

INSIGHT ENTERPRISES INC

Form 10-Q

May 06, 2010

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**UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
WASHINGTON, D.C. 20549  
FORM 10-Q**

(Mark One)

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

**For the quarterly period ended: March 31, 2010**

**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**

(State or other jurisdiction of  
incorporation or organization)

**86-0766246**

(I.R.S. Employer Identification Number)

**6820 South Harl Avenue, Tempe, Arizona 85283**

(Address of principal executive offices) (Zip Code)

**(480) 902-1001**

(Registrant's telephone number, including area code)

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

Indicate by check mark whether the registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes ☒ No ☐

Indicate by a checkmark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§ 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).

Yes ☐ No ☐

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

Large accelerated filer ☐

Accelerated filer ☒

Non-accelerated filer ☐

Smaller reporting  
company ☐

(Do not check if a smaller  
reporting company)

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes ☐ No ☒

The number of shares outstanding of the issuer's common stock as of April 30, 2010 was 46,226,252.



**INSIGHT ENTERPRISES, INC.**  
**QUARTERLY REPORT ON FORM 10-Q**  
**Three Months Ended March 31, 2010**  
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**INSIGHT ENTERPRISES, INC.  
FORWARD-LOOKING INFORMATION**

Certain statements in this Quarterly Report on Form 10-Q, including statements in Management's Discussion and Analysis of Financial Condition and Results of Operations in Part I, Item 2 of this report, are forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. These forward-looking statements may include: projections of matters that affect net sales, gross profit, operating expenses, earnings from continuing operations, non-operating income and expenses, net earnings or cash flows, cash needs and the sufficiency of our capital resources and the payment of accrued expenses and liabilities; detail of our business strategy and our strategic initiatives; effects of acquisitions or dispositions; projections of capital expenditures and trade credit liability settlements and payments, our business outlook and earnings per share expectations in 2010; the availability of financing and our needs or plans relating thereto; plans relating to our products and services; the effect of new accounting principles or changes in accounting policies; the effect of guaranty and indemnification obligations and other off-balance sheet arrangements; projections about the outcome of ongoing tax audits; statements related to accounting estimates, including estimated stock-based compensation award forfeitures and the realization of deferred tax assets; the timing of amortization of stock-based compensation expense and accrued severance and restructuring costs; projections of compliance with debt covenants; our intentions to reinvest undistributed earnings of foreign subsidiaries; our positions and strategies with respect to ongoing and threatened litigation, including those matters identified in Legal Proceedings in Part II, Item 1 of this report; 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, and are inherently subject to risks and uncertainties, some of which cannot be predicted or quantified. Future events and actual results could differ materially from those set forth in, contemplated by, or underlying the forward-looking statements. There can be no assurances that the results discussed in the forward-looking statements will be achieved, and actual results could differ materially from those suggested by the forward-looking statements. Some of the important factors that could cause our actual results to differ materially from those projected in any forward-looking statements include, but are not limited to, the following:

- our reliance on partners for product availability, marketing funds, purchasing incentives and competitive products to sell;

- changes in the information technology industry and/or rapid changes in product standards;

- general economic conditions, including concerns regarding our ability to collect our accounts receivable and credit constraints;

- disruptions in our information technology systems and voice and data networks, including our system upgrade and the migration of acquired businesses to our information technology systems and voice and data networks;

- actions of our competitors, including manufacturers and publishers of products we sell;

- stockholder litigation and regulatory proceedings related to the restatement of our consolidated financial statements;

- increased debt and interest expense and lower availability on our financing facilities and changes in the overall capital markets that could increase our borrowing costs or reduce future availability of financing;

- the integration and operation of acquired businesses, including our ability to achieve expected benefits of the acquisitions;

the variability and seasonality of our net sales and gross profit;

the risks associated with international operations;

exposure to changes in, or interpretations of, tax rules and regulations;

exposure to foreign currency exchange risks;

failure to comply with the terms and conditions of our public sector contracts;

our dependence on key personnel; and

intellectual property infringement claims and challenges to our registered trademarks and trade names.

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

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**Table of Contents****PART I FINANCIAL INFORMATION****Item 1. Financial Statements.**

**INSIGHT ENTERPRISES, INC.**  
**CONSOLIDATED BALANCE SHEETS**  
(in thousands, except per share data)  
(unaudited)

|                                                                                                     | March 31,<br>2010 | December 31,<br>2009 |
|-----------------------------------------------------------------------------------------------------|-------------------|----------------------|
| <b>ASSETS</b>                                                                                       |                   |                      |
| Current assets:                                                                                     |                   |                      |
| Cash and cash equivalents                                                                           | \$ 85,324         | \$ 68,066            |
| Accounts receivable, net of allowances for doubtful accounts of \$20,623 and \$22,364, respectively | 828,311           | 998,770              |
| Inventories                                                                                         | 81,212            | 82,380               |
| Inventories not available for sale                                                                  | 40,619            | 43,036               |
| Deferred income taxes                                                                               | 33,630            | 35,750               |
| Other current assets                                                                                | 89,077            | 32,318               |
| Total current assets                                                                                | 1,158,173         | 1,260,320            |
| Property and equipment, net of accumulated depreciation of \$165,581 and \$160,904, respectively    | 144,869           | 150,103              |
| Goodwill                                                                                            | 16,474            | 15,829               |
| Intangible assets, net of accumulated amortization of \$43,561 and \$39,187, respectively           | 78,114            | 82,483               |
| Deferred income taxes                                                                               | 77,468            | 78,489               |
| Other assets                                                                                        | 19,640            | 16,097               |
|                                                                                                     | \$ 1,494,738      | \$ 1,603,321         |
| <b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>                                                         |                   |                      |
| Current liabilities:                                                                                |                   |                      |
| Accounts payable                                                                                    | \$ 687,447        | \$ 695,549           |
| Accrued expenses and other current liabilities                                                      | 176,947           | 212,276              |
| Current portion of long-term debt                                                                   | 880               | 875                  |
| Deferred revenue                                                                                    | 50,138            | 54,135               |
| Total current liabilities                                                                           | 915,412           | 962,835              |
| Long-term debt                                                                                      | 82,127            | 149,349              |
| Deferred income taxes                                                                               | 2,968             | 3,054                |
| Other liabilities                                                                                   | 23,813            | 20,509               |
|                                                                                                     | 1,024,320         | 1,135,747            |

Commitments and contingencies

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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; 46,222 shares at

March 31, 2010 and 45,956 shares at December 31, 2009 issued and outstanding

Additional paid-in capital

Retained earnings

Accumulated other comprehensive income foreign currency translation

adjustments

Total stockholders' equity

|              |              |
|--------------|--------------|
| 462          | 460          |
| 372,817      | 372,021      |
| 83,029       | 73,864       |
| 14,110       | 21,229       |
| 470,418      | 467,574      |
| \$ 1,494,738 | \$ 1,603,321 |

See accompanying notes to consolidated financial statements.

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**INSIGHT ENTERPRISES, INC.**  
**CONSOLIDATED STATEMENTS OF OPERATIONS**  
(in thousands, except per share data)  
(unaudited)

|                                           | <b>Three Months Ended<br/>March 31,</b> |             |
|-------------------------------------------|-----------------------------------------|-------------|
|                                           | <b>2010</b>                             | <b>2009</b> |
| Net sales                                 | \$ 1,049,380                            | \$ 951,160  |
| Costs of goods sold                       | 904,335                                 | 819,389     |
| Gross profit                              | 145,045                                 | 131,771     |
| Operating expenses:                       |                                         |             |
| Selling and administrative expenses       | 127,711                                 | 133,343     |
| Severance and restructuring expenses      | 71                                      | 6,347       |
| Earnings (loss) from operations           | 17,263                                  | (7,919)     |
| Non-operating (income) expense:           |                                         |             |
| Interest income                           | (127)                                   | (100)       |
| Interest expense                          | 2,367                                   | 2,099       |
| Net foreign currency exchange loss (gain) | 209                                     | (51)        |
| Other expense, net                        | 346                                     | 279         |
| Earnings (loss) before income taxes       | 14,468                                  | (10,146)    |
| Income tax expense (benefit)              | 5,303                                   | (3,349)     |
| Net earnings (loss)                       | \$ 9,165                                | \$ (6,797)  |
| Net earnings (loss) per share:            |                                         |             |
| Basic                                     | \$ 0.20                                 | \$ (0.15)   |
| Diluted                                   | \$ 0.20                                 | \$ (0.15)   |
| Shares used in per share calculations:    |                                         |             |
| Basic                                     | 46,073                                  | 45,710      |
| Diluted                                   | 46,643                                  | 45,710      |

See accompanying notes to consolidated financial statements.

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**INSIGHT ENTERPRISES, INC.**  
**CONSOLIDATED STATEMENTS OF CASH FLOWS**  
(in thousands)  
(unaudited)

|                                                                                            | <b>Three Months Ended<br/>March 31,</b> |              |
|--------------------------------------------------------------------------------------------|-----------------------------------------|--------------|
|                                                                                            | <b>2010</b>                             | <b>2009*</b> |
| Cash flows from operating activities:                                                      |                                         |              |
| Net earnings (loss)                                                                        | \$ 9,165                                | \$ (6,797)   |
| Adjustments to reconcile net earnings (loss) to net cash provided by operating activities: |                                         |              |
| Depreciation and amortization                                                              | 9,743                                   | 9,773        |
| Provision for losses on accounts receivable                                                | 1,365                                   | 655          |
| Write-downs of inventories                                                                 | 1,276                                   | 2,221        |
| Non-cash stock-based compensation                                                          | 1,214                                   | 6,091        |
| Excess tax benefit from employee gains on stock-based compensation                         | (844)                                   |              |
| Deferred income taxes                                                                      | 2,435                                   | (1,846)      |
| Changes in assets and liabilities:                                                         |                                         |              |
| Decrease in accounts receivable                                                            | 150,052                                 | 117,169      |
| Decrease in inventories                                                                    | 1,500                                   | 7,631        |
| Increase in other current assets                                                           | (57,251)                                | (6,269)      |
| Increase in other assets                                                                   | (3,473)                                 | (424)        |
| Increase (decrease) in accounts payable                                                    | 26,004                                  | (8,705)      |
| Decrease in deferred revenue                                                               | (1,353)                                 | (1,500)      |
| Decrease in accrued expenses and other liabilities                                         | (29,796)                                | (16,690)     |
| Net cash provided by operating activities                                                  | 110,037                                 | 101,309      |
| Cash flows from investing activities:                                                      |                                         |              |
| Purchases of property and equipment                                                        | (2,794)                                 | (5,062)      |
| Net cash used in investing activities                                                      | (2,794)                                 | (5,062)      |
| Cash flows from financing activities:                                                      |                                         |              |
| Borrowings on senior revolving credit facility                                             | 206,500                                 | 307,873      |
| Repayments on senior revolving credit facility                                             | (273,500)                               | (364,873)    |
| Borrowings on accounts receivable securitization financing facility                        | 25,000                                  | 120,000      |
| Repayments on accounts receivable securitization financing facility                        | (25,000)                                | (120,000)    |
| Payments on capital lease obligation                                                       | (217)                                   |              |
| Net repayments under inventory financing facility                                          | (19,836)                                | (17,830)     |
| Payment of deferred financing fees                                                         |                                         | (531)        |
| Excess tax benefit from employee gains on stock-based compensation                         | 844                                     |              |
| Payment of payroll taxes on stock-based compensation through shares withheld               | (1,151)                                 | (307)        |
| Net cash used in financing activities                                                      | (87,360)                                | (75,668)     |
| Foreign currency exchange effect on cash flows                                             | (2,625)                                 | (2,561)      |

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|                                                  |           |           |
|--------------------------------------------------|-----------|-----------|
| Increase in cash and cash equivalents            | 17,258    | 18,018    |
| Cash and cash equivalents at beginning of period | 68,066    | 49,175    |
| Cash and cash equivalents at end of period       | \$ 85,324 | \$ 67,193 |

\* Certain amounts in the consolidated statement of cash flows for the three months ended March 31, 2009 have been reclassified to conform to the presentation for the three months ended March 31, 2010.

See accompanying notes to consolidated financial statements.

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**INSIGHT ENTERPRISES, INC.  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
(unaudited)**

**1. Basis of Presentation and Recently Issued Accounting Pronouncements**

We are a leading provider of information technology ( IT ) hardware, software and services to small, medium and large businesses and public sector institutions in North America, Europe, the Middle East, Africa and Asia-Pacific. The Company is organized in the following three operating segments, which are primarily defined by their related geographies:

**Operating Segment**

North America

EMEA

APAC

**Geography**

United States and Canada

Europe, Middle East and Africa

Asia-Pacific

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

In the opinion of management, the accompanying unaudited consolidated financial statements contain all adjustments necessary to present fairly our financial position as of March 31, 2010, our results of operations and cash flows for the three months ended March 31, 2010 and 2009. The consolidated balance sheet as of December 31, 2009 was derived from the audited consolidated balance sheet at such date. The accompanying unaudited consolidated financial statements and notes have been prepared in accordance with the rules and regulations promulgated by the Securities and Exchange Commission ( SEC ) and consequently do not include all of the disclosures normally required by United States generally accepted accounting principles ( GAAP ).

The results of operations for such interim periods are not necessarily indicative of results for the full year, due in part to the seasonal nature of the business. These unaudited consolidated financial statements should be read in conjunction with the audited consolidated financial statements, including the related notes thereto, in our Annual Report on Form 10-K for the year ended December 31, 2009.

The preparation of consolidated financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements. Additionally, these estimates and assumptions affect the reported amounts of net sales and expenses during the reported 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, 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.

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

***Reclassifications***

Consistent with our presentation as of December 31, 2009, included in our Consolidated Financial Statements in Part II, Item 8 of our Annual Report on Form 10-K for the year ended December 31, 2009, we reclassified certain current asset and current liability amounts as of March 31, 2009 which affected the accompanying consolidated statement of cash flows for the three months ended March 31, 2009 to conform to the presentation for the three months ended March 31, 2010. Such reclassifications were required to conform presentation among all of our subsidiaries. Such reclassifications had no effect on previously reported net earnings (loss) or operating cash flow amounts.



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**INSIGHT ENTERPRISES, INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)**  
**(unaudited)**

Consistent with our presentation for the year ended December 31, 2009, included in our Consolidated Financial Statements in Part II, Item 8 of our Annual Report on Form 10-K for the year ended December 31, 2009, we revised the classification of the net increase in book overdrafts of \$5,214,000 for the three months ended March 31, 2009, from a financing activity to an operating activity in our consolidated statements of cash flows. We concluded this classification is preferable as 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. The revision in classification had no effect on our consolidated balance sheet or reported net earnings in any period.

*Recently Issued Accounting Pronouncements*

There have been no material changes or additions to the recently issued accounting pronouncements as previously reported in Note 1 to our Consolidated Financial Statements in Part II, Item 8 of our Annual Report on Form 10-K for the year ended December 31, 2009 which affect or may affect our financial statements.

**2. Net Earnings (Loss) Per Share ( EPS )**

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

|                                                                                                           | <b>Three Months Ended<br/>March 31,</b> |             |
|-----------------------------------------------------------------------------------------------------------|-----------------------------------------|-------------|
|                                                                                                           | <b>2010</b>                             | <b>2009</b> |
| Numerator:                                                                                                |                                         |             |
| Net earnings (loss)                                                                                       | \$ 9,165                                | \$ (6,797)  |
| Denominator:                                                                                              |                                         |             |
| Weighted average shares used to compute basic EPS                                                         | 46,073                                  | 45,710      |
| Dilutive potential common shares due to dilutive options and restricted stock units,<br>net of tax effect | 570                                     |             |
| Weighted average shares used to compute diluted EPS                                                       | 46,643                                  | 45,710      |
| Net earnings (loss):                                                                                      |                                         |             |
| Basic                                                                                                     | \$ 0.20                                 | \$ (0.15)   |
| Diluted                                                                                                   | \$ 0.20                                 | \$ (0.15)   |

During the three months ended March 31, 2010, 543,000 weighted average outstanding stock options were not included in the diluted EPS calculation because the exercise prices of these options were greater than the average market price of our common stock during the period. No potential common shares were included in the diluted EPS computation for the three months ended March 31, 2009 because of the net loss in that period, which would have resulted in an antidilutive per share effect.



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**INSIGHT ENTERPRISES, INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)**  
**(unaudited)**

**3. Goodwill**

During the three months ended March 31, 2010, we recorded \$645,000 of additional purchase price consideration and the related accrued interest thereon as a result of Calence, LLC ( Calence ), acquired April 1, 2008, achieving certain performance targets during the first quarter of 2010. The additional goodwill was recorded as part of our North America reporting unit. Additional purchase price consideration and the related accrued interest thereon of \$5,123,000 that was earned subsequent to the last scheduled payment date through March 31, 2010 is included in accrued expenses and other current liabilities within our consolidated balance sheet as of March 31, 2010. Such amount, the final additional purchase price payment, was paid to the former owners of Calence on April 1, 2010.

**4. Debt, Capital Lease Obligation and Inventory Financing Facility***Debt*

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

|                                                                           | <b>March 31,<br/>2010</b> | <b>December 31,<br/>2009</b> |
|---------------------------------------------------------------------------|---------------------------|------------------------------|
| Senior revolving credit facility                                          | \$ 80,000                 | \$ 147,000                   |
| Accounts receivable securitization financing facility (the ABS facility ) |                           |                              |
| Capital lease obligation                                                  | 3,007                     | 3,224                        |
| Total                                                                     | 83,007                    | 150,224                      |
| Less: current portion of obligation under capital lease                   | (880)                     | (875)                        |
| Less: current portion of revolving credit facilities                      |                           |                              |
| Long-term debt                                                            | \$ 82,127                 | \$ 149,349                   |

Our senior revolving credit facility has a maximum borrowing capacity of \$300,000,000 and matures April 1, 2013. Our ABS facility has a maximum borrowing capacity of \$150,000,000 and matures on July 23, 2010. 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 March 31, 2010, availability under the ABS facility was \$70.0 million. We currently anticipate that we will be able to renew the ABS facility prior to its maturity on July 23, 2010.

Our consolidated debt balance that can be outstanding at the end of any fiscal quarter under our senior revolving credit 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, less non-cash imputed interest on our inventory financing facility, (ii) income tax expense (benefit), (iii) depreciation and amortization, (iv) non-cash goodwill impairment and (v) non-cash stock-based compensation (referred to herein as adjusted earnings ). The maximum leverage ratio permitted under the agreements is 2.75 times trailing twelve-month adjusted earnings. As a result of this limitation, of the \$450.0 million of aggregate maximum debt capacity available under our senior revolving credit facility and our ABS facility, the Company's debt balance that could have been outstanding as of March 31, 2010 was limited to \$340.9 million based on 2.75 times the Company's trailing twelve-month adjusted earnings.

Our financing facilities contain various covenants. If we fail to comply with these covenants, the lenders would be able to demand payment within a specified period of time. At March 31, 2010, we were in compliance with all such covenants.



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**INSIGHT ENTERPRISES, INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)**  
**(unaudited)**

*Capital Lease Obligation*

In July 2009, we entered into a four-year lease for certain IT equipment. Subsequently, in November 2009, we amended this lease to include additional IT equipment to be used in the same manner as the equipment covered by the initial lease. The obligations under the capitalized lease are included in long-term debt in our consolidated balance sheet as of March 31, 2010. The current and long-term portions of the obligation are included in the table above. The equipment held under the capitalized lease is included in property and equipment and is amortized on a straight-line basis over the lease term. The related amortization expense is included in selling and administrative expenses in our consolidated statement of operations for the three months ended March 31, 2010. As of March 31, 2010, accumulated amortization on the capital lease assets was \$557,000.

*Inventory Financing Facility*

As of March 31, 2010 and December 31, 2009, \$74,446,000 and \$94,282,000, respectively, was included in accounts payable within the consolidated balance sheet related to our inventory financing facility.

**5. Income Taxes**

Our effective tax rate for the three months ended March 31, 2010 was 36.7%. For the three months ended March 31, 2010, our effective tax rate was higher than the United States federal statutory rate of 35.0% due primarily to state income taxes, net of federal benefit and other non-deductible expenses, partially offset by lower taxes on earnings in foreign jurisdictions.

Our effective tax rate for the three months ended March 31, 2009 was a benefit of 33.0%. For the three months ended March 31, 2009, our effective tax rate differed from the United States federal statutory rate of 35.0% due primarily to the mix of income and losses taxed at different tax rates in the various jurisdictions in which we operate and state income taxes, net of federal tax.

As of March 31, 2010 and December 31, 2009, we had \$5,744,000 and \$5,923,000, respectively, of unrecognized tax benefits. Of these amounts, approximately \$414,000 and \$330,000 relate to accrued interest as of March 31, 2010 and December 31, 2009, respectively.

Several of our subsidiaries are currently under audit for the 2002 through 2008 tax years. It is reasonably possible that the examination phase of these audits may conclude in the next 12 months and that the related unrecognized tax benefits for uncertain tax positions may change, potentially having a material effect on our effective tax rate. However, based on the status of the various examinations in multiple jurisdictions, an estimate of the range of reasonably possible outcomes cannot be made at this time.

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**INSIGHT ENTERPRISES, INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)**  
**(unaudited)**

**6. Severance, Restructuring and Acquisition Integration Activities***Severance Costs Expensed for 2010 Resource Actions*

During the three months ended March 31, 2010, EMEA recorded severance expense totaling \$306,000. The outstanding obligations are expected to be paid during the year ending December 31, 2010 and are therefore included in accrued expenses and other current liabilities.

*Severance Costs Expensed for 2009 Resource Actions*

During the year ended December 31, 2009, North America, EMEA and APAC recorded severance expense related to the departure of our former President and Chief Executive Officer from the Company and ongoing restructuring efforts to reduce operating expenses. As of December 31, 2009, all severance costs recorded by APAC in connection with 2009 resource actions had been paid. The following table details the changes in these liabilities during the three months ended March 31, 2010 (in thousands):

|                                          | <b>North<br/>America</b> | <b>EMEA</b> | <b>Consolidated</b> |
|------------------------------------------|--------------------------|-------------|---------------------|
| Balance at December 31, 2009             | \$ 38                    | \$ 1,904    | \$ 1,942            |
| Foreign currency translation adjustments |                          | (121)       | (121)               |
| Adjustments                              |                          | (165)       | (165)               |
| Cash payments                            | (19)                     | (369)       | (388)               |
| Balance at March 31, 2010                | \$ 19                    | \$ 1,249    | \$ 1,268            |

An adjustment of \$165,000 was recorded as a reduction of severance and restructuring expense recorded during the three months ended March 31, 2010 and the related severance accrual in EMEA due to changes in estimates as cash payments were made. All remaining outstanding obligations are expected to be paid during the year ending December 31, 2010 and are therefore included in accrued expenses and other current liabilities.

*Severance Costs Expensed for 2008 Resource Actions*

During the year ended December 31, 2008, North America, EMEA and APAC recorded severance expense related to ongoing restructuring efforts to reduce operating expenses related to support functions. As of December 31, 2009, all severance costs recorded by APAC in connection with 2008 resource actions had been paid. The following table details the changes in these liabilities during the three months ended March 31, 2010 (in thousands):

|                                          | <b>North<br/>America</b> | <b>EMEA</b> | <b>Consolidated</b> |
|------------------------------------------|--------------------------|-------------|---------------------|
| Balance at December 31, 2009             | \$ 19                    | \$ 70       | \$ 89               |
| Foreign currency translation adjustments |                          |             |                     |
| Adjustments                              |                          | (70)        | (70)                |
| Cash payments                            | (19)                     |             | (19)                |
| Balance at March 31, 2010                | \$                       | \$          | \$                  |

An adjustment of \$70,000 was recorded as a reduction of severance and restructuring expense recorded during the three months ended March 31, 2010 and the related severance accrual in EMEA due to changes in estimate.

*Acquisition-Related Costs Capitalized in 2006 as a Cost of Acquisition of Software Spectrum*

In 2006, we recorded \$9,738,000 of employee termination benefits and \$1,676,000 of facility based costs in connection with the integration of Software Spectrum. These costs were recognized as a liability assumed in the purchase business combination and included in the allocation of the cost to acquire Software Spectrum.



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The employee termination benefits relate to severance payments for Software Spectrum teammates in North America and EMEA who have been or will be terminated in connection with integration plans. The facilities based costs relate to future lease payments or lease termination costs associated with vacating certain Software Spectrum facilities in EMEA.

As of December 31, 2009, all severance costs recorded by North America in connection with the integration of Software Spectrum had been paid.

The following table details the changes in these liabilities during the three months ended March 31, 2010 (in thousands):

|                                          | <b>EMEA</b> |
|------------------------------------------|-------------|
| Balance at December 31, 2009             | \$ 1,358    |
| Foreign currency translation adjustments | (87)        |
| Adjustments                              |             |
| Cash payments                            | (209)       |
| Balance at March 31, 2010                | \$ 1,062    |

All remaining outstanding obligations are expected to be paid during the year ending December 31, 2010 and are therefore included in accrued expenses and other current liabilities.

*Restructuring Costs Expensed in 2005*

During the year ended December 31, 2005, Insight UK moved into a new facility and recorded facilities-based restructuring costs of \$7,458,000.

The following table details the changes in this liability during the three months ended March 31, 2010 (in thousands):

|                                          | <b>EMEA</b> |
|------------------------------------------|-------------|
| Balance at December 31, 2009             | \$ 77       |
| Foreign currency translation adjustments | (5)         |
| Adjustments                              |             |
| Cash payments                            |             |
| Balance at March 31, 2010                | \$ 72       |

The related leases expired in October 2009, and the remaining balance in the accrual related to certain service charges is expected to be paid in 2010.

**7. Stock-Based Compensation**

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

|               | <b>Three Months Ended<br/>March 31,</b> |             |
|---------------|-----------------------------------------|-------------|
|               | <b>2010</b>                             | <b>2009</b> |
| North America | \$ 942                                  | \$ 4,260    |
| EMEA          | 238                                     | 1,753       |
| APAC          | 34                                      | 78          |
| Total         | \$ 1,214                                | \$ 6,091    |

*Stock Options*

For the three months ended March 31, 2010 and 2009, we recorded stock-based compensation expense related to stock options, net of an estimate of forfeitures, of \$91,000 and \$65,000, respectively. As of March 31, 2010, total compensation cost not yet recognized related to nonvested stock options is \$264,000, which is expected to be recognized over the next .49 years on a weighted-average basis.

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The following table summarizes our stock option activity during the three months ended March 31, 2010:

|                                | Number   | Weighted<br>Average<br>Exercise<br>Price | Aggregate<br>Intrinsic<br>Value<br>(in-the-money<br>options) | Weighted<br>Average<br>Remaining<br>Contractual<br>Life (in<br>years) |
|--------------------------------|----------|------------------------------------------|--------------------------------------------------------------|-----------------------------------------------------------------------|
| Outstanding at January 1, 2010 | 589,424  | \$ 18.82                                 |                                                              |                                                                       |
| Granted                        |          |                                          |                                                              |                                                                       |
| Exercised                      |          |                                          | \$                                                           |                                                                       |
| Forfeited or expired           | (92,174) | 18.81                                    |                                                              |                                                                       |
| Outstanding at March 31, 2010  | 497,250  | 18.83                                    | \$ 5,951                                                     | 1.27                                                                  |
| Exercisable at March 31, 2010  | 430,584  | 18.99                                    | \$ 5,951                                                     | 1.05                                                                  |
| Vested and expected to vest    | 497,250  | 18.83                                    | \$ 5,951                                                     | 1.27                                                                  |

The aggregate intrinsic value in the preceding table represents the total pre-tax intrinsic value, based on our closing stock price of \$14.36 as of March 31, 2010, which would have been received by the option holders had all option holders exercised options and sold the underlying shares on that date.

The following table summarizes the status of outstanding stock options as of March 31, 2010:

| Range of<br>Exercise<br>Prices | Number of<br>Options<br>Outstanding | Options Outstanding                                                   |                                                       | Number of<br>Options<br>Exercisable | Options Exercisable                                   |  |
|--------------------------------|-------------------------------------|-----------------------------------------------------------------------|-------------------------------------------------------|-------------------------------------|-------------------------------------------------------|--|
|                                |                                     | Weighted<br>Average<br>Remaining<br>Contractual<br>Life (in<br>years) | Weighted<br>Average<br>Exercise<br>Price Per<br>Share |                                     | Weighted<br>Average<br>Exercise<br>Price Per<br>Share |  |
| \$13.94 - 17.76                | 31,242                              | 0.87                                                                  | \$ 15.08                                              | 31,242                              | \$ 15.08                                              |  |
| 17.77 - 17.77                  | 200,000                             | 2.72                                                                  | 17.77                                                 | 133,334                             | 17.77                                                 |  |
| 17.94 - 18.53                  | 73,840                              | 0.09                                                                  | 18.44                                                 | 73,840                              | 18.44                                                 |  |
| 18.65 - 18.65                  | 116,079                             | 0.10                                                                  | 18.65                                                 | 116,079                             | 18.65                                                 |  |
| 18.80 - 41.00                  | 76,089                              | 0.56                                                                  | 23.78                                                 | 76,089                              | 23.78                                                 |  |
|                                | 497,250                             | 1.27                                                                  | 18.83                                                 | 430,584                             | 18.99                                                 |  |

***Restricted Stock***

For the three months ended March 31, 2010 and 2009, we recorded stock-based compensation expense, net of estimated forfeitures, related to restricted stock units ( RSUs ) of \$1,123,000 and \$6,026,000, respectively. The expense for the three months ended March 31, 2009 includes a non-cash charge of \$5,478,000 that was recognized as a result of the cancellation of certain long-term incentive awards and is discussed further in our Annual Report on Form 10-K

for the year ended December 31, 2009. As of March 31, 2010, total compensation cost not yet recognized related to nonvested RSUs is \$12,883,000, which is expected to be recognized over the next 1.40 years on a weighted-average basis.

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**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)**  
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The following table summarizes our RSU activity during the three months ended March 31, 2010:

|                                                  | Number    | Weighted Average<br>Grant Date Fair<br>Value | Fair Value                   |
|--------------------------------------------------|-----------|----------------------------------------------|------------------------------|
| Nonvested at January 1, 2010                     | 1,126,797 | \$ 5.95                                      |                              |
| Granted                                          | 814,014   | 13.04                                        |                              |
| Vested, including shares withheld to cover taxes | (352,943) | 8.29                                         | \$ 4,670,914 <sup>(a)</sup>  |
| Forfeited                                        | (7,155)   | 7.22                                         |                              |
| Nonvested at March 31, 2010                      | 1,580,713 | 9.08                                         | \$ 22,699,039 <sup>(b)</sup> |
| Expected to vest                                 | 1,459,912 |                                              | \$ 20,964,336 <sup>(b)</sup> |

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

<sup>(b)</sup> The aggregate fair value of the nonvested RSUs expected to vest represents the total pre-tax fair value, based on our closing stock price of \$14.36 as of March 31, 2010,

which would  
have been  
received by  
holders of RSUs  
had all such  
holders sold  
their underlying  
shares on that  
date.

During the three months ended March 31, 2010 and 2009, the RSUs that vested for teammates in the United States were net-share settled such that we withheld shares with value equivalent to the teammates' minimum statutory United States tax obligations for the applicable income and other employment taxes and remitted the corresponding cash amount to the appropriate taxing authorities. The total shares withheld during the three months ended March 31, 2010 and 2009 of 87,040 and 80,133, respectively, were based on the value of the RSUs on their vesting date as determined by our closing stock price on such vesting date. For the three months ended March 31, 2010 and 2009, total payments for the employees' tax obligations to the taxing authorities were \$1,151,000 and \$307,000, respectively, and are reflected as a financing activity within the consolidated statements of cash flows. These net-share settlements had the economic effect of repurchases of common stock as they reduced the number of shares that would have otherwise been issued as a result of the vesting and did not represent a repurchase of shares or an expense to us.

## **8. Derivative Financial Instruments**

We use derivatives to partially offset our exposure to fluctuations in certain foreign currencies. We do not enter into derivatives for speculative or trading purposes. Derivatives are recorded at fair value on the balance sheet and gains or losses resulting from changes in fair value of the derivative are recorded currently in income. The Company does not designate its hedges for hedge accounting.

### *Non-Designated Hedges*

We use foreign exchange forward contracts to hedge certain non-functional currency assets and liabilities from changes in exchange rate movements. Our non-functional currency assets and liabilities are primarily related to foreign currency denominated payables, receivables, and cash balances. The foreign currency forward contracts, carried at fair value, typically have a maturity of one month or less. We currently enter into approximately four foreign exchange forward contracts per month with an average notional value of \$8,400,000 and an average maturity of approximately one week. Additional information on our purpose for entering into derivatives is described in

Quantitative and Qualitative Disclosures About Market Risk in Part II, Item 7A of our Annual Report on Form 10-K for the year ended December 31, 2009.

The counterparties associated with our foreign exchange forward contracts are large credit worthy 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.

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The following table summarizes our derivative financial instruments as of March 31, 2010 and December 31, 2009 (in thousands):

|                                                         |                                                | <b>March 31, 2010</b> |                    | <b>December 31, 2009</b> |                    |
|---------------------------------------------------------|------------------------------------------------|-----------------------|--------------------|--------------------------|--------------------|
|                                                         | <b>Balance Sheet</b>                           | <b>Asset</b>          | <b>Liability</b>   | <b>Asset</b>             | <b>Liability</b>   |
|                                                         | <b>Location</b>                                | <b>Derivatives</b>    | <b>Derivatives</b> | <b>Derivatives</b>       | <b>Derivatives</b> |
|                                                         |                                                | <b>Fair</b>           | <b>Fair</b>        | <b>Fair</b>              | <b>Fair</b>        |
|                                                         |                                                | <b>Value</b>          | <b>Value</b>       | <b>Value</b>             | <b>Value</b>       |
| Derivatives not designated as hedging instruments:      |                                                |                       |                    |                          |                    |
| Foreign exchange forward contracts                      | Other current assets                           | \$ 14                 | \$                 | \$ 105                   | \$                 |
| Foreign exchange forward contracts                      | Accrued expenses and other current liabilities |                       |                    |                          | 65                 |
| Total derivatives not designated as hedging instruments |                                                | \$ 14                 | \$                 | \$ 105                   | \$ 65              |

The following table summarizes the effect of our derivative financial instruments on our results of operations during the three months ended March 31, 2010 and 2009 (in thousands):

| <b>Derivatives Not Designated as Hedging Instruments</b> | <b>Location of Loss Recognized in Earnings on Derivatives</b> | <b>Amount of Loss Recognized in Earnings on Derivatives</b> |                                          |
|----------------------------------------------------------|---------------------------------------------------------------|-------------------------------------------------------------|------------------------------------------|
|                                                          |                                                               | <b>Three Months Ended March 31, 2010</b>                    | <b>Three Months Ended March 31, 2009</b> |
| Foreign exchange forward contracts                       | Net foreign currency exchange (gain) loss                     | \$ (398)                                                    | \$ 1,132                                 |
| Total                                                    |                                                               | \$ (398)                                                    | \$ 1,132                                 |

**9. Fair Value Measurements**

The following table summarizes the valuation of our financial instruments by the following three categories as of March 31, 2010 and December 31, 2009 (in thousands):

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

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

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

|                      | <b>March 31, 2010</b> |                    | <b>December 31, 2009</b> |                    |
|----------------------|-----------------------|--------------------|--------------------------|--------------------|
| <b>Balance Sheet</b> | <b>Asset</b>          | <b>Liability</b>   | <b>Asset</b>             | <b>Liability</b>   |
|                      | <b>Derivatives</b>    | <b>Derivatives</b> | <b>Derivatives</b>       | <b>Derivatives</b> |

|                                 | <b>Classification</b>                                   |         | <b>Fair<br/>Value</b> | <b>Fair Value</b> | <b>Fair<br/>Value</b> | <b>Fair Value</b> |
|---------------------------------|---------------------------------------------------------|---------|-----------------------|-------------------|-----------------------|-------------------|
| Foreign Exchange<br>Derivatives | Other current<br>assets                                 | Level 1 | \$                    | \$                | \$                    | \$                |
|                                 |                                                         | Level 2 | 14                    |                   | 105                   |                   |
|                                 |                                                         | Level 3 |                       |                   |                       |                   |
|                                 |                                                         |         | \$ 14                 | \$                | \$ 105                | \$                |
| Foreign Exchange<br>Derivatives | Accrued<br>expenses and<br>other current<br>liabilities | Level 1 | \$                    | \$                | \$                    | \$                |
|                                 |                                                         | Level 2 |                       |                   |                       | 65                |
|                                 |                                                         | Level 3 |                       |                   |                       |                   |
|                                 |                                                         |         | \$                    | \$                | \$                    | \$ 65             |

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**INSIGHT ENTERPRISES, INC.**  
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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. The 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 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. We did not have any assets or liabilities measured at Level 1 or Level 3 or implement any changes in our valuation techniques as of and for the three months ended March 31, 2010.

As of March 31, 2010, we have no nonfinancial assets or liabilities that are measured 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 and accrued expenses and other current liabilities. The estimated fair values of our cash equivalents is determined based on quoted prices in active markets for identical assets. The fair value of the other financial assets and liabilities is based on the value that would be received or paid in an orderly transaction between market participants and approximates the carrying value due to their nature and short duration.

**10. Comprehensive Income (Loss)**

Comprehensive income (loss) for the three months ended March 31, 2010 and 2009 includes the following component (in thousands):

|                                          | <b>Three Months Ended<br/>March 31,</b> |             |
|------------------------------------------|-----------------------------------------|-------------|
|                                          | <b>2010</b>                             | <b>2009</b> |
| Net earnings (loss)                      | \$ 9,165                                | \$ (6,797)  |
| Other comprehensive loss, net of tax:    |                                         |             |
| Foreign currency translation adjustments | (7,119)                                 | (5,534)     |
| Total comprehensive income (loss)        | \$ 2,046                                | \$ (12,331) |

**11. Commitments and Contingencies***Contractual*

In the ordinary course of business, we issue performance bonds to secure our performance under certain contracts or state tax requirements. As of March 31, 2010 and December 31, 2009, we had approximately \$13,999,000 and \$14,116,000, respectively, of performance bonds outstanding. These bonds are issued on our behalf by a surety company on an unsecured basis; however, if the surety company is ever required to pay out under the bonds, we have contractually agreed to reimburse them.

*Employment Contracts and Severance Plans*

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



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*Guaranties*

In the ordinary course of business, we may guarantee the indebtedness or performance obligations of our subsidiaries to vendors and clients. We have not recorded specific liabilities for these guaranties in our consolidated financial statements because, to the extent applicable, we have recorded the underlying liabilities associated with the guaranties. In the event we are required to perform under the related contracts, we believe the cost of such performance would not have a material adverse effect on our consolidated financial position, results of operations or liquidity. Our financing agreements generally limit the amount of guarantees that may be outstanding at a point in time related to client or vendor contracts where such guarantees are considered indebtedness, as defined in the financing agreements.

*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 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 March 31, 2010. Accordingly, we have not accrued any liabilities related to such indemnifications in our consolidated financial statements.

We have entered into separate indemnification agreements with 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 paid 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. Other than the pending purported class action litigation, the State derivative actions and the Federal derivative action discussed under Legal Proceedings below, there are no pending legal proceedings that involve the indemnification of any of the Company's directors or officers.

*Contingencies Related to Third-Party Review*

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

*Legal Proceedings*

We are party to various legal proceedings arising in the ordinary course of business, including preference payment claims asserted in client bankruptcy proceedings, 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 make a provision for a liability when it is both probable that a liability has been incurred and the amount of the loss can be reasonably estimated. These provisions are reviewed at least quarterly and are adjusted to reflect the effects of negotiations, settlements, rulings, advice of legal counsel and other information and events pertaining to a particular claim. 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.



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Beginning in March 2009, three purported class action lawsuits were filed in the U.S. District Court for the District of Arizona against us and certain of our current and former directors and officers on behalf of purchasers of our securities during the period April 22, 2004 to February 6, 2009. Two plaintiffs voluntarily dismissed their complaints, and the court appointed a lead plaintiff and lead counsel. The plaintiff in the remaining action filed an amended complaint in September 2009, seeking unspecified damages. The amended complaint asserted claims under the federal securities laws relating to our February 9, 2009 announcement that we expected to restate our financial statements and also includes additional allegations regarding other purported accounting and revenue recognition issues during the class period. All defendants filed motions to dismiss the amended complaint, and the court held oral argument on the motions to dismiss in March 2010. Those motions were granted in April 2010, and the amended complaint was dismissed without prejudice. In June 2009, we were notified that three shareholder derivative lawsuits had been filed, two in the Superior Court in Maricopa County, Arizona (the State derivative actions ) and one in the U.S. District Court for the District of Arizona (the Federal derivative action ), by persons identifying themselves as Insight shareholders and purporting to act on behalf of Insight, naming Insight as a nominal defendant and current and former officers and directors as defendants. Initially, the three derivative action complaints, like the purported class action complaint, primarily arose out of our February 9, 2009 announcement. The Federal derivative action was dismissed without prejudice in January 2010, and the plaintiff filed a second amended complaint in February 2010, dropping the claims arising from the February 9, 2009 announcement and instead focusing primarily on historical stock option granting practices and the Company's prior investigation and disclosures relating thereto. In March 2010, we moved to dismiss the Federal derivative action. Oral argument on the motion to dismiss currently is scheduled for June 2010. The two State derivative actions were consolidated into a single action, and the plaintiff filed an amended complaint in the consolidated action on October 30, 2009 that alleges breaches of fiduciary duties of loyalty and good faith, breach of fiduciary duties for insider selling and misappropriation of information, and unjust enrichment. The amount of damages sought by the plaintiffs is not specified in the consolidated complaint. In November 2009, the plaintiffs moved for appointment as lead plaintiffs, their counsel as lead counsel, and their local counsel as liaison counsel. Also in November 2009, we moved to stay the State derivative actions. The Court heard oral argument on both motions and in February 2010 granted the motion to appoint lead plaintiffs, lead counsel and liaison counsel and denied the motion to stay. Thereafter, in April 2010, we moved to dismiss the State derivative actions. Oral argument on the motion to dismiss has been requested, but has not been set. In July and September 2009, we received, from the plaintiff in the Federal derivative action, separate demands to inspect our books and records pursuant to Section 220 of the Delaware General Corporation Law, and we objected to both demands as improper. In November 2009, that same plaintiff filed a lawsuit in the Court of Chancery of the State of Delaware seeking to compel the inspection of certain books and records. In January 2010, we filed a motion to dismiss that complaint, and the Court of Chancery heard oral argument on the motions to dismiss in March 2010. That motion is under submission. We have tendered a claim to our D&O liability insurance carriers, and our carriers have acknowledged their obligations under these policies subject to a reservation of rights.

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

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**INSIGHT ENTERPRISES, INC.**  
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**12. Segment Information**

We operate in three reportable geographic operating segments: North America; EMEA; and APAC. Currently, our offerings in North America and the United Kingdom include IT hardware, software and services. Our offerings in the remainder of our EMEA segment and in APAC are almost entirely software and select software-related services. Net sales by product or service type for North America, EMEA and APAC were as follows for the three months ended March 31, 2010 and 2009 (in thousands):

|                  | <b>North America</b>      |             | <b>EMEA</b>               |             | <b>APAC</b>               |             |
|------------------|---------------------------|-------------|---------------------------|-------------|---------------------------|-------------|
|                  | <b>Three Months Ended</b> |             | <b>Three Months Ended</b> |             | <b>Three Months Ended</b> |             |
|                  | <b>March 31,</b>          |             | <b>March 31,</b>          |             | <b>March 31,</b>          |             |
| <b>Sales Mix</b> | <b>2010</b>               | <b>2009</b> | <b>2010</b>               | <b>2009</b> | <b>2010</b>               | <b>2009</b> |
| Hardware         | \$ 454,451                | \$ 370,779  | \$ 121,232                | \$ 93,456   | \$ 58                     | \$ 71       |
| Software         | 185,715                   | 238,605     | 191,510                   | 173,607     | 43,279                    | 19,835      |
| Services         | 48,128                    | 50,717      | 4,551                     | 3,662       | 456                       | 428         |
|                  | \$ 688,294                | \$ 660,101  | \$ 317,293                | \$ 270,725  | \$ 43,793                 | \$ 20,334   |

All intercompany transactions are eliminated upon consolidation, and there are no differences between the accounting policies used to measure profit and loss for our segments and 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 for the three months ended March 31, 2010.

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. 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 as of and for the three months ended March 31, 2010 and 2009 (in thousands):

|                                      | <b>Three Months Ended March 31, 2010</b> |             |             |                     |
|--------------------------------------|------------------------------------------|-------------|-------------|---------------------|
|                                      | <b>North America</b>                     | <b>EMEA</b> | <b>APAC</b> | <b>Consolidated</b> |
| Net sales                            | \$ 688,294                               | \$ 317,293  | \$ 43,793   | \$ 1,049,380        |
| Costs of goods sold                  | 589,347                                  | 276,032     | 38,956      | 904,335             |
| Gross profit                         | 98,947                                   | 41,261      | 4,837       | 145,045             |
| Operating expenses:                  |                                          |             |             |                     |
| Selling and administrative expenses  | 84,863                                   | 38,399      | 4,449       | 127,711             |
| Severance and restructuring expenses |                                          | 71          |             | 71                  |
| Earnings from operations             | \$ 14,084                                | \$ 2,791    | \$ 388      | 17,263              |
| Non-operating expense, net           |                                          |             |             | 2,795               |
| Earnings before income taxes         |                                          |             |             | 14,468              |

|                            |              |            |           |    |            |
|----------------------------|--------------|------------|-----------|----|------------|
| Income tax expense         |              |            |           |    | 5,303      |
| Net earnings               |              |            |           | \$ | 9,165      |
| Total assets at period end | \$ 1,382,584 | \$ 403,544 | \$ 60,349 | \$ | 1,846,477* |

\* Consolidated total assets do not reflect the net effect of corporate assets and intercompany eliminations of \$351,739,000.

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**INSIGHT ENTERPRISES, INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)**  
**(unaudited)**

**Three Months Ended March 31, 2009**

|                                      | <b>North<br/>America</b> | <b>EMEA</b> | <b>APAC</b> | <b>Consolidated</b> |
|--------------------------------------|--------------------------|-------------|-------------|---------------------|
| Net sales                            | \$ 660,101               | \$ 270,725  | \$ 20,334   | \$ 951,160          |
| Costs of goods sold                  | 567,059                  | 234,821     | 17,509      | 819,389             |
| Gross profit                         | 93,042                   | 35,904      | 2,825       | 131,771             |
| Operating expenses:                  |                          |             |             |                     |
| Selling and administrative expenses  | 95,107                   | 34,906      | 3,330       | 133,343             |
| Severance and restructuring expenses | 5,859                    | 417         | 71          | 6,347               |
| (Loss) earnings from operations      | \$ (7,924)               | \$ 581      | \$ (576)    | (7,919)             |
| Non-operating expense, net           |                          |             |             | 2,227               |
| Loss before income taxes             |                          |             |             | (10,146)            |
| Income tax benefit                   |                          |             |             | (3,349)             |
| Net loss                             |                          |             |             | \$ (6,797)          |
| Total assets at period end           | \$ 1,283,150             | \$ 355,091  | \$ 31,612   | \$ 1,669,853**      |

\*\* Consolidated total assets do not reflect the net effect of corporate assets and intercompany eliminations of \$200,502,000.

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

|               | <b>Three Months Ended March<br/>31,</b> |             |
|---------------|-----------------------------------------|-------------|
|               | <b>2010</b>                             | <b>2009</b> |
| North America | \$ 7,881                                | \$ 8,181    |
| EMEA          | 1,693                                   | 1,459       |
| APAC          | 169                                     | 133         |
| Total         | \$ 9,743                                | \$ 9,773    |

**13. Subsequent Event**

On April 26, 2010, we entered into an amendment to our inventory financing facility to increase the aggregate availability for vendor purchases under the facility from \$90,000,000 to \$100,000,000.

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**INSIGHT ENTERPRISES, INC.  
MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION  
AND RESULTS OF OPERATIONS**

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

*The following discussion should be read in conjunction with the consolidated financial statements and the related notes that appear elsewhere in this Quarterly Report on Form 10-Q*

**Quarterly Overview**

We are a leading provider of information technology ( IT ) hardware, software and services to small, medium and large businesses and public sector institutions in North America, Europe, the Middle East, Africa and Asia-Pacific. Currently, our offerings in North America and the United Kingdom include IT hardware, software and services. Our offerings in the remainder of our EMEA segment and in APAC are almost entirely software and select software-related services.

Consolidated net sales were \$1.05 billion in the first quarter of 2010, an increase of 10% from the \$951.2 million reported in the first quarter of 2009. Gross profit for the three months ended March 31, 2010 also increased 10% to \$145.0 million, and gross margin declined slightly to 13.8%.

We reported earnings from operations of \$17.3 million for the first quarter of 2010. Results of operations for the three months ended March 31, 2010 included the effects of the following items:

severance and restructuring expenses of \$71,000, \$50,000 net of tax, related to ongoing restructuring efforts in EMEA. Comparatively, the first quarter of 2009 included severance and restructuring expenses of \$6.3 million, \$4.0 million net of tax, related to resource actions taken in the first quarter and early April of 2009, primarily in North America and EMEA; and

legal and other professional fees of \$497,000, \$306,000 net of tax, associated with the trade credits restatement and related litigation. Comparatively, the first quarter of 2009 included legal and other professional fees of \$4.1 million, \$2.5 million net of tax, associated with the trade credits investigation and restatement quantification.

Results of operations for the prior year quarter ended March 31, 2009 also included the effects of the termination of equity incentive compensation awards that accelerated a non-cash charge of \$5.5 million, \$3.5 million net of tax, into the first quarter of 2009. No similar expense was incurred in the first quarter of 2010.

Net of tax amounts referenced above were computed using the effective tax rate for the taxing jurisdictions in the operating segment in which the related expense was recorded.

On a consolidated basis, we reported net earnings of \$9.2 million and diluted earnings per share of \$0.20 for the first quarter of 2010.

Our focus on cash flow initiatives continued to yield benefits in the first quarter, and, as a result, we ended the quarter with outstanding long-term debt under our senior revolving credit facility of \$80.0 million, a \$67.0 million decrease from December 31, 2009, even with cash outlays of \$11.8 million during the three months ended March 31, 2010 to settle trade credit liabilities as part of our previously announced program of compliance with state unclaimed property laws.

Details about segment results of operations can be found in Note 12 to the Consolidated Financial Statements in Part I, Item 1 of this report.

As previously announced, we have been working to create a single sales and delivery organization in the U.S. In connection with this initiative, we determined in the first quarter of 2010 that certain leadership changes would be required. As such, Ken Lamneck, our President and Chief Executive Officer, will be assuming the position of sales leader for the U.S. sales organization until a new leader can be recruited.

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



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**INSIGHT ENTERPRISES, INC.  
MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION  
AND RESULTS OF OPERATIONS (continued)**

**Updated Guidance**

Given our stronger than expected financial performance in the first quarter, we now anticipate that diluted earnings per share for the full year of 2010 will be between \$1.05 and \$1.15. This outlook reflects the following assumptions:

continued strong demand for hardware technology in North America, partially offset by:

the full-year effect of partner program changes that were effective beginning in May of 2009;

a decline in sales of services in 2010 due to the completion of a significant services engagement in 2009 that is not currently expected to be replaced fully in 2010; and

an effective tax rate of approximately 36% - 39% for 2010, up from 26% in 2009.

This outlook does not include the effect of any severance and restructuring expenses or expenses associated with the restatement of our financial statements or related litigation.

**Critical Accounting Estimates**

**General**

Our consolidated financial statements have been prepared in accordance with United States 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 our Annual Report on Form 10-K for the year ended December 31, 2009. 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 estimates we have made. Members of our senior management have discussed the critical accounting estimates and related disclosures with the Audit Committee of our Board of Directors.

There have been no changes to the items disclosed as critical accounting estimates in Management's Discussion and Analysis of Financial Condition and Results of Operations in Part II, Item 7 of our Annual Report on Form 10-K for the year ended December 31, 2009.

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**INSIGHT ENTERPRISES, INC.**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION**  
**AND RESULTS OF OPERATIONS (continued)**

**Results of Operations**

The following table sets forth for the periods presented certain financial data as a percentage of net sales for the three months ended March 31, 2010 and 2009:

|                                      | <b>Three Months Ended<br/>March 31,</b> |             |
|--------------------------------------|-----------------------------------------|-------------|
|                                      | <b>2010</b>                             | <b>2009</b> |
| Net sales                            | 100.0%                                  | 100.0%      |
| Costs of goods sold                  | 86.2                                    | 86.1        |
| Gross profit                         | 13.8                                    | 13.9        |
| Selling and administrative expenses  | 12.2                                    | 14.0        |
| Severance and restructuring expenses | 0.0                                     | 0.7         |
| Earnings (loss) from operations      | 1.7                                     | (0.8)       |
| Non-operating expense, net           | 0.3                                     | 0.3         |
| Earnings (loss) before income taxes  | 1.4                                     | (1.1)       |
| Income tax expense (benefit)         | 0.5                                     | (0.4)       |
| Net earnings (loss)                  | 0.9%                                    | (0.7%)      |

Throughout this Results of Operations section of Management's Discussion and Analysis of Financial Condition and Results of Operations, we refer to changes in net sales, gross profit and selling and administrative expenses in EMEA and APAC excluding the effects of foreign currency movements. In computing these change amounts and percentages, we compare the current year amount as translated into U.S. dollars under the applicable accounting standards to the prior year amount in local currency translated into U.S. dollars utilizing the average translation rate for the current year.

**Net Sales.** Net sales for the three months ended March 31, 2010 increased 10% compared to the three months ended March 31, 2009. Our net sales by operating segment were as follows (dollars in thousands):

|               | <b>Three Months Ended<br/>March 31,</b> |             | <b>%</b>      |
|---------------|-----------------------------------------|-------------|---------------|
|               | <b>2010</b>                             | <b>2009</b> | <b>Change</b> |
| North America | \$ 688,294                              | \$ 660,101  | 4%            |
| EMEA          | 317,293                                 | 270,725     | 17%           |
| APAC          | 43,793                                  | 20,334      | 115%          |
| Consolidated  | \$ 1,049,380                            | \$ 951,160  | 10%           |

Net sales in North America increased 4%, or \$28.2 million, for the three months ended March 31, 2010 compared to the three months ended March 31, 2009. Net sales of hardware increased 23% year over year, while software sales declined 22% and net sales in the services category declined 5% year to year. The increase in hardware net sales is primarily due to higher demand in all client groups, but particularly large corporate clients with more than 1,000 seats. The decline in software sales year to year relates to a significant public sector client software transaction in the first quarter of last year that was not replaced with new volume in the current year period, as well as the effects of the

previously announced program changes with our largest software partner that were effective beginning in May 2009. Net sales in EMEA increased 17%, or \$46.6 million, in U.S. dollars, for the three months ended March 31, 2010 compared to the three months ended March 31, 2009. Excluding the effects of foreign currency movements, net sales were up 10% compared to the first quarter of last year. Net sales of hardware grew 30% year over year in U.S. dollars, 20% excluding the effects of foreign currency movements, due to higher demand across all client groups, but specifically to public sector clients, where we continued to increase our presence and benefited from the effect of seasonal client budget releases. Software net sales increased 10% year over year in U.S. dollars, 4% excluding the effects of foreign currency movements, due primarily to higher volume, new client engagements and new publisher offerings, offset in part by the effects of publisher program changes that were effective beginning in May of last year. Services net sales increased 24% year over year in U.S. dollars, 17% excluding the effects of foreign currency movements, due primarily to higher volume.

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**INSIGHT ENTERPRISES, INC.**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION**  
**AND RESULTS OF OPERATIONS (continued)**

Our APAC segment recognized net sales of \$43.8 million for the three months ended March 31, 2010, a year over year increase of 115% from the three months ended March 31, 2009 in U.S. dollars, 71% excluding the effects of foreign currency movements. The increase primarily resulted from an increase in sales to public sector clients in the 2010 quarter, including one large contract that was earned in the first quarter of this year that historically was executed in the second quarter.

The percentage of net sales by category for North America, EMEA and APAC were as follows for the three months ended March 31, 2010 and 2009:

| Sales Mix | North America<br>Three Months Ended<br>March 31, |      | EMEA<br>Three Months Ended<br>March 31, |      | APAC<br>Three Months Ended<br>March 31, |      |
|-----------|--------------------------------------------------|------|-----------------------------------------|------|-----------------------------------------|------|
|           | 2010                                             | 2009 | 2010                                    | 2009 | 2010                                    | 2009 |
| Hardware  | 66%                                              | 56%  | 39%                                     | 35%  |                                         |      |
| Software  | 27%                                              | 36%  | 60%                                     | 64%  | 99%                                     | 98%  |
| Services  | 7%                                               | 8%   | 1%                                      | 1%   | 1%                                      | 2%   |
|           | 100%                                             | 100% | 100%                                    | 100% | 100%                                    | 100% |

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

**Gross Profit.** Gross profit for the three months ended March 31, 2010 increased 10% compared to the three months ended March 31, 2009, with gross margin decreased by 10 basis points. Our gross profit and gross profit as a percentage of net sales by operating segment were as follows (dollars in thousands):

|               | Three Months Ended March 31, |                   |            |                   |
|---------------|------------------------------|-------------------|------------|-------------------|
|               | 2010                         | % of<br>Net Sales | 2009       | % of<br>Net Sales |
| North America | \$ 98,947                    | 14.4%             | \$ 93,042  | 14.1%             |
| EMEA          | 41,261                       | 13.0%             | 35,904     | 13.3%             |
| APAC          | 4,837                        | 11.0%             | 2,825      | 13.9%             |
| Consolidated  | \$ 145,045                   | 13.8%             | \$ 131,771 | 13.9%             |

North America's gross profit for the three months ended March 31, 2010 increased 6% compared to the three months ended March 31, 2009, and, as a percentage of net sales, gross margin increased 30 basis points year over year, due primarily to a 99 basis point increase in product margin, which includes vendor funding and freight, and a decrease in the write-downs of inventories as a percentage of sales which increased margin by 16 basis points. Included in the increase in product margin year over year is a 27 basis point improvement in margin attributable to the extinguishment of certain restatement-related trade credits during the quarter through negotiated settlement or other legal release of the recorded liabilities. These increases in margin were partially offset by a decrease in margin related to agency fees for enterprise software agreements of 85 basis points primarily resulting from the effects of publisher program changes.

EMEA's gross profit increased 15% in U.S. dollars for the three months ended March 31, 2010 compared to the three months ended March 31, 2009. Excluding the effects of foreign currency movements, gross profit was up 8% compared to the first quarter of last year. As a percentage of net sales, gross margin decreased 30 basis points due

primarily to a decrease in agency fees for enterprise software agreement renewals of 59 basis points resulting from the effects of publisher program changes, offset in part by an increase in product margin, which includes vendor funding, of 28 basis points.

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**INSIGHT ENTERPRISES, INC.**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION**  
**AND RESULTS OF OPERATIONS (continued)**

APAC's gross profit increased 71% for the three months ended March 31, 2010 compared to the three months ended March 31, 2009. Excluding the effects of foreign currency movements, gross profit increased 36% compared to the first quarter of last year. As a percentage of net sales, gross margin declined by 290 basis points, primarily due to the effect of an increase in the mix of public sector business, which is typically transacted at lower margins as well as the effects of publisher program changes. These decreases in margin were partially offset by the release of a sales tax reserve of approximately \$480,000 upon settlement with the local taxing authorities.

**Operating Expenses.**

**Selling and Administrative Expenses.** Selling and administrative expenses decreased \$5.6 million, or 4% for the three months ended March 31, 2010 compared to the three months ended March 31, 2009. Selling and administrative expenses as a percent of net sales by operating segment for the three months ended March 31, 2010 and 2009 were as follows (dollars in thousands):

|               | <b>Three Months Ended March 31,</b> |                           |             |                           |
|---------------|-------------------------------------|---------------------------|-------------|---------------------------|
|               | <b>2010</b>                         | <b>% of<br/>Net Sales</b> | <b>2009</b> | <b>% of<br/>Net Sales</b> |
| North America | \$ 84,863                           | 12.3%                     | \$ 95,107   | 14.4%                     |
| EMEA          | 38,399                              | 12.1%                     | 34,906      | 12.9%                     |
| APAC          | 4,449                               | 10.2%                     | 3,330       | 16.4%                     |
| Consolidated  | \$ 127,711                          | 12.2%                     | \$ 133,343  | 14.0%                     |

North America's selling and administrative expenses decreased 11%, or \$10.2 million, for the three months ended March 31, 2010 compared to the three months ended March 31, 2009, decreasing 210 basis points to 12.3% of net sales for the quarter. Salaries and benefits, including stock-based compensation, accounted for approximately \$8.0 million of the decrease, of which \$4.1 million results from the effect on the year over year comparison of the prior year charges related to the North America portion of the termination of an equity-based incentive compensation plan in February 2009. The remaining year over year decline in personnel costs is primarily attributable to cost reduction initiatives, offset partially by increases in variable costs as a result of increased net sales in the first quarter of 2010. In addition, we had a \$2.9 million decline in legal and professional fees year over year, primarily related to professional fees and costs associated with the trade credits restatement. Selling and administrative expenses in the three months ended March 31, 2010 include \$497,000 of related professional fees and costs compared to \$4.1 million included in the three months ended March 31, 2009.

EMEA's selling and administrative expenses increased 10%, or \$3.5 million in U.S. dollars, for the three months ended March 31, 2010 compared to the three months ended March 31, 2009. Excluding the effects of foreign currency movements, selling and administrative expenses increased 3% compared to the first quarter of last year. This increase year over year was primarily driven by increased salaries resulting from our investment in sales headcount focused on the middle market and public sector client groups and higher variable compensation on increased net sales. In addition, we incurred higher facility expenses in the first quarter of 2010 due to an office relocation in France. Selling and administrative expenses for the three months ended March 31, 2009 included \$1.4 million of charges related to the EMEA portion of the termination of an equity-based incentive compensation plan in the prior year quarter that did not recur in the first quarter of 2010.

APAC's selling and administrative expenses increased 34% or \$1.1 million in U.S. dollars, for the three months ended March 31, 2010 compared to the three months ended March 31, 2009. Excluding the effects of foreign currency movements, selling and administrative expenses increased 5% compared to the first quarter of last year. The increase year over year was primarily driven by higher variable compensation on increased net sales in the three months ended March 31, 2010.



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**INSIGHT ENTERPRISES, INC.**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION**  
**AND RESULTS OF OPERATIONS (continued)**

**Severance and Restructuring Expenses.** During the three months ended March 31, 2010, EMEA recorded net severance expense of \$71,000 related to ongoing restructuring efforts. During the quarter, \$306,000 in new severance costs was offset partially by \$235,000 of adjustments to prior severance accruals due to current period changes in estimates. Comparatively, during the three months ended March 31, 2009, North America, EMEA and APAC recorded severance expense of \$5.9 million, \$417,000 and \$71,000, respectively.

**Non-Operating (Income) Expense.**

**Interest Income.** Interest income for the three months ended March 31, 2010 and 2009 was generated through short-term investments. The increase in interest income year over year is primarily due to increases in cash balances.

**Interest Expense.** Interest expense for the three months ended March 31, 2010 and 2009 primarily relates to borrowings under our financing facilities and imputed interest under our inventory financing facility. Imputed interest under our inventory financing facility was \$534,000 and \$363,000 for the three months ended March 31, 2010 and 2009, respectively. The increase in interest expense for the three months ended March 31, 2010 compared to the three months ended March 31, 2009 is due primarily to higher interest rates, offset by the effect of decreases in the weighted average borrowings outstanding as we have paid down our debt.

**Net Foreign Currency Exchange Gains/Losses.** These gains/losses result from foreign currency transactions, including 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, as mitigated by our use of foreign exchange forward contracts to hedge certain non-functional currency assets and liabilities against changes in exchange rate movements.

**Other Expense, Net.** Other expense, net, consists primarily of bank fees associated with our cash management activities.

**Income Tax Expense.** Our effective tax rate for the three months ended March 31, 2010 was an expense of 36.7% compared to a benefit of 33.0% for the three months ended March 31, 2009. The change from a benefit in 2009 to expense in 2010 was the result of the net loss for the three months ended March 31, 2009 compared to net earnings for the three months ended March 31, 2010.

**Liquidity and Capital Resources**

The following table sets forth certain consolidated cash flow information for the three months ended March 31, 2010 and 2009 (in thousands):

|                                                  | <b>Three Months Ended<br/>March 31,</b> |               |
|--------------------------------------------------|-----------------------------------------|---------------|
|                                                  | <b>2010</b>                             | <b>2009</b>   |
| Net cash provided by operating activities        | \$ 110,037                              | \$ 101,309    |
| Net cash used in investing activities            | (2,794)                                 | (5,062)       |
| Net cash used in financing activities            | (87,360)                                | (75,668)      |
| Foreign currency exchange effect on cash flow    | (2,625)                                 | (2,561)       |
| <br>Increase in cash and cash equivalents        | <br>17,258                              | <br>18,018    |
| Cash and cash equivalents at beginning of period | 68,066                                  | 49,175        |
| <br>Cash and cash equivalents at end of period   | <br>\$ 85,324                           | <br>\$ 67,193 |

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**INSIGHT ENTERPRISES, INC.**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION**  
**AND RESULTS OF OPERATIONS (continued)**

**Cash and Cash Flow**

Our primary uses of cash during the three months ended March 31, 2010 were to fund working capital requirements, including cash payments to settle trade credit liabilities, and to pay down debt. Operating activities in the three month ended March 31, 2010 provided \$110.0 million in cash, a 9% increase over the three months ended March 31, 2009. Our operating cash flows enabled us to reduce our long-term debt under our revolving credit facilities by \$67.0 million and make net repayments under our inventory financing facility of \$19.8 million since December 31, 2009, even with the cash payments of \$11.8 million during the first quarter of 2010 as part of our previously announced program of compliance with state unclaimed property laws, and to increase our cash balance by \$17.3 million since December 31, 2009. Capital expenditures were \$2.8 million for the three months ended March 31, 2010, a 45% decrease from the three months ended March 31, 2009, primarily related to expenditures to upgrade our IT systems in EMEA. Cash flows for the three months ended March 31, 2010 and March 31, 2009 were each negatively affected by \$2.6 million as a result of foreign currency exchange rates.

**Net cash provided by operating activities.** Cash flows from operations for the three months ended March 31, 2010 and 2009 reflect our net earnings (loss), adjusted for non-cash items such as depreciation, amortization and stock-based compensation expense, as well as changes in accounts receivable, other current assets, accounts payable and accrued expenses and other liabilities. For the 2010 period, the decreases in accounts receivable reflects the effect of a large software transaction at the end of the 2009 first quarter that is not included in accounts receivable as of March 31, 2010. Insight received the invoice from the software license provider for the annual renewal of this same transaction in March 2010 and recorded the related payable as of March 31, 2010; however, under contractual terms, the sale to the client could not be invoiced until April 1, 2010. This transaction resulted in an approximate \$52 million increase in other current assets year over year. The increase in accounts payable resulted primarily from the effect of the timing of certain scheduled payments to our largest supplier and continued enhanced management of working capital during the 2010 quarter. For 2009, the decreases in accounts receivable and accounts payable are due primarily to a decrease in net sales compared to the prior year. The decrease in accrued expenses and other liabilities in the three months ended March 31, 2010 was primarily due to payments made to reduce state unclaimed property liabilities, accrued additional purchase price consideration to the former owners of Calence and income taxes payable.

Our consolidated cash flow operating metrics for the quarter ended March 31, 2010 and 2009 are as follows:

|                                                                               | <b>2010</b> | <b>2009</b> |
|-------------------------------------------------------------------------------|-------------|-------------|
| Days sales outstanding in ending accounts receivable ( DSOs <sup>(a)</sup> )  | 71          | 80          |
| Days inventory outstanding ( DIOs <sup>(b)</sup> )                            | 8           | 11          |
| Days purchases outstanding in ending accounts payable ( DPOs <sup>(c)</sup> ) | 68          | 69          |

(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 90 days.

(b) Calculated as average inventories divided by daily costs of goods sold. Average inventories is calculated as the sum of the balances of inventories at the beginning of the quarter plus inventories at the end of the quarter divided by two. Daily costs of goods sold is calculated as costs of goods sold for the quarter divided by 90 days.

(c) Calculated as the balances of accounts payable 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 90 days.

The decrease in DSO for the quarter ended March 31, 2010 compared to the quarter ended March 31, 2009 is due primarily to the effect of large software transactions at the end of the 2009 first quarter that did not recur in the 2010 first quarter. The decrease in DPOs during the first quarter of 2010 compared to the quarter ended March 31, 2009 was not as pronounced as the decrease in DSOs, reflecting the offsetting effect of the timing of certain scheduled payments to our largest supplier as well as the receipt of an invoice from the supplier for a software transaction that was billed to the client on April 1, 2010.

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**INSIGHT ENTERPRISES, INC.**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION**  
**AND RESULTS OF OPERATIONS (continued)**

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 granted to our clients in order to take advantage of supplier discounts. We intend to use cash generated in 2010 in excess of working capital needs to pay down our outstanding debt balances and support our capital expenditures for the year. As part of our previously announced program to gain compliance with state unclaimed property laws, we expect that cash payments to settle trade credit liabilities with clients or suppliers or to remit unclaimed property to the states will approximate \$20.0 million to \$22.0 million in 2010, primarily paid out during the first half of the year. As of March 31, 2010, we had remitted \$11.8 million of such cash payments.

***Net cash used in investing activities.*** Capital expenditures of \$2.8 million and \$5.1 million for the three months ended March 31, 2010 and 2009, respectively, primarily related to investments in our IT systems. We expect capital expenditures for the full year 2010 between \$25.0 million and \$30.0 million, primarily for the IT systems upgrade in our EMEA operations and other facility and technology related maintenance and upgrade projects.

***Net cash used in financing activities.*** During the three months ended March 31, 2010, we made net repayments on our debt facilities that reduced our outstanding debt balances under our revolving credit facilities by \$67.0 million and made net repayments under our inventory financing facility of \$19.8 million. As of March 31, 2010, the only current portion of our long-term debt relates to our capital lease obligation for certain IT equipment. During the three months ended March 31, 2009, we made net repayments on our debt facilities that reduced our outstanding debt balances by \$57.0 million and made net repayments under our inventory financing facility of \$17.8 million.

Our consolidated debt balance that can be outstanding at the end of any fiscal quarter under our senior revolving credit 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, less non-cash imputed interest on our inventory financing facility, (ii) income tax expense (benefit), (iii) depreciation and amortization, (iv) non-cash goodwill impairment and (v) non-cash stock-based compensation (referred to herein as adjusted earnings). The maximum leverage ratio permitted under the agreements is 2.75 times trailing twelve-month adjusted earnings. We anticipate that we will be in compliance with our maximum leverage ratio requirements over the next four quarters. However, a significant drop in 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 debt capacity. As a result of this limitation, of the \$450.0 million of aggregate maximum debt capacity available under our senior revolving credit facility and our ABS facility, the Company's debt balance that could have been outstanding as of March 31, 2010 was limited to \$340.9 million based on 2.75 times the Company's trailing twelve-month adjusted earnings. Our debt balance as of March 31, 2010 was \$83.0 million, including our capital lease obligation, well below the quarter-end limitation. We anticipate that cash flows from operations, together with the funds available under our financing facilities will be adequate to support our presently anticipated cash and working capital requirements for operations over the next 12 months.

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**INSIGHT ENTERPRISES, INC.**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION**  
**AND RESULTS OF OPERATIONS (continued)**

Cash and cash equivalents held by foreign subsidiaries are often subject to U.S. income taxation upon repatriation to the U.S. For foreign entities not treated as branches for U.S. tax purposes, we do not provide for U.S. income taxes on the undistributed earnings of these subsidiaries as earnings are reinvested and, in the opinion of management, will continue to be reinvested indefinitely outside of the U.S. As of March 31, 2010, we had approximately \$70.4 million in cash and cash equivalents in certain of our foreign subsidiaries where we consider undistributed earnings for these foreign subsidiaries to be permanently reinvested. As part of our working capital management strategy, we used our excess cash balances in the United States to pay down debt as of March 31, 2010. As of March 31, 2010, the majority of our foreign cash resides in the Netherlands, Australia, Canada, and New Zealand. Certain of these cash balances could and will be remitted to the U.S. by paying down intercompany payables generated in the ordinary course of business. This repayment would not change our policy to indefinitely reinvest earnings of its foreign subsidiaries. Our intention is that undistributed earnings will be used for general business purposes in the foreign jurisdictions as well as to fund our IT system in EMEA, various facility upgrades and the hardware expansion to non-UK EMEA countries.

**Off Balance Sheet Arrangements**

We have entered into off-balance sheet arrangements, which include guaranties and indemnifications. The guaranties and indemnifications are discussed in Note 11 to our Consolidated Financial Statements in Part I, Item 1 of this report. We believe that none of our off-balance sheet arrangements has, or is reasonably likely to have, a material current or future effect on our financial condition, results of operations, liquidity, capital expenditures or capital resources.

**Recently Issued Accounting Pronouncements**

See Note 1 to our Consolidated Financial Statements in Part I, Item 1 of this report for a discussion of recently issued accounting pronouncements which affect or may affect our financial statements.

**Contractual Obligations**

There have been no material changes in our reported contractual obligations, as described under "Contractual Obligations for Continuing Operations" in "Liquidity and Capital Resources" in Part II, Item 7 of our Annual Report on Form 10-K for the year ended December 31, 2009.

**Table of Contents****INSIGHT ENTERPRISES, INC.****Item 3. Quantitative and Qualitative Disclosures About Market Risk.**

Other than the change in our open foreign currency forward contracts provided below, there have been no material changes in our reported market risks, as described in *Quantitative and Qualitative Disclosures About Market Risk* in Part II, Item 7A of our Annual Report on Form 10-K for the year ended December 31, 2009.

The following table summarizes our open foreign currency forward contracts held at March 31, 2010. All U.S. dollar and foreign currency amounts are presented in thousands.

|                           | <b>Sell</b>       | <b>Buy</b>        |
|---------------------------|-------------------|-------------------|
| Foreign Currency          | SEK               | CAD               |
| Foreign Amount            | 10,000            | 8,000             |
| Exchange Rate             | 9.7035            | 1.0210            |
| USD Equivalent            | \$1,382           | \$7,835           |
| Weighted Average Maturity | Less than 1 month | Less than 1 month |

**Item 4. Controls and Procedures.*****Evaluation of Disclosure Controls and Procedures***

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 (as such term is defined under Rules 13a-15(e) and 15d-15(e) of the Exchange Act) and determined that as of March 31, 2010, 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 Interim Chief Executive Officer and Chief Financial Officer, to allow timely decisions regarding required disclosure.

***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 March 31, 2010 that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

***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.

**Part II OTHER INFORMATION****Item 1. Legal Proceedings.**

We are party to various legal proceedings arising in the ordinary course of business, including preference payment claims asserted in client bankruptcy proceedings, 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 make a provision for a liability when it is both probable that a liability has been incurred and the amount of the loss can be reasonably estimated. These provisions are reviewed at least quarterly and are adjusted to reflect the effects of negotiations, settlements, rulings, advice of legal counsel and other information and events pertaining to a particular claim. Although litigation is inherently unpredictable, we believe that we have adequate provisions for any probable and estimable losses. It is possible, nevertheless, that our financial position, the results of our operations or our 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.



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**INSIGHT ENTERPRISES, INC.**

Beginning in March 2009, three purported class action lawsuits were filed in the U.S. District Court for the District of Arizona against us and certain of our current and former directors and officers on behalf of purchasers of our securities during the period April 22, 2004 to February 6, 2009. Two plaintiffs voluntarily dismissed their complaints, and the court appointed a lead plaintiff and lead counsel. The plaintiff in the remaining action filed an amended complaint in September 2009, seeking unspecified damages. The amended complaint asserted claims under the federal securities laws relating to our February 9, 2009 announcement that we expected to restate our financial statements and also includes additional allegations regarding other purported accounting and revenue recognition issues during the class period. All defendants filed motions to dismiss the amended complaint, and the court held oral argument on the motions to dismiss in March 2010. Those motions were granted in April 2010, and the amended complaint was dismissed without prejudice. In June 2009, we were notified that three shareholder derivative lawsuits had been filed, two in the Superior Court in Maricopa County, Arizona (the State derivative actions ) and one in the U.S. District Court for the District of Arizona (the Federal derivative action ), by persons identifying themselves as Insight shareholders and purporting to act on behalf of Insight, naming Insight as a nominal defendant and current and former officers and directors as defendants. Initially, the three derivative action complaints, like the purported class action complaint, primarily arose out of our February 9, 2009 announcement. The Federal derivative action was dismissed without prejudice in January 2010, and the plaintiff filed a second amended complaint in February 2010, dropping the claims arising from the February 9, 2009 announcement and instead focusing primarily on historical stock option granting practices and the Company's prior investigation and disclosures relating thereto. In March 2010, we moved to dismiss the Federal derivative action. Oral argument on the motion to dismiss currently is scheduled for June 2010. The two State derivative actions were consolidated into a single action, and the plaintiff filed an amended complaint in the consolidated action on October 30, 2009 that alleges breaches of fiduciary duties of loyalty and good faith, breach of fiduciary duties for insider selling and misappropriation of information, and unjust enrichment. The amount of damages sought by the plaintiffs is not specified in the consolidated complaint. In November 2009, the plaintiffs moved for appointment as lead plaintiffs, their counsel as lead counsel, and their local counsel as liaison counsel. Also in November 2009, we moved to stay the State derivative actions. The Court heard oral argument on both motions and in February 2010 granted the motion to appoint lead plaintiffs, lead counsel and liaison counsel and denied the motion to stay. Thereafter, in April 2010, we moved to dismiss the State derivative actions. Oral argument on the motion to dismiss has been requested, but has not been set. In July and September 2009, we received, from the plaintiff in the Federal derivative action, separate demands to inspect our books and records pursuant to Section 220 of the Delaware General Corporation Law, and we objected to both demands as improper. In November 2009, that same plaintiff filed a lawsuit in the Court of Chancery of the State of Delaware seeking to compel the inspection of certain books and records. In January 2010, we filed a motion to dismiss that complaint, and the Court of Chancery heard oral argument on the motions to dismiss in March 2010. That motion is under submission. We have tendered a claim to our D&O liability insurance carriers, and our carriers have acknowledged their obligations under these policies subject to a reservation of rights.

**Item 1A. Risk Factors.**

In addition to the other information set forth in this report, you should carefully consider the factors discussed in Part I, Item 1A, Risk Factors , in our Annual Report on Form 10-K for the year ended December 31, 2009, which could materially affect our business, financial condition or future results. The risks described in our Annual Report on Form 10-K are not the only risks facing our company. Additional risks and uncertainties not currently known to us or that we currently deem to be immaterial may also materially adversely affect our business, financial condition or operating results.

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**INSIGHT ENTERPRISES, INC.**

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

There were no unregistered sales of equity securities during the three months ended March 31, 2010.

We have never paid a cash dividend on our common stock. We currently intend to reinvest all of our earnings into our business and do not intend to pay any cash dividends in the foreseeable future. Our senior revolving credit facility contains restrictions on the payment of cash dividends.

***Issuer Purchases of Equity Securities***

We did not repurchase any shares of our common stock during the three months ended March 31, 2010.

**Item 3. Defaults Upon Senior Securities.**

None.

**Item 4. Removed and Reserved.**

**Item 5. Other Information.**

None.

**Item 6. Exhibits.**

(a) Exhibits (unless otherwise noted, exhibits are filed herewith).

| <b>Exhibit No.</b> | <b>Description</b>                                                                                                                                                                                                                                                                                                              |
|--------------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| 3.1                | Composite Certificate of Incorporation of Insight Enterprises, Inc. (incorporated by reference to Exhibit 3.1 of our Annual Report on Form 10-K for the year ended December 31, 2005).                                                                                                                                          |
| 3.2                | Amended and Restated Bylaws of the Insight Enterprises, Inc. (incorporated by reference to Exhibit 3.1 of our current report on Form 8-K filed on January 14, 2008).                                                                                                                                                            |
| 4.1                | Specimen Common Stock Certificate (incorporated by reference to Exhibit 4.1 of our Registration Statement on Form S-1 (No. 33-86142) declared effective January 24, 1995).                                                                                                                                                      |
| 10.1               | Amendment to Credit Agreement, dated as of April 26, 2010, among Calence, LLC, Insight Direct USA, Inc., Insight Public Sector, Inc., Castle Pines Capital LLC, as an administrative agent, Wells Fargo Foothill, LLC, as an administrative agent, as syndication agent and as collateral agent, and the lenders party thereto. |
| 31.1               | Certification of Chief Executive Officer Pursuant to Securities Exchange Act Rule 13a-14.                                                                                                                                                                                                                                       |
| 31.2               | Certification of Chief Financial Officer Pursuant to Securities Exchange Act Rule 13a-14.                                                                                                                                                                                                                                       |
| 32.1               | 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.                                                                                                                                                  |

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**INSIGHT ENTERPRISES, INC.**

**SIGNATURES**

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

**Date: May 5, 2010**

**INSIGHT ENTERPRISES, INC.**

**By: /s/ Kenneth T. Lamneck**

**Kenneth T. Lamneck  
President and Chief Executive Officer  
(Duly Authorized Officer)**

**By: /s/ Glynis A. Bryan**

**Glynis A. Bryan  
Chief Financial Officer  
(Principal Financial Officer)**