

INSIGHT ENTERPRISES INC
Form 10-K
February 22, 2019
UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-K

(Mark One)

Annual Report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 For the fiscal year ended
December 31, 2018

or

Transition report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934
For the transition period from _____ to _____.

Commission File Number: 0-25092

INSIGHT ENTERPRISES, INC.

(Exact name of registrant as specified in its charter)

Delaware 86-0766246
(State or other jurisdiction of (IRS Employer
incorporation or organization) Identification No.)

6820 South Harl Avenue, Tempe, Arizona 85283

(Address of principal executive offices, Zip Code)

Registrant's telephone number, including area code: (480) 333-3000

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

Title of each class	Name of each exchange on which registered
Common stock, par value \$0.01	The NASDAQ Global Select Market

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

n/a

Edgar Filing: INSIGHT ENTERPRISES INC - Form 10-K

(Title of Class)

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.

Yes X No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act.

Yes No X

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 if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§ 229.405) is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. /X/

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	Accelerated filer	Non-accelerated filer
Smaller reporting company		Emerging growth company	

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 Act).

Yes NoX

The aggregate market value of the voting and non-voting common equity held by non-affiliates of the registrant, based upon the closing price of the registrant's common stock as reported on The Nasdaq Global Select Market on June 29, 2018, the last business day of the registrant's most recently completed second fiscal quarter, was \$1,710,394,927.

The number of shares outstanding of the registrant's common stock on February 15, 2019 was 35,502,671.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the registrant's Proxy Statement relating to its 2019 Annual Meeting of Stockholders have been incorporated by reference into Part III, Items 10, 11, 12, 13 and 14 of this Annual Report on Form 10-K.

INSIGHT ENTERPRISES, INC.

ANNUAL REPORT ON FORM 10-K

Year Ended December 31, 2018

TABLE OF CONTENTS

	Page
<u>PART I</u>	
ITEM 1. <u>Business</u>	3
ITEM <u>Risk Factors</u>	12
1A.	
ITEM 1B. <u>Unresolved Staff Comments</u>	19
ITEM 2. <u>Properties</u>	19
ITEM 3. <u>Legal Proceedings</u>	20
ITEM 4. <u>Mine Safety Disclosures</u>	20
<u>PART II</u>	
ITEM 5. <u>Market for Registrant’s Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities</u>	20
ITEM 6. <u>Selected Financial Data</u>	22
ITEM 7. <u>Management’s Discussion and Analysis of Financial Condition and Results of Operations</u>	24
ITEM <u>Quantitative and Qualitative Disclosures About Market Risk</u>	
7A.	44
ITEM 8. <u>Financial Statements and Supplementary Data</u>	45
ITEM 9. <u>Changes in and Disagreements With Accountants on Accounting and Financial Disclosure</u>	93
ITEM <u>Controls and Procedures</u>	
9A.	93
ITEM 9B. <u>Other Information</u>	93
<u>PART III</u>	
ITEM 10. <u>Directors, Executive Officers and Corporate Governance</u>	94
ITEM 11. <u>Executive Compensation</u>	94
ITEM 12. <u>Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters</u>	94
ITEM 13. <u>Certain Relationships and Related Transactions, and Director Independence</u>	94
ITEM 14. <u>Principal Accounting Fees and Services</u>	94
<u>PART IV</u>	
ITEM 15. <u>Exhibits, Financial Statement Schedules</u>	95
ITEM 16. <u>Form 10-K Summary</u>	95
<u>EXHIBITS TO FORM 10-K</u>	96
<u>SIGNATURES</u>	101

INSIGHT ENTERPRISES, INC.

FORWARD-LOOKING STATEMENTS

Certain statements in this Annual Report on Form 10-K, including statements in “Management’s Discussion and Analysis of Financial Condition and Results of Operations” in Part II, Item 7 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, gross margin, operating expenses, earnings from operations, non-operating income and expenses, net earnings or cash flows, cash needs and the payment of accrued expenses and liabilities; the expected effects of seasonality on our business; expectations of further consolidation in the Information Technology (“IT”) industry; our business strategy and our strategic initiatives, including our efforts to grow our core business, develop and grow our global cloud business and build scalable solutions; expectations regarding partner incentives; our expectations about future benefits of our acquisitions and our plans related thereto, including potential expansion into wider regions; the increasing demand for big data solutions; the availability of competitive sources of products for our purchase and resale; our intentions concerning the payment of dividends; our acquisition strategy; our ability to offset the effects of inflation and manage any increase in interest rates; projections of capital expenditures; our plan to migrate EMEA’s IT system; the sufficiency of our capital resources, the availability of financing and our needs or plans relating thereto; the effects of new accounting principles and expected dates of adoption; the effect of indemnification obligations; projections about the outcome of ongoing tax audits; adequate provisions for and our positions and strategies with respect to ongoing and threatened litigation; our exposure to derivative counterparty concentration and non-performance risks; our ability to expand our client relationships; our expectations that pricing pressures in the IT industry will continue; our plans to use cash flow from operations for working capital, to pay down debt, repurchase shares of our common stock, make capital expenditures, and fund acquisitions; our belief that our office facilities are adequate and that we will be able to extend our current leases or locate substitute facilities on satisfactory terms; our belief that we have adequate provisions for losses; our expectation that we will not incur interest payments under our inventory financing facility; our compliance with leverage ratio requirements; 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,” “may” and variations of such words and similar expressions. Forward-looking statements 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:

- actions of our competitors, including manufacturers and publishers of products we sell;
- our reliance on our partners for product availability, competitive products to sell and marketing funds and purchasing incentives, which can change significantly in the amounts made available and the requirements year over year;
- changes in the IT industry and/or rapid changes in technology;
- risks associated with the integration and operation of acquired businesses;
- possible significant fluctuations in our future operating results;
- the risks associated with our international operations;
- general economic conditions;
- increased debt and interest expense and decreased availability of funds under our financing facilities;
- the security of our electronic and other confidential information;
- disruptions in our IT systems and voice and data networks;
- failure to comply with the terms and conditions of our commercial and public sector contracts;
- legal proceedings and client audits and failure to comply with laws and regulations;

• accounts receivable risks, including increased credit loss experience or extended payment terms with our clients;
• our reliance on independent shipping companies;
• our dependence on certain key personnel;
• natural disasters or other adverse occurrences;

1

INSIGHT ENTERPRISES, INC.

• 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.

Any forward-looking statements in this report, including those identified under “Risk Factors” in Part I, Item 1A of this report, should be considered in light of various important factors, including the risks and uncertainties listed above, as well as others. Additionally, there are risks described from time to time in the reports that we file with the Securities and Exchange Commission. 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.

INSIGHT ENTERPRISES, INC.

PART I

Item 1. Business

Our Company

Today, every business is a technology business. Insight Enterprises, Inc. (“Insight” or the “Company”) empowers organizations of all sizes with Intelligent Technology Solutions™ and services to maximize the business value of IT in North America; Europe, the Middle East and Africa (“EMEA”); and Asia-Pacific (“APAC”). As a Fortune 500-ranked global provider of digital innovation, cloud/data center transformation, connected workforce, and supply chain optimization solutions and services, we help clients innovate and optimize their operations to run smarter.

The Company is organized in the following three operating segments, which are primarily defined by their related geographies:

		Percent of 2018
Operating Segment*	Geography	Consolidated Net Sales
North America	United States and Canada	76%
EMEA	Europe, Middle East and Africa	21%
APAC	Asia-Pacific	3%

* Additional detailed segment and geographic information can be found in “Management’s Discussion and Analysis of Financial Condition and Results of Operations” in Part II, Item 7 and in Note 19 to the Consolidated Financial Statements in Part II, Item 8 of this report.

Insight began operations in Arizona in 1988, incorporated in Delaware in 1991 and completed its initial public offering in 1995. Our corporate headquarters are located in Tempe, Arizona. From our original location in the United States, we expanded nationwide and then entered Canada in 1997 and the United Kingdom in 1998. Through a combination of acquisitions and organic growth, we continued to increase our geographic coverage and expand our technical capabilities. Our major acquisitions were as follows:

- 2006 – Acquired Software Spectrum, Inc., and expanded our footprint in EMEA and APAC and strengthened our software and related services capabilities;
- 2008 – Acquired Calence, LLC in North America and MINX Limited in the United Kingdom, and enhanced our global technical expertise around higher-end networking and communications technologies, as well as managed services and security;
- 2011 – Acquired Ensynch, Inc. (“Ensynch”), and enhanced our professional services capabilities across the complete Microsoft solution set, including cloud migration and management;
- 2012 – Acquired Inmac GmbH and Micro Warehouse BV (“Inmac”), and expanded our hardware capabilities into key markets in our existing European footprint, specifically in Germany and the Netherlands;
- 2015 – Acquired BlueMetal Architects, Inc. (“BlueMetal”), an interactive design and technology architecture firm, and strengthened our services capabilities in the area of application design, mobility and big data;

2016 – Acquired Ignia, Pty Ltd (“Ignia”), and expanded our global footprint in the areas of application design, digital solutions, cloud, mobility and business analytics, while also building on our ability to bring digital innovation solutions to our clients in APAC;

2017 – Acquired Datalink Corporation (“Datalink”) and strengthened our position as a leading IT solutions provider with deep technical expertise delivering data center solutions to clients on premise or in the cloud. Additionally, we acquired Caase Group B.V. (referred to herein as, “Caase.com”) and strengthened our ability to deliver cloud and data center solutions to our clients in EMEA; and

2018 – On August 1, 2018, we acquired Cardinal Solutions Group, Inc. (“Cardinal”), a digital solutions provider and strengthened our digital innovations capabilities.

3

INSIGHT ENTERPRISES, INC.

Our Purpose and Values

Our purpose is: “We build meaningful connections to help businesses run smarter.” We live by our core values of Hunger, Heart and Harmony, which set the tone for our business and define who we are. Our core values are:

Hunger – Our insatiable desire to create new opportunities for our clients and our business is apparent in everything we do.

Heart – We seek to impact the lives of the people we serve positively by always putting our clients, partners and teammates first.

Harmony – We invite perspective, and we consistently celebrate each other’s unique contributions as we work together to bring the best solutions to our clients.

We believe that these values strengthen the overall Insight experience for our clients, partners and teammates (we refer to our customers as “clients,” our suppliers as “partners” and our employees as “teammates”).

Our Market

The worldwide total addressable market for information technology is forecasted to be \$3.8 trillion annually according to Gartner, a leading IT research and advisory company. Based on our analysis of Gartner market data, we believe the top 10 most comparable global solution providers represent less than 10% of the worldwide total addressable market. We believe our addressable worldwide market in the indirect sales IT channel represents approximately \$652 billion in annual sales and for the year ended December 31, 2018, our net sales of \$7.1 billion represented approximately 1% of that highly diverse market. We believe that we are well positioned in this highly fragmented global market with locations in 19 countries and our deep experience delivering IT hardware, software and services solutions across the globe.

Our Value Proposition

As the IT industry evolves, our value proposition to our clients continues to evolve. The increased complexity across the technology ecosystem, combined with the continual emergence of new trends and offerings, has made it difficult for most clients to effectively manage their IT environments. We consult with our clients regarding their IT product and services needs and help our clients define, architect, implement and manage their IT solutions.

We believe that Insight has a unique position in the market to gain profitable market share by offering Intelligent Technology Solutions™ that empower our clients to manage their IT environments so they can drive meaningful

business outcomes today and transform their operations for tomorrow.

Insight's unique advantages include:

● Our global scale and coverage – we have the capabilities to serve clients across the globe with hardware, software provisioning and related services and with integrated technology solutions in multiple countries directly or through our partner network.

● Our operational excellence and systems – we offer a broad selection of products with access to billions of dollars in virtual inventory and efficient supply chain execution, as well as product fulfillment, logistics capabilities, management tools and technical expertise.

● Our software DNA – we understand complex licensing requirements and have the know-how to optimize our clients' usage and compliance management through a portfolio of license consulting and optimization services.

● Our partner alignment – we have a multi-partner approach and have deep relationships with leading product manufacturers, software publishers and distribution partners, as well as emerging cloud and other technology partners, to service our global portfolio of commercial and public sector clients with the integrated IT solutions that make the most sense for their IT environments.

4

INSIGHT ENTERPRISES, INC.

Our data center transformation skills – in support of our long-term strategy, we acquired Datalink (2017 U.S.) and Caase (2017 Netherlands) providers of IT services, cloud and enterprise data center solutions, adding additional deep technical expertise and complementary services offerings to our internally developed solutions and increasing our addressable market opportunity in hybrid cloud and other high-growth data center categories.

Our next-generation tech skills – we quickly adapt to new technology trends and innovation, investing internally to advance our technical capabilities while at the same time making strategic acquisitions that establish us as thought leaders, with scale and reach, around emerging market trends. The Blue Metal (2015, U.S.), Ignia (2016, Australia) and Cardinal (2018, U.S.) acquisitions are examples of acquisitions that have given us global capabilities to support our clients as they look to accelerate in the digital world.

Our App development and Internet-of-Things (“IoT”) expertise – we were recognized as Microsoft’s Worldwide Partner of the Year for IoT as well as Mobile App Development in each of the past two years and, combined with our hardware and software expertise, we are well-positioned to deliver holistic connected product and IoT solutions.

Our services solutions – we can scale to help organizations of all sizes and have well-developed services capabilities focused on four solutions areas: supply chain optimization, connected workforce, cloud and data center transformation and digital innovation, that represent the ways we help our clients with the demands they face, as discussed in more detail below.

Our track record for successfully integrating mergers and acquisitions to accelerate growth – we have a demonstrated track record for acquiring strategic businesses and integrating them into the Insight model, while effectively realizing the benefits of the combined businesses.

Our Business Strategy

A client’s information technology service needs span an array of business priorities including modern infrastructure and cloud options, workforce productivity initiatives, and leveraging IT to differentiate with their customers. We believe our four solution areas effectively represent the areas that our clients care about most and were designed to allow our clients, and the different decision makers within our clients, to interact with us in multiple ways, whether acquiring a hardware or software asset, implementing public cloud or as-a-service workplace solutions, designing a next generation or hybrid cloud data center, or leveraging sophisticated IOT and artificial intelligence solutions to improve their clients’ experience. At each connection point, we provide technical expertise and advisory services to our clients.

INSIGHT ENTERPRISES, INC.

Our go to market framework for our four solution areas, built on thirty years of broad IT experience combined with strategic acquisitions, new services development and deep partner relationships, uniquely positions us to help our clients manage their business today and also transform to meet their needs tomorrow. Our expertise is deep across these key solutions areas:

Supply Chain Optimization – Through Insight’s core business, we help clients effectively and efficiently acquire all of their information technology needs leveraging our scale and supply chain expertise. We help our clients invest smarter.

Connected Workforce – We help clients deliver a secure, modern experience to their workforce, driving productivity in the workplace and helping to attract and retain talent in this competitive marketplace. We help our clients work smarter.

Cloud and Data Center Transformation – We help clients optimize, modernize and secure their data center infrastructure and leverage cloud to improve business agility. We help our clients run workloads smarter.

Digital Innovation – We leverage innovative applications and emerging technologies to improve clients’ business performance, engage customers and uncover new revenue streams. We help our clients innovate smarter.

Each of our solution areas represents a discrete area of growth for our business and when connected to each other, they provide a platform for our clients to leverage our breadth of expertise to solve their most relevant business challenges from IT supply chain to optimizing performance in the digital world. Our strategy is to increase our penetration with new and existing clients within the four focus solution areas across our geographic footprint in North America, EMEA and APAC. Our offerings within the solution areas include hardware and software products from market leading and emerging manufacturer brands, sold separately or combined into branded solutions with Insight delivered professional or managed services. We can serve clients directly in each of our markets or serve a single client globally where they can enjoy a common experience across our footprint. To execute our strategy, we employ centralized and field-based sales, engineering and services resources to connect with our clients. We also have invested in approximately 1,000 technical engineers, architects and software developers who create and deliver integrated IT solutions to our clients globally, an asset that we believe differentiates us in the marketplace.

Our unique solution area go to market strategy is supported by a strong operational platform that includes scalable IT and e-commerce systems and processes, robust digital marketing capabilities and a culture of continuous business process transformation and automation.

E-commerce and Cloud Management Systems - In recent years, cloud and as-a-service solutions have become more mainstream and adoption continues to increase across markets and verticals. Key market imperatives in the adoption of these solutions are speed to market, flexibility, scalability and availability. We have invested in, and will continue to invest in, technical tools and resources to provide clients with the assessment, migration, integration and managed

services required to simplify the cloud adoption decision, whether that decision results in a private, public or hybrid cloud environment.

6

INSIGHT ENTERPRISES, INC.

We also continue to invest in our global e-commerce platform, which serves as a single marketplace for our clients to buy and manage anything from a discrete product offering to their cloud and other as-a-service subscriptions. Components of our e-commerce platform include:

- Customizable client portals, primarily in North America, which allow clients to streamline procurement and processes through a self-service online tool, drive standardization and optimize reconciliation.
- A focus on small to medium-sized clients, providing them with the ability to learn, solve, buy, and manage cloud products and services via our online experience.
- A similar online experience and capabilities for our larger enterprise clients with added IT as a Service Broker capabilities allowing larger IT organizations to centrally provide cloud offerings while maintaining the manageability and visibility they require.

Digital Marketing Enablement – We have invested in internal industry and marketing expertise to develop original go to market and IT solution content, whitepapers and industry research studies to ensure we enable our clients with relevant information around IT and business trends. Further, we leverage a best-in-class digital marketing technology stack to personalize the delivery of our content through an omni-channel experience as they manage and transform their IT investment. Our integrated suite of digital marketing tools has allowed us to access and grow our position in the mid-market over the past few years while also strengthening our marketing alignment with our partners.

Culture of Business Transformation and Automation – At the heart of our culture is an intense desire to improve our clients’ experience when doing business with us either on the web, through business to business connections or on the telephone. We have a dedicated business transformation team focused on end to end process improvement initiatives around order flow, dynamic pricing and cost optimization, and back office operations, all oriented to the impact on client experience. In 2018, we began to invest in process automation and optical recognition scanning solutions to improve certain of our client facing processes, making the buying experience more frictionless while improving the scalability of our business processes for the long term.

Our Offerings

Our offerings in North America and certain countries in EMEA and APAC include a suite of IT hardware, software and services solutions. Our offerings in the remainder of our EMEA and APAC segments are largely software and certain software-related services. On a consolidated basis, hardware, software and services represented approximately 61%, 27% and 12%, respectively, of our net sales in 2018. This compares to 58%, 32% and 10%, respectively, of our net sales in 2017 and 54%, 37% and 9%, respectively, of our consolidated net sales in 2016. Additional detailed sales mix information by operating segment can be found in “Management’s Discussion and Analysis of Financial Condition and Results of Operations” in Part II, Item 7 and in Note 19 to the Consolidated Financial Statements in Part II, Item 8 of this report.

Services Solutions Offerings

We have developed solutions that integrate hardware, software and services to help businesses run smarter within our key solutions areas. Our core solutions include:

INSIGHT ENTERPRISES, INC.

Supply Chain Optimization – Growing pressure on IT budgets and increasing trends in outsourcing of non-core functions are changing the way clients approach procurement and management of core IT investments. We provide end to end lifecycle services around hardware and software that help our clients optimize their IT return on investments.

• **Hardware Life Cycle:** Source, procure, stage, configure, integrate, test, deploy and maintain IT products spanning endpoints to infrastructure, regionally, or across the globe via the Insight footprint and an engaged network of suppliers.

• **Software Life Cycle:** Portfolio management, compliance, integration and adoption, on premise or in the cloud, regionally or across the globe.

• **Hardware Warranty and Software Maintenance:** Warranty and maintenance services covering an array of products that can be purchased as a point solution or as a managed service delivered by Insight.

Connected Workforce – The consumerization of IT, increase in the millennial population and proliferation of alternate work models is transforming the workplace. We provide our clients' workforce with tools to enable and enhance employee productivity and retention.

• **Insight Managed Office:** Desktop and notebook devices coupled with cloud-based productivity solutions, deployed through an "over the air" deployment model, managed by Insight's 24x7 Service Desk.

• **Insight Managed Mobility:** Tablet and cellular-based devices, paired with cloud-based applications and Insight's 24x7 Service Desk to deliver an end-to-end managed mobility experience for clients.

• **Insight Managed Collaboration:** Offerings that allow clients to outsource their highly complex voice, conferencing and collaboration/team applications, delivering cloud-based redeployment of modern technologies managed for our clients with both Insight's onsite and remote Service Desk support professionals.

• **Insight Managed Deployment:** This comprises multi-site deployments of devices or technology within a branch or at the edge, combined with dedicated, onsite desktop support technicians coupled with 24x7 Service Desk.

• **Security:** Identity and access management, single-sign-on and mobile-device-management to protect end users.

• **Software as a Service ("SaaS"):** SaaS solutions from mature and emerging publishers, sold discretely or combined into an Insight delivered solution.

Cloud and Data Center Transformation – Consumption-based models and technology convergence are reinventing decades-old infrastructure business models. We optimize our clients' public and private infrastructure to enable customer and workforce objectives best suited to their workload and business requirements. Our solutions help clients assess readiness, architect appropriate solutions and migrate to both public and private cloud infrastructures.

• **Hybrid Cloud:** On-premise converged infrastructure (private cloud) augmented by off-premise public cloud integrated, managed and secured.

• **Intelligent Network:** Core Wide Area Network, Local Area Network, wireless and security solutions to seamlessly connect Hybrid Cloud, Branch Infrastructure and end users.

• **Infrastructure Management:** 24x7 remote management of clients' server/storage/network infrastructure through our ISO-certified Remote Network Operating Center.

• **Security:** Network security and Security Incident Event Management solutions to secure our clients' infrastructure.

• **Infrastructure as a Service ("IaaS"):** IaaS solutions from mature and emerging publishers, sold discretely or combined into an Insight delivered solution.

INSIGHT ENTERPRISES, INC.

Digital Innovation – When interacting with their customers, our clients face growing digital engagement and a rapid shift toward social media. We help our clients leverage technology to better engage their customers to build loyalty and increase profitability. Our digital innovation solutions leverage our deep expertise around public cloud, mobility, big data and ensuring secure access to integrated solutions.

◆ **Intelligent Endpoints:** Digital signage, kiosk, tablet and smartphone endpoints integrated with off-the-shelf software applications.

◆ **Intelligent Applications:** Custom-developed applications to enable client-to-customer engagement. These applications are increasingly cloud-based and mobile-centric.

◆ **Modern Applications:** Custom-developed mobile, cloud and IoT applications. Typically, these applications are specific to the client vertical market, e.g., healthcare, financial services or retail.

◆ **Big Data & Analytics.** Custom solutions to help clients quickly review actionable insights within their data, such as weather-based predictive analytics to drive weekly marketing campaigns for consumer products and patient-based intake and health outcomes analysis to optimize nurse staffing.

Hardware Product Offerings

We offer products from hundreds of manufacturers, including such industry leaders as Cisco, Dell/EMC, HP Inc., Lenovo, Hewlett Packard Enterprise Company (“HPE”), NetApp, Apple, Microsoft and IBM. Our scale and purchasing power, combined with our efficient, high-volume and cost effective direct sales and marketing model, allow us to offer competitive prices. We believe that offering choices from multiple partners enables us to better serve our clients by providing a variety of product solutions to address their specific business needs.

In addition to our distribution facilities, we have “direct-ship” programs with many of our partners, including manufacturers and distributors, allowing us to expand our product offerings without increasing inventory, handling costs or inventory warehousing risk exposure. As a result, we are able to offer billions of dollars of products in virtual inventory in fulfilling our performance obligations to our clients. Convenience and product options among multiple brands are key competitive advantages compared to manufacturers’ direct selling programs, which are generally limited to their own brands and may not offer clients a complete or best-in-class solution across all product categories.

Software Product Offerings

Our clients acquire software applications from us in the form of licensing agreements with software publishers or boxed products. We offer products from hundreds of publishers, including such industry leaders as Microsoft, VMware, Adobe, IBM Software, Symantec and Citrix.

As software publishers choose different models for implementing licensing agreements, businesses must evaluate the alternatives to ensure that they select the appropriate agreements and comply with the publishers’ licensing terms when purchasing and managing their software licenses. With many publishers now offering public cloud-based software solutions in place of licenses consumed on premise, we expect we will continue to see migration to the cloud-based software alternatives discussed above in our services offerings.

Our Information Technology Systems

We have committed significant resources to the IT systems that we own and use to manage our business and believe that our success is dependent upon our ability to provide prompt and efficient service to our clients based on the

accuracy, quality and utilization of the information generated by our IT systems. Because these systems affect our ability to manage our sales, client service, partner relationships and programs, distribution, inventories and accounting systems and our voice and data networks, we have built redundancy into certain systems, maintain system outage policies and procedures and have comprehensive data backup. We are focused on driving improvements in sales productivity through upgraded IT systems to support higher levels of client satisfaction and new client acquisition, as well as garnering efficiencies in our business.

INSIGHT ENTERPRISES, INC.

We operate under a single, standardized IT system across North America and APAC and a separate, single IT system platform in all countries in our EMEA operations. We plan to migrate our EMEA operations to the same IT system used in North America and APAC.

For a discussion of risks associated with our IT systems, see “Risk Factors – Disruptions in our IT systems and voice and data networks could affect our ability to service our clients and cause us to incur additional expenses,” in Part I, Item 1A of this report.

Our Competition

The IT hardware, software and services industry is very fragmented and highly competitive. Our competition includes:

- Solution providers, value-added resellers and direct marketers such as CDW, Zones, Connection, PCM, SHI, Softchoice, Systemax, Computacenter, Bechtle, SoftwareONE, Comparex, and Crayon;
- Systems integrators such as ePlus, Presidio, World Wide Technology, Perficient and Accenture;
- Specialty retailers, aggregators, distributors, and to a lesser extent, national computer retailers, computer superstores, Internet-only computer providers, consumer electronics and office supply superstores and mass merchandisers;
- Product manufacturers, such as Dell, HP Inc., IBM, Lenovo and HPE;
- Software publishers, such as IBM, Microsoft and Symantec;
- National and global service providers, such as IBM Global Services and HP Enterprise Services; and
- E-tailers, such as Amazon Web Services, Newegg, Buy.com and e-Buyer (United Kingdom).

The competitive landscape in the industry is continually changing as various competitors expand their product and services offerings. In addition, emerging models such as cloud computing are creating new competitors and opportunities in messaging, infrastructure, security, collaboration and other services offerings, and, as with other areas, we compete both with resellers and directly with manufacturers, publishers or other service providers for many of these offerings. Further, many of our manufacturer and publisher partners are also our competitors, as many sell directly to business customers, particularly larger corporate customers.

For a discussion of risks associated with the actions of our competitors, see “Risk Factors – The IT hardware, software and services industry is intensely competitive, and actions of our competitors, including manufacturers and publishers of products we sell, can negatively affect our business,” in Part I, Item 1A of this report.

Our Partners

We partner with market leaders offering the top technology brands as well as emerging entrants in the marketplace. During 2018, we purchased products and software from approximately 3,500 partners. Approximately 69% (based on dollar volume) of these purchases were directly from manufacturers or software publishers, with the balance purchased through distributors. Purchases from Microsoft accounted for approximately 26% of our aggregate purchases in 2018. No other partner accounted for more than 10% of purchases in 2018. Our top five partners as a group for 2018 were Microsoft, Cisco Systems, Tech Data (a distributor), HP Inc. and Ingram Micro (a distributor), and approximately 60% of our total purchases during 2018 came from this group of partners. Although brand names and individual products are important to our business, we believe that competitive sources of supply are available in

substantially all of our product categories such that, with the exception of Microsoft, we are not dependent on any single partner for sourcing products.

During 2018, sales of Microsoft, Dell and Cisco Systems products accounted for approximately 18%, 11% and 11%, respectively, of our consolidated net sales. No other manufacturer's products accounted for more than 10% of our consolidated net sales in 2018. Sales of product from our top five manufacturers/publishers as a group (Microsoft, Dell, Cisco Systems, HP Inc. and Lenovo) accounted for approximately 56% of Insight's consolidated net sales during 2018.

10

INSIGHT ENTERPRISES, INC.

We obtain incentives from certain product manufacturers, software publishers and distribution partners based typically upon the volume of sales or purchases of their products and services. In other cases, such incentives may be in the form of participation in our partner programs, which may require specific services or activities with our clients, discounts, marketing funds, price protection or rebates. Manufacturers and publishers may also provide mailing lists, contacts or leads to us. We believe that these incentives (or partner funding) and other marketing assistance allow us to increase our marketing reach and strengthen our relationships with leading manufacturers and publishers.

We are focused on understanding our partners' objectives and developing plans and programs to grow our mutual businesses. We have invested in our digital marketing capabilities over the past two years. These digital marketing investments increase the effectiveness of our marketing campaigns and client interactions. Our partners are taking notice, and we believe that we are emerging as a leader in our industry as we consistently outpace our competition in digital marketing. We implemented business intelligence tools that enable us to track performance in this area and demonstrate the return on our partners' investments with us. We measure partner satisfaction regularly and hold quarterly business reviews with our largest partners to review business results from the prior quarter, discuss plans for the future and obtain feedback. Additionally, we host annual partner forums in North America, EMEA and APAC to articulate our plans for the upcoming year.

As we move into new service areas, we may become even more reliant on certain partner relationships. For a discussion of risks associated with our reliance on partners, see "Risk Factors – We rely on our partners for product availability, competitive products to sell and marketing funds and purchasing incentives, which can change significantly in the amounts made available and the requirements year over year," in Part I, Item 1A of this report.

Our Teammates

As of December 31, 2018, we employed 7,420 teammates, of whom 2,455 were engaged in sales related activities, 2,424 were engaged in management, support services and administration activities, 2,384 were skilled, certified consulting and service delivery professionals and 157 were engaged in distribution activities. Our teammates in the United States are not represented by a labor union. Our workforces in certain foreign countries, such as Germany, have worker representative committees or work councils with which we maintain strong relationships. We believe our relations with our teammates are good, and we have never experienced a labor related work stoppage.

For a discussion of risks associated with our dependence on certain personnel, including sales personnel, see "Risk Factors – We depend on certain key personnel," in Part I, Item 1A of this report.

Our Seasonality

We experience some seasonal trends in our sales of IT hardware, software and services. For example:

- software sales are typically higher in our second and fourth quarters, particularly the second quarter;
- business clients, particularly larger enterprise businesses in the United States, tend to spend more in our fourth quarter and less in the first quarter;
 - sales to the federal government in the United States are often stronger in our third quarter, while sales in the state and local government and education markets are stronger in our second quarter; and
- sales to public sector clients in the United Kingdom are often stronger in our first quarter.

These trends create overall seasonality in our consolidated results such that sales and profitability are expected to be higher in the second and fourth quarters of the year.

Our Backlog

The majority of our backlog historically has been and continues to be open cancelable purchase orders. We do not believe that backlog as of any particular date is predictive of future results.

11

INSIGHT ENTERPRISES, INC.

Our Intellectual Property

We do not maintain a traditional research and development group, but we do develop and seek to protect a range of intellectual property, including trademarks, service marks, copyrights, domain name rights, trade dress, trade secrets and similar intellectual property, relying for such protection on applicable statutes and common law rights, trade-secret protection and confidentiality and license agreements, as applicable, with teammates, clients, partners and others to protect our intellectual property rights. Our principal trademark is a registered mark, and we also license certain of our proprietary intellectual property rights to third parties. We have registered a number of domain names, applied for registration of other marks in the United States and in certain international jurisdictions, and, from time to time, filed patent applications. We believe our trademarks and service marks, in particular, have significant value, and we continue to invest in the promotion of our trademarks and service marks and in our protection of them.

For a discussion of risks associated with our intellectual property, see “Risk Factors – We may not be able to protect our intellectual property adequately, and we may be subject to intellectual property infringement claims,” in Part I, Item 1A of this report.

Available Information

Our annual report on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K and amendments to such reports filed pursuant to Sections 13(a) and 15(d) of the Securities Exchange Act of 1934, as amended (the “Exchange Act”), and the reports filed pursuant to Section 16(a) of the Exchange Act are available free of charge on our web site at www.insight.com, as soon as reasonably practicable after we electronically file them with, or furnish them to, the Securities and Exchange Commission. The information contained on our web site is not included as a part of, or incorporated by reference into, this Annual Report on Form 10-K.

Item 1A. Risk Factors

The IT hardware, software and services industry is intensely competitive, and actions of our competitors, including manufacturers and publishers of products we sell, can negatively affect our business. Competition in the industry is based on price, product availability, speed of delivery, credit availability, quality and breadth of product lines, and, increasingly, on the ability to provide services and tailor specific solutions to client needs. Many of our manufacturer and publisher partners are also our competitors, as many sell directly to business customers, particularly larger corporate customers. In addition to the manufacturers and publishers of products we sell, we compete with a large number and wide variety of providers and resellers of IT hardware, software and services. We believe our industry will see further consolidation as product resellers and direct marketers combine operations or acquire or merge with other resellers, service providers and direct marketers to increase efficiency, service capabilities and market share. Moreover, current and potential competitors have established or may establish cooperative relationships among themselves or with third parties to enhance their product and service offerings. Accordingly, it is possible that new competitors or alliances among competitors may emerge and acquire significant market share.

The competitive landscape in which we operate continues to change as new technologies are developed. While innovation helps our business as it creates new offerings for us to sell, it can also disrupt our business model and create new and stronger competitors. For instance, while cloud-based solutions present an opportunity for us, cloud-based solutions and technologies that deliver technology solutions as-a-service could increase the amount of sales directly to customers rather than through solutions providers like us, or could reduce the amount of hardware or software we sell, leading to a reduction in our sales and/or profitability. Accordingly, we are dependent on continued innovations by our current vendor partners and our ability to partner with new and emerging technology providers.

Generally, pricing is very aggressive in the industry, and we expect pricing pressures to continue. There can be no assurance that we will be able to negotiate prices as favorable as those negotiated by our competitors or that we will be able to offset the effects of price reductions with an increase in the number of clients, higher net sales, cost reductions, greater sales of services, which are typically at higher gross margins, or otherwise. Price reductions by our competitors that we either

INSIGHT ENTERPRISES, INC.

cannot or choose not to match could result in an erosion of our market share and/or reduced sales or, to the extent we match such reductions, could result in reduced operating margins or inventory impairment charges, any of which could have a material adverse effect on our business, financial condition and results of operations.

Some of our competitors in each of our operating segments may have greater technical, marketing and other resources than we do. In addition, some of these competitors may be able to respond more quickly to new or changing opportunities, technologies and client requirements. Many current and potential competitors also may have greater name recognition and engage in more extensive promotional activities, offer more attractive terms to their customers and adopt more aggressive pricing policies than we do. Additionally, some of our competitors have higher margins and/or lower operating cost structures, allowing them to price more aggressively. There can be no assurance that we will be able to compete effectively with current or future competitors or that the competitive pressures we face will not have a material adverse effect on our business, financial condition and results of operations.

We rely on our partners for product availability, competitive products to sell and marketing funds and purchasing incentives, which can change significantly in the amounts made available and the requirements year over year. We acquire products for resale both directly from manufacturers and publishers and indirectly through distributors, and the loss of a significant partner relationship could cause a disruption in the availability of products to us. There can be no assurance that manufacturers and publishers will continue to sell or will not limit or curtail the availability of their product to resellers like us. The loss of, or change in business relationship with, any of our key vendor partners could negatively impact our business.

In addition, certain manufacturers, publishers and distributors provide us with substantial incentives in the form of rebates, marketing funds and other investments, purchasing incentives, early payment discounts, referral fees and price protections (collectively, “partner funding”). Partner funding is used to offset, among other things, inventory costs, costs of goods sold, marketing costs and other operating expenses. Certain of these funds are based on our volume of sales or purchases, growth rate of net sales, increases in customer usage, or purchases and marketing programs. If we do not meet the goals of these programs or if we are not in compliance with the terms of these programs, there could be a material negative effect on the amount of incentives offered or paid to us by manufacturers and publishers. We continue to experience adverse partner funding program changes that reduce the incentives many partners make available to us and that change the requirements for earning such incentives. If we are unable to react timely to remediate and respond to these changes in partner funding programs of publishers and manufacturers, including the elimination of, or significant reductions in, funding for some of the activities for which we have been compensated in the past, the changes could have a material adverse effect on our business, financial condition and results of operations. This is especially true in connection with the incentive programs of our largest partners: Microsoft, Dell, Cisco Systems, HP Inc. and Lenovo. There can be no assurance that we will continue to receive such incentives in the future.

Changes in the IT industry and/or rapid changes in technology may reduce demand for the IT hardware, software and services we sell or change who makes purchasing decisions for IT hardware, software and services. Our results of operations are influenced by a variety of factors, including the condition of the IT industry, shifts in demand for, or availability of, IT hardware, software, peripherals and services, and industry innovation and the introduction of new products and technologies. The IT industry is characterized by rapid technological change and the frequent introduction of new products and changing delivery channels and models, which can decrease demand for current

products and services and can disrupt purchasing patterns. If we fail to react in a timely manner to such changes, we may experience lower sales and, with respect to hardware, we may have to record write-downs of obsolete inventory. In addition, in order to satisfy client demand, protect ourselves against product shortages, obtain greater purchasing discounts and react to changes in original equipment manufacturers' terms and conditions, we may decide to carry inventory of products that may have limited or no return privileges. There can be no assurance that we will be able to avoid losses related to inventory obsolescence on these products. Additionally, if purchasing power within our clients shifts from centralized procurement functions to business units or individual end users and we are unable to react timely to any such changes, these shifts in purchasing power could have a material adverse effect on our business, financial conditions and results of operations.

INSIGHT ENTERPRISES, INC.

The cloud and “as-a-service” models are transforming the IT market and introducing new products, services and competitors to the market. In many cases, these new distribution models allow enterprises to obtain the benefits of commercially licensed, internally operated software with less complexity and lower initial set-up, operational and licensing costs, which increases competition for us. There can be no assurance that we will be able to adapt to, or compete effectively with, current or future distribution channels or competitors or that the competitive pressures we face will not have a material adverse effect on our business, financial condition and results of operations.

The acquisition, integration and operation of acquired businesses may disrupt our business and create additional expenses, and we may not achieve the anticipated benefits of the acquisitions. In connection with our strategic initiatives, we regularly acquire new businesses to expand our technical capabilities, product offerings and customer base and to realize cost savings. All acquisitions entail various risks such as difficulties in realizing the benefits of the acquired business, exposure to unexpected liabilities, difficulties in retaining key employees and adverse customer reactions. In addition, integration of an acquired business involves numerous risks, including assimilation of operations of the acquired business and difficulties in the convergence of IT systems, the diversion of management’s attention from other business concerns, risks of entering markets in which we have had no or only limited direct experience, assumption of unknown or unquantifiable liabilities, the potential loss of key teammates and/or clients, difficulties in completing strategic initiatives already underway in the acquired company, and unfamiliarity with partners of the acquired company, each of which could have a material adverse effect on our business, results of operations and financial condition. The continued integration activities of the acquired businesses into our business is difficult and time consuming, and we may be unable to achieve expected synergies and operating efficiencies over the long term. We cannot assure that these risks or other unforeseen factors will not offset the intended benefits of the acquisitions, in whole or in part.

Our future operating results may fluctuate significantly. Our operating results are highly dependent upon our level of gross profit as a percentage of net sales, which fluctuates due to numerous factors, including changes in prices from partners, changes in the amount and timing of partner funding, volumes of purchases, changes in client mix, management of our cash conversion cycle, the relative mix of products and services sold during the period, general competitive conditions, and strategic product and services pricing and purchasing actions. As a result of significant price competition and our higher concentration of large enterprise clients, our gross margins are low, and we expect them to continue to be low in the future. Increased competition arising from industry consolidation and low demand for certain IT products and services may hinder our ability to maintain or improve our gross margins. These low gross margins magnify the impact of variations in revenue and operating costs on our operating results. In addition, our expense levels are based, in part, on anticipated net sales and the anticipated amount and timing of partner funding, and a portion of our operating expenses are relatively fixed. Therefore, we may not be able to reduce spending quickly enough to compensate for any unexpected net sales shortfall, and we may not be able to reduce our operating expenses as a percentage of revenue to mitigate any further reductions in gross margins in the future. If we cannot proportionately decrease our cost structure, our business, financial condition and results of operations could suffer. In addition, a reduction in the amount of credit granted to us by our partners could increase our need for and cost of working capital and have a material adverse effect on our business, financial condition and results of operations.

There are risks associated with our international operations that are different than the risks associated with our operations in the United States, and our exposure to the risks of a global market could hinder our ability to maintain and expand international operations. Outside of the United States, we have operation centers in Australia, Canada,

France, Germany and the United Kingdom, as well as sales offices throughout EMEA and APAC. In the regions in which we do not currently have a physical presence, we serve our clients through strategic relationships. In implementing our international strategy, we may face barriers to entry and competition from local companies and other companies that already have established global businesses, as well as the risks generally associated with conducting business internationally. The success and profitability of international operations are subject to numerous risks and uncertainties, many of which are outside of our control, such as:

- political or economic instability;

- changes in governmental regulation or taxation (foreign and domestic);

14

INSIGHT ENTERPRISES, INC.

- currency exchange fluctuations;
- changes in import/export laws, regulations and customs and duties and tariffs (foreign and domestic);
- trade restrictions (foreign and domestic);
- difficulties of conducting business, managing operations, and costs of staffing in certain foreign countries;
- work stoppages or other changes in labor conditions;
- taxes and other restrictions on repatriating foreign profits back to the United States;
- extended payment terms;
- seasonal reductions in business activity in some parts of the world; and
 - natural disasters, terrorism, civil unrest and other geopolitical uncertainties.

In addition, changes in policies and/or laws of the United States or foreign governments, including data privacy restrictions, resulting in, among other changes, higher taxation, tariffs or similar protectionist laws, currency conversion limitations, limitations on business operations, or the nationalization of private enterprises could reduce the anticipated benefits of international operations and could have a material adverse effect on our business, financial condition and results of operations.

We have currency exposure arising from both sales and purchases denominated in foreign currencies, including intercompany transactions outside the United States, and we currently conduct limited hedging activities. In addition, some currencies may be subject to limitations on conversion into other currencies, which can limit the ability to otherwise react to rapid foreign currency devaluations. We cannot predict with precision the effect of future exchange-rate fluctuations, and significant rate fluctuations could have a material adverse effect on our business, financial condition and results of operations.

International operations also expose us to currency fluctuations as we translate the financial statements of our foreign operations to U.S. dollars.

General economic conditions, including unfavorable economic conditions in a particular region, business or industry sector, may lead our clients to delay or forgo investments in IT hardware, software and services. Weak economic conditions generally or any broad-based reduction in IT spending adversely affects our business, operating results and financial condition. A prolonged slowdown in the global economy or similar crisis, or in a particular region or business or industry sector, or tightening of credit markets, could cause our clients to have difficulty accessing capital and credit sources, delay contractual payments, or delay or forgo decisions to upgrade or add to their existing IT environments, license new software or purchase products or services (particularly with respect to discretionary spending for hardware, software and services). Such events could have a material adverse effect on our business, financial condition and results of operations. Economic or industry downturns could result in longer payment cycles, increased collection costs and defaults in excess of our expectations. A significant deterioration in our ability to collect on accounts receivable could also impact the cost or availability of financing under our accounts receivable securitization program.

Our sales to our public sector customers are also impacted by government spending policies, government shutdowns, budget priorities and revenue levels. An adverse change in government spending policies (including budget cuts at the federal, state and local level), budget priorities or revenue levels could cause our public sector customers to reduce their purchases or to terminate or not renew their contracts with us. These possible actions or the adoption of new or modified procurement regulations or practices could have a material adverse effect our business, financial position and results of operations.

In addition, there continues to be substantial uncertainty regarding the impact of the Referendum on the United Kingdom's Membership in the European Union ("EU") (referred to as "Brexit"), calling for the exit of the United Kingdom from the EU. Potential adverse consequences of Brexit such as global market uncertainty, volatility in currency exchange rates, greater restrictions on imports and exports between the United Kingdom and EU countries and increased regulatory complexities could have a negative impact on our business, financial condition and results of operations.

INSIGHT ENTERPRISES, INC.

Our acquisition strategy may increase our outstanding debt and interest expense and decrease the availability under our financing facilities, all of which could have a material adverse effect on our results of operations and financial condition. To fund our acquisition initiatives, we increase our total borrowings from time to time. These additional borrowings have the effect of increasing our future interest expenses and require escalating amortization payments. Additionally, our financing facilities have interest rates that vary based on market conditions and on our leverage ratio, which increases our exposure to interest rate fluctuations and may result in greater interest expense than we have forecasted.

Our financing facilities contain various covenants that we must comply with in order to avoid an occurrence of an event of default. The covenants include limitations on the payment of dividends and the requirement that we comply with maximum leverage and minimum fixed charge ratio requirements, comply with a minimum receivables requirement and meet monthly, quarterly and annual reporting requirements. Our ability to maintain compliance with our financial covenants and to make scheduled payments on our financing facilities depends on our financial and operating performance. If we were unable to maintain compliance or to repay the borrowed amounts, the lenders under our financing facilities could declare an event of default and demand payment within a specified period of time.

Breaches in the security of our electronic and other confidential information could materially adversely affect our financial condition and results of operations. We are dependent upon automated information technology processes. Privacy, security, and compliance concerns have continued to increase as technology has evolved to facilitate commerce and as cross-border commerce increases. As part of our normal business activities, we collect and store certain proprietary and confidential information, including information about teammates and information about partners and clients which may be entitled to protection under a number of regulatory regimes. In the course of normal and customary business practice, we may share some of this information with vendors who assist us with certain aspects of our business. Moreover, the success of our operations depends upon the secure transmission of confidential and personal data over public networks, including the use of cashless payments. Any failure on the part of us or our vendors to maintain the security of data we are required to protect, including via the penetration of our network security and the misappropriation of confidential and personal information, could result in business disruption, damage to our reputation, financial obligations to third parties, fines, penalties, regulatory proceedings and private litigation with potentially large costs, and also result in deterioration in our teammates', partners' and clients' confidence in us and other competitive disadvantages, and thus could have a material adverse effect on our business, financial condition and results of operations. Like many other businesses, we have been, and expect to continue to be, subject to electronic data attacks and threats, although we do not believe attacks have resulted in the misappropriation of sensitive data in a material way. Additionally, some of the hardware and software products we resell could have defects or otherwise be the subject of security breaches and other attacks. We would consider the consequences of such attacks to be the responsibility of the respective manufacturers and publishers of such products, however, if such circumstances were to arise, we may be required to notify regulators and individuals of a data breach and could be subject to litigation.

Disruptions in our IT systems and voice and data networks could affect our ability to service our clients and cause us to incur additional expenses. We believe that our success to date has been, and future results of operations will be, dependent in large part upon our ability to provide prompt and efficient service to our clients. Our ability to provide that level of service is largely dependent on the ease of use, accuracy, quality and utilization of our IT systems, which affects our ability to manage our sales, client service, distribution, inventories and accounting systems, and the reliability of our voice and data networks and managed services offerings. If our current technology is determined to

have a shorter economic life or the value of our current system is impaired, or necessary improvements to our technology are significantly delayed, we could incur additional expense and/or charges. The continuing development of our IT systems is crucial for our success. Accordingly, some of our IT systems are subject to ongoing IT projects designed to streamline or optimize the information systems. There is no guarantee that we will be successful in these efforts at all times or that there will not be implementation or integration difficulties. In addition, a substantial interruption in our IT systems or in our voice and data networks, however caused, could occur and could have a material adverse effect on our business, financial condition and results of operations.

INSIGHT ENTERPRISES, INC.

The failure to comply with the terms and conditions of our commercial and public sector contracts could result in, among other things, damages, fines or other liabilities. Sales to commercial clients are based on stated contractual terms, the terms and conditions on our website or terms contained in purchase orders on a transaction by transaction basis. Sales to public sector clients are derived from sales to federal, state and local governmental departments and agencies, as well as to educational institutions, through open market sales and various contracts and programs. Noncompliance with contract terms, particularly to highly regulated public sector clients, or with government procurement regulations and other requirements could result in fines or penalties against us or termination of contracts, and, in the public sector, could also result in civil, criminal, and administrative liability. With respect to our public sector clients, the government's remedies may include suspension or debarment. In addition, almost all of our contracts have default provisions, and substantially all of our contracts in the public sector are terminable at any time for convenience of the contracting agency.

We are exposed to risks from legal proceedings and client audits and failure to comply with the laws and regulations applicable to our operations could adversely impact our business, results of operations or cash flows. We are party to various legal proceedings that arise in the ordinary course of our business, which include commercial, employment, tort and other litigation. Because of our significant sales to governmental entities, we also are subject to audits by federal, state, international, national, provincial and local authorities in the ordinary course of our business. We also are subject to and currently engage in audits by various vendor partners and large customers, including government agencies, relating to purchases and sales under various contracts. In addition, we are subject to indemnification claims under various contracts. Current and future litigation, infringement claims, governmental proceedings and investigations, audits or indemnification claims that we face may result in substantial costs and expenses and significantly divert the attention of our management regardless of the outcome. Additionally, our operations are subject to numerous U.S. and foreign laws and regulations in a number of areas including areas of labor and employment, advertising, e-commerce, tax, import and export requirements, anti-corruption, data privacy requirements, anti-competition, and environmental, health, and safety. Compliance with these laws, regulations and similar requirements may be onerous and expensive, and they may be inconsistent from jurisdiction to jurisdiction, further increasing the cost of compliance and doing business, and the risk of noncompliance. We have implemented policies and procedures designed to help ensure compliance with applicable laws and regulations, but there can be no guarantee against teammates, contractors, or agents violating such laws and regulations or our policies and procedures.

We are exposed to accounts receivable risks. We extend credit to our customers for a significant portion of our net sales, typically on 30-day payment terms. We are subject to the risk that our customers may not pay for the products they have purchased, or may pay at a slower rate than we have historically experienced, the risk of which is heightened during periods of economic downturn or uncertainty or, in the case of public sector customers, during periods of budget constraints.

We rely on independent shipping companies for delivery of products and are subject to price increases or service interruptions from these carriers. We generally ship hardware products to our customers by FedEx, United Parcel Service and other commercial delivery services and invoice customers for delivery charges. If we are unable to pass on to our clients future increases in the cost of commercial delivery services, our profitability could be adversely affected. Additionally, strikes, inclement weather, natural disasters or other service interruptions sustained by such shippers could adversely affect our ability to deliver products on a timely basis. Such events could have a material adverse effect on our business, financial condition and results of operations.

We depend on certain key personnel. We rely on key management teammates to execute our strategy to grow profitable market share. The loss of one or more of these leaders, or a failure to attract and retain new executives,

could have a material adverse effect on our business, financial condition and results of operations. We also believe that our future success will be largely dependent on our ability to attract and retain highly qualified management, sales, service and technical teammates, and we make significant investments in the training of our leadership team, sales account executives, architects and services engineers. If we are not able to retain such personnel or to train them quickly enough to meet changing market conditions, we could experience a drop in the overall quality and efficiency of our sales and services teammates, and that could have a material adverse effect on our business, financial condition and results of operations.

INSIGHT ENTERPRISES, INC.

A natural disaster or other adverse occurrence at one of our primary facilities or customer data centers could damage our business. We have warehouse and distribution facilities in the United States and Canada and in the United Kingdom and Germany. If the warehouse and distribution equipment at one of our distribution centers were to be seriously damaged by a natural disaster or other adverse occurrence, we could utilize another distribution center or third-party distributors to ship products to our customers. However, this may not be sufficient to avoid interruptions in our service and may not enable us to meet all of the needs of our customers and would cause us to incur incremental operating costs. In addition, we operate customer data centers and numerous sales offices which may contain both business-critical data and confidential information of our customers. A natural disaster or other adverse occurrence at any of the customer data centers or at any of our major sales offices could negatively impact our business, results of operations or cash flows.

Changes in, interpretations of, or enforcement trends related to tax rules and regulations may adversely affect our effective income tax rates or operating margins and we may be required to pay additional tax assessments. We conduct business globally and file tax returns in various U.S. and foreign tax jurisdictions. Our effective income tax rate could be adversely affected by various factors, many of which are outside of our control, including:

- changes in pre-tax income in various jurisdictions in which we operate that have differing statutory tax rates;
- increases in corporate tax rates and the availability of deductions or credits in the United States and elsewhere;
- changes in tax laws, regulations, and/or interpretations of such tax laws in multiple jurisdictions, including but not limited to U.S. federal and state regulations or interpretations resulting from the Tax Cuts and Jobs Act of 2017;
- tax effects related to purchase accounting for acquisitions; and
- resolutions of issues arising from tax examinations and any related interest or penalties.

The determination of our worldwide provision for income taxes and other tax liabilities requires estimation, judgment and complex calculations in situations where the ultimate tax determination may not be certain. Our determination of tax liabilities is always subject to review or examination by tax authorities in various jurisdictions. Any adverse outcome of such review or examination could have a material adverse effect on our financial condition and results of operations.

We may not be able to protect our intellectual property adequately, and we may be subject to intellectual property infringement claims. To protect our intellectual property, we rely on copyright, trademark and trade secret laws, unpatented proprietary know-how, and patents, as well as confidentiality, invention assignment, non-solicitation and non-competition agreements. There can be no assurance that these measures will afford us sufficient protection of our intellectual property, and it is possible that third parties may copy or otherwise obtain and use our proprietary information without authorization or otherwise infringe on our intellectual property rights. The disclosure of our trade secrets could impair our competitive position and could have a material adverse effect on our business, financial condition and results of operations. In addition, our registered trademarks and trade names are subject to challenge by third parties. This may affect our ability to continue using those marks and names. Likewise, many businesses are actively investing in, developing and seeking protection for intellectual property in the areas of search, indexing, e-commerce and other Web-related technologies, as well as a variety of on-line business models and methods, all of which are in addition to traditional research and development efforts for IT products and application software, and non-practicing entities continue to invest in acquiring patent portfolios for the purpose of turning the portfolios into income-generating assets, whether through licensing campaigns or litigation. If there is a determination that we have infringed the proprietary rights of others, we could incur substantial monetary liability, be forced to stop selling

infringing products or providing infringing services, be required to enter into costly royalty or licensing agreements, if available, or be prevented from using the rights, which could force us to change our business practices or hardware, software or services offerings in the future. These types of claims and challenges could have a material adverse effect on our business, financial condition and results of operations.

INSIGHT ENTERPRISES, INC.

Item 1B. Unresolved Staff Comments

Not applicable.

Item 2. Properties

Our principal executive offices are located in Tempe, Arizona. We believe that our facilities are suitable and adequate for our present purposes, and we anticipate that we will be able to extend our existing leases on terms satisfactory to us or, if necessary, to locate substitute facilities on acceptable terms. At December 31, 2018, we owned or leased approximately 1.4 million square feet of office and warehouse space, and, while approximately 70% of the square footage is in the United States, we own or lease office and warehouse facilities in Canada and in 10 countries in EMEA and we lease office facilities in five countries in APAC.

Information about significant sales, distribution, services and administration facilities in use as of December 31, 2018 is summarized in the following table:

Operating Segment	Location	Primary Activities	Own or Lease
North America	Tempe, Arizona, USA	Executive Offices, Sales and Administration and Network Operations Center	Own
	Tempe, Arizona, USA	Client Support Center	Own
	Addison, Illinois, USA	Sales and Administration	Lease
	Eden Prairie, Minnesota, USA	Sales, Services and Administration	Lease
	Hanover Park, Illinois, USA	Services, Distribution and Administration	Lease
	Plano, Texas, USA	Sales and Administration	Lease
	Austin, Texas, USA	Sales and Administration	Lease
	Liberty Lake, Washington, USA	Sales and Administration	Lease
	Tampa, Florida, USA	Sales and Administration	Lease
	Conway, Arkansas, USA	Sales and Administration	Lease
	Winnipeg, Manitoba, Canada	Sales and Administration	Lease
	Montreal, Quebec, Canada	Sales and Administration	Own
	Montreal, Quebec, Canada	Distribution	Lease
EMEA	Sheffield, United Kingdom	Sales and Administration	Own
	Sheffield, United Kingdom	Distribution	Lease
	Uxbridge, United Kingdom	Sales and Administration	Lease
	Garching, Germany	Sales and Administration	Lease
	Frankfurt, Germany	Sales and Administration	Lease
	Frankfurt, Germany	Distribution	Lease
	Vélizy, France	Sales and Administration	Lease
Apeldoorn, Netherlands	Sales and Administration	Lease	
APAC	Sydney, New South Wales, Australia	Sales and Administration	Lease

Perth, Australia

Sales and Administration

Lease

In addition to those listed above, we have leased sales offices in various cities across North America, EMEA and APAC. These properties are not included in the table above. Substantially all of our owned properties secure our senior revolving credit facility (“revolving facility”). A portion of the client support center that we own in Tempe, Arizona included in the table above is currently leased to Revana, formerly known as Direct Alliance Corporation, a discontinued operation that was sold to a third party in 2006. For additional information on operating leases, see Note 8 to the Consolidated Financial Statements in Part II, Item 8 of this report.

INSIGHT ENTERPRISES, INC.

Item 3. Legal Proceedings

For a discussion of legal proceedings, see “Legal Proceedings” in Note 16 to the Consolidated Financial Statements in Part II, Item 8 of this report, which is incorporated by reference herein.

Item 4. Mine Safety Disclosures

Not applicable.

PART II

Item 5. Market for Registrant’s Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities

Market Information

Our common stock trades under the symbol “NSIT” on The Nasdaq Global Select Market. As of February 15, 2019, we had 35,502,671 shares of common stock outstanding held by 51 stockholders of record. This figure does not include an estimate of the number of beneficial holders whose shares are held of record by brokerage firms and clearing agencies.

We have never paid a cash dividend on our common stock, and we currently do not intend to pay any cash dividends in the foreseeable future. Our revolving facility and our accounts receivable securitization financing facility contain restrictions on the payment of cash dividends.

Issuer Purchases of Equity Securities

We did not repurchase shares of our common stock during the quarter ended December 31, 2018.

See further information on our share repurchase programs in Note 15 to the Consolidated Financial Statements in Part II, Item 8 of this report.

INSIGHT ENTERPRISES, INC.

Stock Price Performance Graph

Set forth below is a graph comparing the percentage change in the cumulative total stockholder return on our common stock with the cumulative total return of the Nasdaq US Benchmark TR Index (Market Index) and the Nasdaq US Benchmark Computer Hardware TR Index (Industry Index). The graph assumes that \$100 was invested on December 31, 2013 in our common stock and in each of the two Nasdaq indices, and that, as to such indices, dividends were reinvested. We have not, since our inception, paid any cash dividends on our common stock. Historical stock price performance shown on the graph is not necessarily indicative of future price performance.

	Dec. 31, 2013	Dec. 31, 2014	Dec. 31, 2015	Dec. 31, 2016	Dec. 31, 2017	Dec. 31, 2018
Insight Enterprises, Inc. Common Stock (NSIT)	\$ 100.00	\$ 114.00	\$ 110.61	\$ 178.07	\$ 168.60	\$ 179.44
Nasdaq US Benchmark TR Index (Market Index)	100.00	112.46	113.00	127.70	155.01	146.57
Nasdaq US Benchmark Computer Hardware TR Index (Industry Index)	100.00	135.56	123.42	142.26	204.61	191.61

INSIGHT ENTERPRISES, INC.

Item 6. Selected Financial Data

The following selected consolidated financial data should be read in conjunction with our Consolidated Financial Statements and the Notes thereto in Part II, Item 8 and “Management’s Discussion and Analysis of Financial Condition and Results of Operations” in Part II, Item 7 of this report. The selected consolidated financial data presented below under the captions “Consolidated Statements of Operations Data” and “Consolidated Balance Sheet Data” as of and for each of the years in the five-year period ended December 31, 2018 is derived from our audited consolidated financial statements. The consolidated financial statements as of December 31, 2018 and 2017, and for each of the years in the three-year period ended December 31, 2018, which have been audited by KPMG LLP, our independent registered public accounting firm, are included in Part II, Item 8 of this report.

	Years Ended December 31,				
	2018	2017	2016	2015	2014
	(in thousands, except per share data)				
Consolidated Statements of					
Operations Data ⁽¹⁾⁽²⁾⁽³⁾					
Net sales	\$7,080,136	\$6,703,623	\$5,485,515	\$5,373,090	\$5,316,229
Costs of goods sold	6,086,418	5,785,053	4,742,413	4,656,758	4,603,826
Gross profit	993,718	918,570	743,102	716,332	712,403
Operating expenses:					
Selling and administrative					
expenses	756,529	723,328	585,243	584,906	576,967
Severance and restructuring					
expenses	3,424	9,002	4,580	4,907	4,433
Loss on sale of foreign entity	—	3,646	—	—	—
Acquisition-related expenses	282	3,329	4,447	—	—
Earnings from operations	233,483	179,265	148,832	126,519	131,003
Non-operating (income) expense:					
Interest income	(1,075)	(1,209)	(1,066)	(783)	(1,062)
Interest expense	22,812	19,174	8,628	7,224	6,019
Net foreign currency exchange					
loss (gain)	(1,498)	855	522	(393)	327
Other expense, net	1,342	1,347	1,290	1,295	1,347
Earnings before income taxes	211,902	159,098	139,458	119,176	124,372
Income tax expense	48,225	68,415	54,768	43,325	48,688
Net earnings	\$163,677	\$90,683	\$84,690	\$75,851	\$75,684
Net earnings per share:					
Basic	\$4.60	\$2.54	\$2.35	\$2.00	\$1.84
Diluted	\$4.55	\$2.50	\$2.32	\$1.98	\$1.83
Shares used in per share					

calculations:

Basic	35,586	35,741	36,102	37,984	41,062
Diluted	36,009	36,207	36,438	38,275	41,358

22

INSIGHT ENTERPRISES, INC.

	December 31,				
	2018	2017	2016	2015	2014
	(in thousands)				
Consolidated Balance Sheet Data					
Working capital	\$801,915	\$804,369	\$544,943	\$543,534	\$565,559
Total assets	2,775,947	2,685,651	2,219,300	2,014,017	1,947,838
Short-term debt, including capital leases					
and other financing obligations ⁽⁴⁾	1,395	16,592	480	1,535	766
Long-term debt, including capital leases					
and other financing obligations ⁽⁴⁾	195,525	296,576	40,251	89,000	62,535
Stockholders' equity	986,989	843,469	713,443	685,742	721,231
Cash dividends declared per common					
share	—	—	—	—	—

- (1) Our consolidated statements of operations data includes results of the following acquisitions from their respective dates of acquisition: Cardinal from August 1, 2018, Caase.com from September 26, 2017, Datalink from January 6, 2017, Ignia from September 1, 2016 and BlueMetal from October 1, 2015.
- (2) Our consolidated statement of operations for 2018 includes the impact of adopting ASU No. 2014-09, "Revenue from Contracts with Customers," which created FASB Topic 606 ("Topic 606"). See Note 2 to the Consolidated Financial Statements in Part II, Item 8 of this report.
- (3) Our consolidated statements of operations for 2018 and 2017 include the impact of U.S federal tax reform that was enacted in December 2017 as part of the U.S Tax Cuts and Jobs Act. See Note 11 to the Consolidated Financial Statements in Part II, Item 8 of this report.
- (4) Excludes obligations under our inventory financing facility of \$304.1 million, \$319.5 million, \$154.9 million, \$106.3 million and \$122.8 million as of December 31, 2018, 2017, 2016, 2015 and 2014, respectively. We do not include these obligations in total debt because we have not in the past incurred, and in the future do not expect to incur, any interest payments due under this facility. These amounts are classified separately as accounts payable-inventory financing facility on our consolidated balance sheets. See Note 6 to the Consolidated Financial Statements in Part II, Item 8 of this report.

INSIGHT ENTERPRISES, INC.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION
AND RESULTS OF OPERATIONS

Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations

The following discussion and analysis of our financial condition and results of our operations should be read in conjunction with the Consolidated Financial Statements and notes thereto included in Part II, Item 8 of this report. Our actual results could differ materially from those contained in forward-looking statements due to a number of factors, including those discussed in "Risk Factors" in Part I, Item 1A and elsewhere in this report.

Overview

Today, every business is a technology business. We empower organizations of all sizes with Intelligent Technology Solutions™ and services to maximize the business value of IT in North America; Europe, the Middle East and Africa ("EMEA"); and Asia-Pacific ("APAC"). As a Fortune 500-ranked global provider of digital innovation, cloud/data center transformation, connected workforce, and supply chain optimization solutions and services, we help clients innovate and optimize their operations to run smarter. Our offerings in North America and certain countries in EMEA and APAC include hardware, software and services. Our offerings in the remainder of our EMEA and APAC segments are largely software and certain software-related services.

Full year 2018 financial and operational highlights included the following:

- We generated double-digit growth in earnings from operations globally and in each of our reporting segments.
- We grew our services business by 25% on a consolidated basis with double-digit growth in each of our reporting segments.
- We generated cash flows from operations of \$292.6 million.
- We continued our focus on tight expense control across the business.
- In North America, we completed the acquisition of Cardinal on August 1, 2018 and substantially completed the integration of IT systems and back office operations in late January 2019.

On a consolidated basis, for the year ended December 31, 2018:

- Net sales of \$7.1 billion increased 6% compared to 2017.
- Gross profit of \$993.7 million increased 8% compared to 2017, also up 7% year over year excluding the effects of fluctuating foreign currency exchange rates.
- Consolidated gross margin improved approximately 30 basis points to 14.0% of net sales in 2018. This increase reflects solid growth in services net sales and gross profit.
- Earnings from operations increased to \$233.5 million in 2018, up 30% compared to the prior year, which represented 3.3% of net sales.
- Our effective tax rate in 2018 was 22.8%, driven by the effects of U.S. federal tax reform enacted in December 2017. This lower tax rate in 2018 compares to our effective tax rate of 43.0% in 2017 and 39.3% in 2016.
- Net earnings and diluted net earnings per share were \$163.7 million and \$4.55, respectively, in 2018. In 2017, we reported net earnings of \$90.7 million and diluted net earnings per share of \$2.50. In 2016, we reported net earnings of \$84.7 million and diluted net earnings per share of \$2.32.

The results of operations for 2018 include the following items:

- the impact of the adoption of FASB Topic 606 ("Topic 606");

the results of the acquisition of Cardinal, effective August 1, 2018;
transaction costs totaling \$282,000 associated with the acquisition;
severance and restructuring expenses of \$3.4 million, \$2.7 million net of tax; and
the repurchase of approximately 641,000 shares of the Company's common stock for an aggregate of \$22.0 million.

24

INSIGHT ENTERPRISES, INC.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION

AND RESULTS OF OPERATIONS (continued)

The results of operations for 2017 include the following items:

- the results of the acquisitions of Caase.com and Datalink, from their respective acquisition dates;
- the loss on the sale of our Russia business totaling \$3.6 million;
- transaction costs totaling \$3.3 million, \$2.5 million net of tax, associated with the acquisitions of Caase.com and Datalink;
- severance and restructuring expenses of \$9.0 million, \$7.3 million net of tax; and
- incremental income tax expense related to U.S. federal tax reform of \$13.4 million.

The results of operations for 2016 include the following items:

- the results of the acquisition of Ignia effective September 1, 2016;
- transaction costs totaling \$4.4 million, \$4.2 million net of tax, associated with the acquisitions of Ignia and Datalink;
 - severance and restructuring expenses of \$4.6 million, \$3.3 million net of tax;
- a gain of \$338,000 on the sale of our Bloomingdale, Illinois real estate; and
- the repurchase of approximately 1.9 million shares of the Company's common stock for an aggregate of \$50.0 million.

Throughout the "Overview" and "Results of Operations" sections of "Management's Discussion and Analysis of Financial Condition and Results of Operations," we refer to changes in net sales, gross profit, selling and administrative expenses and earnings from operations on a consolidated basis and in North America, EMEA and APAC excluding the effects of fluctuating foreign currency exchange rates. In computing these amounts and percentages, we compare the current period amount as translated into U.S. dollars under the applicable accounting standards to the prior period amount in local currency translated into U.S. dollars utilizing the weighted average translation rate for the current period.

Net of tax amounts referenced above were computed using the statutory tax rate for the taxing jurisdictions in the operating segment in which the related expenses were recorded, adjusted for the effects of valuation allowances on net operating losses in certain jurisdictions.

During 2018, we generated \$292.6 million of cash from operating activities, including approximately \$75.0 million, net of cash and cash equivalents acquired, utilized to fund the acquisition of Cardinal. We ended the year with \$142.7 million of cash and cash equivalents and \$194.0 million of debt outstanding under our long-term debt facilities. In December 2018 we paid off the remaining balance of our Term Loan A ("TLA").

Details about segment results of operations can be found in Note 19 to the Consolidated Financial Statements in Part II, Item 8 of this report.

Our discussion and analysis of financial condition and results of operations is intended to assist in the understanding of our consolidated financial statements, including the changes in certain key items in those consolidated financial statements from year to year and the primary factors that contributed to those changes, as well as how certain critical accounting estimates affect our consolidated financial statements.

INSIGHT ENTERPRISES, INC.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION

AND RESULTS OF OPERATIONS (continued)

RESULTS OF OPERATIONS

The following table sets forth certain financial data as a percentage of net sales for the years ended December 31, 2018, 2017 and 2016:

	2018	2017	2016
Net sales	100.0%	100.0%	100.0%
Costs of goods sold	86.0	86.3	86.5
Gross profit	14.0	13.7	13.5
Operating expenses:			
Selling and administrative expenses	10.6	10.8	10.7
Severance and restructuring expenses, loss on sale			
of foreign entity and acquisition-related expenses	0.1	0.2	0.1
Earnings from operations	3.3	2.7	2.7
Non-operating expense, net	0.3	0.3	0.2
Earnings before income taxes	3.0	2.4	2.5
Income tax expense	0.7	1.0	1.0
Net earnings	2.3 %	1.4 %	1.5 %

Our gross profit across the business and related to product versus services sales are, and will continue to be, impacted by partner incentives, which can change significantly in the amounts made available and the related product or services sales being incentivized by the partner. These changes could impact our results of operations to the extent we are unable to remediate and respond to them. For a discussion of risks associated with our reliance on partners, see "Risk Factors – We rely on our partners for product availability, competitive products to sell and marketing funds and purchasing incentives, which can change significantly in the amounts made available and the requirements year over year," in Part I, Item 1A of this report.

2018 Compared to 2017

Net Sales. Net sales increased 6%, or \$376.5 million, in 2018 compared to 2017. Net sales of products increased 3% and net sales of services increased 25% in 2018 compared to 2017. Our net sales by operating segment for 2018 and 2017 were as follows (dollars in thousands):

	2018	2017	% Change
North America	\$5,362,981	\$5,181,734	3 %
EMEA	1,530,241	1,355,416	13 %

Edgar Filing: INSIGHT ENTERPRISES INC - Form 10-K

APAC	186,914	166,473	12	%
Consolidated	\$7,080,136	\$6,703,623	6	%

Net sales in North America increased 3%, or \$181.2 million, in 2018 compared to 2017, primarily driven by higher hardware and services net sales. Net sales in EMEA increased 13% (9% excluding the effects of fluctuating foreign currency exchange rates), or \$174.8 million, in 2018 compared to 2017. Net sales in APAC increased 12% (13% excluding the effects of fluctuating foreign currency exchange rates), or \$20.4 million, in 2018 compared to 2017.

Our net sales by offering category for North America for 2018 and 2017 were as follows (dollars in thousands):

		North America			
Sales Mix	2018	2017			%
			Change		
Hardware	\$3,610,356	\$3,352,355	8		%
Software	1,112,715	1,310,118	(15)		(%)
Services	639,910	519,261	23		%
	\$5,362,981	\$5,181,734	3		%

INSIGHT ENTERPRISES, INC.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION

AND RESULTS OF OPERATIONS (continued)

In North America net sales of hardware and services were up 8% and 23%, respectively, year over year, while net sales of software declined 15% year to year. The net changes year over year were the result of the following:

- The increase in hardware net sales reflects the device refresh cycle in the first half of the year and was due primarily to higher volume sales of client devices, storage and networking solutions to large enterprise clients.
- The increase in services net sales was due to higher sales of hardware warranty, higher sales of cloud solution offerings, higher sales of software maintenance, higher enterprise agreement fees, as well as contribution from our Cardinal acquisition, effective August 1, 2018.
- The decrease in the software category was primarily the result of lower volume of sales with public sector clients. Software product net sales have also been affected by clients migrating software applications to cloud solution offerings which are recognized on a net basis within the services category and the 2018 change to record sales of security software net as a result of the adoption of Topic 606.

Our net sales by offering category for EMEA for 2018 and 2017 were as follows (dollars in thousands):

EMEA				
Sales Mix	2018	2017	% Change	
Hardware	\$ 653,499	\$ 536,500	22	%
Software	736,509	710,452	4	%
Services	140,233	108,464	29	%
	\$ 1,530,241	\$ 1,355,416	13	%

In EMEA, net sales of hardware, software and services were up 22%, 4% and 29%, respectively, year over year. The improvements year over year were the result of the following:

- The increase in hardware net sales was due primarily to higher volume sales of client devices, storage and networking solutions to large enterprise and public sector clients.
- The increase in services net sales was due primarily to a higher volume of sales of software maintenance and cloud solution offerings that are recognized on a net basis, as well as the contribution of Dutch cloud service provider, Caase.com, acquired effective September 26, 2017.
- The increase in software net sales was due to higher volume with new and existing clients year over year.

Our net sales by offering category for APAC for 2018 and 2017 were as follows (dollars in thousands):

		APAC			
Sales Mix	2018	2017	% Change		
Hardware	\$29,496	\$27,907	6	%	
Software	107,363	101,412	6	%	
Services	50,055	37,154	35	%	
	\$186,914	\$166,473	12	%	

In APAC, net sales of hardware, software and services were up 6%, 6% and 35%, respectively, year over year. The changes were the result of the following:

- The increase in hardware net sales was primarily due to our continued expansion of hardware offerings in this market.
- The increase in software net sales was due primarily to a single large public sector license renewal recorded in the first quarter of 2018 that historically transacted in the fourth quarter in prior years.

27

INSIGHT ENTERPRISES, INC.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION

AND RESULTS OF OPERATIONS (continued)

The increase in services net sales resulted from an increase in cloud and digital solutions based professional service engagements, as well as growth in the contribution of Ignia, acquired effective September 1, 2016.

Net sales by category for North America, EMEA and APAC were as follows for 2018 and 2017:

	North America		EMEA		APAC	
Sales Mix	2018	2017	2018	2017	2018	2017
Hardware	67 %	65 %	43 %	40 %	16 %	17 %
Software	21 %	25 %	48 %	52 %	57 %	61 %
Services	12 %	10 %	9 %	8 %	27 %	22 %
	100 %	100 %	100 %	100 %	100 %	100 %

Gross Profit. Gross profit increased 8%, or \$75.1 million, in 2018 compared to 2017, with gross margin increasing approximately 30 basis points to 14.0% of net sales. Our gross profit and gross profit as a percent of net sales by operating segment for 2018 and 2017 were as follows (dollars in thousands):

		% of Net		% of Net
	2018	Sales	2017	Sales
North America	\$732,695	13.7 %	\$691,677	13.3 %
EMEA	221,467	14.5 %	190,310	14.0 %
APAC	39,556	21.2 %	36,583	22.0 %
Consolidated	\$993,718	14.0 %	\$918,570	13.7 %

North America's gross profit in 2018 increased \$41.0 million, or 6%, compared to 2017. As a percentage of net sales, gross margin increased by approximately 40 basis points year over year. The year over year net increase in gross margin was primarily attributable to the following:

- An increase in higher margin services net sales, which contributed 56 basis points. This increase in margin from services net sales was driven by an increase in margin generated from enterprise agreement fees and sales of warranty services as well as by an increase in gross profit on cloud solution offerings.

This increase was partially offset by a decrease in margin from software products of 20 basis points due to a lower mix of software license sales, as clients are migrating to cloud-based solutions.

EMEA's gross profit in 2018 increased \$31.2 million, or 16% (12% excluding the effects of fluctuating foreign currency exchange rates), compared to 2017. As a percentage of net sales, gross margin increased by approximately 50 basis points year over year. The net improvement in gross margin for EMEA in 2018 compared to 2017 was due primarily to the following:

- An increase in higher margin services net sales, which contributed 69 basis points. The increase resulted from a higher volume of software maintenance and cloud solution net sales that are recorded on a net basis.

- This increase was partially offset by a net decrease in product margin, which includes partner funding and freight, of 26 basis points in 2018 compared to 2017 primarily due to lower margins on software product transactions.

APAC's gross profit increased 8% (9% excluding the effects of fluctuating foreign currency exchange rates) in 2018 compared to 2017, with gross margin decreasing to 21.2% in 2018 from 22.0% in 2017.

INSIGHT ENTERPRISES, INC.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION

AND RESULTS OF OPERATIONS (continued)

Operating Expenses.

Selling and Administrative Expenses. Selling and administrative expenses increased \$33.2 million in 2018 compared to 2017. Our selling and administrative expenses by major expense type for 2018 and 2017 were as follows (dollars in thousands):

	2018	2017
Personnel costs, including teammate benefits	\$593,955	\$562,406
Depreciation and amortization	37,458	42,599
Facility expenses	26,396	25,362
Travel and entertainment	25,656	24,607
Legal and professional fees	16,103	16,740
Marketing	10,345	10,640
Other	46,616	40,974
Total	\$756,529	\$723,328
Percentage of net sales	10.7	% 10.8

Selling and administrative expenses decreased approximately 10 basis points as a percentage of net sales in 2018 compared to 2017. The overall net increase in expenses reflects a \$31.5 million increase in personnel costs, including teammate benefits expenses primarily due to increased headcount and increased variable compensation resulting from increased sales and gross profit in 2018 compared to 2017. This was partially offset by a decrease in depreciation and amortization expense of approximately \$5.1 million year to year.

Severance and Restructuring Expenses. During 2018, we recorded severance expense, net of adjustments, totaling \$3.4 million. In North America charges related to severance of \$1.6 million were a result of actions taken to realign roles and responsibilities, as well as a headcount reduction as part of cost reduction initiatives in the fourth quarter of 2018. In EMEA charges of \$1.7 million primarily related to headcount reductions as part our cost reduction and restructuring initiatives in EMEA. Current period charges were offset by adjustments for changes in estimates of previous accruals as cash payments were made during 2018. During 2017, we recorded severance expense, net of adjustments, totaling \$9.0 million. See Note 9 to the Consolidated Financial Statements in Part II, Item 8 of this report for further discussion of severance and restructuring activities.

Acquisition-related Expenses. During 2018, we incurred \$282,000 in direct third-party transaction costs related to the acquisition of Cardinal in North America. Comparatively, during 2017, we incurred \$3.2 million in such costs related to the acquisition of Datalink in North America and \$106,000 in such costs related to the acquisition of Caase.com in EMEA. See Note 20 to the Consolidated Financial Statements in Part II, Item 8 of this report for further discussion of acquisitions.

Non-Operating (Income) Expense.

Interest Income. Interest income for 2018 and 2017 was generated from interest earned on cash and cash equivalent bank balances. The slight decrease in interest income year over year is primarily due to lower average interest-bearing cash and cash equivalent balances during 2018.

Interest Expense. Interest expense primarily relates to borrowings under our financing facilities and imputed interest under our inventory financing facility. Interest expense increased 19%, or \$3.6 million, in 2018 compared to 2017 due primarily to higher interest rates partially offset by lower average daily balances on our debt facilities, in 2018 compared to 2017. Imputed interest under our inventory financing facility increased \$3.9 million compared to 2017 to \$10.6 million in 2018. The increase was the result of expanded use of our inventory financing facility and a higher average incremental borrowing rate used to compute the imputed interest amounts during 2018. Additionally, in 2018 interest expense includes a loss on debt extinguishment of approximately \$624,000 recorded in the fourth quarter of 2018 to write off a portion of our deferred financing fees. For a description of our various financing facilities, see Notes 6 and 7 to the Consolidated Financial Statements in Part II, Item 8 of this report.

INSIGHT ENTERPRISES, INC.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION

AND RESULTS OF OPERATIONS (continued)

Net Foreign Currency Exchange Gains/Losses. These gains/losses result from foreign currency transactions, including foreign currency derivative contracts and intercompany balances that are not considered long-term in nature. The change in net foreign currency exchange gains/losses is due primarily to the underlying changes in the applicable exchange rates, partially mitigated by our use of foreign exchange forward contracts to offset the effects of fluctuations in foreign currencies on certain of our non-functional currency assets and liabilities.

Other Expense, Net. Other expense, net, consists primarily of bank fees associated with our cash management activities and was relatively flat in 2018 compared to 2017.

Income Tax Expense. Our effective tax rate for 2018 was 22.8% compared to 43.0% in 2017. The decrease in the tax rate from 2017 to 2018 was primarily due to the effect of the reduction in the U.S. federal statutory rate from 35.0% to 21.0% effective for the 2018 tax year and other tax effects recorded in connection with the enactment of the U.S. Tax Cuts and Jobs Act. The effective tax rate in 2018 was higher than the federal statutory rate of 21.0% primarily due to state income taxes offset partially by research and development credits and a benefit related to the true up of provisional amounts related to U.S. tax reform recorded in 2017. See Note 11 to the Consolidated Financial Statements in Part II, Item 8 of this report for further discussion of income tax expense.

2017 Compared to 2016

Any reference to our "core" business in the 2017 compared to 2016 discussion exclude Datalink's results subsequent to the Datalink acquisition.

Net Sales. Net sales increased 22%, or \$1.2 billion, in 2017 compared to 2016. Net sales of products (hardware and software) increased 21% and net sales of services increased 36% in 2017 compared to 2016. Our net sales by operating segment for 2017 and 2016 were as follows (dollars in thousands):

	2017	2016	% Change	
North America	\$5,181,734	\$3,971,828	30	%
EMEA	1,355,416	1,338,560	1	%
APAC	166,473	175,127	(5)	(%)
Consolidated	\$6,703,623	\$5,485,515	22	%

Net sales in North America increased 30%, or \$1.2 billion, in 2017 compared to 2016. This included 17% year over year growth in our core business driven by higher volume of sales from new and existing clients, and the addition of Datalink, which reported \$524.3 million in net sales in 2017. Net sales in EMEA increased 1% (2% excluding the effects of fluctuating foreign currency exchange rates), or \$16.9 million, in 2017 compared to 2016. Net sales in APAC decreased 5% (7% excluding the effects of fluctuating foreign currency rates), or \$8.7 million, in 2017 compared to 2016.

Our net sales by offering category for North America for 2017 and 2016, were as follows (dollars in thousands):

North America				
Sales Mix	2017	2016	% Change	
Hardware	\$3,352,355	\$2,454,889	37	%
Software	1,310,118	1,146,808	14	%
Services	519,261	370,131	40	%
	\$5,181,734	\$3,971,828	30	%

In North America, net sales of hardware, software and services increased 37%, 14% and 40%, respectively, year over year. The increases year over year were the result of the following:

Higher volume of hardware net sales to large enterprise clients due primarily to strong growth in data center solutions as well as client devices. Datalink also accounted for approximately 29% of the year over year growth in the hardware category.

30

INSIGHT ENTERPRISES, INC.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION

AND RESULTS OF OPERATIONS (continued)

• Datalink accounted for approximately 70% of the year over year increase in software net sales.

• Continued trend toward higher sales of cloud solution offerings and a higher mix of software maintenance sales that are recorded on a net sales recognition basis impacted the services net sales category. Datalink also contributed to the increase, offset partially by declines in technical services projects in our core business in 2017 compared to 2016.

Our net sales by offering category for EMEA for 2017 and 2016, were as follows (dollars in thousands):

EMEA				
Sales Mix	2017	2016	% Change	
Hardware	\$536,500	\$481,505	11	%
Software	710,452	762,427	(7)	(%)
Services	108,464	94,628	15	%
	\$1,355,416	\$1,338,560	1	%

In EMEA net sales of hardware and services were up 11% and 15%, respectively, year over year, while net sales of software declined 7% year to year. The changes were the result of the following:

• Higher volume of client devices, storage and networking solutions to public sector clients in the hardware category.
 • Increased sales of license consulting services and partner delivered services to new and existing clients across the region impacted services net sales. In addition, there was a higher volume of sales of software maintenance and cloud solution offerings that are recorded on a net sales recognition basis.

• A single significant transaction in software net sales during 2016 with no comparable transaction in 2017 affected the year to year comparison.

Our net sales by offering category for APAC for 2017 and 2016, were as follows (dollars in thousands):

APAC				
Sales Mix	2017	2016	% Change	
Hardware	\$27,907	\$18,916	48	%
Software	101,412	132,718	(24)	(%)
Services	37,154	23,493	58	%
	\$166,473	\$175,127	(5)	(%)

In APAC increases in hardware and services net sales year over year were offset by a decrease in software net sales during 2017 compared to 2016. The changes were the result of the following:

- Continued expansion of hardware offerings in the APAC market.
- Contributions of Ignia and higher volume of sales of software maintenance and cloud solution offerings that are recorded on a net sales recognition basis positively impacted services net sales.
- Timing of a single client agreement in the public sector resulted in decreased software net sales in 2017 compared to 2016.

Net sales by category for North America, EMEA and APAC were as follows for 2017 and 2016:

Sales Mix	North America		EMEA		APAC	
	2017	2016	2017	2016	2017	2016
Hardware	65 %	62 %	40 %	36 %	17 %	11 %
Software	25 %	29 %	52 %	57 %	61 %	76 %
Services	10 %	9 %	8 %	7 %	22 %	13 %
	100 %	100 %	100 %	100 %	100 %	100 %

INSIGHT ENTERPRISES, INC.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION

AND RESULTS OF OPERATIONS (continued)

Gross Profit. Gross profit increased 24%, or \$175.5 million, in 2017 compared to 2016, with gross margin increasing approximately 20 basis points to 13.7% of net sales. Our gross profit and gross profit as a percent of net sales by operating segment for 2017 and 2016 were as follows (dollars in thousands):

		% of Net		% of Net
	2017	Sales	2016	Sales
North America	\$691,677	13.3%	\$525,481	13.2%
EMEA	190,310	14.0%	185,687	13.9%
APAC	36,583	22.0%	31,934	18.2%
Consolidated	\$918,570	13.7%	\$743,102	13.5%

North America's gross profit in 2017 increased 32% compared to 2016, and as a percentage of net sales, gross margin increased by approximately 10 basis points year over year. The year over year net increase in gross margin was primarily attributable to the following:

- A net increase in product margin, which includes partner funding and freight, of 30 basis points year over year. This increase was due primarily to improvements in hardware and software product margin due to the acquisition of Datalink, which includes sales of data center products at higher gross margins than in our core business.
 - Services margin improvement year over year of 11 basis points driven by an increase in margin generated by sales of warranty services during 2017 compared to 2016, primarily due to Datalink.

The above increases were partially offset by the following:

- Lower product margin in our core business due to a higher mix of business with large enterprise clients, where margins tend to be lower than other client groups.
- A decrease in margin from lower fees from enterprise software agreements of 23 basis points during 2017 compared to 2016.
- An insurance settlement of \$2.2 million recognized during 2016 as a reduction of cost of sales due to the nature of the related insured loss previously recorded.

EMEA's gross profit in 2017 increased 2% (4% excluding the effects of fluctuating foreign currency exchange rates) compared to 2016. As a percentage of net sales, gross margin increased by approximately 10 basis points year over year. APAC's gross profit in 2017 increased 15% (13% excluding the effects of fluctuating foreign currency exchange rates) compared to 2016, with gross margin increasing to 22.0% in 2017 from 18.2% in 2016. The improvement in

gross margin for both EMEA and APAC in 2017 compared to 2016 was due primarily to changes in sales mix to higher margin products and services.

32

INSIGHT ENTERPRISES, INC.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION

AND RESULTS OF OPERATIONS (continued)

Operating Expenses.

Selling and Administrative Expenses. Selling and administrative expenses increased \$138.1 million in 2017 compared to 2016. Our selling and administrative expenses by major expense type for 2017 and 2016 were as follows (dollars in thousands):

	2017	2016
Personnel costs, including teammate benefits	\$562,406	\$455,892
Depreciation and amortization	42,599	38,130
Facility expenses	25,362	20,314
Travel and entertainment	24,607	17,170
Legal and professional fees	16,740	11,905
Marketing	10,640	6,848
Other	40,974	34,984
Total	\$723,328	\$585,243
Percentage of net sales	10.8 %	10.7 %

Selling and administrative expenses increased approximately 10 basis points as a percentage of net sales in 2017 compared to 2016. The increase in expenses reflects the addition of Datalink to our North America business effective January 2017. The addition of Datalink and increased variable compensation resulting from increased sales and gross profit in 2017 compared to 2016 were the primary drivers for the \$106.5 million increase in personnel costs, including teammate benefit expenses for 2017 compared to 2016. Datalink was also the primary driver for year over year increases in travel and entertainment, facilities and marketing expenses. Depreciation and amortization expense increased approximately \$4.5 million year over year, due to additional amortization expense on newly acquired intangible assets.

Severance and Restructuring Expenses. During 2017, North America, EMEA and APAC recorded severance expense, net of adjustments, totaling \$4.0 million, \$4.9 million and \$104,000, respectively. The North America charges related to severance actions taken to realign roles and responsibilities subsequent to the acquisition of Datalink in January 2017, as well as a headcount reduction as part of cost reduction initiatives in the fourth quarter of 2017. The EMEA charges primarily related to headcount reductions in France, Germany and the Netherlands as part our cost reduction and restructuring initiatives in EMEA. The APAC charges primarily related to severance actions taken subsequent to the acquisition of Ignia. For 2017, charges were offset by adjustments for changes in estimates of previous accruals as cash payments were made during the year. During 2016, North America, EMEA and APAC recorded severance expense, net of adjustments, totaling \$3.0 million, \$1.5 million and \$118,000, respectively. See Note 9 to the Consolidated Financial Statements in Part II, Item 8 of this report for further discussion of severance and restructuring activities.

Acquisition-related Expenses. During 2017, we incurred \$3.2 million in direct third-party transaction costs related to the acquisition of Datalink in North America and \$106,000 in such costs related to the acquisition of Caase.com in EMEA. Comparatively, during 2016, we incurred \$4.3 million in such costs related to the acquisition of Datalink in North America and \$169,000 in such costs related to the acquisition of Ignia in APAC. See Note 20 to the Consolidated Financial Statements in Part II, Item 8 of this report for further discussion of acquisitions.

Non-Operating (Income) Expense.

Interest Income. Interest income for 2017 and 2016 was generated from interest earned on cash and cash equivalent bank balances. The slight increase in interest income year over year is primarily due to higher interest rates earned on such balances and to higher average interest-bearing cash and cash equivalent balances during 2017.

Interest Expense. Interest expense primarily relates to borrowings under our financing facilities and imputed interest under our inventory financing facility. Interest expense increased 122%, or \$10.5 million, in 2017 compared to 2016 due primarily to borrowings under our TLA as well as higher borrowing rates and higher average daily balances under our other financing facilities, in 2017

INSIGHT ENTERPRISES, INC.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION

AND RESULTS OF OPERATIONS (continued)

compared to 2016, while imputed interest under our inventory financing facility increased \$3.3 million from 2016 to 2017 to \$6.7 million.

Net Foreign Currency Exchange Gains/Losses. These gains/losses result from foreign currency transactions, including foreign currency derivative contracts and intercompany balances that are not considered long-term in nature. The change in net foreign currency exchange gains/losses is due primarily to the underlying changes in the applicable exchange rates, partially mitigated by our use of foreign exchange forward contracts to offset the effects of fluctuations in foreign currencies on certain of our non-functional currency assets and liabilities.

Other Expense, Net. Other expense, net, consists primarily of bank fees associated with our cash management activities and was relatively flat in 2017 compared to 2016.

Income Tax Expense. Our effective tax rate for 2017 was 43.0% compared to 39.3% in 2016. The increase in the tax rate from 2016 to 2017 was primarily due to the effect of U.S. federal tax reform that was enacted in December 2017, which accounted for 8.4% of our effective tax rate. The effective tax rate in 2017 was higher than the federal statutory rate of 35.0% primarily due to the effect of U.S. federal tax reform enacted during the fourth quarter of 2017, as previously noted, as well as state income taxes, net of federal income tax benefits, and increases in the valuation allowances in certain foreign jurisdictions. These increases in our effective tax rate in 2017 were offset partially by lower taxes on earnings in foreign jurisdictions. See Note 11 to the Consolidated Financial Statements in Part II, Item 8 of this report for further discussion of income tax expense.

Liquidity and Capital Resources

The following table sets forth certain consolidated cash flow information for 2018, 2017 and 2016 (in thousands):

	2018	2017	2016
Net cash provided by (used in) operating activities	\$292,647	\$(307,066)	\$96,077
Net cash used in investing activities	(91,710)	(204,645)	(21,185)
Net cash (used in) provided by financing activities	(159,028)	397,121	(58,230)
Foreign currency exchange effect on cash and cash equivalent and restricted cash balances	(5,061)	16,089	(1,937)
Increase (decrease) in cash and cash equivalents and restricted cash	36,848	(98,501)	14,725
Cash and cash equivalents and restricted cash at beginning of year	107,445	205,946	191,221
Cash and cash equivalents and restricted cash at end of year	\$144,293	\$107,445	\$205,946

Cash and Cash Flow

Our primary uses of cash during 2018 were to fund working capital requirements, pay down our debt balances, fund capital expenditures, repurchase shares of our common stock and to fund the acquisition of Cardinal. Operating activities generated \$292.6 million in cash in 2018. Both the 2017 and 2016 results are affected by individually significant transactions at each year end, as discussed in more detail below. During 2018, we made net combined repayments on our long-term debt facilities of \$114.8 million and acquired Cardinal for \$78.8 million, net of cash and cash equivalents acquired and including accrued working capital and tax adjustments of approximately \$3.8 million. Capital expenditures were \$17.3 million in 2018, a 10% decrease from 2017, reflecting continued IT investments in our core ERP systems and e-commerce and digital marketing platforms. Cash and cash equivalent balances in 2018 were negatively affected by \$5.1 million as a result of foreign currency exchange rates.

INSIGHT ENTERPRISES, INC.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION

AND RESULTS OF OPERATIONS (continued)

We anticipate that cash flows from operations, together with the funds available under our financing facilities, will be adequate to support our cash and working capital requirements for operations as well as other strategic investments over the next 12 months. We expect existing cash and cash flows from operations to continue to be sufficient to fund our operating cash activities and cash commitments for investing and financing activities, such as capital expenditures, repurchases of our common stock and debt repayments, for at least the next 12 months.

Net cash provided by (used in) operating activities. Cash flows from operating activities reflect our net earnings, adjusted for non-cash items such as depreciation, amortization, stock-based compensation expense and write-offs and write-downs of assets, as well as changes in asset and liability balances. As noted previously, our net sales and earnings from operations grew 6% and 30%, respectively, in 2018. Cash flow from operating activities in 2018 was \$292.6 million, a significant increase in cash generation compared to 2017. This increase is the result of our focus on expense control, optimizing working capital, including an enhanced focus on collection of receivables, and reducing our investments in inventory. However, the 2017 results were also affected by a single significant payment to a supplier of approximately \$160 million that was due and paid in January 2017 for which the related receivable was collected from the client in the fourth quarter of 2016 and several other factors discussed below.

In 2017, the increase in accounts receivable reflected increased net sales for which our collection efforts did not keep up with the growth. The 2017 results also reflected the collection of a single significant receivable from a client in the fourth quarter of 2016 for which the related payment to the supplier of approximately \$160 million was due and paid in January 2017. Further impacting our 2017 operating cash flows was the expanded use of our inventory financing facility in 2017 to support growth in our sales. Borrowings on this facility are reflected in the financing section of our statement of cash flows. Had we not leveraged the facility during 2017, the net borrowings under our inventory financing facility of \$141.0 million that are reflected as cash flows provided by financing activities would have been included within trade payables, which are reflected in the operating activities section of our statement of cash flows. The increase in inventories was primarily attributable to an increase in inventory levels at December 31, 2017 to support specific client engagements. The decrease in deferred revenue was a result of revenue recognition in 2017 on a number of larger client transactions in North America for which monies had been collected from clients prior to December 31, 2016, in advance of meeting the criteria for revenue recognition.

In 2016, the increases in accounts receivable and accounts payable reflected growth in sales and associated costs of goods sold, respectively, in 2016 compared to 2015. However, the 2016 results were also affected by a single significant receivable collected from a client in the fourth quarter of 2016 for which the related payment to the supplier of approximately \$160 million was due and paid in January 2017, as noted previously. There was a similar transaction in the fourth quarter of 2015 for approximately \$60 million. Excluding the effects of these two individually significant timing differences, cash flow from operations would have been nominal for 2016. Further impacting our 2016 operating cash flows was the expanded use of our inventory financing facility in 2016 to support growth in our sales. Had we not leveraged the facility during 2016, the net borrowings under our inventory financing facility of \$48.6 million that are reflected as cash flows provided by financing activities would have been included within trade payables, which are reflected in the operating activities section of our statement of cash flows. The \$50.1 million increase in other assets was primarily a result of our deferral of costs in advance of our being able to recognize the related revenue. The \$28.9 million increase in inventories was primarily attributable to an increase in inventory levels at December 31, 2016, to support specific client engagements and inventory in transit.

INSIGHT ENTERPRISES, INC.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION

AND RESULTS OF OPERATIONS (continued)

Our consolidated cash flow operating metrics for the quarters ended December 31, 2018, 2017 and 2016 were as follows:

	2018	2017	2016
Days sales outstanding in ending accounts			
receivable ("DSOs") (a)	102	94	90
Days inventory outstanding ("DIOs") (b)	10	13	12
Days purchases outstanding in ending accounts			
payable ("DPOs") (c)	(79)	(72)	(88)
Cash conversion cycle (days) (d)	33	35	14

- (a) Calculated as the balance of accounts receivable, net at the end of the period divided by daily net sales. Daily net sales is calculated as net sales for the quarter divided by 92 days.
- (b) Calculated as average inventories (excluding inventories not available for sale) divided by daily costs of goods sold. Average inventories is calculated as the sum of the balances of inventories at the beginning of the period plus inventories at the end of the period divided by two. Daily costs of goods sold is calculated as costs of goods sold for the quarter divided by 92 days.
- (c) Calculated as the sum of the balances of accounts payable – trade and accounts payable – inventory financing facility at the end of the period divided by daily costs of goods sold. Daily costs of goods sold is calculated as costs of goods sold for the quarter divided by 92 days.
- (d) Calculated as DSOs plus DIOs, less DPOs.

Our cash conversion cycle was 33 days in the fourth quarter ended December 31, 2018, compared to 35 days in the fourth quarter of 2017. The decrease resulted from the net effect of an eight day increase in DSO and a seven day increase in DPOs due to the relative timing of client receipts and supplier payments during the respective quarters as well as a three day decrease in DIOs due to the reduction of inventory held for client specific engagements and an overall focus on minimizing inventory on hand. These operating metrics include the effects of the adoption of the new revenue recognition standard effective January 1, 2018. As a result, DSOs for the three months ended December 31, 2018 were higher by approximately six days, due to a higher accounts receivable balance being reported under the new accounting guidance, than would have been reported under the previous accounting guidance. This increase was partially offset by an increase of approximately four days in DPOs in the three months ended December 31, 2018, resulting from a higher accounts payable balance being reported under the new accounting guidance. The net impact of the adoption of the new revenue recognition standard to the cash conversion cycle for the three months ended December 31, 2018 is approximately a two day increase.

Our cash conversion cycle was 35 days in the fourth quarter ended December 31, 2017, compared to 14 days in the fourth quarter of 2016. Our 2016 cash conversion cycle was below our target range of 20 to 25 days as a result of

unusually high DPOs associated with the \$160 million payment timing difference in North America at the end of the prior year period, as discussed above. Our 2017 cash conversion cycle was above our target range due to the increases in our inventory and accounts receivable balances noted above.

Our cash conversion cycle was 14 days in the fourth quarter ended December 31, 2016, a decrease of six days from the fourth quarter of 2015, and due primarily to an eleven day increase in DPOs driven by a single significant payment to a supplier in North America that was due and paid in January 2017. Although the payment to the supplier was not due until after year-end, we collected on the accounts receivable from the client in the fourth quarter of 2016 under normal credit terms, as discussed above.

We expect that cash flow from operations will be used, at least partially, to fund working capital as we typically pay our partners on average terms that are shorter than the average terms we grant to our clients in order to take advantage of supplier discounts. We intend to use cash generated in 2019 in excess of working capital needs to support our capital expenditures for the year, to repurchase shares of our common stock and to pay down our debt balances. We also may use cash to fund potential acquisitions.

INSIGHT ENTERPRISES, INC.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION

AND RESULTS OF OPERATIONS (continued)

Net cash used in investing activities. Capital expenditures of \$17.3 million, \$19.2 million and \$12.3 million in 2018, 2017 and 2016, respectively, were primarily related to technology and facility enhancements. We expect total capital expenditures in 2019 to be between \$20.0 million and \$25.0 million, primarily for technology-related upgrade projects and the integration of prior acquisitions.

During 2018 we acquired Cardinal for \$78.8 million net of cash and cash equivalents acquired and including accrued working capital and tax adjustments of approximately \$3.8 million. During 2017 we acquired Caase.com and Datalink for \$6.0 million and \$180.9 million, respectively, net of cash and cash equivalents acquired. During 2016, we acquired Ignia for \$10.8 million, net of cash acquired.

Net cash (used in) provided by financing activities. During 2018, we had net combined repayments on our long-term debt under our revolving facility, TLA and accounts receivable securitization facility ("ABS facility") of \$114.8 million and had net repayments under our inventory financing facility of \$15.3 million. In 2018, we also funded \$22.1 million of repurchases of our common stock. During 2017, we had net combined borrowings on our long-term debt under our revolving facility, TLA and ABS facility of \$269.3 million and had net borrowings under our inventory financing facility of \$141.0 million. During 2016, we made net combined repayments on our long-term debt under our revolving facility and our ABS facility of \$49.5 million and had net borrowings under our inventory financing facility of \$48.6 million. In 2016, we also funded \$50.0 million of repurchases of our common stock.

Financing Facilities

As of December 31, 2018, our long-term debt balance includes \$194.0 million outstanding under our \$250.0 million ABS facility and no amounts outstanding under our \$350.0 million revolving facility.

As of December 31, 2018, the current portion of our long-term debt relates to our capital leases and other financing obligations. Our objective is to pay our debt balances down while retaining adequate cash balances to meet overall business objectives.

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. As of December 31, 2018, qualified receivables were sufficient to permit access to the full \$250.0 million under the ABS facility. Our ABS facility was amended on June 27, 2018.

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 the Company's 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, (iv) non-cash stock-based compensation, (v) extraordinary or non-recurring non-cash losses or expenses and (vi) certain cash restructuring and acquisition-related charges and synergies, not to exceed a specified cap ("adjusted earnings"). The maximum leverage ratio permitted under the facilities is currently 3.25 times our trailing twelve-month adjusted earnings. A significant drop in the Company's 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 the Company's consolidated maximum facility amounts. Based on the

maximum permitted leverage ratio as of December 31, 2018, the Company's debt balance that could have been outstanding under our revolving facility and ABS facility was the full amount of the maximum borrowing capacity of \$600.0 million.

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 and minimum fixed charge ratio requirements, comply with a minimum receivable requirement 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 time period. At December 31, 2018, we were in compliance with all such covenants. Further, the terms of the ABS facility identify various circumstances that would result in an "amortization event" under the facility. As of December 31, 2018, no such "amortization event" had occurred.

INSIGHT ENTERPRISES, INC.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION

AND RESULTS OF OPERATIONS (continued)

We also have an agreement with a financial intermediary to facilitate the purchase of inventory from various suppliers under certain terms and conditions. These amounts are classified separately as accounts payable - inventory financing facility in our consolidated balance sheets.

Our inventory financing facility was amended on March 23, 2018 to increase the aggregate availability for vendor purchases under the facility from \$325,000,000 to \$400,000,000. In conjunction with the increase, we no longer have the option to request additional increases in the aggregate amount available under the inventory financing facility without amending the facility. The facility matures on June 23, 2021. Additionally, the facility may be renewed under certain circumstances described in the agreement for successive 12-month periods. Interest does not accrue on accounts payable under this facility provided the accounts payable are paid within stated terms (typically 60 days).

Notes 6 and 7 to the Consolidated Financial Statements in Part II, Item 8 of this report also include: a description of our financing facilities; amounts outstanding; amounts available and weighted average borrowings and interest rates during the year.

Undistributed Foreign Earnings

Cash and cash equivalents held by foreign subsidiaries may be subject to U.S. income taxation upon repatriation to the United States. As a result of the U.S. federal tax reform enacted in December 2017, all undistributed foreign earnings are deemed distributed. We provided for U.S. income and withholding taxes on the earnings deemed distributed from all of our foreign subsidiaries during 2018. As of December 31, 2018, we had approximately \$107.6 million in cash and cash equivalents in certain of our foreign subsidiaries. As of December 31, 2018, the majority of our foreign cash resides in the Netherlands, Canada and Australia. Certain of these cash balances will be remitted to the United States by paying down intercompany payables generated in the ordinary course of business or through actual dividend distributions.

Off-Balance Sheet Arrangements

We have entered into off-balance sheet arrangements, which include guaranties and indemnifications. These arrangements are discussed in Note 16 to the Consolidated Financial Statements in Part II, Item 8 of this report. We believe that none of our off-balance sheet arrangements have, or are reasonably likely to have, a material current or future effect on our financial condition, sales or expenses, results of operations, liquidity, capital expenditures or capital resources.

Contractual Obligations

At December 31, 2018, our contractual obligations for continuing operations were as follows (in thousands):

Payments due by period			
Less than	1-3	3-5	More

Edgar Filing: INSIGHT ENTERPRISES INC - Form 10-K

	Total	1 Year	Years	Years	than 5 Years
Long-term debt (a)	\$194,000	\$—	\$194,000	\$—	\$—
Capital lease obligations, including interest					
payments	3,071	1,488	1,583	—	—
Inventory financing facility (b)	304,130	304,130	—	—	—
Operating lease obligations (c)	71,884	21,499	27,701	15,446	7,238
Severance and restructuring obligations (d)	2,452	2,452	—	—	—
Other contractual obligations (e)	23,336	7,803	12,203	1,046	2,284
Total	\$598,873	\$337,372	\$235,487	\$16,492	\$9,522

(a) Reflects the \$194.0 million outstanding at December 31, 2018 under our ABS facility due in June 2021, the date at which the facility matures. See further discussion in Note 7 to the Consolidated Financial Statements in Part II, Item 8 of this report.

38

INSIGHT ENTERPRISES, INC.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION

AND RESULTS OF OPERATIONS (continued)

- (b) As of December 31, 2018, this amount has been included in our contractual obligations table above as being due in less than 1 year due to the 30- to 120-day stated vendor terms. See further discussion in Note 6 to the Consolidated Financial Statements in Part II, Item 8 of this report.
- (c) Amounts in the table above exclude non-cancellable rental income of approximately \$1.6 million due in less than one year.
- (d) As a result of approved severance and restructuring plans, we expect future cash expenditures related to employee termination benefits. See further discussion in Note 9 to the Consolidated Financial Statements in Part II, Item 8 of this report.
- (e) The table above includes:
- I. Estimated interest payments of \$6,712,000 in each of 2019 and 2020, and \$3,356,000 in the first six months of 2021, based on the current debt balance at December 31, 2018 of \$194.0 million under our ABS facility, multiplied by the floating interest rate applicable at December 31, 2018 of 3.46% per annum.
 - II. We estimate that we will owe \$6.6 million in future years in connection with the obligations to perform asset-retirement activities that are conditional on a future event.

The table above excludes \$6.8 million of unrecognized tax benefits, including \$313,000 related to accrued interest, as we are unable to reasonably estimate the ultimate amount or timing of settlement. See further discussion in Note 11 to the Consolidated Financial Statements in Part II, Item 8 of this report.

Although we set purchase targets with our partners tied to the amount of supplier reimbursements we receive, we have no material contractual purchase obligations with our partners.

Acquisitions

Our strategy includes the possible acquisition of or investments in other businesses to expand or complement our operations or to add certain services capabilities. The magnitude, timing and nature of any future acquisitions or investments will depend on a number of factors, including the availability of suitable candidates, the negotiation of acceptable terms, our financial capabilities and general economic and business conditions. Financing for future transactions would result in the utilization of cash, incurrence of additional debt, issuance of stock or some combination of the three. See Note 20 to the Consolidated Financial Statements in Part II, Item 8 of this report for a discussion of our acquisition of Cardinal on August 1, 2018.

Inflation

We have historically not been adversely affected by inflation, as technological advances and competition within the IT industry have generally caused the prices of the products we sell to decline and product life cycles tend to be short. This requires our growth in unit sales to exceed the decline in prices in order to increase our net sales. We believe that most price increases could be passed on to our clients, as prices charged by us are not set by long-term contracts; however, as a result of competitive pressure, there can be no assurance that the full effect of any such price increases could be passed on to our clients.

INSIGHT ENTERPRISES, INC.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION

AND RESULTS OF OPERATIONS (continued)

Critical Accounting Estimates

General

Our consolidated financial statements have been prepared in accordance with U.S. generally accepted accounting principles ("GAAP"). For a summary of significant accounting policies, see Note 1 to the Consolidated Financial Statements in Part II, Item 8 of this report. The preparation of these consolidated financial statements requires us to make estimates and assumptions that affect the reported amounts of assets, liabilities, net sales and expenses. We base our estimates on historical experience and on various other assumptions that we believe to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results, however, may differ from our estimates. Members of our senior management have discussed the critical accounting estimates and related disclosures with the Audit Committee of our Board of Directors.

We consider the following to be our critical accounting estimates used in the preparation of our consolidated financial statements:

Sales Recognition

We adopted ASU No. 2014-09, "Revenue from Contracts with Customers," which created Topic 606 with a date of initial application of January 1, 2018. As a result, we changed our accounting policy for sales recognition as detailed below and in Note 2 to Consolidated Financial Statements in Part II, Item 8 of this report. Revenue is measured based on the consideration specified in a contract with a client, and excludes any sales incentives and amounts collected on behalf of third parties. The Company recognizes revenue when it satisfies a performance obligation by transferring control of a product or service to a client.

Nature of Goods and Services

We sell hardware and software products on both a stand-alone basis without any services and as solutions bundled with services.

When we provide a combination of hardware and software products with the provision of services, we separately identify our performance obligations under our contract with the client as the distinct goods (hardware and/or software products) or services that will be provided. The total transaction price for an arrangement with multiple performance obligations is allocated at contract inception to each distinct performance obligation in proportion to its stand-alone selling price. The stand-alone selling price is the price at which we would sell a promised good or service separately to a client. We estimate the price based on observable inputs, including direct labor hours and allocable costs, or use observable stand-alone prices when they are available.

Product Offerings

Hardware

We recognize hardware product revenue at the point in time when a client takes control of the hardware, which typically occurs when title and risk of loss have passed to the client at its destination. Our selling terms and conditions were modified during the fourth quarter of 2017 to specify F.O.B. destination contractual terms such that control is transferred from the Company at the point in time when the product is received by the client. Prior to the adoption of Topic 606, because we either (i) had a general practice of covering client losses while products were in transit despite title and risk of loss contractually transferring at the point of shipment or (ii) had specifically stated F.O.B. destination contractual terms with the client, delivery was not deemed to have occurred until the point in time when the product was received by the client. The transaction price for hardware sales is adjusted for estimated product returns that we expect to occur under our return policy based upon historical return rates.

INSIGHT ENTERPRISES, INC.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION

AND RESULTS OF OPERATIONS (continued)

We leverage drop-shipment arrangements with many of our partners and suppliers to deliver products to our clients without having to physically hold the inventory at our warehouses, thereby increasing efficiency and reducing costs. We recognize revenue for drop-shipment arrangements on a gross basis as the principal in the transaction when the product is received by the client because we control the product prior to transfer to the client. We also assume primary responsibility for fulfillment in the arrangement, we assume inventory risk if the product is returned by the client, we set the price of the product charged to the client and we work closely with our clients to determine their hardware specifications. This is consistent with our accounting treatment prior to the adoption of Topic 606.

Software

We recognize revenue from software sales at the point in time when the client acquires the right to use or copy software under license and control transfers to the client. For sales transactions for certain security software products that are sold with integral third-party delivered software maintenance, we record both the software license and the accompanying software maintenance on a net basis, as the agent in the arrangement, given the predominant nature of the goods and services provided to the customer. This is a change from our accounting treatment prior to the adoption of Topic 606, whereby we bifurcated the sale of the software license from the sale of the maintenance contract, recorded the sale of the software product on a gross sales recognition basis and recorded the sale of the software maintenance on a net sales recognition basis.

Services Offerings

Software Maintenance

Software maintenance agreements provide our clients with the right to obtain any software upgrades, bug fixes and help desk and other support services directly from the software publisher at no additional charge during the term of the software maintenance agreements. We act as the software publisher's agent in selling these software maintenance agreements and do not assume any performance obligation to the client under the agreements. As a result, we are the agent in these transactions and these sales are recorded on a net sales recognition basis. Under net sales recognition, the cost of the software maintenance agreement is recorded as a reduction to sales, resulting in net sales equal to the gross profit on the transaction, and there are no costs of goods sold. Because we are acting as the software publisher's agent, revenue is recognized when the parties agree to the initial purchase, renewal or extension as our agency services are then complete. This is consistent with our accounting treatment prior to the adoption of Topic 606. We report all fees earned from activities reported net within our services net sales category in our consolidated statements of

operations.

Cloud / Software-as-a-Service Offerings

Cloud or software-as-a-service subscription products provide our clients with access to software products hosted in the public cloud without the client taking possession of the software. We act as the software publisher's agent in selling these software-as-a service subscription products and do not host the software products on our servers. We do not take control of the software products or assume any performance obligations to the clients related to the provisioning of the offerings in the cloud. As a result, these sales are recorded on a net sales recognition basis. This is consistent with our accounting treatment prior to the adoption of Topic 606. We report all fees earned from activities reported net within our services net sales category in our consolidated statements of operations.

Insight Delivered Services

We design, procure, deploy, implement and manage solutions that combine hardware, software and services to help businesses run smarter. Such services are provided by us or third-party sub-contract vendors as part of bundled arrangements, or are provided separately on a stand-alone basis as technical, consulting or managed services engagements. If the services are provided as part of a bundled arrangement with hardware and software, the hardware, software and services are generally distinct performance obligations. In general, we recognize revenue from services engagements as we perform the underlying services and satisfy our performance obligations.

INSIGHT ENTERPRISES, INC.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION

AND RESULTS OF OPERATIONS (continued)

We recognize revenue from sales of services by measuring progress toward complete satisfaction of the related service performance obligation. Billings for such services that are made in advance of the related revenue recognized are recorded as a contract liability.

Specific revenue recognition practices for certain of our services offerings are described in further detail below.

OneCall Support Services Contracts

When we sell certain hardware and/or software products to our clients, we also enter into service contracts with them. These contracts are support service agreements for the hardware and/or software products that were purchased from us. Under certain support services contracts, although we purchase third-party support contracts for maintenance on the specific hardware or software products we have sold, our internal support desk assists the client first by performing an initial technical triage to determine the source of the problem and whether we can direct the client on how to fix the problem. We refer to these services as "OneCall." We act as the principal in the transaction because we perform the OneCall services over the term of the support service contract and we set the price of the service charged to the client. As a result, we recognize revenue from OneCall extended service contracts on a gross sales recognition basis ratably over the contract term of the stand ready obligation, generally one to three years. This is consistent with our accounting treatment prior to the adoption of Topic 606.

Vendor Direct Support Services Contracts

When we do not provide OneCall services to the client on hardware and/or software products that were purchased, the client may purchase a vendor direct support services contract through us. Under these contracts, our clients call the manufacturer/publisher or its designated service organization directly for both the initial technical triage and any follow-up assistance. We act as the manufacturer/publisher's agent in selling these support service contracts and do not assume any performance obligation to the client under the arrangements. As a result, these sales are recorded on a net sales recognition basis similar to software maintenance agreements, as discussed above. Because we are acting as the manufacturer/publisher's agent, revenue is recognized when the parties agree to the purchase of the support services contract as our agency services are then complete. This is consistent with our accounting treatment prior to the adoption of Topic 606.

Third-party Provided Services

A majority of our third-party sub-contractor services contracts are entered into in conjunction with other services contracts under which the services are performed by Insight teammates. We have concluded that we control all services under the contract and can direct the third-party sub-contractor to provide the requested services. As such, we act as the principal in the transaction and record the services under a gross sales recognition basis, with the selling price being recorded in sales and our cost to the third-party service provider being recorded in costs of goods sold. For certain third-party service contracts in which we are not responsible for fulfillment of the services, we have concluded that we are an agent in the transaction and record revenue on a net sales recognition basis. This is consistent with our accounting treatment prior to the adoption of Topic 606.

See Note 1 to the Consolidated Financial Statements in Part II, Item 8 of this report for further discussion of our accounting policies related to sales recognition.

Partner Funding

We receive payments and credits from partners, including consideration pursuant to volume sales incentive programs, volume purchase incentive programs and shared marketing expense programs. Partner funding received pursuant to volume sales incentive programs is recognized as it is earned as a reduction to costs of goods sold. Partner funding received pursuant to volume purchase incentive programs is allocated as a reduction to inventories based on the applicable incentives earned from each partner and is recorded in costs of goods sold as the related inventory is sold. Partner funding

INSIGHT ENTERPRISES, INC.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION

AND RESULTS OF OPERATIONS (continued)

received pursuant to shared marketing expense programs is recorded as it is earned as a reduction of the related selling and administrative expenses in the period the program takes place if the consideration represents a reimbursement of specific, incremental, identifiable costs. Consideration that exceeds the specific, incremental, identifiable costs is classified as a reduction of costs of goods sold. Changes in estimates of anticipated achievement levels under individual partner programs could have a material effect on our results of operations and our cash flows.

See Note 1 to the Consolidated Financial Statements in Part II, Item 8 of this report for further discussion of our accounting policies related to partner funding.

Valuation of Long-Lived Assets Including Purchased Intangible Assets and Goodwill

We review property, plant and equipment and purchased intangible assets for impairment whenever events or changes in circumstances indicate the carrying value of an asset may not be recoverable. If such events or changes in circumstances indicate a possible impairment, our asset impairment review assesses the recoverability of the assets based on the estimated undiscounted future cash flows expected to result from the use of the asset or the asset group plus net proceeds expected from disposition of the asset or the asset group (if any) and compares that value to the carrying value. Such impairment test is based on the lowest level for which identifiable cash flows are largely independent of the cash flows of other groups of assets and liabilities. If the carrying value exceeds the undiscounted future cash flows, an impairment loss is recognized for the difference between fair value and the carrying amount. This approach uses estimates including future market growth, forecasted net sales and costs, expected periods the assets will be utilized and appropriate discount rates.

We perform an annual review of our goodwill in the fourth quarter of every year and between annual tests if an event occurs or circumstances change that would more likely than not reduce the fair value of the reporting unit below its carrying value. We continually assess whether any indicators of impairment exist, and that assessment requires a significant amount of judgment. Events or circumstances that could trigger an impairment review include a significant adverse change in legal factors or in the business climate, unanticipated competition, significant changes in the manner of our use of the acquired assets or the strategy for our overall business, significant negative industry or economic trends, significant declines in our stock price for a sustained period or significant underperformance relative to expected historical or projected future cash flows or results of operations. Any adverse change in these factors, among others, could have a significant effect on the recoverability of goodwill and could have a material effect on our consolidated financial statements.

The goodwill impairment test is performed at the reporting unit level. A reporting unit is an operating segment or one level below an operating segment (referred to as a "component"). A component of an operating segment is a reporting unit if the component constitutes a business for which discrete financial information is available and management of the segment regularly reviews the operating results of that component. When two or more components of an operating segment have similar economic characteristics, the components may be aggregated and deemed a single reporting unit. An operating segment shall be deemed to be a reporting unit if all of its components are similar, if none of its components is a reporting unit, or if the segment comprises only a single component. Insight has three reporting units, which are equivalent to our operating segments.

We may first perform a qualitative assessment to determine whether it is more likely than not that the fair value of a reporting unit is less than its carrying value. If it is concluded that this is the case, it is necessary to perform a quantitative goodwill impairment test. Otherwise, the goodwill impairment test is not required. In completing a quantitative test for a potential impairment of goodwill, we compare the estimated fair value of each reporting unit in which the goodwill resides to its book value, including goodwill. Management must apply judgment in determining the estimated fair value of our reporting units. Multiple valuation techniques can be used to assess the fair value of the reporting unit, including the market and income approaches. All of these techniques include the use of estimates and assumptions that are inherently uncertain. Changes in these estimates and assumptions could materially affect the determination of fair value or goodwill impairment, or both. These estimates and assumptions primarily include, but are not limited to, an appropriate control premium in excess of the market capitalization of the Company, future market growth, forecasted

INSIGHT ENTERPRISES, INC.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION

AND RESULTS OF OPERATIONS (continued)

sales and costs and appropriate discount rates. Due to the inherent uncertainty involved in making these estimates, actual results could differ from those estimates. Management evaluates the merits of each significant assumption, both individually and in the aggregate, used to determine the fair value of the reporting units. If the estimated fair value exceeds book value, goodwill is considered not to be impaired. If the carrying amount of the reporting unit exceeds its fair value, then an impairment charge is recognized for the amount by which the carrying value exceeds the fair value. To ensure the reasonableness of the estimated fair values of our reporting units, we perform a reconciliation of our total market capitalization to the estimated fair value of all of our reporting units.

See further information on the carrying value of goodwill in Note 4 to the Consolidated Financial Statements in Part II, Item 8 of this report.

Income Taxes

In December 2017, U.S. federal tax reform was enacted as part of the Tax Cuts and Jobs Act of 2017. The change in tax law required, among other things, a remeasurement of our deferred tax balances. In addition, the change in tax law included provisions requiring mandatory deemed repatriation of undistributed foreign earnings. In accordance with Staff Accounting Bulletin 118, issued on December 22, 2017, we have concluded that the U.S. income taxes attributable to the remeasurement of U.S. deferred income taxes, the mandatory deemed repatriation provision and the state tax effects of these items are now final.

We record a valuation allowance to reduce our deferred tax assets to the amount that is more likely than not to be realized. We consider past operating results, future market growth, forecasted earnings, historical and projected taxable income, the mix of earnings in the jurisdictions in which we operate, prudent and feasible tax planning strategies and statutory tax law changes in determining the need for a valuation allowance. If we were to determine that it is more likely than not that we would not be able to realize all or part of our net deferred tax assets in the future, an adjustment to the deferred tax assets would be charged to earnings in the period such determination is made. Likewise, if we later determine that it is more likely than not that all or part of the net deferred tax assets would be realized, then all or part of the previously provided valuation allowance would be reversed.

We establish liabilities for potentially unfavorable outcomes associated with uncertain tax positions taken on specific tax matters. These liabilities are based on management's assessment of whether a tax benefit is more likely than not to be sustained upon examination by tax authorities. There may be differences between the anticipated and actual outcomes of these matters that may result in subsequent recognition or derecognition of a tax position based on all the available information at the time. If material adjustments are warranted, it could affect our effective tax rate.

Additional information about recent U.S. federal tax reform, the valuation allowance and uncertain tax positions can be found in Note 11 to the Consolidated Financial Statements in Part II, Item 8 of this report.

Recently Issued Accounting Standards

The information contained in Note 1 to the Consolidated Financial Statements in Part II, Item 8 of this report concerning a description of recent accounting pronouncements, including our expected dates of adoption and the estimated effects on our results of operations and financial condition, is incorporated by reference herein.

Item 7A. Quantitative and Qualitative Disclosures About Market Risk

The information contained in Note 12 to the Consolidated Financial Statements in Part II, Item 8 of this report concerning a description of market risk management, including interest rate risk and foreign currency exchange risk, is incorporated by reference herein.

INSIGHT ENTERPRISES, INC.

INDEX TO CONSOLIDATED FINANCIAL STATEMENTS

Item 8. Financial Statements and Supplementary Data

	Page
<u>Reports of Independent Registered Public Accounting Firm</u>	46
<u>Consolidated Balance Sheets – December 31, 2018 and 2017</u>	48
<u>Consolidated Statements of Operations – For each of the years in the three-year period ended December 31, 2018</u>	49
<u>Consolidated Statements of Comprehensive Income – For each of the years in the three-year period ended December 31, 2018</u>	50
<u>Consolidated Statements of Stockholders' Equity – For each of the years in the three-year period ended December 31, 2018</u>	51
<u>Consolidated Statements of Cash Flows – For each of the years in the three-year period ended December 31, 2018</u>	52
<u>Notes to Consolidated Financial Statements</u>	53

REPORT OF INDEPENDENT REGISTERED

PUBLIC ACCOUNTING FIRM

To the Stockholders and Board of Directors

Insight Enterprises, Inc.:

Opinion on the Consolidated Financial Statements

We have audited the accompanying consolidated balance sheets of Insight Enterprises, Inc. and subsidiaries (the “Company”) as of December 31, 2018 and 2017, the related consolidated statements of operations, comprehensive income, stockholders’ equity, and cash flows for each of the years in the three-year period ended December 31, 2018, and the related notes (collectively, the “consolidated financial statements”). In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2018 and 2017, and the results of its operations and its cash flows for each of the years in the three-year period ended December 31, 2018, in conformity with U.S. generally accepted accounting principles.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (“PCAOB”), the Company’s internal control over financial reporting as of December 31, 2018, based on criteria established in Internal Control – Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission, and our report dated February 22, 2019, expressed an unqualified opinion on the effectiveness of the Company’s internal control over financial reporting.

Change in Accounting Principle

As discussed in Note 2 to the consolidated financial statements, the Company changed its method of accounting for revenue in 2018 due to the adoption of the FASB’s Accounting Standards Codification (“ASC”) Topic 606, Revenue from Contracts with Customers.

Basis for Opinion

These consolidated financial statements are the responsibility of the Company’s management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement, whether due to error or fraud. Our audits included performing procedures to assess the risks of material misstatement of the consolidated financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the consolidated financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements. We believe that our audits provide a reasonable basis for our opinion.

/s/ KPMG LLP

We have served as the Company's auditor since 1990.

Phoenix, Arizona
February 22, 2019

REPORT OF INDEPENDENT REGISTERED

PUBLIC ACCOUNTING FIRM

To the Stockholders and Board of Directors

Insight Enterprises, Inc.:

Opinion on Internal Control Over Financial Reporting

We have audited Insight Enterprises, Inc.'s and subsidiaries (the "Company") internal control over financial reporting as of December 31, 2018, based on criteria established in Internal Control – Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission. In our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2018, based on criteria established in Internal Control – Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) ("PCAOB"), the consolidated balance sheets of the Company as of December 31, 2018 and 2017, the related consolidated statements of operations, comprehensive income, stockholders' equity, and cash flows for each of the years in the three-year period ended December 31, 2018, and the related notes (collectively, the "consolidated financial statements"), and our report dated February 22, 2019 expressed an unqualified opinion on those consolidated financial statements.

Basis for Opinion

The Company's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying item 9A(a), Management's Annual Report on Internal Control over Financial Reporting. Our responsibility is to express an opinion on the Company's internal control over financial reporting based on our audit. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audit in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit of internal control over financial reporting included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audit also included performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

Definition and Limitations of Internal Control Over Financial Reporting

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that

transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

/s/ KPMG LLP

Phoenix, Arizona

February 22, 2019

INSIGHT ENTERPRISES, INC.

CONSOLIDATED BALANCE SHEETS

(in thousands, except per share data)

ASSETS	December 31,	
	2018	2017
Current assets:		
Cash and cash equivalents	\$ 142,655	\$ 105,831
Accounts receivable, net	1,931,736	1,814,560
Inventories	148,503	194,529
Inventories not available for sale	—	36,956
Other current assets	115,683	152,467
Total current assets	2,338,577	2,304,343
Property and equipment, net	72,954	75,252
Goodwill	166,841	131,431
Intangible assets, net	112,179	100,778
Deferred income taxes	7,967	17,064
Other assets	77,429	56,783
	\$2,775,947	\$2,685,651
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable—trade	\$978,104	\$899,075
Accounts payable—inventory financing facility	304,130	319,468
Accrued expenses and other current liabilities	190,733	175,860
Current portion of long-term debt	1,395	16,592
Deferred revenue	62,300	88,979
Total current liabilities	1,536,662	1,499,974
Long-term debt	195,525	296,576
Deferred income taxes	683	717
Other liabilities	56,088	44,915
	1,788,958	1,842,182
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;		
35,482 and 35,829 shares issued and outstanding,		
respectively	355	358
Additional paid-in capital	323,622	317,155
Retained earnings	704,665	550,220
Accumulated other comprehensive loss – foreign currency	(41,653)	(24,264)

translation adjustments		
Total stockholders' equity	986,989	843,469
	\$2,775,947	\$2,685,651

See accompanying notes to consolidated financial statements.

INSIGHT ENTERPRISES, INC.

CONSOLIDATED STATEMENTS OF OPERATIONS

(in thousands, except per share data)

	Years Ended December 31,		
	2018	2017	2016
Net sales:			
Products	\$6,249,938	\$6,038,744	\$4,997,263
Services	830,198	664,879	488,252
Total net sales	7,080,136	6,703,623	5,485,515
Costs of goods sold:			
Products	5,711,400	5,512,402	4,571,462
Services	375,018	272,651	170,951
Total costs of goods sold	6,086,418	5,785,053	4,742,413
Gross profit	993,718	918,570	743,102
Operating expenses:			
Selling and administrative expenses	756,529	723,328	585,243
Severance and restructuring expenses	3,424	9,002	4,580
Loss on sale of foreign entity	—	3,646	—
Acquisition-related expenses	282	3,329	4,447
Earnings from operations	233,483	179,265	148,832
Non-operating (income) expense:			
Interest income	(1,075)	(1,209)	(1,066)
Interest expense	22,812	19,174	8,628
Net foreign currency exchange (gain) loss	(1,498)	855	522
Other expense, net	1,342	1,347	1,290
Earnings before income taxes	211,902	159,098	139,458
Income tax expense	48,225	68,415	54,768
Net earnings	\$163,677	\$90,683	\$84,690
Net earnings per share:			
Basic	\$4.60	\$2.54	\$2.35
Diluted	\$4.55	\$2.50	\$2.32
Shares used in per share calculations:			
Basic	35,586	35,741	36,102
Diluted	36,009	36,207	36,438

See accompanying notes to consolidated financial statements.

INSIGHT ENTERPRISES, INC.

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(in thousands)

	Years Ended December 31,		
	2018	2017	2016
Net earnings	\$163,677	\$90,683	\$84,690
Other comprehensive income (loss), net of tax:			
Foreign currency translation adjustments	(17,389)	31,835	(16,063)
Total comprehensive income	\$146,288	\$122,518	\$68,627

See accompanying notes to consolidated financial statements.

INSIGHT ENTERPRISES, INC.

CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY

(in thousands)

					Accumulated			Total Stockholders' Equity
	Common Stock Shares	Par Value	Treasury Stock Shares	Stock Amount	Additional Paid-in Capital	Other Comprehensive Loss	Retained Earnings	
Balances at December 31, 2015	37,106	371	—	—	316,686	(40,036)	408,721	685,742
Issuance of common stock under employee stock plans, net of shares withheld for payroll								
taxes	269	3	—	—	(2,222)	—	—	(2,219)
Stock-based compensation expense	—	—	—	—	11,058	—	—	11,058
Tax benefit from stock-based compensation	—	—	—	—	235	—	—	235
Repurchase of treasury stock	—	—	(1,891)	(50,000)	—	—	—	(50,000)
Retirement of treasury stock	(1,891)	(19)	1,891	50,000	(16,107)	—	(33,874)	—
Foreign currency translation adjustments, net of								
tax	—	—	—	—	—	(16,063)	—	(16,063)
Net earnings	—	—	—	—	—	—	84,690	84,690
Balances at December 31, 2016	35,484	355	—	—	309,650	(56,099)	459,537	713,443
Issuance of common stock under employee stock plans, net of shares withheld for payroll								
taxes	345	3	—	—	(5,321)	—	—	(5,318)
Stock-based compensation expense	—	—	—	—	12,826	—	—	12,826
Foreign currency translation adjustments, net of								
tax	—	—	—	—	—	31,835	—	31,835
Net earnings	—	—	—	—	—	—	90,683	90,683
Balances at December 31, 2017	35,829	358	—	—	317,155	(24,264)	550,220	843,469
Cumulative effect of accounting change	—	—	—	—	—	—	7,176	7,176
Issuance of common stock under employee stock plans, net of shares withheld for payroll								
taxes	294	3	—	—	(3,233)	—	—	(3,230)

Edgar Filing: INSIGHT ENTERPRISES INC - Form 10-K

taxes								
Stock-based compensation expense	—	—	—	—	15,355	—	—	15,355
Repurchase of treasury stock	—	—	(641)	(22,069)	—	—	—	(22,069)
Retirement of treasury stock	(641)	(6)	641	22,069	(5,655)	—	(16,408)	—
Foreign currency translation adjustments, net of								
tax	—	—	—	—	—	(17,389)	—	(17,389)
Net earnings	—	—	—	—	—	—	163,677	163,677
Balances at December 31, 2018	35,482	\$355	—	\$—	\$323,622	\$(41,653)	\$704,665	\$986,989

See accompanying notes to consolidated financial statements.

INSIGHT ENTERPRISES, INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS

(in thousands)

	Years Ended December 31,		
	2018	2017	2016
Cash flows from operating activities:			
Net earnings	\$ 163,677	\$ 90,683	\$ 84,690
Adjustments to reconcile net earnings to net cash provided by			
(used in) operating activities:			
Depreciation and amortization of property and equipment	21,721	25,787	27,493
Amortization of intangible assets	15,737	16,812	10,637
Provision for losses on accounts receivable	4,776	5,245	2,452
Write-downs of inventories	2,912	2,776	2,934
Write-off of property and equipment	393	418	—
Non-cash stock-based compensation	15,355	12,826	11,058
Deferred income taxes	9,126	19,139	10,517
Loss on sale of foreign entity	—	3,646	—
Loss on extinguishment of debt	624	—	—
Gain on sale of real estate	—	—	(338)
Changes in assets and liabilities:			
Increase in accounts receivable	(46,883)	(208,065)	(168,966)
Decrease (increase) in inventories	46,534	(14,046)	(50,712)
Decrease (increase) in other assets	12,424	3,342	(50,181)
Increase (decrease) in accounts payable	29,844	(237,457)	193,582
Increase (decrease) in deferred revenue	9,178	(27,184)	10,633
Increase (decrease) in accrued expenses and other			
liabilities	7,229	(988)	12,278
Net cash provided by (used in) operating			
activities	292,647	(307,066)	96,077
Cash flows from investing activities:			
Acquisitions, net of cash and cash equivalents			
acquired	(74,938)	(186,932)	(10,297)
Purchases of property and equipment	(17,251)	(19,230)	(12,266)
Proceeds from sale of foreign entity	479	1,517	—
Proceeds from sale of real estate	—	—	1,378
Net cash used in investing activities	(91,710)	(204,645)	(21,185)
Cash flows from financing activities:			
Borrowings on senior revolving credit facility	569,232	1,151,216	772,218
Repayments on senior revolving credit facility	(686,732)	(1,033,716)	(772,218)
Borrowings on accounts receivable securitization	3,357,000	3,961,389	2,802,000

financing facility			
Repayments on accounts receivable securitization			
financing facility	(3,188,000)	(3,975,889)	(2,851,500)
Borrowings under Term Loan A	—	175,000	—
Repayments under Term Loan A	(166,250)	(8,750)	—
Repayments under other financing agreements	(2,372)	(5,636)	(1,309)
Payments on capital lease obligations	(999)	(1,089)	(445)
Net (repayments) borrowings under inventory			
financing facility	(15,338)	141,037	48,603
Payment of debt issuance costs	(270)	(1,123)	(3,360)
Payment of payroll taxes on stock-based			
compensation through shares withheld	(3,230)	(5,318)	(2,219)
Repurchases of common stock	(22,069)	—	(50,000)
Net cash (used in) provided by financing activities	(159,028)	397,121	(58,230)
Foreign currency exchange effect on cash, cash			
equivalents and restricted cash balances	(5,061)	16,089	(1,937)
Increase (decrease) in cash, cash equivalents and restricted cash	36,848	(98,501)	14,725
Cash, cash equivalents and restricted cash at beginning of year	107,445	205,946	191,221
Cash, cash equivalents and restricted cash at end of year	\$ 144,293	\$ 107,445	\$ 205,946

See accompanying notes to consolidated financial statements.

INSIGHT ENTERPRISES, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(1) Operations and Summary of Significant Accounting Policies

Description of Business

We empower organizations of all sizes with Intelligent Technology Solutions™ and services to maximize the business value of IT in North America; Europe, the Middle East and Africa (“EMEA”); and Asia-Pacific (“APAC”). As a Fortune 500-ranked global provider of digital innovation, cloud/data center transformation, connected workforce, and supply chain optimization solutions and services, we help clients innovate and optimize their operations to run smarter. Our 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 certain countries in EMEA and APAC include hardware, software and services. Our offerings in the remainder of our EMEA and APAC segments are largely software and certain software-related services.

Acquisitions

Effective August 1, 2018, we acquired Cardinal Solutions Group, Inc. (“Cardinal”), a digital solutions provider, for a purchase price, net of cash acquired, of approximately \$78,800,000, including the final working capital adjustment and estimated tax adjustment to be paid in future periods. The acquisition was funded using cash on hand.

Effective September 26, 2017, we acquired Caase Group B.V. (referred to herein as, “Caase.com”), a Dutch cloud service provider, for a purchase price, net of cash acquired, of approximately \$6,038,000. The acquisition was funded using cash on hand.

Effective January 6, 2017, we acquired Datalink Corporation (“Datalink”), a leading provider of IT services and enterprise data center solutions based in Eden Prairie, Minnesota, for a cash purchase price of \$257,456,000, which included cash and cash equivalents acquired of \$76,597,000. The acquisition was funded using cash on hand and borrowings under our revolving facility in the form of an incremental Term Loan A (“TLA”).

Effective September 1, 2016, we acquired Ignia Pty Ltd (“Ignia”), a business technology consulting and managed services provider headquartered in Perth, Australia, with an additional office in Melbourne, for a cash purchase price, net of cash acquired, of approximately \$10,804,000. The acquisition was funded using cash on hand.

Our results of operations include the results of Cardinal, Caase.com, Datalink and Ignia from their respective acquisition dates. (See Note 20 for a discussion of our acquisitions).

Principles of Consolidation and Presentation

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 consolidated subsidiaries, unless the context suggests otherwise.

INSIGHT ENTERPRISES, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

Business Combinations

The Company accounts for all business combinations using the acquisition method of accounting, which allocates the fair value of the purchase consideration to the tangible and intangible assets acquired and liabilities assumed based on their estimated fair values. The excess of the purchase consideration over the fair values of these identifiable assets and liabilities is recorded as goodwill. When determining the fair values of assets acquired and liabilities assumed, management makes estimates and assumptions. Initial purchase price allocations are subject to revision within the measurement period, not to exceed one year from the date of acquisition. Acquisition-related expenses and transaction costs associated with business combinations are expensed as incurred.

Use of Estimates

The preparation of consolidated financial statements in conformity with U.S. generally accepted accounting principles (“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 obligations, valuation allowances for deferred tax assets and impairment of long-lived assets, including purchased intangibles and goodwill, if indicators of potential impairment exist.

Cash, Cash Equivalents and Restricted Cash

We consider all highly liquid investments with maturities at the date of purchase of three months or less to be cash equivalents.

Book overdrafts represent the amount by which outstanding checks issued, but not yet presented to our banks for disbursement, exceed balances on deposit in applicable bank accounts and a legal right of offset with our positive cash balances in other financial institution accounts does not exist. Our book overdrafts, which are not directly linked to a credit facility or other bank overdraft arrangement, do not result in an actual bank financing, but rather constitute normal unpaid trade payables at the end of a reporting period. These amounts are included within our accounts payable balance in our consolidated balance sheets. The changes in these book overdrafts are included within the changes in accounts payable line item as a component of cash flows from operating activities in our consolidated statements of cash flows.

Restricted cash generally includes any cash that is restricted as to withdrawal or usage. These amounts are included with cash and cash equivalents on the consolidated statement of cash flows. All cash receipts/payments with third parties directly to/from restricted cash accounts are reported as an operating, investing or financing cash flow, based on the nature of the transaction.

Allowance for Doubtful Accounts

We establish an allowance for doubtful accounts to reflect our best estimate of probable losses inherent in our accounts receivable balance. The allowance is based on our evaluation of the aging of the receivables, historical

write-offs and the current economic environment. We write off individual accounts against the reserve when we no longer believe that it is probable that we will collect the receivable because we become aware of a client's or partner's inability to meet its financial obligations. Such awareness may be as a result of bankruptcy filings, or deterioration in the client's or partner's operating results or financial position.

INSIGHT ENTERPRISES, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

Inventories

We state inventories, principally purchased IT hardware, at the lower of weighted average cost (which approximates cost under the first-in, first-out method) or net realizable value. We evaluate inventories for excess, obsolescence or other factors that may render inventories unmarketable at normal margins. Write-downs are recorded so that inventories reflect the approximate net realizable value and take into account contractual provisions with our partners governing price protection, stock rotation and return privileges relating to obsolescence. Because of the large number of transactions and the complexity of managing the price protection and stock rotation process, estimates are made regarding write-downs of the carrying amount of inventories. Additionally, assumptions about future demand, market conditions and decisions by manufacturers/publishers to discontinue certain products or product lines can affect our decision to write down inventories.

Inventories not available for sale relate to product sales transactions in which we are warehousing the product and will be deploying the product to our clients' designated locations subsequent to period-end. Additionally, we may perform services on a portion of the product prior to shipment to our clients and will be paid a fee for doing so. Although these product contracts are non-cancelable with customary credit terms beginning the date the inventories are segregated in our warehouse and invoiced to the client and the warranty periods begin on the date of invoice under previous accounting guidance, prior to Topic 606, these transactions did not meet the sales recognition criteria under GAAP. Therefore, we did not record sales and the inventories were classified as inventories not available for sale on our consolidated balance sheet until the product was delivered. If clients remitted payment before we delivered the product to them, then we recorded the payments received as deferred revenue on our consolidated balance sheet until such time as the product was delivered. For additional information about our accounting policy related to these transactions after adopting Topic 606, see the Bill and Hold Transactions section of our Sales Recognition policy, below.

Property and Equipment

We record property and equipment at cost. We capitalize major improvements and betterments, while maintenance, repairs and minor replacements are expensed as incurred. Depreciation or amortization is provided using the straight-line method over the following estimated economic lives of the assets:

	Estimated Economic Life
Leasehold improvements	Shorter of underlying lease term or asset life
Furniture and fixtures	2 – 7 years
Equipment	3 – 5 years
Software	3 – 10 years
Buildings	29 years

Costs incurred to develop internal-use software during the application development stage, including capitalized interest, are recorded in property and equipment at cost. External direct costs of materials and services consumed in developing or obtaining internal-use computer software and payroll and payroll-related costs for teammates who are directly associated with and who devote time to internal-use computer software development projects, to the extent of

the time spent directly on the project and specific to application development, are capitalized.

Reviews are regularly performed to determine whether facts and circumstances exist which indicate that the economic life is shorter than originally estimated or the carrying amount of assets may not be recoverable. When an indication exists that the carrying amount of long-lived assets may not be recoverable, we assess the recoverability of our assets by comparing the projected undiscounted net cash flows associated with the related asset or group of assets over their remaining lives against their respective carrying amounts. Such impairment test is based on the lowest level for which identifiable cash flows are largely independent of the cash flows of other groups of assets and liabilities. Impairment, if any, is based on the excess of the carrying amount over the estimated fair value of those assets.

INSIGHT ENTERPRISES, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

Goodwill

Goodwill is recorded when the purchase price paid for an acquisition exceeds the estimated fair value of net identified tangible and intangible assets acquired. Goodwill is tested for impairment at the reporting unit level on an annual basis in the fourth quarter and between annual tests if an event occurs or circumstances change that would more likely than not reduce the fair value of the reporting unit below its carrying value. We may first perform a qualitative assessment to determine whether it is more likely than not that the fair value of a reporting unit is less than its carrying value. If it is concluded that this is the case, it is necessary to perform a quantitative goodwill impairment test. Otherwise, the goodwill impairment test is not required. The quantitative goodwill impairment review process compares the fair value of the reporting unit in which goodwill resides to its carrying value. The Company has three reporting units, which are the same as our operating segments. Multiple valuation techniques would likely be used to assess the fair value of the reporting unit. These techniques include the use of estimates and assumptions that are inherently uncertain. Changes in these estimates and assumptions could materially affect the determination of fair value or goodwill impairment, or both.

Intangible Assets

We amortize finite lived intangible assets acquired in business combinations using the straight-line method over the estimated economic lives of the intangible assets from the date of acquisition.

We regularly perform reviews to determine if facts and circumstances exist which indicate that the economic lives of our intangible assets are shorter than originally estimated or the carrying amount of these assets may not be recoverable. When an indication exists that the carrying amount of intangible assets may not be recoverable, we assess the recoverability of our assets by comparing the projected undiscounted net cash flows associated with the related asset or group of assets over their remaining lives against their respective carrying amounts. Such impairment test is based on the lowest level for which identifiable cash flows are largely independent of the cash flows of other groups of assets and liabilities. Impairment, if any, is based on the excess of the carrying amount over the estimated fair value of those assets.

Self-Insurance

We are self-insured in the United States for medical insurance up to certain annual stop-loss limits and workers' compensation claims up to certain deductible limits. We establish reserves for claims, both reported and incurred but not reported, using currently available information as well as our historical claims experience.

Treasury Stock

We record repurchases of our common stock as treasury stock at cost. We also record the subsequent retirement of these treasury shares at cost. The excess of the cost of the shares retired over their par value is allocated between additional paid-in capital and retained earnings. The amount recorded as a reduction of paid-in capital is based on the excess of the average original issue price of the shares over par value. The remaining amount is recorded as a reduction of retained earnings.

Sales Recognition

We adopted ASU No. 2014-09, “Revenue from Contracts with Customers,” which created FASB Topic 606 (“Topic 606”) with a date of initial application of January 1, 2018. As a result, we changed our accounting policy for sales recognition as detailed below. Revenue is measured based on the consideration specified in a contract with a client, and excludes any sales incentives and amounts collected on behalf of third parties. The Company recognizes revenue when it satisfies a performance obligation by transferring control of a product or service to a client.

Taxes assessed by a governmental authority that are both imposed on and concurrent with a specific revenue-producing transaction, that are collected by the Company from a client, are excluded from revenue. This is consistent with our accounting treatment prior to the adoption of Topic 606, whereby we reported sales net of any sales-based taxes assessed by governmental authorities that are imposed on and concurrent with sales transactions.

INSIGHT ENTERPRISES, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

We record the freight we bill to our clients as product net sales and the related freight costs we pay as product costs of goods sold. This is consistent with our accounting treatment prior to the adoption of Topic 606.

Nature of Goods and Services

We sell hardware and software products on both a stand-alone basis without any services and as solutions bundled with services.

When we provide a combination of hardware and software products with the provision of services, we separately identify our performance obligations under our contract with the client as the distinct goods (hardware and/or software products) or services that will be provided. The total transaction price for an arrangement with multiple performance obligations is allocated at contract inception to each distinct performance obligation in proportion to its stand-alone selling price. The stand-alone selling price is the price at which we would sell a promised good or service separately to a client. We estimate the price based on observable inputs, including direct labor hours and allocable costs, or use observable stand-alone prices when they are available.

Product Offerings

Hardware

We recognize hardware product revenue at the point in time when a client takes control of the hardware, which typically occurs when title and risk of loss have passed to the client at its destination. Our selling terms and conditions were modified during the fourth quarter of 2017 to specify F.O.B. destination contractual terms such that control is transferred from the Company at the point in time when the product is received by the client. Prior to the adoption of Topic 606, because we either (i) had a general practice of covering client losses while products were in transit despite title and risk of loss contractually transferring at the point of shipment or (ii) had specifically stated F.O.B. destination contractual terms with the client, delivery was not deemed to have occurred until the point in time when the product was received by the client. The transaction price for hardware sales is adjusted for estimated product returns that we expect to occur under our return policy based upon historical return rates.

We leverage drop-shipment arrangements with many of our partners and suppliers to deliver products to our clients without having to physically hold the inventory at our warehouses, thereby increasing efficiency and reducing costs. We recognize revenue for drop-shipment arrangements on a gross basis as the principal in the transaction when the product is received by the client because we control the product prior to transfer to the client. We also assume primary responsibility for fulfillment in the arrangement, we assume inventory risk if the product is returned by the client, we set the price of the product charged to the client and we work closely with our clients to determine their hardware specifications. This is consistent with our accounting treatment prior to the adoption of Topic 606.

Bill and Hold Transactions

We offer a service to our customers whereby clients may purchase product that we procure on their behalf and, at our clients' direction, store the product in our warehouse for a designated period of time, with the intention of deploying the product to the clients' designated locations at a later date. These warehousing services are designed to help our clients with inventory management challenges associated with technology roll-outs, product that is moving to end of life, and/or clients needing integrated stock available for immediate deployment. In some circumstances, we may also

perform lab integration services on a portion of the product prior to shipment to our clients for a separate fee. The client is invoiced and title transfers to the client upon receipt of the product at our warehouse. These product contracts are non-cancelable with customary credit terms beginning the date the product is received in our warehouse and the warranty periods begin on the date of invoice. Revenue is recognized for the sale of the product to the client upon receipt of the product at our warehouse.

The warehousing services and lab integration fees are considered separate performance obligations. Under previous accounting guidance, prior to the adoption of Topic 606, it was determined that these product sales transactions did not meet the revenue recognition criteria under GAAP. Therefore, we did not record product net sales, and the inventories were classified as inventories not available for sale on

INSIGHT ENTERPRISES, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

our consolidated balance sheets, until the product was delivered to the clients' designated location. If clients remitted payment before we delivered the product to them, we recorded the payments received as deferred revenue on our consolidated balance sheets until such time as the product was delivered.

Software

We recognize revenue from software sales at the point in time when the client acquires the right to use or copy software under license and control transfers to the client. For renewals, revenue is recognized upon the commencement of the term of the software license agreement or when the renewal term begins, as applicable. This is a change from our accounting treatment prior to the adoption of Topic 606, whereby revenue from renewals of software licenses was recognized when the parties agreed to the renewal or extension, provided that all other revenue recognition criteria had been met.

Although the revenue recognition treatment for term software license renewals has changed as described above, a substantial portion of the software licenses we sell are perpetual software licenses and do not require renewal or extension after their initial purchase by the client. Such perpetual licenses are periodically subject to true-up, whereby additional perpetual licenses are sold under the client's pre-existing master agreement. Such true-ups are generally sold in arrears, and clients are invoiced for the additional licenses they had already been utilizing. Since the client controlled these additional perpetual licenses prior to the true-up, software revenue related to the underlying additional licenses is recognized when we agree to the true-up with our client and the partner. This is consistent with our accounting treatment prior to the adoption of Topic 606.

For sales transactions for certain security software products that are sold with integral third-party delivered software maintenance, we changed our accounting to record the software license on a net basis, as the agent in the arrangement, given the predominant nature of the goods and services provided to the customer. This is a change from our accounting treatment prior to the adoption of Topic 606, whereby we recorded the sale of these software products on a gross sales recognition basis.

Services Offerings

Software Maintenance

Software maintenance agreements provide our clients with the right to obtain any software upgrades, bug fixes and help desk and other support services directly from the software publisher at no additional charge during the term of the software maintenance agreements. We act as the software publisher's agent in selling these software maintenance agreements and do not assume any performance obligation to the client under the agreements. As a result, we are the agent in these transactions and these sales are recorded on a net sales recognition basis. Under net sales recognition, the cost of the software maintenance agreement is recorded as a reduction to sales, resulting in net sales equal to the gross profit on the transaction, and there are no costs of goods sold. Because we are acting as the software publisher's agent, revenue is recognized when the parties agree to the initial purchase, renewal or extension as our agency services are then complete. This is consistent with our accounting treatment prior to the adoption of Topic 606. We report all fees earned from activities reported net within our services net sales category in our consolidated statements of operations.

Cloud / Software-as-a-Service Offerings

Cloud or software-as-a-service subscription products provide our clients with access to software products hosted in the public cloud without the client taking possession of the software. We act as the software publisher's agent in selling these software-as-a service subscription products and do not host the software products on our servers. We do not take control of the software products or assume any performance obligations to the clients related to the provisioning of the offerings in the cloud. As a result, these sales are recorded on a net sales recognition basis. This is consistent with our accounting treatment prior to the adoption of Topic 606. We report all fees earned from activities reported net within our services net sales category in our consolidated statements of operations.

INSIGHT ENTERPRISES, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

Insight Delivered Services

We design, procure, deploy, implement and manage solutions that combine hardware, software and services to help businesses run smarter. Such services are provided by us or third-party sub-contract vendors as part of bundled arrangements, or are provided separately on a stand-alone basis as technical, consulting or managed services engagements. If the services are provided as part of a bundled arrangement with hardware and software, the hardware, software and services are generally distinct performance obligations. In general, we recognize revenue from services engagements as we perform the underlying services and satisfy our performance obligations.

We recognize revenue from sales of services by measuring progress toward complete satisfaction of the related service performance obligation. Billings for such services that are made in advance of the related revenue recognized are recorded as a contract liability.

Specific revenue recognition practices for certain of our services offerings are described in further detail below.

Time and Materials Services Contracts

We recognize revenue for professional services engagements that are on a time and materials basis based upon hours incurred for the performance completed to date for which we have the right to consideration, even if such amounts have not yet been invoiced as of period end. This is consistent with our accounting treatment prior to the adoption of Topic 606.

Fixed Fee Services Contracts

We recognize revenue on fixed fee professional services contracts using a proportional performance method of revenue recognition based on the ratio of direct labor and other allocated costs incurred to total estimated direct labor and other allocated costs. This is consistent with our accounting treatment prior to the adoption of Topic 606.

OneCall Support Services Contracts

When we sell certain hardware and/or software products to our clients, we also enter into service contracts with them. These contracts are support service agreements for the hardware and/or software products that were purchased from us. Under certain support services contracts, although we purchase third-party support contracts for maintenance on the specific hardware or software products we have sold, our internal support desk assists the client first by performing an initial technical triage to determine the source of the problem and whether we can direct the client on how to fix the problem. We refer to these services as “OneCall.” We act as the principal in the transaction because we perform the OneCall services over the term of the support service contract and we set the price of the service charged to the client. As a result, we recognize revenue from OneCall extended service contracts on a gross sales recognition basis ratably over the contract term of the stand ready obligation, generally one to three years. This is consistent with our accounting treatment prior to the adoption of Topic 606.

On our consolidated balance sheet, a significant portion of our contract liabilities balance relates to OneCall support services agreements for which clients have paid or have been invoiced but for which we have not yet recognized the applicable services revenue. We also defer incremental direct costs to fulfill our service contracts that we prepay to third parties for direct support of our fulfillment of the service contract to our clients under our contract terms and

amortize them into operations over the term of the contracts.

Vendor Direct Support Services Contracts

When we do not provide OneCall services to the client on hardware and/or software products that were purchased, the client may purchase a vendor direct support services contract through us. Under these contracts, our clients call the manufacturer/publisher or its designated service organization directly for both the initial technical triage and any follow-up assistance. We act as the manufacturer/publisher's agent in selling these support service contracts and do not assume any performance obligation to the client under the arrangements. As a result, these sales are recorded on a net sales recognition basis similar to software maintenance agreements, as discussed above.

INSIGHT ENTERPRISES, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

Because we are acting as the manufacturer/publisher's agent, revenue is recognized when the parties agree to the purchase of the support services contract as our agency services are then complete. This is consistent with our accounting treatment prior to the adoption of Topic 606.

Third-party Provided Services

A majority of our third-party sub-contractor services contracts are entered into in conjunction with other services contracts under which the services are performed by Insight teammates. We have concluded that we control all services under the contract and can direct the third-party sub-contractor to provide the requested services. As such, we act as the principal in the transaction and record the services under a gross sales recognition basis, with the selling price being recorded in sales and our cost to the third-party service provider being recorded in costs of goods sold. For certain third-party service contracts in which we are not responsible for fulfillment of the services, we have concluded that we are an agent in the transaction and record revenue on a net sales recognition basis. This is consistent with our accounting treatment prior to the adoption of Topic 606.

Costs of Goods Sold

Costs of goods sold include product costs, direct costs incurred associated with delivering services, outbound and inbound freight costs and provisions for inventory reserves. These costs are reduced by provisions for supplier discounts and certain payments and credits received from partners, as described under "Partner Funding" below.

Selling and Administrative Expenses

Selling and administrative expenses include salaries and wages for teammates who are not directly associated with delivering services, bonuses and incentives, stock-based compensation expense, employee-related expenses, facility-related expenses, marketing and advertising expense, reduced by certain payments and credits received from partners related to shared marketing expense programs, as described under "Partner Funding" below, depreciation of property and equipment, professional fees, amortization of intangible assets, provisions for losses on accounts receivable and other operating expenses.

Partner Funding

We receive payments and credits from partners, including consideration pursuant to volume sales incentive programs, volume purchase incentive programs and shared marketing expense programs. Partner funding received pursuant to volume sales incentive programs is recognized as it is earned as a reduction to costs of goods sold. Partner funding received pursuant to volume purchase incentive programs is allocated as a reduction to inventories based on the applicable incentives earned from each partner and is recorded in cost of goods sold as the related inventory is sold. Partner funding received pursuant to shared marketing expense programs is recorded as it is earned as a reduction of the related selling and administrative expenses in the period the program takes place if the consideration represents a reimbursement of specific, incremental, identifiable costs. Consideration that exceeds the specific, incremental, identifiable costs is classified as a reduction of costs of goods sold. The amount of partner funding recorded as a reduction of selling and administrative expenses in our statements of operations totaled \$68,571,000, \$53,227,000 and \$48,114,000 in 2018, 2017 and 2016, respectively.

Concentrations of Risk

Credit Risk

Although we are affected by the international economic climate, management does not believe material credit risk concentration existed at December 31, 2018. We monitor our clients' financial condition and do not require collateral. No single client accounted for more than 4% of our consolidated net sales in 2018.

60

INSIGHT ENTERPRISES, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

Supplier Risk

Purchases from Microsoft accounted for approximately 26% of our aggregate purchases in 2018. No other partner accounted for more than 10% of purchases in 2018. Our top five partners as a group for 2018 were Microsoft, Cisco Systems, Tech Data (a distributor), HP Inc. and Ingram Micro (a distributor), and approximately 60% of our total purchases during 2018 came from this group of partners. Although brand names and individual products are important to our business, we believe that competitive sources of supply are available in substantially all of our product categories such that, with the exception of Microsoft, we are not dependent on any single partner for sourcing products.

Advertising Costs

Advertising costs are expensed as they are incurred. Advertising expense of \$57,448,000, \$47,053,000 and \$37,565,000 was recorded in 2018, 2017 and 2016, respectively. These amounts were predominantly offset by partner funding earned pursuant to shared marketing expense programs recorded as a reduction of selling and administrative expenses, as discussed in “Partner Funding” above.

Stock-Based Compensation

Stock-based compensation is measured based on the fair value of the award on the date of grant and the corresponding expense is recognized over the period during which an employee is required to provide service in exchange for the reward. Stock-based compensation expense is classified in the same line item of our consolidated statements of operations as other payroll-related expenses specific to the employee. Compensation expense related to service-based restricted stock units (“RSUs”) is recognized on a straight-line basis over the requisite service period for the entire award. Compensation expense related to performance-based RSUs is recognized on a straight-line basis over the requisite service period for each separately vesting portion of the award as if the award was, in-substance, multiple awards (i.e., a graded vesting basis). Forfeitures are recognized as they occur.

Foreign Currencies

We use the U.S. dollar as our reporting currency. The functional currencies of our foreign subsidiaries are the local currencies. Accordingly, assets and liabilities of the subsidiaries are translated into U.S. dollars at the exchange rate in effect at the balance sheet dates. Income and expense items are translated at the average exchange rate for each month within the year. The resulting translation adjustments are recorded directly in accumulated other comprehensive income, net of tax – foreign currency translation adjustments as a separate component of stockholders’ equity. Net foreign currency transaction gains/losses, including transaction gains/losses on intercompany balances that are not of a long-term investment nature and non-functional currency cash balances, are reported as a separate component of non-operating (income) expense in our consolidated statements of operations.

Derivative Financial Instruments

We enter into forward foreign exchange contracts to mitigate the risk of non-functional currency monetary assets and liabilities on our consolidated financial statements. These forward contracts are not designated as hedge instruments. The fair value of all derivative assets and liabilities are recorded gross in the other current assets and accrued expenses and other current liabilities sections of our consolidated balance sheets. Gains/losses are recorded

net in non-operating (income) expense in our consolidated statements of operations.

Income Taxes

Income taxes are accounted for under the asset and liability method. Deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases and operating loss and tax credit carry forwards. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable earnings in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in earnings in the period that includes the enactment date.

INSIGHT ENTERPRISES, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

We recognize net deferred tax assets to the extent that we believe these assets are more likely than not to be realized. In making such a determination, we consider all available positive and negative evidence, including future reversals of existing taxable temporary differences, projected future taxable income, tax-planning strategies and results of recent operations. If we determine that we would be able to realize our deferred tax assets in the future in excess of their net recorded amount, we would make an adjustment to the deferred tax asset valuation allowance, which would reduce the provision for income taxes.

We record uncertain tax positions on the basis of a two-step process whereby (1) we determine whether it is more likely than not that the tax positions will be sustained on the basis of the technical merits of the position and (2) for those tax positions that meet the more-likely-than-not recognition threshold, we recognize the largest amount of tax benefit that is more than 50 percent likely to be realized upon ultimate settlement with the related tax authority. Interest and penalties related to unrecognized tax benefits are recognized within the income tax expense line in our consolidated statements of operations. Accrued interest and penalties are included within the related tax liability line in our consolidated balance sheets.

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 year. 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 RSUs.

A reconciliation of the denominators of the basic and diluted EPS calculations follows (in thousands, except per share data):

	Years Ended December 31,		
	2018	2017	2016
Numerator:			
Net earnings	\$ 163,677	\$ 90,683	\$ 84,690
Denominator:			
Weighted-average shares used to compute basic			
EPS	35,586	35,741	36,102
Dilutive potential common shares due to dilutive			
RSUs, net of tax effect	423	466	336
Weighted-average shares used to compute			
diluted EPS	36,009	36,207	36,438
Net earnings per share:			
Basic	\$4.60	\$2.54	\$2.35
Diluted	\$4.55	\$2.50	\$2.32

In 2018, 2017 and 2016, approximately 17,000, 40,000 and 36,000, respectively, of our RSUs were not included in the diluted EPS calculations because their inclusion would have been anti-dilutive. These share-based awards could be dilutive in the future.

Recently Issued Accounting Standards

In August 2018, the Financial Accounting Standards Board (“FASB”) issued Accounting Standard Update (“ASU”) No. 2018-15, “Intangibles – Goodwill and Other – Internal-Use Software (Subtopic 350-40): Customer’s Accounting for Implementation Costs Incurred in a Cloud Computing Arrangement That Is a Service Contract.” The new standard requires that implementation costs incurred by customers in cloud computing arrangements are deferred if they would be capitalized by customers in software licensing arrangements under the internal-use software guidance. The new standard is effective for interim and annual periods beginning after December 15, 2019, and early adoption is permitted. We adopted this new standard in the fourth quarter of 2018 and applied it retrospectively. The adoption of this standard did not have a material effect on our consolidated financial statements.

INSIGHT ENTERPRISES, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

In July 2018, the FASB issued ASU No. 2018-09, “Codification Improvements,” which clarifies and corrects unintended application of guidance and makes improvement to Codification Topics. There are various effective dates beginning with the ASU release date. We adopted the standard in 2018. The standard did not have a material effect on our consolidated financial statements.

In January 2017, the FASB issued ASU No. 2017-01, “Business Combinations (Topic 805): Clarifying the Definition of a Business.” The new standard provides a new framework for determining whether transactions should be accounted for as acquisitions (or disposals) of assets or businesses. The new standard is effective for interim and annual periods beginning after December 15, 2017, and early adoption is permitted. We adopted the standard in the first quarter of 2018. The standard did not have a material effect on our consolidated financial statements.

In November 2016, the FASB issued ASU No. 2016-18, “Restricted Cash.” The new standard requires companies to include cash and cash equivalents that have restrictions on withdrawal or use within total cash and cash equivalents when reconciling the beginning-of-period and end-of-period total amounts shown on the statement of cash flows. The new standard is effective for interim and annual periods beginning after December 15, 2017, and early adoption is permitted. The new standard is required to be adopted retrospectively. We adopted the standard in the first quarter of 2018. The standard did not have a material effect on our consolidated financial statements.

As a result of the adoption of ASU No. 2016-18, we began including amounts generally described as restricted cash or restricted cash equivalents with cash and cash equivalents when reconciling the beginning-of-period and end-of-period total amounts shown in the statement of cash flows for the twelve months ended December 31, 2018. Amounts shown in the consolidated statements of cash flows for the twelve months ended December 31, 2017 and 2016 were reclassified to conform to the current period presentation. The following table provides a reconciliation of cash, cash equivalents and restricted cash reported within the balance sheets that sum to the total of the same such amounts shown in the statements of cash flows for the years ended December 31, 2018, 2017 and 2016 (in thousands):

	December 31,	December 31,	December 31,
	2018	2017	2016
Cash and cash equivalents	\$ 142,655	\$ 105,831	\$ 202,882
Restricted cash included in other current assets	8	46	51
Restricted cash included in other non-current assets	1,630	1,568	3,013
Total cash, cash equivalents and restricted cash			
shown in the statement of cash flows	\$ 144,293	\$ 107,445	\$ 205,946

Amounts included in restricted cash represent those required to be set aside by a contractual agreement with a lessor related to certain leased office space in foreign jurisdictions. Restricted cash shown in the statement of cash flows for the year ended December 31, 2017 also includes funds deposited with a financial institution in Australia to provide a guarantee on our behalf as security for any funds we might draw under our revolving loan facility in China. The deposited funds were restricted in that we could not withdraw them as long as the related loan facility was in place. These amounts were reported in other non-current assets.

In August 2016, the FASB issued ASU No. 2016-15, "Classification of Certain Cash Receipts and Cash Payments." The new standard is intended to reduce diversity in practice in how certain transactions are classified in the statement of cash flows. It addresses eight specific cash flow issues to clarify the presentation and classification of cash receipts and cash payments in the statement of cash flows. The new standard is effective for interim and annual periods beginning after December 15, 2017, and early adoption is permitted. The new standard is required to be adopted retrospectively. We adopted the new standard in the first quarter of 2018. The standard did not have a material effect on our consolidated financial statements.

In February 2016, the FASB issued ASU No. 2016-02, "Leases," which supersedes the existing lease recognition requirements in the current accounting standard for leases. The core principal of the new standard is that an entity should recognize right-of-use ("ROU") assets and lease liabilities arising from a lease for both financing and operating leases, along with additional qualitative and quantitative

INSIGHT ENTERPRISES, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

disclosures. The new standard is to be applied using a modified retrospective transition method with the option to elect a number of practical expedients. The new standard will be effective for fiscal years beginning after December 15, 2018, including interim periods within such fiscal years.

In July 2018, the FASB issued ASU No. 2018-11, “Leases (Topic 842) – Targeted Improvements.” ASU 2018-11 provides additional guidance to Topic 842 including providing preparers an additional optional retrospective adoption method which allows entities to initially apply the new leases standard at the adoption date and recognize a cumulative effect adjustment to the opening balance of retained earnings. ASU 2018-11 also provides lessors a practical expedient to not separate lease from non-lease components, in certain situations.

We will adopt the new lease standard as of January 1, 2019 and plan to utilize the retrospective cumulative effect adjustment transition method with a cumulative effect adjustment being recorded as of the adoption date. We expect to elect certain available practical expedients including the package of practical expedients permitted under the transition guidance within the new standard, which among other things, will allow us to carry forward the historical lease classification. Additionally, we will make an accounting policy election to not record ROU assets and lease liabilities for leases with an initial term of twelve months or less on our consolidated balance sheet.

We have established a cross-functional implementation team and are in the process of finalizing the scope of arrangements that will be subject to this standard as well as assessing the impact to our systems, processes, and internal controls over financial reporting. While we are still evaluating the impact of adopting ASU No. 2016-02, we anticipate this standard will have a material impact on our other assets and other liabilities balances. The primary impact will be to record ROU assets and lease liabilities for existing operating leases on our consolidated balance sheets. Currently, we estimate adoption of the standard will result in recognition of additional ROU assets and lease liabilities of between approximately \$70 million and \$80 million, each, as of January 1, 2019.

We do not expect the adoption to have a material impact on our consolidated statements of operations or our consolidated statements of cash flows. We do not believe the standard will have a notable impact on our liquidity. The standard will have no impact on our debt-covenant compliance under our current agreements. Our analysis and evaluation of the new standard will continue through its effective date in the first quarter of 2019, including continuing to monitor any potential changes in the standard proposed by the FASB.

In January 2016, the FASB issued ASU No. 2016-01, “Financial Instruments Overview: Recognition and Measurement of Financial Assets and Financial Liabilities.” The new standard amends the guidance on the classification and measurement of financial instruments and changes the accounting for investments in equity securities. The new standard is effective for annual and interim periods in fiscal years beginning after December 15, 2017, and early adoption is permitted. We adopted the standard in the first quarter of 2018. The standard did not have a material effect on our consolidated financial statements.

On May 28, 2014, the FASB issued ASU No. 2014-09, “Revenue from Contracts with Customers,” which amends the existing accounting standards for revenue recognition. We adopted the standard in the first quarter of 2018. See Note 2 for further discussion.

(2) New Accounting Standard – Sales Recognition

We adopted ASU No. 2014-09, “Revenue from Contracts with Customers,” which created FASB Topic 606 (“Topic 606”) with a date of initial application of January 1, 2018. Topic 606 also includes Subtopic 340-40, “Other Assets and

Deferred Costs – Contracts with Customers,” which requires the deferral of incremental costs of obtaining a contract with a customer. As a result, we changed our accounting policy for sales recognition and incremental costs of obtaining a contract with a customer as detailed below.

INSIGHT ENTERPRISES, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

We applied Topic 606 using the modified retrospective transition method. In adopting the new standard, the net cumulative effect from prior periods of applying the guidance in Topic 606 was recognized as a cumulative effect adjustment to the opening balance of retained earnings in our consolidated balance sheet as of January 1, 2018. Additionally, we have elected the option to only account for contracts that remained open as of the January 1, 2018 transition date in accordance with Topic 606. Revenue recognition for contracts for which substantially all of the revenue was recognized in accordance with the revenue guidance in effect before January 1, 2018 has not been changed. The comparative information as of December 31, 2017 and for the years ended December 31, 2017 and 2016 have not been adjusted and continue to be reported under the previously applicable accounting standards. The details of the significant changes and quantitative impact of the changes are set forth below.

• For sales transactions for certain security software products that are sold with integral third-party delivered software maintenance, we changed our accounting to record both the software license and the accompanying software maintenance on a net basis, as the agent in the arrangement, given the predominant nature of the goods and services provided to the customer. Under previous guidance, we bifurcated the sale of the software license from the sale of the maintenance contract, recorded the sale of the software product on a gross sales recognition basis and recorded the sale of the software maintenance on a net sales recognition basis. This change has no effect on reported gross profit dollars associated with these transactions.

• The accounting for inventories not available for sale, otherwise known as bill and hold arrangements, changed such that a portion of revenue under the contracts is recognized earlier than we were recognizing under previous accounting standards. Bill and hold arrangements are inventory balances owned by our clients that we are warehousing and will be deploying to the clients' locations in a future period.

• The accounting for renewals of certain software term/usage licenses changed to delay or accelerate revenue recognition to the renewal period. Under previous guidance, we recognized revenue as the renewal order was completed.

• The accounting for certain contracts with our clients that include payment terms that exceed one year changed such that we recognize revenue at the point in time when control of the product is transferred to the client or over the period of time that the service is provided to the client. To the extent that a significant financing component exists in these arrangements, we will record interest income associated with the financing component of the arrangement over the payment terms of the arrangement. Under previous guidance, we deferred revenue recognition under these contracts until payments became due as a result of the extended payment terms.

• The timing of revenue recognition for certain services contracts also changed to align with an appropriate input or output method. For example, the timing of revenue recognition for certain services contracts with stated milestone terms changed to an earlier point in time when control transfers to the customer. Under previous guidance, we recognized revenue based on the milestones stated in the contract with our customer.

• The accounting for recording sales returns allowance changed from being recorded against accounts receivable to being recorded as a refund liability. As a result, in our consolidated balance sheets, we reclassified our sales returns allowance balance from accounts receivable, net to accrued expenses and other current liabilities. Under previous guidance, we recorded the sales returns allowance in accounts receivable, net and not as a separately stated liability.

• The accounting for sales commissions on contracts with performance periods that exceed one year changed such that we record such sales commissions as an asset and amortize them to expense over the related contract performance period. Under previous guidance, sales commissions were expensed in the period the transaction was generated.

The total cumulative effect adjustment from prior periods that we recognized in our consolidated balance sheet as of January 1, 2018 as an adjustment to retained earnings was \$7,176,000.

INSIGHT ENTERPRISES, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

The following tables summarize the effects of adopting Topic 606 on the Company's consolidated financial statements as of December 31, 2018 (in thousands, except for per share data):

BALANCE SHEET AT DECEMBER 31, 2018

	Pre-Topic 606		
	As Reported	Adjustments	Adoption
Cash and cash equivalents	\$142,655	\$ —	\$142,655
Accounts receivable, net	1,931,736	(145,184)	1,786,552
Inventories	148,503	—	148,503
Inventories not available for sale	—	118,936	118,936
Other current assets	115,683	39,684	155,367
Total current assets	2,338,577	13,436	2,352,013
Property and equipment, net	72,954	—	72,954
Goodwill	166,841	—	166,841
Intangible assets, net	112,179	—	112,179
Deferred income taxes	7,967	—	7,967
Other assets	77,429	(13,762)	63,667
	\$2,775,947	\$ (326)	\$2,775,621
Accounts payable – trade	\$978,104	\$ (84,504)	\$893,600
Accounts payable – inventory financing facility	304,130	—	304,130
Accrued expenses and other current liabilities	190,733	(16,557)	174,176
Current portion of long-term debt	1,395	—	1,395
Deferred revenue	62,300	121,526	183,826
Total current liabilities	1,536,662	20,465	1,557,127
Long-term debt	195,525	—	195,525
Deferred income taxes	683	—	683
Other liabilities	56,088	(11,443)	44,645
	1,788,958	9,022	1,797,980
Stockholders' equity:			
Preferred stock	—	—	—
Common stock	355	—	355
Additional paid-in capital	323,622	—	323,622
Retained earnings	704,665	(9,311)	695,354
Accumulated other comprehensive loss – foreign currency translation adjustments	(41,653)	(37)	(41,690)
Total stockholders' equity	986,989	(9,348)	977,641
	\$2,775,947	\$ (326)	\$2,775,621

INSIGHT ENTERPRISES, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

STATEMENT OF OPERATIONS FOR THE YEAR ENDED DECEMBER 31, 2018

	As		Pre-Topic
	Reported	Adjustments	606
			Adoption
Net sales:			
Products	\$6,249,938	\$ 49,497	\$6,299,435
Services	830,198	(11,675)	818,523
Total net sales	7,080,136	37,822	7,117,958
Costs of goods sold:			
Products	5,711,400	39,616	5,751,016
Services	375,018	479	375,497
Total costs of goods sold	6,086,418	40,095	6,126,513
Gross profit	993,718	(2,273)	991,445
Operating expenses:			
Selling and administrative expenses	756,529	373	756,902
Severance and restructuring expenses	3,424	—	3,424
Acquisition-related expenses	282	—	282
Earnings from operations	233,483	(2,646)	230,837
Non-operating expense, net	21,581	8	21,589
Earnings before income taxes	211,902	(2,654)	209,248
Income tax expense	48,225	(519)	47,706
Net earnings	\$ 163,677	\$ (2,135)	\$ 161,542
Net earnings per share:			
Basic	\$4.60	\$ (0.06)	\$4.54
Diluted	\$4.55	\$ (0.06)	\$4.49
Shares used in per share calculations:			
Basic	35,586	—	35,586
Diluted	36,009	—	36,009

STATEMENT OF CASH FLOWS FOR THE YEAR ENDED DECEMBER 31, 2018

The adoption of Topic 606 had no effect on net cash provided by operating activities, net cash used in investing activities or net cash used in financing activities for the year ended December 31, 2018. The adjustment to net earnings noted above in reconciling our reported results of operations for the year ended December 31, 2018 under Topic 606 to pre-Topic 606 adoption was fully offset by adjustments to the reported changes in asset and liability balances, resulting in no effect on operating cash flows.

INSIGHT ENTERPRISES, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

Disaggregation of Revenue

In the following table, revenue is disaggregated by our reportable operating segments, which are primarily defined by their related geographies, as well as by major product offering, by major client group and by recognition on either a gross basis as a principal in the arrangement, or on a net basis as an agent, for the year ended December 31, 2018 (in thousands):

	Year Ended December 31, 2018			
	North America	EMEA	APAC	Consolidated
Major Offerings				
Hardware	\$3,610,356	\$653,499	\$29,496	\$4,293,351
Software	1,112,715	736,509	107,363	1,956,587
Services	639,910	140,233	50,055	830,198
	\$5,362,981	\$1,530,241	\$186,914	\$7,080,136
Major Client Groups				
Large Enterprise / Corporate	\$3,951,900	\$1,134,696	\$49,826	\$5,136,422
Public Sector	498,873	327,818	76,567	903,258
Small and Medium-Sized Businesses	912,208	67,727	60,521	1,040,456
	\$5,362,981	\$1,530,241	\$186,914	\$7,080,136
Revenue Recognition based on acting as				
Principal or Agent in the Transaction				
Gross revenue recognition (Principal)	\$5,143,228	\$1,439,979	\$164,394	\$6,747,601
Net revenue recognition (Agent)	219,753	90,262	22,520	332,535
	\$5,362,981	\$1,530,241	\$186,914	\$7,080,136

Contract Balances

The following table provides information about receivables, contract assets and contract liabilities as of December 31, 2018 and January 1, 2018 (in thousands):

	December 31, 2018	January 1, 2018
Current receivables, which are included in "Accounts receivable, net"	\$1,931,736	\$1,909,074
Non-current receivables, which are included in "Other assets"	38,157	32,227
Contract assets, which are included in "Other current"	892	595

assets”		
Contract liabilities, which are included in “Deferred		
revenue” and “Other liabilities”	82,117	86,743

INSIGHT ENTERPRISES, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

Significant changes in the contract assets and the contract liabilities balances during the year ended December 31, 2018 are as follows (in thousands):

	Increase (Decrease)	
	Contract Assets	Contract Liabilities
Balances at January 1, 2018	\$595	\$86,743
Reclassification of the beginning contract liabilities		
to revenue, as the result of performance		
obligations satisfied	—	(72,779)
Cash received in advance and not recognized as		
revenue	—	68,153
Reclassification of the beginning contract assets to		
receivables, as the result of rights to consideration		
becoming unconditional	(595)	—
Contract assets recognized, net of reclassification to		
receivables	892	—
Balances at December 31, 2018	\$892	\$82,117

Transaction price allocated to the remaining performance obligations

The following table includes estimated net sales related to performance obligations that are unsatisfied (or partially unsatisfied) as of December 31, 2018 that are expected to be recognized in the future (in thousands):

	Products	Services	Total
2019	13	88,998	89,011
2020	5	28,906	28,911
2021	—	11,251	11,251
2022	—	4,413	4,413
2023	—	1,841	1,841
2024 and thereafter	—	376	376
Total remaining performance obligations	\$ 18	\$135,785	\$135,803

Topic 606 allows for certain practical expedients which we have elected to apply. As a result, with the exception of remaining performance obligations associated with our OneCall Support Services contracts which are included in the table above regardless of original duration, we do not disclose information about remaining performance obligations that have original expected durations of one year or less in the table above. Amounts not included in the table above have an average original expected duration of eight months. Additionally, for our time and material services contracts, whereby we have the right to consideration from a client in an amount that corresponds directly with the value to the client of our performance completed to date, we recognized revenue in the amount to which we have a right to invoice as of December 31, 2018 and do not disclose information about related remaining performance obligations in the table above. Our time and material contracts have an average expected duration of 12 months.

The majority of our backlog historically has been and continues to be open cancelable purchase orders. We do not believe that backlog as of any particular date is predictive of future results, therefore we do not include performance obligations under open cancelable purchase orders, which do not qualify for revenue recognition in accordance with Topic 606 as of December 31, 2018, in the table above.

Assets recognized for costs of obtaining a contract with a customer

We believe that the only significant incremental costs incurred to obtain contracts with our clients within the scope of Topic 606 are sales commissions. The majority of our contracts are completed within a one-year performance period, and for contracts with a specified term of one year or less, we have exercised a practical expedient, which allows us to recognize the incremental costs of obtaining a contract as an expense when incurred if the amortization period of the asset that we otherwise would

INSIGHT ENTERPRISES, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

have recognized is one year or less. Under Topic 606, we record sales commissions on contracts with performance periods that exceed one year as an asset and amortize the asset to expense over the related contract performance period. As of December 31, 2018, the related asset balance was \$2,763,000, which we expect to recognize as expense over the next 36 months. Under previous accounting standards, we recognized sales commissions as earned and recorded such amounts within selling and administrative expenses in our statements of operations.

(3) Property and Equipment

Property and equipment consist of the following (in thousands):

	December 31,	
	2018	2017
Software	\$170,327	\$171,701
Buildings	64,263	65,468
Equipment	100,421	103,542
Furniture and fixtures	38,200	38,459
Leasehold improvements	26,319	25,981
Land	5,124	5,179
	404,654	410,330
Accumulated depreciation and amortization	(331,700)	(335,078)
Property and equipment, net	\$72,954	\$75,252

We periodically assess whether any indicators of impairment existed related to our property and equipment. We incurred non-cash charges of \$393,000 and \$418,000 during 2018 and 2017, respectively, to write-off certain property and equipment. No such charges were incurred in 2016.

Depreciation and amortization expense related to property and equipment was \$21,721,000, \$25,787,000 and \$27,493,000 in 2018, 2017 and 2016, respectively. Interest charges capitalized in connection with internal-use software development projects in 2018, 2017 and 2016 were immaterial.

(4) Goodwill

The changes in the carrying amount of goodwill for the year ended December 31, 2018 are as follows (in thousands):

	North			
	America	EMEA	APAC	Consolidated
Goodwill	\$379,110	\$151,439	\$20,930	\$551,479
Accumulated impairment losses	\$(323,422)	\$(151,439)	\$(13,973)	\$(488,834)
Goodwill acquired during 2017	64,140	4,041	605	68,786
Balance at December 31, 2017	119,828	4,041	7,562	131,431
Goodwill acquired during 2018	36,440	(108)	—	36,332

Edgar Filing: INSIGHT ENTERPRISES INC - Form 10-K

Foreign currency translation adjustment	—	(184)	(738)	(922)
Balance at December 31, 2018	\$ 156,268	\$ 3,749	\$ 6,824	\$ 166,841

On August 1, 2018, we acquired Cardinal, which has been integrated into our North America business. Under the acquisition method of accounting, the purchase price for the acquisition was allocated to the tangible and identifiable intangible assets acquired and liabilities assumed based on their estimated fair values. The excess purchase price over fair value of net assets acquired of approximately \$36,440,000 was recorded as goodwill in the North America reporting unit (see Note 20). The primary driver for this acquisition was to strengthen our services capabilities and bring value to our clients within our digital innovation services solution offering.

INSIGHT ENTERPRISES, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

On September 26, 2017, we acquired Caase.com, which has been integrated into our EMEA business. Under the acquisition method of accounting, the purchase price for the acquisition was allocated to the tangible and identifiable intangible assets acquired and liabilities assumed based on their estimated fair values. The excess purchase price over fair value of net assets acquired of approximately \$4,041,000 was recorded as goodwill in the EMEA reporting unit (see Note 20). The primary driver for this acquisition was to strengthen our ability to deliver cloud and data center solutions to our clients in the Netherlands, with a view to expand into the wider European region in the near future. The change in goodwill in our EMEA operating segment as of December 31, 2018 compared to the balance as of December 31, 2017 resulted from a final balancing adjustment during the year and foreign currency translation adjustments associated with the goodwill balance.

On January 6, 2017, we acquired Datalink, which has been integrated into our North America business. Under the acquisition method of accounting, the purchase price for the acquisition was allocated to the tangible and identifiable intangible assets acquired and liabilities assumed based on their estimated fair values. The excess purchase price over fair value of net assets acquired of approximately \$64,140,000 was recorded as goodwill in the North America reporting unit (see Note 20). The primary driver for this acquisition was to strengthen our position as a leading IT solutions provider with deep technical talent delivering data center solutions to clients on premise or in the cloud.

On September 1, 2016, we acquired Ignia, which has been integrated into our APAC business. Under the acquisition method of accounting, the purchase price for the acquisition was allocated to the tangible and identifiable intangible assets acquired and liabilities assumed based on their estimated fair values. The excess purchase price over fair value of net assets acquired of approximately \$6,957,000 was recorded as goodwill in the APAC reporting unit (see Note 20). The primary driver for this acquisition was to expand our global footprint in the areas of application design, digital solutions, cloud, mobility and business analytics, while also building on our unique position to bring digital innovation solutions to our clients in the Asia-Pacific region. The change in goodwill as of December 31, 2017 compared to the balance as of December 31, 2016 resulted from a final working capital adjustment and foreign currency translation adjustments associated with the goodwill balance.

During 2018, we periodically assessed whether any indicators of impairment existed which would require us to perform an interim impairment review. As of each interim period end during the year, we concluded that a triggering event had not occurred that would more likely than not reduce the fair value of our reporting units below their carrying values. We performed our annual test of goodwill for impairment during the fourth quarter of 2018. The results of the goodwill impairment test indicated that the fair values of our North America, EMEA and APAC reporting units, estimated using the market approach, were in excess of their respective carrying values.

(5) Intangible Assets

Intangible assets consist of the following (in thousands):

	December 31,	
	2018	2017
Customer relationships	\$ 159,566	\$ 133,660
Other	5,555	4,475
	165,121	138,135
Accumulated amortization	(52,942)	(37,357)

Intangible assets, net	\$ 112,179	\$ 100,778
------------------------	------------	------------

In March and December 2017, respectively, the customer relationship intangible assets associated with the 2012 acquisition of Inmac and the 2011 acquisition of Ensynch were fully amortized. As such, the gross intangible assets balance and the accumulated amortization balance were both reduced by approximately \$2,516,000, which had no effect on the net intangible assets balance reported in the accompanying consolidated balance sheet as of December 31, 2017.

During 2018, we periodically assessed whether any indicators of impairment existed related to our intangible assets. As of each interim period end during the year, we concluded that a triggering event had not occurred that would more likely than not reduce the fair value of our intangible assets below their carrying values.

INSIGHT ENTERPRISES, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

Amortization expense recognized in 2018, 2017 and 2016 was \$15,737,000, \$16,812,000 and \$10,637,000, respectively.

Future amortization expense for the remaining unamortized balance as of December 31, 2018 is estimated as follows (in thousands):

	Amortization
Years Ending December 31,	Expense
2019	\$ 14,602
2020	14,590
2021	14,429
2022	14,256
2023	13,831
Thereafter	40,471
Total amortization expense	\$ 112,179

(6) Accounts Payable - Inventory Financing Facility

We have entered into an agreement with a financial intermediary to facilitate the purchase of inventory from various suppliers under certain terms and conditions, as described below. These amounts are classified separately as accounts payable - inventory financing facility in the accompanying consolidated balance sheets.

Our inventory financing facility was amended on March 23, 2018 to increase the aggregate availability for vendor purchases under the facility from \$325,000,000 to \$400,000,000, of which \$304,130,000 was outstanding at December 31, 2018. In conjunction with the increase, we no longer have the option to request additional increases in the aggregate amount available under the inventory financing facility without amending the facility. The facility matures on June 23, 2021. Additionally, the facility may be renewed under certain circumstances described in the agreement for successive 12-month periods. Interest does not accrue on accounts payable under this facility provided the accounts payable are paid within stated vendor terms (typically 60 days); however, we impute interest on the average daily balance outstanding during these stated vendor terms based on our blended incremental borrowing rate during the period under our senior revolving credit facility and our accounts receivable securitization financing facility. Imputed interest of \$10,593,000, \$6,736,000 and \$3,385,000 was recorded in 2018, 2017 and 2016, respectively. If balances are not paid within stated vendor terms, they will accrue interest at prime plus 1.25%. The facility is guaranteed by the Company and each of its material domestic subsidiaries and is secured by a lien on substantially all of the Company's and each guarantor's assets.

(7) Debt, Capital Lease and Other Financing Obligations

Debt

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

	December 31,	
	2018	2017
Senior revolving credit facility	\$—	\$117,500
Term Loan A (less unamortized debt issuance costs of \$873 in		
2017)	—	165,377
Accounts receivable securitization financing facility	194,000	25,000
Capital leases and other financing obligations	2,920	5,291
Total	196,920	313,168
Less: current portion of long-term debt	(1,395)	(16,592)
Long-term debt	\$195,525	\$296,576

Our senior revolving credit facility (“revolving facility”) is used for general corporate purposes, which may include acquisitions and share repurchases, and may be used for borrowings in certain

INSIGHT ENTERPRISES, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

foreign currencies and for letters of credit, in each case up to specified sublimits. The revolving facility has an aggregate U.S. dollar equivalent maximum borrowing amount of \$350,000,000, including a maximum borrowing capacity that may be used for borrowing in certain foreign currencies of \$50,000,000. On January 6, 2017, in connection with the acquisition of Datalink, we amended our revolving facility to expand the facility by \$175,000,000 in the form of an incremental Term Loan A (“TLA”). On December 7, 2018, we paid off the remaining balance of the TLA. The revolving facility is guaranteed by the Company’s material domestic subsidiaries and are secured by a lien on substantially all of the Company’s and each guarantor’s assets.

The interest rates applicable to borrowings under the revolving facility and the TLA are based on the leverage ratio of the Company as set forth on a pricing grid in the agreement. Amounts outstanding under the revolving facility and TLA bear interest, payable quarterly, at a floating rate equal to the prime rate plus a predetermined spread of 0.00% to 0.75% or, at our option, a LIBOR rate plus a pre-determined spread of 1.25% to 2.25%. The floating interest rate applicable at December 31, 2018 was 3.66% per annum for the revolving facility. In addition, we pay a quarterly commitment fee on the unused portion of the facility of 0.25% to 0.45%, and our letter of credit participation fee ranges from 1.25% to 2.25%. During 2018, 2017 and 2016, due to availability under our accounts receivable securitization financing facility (“ABS facility”), weighted average borrowings under our revolving facility were \$16,684,000, \$63,604,000 and \$35,811,000, respectively. Interest expense associated with the revolving facility and TLA was \$8,198,000, \$8,491,000 and \$2,191,000 in 2018, 2017 and 2016, respectively, including the commitment fee and amortization of deferred financing fees. As of December 31, 2018, \$350,000,000 was available under our revolving facility. See discussion of the maximum leverage ratio under “Debt Covenants” below. The revolving facility matures on June 23, 2021.

Our ABS facility was amended on June 27, 2018 to, among other things, renew the borrowing program for a three-year term expiring June 23, 2021. The ABS facility has a maximum aggregate borrowing availability of \$250,000,000. Under our ABS facility, we can sell receivables periodically to a special purpose accounts receivable and financing entity (the “SPE”), which is exclusively engaged in purchasing receivables from us. The SPE is a wholly-owned, bankruptcy-remote entity that we have included in our consolidated financial statements. The SPE funds its purchases by selling undivided interests in eligible trade accounts receivable to independent financial institution purchasers under the ABS facility (“Purchasers”), which is administered by an independent financial institution agent. The SPE’s assets are available first and foremost to satisfy the claims of the Purchasers, and we cannot convey any interest in the receivables sold to the Purchasers (or allow any adverse claims on the receivables) without the consent of the Purchasers. In addition, the SPE is required to maintain a minimum capital amount and various reserves pursuant to the terms of the ABS facility. We maintain effective control over the receivables that are sold. Accordingly, the receivables remain recorded on our consolidated balance sheets. At December 31, 2018 and 2017, the SPE owned \$1,101,597,000 and \$1,141,520,000, respectively, of receivables recorded at fair value and included in the accompanying consolidated balance sheets. 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. As of December 31, 2018, qualified receivables were sufficient to permit access to the full \$250,000,000 facility amount, of which \$194,000,000 was outstanding. See discussion of the maximum leverage ratio under “Debt Covenants” below.

Under the amended ABS facility, interest is payable monthly, and the floating interest rate applicable at December 31, 2018 was 3.46% per annum, including a 0.85% usage fee on any outstanding balances. In addition, we pay a monthly commitment fee on the unused portion of the facility of 0.375%. During the years ended December 31, 2018, 2017 and 2016, the weighted average interest rates on amounts outstanding under our ABS facility, including the usage and

commitment fees and the amortization of deferred financing fees, were 3.6%, 2.4% and 1.9%, respectively. Weighted average borrowings under our ABS facility in 2018, 2017 and 2016 were \$98,663,000, \$153,759,000 and \$145,376,000, respectively.

Debt Covenants

73

INSIGHT ENTERPRISES, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

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 and minimum fixed charge ratio requirements, comply with a minimum receivables requirement 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. Further, the terms of the ABS facility identify various circumstances that would result in an “amortization event” under the facility.

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, (iv) non-cash stock-based compensation, (v) extraordinary or non-recurring non-cash losses or expenses and (vi) certain cash restructuring and acquisition-related charges and synergies, not to exceed a specified cap (“adjusted earnings”). The maximum leverage ratio permitted under the facilities is currently 3.25 times our 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 consolidated maximum facility amount. Based on our maximum leverage ratio as of December 31, 2018, our aggregate debt balance that could have been outstanding under our revolving facility and our ABS facility was the full amount of the maximum borrowing capacity of \$600,000,000, of which \$194,000,000 was outstanding under our ABS facility at December 31, 2018.

Capital Lease and Other Financing Obligations

In 2016 and 2017, we entered into capital leases with 36 to 40 month terms for certain IT equipment. In October 2018, these capital leases were modified and the lease terms were extended to between 30 and 33 month terms. The original capital leases and subsequent modifications were non-cash transactions and, accordingly, \$977,000 has been excluded from our consolidated statements of cash flows for the years ended December 31, 2018 and 2017.

Future minimum payments under the capitalized leases consist of the following as of December 31, 2018 (in thousands):

Years Ending December 31,	
2019	\$1,488
2020	1,151
2021	432
Total minimum lease payments	3,071
Less amount representing interest	(151)
Present value of minimum lease payments	\$2,920

From time to time, we also enter into other financing agreements with financial intermediaries to facilitate the purchase of products from certain vendors. In conjunction with our acquisition of Datalink effective January 6, 2017, we acquired certain obligations associated with Datalink’s financing of the equipment that it leased to its clients. As of

Edgar Filing: INSIGHT ENTERPRISES INC - Form 10-K

December 31, 2018 there were no amounts outstanding related to these financing obligations. As of December 31, 2017, \$2,489,000 was outstanding related to these financing obligations.

The current and long-term portions of our capital lease and other financing obligations are included in the current and long-term portions of long-term debt in the table above and in our consolidated balance sheets as of December 31, 2018 and 2017.

INSIGHT ENTERPRISES, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

(8) Operating Leases

We have non-cancelable operating leases with third parties, primarily for administrative and distribution center space and computer equipment. Our facilities leases generally provide for periodic rent increases and many contain escalation clauses and renewal options. We recognize rent expense on a straight-line basis over the lease term. Rental expense for these third-party operating leases was \$20,114,000, \$19,126,000 and \$14,444,000 in 2018, 2017 and 2016, respectively, and is included in selling and administrative expenses in the accompanying consolidated statements of operations.

Future minimum lease payments under non-cancelable operating leases (with initial or remaining lease terms in excess of one year) as of December 31, 2018 are as follows (in thousands):

Years Ending December 31,	
2019	\$21,499
2020	15,580
2021	12,121
2022	9,150
2023	6,296
Thereafter	7,238
Total minimum lease payments	\$71,884

Amounts in the table above exclude approximately \$1.6 million in 2019 in non-cancellable rental income.

(9) Severance and Restructuring Activities

During 2018, 2017 and 2016, we recorded severance expense associated with the elimination of certain positions based on a re-alignment of roles and responsibilities and a continued review of resource needs. Charges in North America included severance actions taken to realign roles and responsibilities subsequent to the acquisition of Datalink in January 2017, as well as a headcount reduction as part of cost reduction initiatives in the fourth quarter of 2018 and 2017, and early in 2016. Charges in EMEA included ongoing restructuring activities, primarily in France, Germany, the United Kingdom and the Netherlands, as part our cost reduction and restructuring initiatives in the region. The APAC charges primarily related to severance actions taken subsequent to the acquisition of Ignia.

The following table details the activity for each of the three years in the period ending December 31, 2018 related to these resource actions, and the outstanding obligations as of December 31, 2018 (in thousands):

	North America	EMEA	APAC	Consolidated
Balances at December 31, 2015	505	2,983	—	3,488
Severance costs, net of adjustments	2,966	1,496	118	4,580
Cash payments	(2,524)	(3,239)	(118)	(5,881)

Edgar Filing: INSIGHT ENTERPRISES INC - Form 10-K

Foreign currency translation adjustments	—	(23)	—	(23)
Balances at December 31, 2016	947	1,217	—	2,164
Severance costs, net of adjustments	4,010	4,888	104	9,002
Cash payments	(3,336)	(3,597)	(89)	(7,022)
Foreign currency translation adjustments	10	486	—	496
Balances at December 31, 2017	1,631	2,994	15	4,640
Severance costs, net of adjustments	1,617	1,677	130	3,424
Cash payments	(2,003)	(3,386)	(145)	(5,534)
Foreign currency translation adjustments	(41)	(37)	—	(78)
Balances at December 31, 2018	\$ 1,204	\$1,248	\$—	\$ 2,452

Immaterial adjustments were recorded as a reduction to severance and restructuring expense in each of 2018, 2017 and 2016, due to changes in estimates.

INSIGHT ENTERPRISES, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

The remaining outstanding obligations as of December 31, 2018 are expected to be paid during the next 12 months and are therefore included in accrued expenses and other current liabilities.

(10) Stock-Based Compensation

We recorded the following pre-tax amounts in selling and administrative expenses for stock-based compensation, by operating segment, in the accompanying consolidated financial statements (in thousands):

	Years Ended December 31,		
	2018	2017	2016
North America	\$11,697	\$9,697	\$8,096
EMEA	3,170	2,737	2,530
APAC	488	392	432
Total Consolidated	\$15,355	\$12,826	\$11,058

Company Plan

Our Board of Directors adopted the Amended Insight Enterprises, Inc. 2007 Omnibus Plan (the “Plan”) on March 28, 2011. The Plan was approved by our stockholders on May 18, 2011 at our 2011 annual meeting and, unless sooner terminated, will remain in place until May 18, 2021.

The Plan allows the Company to grant options, stock appreciation rights, stock awards, restricted stock, stock units (which may also be referred to as “restricted stock units”), performance shares, performance units, cash-based awards and other awards payable in cash or shares of common stock to eligible non-employee directors, employees and consultants. Consultants and independent contractors are eligible if they provide bona fide services that are not related to capital raising or promoting or maintaining a market for the Company’s stock.

On February 17, 2016, the Board of Directors adopted the First Amendment to the Plan (the “First Amendment”). On May 18, 2016 at our 2016 annual meeting, our stockholders approved the First Amendment. The First Amendment: (a) updates the list of performance criteria contained in Section 16.1 of the Plan; (b) imposes a limit on the dollar value of awards that may be granted to any one participant who is a non-employee director during any one calendar year; and (c) adds an objective clawback provision expressly providing that every award granted under the Plan is subject to potential forfeiture or recovery to the fullest extent called for by law, listing standard or Company policy. The First Amendment did not increase the number of shares available for grant under the Plan or extend the term of the Plan.

The Plan is administered by the Compensation Committee of Insight’s Board of Directors, and, except as provided below, the Compensation Committee has the exclusive authority to administer the Plan, including the power to determine eligibility, the types of awards to be granted, the price and the timing of awards. Under the Plan, the Compensation Committee may delegate some of its authority to our Chief Executive Officer to grant awards to individuals other than individuals who are subject to the reporting requirements of Section 16(a) of the Securities Exchange Act of 1934, as amended. As of December 31, 2018, of the 7,250,000 shares of common stock reserved and available for grant under the Plan, 2,791,688 shares of common stock remain available for grant under the Plan.

Accounting for Restricted Stock Units

We issue RSUs as incentives to certain officers and teammates and as compensation to members of our Board of Directors. We recognize compensation expense associated with the issuance of such RSUs over the vesting period for each respective RSU. The total compensation expense associated with RSUs represents the value based upon the number of RSUs awarded multiplied by the closing price of our common stock on the date of grant. The number of RSUs to be awarded under our service-based RSUs is fixed at the grant date. The number of RSUs ultimately awarded under our performance-based RSUs varies based on whether the Company achieves certain financial results. We record compensation expense each period based on our estimate of the most probable number of RSUs that will be issued under the grants of performance-based RSUs. Recipients of RSUs do not have voting or dividend rights until the vesting conditions are satisfied and shares are released.

INSIGHT ENTERPRISES, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

As of December 31, 2018, total compensation cost related to nonvested RSUs not yet recognized is \$21,104,000, which is expected to be recognized over the next 1.31 years on a weighted-average basis.

The following table summarizes our RSU activity during 2018:

		Weighted	
		Average	
		Grant Date	
	Number	Fair Value	Fair Value
Nonvested at the beginning of year	892,113	\$ 32.86	
Granted	557,823	\$ 36.79	
Vested, including shares withheld to cover taxes	(383,672)	\$ 29.80	\$14,302,223 (a)
Forfeited	(45,334)	\$ 34.10	
Nonvested at the end of year	1,020,930	\$ 36.10	\$41,602,898 (b)

^(a)The aggregate 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. The aggregate intrinsic value for RSUs which vested during 2017 and 2016 was \$20,284,762 and \$9,235,102, respectively.

^(b)The aggregate fair value of the nonvested RSUs and the RSUs expected to vest represents the total pre-tax fair value, based on our closing stock price of \$40.75 as of December 31, 2018, which would have been received by holders of RSUs had all such holders sold their underlying shares on that date.

During each of the years in the three-year period ended December 31, 2018, 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 obligation for the applicable income and other employment taxes and remitted the equivalent cash amount to the appropriate taxing authorities. The total shares withheld during 2018, 2017 and 2016 of 88,638, 122,255 and 84,953, respectively, were based on the value of the RSUs on their vesting dates as determined by our closing stock price on such dates. For 2018, 2017 and 2016, total payments for our teammates' tax obligations to the taxing authorities were \$3,230,000, \$5,318,000 and \$2,219,000, respectively, and are reflected as a financing activity within the accompanying consolidated statements of cash flows. These net-share settlements had the effect of repurchases of our 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 an expense to us.

INSIGHT ENTERPRISES, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

(11) Income Taxes

The following table presents the United States (“U.S.”) and foreign components of earnings before income taxes and the related income tax expense (in thousands):

	Years Ended December 31,		
	2018	2017	2016
Earnings before income taxes:			
United States	\$145,907	\$119,330	\$99,095
Foreign	65,995	39,768	40,363
	\$211,902	\$159,098	\$139,458
Income tax expense:			
Current:			
U.S. Federal	\$18,334	\$31,067	\$27,947
U.S. State and local	3,218	3,636	2,200
Foreign	17,547	14,573	14,104
	39,099	49,276	44,251
Deferred:			
U.S. Federal	8,123	20,327	10,395
U.S. State and local	1,142	(427)	1,088
Foreign	(139)	(761)	(966)
	9,126	19,139	10,517
	\$48,225	\$68,415	\$54,768

The following schedule reconciles the differences between the U.S. federal income taxes at the U.S. statutory rate and our income tax expense (dollars in thousands):

	2018		2017		2016	
Statutory federal income tax rate	\$44,499	21.0%	\$55,684	35.0%	\$48,810	35.0%
State income tax expense, net of						
federal income tax benefit	6,767	3.2	2,808	1.8	3,368	2.4
Audits and adjustments, net	2,659	1.3	(313)	(0.2)	(1,039)	(0.7)
Change in valuation allowances	60	—	2,472	1.5	3,742	2.7
Foreign income taxed at different rates	2,639	1.2	(6,057)	(3.8)	(6,611)	(4.7)
U.S. mandatory deemed repatriation	(1,396)	(0.7)	5,625	3.5	—	—
Adjustment of net deferred tax assets						
for enacted U.S. federal tax reform	(4,198)	(2.0)	7,738	4.9	—	—
Research and development credits	(4,132)	(1.9)	—	—	—	—
Change in U.S. tax law applicable to	—	—	—	—	2,577	1.8

certain foreign entities						
Non-deductible compensation	1,399	0.7	571	0.4	518	0.4
Other, net	(72)	—	(113)	(0.1)	3,403	2.4
Effective tax rate	\$48,225	22.8%	\$68,415	43.0%	\$54,768	39.3%

In December 2017, U.S. federal tax reform was enacted as part of the U.S. Tax Cuts and Jobs Act. As part of the change in tax law, beginning in 2018, the U.S. statutory federal income tax rate was reduced from 35% to 21%. This reduction required a remeasurement of our deferred tax balances that resulted in an increase in our 2017 income tax expense. In addition, the change in tax law included provisions requiring mandatory deemed repatriation of undistributed foreign earnings. In 2017 and the first nine months of 2018, we recorded provisional amounts for certain tax enactment-date effects of the new law by applying the guidance of SAB 118 because we had not yet completed our enactment-date accounting for these effects. In 2017 and 2018, the company recorded tax expense and benefit, respectively, related to the new tax law that included remeasurement of U.S. deferred income taxes, the mandatory deemed repatriation provision and the state tax effects of these items. The changes to 2017 provisional amounts resulted in a benefit of \$5.6 million, which reduced our annual effective tax rate by 2.7% in 2018. At December 31, 2018 the accounting for the enactment-date income tax effects for the new tax law are completed.

INSIGHT ENTERPRISES, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

U.S. federal tax reform subjects a U.S. corporation to tax on its global intangible low-taxed income (GILTI). U.S. GAAP allows companies to make an accounting policy election to either (1) treat taxes due on future GILTI inclusions in U.S. taxable income as a current-period expense when incurred (“period cost method”) or (2) factor such amounts into the measurement of its deferred taxes (“deferred method”). We have elected to use the period cost method.

A change in U.S. tax law was enacted in December 2016 related to the taxation of foreign currency translation gains or losses arising from qualified business units. The change, which increased our U.S. federal income taxes, affects our foreign entities that are treated as branches for U.S. tax purposes. The “Other, net” line item in the schedule above includes \$349,000 and \$1,296,000 related to the effect of non-deductible acquisition-related expenses incurred during 2017 and 2016, respectively.

For foreign entities not treated as branches for U.S. tax purposes, historically, we did not provide for U.S. income taxes on the undistributed earnings of these subsidiaries as these earnings were considered to be reinvested and, in the opinion of management, would continue to be reinvested indefinitely outside of the United States. As a result of U.S. federal tax reform enacted during December 2017, all undistributed foreign earnings are deemed distributed.

The significant components of deferred tax assets and liabilities are as follows (in thousands):

	December 31,	
	2018	2017
Deferred tax assets:		
Net operating losses	\$23,926	\$25,418
Foreign tax credits	16,800	21,346
Accruals	4,242	5,921
Stock-based compensation	3,173	3,023
Property and equipment	2,008	1,111
Accounts receivable	1,980	2,124
Goodwill and other intangibles	1,296	4,717
Deferred revenue	1,016	600
Inventories	133	1,930
Other	2,487	335
Gross deferred tax assets	57,061	66,525
Valuation allowances	(40,630)	(45,995)
Total deferred tax assets	16,431	20,530
Deferred tax liabilities:		
Inventories	(4,885)	—
Accrued withholding tax	(1,303)	(1,452)
Goodwill and other intangibles	(1,202)	(1,587)
Other	(1,757)	(1,144)
Total deferred tax liabilities	(9,147)	(4,183)
Net deferred tax assets	\$7,284	\$16,347

The net non-current deferred tax assets and liabilities are as follows (in thousands):

	December 31,	
	2018	2017
Net non-current deferred tax assets	\$7,967	\$17,064
Net non-current deferred tax liabilities	(683)	(717)
Net deferred tax assets	\$7,284	\$16,347

79

INSIGHT ENTERPRISES, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

As of December 31, 2018, we have a federal net operating loss carryforward (“NOL”) of \$252,000 and U.S. state NOLs of \$1,403,000 that will expire between 2019 and 2037. We also have NOLs from various non-U.S. jurisdictions of \$84,266,000. While the majority of the non-U.S. NOLs have no expiration date, \$5,329,000 will expire between 2019 and 2025.

On the basis of currently available information, we have provided valuation allowances for certain of our deferred tax assets where we believe it is more likely than not that the related tax benefits will not be realized. At December 31, 2018 and 2017, our valuation allowances totaled \$40,630,000 and \$45,995,000, respectively, representing non-U.S. NOLs, foreign depreciation allowances and foreign tax credits.

We believe it is more likely than not that forecasted income, including income that may be generated as a result of prudent and feasible tax planning strategies, together with the tax effects of deferred tax liabilities, will be sufficient to fully recover our remaining deferred tax assets. In the future, if we determine that realization of the remaining deferred tax assets and the availability of certain previously paid taxes to be refunded are not more likely than not, we will need to increase our valuation allowances and record additional income tax expense.

The following table summarizes the change in the valuation allowance (in thousands):

	December 31,	
	2018	2017
Valuation allowances at beginning of year	\$45,995	\$30,972
Increase in income tax expense	60	2,472
U.S. federal tax reform	(1,589)	11,623
Foreign currency translation adjustments	(1,180)	2,865
Other	(2,656)	(1,937)
Valuation allowances at end of year	\$40,630	\$45,995

The change in our valuation allowance related to U.S. federal tax reform in the table above was primarily related to U.S. mandatory deemed repatriation.

Various taxing jurisdictions are examining our tax returns for certain tax years. Although the outcome of tax audits cannot be predicted with certainty, management believes the ultimate resolution of these examinations will not result in a material adverse effect to our financial position, results of operations or cash flows.

As of December 31, 2018 and 2017, we had approximately \$6,849,000 and \$4,273,000, respectively, of unrecognized tax benefits. Of these amounts, approximately \$313,000 and \$287,000, respectively, related to accrued interest. A reconciliation of the beginning and ending amounts of unrecognized tax benefits, excluding interest, is as follows (in thousands):

Edgar Filing: INSIGHT ENTERPRISES INC - Form 10-K

Balance at December 31, 2017	\$3,986
Additions for tax positions in prior periods	1,613
Additions for tax positions in current period	2,014
Subtractions due to foreign currency translation	(8)
Subtractions due to audit settlements and statute expirations	(1,069)
Balance at December 31, 2018	\$6,536

In the future, if recognized, the liability associated with uncertain tax positions would affect our effective tax rate. We do not believe there will be any changes over the next 12 months that would have a material effect on our effective tax rate.

Several of our subsidiaries are currently under audit for tax years 2012 through 2017. Although the timing of the resolutions and/or closures of audits is highly uncertain, it is reasonably possible that the examination phase of these audits may be concluded within the next 12 months which could significantly increase or decrease the balance of our gross unrecognized tax benefits. However, based on the status of the various examinations in multiple jurisdictions, an estimate of the range of

INSIGHT ENTERPRISES, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

reasonably possible outcomes cannot be made at this time, but the estimated effect on our income tax expense and net earnings is not expected to be significant.

We, including our subsidiaries, file income tax returns in the U.S. federal jurisdiction and many state and local and non-U.S. jurisdictions. In the United States, federal income tax returns for 2014, 2015, 2016, 2017 and 2018 remain open to examination. For U.S. state and local taxes as well as in non-U.S. jurisdictions, the statute of limitations generally varies between three and ten years.

(12) Market Risk Management

Interest Rate Risk

We have interest rate exposure arising from our financing facilities, which have variable interest rates. These variable interest rates are affected by changes in short-term interest rates. We currently do not hedge our interest rate exposure.

We do not believe that the effect of reasonably possible near-term changes in interest rates will be material to our financial position, results of operations and cash flows. Our financing facilities expose our net earnings to changes in short-term interest rates since interest rates on the underlying obligations are variable. We had no amounts outstanding under our revolving facility and TLA and \$194,000,000 outstanding under our ABS facility at December 31, 2018. The interest rate attributable to the borrowings under our revolving facility and our ABS facility was 3.66% and 3.46%, respectively, per annum at December 31, 2018. The change in annual pre-tax earnings from operations resulting from a hypothetical 10% increase or decrease in the applicable interest rate would have been immaterial.

Foreign Currency Exchange Risk

We have foreign currency exchange risk related to the translation of our foreign subsidiaries' operating results, assets and liabilities (see Note 1 for a description of our Foreign Currencies policy). We also maintain cash accounts denominated in currencies other than the functional currency, which expose us to fluctuations in foreign exchange rates. Remeasurement of these cash balances results in gains/losses that are also reported as a separate component of non-operating (income) expense. We monitor our foreign currency exposure and selectively enter into forward exchange contracts to mitigate risk associated with certain non-functional currency monetary assets and liabilities related to foreign denominated payables, receivables and cash balances. Transaction gains and losses resulting from non-functional currency assets and liabilities are offset by gains and losses on forward contracts in non-operating (income) expense, net in our consolidated statements of operations. The counterparties associated with our foreign exchange forward contracts are large creditworthy commercial banks. The derivatives transacted with these institutions are short in duration and, therefore, we do not consider counterparty concentration and non-performance to be material risks. The Company does not have a significant concentration of credit risk with any single counterparty.

(13) Fair Value Measurements

Fair value measurements are determined based on the following three categories:

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.

We have elected to use the income approach to value our foreign exchange derivatives, using observable Level 2 market expectations at the measurement date and standard valuation techniques to convert future amounts to a single present value amount assuming that participants are motivated, but not compelled, to transact. Level 2 inputs for the valuations are limited to quoted prices for similar assets or liabilities in active markets and inputs other than quoted prices that are observable for the asset or liability (specifically LIBOR rates, foreign exchange rates, and foreign exchange forward points). Mid-market pricing is used as a practical expedient for fair value measurements. Fair value measurement of an asset or liability must reflect the nonperformance risk of the entity and the counterparty. Therefore, the impact of the counterparty's creditworthiness when in an asset position and the Company's creditworthiness when in a liability position has also been factored into the fair

81

INSIGHT ENTERPRISES, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

value measurement of the derivative instruments and did not have a material impact on the fair value of these derivative instruments. Both the counterparty and the Company are expected to continue to perform under the contractual terms of the instruments.

As of December 31, 2018, we have no non-financial assets or liabilities that are measured and recorded at fair value on a recurring basis, and our other financial assets or liabilities generally consist of cash and cash equivalents, accounts receivable, accounts payable, accrued expenses and other current liabilities and long-term debt. The estimated fair values of our cash and cash equivalents approximate their carrying values and are determined based on quoted prices in active markets for identical assets (Level 1). The estimated fair values of our long-term debt balances approximate their carrying values based on their variable interest rate terms that are based on current market interest rates for similar debt instruments. The fair values of the other financial assets and liabilities are based on the values that would be received or paid in an orderly transaction between market participants and approximate their carrying values due to their nature and short duration.

(14) Benefit Plans

We adopted a defined contribution benefit plan (the “Defined Contribution Plan”) for our U.S. teammates which complies with section 401(k) of the Internal Revenue Code. The Company provides a discretionary match to all participants who make 401(k) contributions pursuant to the Defined Contribution Plan. The discretionary match provided to participants is equivalent to 50% of a participant’s pre-tax contributions up to a maximum of 6% of eligible compensation per pay period. Additionally, we offer several defined contribution benefit plans to our teammates outside of the United States. These plans and their related terms vary by country. Total consolidated contribution expense under these plans was \$15,216,000, \$14,083,000 and \$7,684,000 for 2018, 2017 and 2016, respectively.

(15) Share Repurchase Programs

In each of February 2018 and February 2016, our Board of Directors authorized share repurchase programs of \$50,000,000. No share repurchase program was authorized in 2017. The following table summarizes the shares of our common stock that we repurchased on the open market under these repurchase programs during the years ended December 31, 2018, 2017 and 2016, respectively, in thousands, except per share amounts:

	Total	Average	Approximate
	Number	Price	Dollar Value
	of Shares	Paid per	of Shares
Year	Purchased	Share	Purchased
2018	641	\$ 34.42	\$ 22,069
2017	—	—	—
2016	1,891	26.43	50,000
Total	2,532		\$ 72,069

All shares repurchased were retired.

(16) 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 December 31, 2018, we had approximately \$3,725,000 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 the surety company.

Management believes that payments, if any, related to these performance bonds are not probable at December 31, 2018. Accordingly, we have not accrued any liabilities related to such performance bonds in our consolidated financial statements.

82

INSIGHT ENTERPRISES, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

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 outstanding nonvested RSUs 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 December 31, 2018. Accordingly, we have not accrued any liabilities related to such indemnifications in the accompanying 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 partner audits. We continually assess whether or not such claims have merit and warrant accrual. Where appropriate, we accrue estimates of anticipated liabilities in our consolidated financial statements. Such estimates are subject to change and may affect our results of operations and our cash flows.

Legal Proceedings

From time to time, 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. 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)

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

(17) Supplemental Financial Information

Additions and deductions related to the allowance for doubtful accounts receivable for 2018, 2017 and 2016 were as follows (in thousands):

	Balance at			
	Beginning			Balance at
	of Year	Additions	Deductions	End of Year
Allowance for doubtful accounts				
receivable:				
Year ended December 31, 2018	\$ 10,158	\$ 4,776	\$ (4,472)	\$ 10,462
Year ended December 31, 2017	\$ 9,138	\$ 5,245	\$ (4,225)	\$ 10,158
Year ended December 31, 2016	\$ 11,872	\$ 2,452	\$ (5,186)	\$ 9,138

(18) Cash Flows

Cash payments for interest on indebtedness and cash payments for taxes on income were as follows (in thousands):

	Years Ended December 31,		
	2018	2017	2016
Supplemental disclosures of cash flow information:			
Cash paid during the year for interest	\$10,155	\$10,976	\$3,782
Cash paid during the year for income taxes, net of			
refunds	\$31,218	\$55,470	\$39,051

Non-cash investing activities for 2018, 2017 and 2016 included \$1,170,000, \$159,000 and \$791,000, respectively, of capital expenditures in accounts payable, representing additions purchased at period end but not yet paid for in cash.

(19) Segment and Geographic Information

We operate in three reportable geographic operating segments: North America; EMEA; and APAC. Our offerings in North America and certain countries in EMEA and APAC include IT hardware, software and services. Our offerings in the remainder of our EMEA and APAC segments are largely software and certain software-related services.

Edgar Filing: INSIGHT ENTERPRISES INC - Form 10-K

The following tables summarize net sales by offering for North America, EMEA and APAC by sales mix amounts (in thousands):

	North America		
	Years Ended December 31,		
Sales Mix	2018	2017	2016
Hardware	\$3,610,356	\$3,352,355	\$2,454,889
Software	1,112,715	1,310,118	1,146,808
Services	639,910	519,261	370,131
	\$5,362,981	\$5,181,734	\$3,971,828

84

INSIGHT ENTERPRISES, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

EMEA			
Years Ended December 31,			
Sales Mix	2018	2017	2016
Hardware	\$653,499	\$536,500	\$481,505
Software	736,509	710,452	762,427
Services	140,233	108,464	94,628
	\$1,530,241	\$1,355,416	\$1,338,560

APAC			
Years Ended December 31,			
Sales Mix	2018	2017	2016
Hardware	\$29,496	\$27,907	\$18,916
Software	107,363	101,412	132,718
Services	50,055	37,154	23,493
	\$186,914	\$166,473	\$175,127

The method for determining what information regarding operating segments, products and services, geographic areas of operation and major clients to report is based upon the “management approach,” or the way that management organizes the operating segments within a company, for which separate financial information is evaluated regularly by the Chief Operating Decision Maker (“CODM”) in deciding how to allocate resources. Our CODM is our Chief Executive Officer.

All significant intercompany transactions are eliminated upon consolidation, and there are no differences between the accounting policies used to measure profit and loss for our segments or on a consolidated basis. Net sales are defined as net sales to external clients. None of our clients exceeded ten percent of consolidated net sales in 2018, 2017 or 2016.

A portion of our operating segments’ selling and administrative expenses arise from shared services and infrastructure that we have historically provided to them in order to realize economies of scale and to use resources efficiently. These expenses, collectively identified as corporate charges, include senior management expenses, internal audit, legal, tax, insurance services, treasury and other corporate infrastructure expenses. Charges are allocated to our operating segments, and the allocations have been determined on a basis that we considered to be a reasonable reflection of the utilization of services provided to or benefits received by the operating segments.

The tables below present information about our reportable operating segments (in thousands):

Year Ended December 31, 2018			
North	EMEA	APAC	Consolidated

Edgar Filing: INSIGHT ENTERPRISES INC - Form 10-K

	America			
Net Sales:				
Products	\$4,723,071	\$1,390,008	\$136,859	\$6,249,938
Services	639,910	140,233	50,055	830,198
Total net sales	5,362,981	1,530,241	186,914	7,080,136
Costs of goods sold:				
Products	4,313,070	1,273,422	124,908	5,711,400
Services	317,216	35,352	22,450	375,018
Total costs of goods sold	4,630,286	1,308,774	147,358	6,086,418
Gross profit	732,695	221,467	39,556	993,718
Operating expenses:				
Selling and administrative expenses	545,091	182,470	28,968	756,529
Severance and restructuring expenses	1,617	1,677	130	3,424
Acquisition-related expenses	282	—	—	282
Earnings from operations	\$185,705	\$37,320	\$10,458	\$233,483

85

INSIGHT ENTERPRISES, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

	Year Ended December 31, 2017			
	North			
	America	EMEA	APAC	Consolidated
Net Sales:				
Products	\$4,662,473	\$1,246,952	\$129,319	\$6,038,744
Services	519,261	108,464	37,154	664,879
Total net sales	5,181,734	1,355,416	166,473	6,703,623
Costs of goods sold:				
Products	4,253,587	1,140,204	118,611	5,512,402
Services	236,470	24,902	11,279	272,651
Total costs of goods sold	4,490,057	1,165,106	129,890	5,785,053
Gross profit	691,677	190,310	36,583	918,570
Operating expenses:				
Selling and administrative expenses	530,792	164,305	28,231	723,328
Severance and restructuring expenses	4,010	4,888	104	9,002
Loss on sale of foreign entity	—	3,646	—	3,646
Acquisition-related expenses	3,223	106	—	3,329
Earnings from operations	\$153,652	\$17,365	\$8,248	\$179,265

	Year Ended December 31, 2016			
	North			
	America	EMEA	APAC	Consolidated
Net Sales:				
Products	\$3,601,697	\$1,243,932	\$151,634	\$4,997,263
Services	370,131	94,628	23,493	488,252
Total net sales	3,971,828	1,338,560	175,127	5,485,515
Costs of goods sold:				
Products	3,301,148	1,129,917	140,397	4,571,462
Services	145,199	22,956	2,796	170,951
Total costs of goods sold	3,446,347	1,152,873	143,193	4,742,413
Gross profit	525,481	185,687	31,934	743,102
Operating expenses:				
Selling and administrative expenses	401,316	160,269	23,658	585,243
Severance and restructuring expenses	2,966	1,496	118	4,580
Acquisition-related expenses	4,278	—	169	4,447
Earnings from operations	\$116,921	\$23,922	\$7,989	\$148,832

The following table is a summary of our total assets by reportable operating segment (in thousands):

	December 31, December 31,	
	2018	2017
North America	\$ 2,660,886	\$ 2,337,573
EMEA	611,338	530,242
APAC	98,959	101,169
Corporate assets and intercompany eliminations, net	(595,236)	(283,333)
Total assets	\$ 2,775,947	\$ 2,685,651

INSIGHT ENTERPRISES, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

The following is a summary of our geographic net sales and long-lived assets, consisting of property and equipment, net (in thousands):

	United States	United Kingdom	Other Foreign	Total
2018				
Net sales	\$5,100,456	\$843,145	\$1,136,535	\$7,080,136
Total long-lived assets	\$52,346	\$12,434	\$8,174	\$72,954
2017				
Net sales	\$4,933,805	\$684,632	\$1,085,186	\$6,703,623
Total long-lived assets	\$50,462	\$14,783	\$10,007	\$75,252
2016				
Net sales	\$3,776,352	\$671,999	\$1,037,164	\$5,485,515

Net sales by geographic area are presented by attributing net sales to external customers based on the domicile of the selling location.

We recorded the following pre-tax amounts, by operating segment, for depreciation and amortization in the accompanying consolidated financial statements (in thousands):

	Years Ended December 31,		
	2018	2017	2016
Depreciation and amortization of property and equipment:			
North America	\$17,164	\$20,241	\$21,952
EMEA	4,058	5,025	4,908
APAC	499	521	633
	21,721	25,787	27,493
Amortization of intangible assets:			
North America	14,791	15,971	8,139
EMEA	285	73	1,951
APAC	661	768	547
	15,737	16,812	10,637
Total	\$37,458	\$42,599	\$38,130

(20) Acquisitions
Cardinal

Effective August 1, 2018, we acquired 100 percent of the issued and outstanding shares of Cardinal, a digital solutions provider based in Cincinnati, Ohio, with offices across the Midwest and Southeast United States, for a cash purchase price, net of cash acquired, of approximately \$78,800,000, including working capital and estimated tax adjustments of \$3,800,000. Cardinal provides technology solutions to digitally transform organizations through their expertise in mobile applications development, Internet of Things and cloud enabled business intelligence. We believe that this acquisition strengthens our services capabilities and will bring value to our clients within our digital innovation services solution offering.

INSIGHT ENTERPRISES, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

The fair value of net assets acquired was approximately \$42,360,000, including \$27,540,000 of identifiable intangible assets, consisting primarily of customer relationships that will be amortized using the straight line method over the estimated economic life of ten years. The fair value of the customer relationships was determined using the multiple-period excess earnings method. The preliminary purchase price was allocated using the acquisition method of accounting using the information available at the time. During the fourth quarter of 2018 we finalized the fair value assumptions for identifiable intangible assets with no changes being made to amounts previously recorded. Goodwill acquired approximated \$36,440,000 which was recorded in our North America operating segment. The goodwill is tax deductible. The working capital adjustment was finalized in the fourth quarter of 2018. We will finalize the purchase price allocation in 2019 when the final tax adjustment is completed and agreed upon.

We consolidated the results of operations for Cardinal within our North America operating segment beginning on August 1, 2018, the effective date of the acquisition. Our historical results would not have been materially affected by the acquisition of Cardinal and, accordingly, we have not presented pro forma information as if the acquisition had been completed at the beginning of each period presented in our statement of operations.

Caase.com

Effective September 26, 2017, we acquired Caase.com, a Dutch cloud service provider, for a purchase price, net of cash acquired, of approximately \$6,038,000, subject to a final working capital adjustment. We believe that this acquisition strengthened our ability to deliver cloud and data center solutions to our clients in the Netherlands, with a view to expand into the wider European region in the near future.

The total fair value of net identifiable assets acquired was approximately \$2,107,000, including \$68,000 of cash acquired and \$2,039,000 of identifiable intangible assets, consisting primarily of customer relationships. The customer relationships identifiable intangible asset is being amortized using the straight-line method over its estimated economic life of 8 years. The preliminary purchase price was allocated under the acquisition method of accounting using the information available at the time. During the fourth quarter of 2017, we finalized the fair value assumptions for identifiable intangible assets acquired and reduced the fair value of identifiable intangible assets acquired by approximately \$193,000. Goodwill initially recorded of approximately \$4,117,000, which was recorded in our EMEA operating segment, was adjusted to \$4,041,000 as of December 31, 2017 as a result of the net effects of the decrease in the value of acquired identifiable intangible assets noted previously, adjustments for deferred taxes and foreign currency translation adjustments. None of the goodwill is tax deductible. We finalized the purchase price allocation in the third quarter of 2018 when the final working capital adjustment was agreed upon and paid and the evaluation of uncertain tax positions was completed.

We consolidated the results of operations for Caase.com within our EMEA operating segment beginning on the effective date of the acquisition. Our historical results would not have been materially affected by the acquisition of Caase.com and, accordingly, we have not presented pro forma information as if the acquisition had been completed at the beginning of each period presented in our statements of operations.

Datalink

On January 6, 2017, we completed our acquisition of Datalink, a leading provider of IT services and enterprise data center solutions based in Eden Prairie, Minnesota, for a cash purchase price of \$257,456,000, which included cash and cash equivalents acquired of \$76,597,000. We believe that this acquisition strengthened our position as a leading IT

solutions provider with deep technical talent delivering data center solutions to clients on premise or in the cloud.

88

INSIGHT ENTERPRISES, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

The following table summarizes the purchase price and the estimated fair value of the assets acquired and liabilities assumed at the date of acquisition (in thousands):

Total purchase price	\$257,456
Fair value of net assets acquired:	
Current assets	\$238,577
Identifiable intangible assets – see description below	94,500
Property and equipment	5,843
Other assets	17,888
Current liabilities	(129,071)
Long-term liabilities, including deferred taxes	(34,421)
Total fair value of net assets acquired	193,316
Excess purchase price over fair value of net assets acquired	
(“goodwill”)	\$64,140

Under the acquisition method of accounting, the total purchase price as shown in the table above was allocated to the tangible and identifiable intangible assets acquired and liabilities assumed based on their estimated fair values. The excess of the purchase price over fair value of net assets acquired was recorded as goodwill.

The estimated fair values of current assets and liabilities (other than deferred revenue and related deferred costs) were based upon their historical costs on the date of acquisition due to their short-term nature. The majority of property and equipment were also estimated based upon historical costs as they approximated fair value. Certain long-term assets, including Datalink’s IT system, were written down to the estimated fair value based on the economic benefit expected to be realized from the assets following the acquisition. Deferred revenue acquired primarily represents monies collected prior to January 6, 2017 related to unearned revenues associated with support services to be performed in the future. The estimated fair value of deferred revenue of \$65,500,000, which is included in current and long-term liabilities in the table above, was calculated using the adjusted fulfillment cost method as the present value of the costs expected to be incurred by a third party to perform the support services obligations acquired under various customer contracts, plus a reasonable profit associated with the performance effort. The deferred costs acquired represent monies paid prior to January 6, 2017 to purchase third party customer support contracts from manufacturers. The estimated fair value of the deferred costs of \$48,029,000, which is included in current and other assets in the table above, was calculated in conjunction with the valuation of deferred revenue discussed above.

Identified intangible assets of \$94,500,000 consist primarily of customer relationships, the trade name and non-compete agreements, which were valued at \$92,200,000, \$2,200,000 and \$100,000, respectively. These values were determined using the multiple-period excess earnings method, the relief from royalty method and the lost income method, respectively.

The identifiable intangibles resulting from the acquisition are amortized using the straight-line method over the following estimated useful lives:

Intangible Assets	Estimated Economic Life
Customer relationships	10 Years
Trade name	1 Year
Non-compete agreements	1 Year

Amortization expense recognized for the period from the acquisition date through December 31, 2017 was \$11,520,000.

INSIGHT ENTERPRISES, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

Goodwill of \$64,140,000, which was recorded in our North America operating segment, represents the excess of the purchase price over the estimated fair value assigned to tangible and identifiable intangible assets acquired and liabilities assumed from Datalink. The addition of the Datalink technical employees to our team and the opportunity to grow our data center solutions business are the primary factors making up the goodwill recognized as part of the transaction. None of the goodwill is tax deductible.

The preliminary purchase price was allocated using information available at the time. During the second quarter of 2017, upon analysis of additional information affecting our estimate of the fair value of net assets acquired, we adjusted the purchase price allocation and reduced the goodwill balance by \$945,000. During the remainder of 2017, no further adjustments to the purchase price allocation were made, and the purchase price allocation was finalized.

We consolidated the results of operations for Datalink since its acquisition on January 6, 2017. Consolidated net sales and gross profit for the year ended December 31, 2017 include \$524,281,000 and \$118,917,000, respectively, from Datalink. The following table reports pro forma information as if the acquisition of Datalink had been completed at the beginning of the earliest period presented (in thousands, except per share amounts):

		Year Ended December 31,	
		2017	2016
Net sales	As reported	\$6,703,623	\$5,485,515
	Proforma	\$6,707,533	\$6,084,484
Net earnings	As reported	\$90,683	\$84,690
	Proforma	\$92,276	\$85,823
Diluted earnings per share	As reported	\$2.50	\$2.32
	Proforma	\$2.55	\$2.36

Ignia

Effective September 1, 2016, we acquired Ignia, a business technology consulting and managed services provider headquartered in Perth, Australia, with an additional office in Melbourne, for a cash purchase price, net of cash acquired, of approximately \$10,804,000, subject to a final working capital adjustment. We believe that this acquisition expands our global footprint in the areas of application design, digital solutions, cloud, mobility and business analytics, while also building on our unique position to bring digital innovation solutions to our clients in the Asia-Pacific region.

The total fair value of net identifiable assets acquired initially recorded was approximately \$5,324,000, including \$1,463,000 of cash acquired and \$4,716,000 of identifiable intangible assets, consisting primarily of customer relationships and restrictive covenant agreements which are being amortized using the straight-line method over their estimated economic lives of eight years and 27 months, respectively. The preliminary purchase price was allocated using the information available at the time. During the fourth quarter of 2016, we finalized the fair value assumptions for identifiable intangible assets acquired and reduced the fair value of identifiable intangible assets acquired by

approximately \$218,000. Goodwill initially recorded of approximately \$7,248,000, which was recorded in our APAC operating segment, was adjusted to \$6,957,000 as of December 31, 2016 as a result of the net effects of the decrease in the value of acquired identifiable intangible assets noted previously and foreign currency translation adjustments. None of the goodwill is tax deductible. We finalized the purchase price allocation in the second quarter of 2017 when the final working capital adjustment was agreed upon.

We consolidated the results of operations for Ignia within our APAC operating segment beginning on September 1, 2016, the effective date of the acquisition. Our historical results would not have been materially affected by the acquisition of Ignia and, accordingly, we have not presented pro forma information as if the acquisition had been completed at the beginning of each period presented in our statements of operations.

INSIGHT ENTERPRISES, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

(21) Sale of Foreign Entity

On July 19, 2017, we concluded the sale of our operations in Russia, formerly a part of our EMEA operating segment, to one of our global partners that is focused in the region. We recorded a loss on the sale of the foreign entity of approximately \$3,646,000 during the third quarter of 2017, including a \$2,903,000 charge upon the release of our cumulative translation adjustment account balance as of the sale date.

(22) Selected Quarterly Financial Information (unaudited)

The following tables set forth selected unaudited consolidated quarterly financial information for 2018 and 2017 (in thousands, except per share data):

	Quarters Ended			
	December 31,	September 30,	June 30,	March 31,
	2018	2018	2018 ⁽¹⁾	2018 ⁽¹⁾
Net sales	\$1,749,046	\$1,747,726	\$1,840,870	\$1,742,494
Costs of goods sold	1,494,882	1,512,812	1,576,493	1,502,231
Gross profit	254,164	234,914	264,377	240,263
Operating expenses:				
Selling and administrative expenses	194,790	184,095	189,464	188,180
Severance and restructuring expenses	715	683	382	1,644
Acquisition-related expenses	—	188	94	—
Earnings from operations	58,659	49,948	74,437	50,439
Non-operating (income) expense:				
Interest income	(422)	(330)	(170)	(153)
Interest expense	5,563	6,132	5,102	6,015
Net foreign currency exchange (gain) loss	(1,517)	539	(275)	(245)
Other expense, net	323	393	324	302
Earnings before income taxes	54,712	43,214	69,456	44,520
Income tax expense	7,671	11,060	17,977	11,517
Net earnings	\$47,041	\$32,154	\$51,479	\$33,003
Net earnings per share:				
Basic	\$1.33	\$0.91	\$1.45	\$0.92
Diluted	\$1.31	\$0.89	\$1.44	\$0.91
Shares used in per share calculations:				
Basic	35,480	35,468	35,483	35,913
Diluted	35,999	35,957	35,815	36,263

INSIGHT ENTERPRISES, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

	Quarters Ended			
	December 31,	September 30,	June 30,	March 31,
	2017	2017	2017	2017
Net sales	\$1,784,075	\$ 1,757,973	\$1,684,032	\$1,477,543
Costs of goods sold	1,551,192	1,531,892	1,432,653	1,269,316
Gross profit	232,883	226,081	251,379	208,227
Operating expenses:				
Selling and administrative expenses	184,554	180,390	180,752	177,632
Severance and restructuring expenses	2,791	494	1,022	4,695
Loss on sale of foreign entity	—	3,646	—	—
Acquisition-related expenses	—	106	276	2,947
Earnings from operations	45,538	41,445	69,329	22,953
Non-operating (income) expense:				
Interest income	(346)	(227)	(205)	(431)
Interest expense	5,360	5,555	4,326	3,933
Net foreign currency exchange (gain) loss	(117)	341	251	380
Other expense, net	367	339	326	315
Earnings before income taxes	40,274	35,437	64,631	18,756
Income tax expense	26,106	13,025	24,376	4,908
Net earnings	\$14,168	\$ 22,412	\$40,255	\$13,848
Net earnings per share:				
Basic	\$0.40	\$ 0.63	\$1.13	\$0.39
Diluted	\$0.39	\$ 0.62	\$1.11	\$0.38
Shares used in per share calculations:				
Basic	35,809	35,787	35,765	35,602
Diluted	36,272	36,203	36,169	36,185

(1) During the quarter ended September 30, 2018, we revised our previously issued March 31, 2018 and June 30, 2018 consolidated financial statements for immaterial errors identified. The errors primarily relate to incorrect presentation of certain software revenue transactions. The effect of the revision on our consolidated statements of operations for the three months ended March 31, 2018 was to reduce product net sales by \$24,364,000, increase services net sales by \$3,953,000, reduce product cost of goods sold by \$23,749,000 and increase services cost of goods sold by \$3,080,000. For the three months ended March 31, 2018, gross profit, earnings from operations and net earnings increased by \$258,000. Diluted earnings per share for the three months ended March 31, 2018 increased \$0.01.

The effect of the revision on our consolidated statement of operations for the three months ended June 30, 2018 was to reduce product net sales by \$949,000, increase services net sales by \$4,900,000, reduce product cost of goods sold by \$532,000 and increase services cost of goods sold by \$4,483,000. The effect of the revision on our consolidated statement of operations for the six months ended June 30, 2018 was to reduce product net sales by \$25,313,000,

increase services net sales by \$8,853,000, reduce product cost of goods sold by \$24,281,000 and increase services cost of goods sold by \$7,563,000. For the three months ended June 30, 2018, there was no impact to gross profit, earnings from operations or net earnings resulting from the revision. For the six months ended June 30, 2018, gross profit, earnings from operations and net earnings increased by \$258,000. There was no impact to diluted earnings per share in either the three or six months ended June 30, 2018.

These revisions are appropriately reflected in the consolidated statement of operations for the year ended December 31, 2018. There is no impact to the audited consolidated financial statements for 2017, 2016 or any other prior period.

INSIGHT ENTERPRISES, INC.

Item 9. Changes in and Disagreements With Accountants on Accounting and Financial Disclosure

Not applicable.

Item 9A. Controls and Procedures

(a) Management's Annual Report on Internal Control Over Financial Reporting

Our management is responsible for establishing and maintaining adequate internal control over financial reporting (as such term is defined under Rules 13a-15(f) and 15d-15(f) of the Securities Exchange Act of 1934, as amended (the "Exchange Act")). Our management, including our Chief Executive Officer and Chief Financial Officer, conducted an evaluation of the effectiveness of our internal control over financial reporting as of December 31, 2018. In making this assessment, our management used the criteria established in Internal Control – Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission ("COSO"). Management has concluded that the Company maintained effective internal control over financial reporting as of December 31, 2018, based on the criteria established in COSO's Internal Control – Integrated Framework (2013).

KPMG LLP, the independent registered public accounting firm that audited the Consolidated Financial Statements in Part II, Item 8 of this report, has issued an attestation report on the Company's internal control over financial reporting as of December 31, 2018.

(b) Changes in Internal Control Over Financial Reporting

There was no change in our internal control over financial reporting (as such term is defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act) during the quarter ended December 31, 2018 that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

(c) Disclosure Controls and Procedures

We maintain disclosure controls and procedures (as defined in Rule 13a-15(e) and 15d-15(e) under the Exchange Act). Our Chief Executive Officer and Chief Financial Officer, as of the end of the period covered by this report, evaluated the effectiveness of our disclosure controls and procedures and determined that as of December 31, 2018 our disclosure controls and procedures were effective to ensure that information required to be disclosed by us in reports that we file or submit under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms and that such information is accumulated and communicated to our management, including our Chief Executive Officer and Chief Financial Officer, as appropriate to allow timely decisions regarding required disclosure.

(d) Inherent Limitations of Disclosure Controls and Internal Control Over Financial Reporting

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Projections of any evaluation of effectiveness to future periods are subject to risks that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

Item 9B. Other Information

Equity Awards under the Company's 2007 Omnibus Plan.

On February 19, 2019, the Company's Compensation Committee approved an increase in the 2019 annual target award of restricted stock units ("RSUs") under the Company's long-term equity-based incentive program for Kenneth T. Lamneck, Chief Executive Officer of the Company, from a value of \$2,400,000 to \$3,750,000. Consistent with the Company's equity plan structure for executive officers, and grants in prior years, the RSUs are (i) 60% performance-based and vest pro rata over three years and (ii) 40% service-based and vest pro rata over four years. On February 19, 2019, the Compensation Committee also approved additional RSU awards, with a value of \$1,000,000, to each of Glynis Bryan, Chief Financial Officer, Steven W. Dodenhoff, President, Insight North America, and Wolfgang Ebermann, President, EMEA. These awards were granted in connection with the implementation of the Company's strategic plan, are all service-based and vest pro rata over four years. All of the RSUs described above were, or will be, granted under the Company's 2007 Omnibus Plan.

INSIGHT ENTERPRISES, INC.

PART III

Item 10. Directors, Executive Officers and Corporate Governance

The information required by this item can be found in our definitive Proxy Statement relating to our 2019 Annual Meeting of Stockholders (our “Proxy Statement”) and is incorporated herein by reference.

Item 11. Executive Compensation

The information required by this item can be found in our Proxy Statement and is incorporated herein by reference.

Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters

The information required by this item can be found in our Proxy Statement and is incorporated herein by reference.

Item 13. Certain Relationships and Related Transactions, and Director Independence

The information required by this item can be found in our Proxy Statement and is incorporated herein by reference.

Item 14. Principal Accounting Fees and Services

The information required by this item can be found in our Proxy Statement and is incorporated herein by reference.

94

INSIGHT ENTERPRISES, INC.

PART IV

Item 15. Exhibits, Financial Statement Schedules

(a) Financial Statements and Schedules

The Consolidated Financial Statements of Insight Enterprises, Inc. and subsidiaries and the related Reports of Independent Registered Public Accounting Firm are filed herein as set forth under Part II, Item 8 of this report.

Financial statement schedules have been omitted since they are either not required, not applicable, or the information is otherwise included in the Consolidated Financial Statements or notes thereto.

(b) Exhibits

The exhibits list is incorporated herein by reference as the list of exhibits required as part of this report.

Item 16. Form 10-K Summary

None.

Edgar Filing: INSIGHT ENTERPRISES INC - Form 10-K

INSIGHT ENTERPRISES, INC.

EXHIBITS TO FORM 10-K

YEAR ENDED DECEMBER 31, 2018

Commission File No. 000-25092

Exhibit Number	Exhibit Description	Incorporated by Reference			Herewith
		Form	File No.	Exhibit Number Date	
2.1	<u>Agreement and Plan of Merger, dated as of November 6, 2016, by and among Insight Enterprises, Inc., Reef Acquisition Co., and Datalink Corporation (Schedules and exhibits to the Agreement and Plan of Merger have been omitted pursuant to Item 601(b)(2) of Regulation S-K. The registrant will furnish copies of any such schedules to the U.S. Securities and Exchange Commission upon request.)</u>	8-K	000-25092	2.1 November 7, 2016	
3.1	<u>Amended and Restated Certificate of Incorporation of Insight Enterprises, Inc.</u>	10-K	000-25092	3.1 February 17, 2006	
3.2	<u>Certificate of Amendment of Amended and Restated Certificate of Incorporation of Insight Enterprises, Inc.</u>	8-K	000-25092	3.2 May 21, 2015	
3.3	<u>Amended and Restated Bylaws of Insight Enterprises, Inc.</u>	8-K	000-25092	3.3 May 21, 2015	
4.1 (P)	Specimen Common Stock Certificate	S-1	33-86142	4.1 January 20, 1995	
10.1 ⁽¹⁾	<u>Form of Indemnification Agreement</u>	10-K	000-25092	10.1 July 26, 2007	
10.2 ⁽²⁾	<u>Amended Insight Enterprises, Inc. 2007 Omnibus Plan</u>	Proxy Statement	000-25092	Annex A April 4, 2011	
10.3 ⁽²⁾	<u>First Amendment to the Amended Insight Enterprises, Inc. 2007 Omnibus Plan</u>	Proxy Statement	000-25092	Annex A April 5, 2016	
10.4 ⁽²⁾	<u>Executive Management Separation Plan effective as of January 1, 2008</u>	10-Q	000-25092	10.5 November 7, 2008	

Edgar Filing: INSIGHT ENTERPRISES INC - Form 10-K

10.5 ⁽²⁾	<u>Amended and Restated Employment Agreement between Insight Enterprises, Inc. and Glynis A. Bryan dated as of January 1, 2009</u>	8-K	000-25092 10.3	January 7, 2009
10.6 ⁽²⁾	<u>Executive Employment Agreement between Insight Enterprises, Inc. and Kenneth T. Lamneck, dated as of December 14, 2009</u>	10-K	000-25092 10.24	February 25, 2010
10.7 ⁽²⁾	<u>Employment Agreement between Insight Enterprises, Inc. and Michael P. Guggemos, dated as of November 1, 2010</u>	10-K	000-25092 10.16	February 23, 2011
10.8 ⁽²⁾	<u>Offer of employment letter to Michael P. Guggemos, dated September 28, 2010</u>	10-K	000-25092 10.17	February 23, 2011
10.9 ⁽²⁾	<u>Employment Agreement between Insight Enterprises, Inc. and Steven W. Dodenhoff, dated as of January 30, 2012</u>	10-K	000-25092 10.16	February 24, 2012
10.10 ⁽²⁾	<u>Employment Agreement between Insight Enterprises, Inc. and Rachael A. Bertrandt, dated as of September 30, 2018</u>	10-Q	000-25092 10.1	November 7, 2018

Edgar Filing: INSIGHT ENTERPRISES INC - Form 10-K

INSIGHT ENTERPRISES, INC.

EXHIBITS TO FORM 10-K (continued)

YEAR ENDED DECEMBER 31, 2018

Commission File No. 000-25092

Exhibit Number	Exhibit Description	Incorporated by Reference		
		Form File No.	Exhibit Number	Filing/Effective Date
10.11 ⁽²⁾	<u>Managing Director Service Agreement dated October 25, 2013 between Insight Technology Solutions GmbH and Wolfgang Ebermann</u>	8-K 000-25092	10.1	October 30, 2013
10.12 ⁽²⁾	<u>Executive Employment Agreement between Insight Enterprises, Inc. and Samuel C. Cowley, dated June 7, 2016</u>	10-K 000-25092	10.12	February 2, 2017
10.13	<u>Receivables Purchase Agreement dated as of December 31, 2002 among Insight Receivables, LLC, Insight Enterprises, Inc., Jupiter Securitization Corporation, Bank One NA, and the entities party thereto from time to time as financial institutions</u>	10-K 000-25092	10.38	March 27, 2003
10.14	<u>Amended and Restated Receivables Sale Agreement dated as of September 3, 2003 by and among Insight Direct USA, Inc. and Insight Public Sector, Inc. as originators, and Insight Receivables, LLC, as buyer</u>	10-Q 000-25092	10.1	November 13, 2003
10.15	<u>Amendment No. 1 to Receivables Purchase Agreement dated as of September 3, 2003</u>	10-Q 000-25092	10.2	November 13, 2003
10.16	<u>Amendment No. 2 to Receivables Purchase Agreement dated as of December 23, 2003 among Insight Receivables, LLC, Insight Enterprises, Inc. and Jupiter Securitization Corporation, Bank One NA</u>	10-K 000-25092	10.42	March 11, 2004
10.17	<u>Amendment No. 5 to Receivables Purchase Agreement dated as of March 25, 2005</u>	10-Q 000-25092	10.4	May 9, 2005
10.18	<u>Amendment No. 6 to Receivables Purchase Agreement dated as of December 19, 2005</u>	8-K 000-25092	10.1	December 22, 2005
10.19	<u>Amendment No. 7 to Receivables Purchase Agreement dated as of September 7, 2006</u>	8-K 000-25092	10.2	September 8, 2006

Edgar Filing: INSIGHT ENTERPRISES INC - Form 10-K

- | | | | |
|-------|--|---------------------|--------------------|
| 10.20 | <u>Amendment No. 9 to Receivables Purchase Agreement dated as of September 17, 2008</u> | 8-K 000-25092 10.3 | September 23, 2008 |
| 10.21 | <u>Amendment No. 11 and Joinder Agreement to Receivables Purchase Agreement dated as of July 24, 2009</u> | 10-Q 000-25092 10.1 | August 6, 2009 |
| 10.22 | <u>Amendment No. 12 to Receivables Purchase Agreement dated as of July 1, 2010 among Insight Receivables, LLC, Insight Enterprises, Inc., the Purchasers and Managing Agents party thereto, and JPMorgan Chase Bank, N.A. (successor by merger to Bank One, NA (Main Office Chicago)), as agent for the Purchasers</u> | 10-Q 000-25092 10.1 | November 4, 2010 |
| 10.23 | <u>Omnibus Amendment and Joinder to Receivables Purchase Agreement, dated as of April 26, 2012, among Insight Receivables, LLC, Insight Enterprises, Inc., Insight Direct USA, Inc., Insight Public Sector, Inc., the purchasers and managing agents party thereto and JPMorgan Chase Bank, N.A., as Agent</u> | 8-K 000-25092 10.3 | May 2, 2012 |

Edgar Filing: INSIGHT ENTERPRISES INC - Form 10-K

INSIGHT ENTERPRISES, INC.

EXHIBITS TO FORM 10-K (continued)

YEAR ENDED DECEMBER 31, 2018

Commission File No. 000-25092

Exhibit Number	Exhibit Description	Incorporated by Reference		
		Form File No.	Exhibit Number	Filing/Effective Date
10.24	<u>Third Amended and Restated Credit Agreement, dated as of April 26, 2012, by and among Insight Enterprises, Inc., Insight Enterprises B.V., Insight Direct (UK) Ltd., as borrowers, JPMorgan Chase Bank, N.A., as administrative agent, Wells Fargo Bank, National Association, as syndication agent, and the lenders party thereto</u>	8-K 000-25092	10.1	May 2, 2012
10.25	<u>Amended and Restated Credit Agreement, dated as of April 26, 2012, by and among Calence, LLC, Insight Direct USA, Inc. and Insight Public Sector, Inc., as Resellers, Castle Pines Capital LLC, as administrative agent, Wells Fargo Capital Finance, LLC, as collateral agent, syndication agent and administrative agent, and the lenders party thereto</u>	8-K 000-25092	10.2	May 2, 2012
10.26	<u>Omnibus Amendment, dated as of June 25, 2014, among Insight Receivables, LLC, Insight Enterprises, Inc., Insight Direct USA, Inc., Insight Public Sector, Inc., the purchasers and managing agents party thereto and Wells Fargo Bank, National Association, as successor agent</u>	8-K 000-25092	10.1	July 1, 2014
10.27	<u>Amendment No. 2 to Amended and Restated Credit Agreement, dated as of July 2, 2015, by and among Calence, LLC, Insight Direct USA, Inc. and Insight Public Sector, Inc., as Resellers, Castle Pines Capital LLC, as a lender and as an administrative agent, Wells Fargo Capital Finance, LLC, as a lender, as collateral agent and as an administrative agent, and the other lenders party thereto.</u>	8-K 000-25092	10.1	July 9, 2015
10.28	<u>Amendment No. 2 to Third Amended and Restated Credit Agreement, dated as of April 26, 2012, by and among Insight Enterprises, Inc., Insight Enterprises B.V., Insight Direct (UK) Ltd., as borrowers, JPMorgan Chase Bank, N.A., as administrative agent, Wells Fargo Bank, National Association, as syndication agent, and the lenders party thereto</u>	10-Q 000-25092	10.1	October 29, 2015

- | | | | |
|-------|---|---------------------|------------------|
| 10.29 | <u>Amendment No. 3 to Amended and Restated Credit Agreement, dated as of April 26, 2012, by and among Calence, LLC, Insight Direct USA, Inc. and Insight Public Sector, Inc., as Resellers, Castle Pines Capital LLC, as administrative agent, Wells Fargo Capital Finance, LLC, as collateral agent, syndication agent and administrative agent, and the lenders party thereto</u> | 10-Q 000-25092 10.2 | October 29, 2015 |
| 10.30 | <u>Amendment to Receivables Purchase Agreement, dated as of October 15, 2015, among Insight Receivables, LLC, Insight Enterprises, Inc., PNC Bank, National Association and Wells Fargo Bank, National Association</u> | 10-Q 000-25092 10.3 | October 29, 2015 |

Edgar Filing: INSIGHT ENTERPRISES INC - Form 10-K

INSIGHT ENTERPRISES, INC.

EXHIBITS TO FORM 10-K (continued)

YEAR ENDED DECEMBER 31, 2018

Commission File No. 000-25092

Exhibit Number	Exhibit Description	Incorporated by Reference				
		Form	File No.	Exhibit Number	Filing/Effective Date	Filed Herewith
10.31	<u>Fourth Amended and Restated Credit Agreement, dated as of June 23, 2016, by and among Insight Enterprises, Inc., Insight Enterprises B.V., Insight Direct (UK) Ltd., as borrowers, JPMorgan Chase Bank, N.A., as administrative agent, Wells Fargo Bank, National Association, as syndication agent, and the lenders party thereto</u>	8-K	000-25092	10.1	June 28, 2016	
10.32	<u>Second Amended and Restated Credit Agreement, dated as of June 23, 2016, by and among Calence, LLC, Insight Direct USA, Inc. and Insight Public Sector, Inc., as Resellers, Castle Pines Capital LLC, as administrative agent, Wells Fargo Capital Finance, LLC, as collateral agent, syndication agent and administrative agent, and the lenders party thereto</u>	8-K	000-25092	10.2	June 28, 2016	
10.33	<u>Amendment to Receivables Purchase Agreement, dated as of June 23, 2016, among Insight Receivables, LLC, Insight Enterprises, Inc., the purchasers and managing agents party thereto and Wells Fargo Bank, National Association, as Agent</u>	8-K	000-25092	10.3	June 28, 2016	
10.34	<u>Amendment No. 1 dated as of January 6, 2017 to Fourth Amended and Restated Credit Agreement, by and among Insight Enterprises, Inc., Insight Enterprises B.V. and Insight Direct (UK) Ltd., as borrowers, JPMorgan Chase Bank, N.A., as administrative agent, and the lenders party thereto</u>	10-K	000-25092	10.34	February 2, 2017	
10.35	<u>Second Omnibus Reaffirmation Agreement, Amendment and Joinder to Loan Documents, dated as of January 6, 2017, by and among Calence, LLC, Insight Direct USA, Inc., Insight Public Sector, Inc. and Datalink Corporation, as Resellers, the guarantors party thereto, Castle Pines Capital LLC, as administrative agent, Wells Fargo Capital Finance, LLC, as collateral agent and administrative agent, and the lenders party thereto</u>	10-K	000-25092	10.35	February 2, 2017	

- 10.36 Third Omnibus Amendment to Loan Documents and Reaffirmation Agreement, dated as of March 23, 2018, by and among Calence, LLC, Insight Direct USA, Inc. and Insight Public Sector, Inc., as Resellers, the guarantors party thereto, Wells Fargo Capital Finance, LLC, as collateral agent, syndication agent and administrative agent, and the lenders party thereto 8-K 000-25092 10.1 March 30, 2018
- 10.37 Amendment No. 2 to Fourth Amended and Restated Credit Agreement, dated as of March 13, 2018, by and among Insight Enterprises, Inc., Insight Enterprises B.V., Insight Direct (UK), Ltd., as borrowers, JPMorgan Chase Bank, N.A., as administrative agent, and the lenders party thereto 8-K 000-25092 10.2 March 30, 2018

INSIGHT ENTERPRISES, INC.

EXHIBITS TO FORM 10-K (continued)

YEAR ENDED DECEMBER 31, 2018

Commission File No. 000-25092

Exhibit Number	Exhibit Description	Incorporated by Reference		Herewith
		Form File No.	Number Date	
10.38	<u>Omnibus Amendment, dated as of June 27, 2018, among Insight Receivables, LLC, Insight Direct USA, Inc., Insight Public Sector, Inc., Insight Enterprises, Inc., the purchasers and managing agents party thereto and Wells Fargo Bank, National Association, as Agent, relating to the Receivables Purchase Agreement, dated as of December 31, 2002, as amended, and the Amended and Restated Receivables Sale Agreement, dated as of September 3, 2003, as amended</u>	8-K 000-25092	10.1 June 29, 2018	
21	<u>Subsidiaries of Insight Enterprises, Inc.</u>			X
23.1	<u>Consent of KPMG LLP</u>			X
24.1	<u>Power of Attorney for Timothy A. Crown dated February 13, 2019</u>			X
24.2	<u>Power of Attorney for Richard E. Allen dated February 13, 2019</u>			X
24.3	<u>Power of Attorney for Bruce W. Armstrong dated February 13, 2019</u>			X
24.4	<u>Power of Attorney for Linda M. Breard dated February 13, 2019</u>			X
24.5	<u>Power of Attorney for Catherine Courage dated February 13, 2019</u>			X
24.6	<u>Power of Attorney for Anthony A. Ibarguen dated February 13, 2019</u>			X
24.7	<u>Power of Attorney for Kathleen S. Pushor dated February 13, 2019</u>			X
24.8	<u>Power of Attorney for Girish Rishi dated February 4, 2019</u>			X

31.1	<u>Certification of Chief Executive Officer Pursuant to Securities and Exchange Act Rule 13a-14</u>	X
31.2	<u>Certification of Chief Financial Officer Pursuant to Securities and Exchange Act Rule 13a-14</u>	X
32.1	<u>Certification of Chief Executive Officer and Chief Financial Officer Pursuant to 18 U.S.C. Section 1350. As Adopted Pursuant To Section 906 of the Sarbanes-Oxley Act of 2002</u>	X
101	Interactive data files pursuant to Rule 405 of Regulation S-T	X

(1) We have entered into a separate indemnification agreement with each of the following directors and executive officers that differ only in names and dates: Richard E. Allen, Bruce W. Armstrong, Rachael A. Bertrand, Linda Breard, Glynis A. Bryan, Catherine Courage, Samuel C. Cowley, Timothy A. Crown, Steven W. Dodenhoff, Wolfgang Ebermann, Michael P. Guggemos, Anthony A. Ibargüen, Helen K. Johnson, Kenneth T. Lamneck, Kathleen S. Pushor and Girish Rishi. Pursuant to the instructions accompanying Item 601 of Regulation S-K, the Registrant is filing the form of such indemnification agreement.

(2) Management contract or compensatory plan or arrangement.

(P) Paper exhibit.

INSIGHT ENTERPRISES, INC.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

INSIGHT ENTERPRISES,
INC.

By /s/ Kenneth T. Lamneck
Kenneth T. Lamneck
Chief Executive Officer

Dated: February 22, 2019

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

Signature	Title	Date
/s/ Kenneth T. Lamneck Kenneth T. Lamneck	President, Chief Executive Officer and Director (principal executive officer)	February 22, 2019
/s/ Glynis A. Bryan Glynis A. Bryan	Chief Financial Officer (principal financial officer)	February 22, 2019
/s/ Rachael A. Bertrandt Rachael A. Bertrandt	Global Corporate Controller (principal accounting officer)	February 22, 2019
/s/ Timothy A. Crown* Timothy A. Crown	Chairman of the Board	February 13, 2019
/s/ Richard E. Allen* Richard E. Allen	Director	February 13, 2019
/s/ Bruce W. Armstrong* Bruce W. Armstrong	Director	February 13, 2019
/s/ Linda M. Breard* Linda Breard	Director	February 13, 2019

Edgar Filing: INSIGHT ENTERPRISES INC - Form 10-K

/s/ Catherine Courage* Director February 13, 2019
Catherine Courage

/s/ Anthony A. Ibarguen* Director February 13, 2019
Anthony A. Ibarguen

/s/ Kathleen S. Pushor* Director February 13, 2019
Kathleen S. Pushor

/s/ Girish Rishi* Director February 4, 2019
Girish Rishi

* By: /s/ Samuel C. Cowley
Samuel C. Cowley, Attorney in Fact