

INSIGHT ENTERPRISES INC

Form 10-Q

November 04, 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: September 30, 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** **86-0766246**  
(State or other jurisdiction of incorporation or organization) (I.R.S. Employer Identification Number)  
**6820 South Harl Avenue, Tempe, Arizona 85283**  
(Address of principal executive offices) (Zip Code)  
**(480) 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 October 29, 2010 was 46,274,027.



**INSIGHT ENTERPRISES, INC.**  
**QUARTERLY REPORT ON FORM 10-Q**  
**Three Months Ended September 30, 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 debt balances and accrued expenses and liabilities; detail of our business strategy and our strategic initiatives; projections of capital expenditures and trade credit liability settlements and payments; plans relating to our products and services; the effect of new accounting principles or changes in accounting policies; the effect of and our exposure to 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 the payment of accrued severance and restructuring costs; projections of compliance with debt covenants; our intentions to reinvest undistributed earnings of foreign subsidiaries; our intentions concerning our use of cash generated from operations and the payment of dividends; 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;
- 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;
- changes in the overall capital markets that could increase our borrowing costs or reduce future availability of financing;
- 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)

|   | September 30,<br>2010 | December 31,<br>2009 |
|---|-----------------------|----------------------|
| <b>ASSETS</b>   |                       |                      |
| Current assets:   |                       |                      |
| Cash and cash equivalents   | \$ 93,764             | \$ 68,066            |
| Accounts receivable, net of allowances for doubtful accounts of \$17,242 and \$22,364, respectively               | 839,645               | 998,770              |
| Inventories   | 122,685               | 77,694               |
| Inventories not available for sale  | 30,296                | 47,722               |
| Deferred income taxes   | 27,220                | 35,750               |
| Other current assets  | 39,580                | 32,318               |
| Total current assets  | 1,153,190             | 1,260,320            |
| Property and equipment, net of accumulated depreciation and amortization of \$178,126 and \$160,904, respectively | 142,973               | 150,103              |
| Goodwill  | 16,474                | 15,829               |
| Intangible assets, net of accumulated amortization of \$50,127 and \$39,187, respectively                         | 72,449                | 82,483               |
| Deferred income taxes   | 73,950                | 78,489               |
| Other assets  | 18,163                | 16,097               |
|   | \$ 1,477,199          | \$ 1,603,321         |
| <b>LIABILITIES AND STOCKHOLDERS EQUITY</b>  |                       |                      |
| Current liabilities:  |                       |                      |
| Accounts payable  | \$ 563,327            | \$ 695,549           |
| Accrued expenses and other current liabilities  | 158,667               | 212,276              |
| Current portion of long-term debt   | 992                   | 875                  |
| Deferred revenue  | 39,874                | 54,135               |
| Total current liabilities   | 762,860               | 962,835              |
| Long-term debt  | 166,370               | 149,349              |
| Deferred income taxes   | 2,729                 | 3,054                |
| Other liabilities   | 25,319                | 20,509               |
|   | 957,278               | 1,135,747            |
| Commitments and contingencies   |                       |                      |



Stockholders' equity:

Preferred stock, \$0.01 par value, 3,000 shares authorized; no shares issued

Common stock, \$0.01 par value, 100,000 shares authorized; 46,271 shares at

September 30, 2010 and 45,956 shares at December 31, 2009 issued and

|             |     |     |
|-------------|-----|-----|
| outstanding | 463 | 460 |
|-------------|-----|-----|

|                            |         |         |
|----------------------------|---------|---------|
| Additional paid-in capital | 375,920 | 372,021 |
|----------------------------|---------|---------|

|                   |         |        |
|-------------------|---------|--------|
| Retained earnings | 124,375 | 73,864 |
|-------------------|---------|--------|

|   |        |        |
|---|--------|--------|
| Accumulated other comprehensive income - foreign currency translation adjustments | 19,163 | 21,229 |
|---|--------|--------|

|                            |         |         |
|----------------------------|---------|---------|
| Total stockholders' equity | 519,921 | 467,574 |
|----------------------------|---------|---------|

|  |              |              |
|--|--------------|--------------|
|  | \$ 1,477,199 | \$ 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</b> |             | <b>Nine Months Ended</b> |              |
|---|---------------------------|-------------|--------------------------|--------------|
|   | <b>September 30,</b>      |             | <b>September 30,</b>     |              |
|   | <b>2010</b>               | <b>2009</b> | <b>2010</b>              | <b>2009</b>  |
| Net sales   | \$ 1,172,227              | \$ 969,935  | \$ 3,499,225             | \$ 2,958,257 |
| Costs of goods sold                                     | 1,017,582                 | 836,449     | 3,025,730                | 2,545,155    |
| Gross profit  | 154,645                   | 133,486     | 473,495                  | 413,102      |
| Operating expenses:                                     |                           |             |                          |              |
| Selling and administrative expenses                     | 129,511                   | 117,623     | 385,052                  | 374,831      |
| Severance and restructuring expenses                    | 298                       | 3,994       | 1,687                    | 12,471       |
| Earnings from operations                                | 24,836                    | 11,869      | 86,756                   | 25,800       |
| Non-operating (income) expense:                         |                           |             |                          |              |
| Interest income   | (161)                     | (45)        | (467)                    | (333)        |
| Interest expense  | 1,899                     | 2,333       | 5,957                    | 6,421        |
| Net foreign currency exchange loss (gain)               | 130                       | 93          | 743                      | (119)        |
| Other expense, net                                      | 348                       | 217         | 1,097                    | 697          |
| Earnings from continuing operations before income taxes | 22,620                    | 9,271       | 79,426                   | 19,134       |
| Income tax expense                                      | 8,188                     | 1,999       | 28,915                   | 5,766        |
| Net earnings from continuing operations                 | 14,432                    | 7,272       | 50,511                   | 13,368       |
| Net earnings from a discontinued operation              |                           |             |                          | 2,801        |
| Net earnings  | \$ 14,432                 | \$ 7,272    | \$ 50,511                | \$ 16,169    |
| Net earnings per share Basic:                           |                           |             |                          |              |
| Net earnings from continuing operations                 | \$ 0.31                   | \$ 0.16     | \$ 1.09                  | \$ 0.29      |
| Net earnings from a discontinued operation              |                           |             |                          | 0.06         |
| Net earnings per share                                  | \$ 0.31                   | \$ 0.16     | \$ 1.09                  | \$ 0.35      |
| Net earnings per share Diluted:                         |                           |             |                          |              |
| Net earnings from continuing operations                 | \$ 0.31                   | \$ 0.16     | \$ 1.08                  | \$ 0.29      |
| Net earnings from a discontinued operation              |                           |             |                          | 0.06         |
| Net earnings per share                                  | \$ 0.31                   | \$ 0.16     | \$ 1.08                  | \$ 0.35      |

Shares used in per share calculations:

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|         |        |        |        |        |
|---------|--------|--------|--------|--------|
| Basic   | 46,268 | 45,875 | 46,193 | 45,812 |
| Diluted | 46,865 | 46,445 | 46,749 | 46,164 |

See accompanying notes to consolidated financial statements.

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

|   | <b>Nine Months Ended September</b> |              |
|---|------------------------------------|--------------|
|   | <b>30,</b>                         |              |
|   | <b>2010</b>                        | <b>2009*</b> |
| Cash flows from operating activities:   |                                    |              |
| Net earnings  | \$ 50,511                          | \$ 16,169    |
| Adjustments to reconcile net earnings to net cash provided by operating activities: |                                    |              |
| Depreciation and amortization   | 28,515                             | 29,074       |
| Provision for losses on accounts receivable   | 546                                | 2,795        |
| Write-downs of inventories  | 4,875                              | 5,623        |
| Non-cash stock-based compensation   | 5,139                              | 7,974        |
| Non-cash gain from arbitrated claim, net of tax                                     |                                    | (2,801)      |
| Excess tax benefit from employee gains on stock-based compensation                  | (912)                              |              |
| Deferred income taxes   | 11,762                             | 1,706        |
| Changes in assets and liabilities:  |                                    |              |
| Decrease in accounts receivable   | 143,709                            | 281,677      |
| (Increase) decrease in inventories  | (32,676)                           | 12,836       |
| (Increase) decrease in other current assets   | (6,558)                            | 615          |
| (Increase) decrease in other assets   | (1,557)                            | 3,935        |
| Decrease in accounts payable  | (110,705)                          | (215,022)    |
| (Decrease) increase in deferred revenue   | (11,414)                           | 9,409        |
| Decrease in accrued expenses and other liabilities                                  | (43,727)                           | (34,410)     |
| Net cash provided by operating activities   | 37,508                             | 119,580      |
| Cash flows from investing activities:   |                                    |              |
| Acquisition of Calence, net of cash acquired  | (5,123)                            | (12,834)     |
| Purchases of property and equipment   | (12,631)                           | (11,739)     |
| Net cash used in investing activities   | (17,754)                           | (24,573)     |
| Cash flows from financing activities:   |                                    |              |
| Borrowings on senior revolving credit facility                                      | 910,136                            | 833,373      |
| Repayments on senior revolving credit facility                                      | (892,636)                          | (905,873)    |
| Borrowings on accounts receivable securitization financing facility                 | 45,000                             | 165,000      |
| Repayments on accounts receivable securitization financing facility                 | (45,000)                           | (165,000)    |
| Payments on capital lease obligation  | (681)                              | (113)        |
| Net repayments under inventory financing facility                                   | (9,952)                            | (4,446)      |
| Payment of deferred financing fees  | (490)                              | (1,565)      |
| Proceeds from sales of common stock under employee stock plans                      | 49                                 |              |
| Excess tax benefit from employee gains on stock-based compensation                  | 912                                |              |
| Payment of payroll taxes on stock-based compensation through shares withheld        | (1,260)                            | (463)        |

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|   |           |           |
|---|-----------|-----------|
| Net cash provided by (used in) financing activities | 6,078     | (79,087)  |
| Foreign currency exchange effect on cash flows      | (134)     | 3,873     |
| Increase in cash and cash equivalents               | 25,698    | 19,793    |
| Cash and cash equivalents at beginning of period    | 68,066    | 49,175    |
| Cash and cash equivalents at end of period          | \$ 93,764 | \$ 68,968 |

\* Certain amounts in the consolidated statement of cash flows for the nine months ended September 30, 2009 have been reclassified to conform to the presentation for the nine months ended September 30, 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:

| <b>Operating Segment</b> | <b>Geography</b>               |
|--------------------------|--------------------------------|
| North America            | United States and Canada       |
| EMEA                     | Europe, Middle East and Africa |
| APAC                     | 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 September 30, 2010, our results of operations for the three and nine months ended September 30, 2010 and 2009 and our cash flows for the nine months ended September 30, 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 and contingencies, 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.

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

*Reclassifications*

We reclassified \$4,686,000 of inventories in North America at December 31, 2009 to inventories not available for sale in the accompanying balance sheet as of December 31, 2009 to conform to the presentation at September 30, 2010. 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 September 30, 2009 which affected the accompanying consolidated statement of cash flows for the nine months ended September 30, 2009 to conform to the presentation for the nine months ended September 30, 2010. Such reclassifications were required to conform presentation among all of our subsidiaries. Such reclassifications had no effect on previously reported net earnings or operating cash flow amounts. Consistent with our presentation for the year ended December 31, 2009, we revised the classification of the net increase in book overdrafts of \$12,538,000 for the nine months ended September 30, 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 from Continuing Operations Per Share ( EPS )**

Basic EPS is computed by dividing net earnings from continuing operations 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. Dilutive potential common shares include outstanding stock options (using the treasury stock method) 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</b> |             | <b>Nine Months Ended</b> |             |
|--|---------------------------|-------------|--------------------------|-------------|
|  | <b>September 30,</b>      |             | <b>September 30,</b>     |             |
|  | <b>2010</b>               | <b>2009</b> | <b>2010</b>              | <b>2009</b> |
| Numerator:   |                           |             |                          |             |
| Net earnings from continuing operations  | \$ 14,432                 | \$ 7,272    | \$ 50,511                | \$ 13,368   |
| Denominator:   |                           |             |                          |             |
| Weighted average shares used to compute basic EPS  | 46,268                    | 45,875      | 46,193                   | 45,812      |
| Dilutive potential common shares due to dilutive options and restricted stock units, net of tax effect | 597                       | 570         | 556                      | 352         |
| Weighted average shares used to compute diluted EPS  | 46,865                    | 46,445      | 46,749                   | 46,164      |
| Net earnings from continuing operations per share:   |                           |             |                          |             |
| Basic  | \$ 0.31                   | \$ 0.16     | \$ 1.09                  | \$ 0.29     |

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|         |  |         |         |         |         |
|---------|--|---------|---------|---------|---------|
| Diluted |  | \$ 0.31 | \$ 0.16 | \$ 1.08 | \$ 0.29 |
|---------|--|---------|---------|---------|---------|



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

The following weighted average outstanding stock options were not included in the diluted EPS calculations because the exercise prices of these options were greater than the average market price of our common stock during the respective periods (in thousands):

|  | <b>Three Months Ended</b> |             | <b>Nine Months Ended</b> |             |
|--|---------------------------|-------------|--------------------------|-------------|
|  | <b>September 30,</b>      |             | <b>September 30,</b>     |             |
|  | <b>2010</b>               | <b>2009</b> | <b>2010</b>              | <b>2009</b> |
| Weighted-average outstanding stock options excluded from the diluted EPS calculation | 258                       | 1,425       | 383                      | 1,851       |

**3. Goodwill**

During the nine months ended September 30, 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. The final payment of \$5,123,000 for additional purchase price consideration and the related accrued interest thereon 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>September<br/>30,<br/>2010</b> | <b>December 31,<br/>2009</b> |
|---|-----------------------------------|------------------------------|
| Senior revolving credit facility                        | \$ 164,500                        | \$ 147,000                   |
| Accounts receivable securitization financing facility   |                                   |                              |
| Capital lease obligation                                | 2,862                             | 3,224                        |
| Total   | 167,362                           | 150,224                      |
| Less: current portion of obligation under capital lease | (992)                             | (875)                        |
| Less: current portion of revolving credit facilities    |                                   |                              |
| Long-term debt  | \$ 166,370                        | \$ 149,349                   |

Our senior revolving credit facility has a maximum borrowing capacity of \$300,000,000 and matures April 1, 2013. Our accounts receivable securitization financing facility (the ABS facility ) has a maximum borrowing capacity of \$150,000,000. While the ABS facility has a stated maximum amount, the actual availability under the ABS facility is limited by the quantity and quality of the underlying accounts receivable. As of September 30, 2010, availability under the ABS facility was \$150,000,000.

On July 1, 2010, we entered into an amendment to the ABS facility, which amends certain provisions of the ABS facility to improve availability in the Borrowing Base, as defined in the ABS facility, but did not change the \$150,000,000 maximum borrowing capacity. Specifically, the amendment (i) excludes from the Borrowing Base receivables of a specified obligor that had a negative impact on availability under the facility, (ii) creates a basket to allow up to 10% of gross receivables with terms between 60 and 90 days to be eligible for borrowing, and (iii) increases to 35% from 25% the threshold above which the total amount of a particular obligor's receivables are treated as ineligible if the percentage of such obligor's receivables that are more than 60 days past due exceeds such threshold. In addition, the amendment extends the maturity date of the ABS facility, which was to have expired on July 23, 2010,

to April 1, 2013, and decreases the variable interest rate by approximately 80 basis points for funds provided under the ABS facility, calculated as the specified Pooled Commercial Paper Rate, as defined in the ABS facility, plus a fixed 1.45% margin (the CP Margin ). However, beginning on June 15, 2012 (the Reset Date ), the CP Margin may increase (but in no event exceed 1.50%) based on percentage changes in high yield spreads comparing average index rates for the calendar month prior to the Reset Date against average index rates for the corresponding calendar month in the previous year. Finally, the amendment provides that, under certain circumstances, the Company may be required to obtain a public rating of the ABS facility from one or more credit rating agencies of at least A or its equivalent. Failure by the Company to obtain such rating would result in an Amortization Event under the ABS facility.

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

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 plus (i) interest expense, less non-cash imputed interest on our inventory financing facility, (ii) income tax expense, (iii) depreciation and amortization and (iv) 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 of September 30, 2010 and stepped down to 2.50 times effective October 1, 2010 through April 1, 2013. As a result of this limitation, of the \$450,000,000 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 September 30, 2010 was limited to \$428,300,000 based on 2.75 times the Company's trailing twelve-month adjusted earnings. The maximum leverage, minimum fixed charge and asset coverage ratio financial covenant requirements under the ABS facility were not modified as part of the July 1, 2010 amendment to the ABS facility.

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 September 30, 2010, we were in compliance with all such covenants.

*Capital Lease Obligation*

In July 2009, we entered into a four-year lease for certain IT equipment. Subsequently, in November 2009 and again in July 2010, 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 amendment in July 2010 added \$319,000 to the value of the equipment held under the capitalized lease. The obligations under the capitalized lease are included in long-term debt in our consolidated balance sheet as of September 30, 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 statements of operations for the three and nine months ended September 30, 2010. As of September 30, 2010, accumulated amortization on the capital lease assets was \$1,032,000.

*Inventory Financing Facility*

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. On August 12, 2010, we entered into a second amendment to the facility to further increase the aggregate availability for vendor purchases under the facility from \$100,000,000 to \$150,000,000. As of September 30, 2010 and December 31, 2009, \$84,330,000 and \$94,282,000, respectively, was included in accounts payable within the consolidated balance sheets related to our inventory financing facility, which matures on April 1, 2013.

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

**5. Income Taxes**

Our effective tax rate for the three and nine months ended September 30, 2010 was 36.2% and 36.4%, respectively. For the three and nine months ended September 30, 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 tax, partially offset by lower taxes on earnings in foreign jurisdictions.

Our effective tax rate from continuing operations for the three and nine months ended September 30, 2009 was 21.6% and 30.1%, respectively. For the three and nine months ended September 30, 2009, our effective tax rate was lower than the United States federal statutory rate of 35.0% due primarily to lower taxes on income in foreign jurisdictions, total benefits of \$1,544,000 recognized during the quarter primarily related to the true-up of foreign tax credits resulting from the filing of our 2008 United States federal tax return and the recognition of certain tax benefits resulting from the settlement of audits, partially offset by state income taxes, net of federal benefit.

As of September 30, 2010 and December 31, 2009, we had \$5,427,000 and \$5,923,000, respectively, of unrecognized tax benefits. Of these amounts, approximately \$377,000 and \$330,000 relate to accrued interest as of September 30, 2010 and December 31, 2009, respectively.

Several of our subsidiaries are currently under audit for tax years 2002 through 2009. 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.

**6. Severance, Restructuring and Acquisition Integration Activities**

*Severance Costs Expensed for 2010 Resource Actions*

During the three months ended September 30, 2010, North America and EMEA recorded severance expense totaling \$199,000 and \$120,000, respectively, and during the nine months ended September 30, 2010, North America and EMEA recorded severance expense totaling \$1,142,000 and \$1,029,000, respectively. During the nine months ended September 30, 2010, the North America charge was part of the roll-out of our new sales engagement model and plans to add new leadership in key areas, and the EMEA charge was associated with the severance for ten former teammates. The outstanding obligations as of September 30, 2010 of \$511,000 and \$504,000 for North America and EMEA, respectively, are expected to be paid within the next twelve months and are therefore included in accrued expenses and other current liabilities.

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

*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 in North America and EMEA during the nine months ended September 30, 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 |                          | (155)       | (155)               |
| Adjustments                              |                          | (414)       | (414)               |
| Cash payments                            | (38)                     | (742)       | (780)               |
| Balance at September 30, 2010            | \$                       | \$ 593      | \$ 593              |

In EMEA, adjustments of \$21,000 and \$414,000 were recorded as a reduction to severance and restructuring expense during the three and nine months ended September 30, 2010, respectively, and a reduction of the related severance accrual due to changes in estimates as cash payments were made. All remaining outstanding obligations are expected to be paid within the next twelve months 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 the 2008 resource actions had been paid. During the first quarter of 2010, final cash payments totaling \$19,000 were made on the remaining accrued severance costs in North America and an adjustment of \$70,000 was recorded as a reduction to severance and restructuring expense and the related severance accrual in EMEA due to changes in estimates. As of September 30, 2010, there were no outstanding severance obligations associated with the 2008 resource actions.

*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. 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 the remaining EMEA liabilities during the nine months ended September 30, 2010 (in thousands):

|  | <b>EMEA</b> |
|--|-------------|
| Balance at December 31, 2009             | \$ 1,358    |
| Foreign currency translation adjustments | (62)        |
| Adjustments                              | (106)       |
| Cash payments                            | (479)       |

Balance at September 30, 2010 \$ 711

All remaining outstanding obligations are expected to be paid within the next twelve months and are therefore included in accrued expenses and other current liabilities. An adjustment of \$106,000 was recorded as a reduction of selling and administrative expenses recorded during the three and nine months ended September 30, 2010 and the related severance accrual due to changes in estimates of the costs of the integration plan.

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

*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 related leases expired in October 2009, and the remaining balance in the accrual as of January 1, 2010 of \$77,000 (related to certain service charges) was settled during the three and nine months ended September 30, 2010, leaving no accrual remaining as of September 30, 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):

|               | Three Months Ended |        | Nine Months Ended |          |
|---------------|--------------------|--------|-------------------|----------|
|               | September 30,      |        | September 30,     |          |
|               | 2010               | 2009   | 2010              | 2009     |
| North America | \$ 1,712           | \$ 697 | \$ 3,901          | \$ 5,822 |
| EMEA          | 508                | 68     | 1,105             | 2,000    |
| APAC          | 57                 | 44     | 133               | 152      |
| Total         | \$ 2,277           | \$ 809 | \$ 5,139          | \$ 7,974 |

*Stock Options*

For the three months ended September 30, 2010 and 2009, we recorded stock-based compensation expense related to stock options, net of an estimate of forfeitures, of \$93,000 and \$72,000, respectively. For the nine months ended September 30, 2010 and 2009, we recorded stock-based compensation expense related to stock options, net of an estimate of forfeitures, of \$276,000 and \$207,000, respectively. As of September 30, 2010, total compensation cost not yet recognized related to nonvested stock options is \$79,000, which is expected to be recognized through December 2010.

The following table summarizes our stock option activity during the nine months ended September 30, 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                         | (3,500)   | 14.00                                    | \$ 4,676   |   |
| Forfeited or expired              | (332,219) | 19.57                                    |  |   |
| Outstanding at September 30, 2010 | 253,705   | 17.91                                    | \$ 21,932  | 1.84  |
| Exercisable at September 30, 2010 | 187,039   | 17.96                                    | \$ 21,932  | 1.71  |
| Vested and expected to vest       | 253,705   | 17.91                                    | \$ 21,932  | 1.84  |

The aggregate intrinsic value in the preceding table represents the total pre-tax intrinsic value, based on our closing stock price of \$15.69 as of September 30, 2010, which would have been received by the option holders had all option holders exercised options and sold the underlying shares on that date.



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**INSIGHT ENTERPRISES, INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)**  
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The following table summarizes the status of outstanding stock options as of September 30, 2010:

| Range of Exercise Prices | Number of Options Outstanding | Options Outstanding                                    |   | Options Exercisable           |   |
|--------------------------|-------------------------------|--|---|-------------------------------|---|
|                          |                               | Weighted Average Remaining Contractual Life (in years) | Weighted Average Exercise Price Per Share | Number of Options Exercisable | Weighted Average Exercise Price Per Share |
| \$13.94 - 17.06          | 26,499                        | 0.39   | \$ 15.12                                  | 26,499                        | \$ 15.12                                  |
| 17.77                    | 200,000                       | 2.21   | 17.77                                     | 133,334                       | 17.77                                     |
| 18.36 - 27.88            | 27,006                        | 0.53   | 21.60                                     | 27,006                        | 21.60                                     |
| 29.56                    | 150                           | 0.08   | 29.56                                     | 150                           | 29.56                                     |
| 31.94                    | 50                            | 0.10   | 31.94                                     | 50                            | 31.94                                     |
|                          | 253,705                       | 1.84   | 17.91                                     | 187,039                       | 17.96                                     |

*Restricted Stock*

For the three months ended September 30, 2010 and 2009, we recorded stock-based compensation expense, net of an estimate of forfeitures, related to restricted stock units ( RSUs ) of \$2,184,000 and \$737,000, respectively. For the nine months ended September 30, 2010 and 2009, we recorded stock-based compensation expense, net of an estimate of forfeitures, related to RSUs of \$4,863,000 and \$7,767,000, respectively. The expense for the nine months ended September 30, 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 September 30, 2010, total compensation cost not yet recognized related to nonvested RSUs is \$11,341,000, which is expected to be recognized over the next 1.21 years on a weighted-average basis.

The following table summarizes our RSU activity during the nine months ended September 30, 2010:

|  | Number    | Weighted Average Grant Date Fair Value | Fair Value                   |
|--|-----------|--|------------------------------|
| Nonvested at January 1, 2010                     | 1,126,797 | \$ 5.95                                |                              |
| Granted  | 1,045,569 | 13.18                                  |                              |
| Vested, including shares withheld to cover taxes | (405,775) | 8.76                                   | \$ 5,449,943 <sup>(a)</sup>  |
| Forfeited  | (122,628) | 7.41                                   |                              |
| Nonvested at September 30, 2010                  | 1,643,963 | 9.75                                   | \$ 25,793,779 <sup>(b)</sup> |
| Expected to vest                                 | 1,569,614 |  | \$ 24,627,244 <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.

- (b) The aggregate fair values of the nonvested RSUs and RSUs expected to vest represent the total pre-tax fair value, based on our closing stock price of \$15.69 as of September 30, 2010, which would have been received by holders of RSUs had all such holders sold their underlying shares on that date.

During the nine months ended September 30, 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 nine months ended September 30, 2010 and 2009 of 94,353 and 107,041, respectively, were based on the value of the RSUs on their vesting date as determined by our closing stock price on such vesting date. For the nine months ended September 30, 2010 and 2009, total payments for the employees' tax obligations to the taxing authorities were \$1,260,000 and \$463,000, 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.

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**INSIGHT ENTERPRISES, INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)**  
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**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 three foreign exchange forward contracts per month with an average notional value of \$9,300,000 and an average maturity of approximately two weeks. 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.

The following table summarizes our derivative financial instruments as of September 30, 2010 and December 31, 2009 (in thousands):

|   | Balance Sheet<br>Location                      | September 30, 2010                    |   | December 31, 2009                     |   |
|---|--|---------------------------------------|---|---------------------------------------|---|
|   |  | Asset<br>Derivatives<br>Fair<br>Value | Liability<br>Derivatives<br>Fair<br>Value | Asset<br>Derivatives<br>Fair<br>Value | Liability<br>Derivatives<br>Fair<br>Value |
| Derivatives not designated as hedging instruments:      |  |                                       |   |                                       |   |
| Foreign exchange forward contracts                      | Other current assets                           | \$                                    | \$  | \$ 105                                | \$  |
| Foreign exchange forward contracts                      | Accrued expenses and other current liabilities |                                       | 75  |                                       | 65  |
| Total derivatives not designated as hedging instruments |  | \$                                    | \$ 75                                     | \$ 105                                | \$ 65                                     |

The following table summarizes the effect of our derivative financial instruments on our results of operations during the three and nine months ended September 30, 2010 and 2009 (in thousands):

| Derivatives Not Designated as Hedging Instruments | Location of<br>(Gain) Loss<br>Recognized in | Amount of (Gain) Loss Recognized in<br>Earnings on Derivatives |  |  |  |
|---|---|--|--|--|--|
|   |   | Three Months Ended<br>September 30,<br>2010                    |  | Nine Months Ended<br>September 30,<br>2009 |  |
|   |   |  |  |  |  |

|                                    | <b>Earnings on<br/>Derivatives</b>        |        |        |            |          |
|------------------------------------|---|--------|--------|------------|----------|
| Foreign exchange forward contracts | Net foreign currency exchange loss (gain) | \$ 314 | \$ 467 | \$ (1,147) | \$ 2,284 |
| Total                              |   | \$ 314 | \$ 467 | \$ (1,147) | \$ 2,284 |

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

**9. Fair Value Measurements**

The following table summarizes the valuation of our financial instruments by the following three categories as of September 30, 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.

| Balance Sheet Classification                   |         | September 30, 2010           |                                | December 31, 2009            |     |
|--|---------|------------------------------|--------------------------------|------------------------------|-----|
|  |         | Foreign Exchange Derivatives | Long-lived Asset Held for Sale | Foreign Exchange Derivatives |     |
| Other current assets                           | Level 1 | \$                           | \$                             | \$                           |     |
|  | Level 2 |                              | 1,200                          |                              | 105 |
|  | Level 3 |                              |                                |                              |     |
|  |         | \$                           | \$ 1,200                       | \$                           | 105 |
| Accrued expenses and other current liabilities | Level 1 | \$                           | \$                             | \$                           |     |
|  | Level 2 |                              | 75                             |                              | 65  |
|  | Level 3 |                              |                                |                              |     |
|  |         | \$ 75                        | \$                             | \$                           | 65  |

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 and nine months ended September 30, 2010.

As of September 30, 2010, other than the asset held for sale discussed below, 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.

In accordance with the terms of our President and CEO's employment agreement, which was effective January 1, 2010, the Company acquired his former residence on the Gulf Coast of Florida for \$2,100,000 in May 2010. The price paid was based on two independent real estate appraisals performed in late January/early February of 2010, immediately subsequent to the President and CEO's employment. The long-lived asset held for sale is included in other current assets in the accompanying balance sheet as of September 30, 2010 based on the Company's current disposal plans. As of September 30, 2010, the asset was written down to its fair value, less estimated costs to sell, of approximately \$1,200,000, resulting in a loss of approximately \$900,000, which was included in selling and administrative expenses during the nine months ended September 30, 2010 (\$600,000 during the second quarter and \$300,000 during the third quarter of 2010). The Company closed the sale of the former residence on October 15, 2010 for \$1,300,000, less costs to sell.

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**INSIGHT ENTERPRISES, INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)**  
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**10. Comprehensive Income**

Comprehensive income for the three and nine months ended September 30, 2010 and 2009 includes the following component (in thousands):

|  | <b>Three Months Ended</b> |             | <b>Nine Months Ended</b> |             |
|--|---------------------------|-------------|--------------------------|-------------|
|  | <b>September 30,</b>      |             | <b>September 30,</b>     |             |
|  | <b>2010</b>               | <b>2009</b> | <b>2010</b>              | <b>2009</b> |
| Net earnings                                   | \$ 14,432                 | \$ 7,272    | \$ 50,511                | \$ 16,169   |
| Other comprehensive income (loss), net of tax: |                           |             |                          |             |
| Foreign currency translation adjustments       | 13,097                    | 2,714       | (2,066)                  | 11,352      |
| Total comprehensive income                     | \$ 27,529                 | \$ 9,986    | \$ 48,445                | \$ 27,521   |

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

In the ordinary course of business, we issue performance bonds to secure our performance under certain contracts or state tax requirements. As of September 30, 2010 and December 31, 2009, we had approximately \$18,514,000 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.

*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.

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

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

Management believes that payments, if any, related to these indemnifications are not probable at September 30, 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 and the State derivative actions 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 reasonably 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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**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)**  
**(unaudited)**

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 District Court appointed a lead plaintiff and lead counsel. The plaintiff in the remaining action filed an amended complaint in September 2009, seeking unspecified damages, and the District Court dismissed the amended complaint on April 30, 2010. On June 1, 2010, the plaintiff filed a second amended complaint, which asserts 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 have filed motions to dismiss the second amended complaint, briefing on the motions to dismiss has been completed and oral argument on the motion to dismiss the second amended complaint will be heard in November 2010. 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 has been dismissed with prejudice, and the plaintiff in that action has appealed the order of dismissal to the U.S. Court of Appeals for the Ninth Circuit. 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. We moved to dismiss the State derivative actions, and oral argument on the motion to dismiss was heard in August 2010. On October 18, 2010, the State derivative actions were dismissed with prejudice. The judgment of dismissal is not yet final and may still be appealed. 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.

In August 2010, in connection with an investigation being conducted by the United States Department of Justice (the DOJ ), Calence received a subpoena from the Office of the Inspector General of the Federal Communications Commission (the FCC OIG ) requesting documents related to the award, by the Universal Service Administration Company, of funds under the E-Rate program. The E-Rate program provides schools and libraries with discounts to obtain affordable telecommunications and internet access. We are cooperating with the DOJ and FCC OIG and are in the process of responding to the subpoena. Pursuant to the Calence acquisition agreements, the former owners of Calence have agreed to indemnify us for certain damages that may arise out of or result from this matter, including our fees and expenses for responding to the subpoena.

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.

**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 and nine months ended September 30, 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>Sales Mix</b> | <b>September 30,</b> |             | <b>September 30,</b> |             | <b>September 30,</b> |             |
|------------------|----------------------|-------------|----------------------|-------------|----------------------|-------------|
|                  | <b>2010</b>          | <b>2009</b> | <b>2010</b>          | <b>2009</b> | <b>2010</b>          | <b>2009</b> |
| Hardware         | \$ 572,427           | \$ 427,832  | \$ 103,326           | \$ 101,963  | \$ 408               | \$ 159      |
| Software         | 245,563              | 195,971     | 159,854              | 142,978     | 32,142               | 34,601      |
| Services         | 53,214               | 62,193      | 4,633                | 3,496       | 660                  | 742         |
|                  | \$ 871,204           | \$ 685,996  | \$ 267,813           | \$ 248,437  | \$ 33,210            | \$ 35,502   |

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

| Sales Mix | North America     |              | EMEA              |            | APAC              |           |
|-----------|-------------------|--------------|-------------------|------------|-------------------|-----------|
|           | Nine Months Ended |              | Nine Months Ended |            | Nine Months Ended |           |
|           | September 30,     |              | September 30,     |            | September 30,     |           |
|           | 2010              | 2009         | 2010              | 2009       | 2010              | 2009      |
| Hardware  | \$ 1,555,173      | \$ 1,214,278 | \$ 322,888        | \$ 282,214 | \$ 818            | \$ 835    |
| Software  | 716,528           | 671,843      | 607,978           | 507,771    | 126,506           | 95,655    |
| Services  | 153,298           | 173,507      | 13,450            | 10,418     | 2,586             | 1,736     |
|           | \$ 2,424,999      | \$ 2,059,628 | \$ 944,316        | \$ 800,403 | \$ 129,910        | \$ 98,226 |

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 and nine months ended September 30, 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 September 30, 2010 and 2009 (in thousands):

**Three Months Ended September 30, 2010**

|                                      | North America | EMEA       | APAC      | Consolidated  |
|--------------------------------------|---------------|------------|-----------|---------------|
| Net sales                            | \$ 871,204    | \$ 267,813 | \$ 33,210 | \$ 1,172,227  |
| Costs of goods sold                  | 760,668       | 229,681    | 27,233    | 1,017,582     |
| Gross profit                         | 110,536       | 38,132     | 5,977     | 154,645       |
| Operating expenses:                  |               |            |           |               |
| Selling and administrative expenses  | 89,012        | 35,808     | 4,691     | 129,511       |
| Severance and restructuring expenses | 199           | 99         |           | 298           |
| Earnings from operations             | \$ 21,325     | \$ 2,225   | \$ 1,286  | 24,836        |
| Non-operating expense, net           |               |            |           | 2,216         |
| Earnings before income taxes         |               |            |           | 22,620        |
| Income tax expense                   |               |            |           | 8,188         |
| Net earnings                         |               |            |           | \$ 14,432     |
| Total assets at period end           | \$ 1,329,004  | \$ 362,576 | \$ 46,743 | \$ 1,738,323* |

\* Consolidated total assets do not reflect the net effect of intercompany corporate assets and intercompany eliminations of \$261,124,000.

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

**Three Months Ended September 30, 2009**

|   | <b>North<br/>America</b> | <b>EMEA</b> | <b>APAC</b> | <b>Consolidated</b> |
|---|--------------------------|-------------|-------------|---------------------|
| Net sales   | \$ 685,996               | \$ 248,437  | \$ 35,502   | \$ 969,935          |
| Costs of goods sold                                     | 592,695                  | 213,020     | 30,734      | 836,449             |
| Gross profit  | 93,301                   | 35,417      | 4,768       | 133,486             |
| Operating expenses:                                     |                          |             |             |                     |
| Selling and administrative expenses                     | 79,354                   | 34,402      | 3,867       | 117,623             |
| Severance and restructuring expenses                    | 4,468                    | (463)       | (11)        | 3,994               |
| Earnings from operations                                | \$ 9,479                 | \$ 1,478    | \$ 912      | 11,869              |
| Non-operating expense, net                              |                          |             |             | 2,598               |
| Earnings from continuing operations before income taxes |                          |             |             | 9,271               |
| Income tax expense                                      |                          |             |             | 1,999               |
| Net earnings from continuing operations                 |                          |             |             | 7,272               |
| Net earnings from a discontinued operation              |                          |             |             |                     |
| Net earnings  |                          |             |             | \$ 7,272            |
| Total assets at period end                              | \$ 1,271,284             | \$ 291,942  | \$ 38,054   | \$ 1,601,280**      |

\*\* Consolidated total assets do not reflect the net effect of intercompany corporate assets and intercompany eliminations of \$259,595,000.

The tables below present information about our reportable operating segments as of and for the nine months ended September 30, 2010 and 2009 (in thousands):

**Nine Months Ended September 30, 2010**

|           | <b>North<br/>America</b> | <b>EMEA</b> | <b>APAC</b> | <b>Consolidated</b> |
|-----------|--------------------------|-------------|-------------|---------------------|
| Net sales | \$ 2,424,999             | \$ 944,316  | \$ 129,910  | \$ 3,499,225        |

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|                                      |              |            |           |               |
|--------------------------------------|--------------|------------|-----------|---------------|
| Costs of goods sold                  | 2,095,892    | 818,440    | 111,398   | 3,025,730     |
| Gross profit                         | 329,107      | 125,876    | 18,512    | 473,495       |
| Operating expenses:                  |              |            |           |               |
| Selling and administrative expenses  | 260,241      | 110,698    | 14,113    | 385,052       |
| Severance and restructuring expenses | 1,142        | 545        |           | 1,687         |
| Earnings from operations             | \$ 67,724    | \$ 14,633  | \$ 4,399  | 86,756        |
| Non-operating expense, net           |              |            |           | 7,330         |
| Earnings before income taxes         |              |            |           | 79,426        |
| Income tax expense                   |              |            |           | 28,915        |
| Net earnings                         |              |            |           | \$ 50,511     |
| Total assets at period end           | \$ 1,329,004 | \$ 362,576 | \$ 46,743 | \$ 1,738,323* |

\* Consolidated total assets do not reflect the net effect of intercompany corporate assets and intercompany eliminations of \$261,124,000.

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

**Nine Months Ended September 30, 2009**

|   | <b>North<br/>America</b> | <b>EMEA</b> | <b>APAC</b> | <b>Consolidated</b> |
|---|--------------------------|-------------|-------------|---------------------|
| Net sales   | \$ 2,059,628             | \$ 800,403  | \$ 98,226   | \$ 2,958,257        |
| Costs of goods sold                                     | 1,773,536                | 687,309     | 84,310      | 2,545,155           |
| Gross profit  | 286,092                  | 113,094     | 13,916      | 413,102             |
| Operating expenses:                                     |                          |             |             |                     |
| Selling and administrative expenses                     | 260,441                  | 103,122     | 11,268      | 374,831             |
| Severance and restructuring expenses                    | 10,327                   | 1,854       | 290         | 12,471              |
| Earnings from operations                                | \$ 15,324                | \$ 8,118    | \$ 2,358    | 25,800              |
| Non-operating expense, net                              |                          |             |             | 6,666               |
| Earnings from continuing operations before income taxes |                          |             |             | 19,134              |
| Income tax expense                                      |                          |             |             | 5,766               |
| Net earnings from continuing operations                 |                          |             |             | 13,368              |
| Net earnings from a discontinued operation              |                          |             |             | 2,801               |
| Net earnings  |                          |             |             | \$ 16,169           |
| Total assets at period end                              | \$ 1,271,284             | \$ 291,942  | \$ 38,054   | \$ 1,601,280**      |

\*\* Consolidated total assets do not reflect the net effect of intercompany corporate assets and intercompany eliminations of \$259,595,000.

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<br/>September 30,</b> |             | <b>Nine Months Ended September<br/>30,</b> |             |
|---|-------------|--|-------------|
| <b>2010</b>                                 | <b>2009</b> | <b>2010</b>                                | <b>2009</b> |

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|               |    |       |    |       |    |        |    |        |
|---------------|----|-------|----|-------|----|--------|----|--------|
| North America | \$ | 7,696 | \$ | 7,964 | \$ | 23,179 | \$ | 23,927 |
| EMEA          |    | 1,613 |    | 1,683 |    | 4,809  |    | 4,724  |
| APAC          |    | 186   |    | 150   |    | 527    |    | 423    |
| Total         | \$ | 9,495 | \$ | 9,797 | \$ | 28,515 | \$ | 29,074 |



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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 \$1.17 billion in the third quarter of 2010, an increase of 21% from the \$969.9 million reported in the third quarter of 2009. Gross profit for the three months ended September 30, 2010 increased 16% to \$154.6 million, while gross margin declined 60 basis points to 13.2%.

We reported earnings from operations of \$24.8 million for the third quarter of 2010, compared to \$11.9 million for the third quarter of 2009. Results of operations for the three months ended September 30, 2010 included the effects of the following items:

severance and restructuring expenses, net of adjustments, of \$298,000, \$192,000 net of tax, related to restructuring efforts in North America and EMEA. Comparatively, the third quarter of 2009 consolidated results included severance and restructuring expenses of \$4.0 million, \$2.5 million net of tax, primarily related to the departure of our former President and Chief Executive Officer from the Company; and no significant legal and other professional fees associated with the trade credits restatement and related litigation. Comparatively, the third quarter of 2009 included legal and other professional fees of \$560,000, \$346,000 net of tax, associated with the trade credits restatement and related litigation.

Results of operations for the prior year quarter ended September 30, 2009 also included \$1.5 million of tax benefit from the true-up of foreign tax credits after the filing of the Company's 2008 U.S. federal tax return and the recognition of certain tax benefits from the settlement of audits. There were no similar significant tax benefits in the third quarter of 2010.

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

On a consolidated basis, we reported net earnings of \$14.4 million and diluted earnings per share of \$0.31 for the third quarter of 2010 compared to \$7.3 million and \$0.16 for the third quarter of 2009.

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.

The global market environment continued to improve in 2010, and we are working diligently to complete our plans to grow market share and overall profitability over the long term. An industry trend that could affect our plans and results of operations is publisher and manufacturer program changes. For example, our largest software partner recently informed resellers that it intends to change certain elements of its channel incentive programs effective in late 2011, and those changes could adversely affect our results of operations, primarily beginning in 2012. We continue to evaluate the changes to the terms of our various programs with this partner and to develop new marketing and selling strategies to mitigate any adverse effects and enable us to benefit from such program changes. At this time, however, it is not possible for us to estimate with any degree of accuracy the effect these changes might have on our results of operations and financial position, if any.

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

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.

**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.

**Results of Operations**

The following table sets forth for the periods presented certain financial data as a percentage of net sales for the three and nine months ended September 30, 2010 and 2009:

|   | <b>Three Months Ended</b> |             | <b>Nine Months Ended</b> |             |
|---|---------------------------|-------------|--------------------------|-------------|
|   | <b>September 30,</b>      |             | <b>September 30,</b>     |             |
|   | <b>2010</b>               | <b>2009</b> | <b>2010</b>              | <b>2009</b> |
| Net sales   | 100.0%                    | 100.0%      | 100.0%                   | 100.0%      |
| Costs of goods sold                                     | 86.8                      | 86.2        | 86.5                     | 86.0        |
| Gross profit  | 13.2                      | 13.8        | 13.5                     | 14.0        |
| Selling and administrative expenses                     | 11.1                      | 12.2        | 11.0                     | 12.7        |
| Severance and restructuring expenses                    | 0.0                       | 0.4         | 0.0                      | 0.4         |
| Earnings from operations                                | 2.1                       | 1.2         | 2.5                      | 0.9         |
| Non-operating expense, net                              | 0.2                       | 0.2         | 0.2                      | 0.2         |
| Earnings from continuing operations before income taxes | 1.9                       | 1.0         | 2.3                      | 0.7         |
| Income tax expense                                      | 0.7                       | 0.2         | 0.9                      | 0.2         |
| Net earnings from continuing operations                 | 1.2                       | 0.8         | 1.4                      | 0.5         |
| Net earnings from a discontinued operation              |                           |             |                          | 0.1         |
| Net earnings  | 1.2%                      | 0.8%        | 1.4%                     | 0.6%        |



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

We experience some seasonal trends in our sales of IT hardware, software and services. Software sales are seasonally higher in our second and fourth quarters, particularly the second quarter; business clients, particularly larger enterprise businesses in the U.S., tend to spend less in the first quarter and more in our fourth quarter as they utilize their remaining capital budget authorizations; sales to the federal government in the U.S. are often stronger in our third quarter; and sales to public sector clients in the United Kingdom are often stronger in our first quarter. These trends create overall seasonality in our consolidated results such that sales and profitability are generally expected to be higher in the second and fourth quarters of the year.

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 period.

**Net Sales.** Net sales for the three months ended September 30, 2010 increased 21% compared to the three months ended September 30, 2009. Net sales for the nine months ended September 30, 2010 increased 18% compared to the nine months ended September 30, 2009. Our net sales by operating segment were as follows (dollars in thousands):

|               | Three Months Ended    |            |             | Nine Months Ended     |              |             |
|---------------|-----------------------|------------|-------------|-----------------------|--------------|-------------|
|               | September 30,<br>2010 | 2009       | %<br>Change | September 30,<br>2010 | 2009         | %<br>Change |
| North America | \$ 871,204            | \$ 685,996 | 27%         | \$ 2,424,999          | \$ 2,059,628 | 18%         |
| EMEA          | 267,813               | 248,437    | 8%          | 944,316               | 800,403      | 18%         |
| APAC          | 33,210                | 35,502     | (6%)        | 129,910               | 98,226       | 32%         |
| Consolidated  | \$ 1,172,227          | \$ 969,935 | 21%         | \$ 3,499,225          | \$ 2,958,257 | 18%         |

Net sales in North America increased 27%, or \$185.2 million, for the three months ended September 30, 2010 compared to the three months ended September 30, 2009. Net sales of hardware and software increased 34% and 25%, respectively, year over year, while net sales in the services category declined 14% year to year. The increase in hardware net sales is primarily due to higher volume with the year over year improvement in the demand environment for IT products compared to the depressed levels of IT spending experienced in North America in 2009. The increase in software sales year over year relates to higher volume with multiple publishers. The decrease in sales of services year to year resulted primarily from a large services engagement during the third quarter of the prior year that did not recur in the current year.

Net sales in North America increased 18%, or \$365.4 million for the nine months ended September 30, 2010 compared to the nine months ended September 30, 2009, primarily as a result of the strong hardware performance throughout each quarter of 2010. On a year to date basis, net sales of hardware and software increased 28% and 7%, respectively, year over year, while net sales in the services category declined 12% year to year.

Net sales in EMEA increased 8%, or \$19.4 million, in U.S. dollars, for the three months ended September 30, 2010 compared to the three months ended September 30, 2009. Excluding the effects of foreign currency movements, net sales were up 16% compared to the third quarter of last year. Net sales of hardware grew 1% year over year in U.S. dollars, 7% excluding the effects of foreign currency movements, due to higher demand across certain client groups. Software net sales increased 12% year over year in U.S. dollars, 22% excluding the effects of foreign currency movements, due primarily to higher volume and new client engagements reflecting the year over year improvement in the global IT demand environment compared to the depressed levels of IT spending experienced in EMEA in 2009. Net sales from services increased 33% year over year in U.S. dollars, 44% excluding the effects of foreign currency

movements, due primarily to new client engagements.

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

Net sales in EMEA increased 18%, or \$143.9 million, in U.S. dollars, for the nine months ended September 30, 2010 compared to the nine months ended September 30, 2009. Excluding the effects of foreign currency movements, net sales were up 21% compared to the first nine months of last year. Hardware, software and services sales increased 14%, 20% and 29%, respectively, year over year. Excluding the effects of foreign currency movements, the increases were 15%, 24% and 32% for hardware, software and services, respectively. The year to date increases primarily resulted from higher volume, new client engagements and new product offerings from our publishers.

Our APAC segment recognized net sales of \$33.2 million for the three months ended September 30, 2010, a year to year decrease of 6%, or \$2.3 million in U.S. dollars, compared to the three months ended September 30, 2009, a decrease of 13% excluding the effects of foreign currency movements. The decrease primarily resulted from lower volume to public sector clients.

Net sales in APAC increased 32%, or \$31.7 million, in U.S. dollars, for the nine months ended September 30, 2010 compared to the nine months ended September 30, 2009, 18% excluding the effects of foreign currency movements. The year to date increase primarily resulted from higher volume and new client engagements, particularly public sector clients.

The percentage of net sales by category for North America, EMEA and APAC were as follows for the three months ended September 30, 2010 and 2009:

| Sales Mix | North America      |      | EMEA               |      | APAC               |      |
|-----------|--------------------|------|--------------------|------|--------------------|------|
|           | Three Months Ended |      | Three Months Ended |      | Three Months Ended |      |
|           | September 30,      |      | September 30,      |      | September 30,      |      |
|           | 2010               | 2009 | 2010               | 2009 | 2010               | 2009 |
| Hardware  | 66%                | 62%  | 38%                | 41%  | 1%                 | <1%  |
| Software  | 28%                | 29%  | 60%                | 58%  | 97%                | 98%  |
| Services  | 6%                 | 9%   | 2%                 | 1%   | 2%                 | 2%   |
|           | 100%               | 100% | 100%               | 100% | 100%               | 100% |

The percentage of net sales by category for North America, EMEA and APAC were as follows for the nine months ended September 30, 2010 and 2009:

| Sales Mix | North America     |      | EMEA              |      | APAC              |      |
|-----------|-------------------|------|-------------------|------|-------------------|------|
|           | Nine Months Ended |      | Nine Months Ended |      | Nine Months Ended |      |
|           | September 30,     |      | September 30,     |      | September 30,     |      |
|           | 2010              | 2009 | 2010              | 2009 | 2010              | 2009 |
| Hardware  | 64%               | 59%  | 34%               | 35%  | 1%                | 1%   |
| Software  | 30%               | 33%  | 64%               | 64%  | 97%               | 97%  |
| Services  | 6%                | 8%   | 2%                | 1%   | 2%                | 2%   |
|           | 100%              | 100% | 100%              | 100% | 100%              | 100% |

**Gross Profit.** Gross profit for the three months ended September 30, 2010 increased 16% compared to the three months ended September 30, 2009, with a 60 basis point decrease in gross margin. For the nine months ended September 30, 2010, gross profit increased 15% compared to the nine months ended September 30, 2009, with a 50 basis point decrease in gross margin. Our gross profit and gross profit as a percentage of net sales by operating segment were as follows (dollars in thousands):



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

|               | Three Months Ended September 30, |                      |            |                      | Nine Months Ended September 30, |                      |            |                      |
|---------------|----------------------------------|----------------------|------------|----------------------|---------------------------------|----------------------|------------|----------------------|
|               | 2010                             | % of<br>Net<br>Sales | 2009       | % of<br>Net<br>Sales | 2010                            | % of<br>Net<br>Sales | 2009       | % of<br>Net<br>Sales |
| North America | \$ 110,536                       | 12.7%                | \$ 93,301  | 13.6%                | \$ 329,107                      | 13.6%                | \$ 286,092 | 13.9%                |
| EMEA          | 38,132                           | 14.2%                | 35,417     | 14.3%                | 125,876                         | 13.3%                | 113,094    | 14.1%                |
| APAC          | 5,977                            | 18.0%                | 4,768      | 13.4%                | 18,512                          | 14.2%                | 13,916     | 14.2%                |
| Consolidated  | \$ 154,645                       | 13.2%                | \$ 133,486 | 13.8%                | \$ 473,495                      | 13.5%                | \$ 413,102 | 14.0%                |

North America's gross profit for the three months ended September 30, 2010 increased 18% compared to the three months ended September 30, 2009, but as a percentage of net sales, gross margin declined by 90 basis points year to year, due primarily to a 105 basis point decrease in margin from the sale of services associated with the large services engagement during the third quarter of the prior year that did not recur in the current year. This decrease in margin was offset by a 15 basis point increase in product margin, which includes vendor funding and freight, driven primarily by sales in our hardware category. For the nine months ended September 30, 2010, gross profit increased 15% compared to the nine months ended September 30, 2009. As a percentage of net sales, gross margin declined by 30 basis points primarily reflecting the year to date decreases in margin related to sales of services of 62 basis points and agency fees for enterprise software agreements of 44 basis points, offset by the increase in product margin, which includes vendor funding and freight of 60 basis points.

EMEA's gross profit increased 8% in U.S. dollars for the three months ended September 30, 2010 compared to the three months ended September 30, 2009. Excluding the effects of foreign currency movements, gross profit was up 16% compared to the third quarter of last year. As a percentage of net sales, gross margin declined slightly due primarily to a lower mix of agency fees from enterprise software agreements of 29 basis points. This decrease was offset partially by a 14 basis point increase in product margin, which includes vendor funding, and an increase in margin related to sales of services of 12 basis points resulting from a shift in client mix. For the nine months ended September 30, 2010, gross profit increased 11% compared to the nine months ended September 30, 2009. Excluding the effects of foreign currency movements, gross profit increased 15% compared to the nine months ended September 30, 2009. As a percentage of net sales, gross margin for the nine month periods declined 80 basis points, primarily due to decreases in agency fees for enterprise software agreement renewals of 48 basis points and a 36 basis point decline in product margin, including vendor funding.

APAC's gross profit increased 25% for the three months ended September 30, 2010 compared to the three months ended September 30, 2009. Excluding the effects of foreign currency movements, gross profit increased 18% compared to the third quarter of last year. As a percentage of net sales, gross margin increased by 460 basis points, due primarily to an increase of 288 basis points in product margin, which includes vendor funding, and an increase in the margin contribution from agency fees for enterprise software agreements of 152 basis points. These increases resulted primarily from a shift in client mix, with a lesser percentage of public sector clients during the third quarter of 2010. For the nine months ended September 30, 2010, gross profit increased 33% compared to the nine months ended September 30, 2009. Excluding the effects of foreign currency movements, gross profit increased 19% compared to the nine months ended September 30, 2009. As a percentage of net sales, gross margin remained flat at 14.2%, primarily due to increases in agency fees from enterprise software agreements of 92 basis points, partially offset by a 74 basis point decrease in software product margin, including vendor funding, and a decrease in margin related to sales of services of 11 basis points.





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

*Operating Expenses.*

*Selling and Administrative Expenses.* Selling and administrative expenses increased \$11.9 million, or 10% for the three months ended September 30, 2010 compared to the three months ended September 30, 2009. For the nine months ended September 30, 2010, selling and administrative expenses increased \$10.2 million, or 3%, compared to the nine months ended September 30, 2009. Selling and administrative expenses as a percent of net sales by operating segment for the three and nine months ended September 30, 2010 and 2009 were as follows (dollars in thousands):

|               | Three Months Ended September 30, |                      |            | Nine Months Ended September 30, |            |                      |            |                      |
|---------------|----------------------------------|----------------------|------------|---------------------------------|------------|----------------------|------------|----------------------|
|               |                                  | % of<br>Net<br>Sales |            | % of<br>Net<br>Sales            |            | % of<br>Net<br>Sales |            | % of<br>Net<br>Sales |
|               | 2010                             |                      | 2009       |                                 | 2010       |                      | 2009       |                      |
| North America | \$ 89,012                        | 10.2%                | \$ 79,354  | 11.6%                           | \$ 260,241 | 10.7%                | \$ 260,441 | 12.6%                |
| EMEA          | 35,808                           | 13.4%                | 34,402     | 13.8%                           | 110,698    | 11.7%                | 103,122    | 12.9%                |
| APAC          | 4,691                            | 14.1%                | 3,867      | 10.9%                           | 14,113     | 10.9%                | 11,268     | 11.5%                |
| Consolidated  | \$ 129,511                       | 11.0%                | \$ 117,623 | 12.1%                           | \$ 385,052 | 11.0%                | \$ 374,831 | 12.7%                |

North America's selling and administrative expenses increased 12%, or \$9.7 million for the three months ended September 30, 2010 compared to the three months ended September 30, 2009, but as a percentage of net sales, selling and administrative expenses decreased 140 basis points to 10.2% of net sales for the quarter. The year over year increase in selling and administrative expenses is primarily due to an increase in variable compensation expense of \$4.1 million on higher sales and over-attainment against our operating plan. The balance of the increase year over year relates primarily to higher employee benefits costs, including medical insurance, and to a lesser extent, higher salaries and wages. Additionally, legal and professional fees declined year to year as we had no significant legal and other professional fees associated with the trade credits restatement and related litigation during the three months ended September 30, 2010. For the nine months ended September 30, 2010, selling and administrative expenses remained relatively flat at \$260 million for the nine months ended September 30, 2010 and 2009, but as a percentage of net sales, selling and administrative expenses decreased 190 basis points to 10.7% of net sales for the nine months ended September 30, 2010. Increases in variable costs on higher sales in the nine months ended September 30, 2010 were offset by (i) an \$8.0 million decline in legal and professional fees year to year, primarily related to professional fees and costs associated with the trade credits restatement as well as a decrease in our annual audit fee and (ii) a \$4.1 million decrease resulting from the effect on the year to year comparison of the prior year non-cash stock-based compensation charges. These charges related to the North America portion of the termination of an equity-based incentive compensation plan in February 2009 that did not recur in 2010. Further, selling and administrative expenses in the nine months ended September 30, 2010 were reduced by \$2.9 million upon the collection of a single account receivable which we had specifically reserved as doubtful during the fourth quarter of 2009.

EMEA's selling and administrative expenses increased 4%, or \$1.4 million in U.S. dollars, for the three months ended September 30, 2010 compared to the three months ended September 30, 2009. Excluding the effects of foreign currency movements, selling and administrative expenses increased 13% compared to the third quarter of last year. This year over year increase was primarily driven by higher variable compensation and sales incentives on increased net sales. As a percentage of net sales, selling and administrative expenses decreased 40 basis points due to (i) relatively stable fixed personnel costs year to year while sales have increased in the third quarter of 2010 and (ii) a decrease in bad debt expense in the three months ended September 30, 2010 compared to the three months ended September 30, 2009. For the nine months ended September 30, 2010, selling and administrative expenses increased 7%, or \$7.6 million in U.S. dollars, compared to the nine months ended September 30, 2009. Excluding the effects of foreign currency movements, selling and administrative expenses increased 10% year over year. The increase in

selling and administrative expenses is primarily attributable to increases in variable compensation on increased net sales. As a percentage of net sales, selling and administrative expenses decreased 120 basis points due to relatively stable fixed personnel costs year to year while sales have increased in the nine months ended September 30, 2010. Selling and administrative expenses for the nine months ended September 30, 2009 included \$1.4 million of non-cash stock-based compensation charges related to the EMEA portion of the termination of an equity-based incentive compensation plan in the first quarter of 2009 that did not recur in 2010.

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

APAC's selling and administrative expenses increased 21% or \$824,000 in U.S. dollars, for the three months ended September 30, 2010 compared to the three months ended September 30, 2009. Excluding the effects of foreign currency movements, selling and administrative expenses increased 13% compared to the third quarter of last year. For the nine months ended September 30, 2010, selling and administrative expenses increased 25%, or \$2.8 million in U.S. dollars, compared to the nine months ended September 30, 2009. Excluding the effects of foreign currency movements, selling and administrative expenses increased 9% year over year. The year over year increases in selling and administrative expenses in the three- and nine-month periods are primarily attributable to increases in fixed and variable compensation.

**Severance and Restructuring Expenses.** During the three months ended September 30, 2010, North America recorded severance expense totaling \$199,000 as part of the roll-out of our new sales engagement model and plans to add new leadership in key areas, and EMEA recorded severance expense totaling \$99,000. In EMEA, \$120,000 in new severance costs associated with four positions was offset by \$21,000 of adjustments to prior severance accruals due to current period changes in estimates. During the nine months ended September 30, 2010, North America and EMEA recorded severance expense totaling \$1,142,000 and \$545,000, respectively, related to certain restructuring activities. In EMEA, \$1,029,000 in new severance costs was offset by \$484,000 of adjustments to prior severance accruals due to current period changes in estimates. Comparatively, during the three months ended September 30, 2009, North America recorded severance expense of \$4.5 million, made up of \$4.7 million of new severance costs primarily related to the departure of our former President and Chief Executive Officer, offset by \$188,000 of adjustments to prior severance accruals due to changes in estimates. Additionally, EMEA recorded \$339,000 in new severance costs during the three months ended September 30, 2009, offset by \$802,000 of adjustments to prior severance accruals due to changes in estimates, and APAC recorded an \$11,000 adjustment to prior accrued severance costs. During the nine months ended September 30, 2009, North America, EMEA and APAC recorded severance expense of \$10.3 million, \$1.9 million and \$290,000, respectively. New severance costs in North America, EMEA and APAC, of \$10.5 million, \$2.7 million and \$301,000, respectively, were offset by \$188,000, \$802,000 and \$11,000, respectively, of adjustments during the third quarter of 2009.

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

**Interest Income.** Interest income for the three and nine months ended September 30, 2010 and 2009 was generated through cash equivalent short-term investments.

**Interest Expense.** Interest expense for the three and nine months ended September 30, 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 \$536,000 and \$544,000 for the three months ended September 30, 2010 and 2009, respectively, and \$1,697,000 and \$1,295,000 for the nine months ended September 30, 2010 and 2009, respectively. Interest expense decreased year to year for both the three- and nine-month periods due to lower average debt balances in the 2010 periods and lower interest rates. During the nine months ended September 30, 2010, we reduced interest expense by \$553,000 for a change in estimate of accrued interest related to two state unclaimed property settlements.

**Net Foreign Currency Exchange Gains/Losses.** These gains/losses result from foreign currency transactions, including gains/losses on foreign currency derivative contracts and intercompany balances that are not considered long-term in nature. The change in net foreign currency exchange gains/losses is due primarily to the underlying changes in the applicable exchange rates, 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. The increase in the three and nine months ended September 30, 2010 compared to the prior year periods is attributable to bank fees associated with our lock box arrangements.

**Income Tax Expense.** Our effective tax rate for the three months ended September 30, 2010 and 2009 was 36.2% and 21.6%, respectively. Our effective tax rate for the nine months ended September 30, 2010 and 2009 was 36.4% and

30.1%, respectively. The increase in effective tax rates for the three- and nine-month periods was primarily due to the effect on the prior year periods of the true-up of foreign tax credits resulting from the filing of our 2008 United States federal tax return and the recognition of certain tax benefits resulting from the settlement of audits.

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

**Liquidity and Capital Resources**

The following table sets forth certain consolidated cash flow information for the nine months ended September 30, 2010 and 2009 (in thousands):

|   | <b>Nine Months Ended</b> |             |
|---|--------------------------|-------------|
|   | <b>September 30,</b>     |             |
|   | <b>2010</b>              | <b>2009</b> |
| Net cash provided by operating activities           | \$ 37,508                | \$ 119,580  |
| Net cash used in investing activities               | (17,754)                 | (24,573)    |
| Net cash provided by (used in) financing activities | 6,078                    | (79,087)    |
| Foreign currency exchange effect on cash flow       | (134)                    | 3,873       |
| Increase in cash and cash equivalents               | 25,698                   | 19,793      |
| Cash and cash equivalents at beginning of period    | 68,066                   | 49,175      |
| Cash and cash equivalents at end of period          | \$ 93,764                | \$ 68,968   |

**Cash and Cash Flow**

Our primary uses of cash during the nine months ended September 30, 2010 were to fund working capital requirements, including cash payments to settle trade credit liabilities. Operating activities in the nine months ended September 30, 2010 provided \$37.5 million in cash, a 69% decrease from the nine months ended September 30, 2009. We made cash payments of \$19.0 million during the nine months ended September 30, 2010 as part of our previously announced program of compliance with state unclaimed property laws and our operating cash flows have enabled us to make net repayments under our inventory financing facility of \$10.0 million since December 31, 2009 and to increase our cash balance by \$25.7 million, while increasing our long-term debt under our revolving credit facilities by just \$17.5 million since December 31, 2009. Capital expenditures were \$12.6 million for the nine months ended September 30, 2010, an increase of 6% compared to the amount of capital expenditures for the nine months ended September 30, 2009. Cash flows for the nine months ended September 30, 2010 were not significantly affected by foreign currency exchange rates, while cash flows for the nine months ended September 30, 2009 benefited from a \$3.9 million positive effect of foreign currency exchange rates on cash flow.

**Net cash provided by operating activities.** Cash flows from operations for the nine months ended September 30, 2010 and 2009 reflect our net earnings, adjusted for non-cash items such as depreciation, amortization and stock-based compensation expense, as well as changes in accounts receivable, inventories, accounts payable and accrued expenses and other assets and liabilities. For the 2010 period, the decreases in accounts receivable and accounts payable can be primarily attributed to the seasonal decrease in net sales, resulting in lower accounts receivable and accounts payable balances as September 30, 2010 compared to December 31, 2009. The decrease in accrued expenses and other liabilities in the nine months ended September 30, 2010 was primarily due to payments made to settle certain state unclaimed property liabilities and reduce income taxes payable. The increase in inventories in the nine months ended September 30, 2010 is primarily attributable to client-specific inventory purchased in North America during the third quarter of 2010 as a result of new client engagements and overall higher demand for hardware. For the 2009 period, the decrease in accounts receivable and accounts payable reflected the decrease in net sales compared to the prior year as well as our focus on cash management. The decrease in inventory levels in the 2009 period was a result of specific inventory management projects undertaken in our North America segment.



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

Our consolidated cash flow operating metrics for the quarter ended September 30, 2010 and 2009 were as follows:

|   | <b>2010</b> | <b>2009</b> |
|---|-------------|-------------|
| Days sales outstanding in ending accounts receivable ( DSOs <sup>(a)</sup> )  | 66          | 70          |
| Days inventory outstanding ( DIOs <sup>(b)</sup> )                            | 10          | 9           |
| Days purchases outstanding in ending accounts payable ( DPOs <sup>(c)</sup> ) | 51          | 53          |

(a) Calculated as the balance of accounts receivable, net at the end of the period divided by daily net sales. Daily net sales is calculated as net sales for the quarter divided by 92 days.

(b) Calculated as average inventories 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 92 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 92 days.

The decrease in DSOs for the quarter ended September 30, 2010 compared to the quarter ended September 30, 2009 is due primarily to overall improvements in our collection cycle partially offset by certain specific aged public sector receivables as of September 30, 2010. The decrease in DPOs during the third quarter of 2010 compared to the quarter ended September 30, 2009 is due to the effect of increases in sales of hardware in North America for which suppliers are typically paid in advance of collection from clients, partially offset by the benefits of tighter cash management practices in EMEA.

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 \$25.0 million in 2010. As of September 30, 2010, we had remitted \$19.0 million of such cash payments.

**Net cash used in investing activities.** Capital expenditures totaled \$12.6 million and \$11.7 million for the nine months ended September 30, 2010 and 2009, respectively. We expect capital expenditures for the full year 2010 between \$18.0 million and \$22.0 million, primarily for facility and technology related upgrade projects. During the nine months ended September 30, 2010 and 2009, we made earnout payments of \$5.1 million and \$12.8 million, respectively, to the former owners of Calence.

**Net cash used in financing activities.** During the nine months ended September 30, 2010, we had net borrowings under our debt facilities that increased our outstanding debt balances under our revolving credit facilities by \$17.5 million and made net repayments under our inventory financing facility of \$10.0 million. As of September 30, 2010, the only current portion of our long-term debt relates to our capital lease obligation for certain IT equipment. During the nine months ended September 30, 2009, we made net repayments on our debt facilities that reduced our outstanding debt balances by \$72.5 million.

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

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 plus (i) interest expense, less non-cash imputed interest on our inventory financing facility, (ii) income tax expense, (iii) depreciation and amortization and (iv) 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 of September 30, 2010 and stepped down to 2.50 times effective October 1, 2010 through April 1, 2013. 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 September 30, 2010 was limited to \$428.3 million based on 2.75 times the Company's trailing twelve-month adjusted earnings. Our debt balance as of September 30, 2010 was \$167.4 million, which includes our capital lease obligation.

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.

Cash and cash equivalents held by foreign subsidiaries are often subject to U.S. income taxation upon repatriation to the United States. 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 United States. As of September 30, 2010, we had approximately \$86.0 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 September 30, 2010. As of September 30, 2010, the majority of our foreign cash resides in the Netherlands, the United Kingdom, Australia and Canada. Certain of these cash balances could and will be remitted to the United States 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 upgrade in EMEA, various facility upgrades and the hardware expansion to non-United Kingdom 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**

Other than the amendments to our ABS facility on July 1, 2010 and our inventory financing facility on April 26, 2010 and August 12, 2010, as discussed in Note 4 to our Consolidated Financial Statements in Part I, Item 1 of this report, 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 September 30, 2010. All U.S. dollar and foreign currency amounts are presented in thousands.

|                           | <b>Buy</b>        | <b>Buy</b>        |
|---------------------------|-------------------|-------------------|
|                           | GBP               | CAD               |
| Foreign Currency          |                   |                   |
| Notional Amount           | 4,000             | 10,000            |
| Exchange Rate             | 1.5902            | 1.0296            |
| USD Equivalent            | \$6,361           | \$9,713           |
| 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 September 30, 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 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 September 30, 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 reasonably 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.



**Table of Contents****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 District Court appointed a lead plaintiff and lead counsel. The plaintiff in the remaining action filed an amended complaint in September 2009, seeking unspecified damages, and the District Court dismissed the amended complaint on April 30, 2010. On June 1, 2010, the plaintiff filed a second amended complaint, which asserts 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 have filed motions to dismiss the second amended complaint, briefing on the motions to dismiss has been completed and oral argument on the motion to dismiss the second amended complaint will be heard in November 2010. 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 has been dismissed with prejudice, and the plaintiff in that action has appealed the order of dismissal to the U.S. Court of Appeals for the Ninth Circuit. 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. We moved to dismiss the State derivative actions, and oral argument on the motion to dismiss was heard in August 2010. On October 18, 2010, the State derivative actions were dismissed with prejudice. The judgment of dismissal is not yet final and may still be appealed. 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.

In August 2010, in connection with an investigation being conducted by the United States Department of Justice (the DOJ ), Calence received a subpoena from the Office of the Inspector General of the Federal Communications Commission (the FCC OIG ) requesting documents related to the award, by the Universal Service Administration Company, of funds under the E-Rate program. The E-Rate program provides schools and libraries with discounts to obtain affordable telecommunications and internet access. We are cooperating with the DOJ and FCC OIG and are in the process of responding to the subpoena. Pursuant to the Calence acquisition agreements, the former owners of Calence have agreed to indemnify us for certain damages that may arise out of or result from this matter, including our fees and expenses for responding to the subpoena.

**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 September 30, 2010.

We have never paid a cash dividend on our common stock, and our senior revolving credit facility contains restrictions on the payment of cash dividends. 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.

***Issuer Purchases of Equity Securities***

We did not repurchase any shares of our common stock during the three months ended September 30, 2010.

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

None.

**Item 4. [Removed and Reserved.]**

**Item 5. Other Information.**

None.

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**INSIGHT ENTERPRISES, INC.**

**Item 6. Exhibits.**

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).   |
| 3.3                | Form of Certificate of Designation of Series A Preferred Stock (incorporated by reference to Exhibit 5 of our Registration Statement on Form 8-A (No. 00-25092) filed on March 17, 1999).  |
| 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 No. 12 to Receivables Purchase Agreement dated as of July 1, 2010 among Insight Receivables, LLC, Insight Enterprises, Inc., the Purchasers and Managing Agents party thereto, and JPMorgan Chase Bank, N.A. (successor by merger to Bank One, NA (Main Office Chicago)), as agent for the Purchasers. |
| 10.2               | Amendment Number Two to Credit Agreement, dated as of August 12, 2010, among Calence, LLC, Insight Direct USA, Inc., Insight Public Sector, Inc. and the lenders party thereto.  |
| 10.3               | Amendment No. 3 to Second Amended and Restated Credit Agreement, dated as of August 12, 2010, among Insight Enterprises, Inc., Insight Direct (UK) Ltd., Insight Enterprises B.V., JPMorgan Chase Bank, National Association, as Administrative Agent, and certain lenders identified therein.                   |
| 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: November 3, 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)**

**By: /s/ David C. Olsen**

**David C. Olsen  
Corporate Controller  
(Principal Accounting Officer)**