months ended December 31, 2018.

	Contingent consideration for the quarter ended December 31, 2018			Contingent consideration for the six months ended December 31, 2018		
	Barcode, Networking & Security Segment	Communications & Services Segment	Total	Barcode, Networking & Security Segment	Communications & Services Segment	Total
	(in thousands)					
Fair value at beginning of period	$—	$ 80,173	$80,173	$—	$ 108,233	$108,233
Issuance of contingent consideration	—	—	—	—	—	—
Payments	—	(10,813)	(10,813)	—	(43,060)	(43,060)
Change in fair value of contingent consideration	—	1,850	1,850	—	6,434	6,434
Foreign currency translation adjustment	—	676	676	—	279	279
Fair value at end of period	$—	$ 71,886	$71,886	$—	$ 71,886	$71,886

The table below provides a summary of the changes in fair value of the Company’s contingent considerations (Level 3) for the Network1, Intelisys and POS Portal earnouts for the quarter and six months ended December 31, 2017.

	Contingent consideration for the quarter ended December 31, 2017			Contingent consideration for the six months ended December 31, 2017		
	Barcode, Networking & Security Segment	Communications & Services Segment	Total	Barcode, Networking & Security Segment	Communications & Services Segment	Total
	(in thousands)					
Fair value at beginning of period	$13,167	$ 90,326	$103,493	$—	$ 114,036	$114,036
Issuance of contingent consideration	—	—	—	—	13,098	13,098
Payments	(13,167)	—	(13,167)	(13,167)	(40,858)	(54,025)
Change in fair value of contingent consideration	—	6,913	6,913	69	23,725	23,794
Foreign currency translation adjustment	—	(208)	(208)	—	128	128
Fair value at end of period	$—	$ 97,031	$97,031	$—	$ 97,031	$97,031

The fair values of amounts owed are recorded in current portion of contingent consideration and long-term portion of contingent consideration in the Company’s Condensed Consolidated Balance Sheets. The U.S. dollar amounts of actual disbursements made in connection with the future earnout payment for Network1 are subject to change as the liability is denominated in Brazilian real and subject to foreign exchange fluctuation risk. The Company will revalue the contingent consideration liabilities at each reporting date through the last payment, with changes in the fair value of the contingent consideration reflected in the change in fair value of contingent consideration line item on the Company’s Condensed Consolidated Income Statements that is included in the calculation of operating income. The fair value of the contingent consideration liabilities associated with future earnout payments is based on several factors, including:

- estimated future results, net of pro forma adjustments set forth in the purchase agreements;
- the probability of achieving these results; and
- a discount rate reflective of the Company’s creditworthiness and market risk premium associated with the United States and Brazilian markets.

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A change in any of these unobservable inputs can significantly change the fair value of the contingent consideration. Valuation techniques and significant observable inputs used in recurring Level 3 fair value measurements for our contingent consideration liabilities as of December 31, 2018 and June 30, 2018 were as follows.

Reporting Period	Valuation Technique	Significant Unobservable Inputs	Weighted Average Rates	
December 31, 2018	Discounted cash flow	Weighted average cost of capital	15.1	%
		Adjusted EBITDA growth rate	15.2	%
June 30, 2018	Discounted cash flow	Weighted average cost of capital	14.8	%
		Adjusted EBITDA growth rate	18.2	%

The weighted average cost of capital ("WACC") as of June 30, 2018 has been adjusted to exclude Network1 as the earnout period ended as of June 30, 2018.

Worldwide Barcode, Networking & Security

POS Portal

The contingent consideration due to the former shareholders of POS Portal was paid in full during the quarter ended December 31, 2017. For the quarter ended December 31, 2017, the change in fair value of the contingent consideration recognized in the Condensed Consolidated Income Statements contributed a loss of less than $0.1 million.

Worldwide Communications & Services Segment

Intelisys

The discounted fair value of the liability for the contingent consideration due to the former shareholders of Intelisys recognized at December 31, 2018 was $71.9 million, of which $39.7 million is classified as current. The change in fair value of the contingent consideration recognized in the Condensed Consolidated Income Statement contributed a loss of $1.9 million and $6.4 million for the quarter and six months ended December 31, 2018. The change in fair value for the quarter is primarily driven by the recurring amortization of the unrecognized fair value discount offset by lower than projected actual results. Although there is no contractual limit, total future undiscounted contingent consideration payments are anticipated to range up to $85.1 million, based on the Company’s best estimate of the earnout calculated on a multiple of earnings, before interest expense, income taxes, depreciation and amortization.

The discounted fair value of the liability for the contingent consideration related to Intelisys recognized at December 31, 2017 was $90.7 million, of which $32.3 million is classified as current. The change in fair value of the contingent consideration recognized in the Condensed Consolidated Income Statement contributed a loss of $5.1 million and $9.2 million for the quarter and six months ended December 31, 2017, respectively. The change for the quarter and six months period are primarily driven by the recurring amortization of the unrecognized fair value discount and an adjustment to the probability weights in the discounted cash flow model.

Network1

A payment to the former shareholders of Network1 was paid during the quarter ended December 31, 2018. There was minimal change in the fair value of the contingent consideration for the quarter and six months ended December 31,

2018 recognized in the Condensed Consolidated Income Statements.

The discounted fair value of the liability for the contingent consideration related to Network1 recognized at December 31, 2017 was $6.3 million, all of which is classified as current. For the quarter and six months ended December 31, 2017, the change in fair value of the contingent consideration recognized in the Condensed Consolidated Income Statements contributed a loss of $1.8 million and $14.5 million, respectively. The change in fair value for the quarter is primarily due to improved actual results. The change in fair value for the six month period is primarily driven by a change in estimate of the current year payment to the former shareholders of Network1, additional agreed upon adjustments to the projected final settlement and improved actual results for the second quarter. In addition, volatility in the foreign exchange between the Brazilian real and the U.S. dollar has driven changes in the translation of this Brazilian real denominated liability.

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(10) Segment Information

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

Worldwide Barcode, Networking & Security Segment

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

Worldwide Communications & Services Segment

The Worldwide Communications & Services segment includes a portfolio of solutions primarily for communications technologies and services. We have business operations within this segment in North America, Latin America and Europe. The offerings include voice, video conferencing, wireless, data networking, cable, unified communications and collaboration and cloud and technology services. As these solutions come together on IP networks, new opportunities are created for customers to move into adjacent solutions for all vertical markets, such as education, healthcare and government.

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Selected financial information for each business segment is presented below:

	Quarter ended December 31,		Six months ended December 31,	
	2018	2017	2018	2017
	(in thousands)			
Sales:				
Worldwide Barcode, Networking & Security	$701,639	$719,786	$1,356,752	$1,340,114
Worldwide Communications & Services	344,382	312,426	662,169	616,657
	$1,046,021	$1,032,212	$2,018,921	$1,956,771
Depreciation and amortization:				
Worldwide Barcode, Networking & Security	$4,283	$4,843	$9,016	$8,584
Worldwide Communications & Services	3,783	4,173	7,397	8,431
Corporate	869	885	1,790	1,751
	$8,935	$9,901	$18,203	$18,766
Change in fair value of contingent consideration:				
Worldwide Barcode, Networking & Security	$—	$—	$—	$69
Worldwide Communications & Services	1,850	$6,913	$6,434	$23,725
	$1,850	$6,913	$6,434	$23,794
Operating income (loss):				
Worldwide Barcode, Networking & Security	$18,581	$15,542	$32,112	$29,578
Worldwide Communications & Services	11,539	6,799	19,794	533
Corporate	(414)	—	(769)	(172)
	$29,706	$22,341	$51,137	$29,939
Capital expenditures:				
Worldwide Barcode, Networking & Security	$2,784	$919	$3,740	$1,740
Worldwide Communications & Services	2,006	367		