INSIGHT ENTERPRISES INC
Form 10-Q
October 30, 2014

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended: September 30, 2014

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: 0-25092

INSIGHT ENTERPRISES, INC.

(Exact name of registrant as specified in its charter)

Delaware	**86-0766246**
(State or other jurisdiction of incorporation or organization)	**(I.R.S. Employer Identification Number)**
6820 South Harl Avenue, Tempe, Arizona	**85283**
(Address of principal executive offices)	**(Zip Code)**

(480) 333-3000

(Registrant s telephone number, including area code)

(Former name, former address and former fiscal year, if changed since last report)

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 and posted on its corporate Web site, if any, every Interactive Date 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 x No ¨

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

Large accelerated filer x	Accelerated filer ¨
Non-accelerated filer ¨ (Do not check if a smaller reporting company)	Smaller reporting company ¨

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

The number of shares outstanding of the issuer s common stock as of October 24, 2014 was 40,974,771.

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INSIGHT ENTERPRISES, INC.

QUARTERLY REPORT ON FORM 10-Q

Three Months Ended September 30, 2014

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INSIGHT ENTERPRISES, INC.

FORWARD-LOOKING INFORMATION

Certain statements in this Quarterly Report on Form 10-Q, including statements in Management s Discussion and Analysis of Financial Condition and Results of Operations in Part I, Item 2 of this report, are forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. These forward-looking statements may include: projections of matters that affect net sales, gross profit, operating expenses, earnings from operations, non-operating income and expenses, net earnings or cash flows; our working capital needs; the expected effects of seasonality on our business; our intentions concerning the payment of dividends; projections of capital expenditures in 2014; the sufficiency of our capital resources and the availability of financing and our needs or plans relating thereto; the effect of new accounting principles or changes in accounting policies; our compliance with financial debt covenants; the effect of indemnification obligations; statements related to accounting estimates; our positions and strategies with respect to ongoing and threatened litigation; our intention not to repatriate certain foreign undistributed earnings where management considers those earnings to be reinvested indefinitely and plans for the use of such cash; our plans to use cash flow from operations for working capital, to pay down debt, make capital expenditures, repurchase shares of our common stock, and fund acquisitions; our exposure to off-balance sheet arrangements; statements of belief; and statements of assumptions underlying any of the foregoing. Forward-looking statements are identified by such words as believe, anticipate, expect, estimate, intend, plan, project, will variations of such words and similar expressions and are inherently subject to risks and uncertainties, some of which cannot be predicted or quantified. Future events and actual results could differ materially from those set forth in, contemplated by, or underlying the forward-looking statements. There can be no assurances that results described in forward-looking statements will be achieved, and actual results could differ materially from those suggested by the forward-looking statements. Some of the important factors that could cause our actual results to differ materially from those projected in any forward-looking statements include, but are not limited to, the following:

- our reliance on partners for product availability and competitive products to sell as well as our competition with our partners;
- our reliance on partners for marketing funds and purchasing incentives;
- changes in the IT industry and/or rapid changes in technology;
- disruptions in our IT systems and voice and data networks, including risks and costs associated with the integration and upgrade of our IT systems;
- actions of our competitors, including manufacturers and publishers of products we sell;
- failure to comply with the terms and conditions of our commercial and public sector contracts;

- the security of our electronic and other confidential information;
- general economic conditions;
- our dependence on certain personnel;
- the variability of our net sales and gross profit;
- the integration and operation of acquired businesses, including our ability to achieve expected benefits of the acquisitions;
- the risks associated with our international operations;
- exposure to changes in, interpretations of, or enforcement trends related to tax rules and regulations; and
- intellectual property infringement claims and challenges to our registered trademarks and trade names.

Additionally, there may be other risks that are otherwise described from time to time in the reports that we file with the Securities and Exchange Commission. Any forward-looking statements in this report should be considered in light of various important factors, including the risks and uncertainties listed above, as well as others. We assume no obligation to update, and, except as may be required by law, do not intend to update, any forward-looking statements. We do not endorse any projections regarding future performance that may be made by third parties.

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PART I - FINANCIAL INFORMATION

Item 1. Financial Statements.

INSIGHT ENTERPRISES, INC.

CONSOLIDATED BALANCE SHEETS

(in thousands, except per share data)

(unaudited)

	September 30, 2014	December 31, 2013
ASSETS		
Current assets:		
Cash and cash equivalents	$ 127,102	$ 126,817
Accounts receivable, net of allowance for doubtful accounts of $18,978 and $19,908, respectively	1,037,173	1,257,910
Inventories	128,983	97,268
Inventories not available for sale	39,046	38,705
Deferred income taxes	16,600	16,436
Other current assets	67,974	57,528
Total current assets	1,416,878	1,594,664
Property and equipment, net of accumulated depreciation of $267,211 and $250,412, respectively	110,965	132,820
Goodwill	26,257	26,257
Intangible assets, net of accumulated amortization of $85,045 and $78,430, respectively	26,700	35,765
Deferred income taxes	58,589	58,651
Other assets	16,219	19,561
	$ 1,655,608	$ 1,867,718
LIABILITIES AND STOCKHOLDERS EQUITY		
Current liabilities:		
Accounts payable	$ 673,528	$ 850,951
Accrued expenses and other current liabilities	115,286	156,491
Current portion of long-term debt	914	217
Deferred revenue	52,327	44,146
Total current liabilities	842,055	1,051,805
Long-term debt	53,591	66,949
Deferred income taxes	959	443
Other liabilities	22,884	31,603

	919,489	1,150,800
Commitments and contingencies		
Stockholders equity:		
Preferred stock, $0.01 par value, 3,000 shares authorized; no shares issued		
Common stock, $0.01 par value, 100,000 shares authorized; 40,974 shares at September 30, 2014 and 42,023 shares at December 31, 2013 issued and outstanding	410	420
Additional paid-in capital	342,772	348,703
Retained earnings	390,971	353,854
Accumulated other comprehensive income foreign currency translation adjustments	1,966	13,941
Total stockholders equity	736,119	716,918
	$ 1,655,608	$ 1,867,718

See accompanying notes to consolidated financial statements.

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INSIGHT ENTERPRISES, INC.

CONSOLIDATED STATEMENTS OF OPERATIONS

(in thousands, except per share data)

(unaudited)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2014	**2013**	**2014**	**2013**
Net sales	$ 1,237,668	$ 1,151,020	$ 3,870,095	$ 3,749,189
Costs of goods sold	1,065,848	982,352	3,339,931	3,231,457
Gross profit	171,820	168,668	530,164	517,732
Operating expenses:				
Selling and administrative expenses	143,134	139,965	433,373	424,111
Severance and restructuring expenses	308	2,424	955	8,327
Earnings from operations	28,378	26,279	95,836	85,294
Non-operating (income) expense:				
Interest income	(229)	(322)	(811)	(971)
Interest expense	1,594	1,603	4,553	4,777
Net foreign currency exchange loss (gain)	238	474	1,195	(251)
Other expense, net	369	364	1,061	1,080
Earnings before income taxes	26,406	24,160	89,838	80,659
Income tax expense	9,004	9,135	33,637	30,045
Net earnings	$ 17,402	$ 15,025	$ 56,201	$ 50,614
Net earnings per share:				
Basic	$ 0.42	$ 0.35	$ 1.36	$ 1.17
Diluted	$ 0.42	$ 0.35	$ 1.36	$ 1.16
Shares used in per share calculations:				
Basic	40,972	42,334	41,185	43,289
Diluted	41,270	42,577	41,472	43,555

See accompanying notes to consolidated financial statements.

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INSIGHT ENTERPRISES, INC.

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(in thousands)

(unaudited)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2014	**2013**	**2014**	**2013**
Net earnings	$ 17,402	$ 15,025	$ 56,201	$ 50,614
Other comprehensive income (loss), net of tax:				
Foreign currency translation adjustments	(16,452)	9,712	(11,975)	(4,310)
Total comprehensive income	$ 950	$ 24,737	$ 44,226	$ 46,304

See accompanying notes to consolidated financial statements.

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INSIGHT ENTERPRISES, INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS

(in thousands)

(unaudited)

	Nine Months Ended September 30, 2014	Nine Months Ended September 30, 2013
Cash flows from operating activities:		
Net earnings	$ 56,201	$ 50,614
Adjustments to reconcile net earnings to net cash provided by operating activities:		
Depreciation and amortization	30,648	31,337
Non-cash real estate impairment	4,558	
Provision for losses on accounts receivable	3,235	4,118
Write-downs of inventories	2,028	3,120
Write-off of property and equipment	531	338
Non-cash stock-based compensation	5,861	4,911
Excess tax benefit from employee gains on stock-based compensation	(438)	(763)
Deferred income taxes	447	4,676
Changes in assets and liabilities:		
Decrease in accounts receivable	201,258	367,799
Increase in inventories	(34,628)	(16,270)
Increase in other current assets	(9,056)	(20,702)
Decrease (increase) in other assets	3,203	(2,998)
Decrease in accounts payable	(177,627)	(329,428)
Increase in deferred revenue	8,986	3,583
Decrease in accrued expenses and other liabilities	(47,411)	(33,759)
Net cash provided by operating activities	47,796	66,576
Cash flows from investing activities:		
Purchases of property and equipment	(7,983)	(14,145)
Net cash used in investing activities	(7,983)	(14,145)
Cash flows from financing activities:		
Borrowings on senior revolving credit facility	399,492	778,828
Repayments on senior revolving credit facility	(398,992)	(801,828)
Borrowings on accounts receivable securitization financing facility	708,070	637,000
Repayments on accounts receivable securitization financing facility	(723,070)	(606,000)
Borrowings under other financing agreements	2,002	
Payments on capital lease obligation	(163)	(617)
Net borrowings (repayments) under inventory financing facility	10,408	(19,946)

Payment of deferred financing fees		(277)		
Excess tax benefit from employee gains on stock-based compensation		438		763
Payment of payroll taxes on stock-based compensation through shares withheld		(1,662)		(2,756)
Repurchases of common stock		(29,652)		(50,000)
Net cash used in financing activities		(33,406)		(64,556)
Foreign currency exchange effect on cash balances		(6,122)		(4,962)
Increase (decrease) in cash and cash equivalents		285		(17,087)
Cash and cash equivalents at beginning of period		126,817		152,119
Cash and cash equivalents at end of period	$	127,102	$	135,032

See accompanying notes to consolidated financial statements.

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INSIGHT ENTERPRISES, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(unaudited)

1. Basis of Presentation and Recently Issued Accounting Pronouncements

We are a leading technology provider of hardware, software and service solutions to business and government clients in North America, Europe, the Middle East, Africa and Asia-Pacific. The Company is organized in the following three operating segments, which are primarily defined by their related geographies:

Operating Segment	Geography
North America	United States and Canada
EMEA	Europe, Middle East and Africa
APAC	Asia-Pacific

Our offerings in North America and select countries in EMEA include hardware, software and services. Our offerings in the remainder of our EMEA segment and in APAC are almost entirely software and select software-related services.

In the opinion of management, the accompanying unaudited consolidated financial statements contain all adjustments necessary to present fairly our financial position as of September 30, 2014, our results of operations for the three and nine months ended September 30, 2014 and 2013 and our cash flows for the nine months ended September 30, 2014 and 2013. The consolidated balance sheet as of December 31, 2013 was derived from the audited consolidated balance sheet at such date. The accompanying unaudited consolidated financial statements and notes have been prepared in accordance with the rules and regulations promulgated by the Securities and Exchange Commission and consequently do not include all of the disclosures normally required by United States generally accepted accounting principles (GAAP).

The results of operations for interim periods are not necessarily indicative of results for the full year, due in part to the seasonal nature of our business. These unaudited consolidated financial statements should be read in conjunction with the audited consolidated financial statements, including the related notes thereto, in our Annual Report on Form 10-K for the year ended December 31, 2013.

The consolidated financial statements include the accounts of Insight Enterprises, Inc. and its wholly owned subsidiaries. All significant intercompany balances and transactions have been eliminated in consolidation. References to the Company, Insight, we, us, our and other similar words refer to Insight Enterprises, Inc. and its consolidate subsidiaries, unless the context suggests otherwise.

The preparation of consolidated financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements. Additionally, these estimates and assumptions affect the reported amounts of net sales and expenses during the reporting period. Actual results could differ from those estimates. On an ongoing basis, we evaluate our estimates, including those related to sales recognition, anticipated achievement levels under partner funding programs, assumptions related to stock-based compensation valuation, allowances for doubtful accounts, valuation of inventories, litigation-related contingencies, valuation allowances for deferred tax assets and impairment of long-lived assets, including purchased intangibles and goodwill, if indicators of potential impairment exist.

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INSIGHT ENTERPRISES, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

(unaudited)

Recently Issued Accounting Pronouncements

On May 28, 2014, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2014-09, Revenue from Contracts with Customers. ASU 2014-09 was issued as the culmination of the joint project between the FASB and the International Accounting Standards Board (IASB) to clarify the principles for recognizing revenue and to develop a common revenue standard for GAAP and International Financial Reporting Standards. The core principle of the guidance 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. ASU 2014-09 is effective for the fiscal year beginning after December 15, 2016, including interim periods within that reporting period. Early adoption is not permitted. An entity may choose to adopt the new standard either retrospectively or through a cumulative effect adjustment as of the start of the first period for which it applies the new standard. We are in the process of determining the effect that the adoption of ASU 2014-09 will have on our consolidated financial statements and disclosures and have not yet selected our planned transition approach.

In July 2013, the FASB issued ASU 2013-11, Presentation of an Unrecognized Tax Benefit When a Net Operating Loss Carryforward, a Similar Tax Loss, or a Tax Credit Carryforward Exists. ASU 2013-11 clarifies guidance and eliminates diversity in practice on the presentation of unrecognized tax benefits when a net operating loss carryforward, a similar tax loss, or a tax credit carryforward exists at the reporting date. This new guidance became effective for annual reporting periods beginning after December 15, 2013 and subsequent interim periods. We applied the requirements of ASU 2013-11 prospectively beginning January 1, 2014, which resulted in a decrease to noncurrent deferred tax assets and a decrease to noncurrent reserves for uncertain tax positions of approximately $1,076,000 as of September 30, 2014. Had we applied the requirements of ASU 2013-11 retrospectively to the December 31, 2013 consolidated balance sheet, the effect would have been materially the same.

There have been no other material changes or additions to the recently issued accounting pronouncements as previously reported in Note 1 to our Consolidated Financial Statements in Part II, Item 8 of our Annual Report on Form 10-K for the year ended December 31, 2013 that affect or may affect our financial statements.

2. Net Earnings Per Share (EPS)

Basic EPS is computed by dividing net earnings available to common stockholders by the weighted average number of common shares outstanding during each period. Diluted EPS is computed on the basis of the weighted average number of shares of common stock plus the effect of dilutive potential common shares outstanding during the period using the treasury stock method. Dilutive potential common shares include outstanding restricted stock units. A reconciliation of the denominators of the basic and diluted EPS calculations follows (in thousands, except per share data):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2014	**2013**	**2014**	**2013**
Numerator:				
Net earnings	$ 17,402	$ 15,025	$ 56,201	$ 50,614
Denominator:				
Weighted average shares used to compute basic EPS	40,972	42,334	41,185	43,289
Dilutive potential common shares due to dilutive restricted stock units, net of tax effect	298	243	287	266
Weighted average shares used to compute diluted EPS	41,270	42,577	41,472	43,555
Net earnings per share:				
Basic	$ 0.42	$ 0.35	$ 1.36	$ 1.17
Diluted	$ 0.42	$ 0.35	$ 1.36	$ 1.16

For the three months ended September 30, 2014 and 2013, 5,000 and 2,000, respectively, of our restricted stock units were not included in the diluted EPS calculations because their inclusion would have been anti-dilutive. For the nine months ended September 30, 2014 and 2013, the excluded restricted stock units were 23,000 and 235,000, respectively. These share-based awards could be dilutive in the future.

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INSIGHT ENTERPRISES, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

(unaudited)

3. Debt, Inventory Financing Facility, Capital Lease and Other Financing Obligations

Debt

Our long-term debt consists of the following (in thousands):

	September 30, 2014	December 31, 2013
Senior revolving credit facility	$ 17,000	$ 16,500
Accounts receivable securitization financing facility	35,000	50,000
Capital lease and other financing obligations	2,505	666
Total	54,505	67,166
Less: current portion of capital lease and other financing obligations	(914)	(217)
Less: current portion of revolving credit facilities		
Long-term debt	$ 53,591	$ 66,949

Our senior revolving credit facility (revolving facility) has an aggregate U.S. dollar equivalent maximum borrowing capacity of $350,000,000. The revolving facility matures April 26, 2017, is guaranteed by the Company s material domestic subsidiaries and is secured by a lien on substantially all of the Company s and each guarantor s assets. The balance of $17,000,000 outstanding at September 30, 2014 was borrowed under the prime rate option at 3.25% per annum. As of September 30, 2014, $333,000,000 was available under the revolving facility. See Debt Covenants below.

On June 25, 2014, we entered into an amendment to our accounts receivable securitization financing facility (the ABS facility) to extend the maturity date from April 24, 2015 to June 30, 2017, to change the administrative agent and to modify fees for unused capacity under the facility. The maximum borrowing capacity of the ABS facility remained unchanged at $200,000,000. While the ABS facility has a stated maximum amount, the actual availability under the ABS facility is limited by the quantity and quality of the underlying accounts receivable. Under the ABS facility, the floating interest rate applicable at September 30, 2014 was 1.06% per annum. As of September 30, 2014, qualified receivables were sufficient to permit access to the full $200,000,000 facility amount, of which $35,000,000 was outstanding. See Debt Covenants below.

Debt Covenants

Our revolving facility and our ABS facility contain various covenants customary for transactions of this type, including limitations on the payment of dividends and the requirement that we comply with maximum leverage, minimum fixed charge and minimum asset coverage ratio requirements and meet monthly, quarterly and annual reporting requirements. If we fail to comply with these covenants, the lenders would be able to demand payment within a specified period of time. At September 30, 2014, we were in compliance with all such covenants.

Our consolidated debt balance that can be outstanding at the end of any fiscal quarter under our revolving facility and our ABS facility is limited by certain financial covenants, particularly a maximum leverage ratio. The maximum leverage ratio is calculated as aggregate debt outstanding divided by the sum of our trailing twelve month net earnings (loss) plus (i) interest expense, excluding non-cash imputed interest on our inventory financing facility, (ii) income tax expense (benefit), (iii) depreciation and amortization and (iv) non-cash stock-based compensation (adjusted earnings). The maximum leverage ratio permitted under the agreements is 2.75 times trailing twelve-month adjusted earnings. A significant drop in our adjusted earnings would limit the amount of indebtedness that could be outstanding at the end of any fiscal quarter to a level that would be below our combined facility maximum amount. Based on our maximum leverage ratio as of September 30, 2014, our consolidated debt balance that could have been outstanding under our revolving facility and our ABS facility was reduced from the maximum borrowing capacity of $550,000,000 to $495,528,000, of which $52,000,000 was outstanding at September 30, 2014.

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INSIGHT ENTERPRISES, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

(unaudited)

Inventory Financing Facility

Our inventory financing facility has a maximum borrowing capacity of $200,000,000 and matures on April 26, 2017. As of September 30, 2014 and December 31, 2013, $125,660,000 and $115,252,000, respectively, was included in accounts payable within our consolidated balance sheets related to our inventory financing facility.

Capital Lease and Other Financing Obligations

The present value of minimum lease payments under our capital lease, which expires on December 31, 2016, is included in our current and long-term debt balances as summarized in the table above.

From time to time, we also enter into other financing agreements with financial intermediaries to facilitate the purchase of products from certain vendors. At September 30, 2014, amounts owed under other financing agreements of $2,002,000, which are payable in installments through August 2016, are included in our current and long-term debt balances as summarized in the table above.

4. Severance and Restructuring Activities

Severance Costs Expensed for 2014 Resource Actions

During the three months ended September 30, 2014, North America and EMEA recorded severance expense totaling $177,000 and $288,000, respectively, and APAC recorded a reduction to severance and restructuring expenses of $3,000 due to a change in estimate as cash payments were made. During the nine months ended September 30, 2014, North America, EMEA and APAC recorded severance expense totaling $701,000, $1,157,000 and $106,000, respectively, related to 2014 resource actions. These charges were associated with severance for the elimination of certain positions based on a re-alignment of roles and responsibilities.

The following table details the 2014 activity and the outstanding obligations related to the 2014 resource actions as of September 30, 2014 (in thousands):

	North America	EMEA	APAC	Consolidated
Severance costs	$ 701	$ 1,157	$ 106	$ 1,964
Foreign currency translation adjustments	(13)	(40)		(53)
Cash payments	(520)	(776)	(106)	(1,402)
Balance at September 30, 2014	$ 168	$ 341	$	$ 509

The remaining outstanding obligations are expected to be paid during the next 12 months and are therefore included in accrued expenses and other current liabilities.

Severance Costs Expensed for 2013 Resource Actions

During the year ended December 31, 2013, North America and EMEA recorded severance expense totaling $3,429,000 and $9,603,000, respectively, relating to 2013 resource actions. The charges related to a continued review of resource needs in North America and significant restructuring activities in EMEA, primarily in the United Kingdom and Germany, as we worked to rationalize our selling and administrative expenses in EMEA.

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INSIGHT ENTERPRISES, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

(unaudited)

The following table details the 2014 activity and the outstanding obligations related to the 2013 resource actions as of September 30, 2014 (in thousands):

	North America	EMEA	Consolidated
Balance at December 31, 2013	$ 1,223	$ 2,910	$ 4,133
Foreign currency translation adjustments	(11)	(33)	(44)
Adjustments	(235)	(377)	(612)
Cash payments	(685)	(2,087)	(2,772)
Balance at September 30, 2014	$ 292	$ 413	$ 705

In North America and EMEA, adjustments were recorded to decrease severance and restructuring expense and the related severance accrual during the nine months ended September 30, 2014 due to changes in estimates as cash payments were made. The remaining outstanding obligations are expected to be paid during the next 12 months and are therefore included in accrued expenses and other current liabilities.

Severance Costs Expensed for 2012 Resource Actions

During the year ended December 31, 2012, North America and EMEA recorded severance expense totaling $3,022,000 and $3,973,000, respectively, associated with severance for the elimination of certain positions based on a re-alignment of roles and responsibilities. As of December 31, 2013, the total remaining obligations recorded in our North America and EMEA segments related to these resource actions were approximately $487,000 and $337,000, respectively. During the nine months ended September 30, 2014, adjustments totaling $301,000 and $96,000 were recorded in North America and EMEA, respectively, to decrease severance and restructuring expense and the related severance accrual due to changes in estimates of the remaining payouts. The outstanding obligations as of September 30, 2014 of $186,000 and $44,000 in North America and EMEA, respectively, are expected to be paid during the next 12 months and are therefore included in accrued expenses and other current liabilities.

5. Stock-Based Compensation

By operating segment, we recorded the following pre-tax amounts for stock-based compensation, net of estimated forfeitures, related to restricted stock units (RSUs) in selling and administrative expenses in our consolidated financial statements (in thousands):

	Three Months Ended September 30,	Nine Months Ended September 30,

	2014	2013	2014	2013
North America	$ 1,671	$ 1,287	$ 4,510	$ 3,862
EMEA	433	(34)	1,151	864
APAC	73	63	200	185
Total Consolidated	$ 2,177	$ 1,316	$ 5,861	$ 4,911

As of September 30, 2014, total compensation cost not yet recognized related to nonvested RSUs is $14,760,000, which is expected to be recognized over the next 1.37 years on a weighted-average basis. Stock-based compensation expense in EMEA for the three months ended September 30, 2013 was negative due to the reversal of previously recognized compensation cost on RSUs forfeited by the former president of EMEA upon his separation from the Company, effective September 1, 2013, prior to the completion of the requisite service period.

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INSIGHT ENTERPRISES, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

(unaudited)

The following table summarizes our RSU activity during the nine months ended September 30, 2014:

	Number	Weighted Average Grant Date Fair Value	Fair Value
Nonvested at January 1, 2014	811,565	$ 19.91	
Granted[a]	473,279	23.48	
Vested, including shares withheld to cover taxes	(294,390)	19.55	$ 7,033,330[b]
Forfeited	(46,961)	20.52	
Nonvested at September 30, 2014[a]	943,493	21.70	$ 21,351,247[c]
Expected to vest	846,035		$ 19,145,772[c]

(a) Includes 144,521 RSUs subject to remaining performance conditions. The number of RSUs ultimately awarded under the performance-based RSUs varies based on whether we achieve certain financial results for 2014.

(b) The fair value of vested RSUs represents the total pre-tax fair value, based on the closing stock price on the day of vesting, which would have been received by holders of RSUs had all such holders sold their underlying shares on that date.

(c) The aggregate fair value represents the total pre-tax fair value, based on our closing stock price of $22.63 as of September 30, 2014, which would have been received by holders of RSUs had all such holders sold their underlying shares on that date.

During the nine months ended September 30, 2014 and 2013, the RSUs that vested for teammates in the United States were net-share settled such that we withheld shares with value equivalent to the teammates minimum statutory United States tax obligations for the applicable income and other employment taxes and remitted the corresponding cash amount to the appropriate taxing authorities. The total shares withheld during the nine months ended September 30, 2014 and 2013 of 71,223 and 136,709, respectively, were based on the value of the RSUs on their vesting date as determined by our closing stock price on such vesting date. For the nine months ended September 30, 2014 and 2013, total payments for the employees tax obligations to the taxing authorities were $1,662,000 and $2,756,000, respectively, and are reflected as a financing activity within the consolidated statements of cash flows. These net-share settlements had the economic effect of repurchases of common stock as they reduced the number of shares that would have otherwise been issued as a result of the vesting and did not represent a repurchase of shares or an expense to us.

6. Impairment Loss on Assets Held for Sale

In May 2014, we signed a lease that will result in the relocation of our sales and administrative operations that are currently housed in the property that we own in Bloomingdale, Illinois. We began marketing the property for sale in April 2014, and we expect to vacate the property in early November 2014. The property is classified as a held for sale asset, which is included in other current assets in our accompanying consolidated balance sheet as of September 30, 2014. During the nine months ended September 30, 2014, our North America operating segment recorded non-cash charges of $5,178,000, consisting of an impairment loss of $4,558,000 and accelerated depreciation of $620,000, to reduce the carrying amount of the related assets to their estimated fair value less costs to sell. The estimated fair market value was derived from Level 2 fair value inputs (see Note 9 for a description of the categories of fair value inputs), which included a current market analysis indicating the price per square foot of previous sale transactions involving comparable property in the Bloomingdale area. The charges are included in selling and administrative expenses in our accompanying consolidated statements of operations.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

(unaudited)

7. Income Taxes

Our effective tax rate for the three and nine months ended September 30, 2014 was 34.1% and 37.4%, respectively. For the three months ended September 30, 2014, our effective tax rate was lower than the United States federal statutory rate of 35.0% due primarily to the recognition of certain tax benefits related to the release of reserves for specific uncertain tax positions during the quarter and to lower taxes on earnings in foreign jurisdictions. For the nine months ended September 30, 2014, our effective tax rate was higher than the United States federal statutory rate of 35.0% due primarily to state income taxes net of federal benefit and other nondeductible expenses, partially offset by lower taxes on earnings in foreign jurisdictions and the recognition of tax benefits related to the release of reserves for uncertain tax positions during the third quarter of 2014.

Our effective tax rate for the three and nine months ended September 30, 2013 was 37.8% and 37.2%, respectively. For the three and nine months ended September 30, 2013, our effective tax rate was higher than the United States federal statutory rate of 35.0% due primarily to an increase in the valuation allowance for deferred tax assets related to certain foreign operating losses and foreign tax credits and to state income taxes, net of federal benefit. These increases in the effective rate were partially offset by the effect of lower taxes on earnings in foreign jurisdictions. The nine month rate was slightly lower than the rate for the third quarter due to the recognition of certain tax benefits related to the re-measurement or settlement of specific uncertain tax positions during the first quarter of 2013.

As of September 30, 2014 and December 31, 2013, we had approximately $4,151,000 and $4,546,000, respectively, of unrecognized tax benefits. Of these amounts, approximately $288,000 and $364,000, respectively, related to accrued interest.

Several of our subsidiaries are currently under audit for tax years 2006 through 2013. It is reasonably possible that the examination phase of these audits may conclude in the next 12 months and that the related unrecognized tax benefits for uncertain tax positions may change, potentially having a material effect on our effective tax rate. However, based on the status of the various examinations in multiple jurisdictions, an estimate of the range of reasonably possible outcomes cannot be made at this time.

8. Derivative Financial Instruments

We use derivatives to partially offset our exposure to fluctuations in certain foreign currencies. We do not enter into derivatives for speculative or trading purposes. Derivatives are recorded at fair value on the balance sheet, and gains or losses resulting from changes in fair value of the derivative are recorded currently in income. We do not designate our hedges for hedge accounting, and our foreign currency derivative instruments are not subject to any master netting arrangements with our counterparties.

The following table summarizes our derivative financial instruments as of September 30, 2014 and December 31, 2013 (in thousands):

Derivatives Not Designated as Hedging Instruments	Balance Sheet Location	September 30, 2014 Asset Derivatives Fair Value	September 30, 2014 Liability Derivatives Fair Value	December 31, 2013 Asset Derivatives Fair Value	December 31, 2013 Liability Derivatives Fair Value
Foreign exchange forward contracts	Other current assets	$ 47	$	$ 91	$
Total		$ 47	$	$ 91	$

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

(unaudited)

The following table summarizes the effect of our derivative financial instruments on our results of operations during the three and nine months ended September 30, 2014 and 2013 (in thousands):

Derivatives Not Designated as Hedging Instruments	Location of (Gain) Loss Recognized in Earnings on Derivatives	Amount of (Gain) Loss Recognized in Earnings on Derivatives			
		Three Months Ended September 30,		Nine Months Ended September 30,	
		2014	2013	2014	2013
Foreign exchange forward contracts	Net foreign currency exchange (gain) loss	$ (879)	$ 30	$ (771)	$ (230)
Total		$ (879)	$ 30	$ (771)	$ (230)

9. Fair Value Measurements

The following table summarizes the valuation of our foreign exchange derivative financial instruments by the following three categories as of September 30, 2014 and December 31, 2013 (in thousands):

Level 1: Quoted market prices in active markets for identical assets or liabilities.

Level 2: Observable market based inputs or unobservable inputs that are corroborated by market data.

Level 3: Unobservable inputs that are not corroborated by market data.

Balance Sheet Classification		September 30, 2014	December 31, 2013
	Level 1	$	$
Other current assets	Level 2	47	91
	Level 3		
		$ 47	$ 91

10. Share Repurchase Programs

On October 30, 2013, we announced that our Board of Directors had authorized a repurchase of up to $50,000,000 of our common stock. Any share repurchases may be made on the open market, through block trades, through 10b5-1 plans or otherwise. The amount of shares purchased and the timing of the purchases will be based on working capital requirements, general business conditions and other factors. We intend to retire the repurchased shares. Under this repurchase authorization, we did not repurchase any shares of our common stock during the three months ended September 30, 2014. We purchased 1,272,299 shares of our common stock on the open market at a total cost of approximately $29,652,000 (an average price of $23.31 per share) during the nine months ended September 30, 2014, and all shares repurchased through September 30, 2014 have been retired. As of September 30, 2014, approximately $12,574,000 remains available for repurchases of our common stock under this repurchase program.

During the comparative nine months ended September 30, 2013, we purchased 2,646,722 shares of our common stock on the open market at a total cost of approximately $50,000,000 (an average price of $18.89 per share) under a previous repurchase program that was authorized in February 2013 and completed in May 2013. All shares repurchased were retired.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

(unaudited)

11. Commitments and Contingencies

Contractual

In the ordinary course of business, we issue performance bonds to secure our performance under certain contracts or state tax requirements. As of September 30, 2014, we had approximately $637,000 of performance bonds outstanding. These bonds are issued on our behalf by a surety company on an unsecured basis; however, if the surety company is ever required to pay out under the bonds, we have contractually agreed to reimburse them.

Employment Contracts and Severance Plans

We have employment contracts with, and plans covering, certain officers and management teammates under which severance payments would become payable in the event of specified terminations without cause or terminations under certain circumstances after a change in control. In addition, vesting of stock-based compensation would accelerate following a change in control. If severance payments under the current employment agreements or plan payments were to become payable, the severance payments would generally range from three to twenty-four months of salary.

Indemnifications

From time to time, in the ordinary course of business, we enter into contractual arrangements under which we agree to indemnify either our clients or third-party service providers from certain losses incurred relating to services performed on our behalf or for losses arising from defined events, which may include litigation or claims relating to past performance. These arrangements include, but are not limited to, the indemnification of our clients for certain claims arising out of our performance under our sales contracts, the indemnification of our landlords for certain claims arising from our use of leased facilities and the indemnification of the lenders that provide our credit facilities for certain claims arising from their extension of credit to us. Such indemnification obligations may not be subject to maximum loss clauses.

Management believes that payments, if any, related to these indemnifications are not probable at September 30, 2014. Accordingly, we have not accrued any liabilities related to such indemnifications in our consolidated financial statements.

We have entered into separate indemnification agreements with certain of our executive officers and with each of our directors. These agreements require us, among other requirements, to indemnify such officers and directors against expenses (including attorneys fees), judgments and settlements incurred by such individual in connection with any action arising out of such individual s status or service as our executive officer or director (subject to exceptions such as where the individual failed to act in good faith or in a manner the individual reasonably believed to be in, or not opposed to, the best interests of the Company) and to advance expenses incurred by such individual with respect to which such individual may be entitled to indemnification by us. There are no pending legal proceedings that involve the indemnification of any of the Company s directors or officers.

Contingencies Related to Third-Party Review

From time to time, we are subject to potential claims and assessments from third parties. We are also subject to various governmental, client and vendor audits. We continually assess whether or not such claims have merit and warrant accrual. Where appropriate, we accrue estimates of anticipated liabilities in the consolidated financial statements. Such estimates are subject to change and may affect our results of operations and our cash flows.

Legal Proceedings

We are party to various legal proceedings arising in the ordinary course of business, including preference payment claims asserted in client bankruptcy proceedings, indemnification claims, claims of alleged infringement of patents, trademarks, copyrights and other intellectual property rights, claims of alleged non-compliance with contract provisions and claims related to alleged violations of laws and regulations. Many of these proceeding are at preliminary stages, and many of these proceedings seek an indeterminate amount of damages. We regularly evaluate the status of the legal proceedings in which we are involved to assess whether a loss is probable or there is a reasonable possibility that a loss, or an additional loss, may have been incurred and determine if accruals are appropriate. If accruals are not appropriate, we further evaluate each legal proceeding to assess whether an estimate of possible loss or range of possible loss can be made for disclosure. Although litigation is inherently unpredictable, we believe that we have adequate provisions for any probable and estimable losses. It is possible, nevertheless, that our consolidated financial position, results of operations or liquidity could be materially and adversely affected in any particular period by the resolution of a legal proceeding. Legal expenses related to defense, negotiations, settlements, rulings and advice of outside legal counsel are expensed as incurred.

INSIGHT ENTERPRISES, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

(unaudited)

In August 2010, in connection with an investigation being conducted by the United States Department of Justice, our subsidiary, Calence, LLC (Calence), received a subpoena from the Office of the Inspector General of the Federal Communications Commission requesting documents and information related to the expenditure of funds under the E-Rate program, which provides schools and libraries with discounts to obtain affordable telecommunications and internet access and related hardware and software. The basis of the investigation was a qui tam lawsuit filed in the United States District Court for the Southern District of Texas by a contractor who provided services to the former owners of Calence. The lawsuit, designated United States ex rel. Shupe v. Cisco Systems, Inc., Avnet, Inc. and Calence, LLC, alleged violations of the False Claims Act and sought various remedies including treble damages and civil penalties. An appeal from a District Court order denying motions to dismiss was filed with the Fifth Circuit, and in July 2014 the Fifth Circuit reversed the District Court s decision and remanded the case to the District Court for further proceedings consistent with its decision regarding E-Rate claims under the False Claims Act. In August 2014, the District Court dismissed the case in its entirety.

The Company is not involved in any pending or threatened legal proceedings that it believes could reasonably be expected to have a material adverse effect on its financial condition, results of operations or liquidity.

12. Segment Information

We operate in three reportable geographic operating segments: North America; EMEA; and APAC. Currently, our offerings in North America and select countries in EMEA include hardware, software and services. Our offerings in the remainder of our EMEA segment and in APAC are almost entirely software and select software-related services. Net sales by product or service type for North America, EMEA and APAC were as follows for the three and nine months ended September 30, 2014 and 2013 (in thousands):

	North America		EMEA		APAC	
	Three Months Ended September 30,		Three Months Ended September 30,		Three Months Ended September 30,	
Sales Mix	**2014**	**2013**	**2014**	**2013**	**2014**	**2013**
Hardware	$ 563,483	$ 546,192	$ 141,149	$ 120,404	$ 3,150	$ 1,304
Software	272,789	259,862	163,748	135,651	28,079	26,881
Services	55,073	51,881	8,747	7,496	1,450	1,349
	$ 891,345	$ 857,935	$ 313,644	$ 263,551	$ 32,679	$ 29,534

	North America		EMEA		APAC	

	Nine Months Ended September 30,		Nine Months Ended September 30,		Nine Months Ended September 30,	
Sales Mix	**2014**	**2013**	**2014**	**2013**	**2014**	**2013**
Hardware	$ 1,579,080	$ 1,548,326	$ 432,426	$ 370,906	$ 8,784	$ 4,133
Software	829,798	819,266	689,177			