

UNITED STATES SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-K

(Mark One)

Annual Report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 For the fiscal year ended December 31, 2019

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

Commission File Number: 0-25092



INSIGHT ENTERPRISES, INC.

(Exact name of registrant as specified in its charter)

Delaware

(State or other jurisdiction of
incorporation or organization)

86-0766246

(IRS Employer
Identification No.)

6820 South Harl Avenue, Tempe, Arizona 85283

(Address of principal executive offices, Zip Code)

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

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

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

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

n/a

(Title of Class)

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

Yes No

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

Yes No

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 check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§ 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit such files).

Yes No

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

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

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

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

Yes No

The aggregate market value of the voting and non-voting common equity held by non-affiliates of the registrant, based upon the closing price of the registrant's common stock as reported on The Nasdaq Global Select Market on June 28, 2019, the last business day of the registrant's most recently completed second fiscal quarter, was \$2,046,698,623.

The number of shares outstanding of the registrant's common stock on February 7, 2020 was 35,264,486.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the registrant's Proxy Statement relating to its 2020 Annual Meeting of Stockholders have been incorporated by reference into Part III, Items 10, 11, 12, 13 and 14 of this Annual Report on Form 10-K.

INSIGHT ENTERPRISES, INC.

ANNUAL REPORT ON FORM 10-K Year Ended December 31, 2019

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FORWARD-LOOKING STATEMENTS

Certain statements in this Annual Report on Form 10-K, including statements in "Management's Discussion and Analysis of Financial Condition and Results of Operations" in Part II, Item 7 of this report, are forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. These forward-looking statements may include: projections of, and matters that affect, net sales, gross profit, gross margin, operating expenses, earnings from operations, non-operating income and expenses, net earnings or cash flows, cash needs and the payment of accrued expenses and liabilities; the expected effects of seasonality on our business; expectations of further consolidation in the Information Technology ("IT") industry; our business strategy and our strategic initiatives, including our efforts to grow our core business, develop and grow our global cloud business and build scalable solutions; expectations regarding partner incentives; our expectations about future benefits of our acquisitions and our plans related thereto, including potential expansion into wider regions; our expectations regarding completion of the PCM integration; the increasing demand for big data solutions; the availability of competitive sources of products for our purchase and resale; our intentions concerning the payment of dividends; our acquisition strategy; our ability to offset the effects of inflation and manage any increase in interest rates; projections of capital expenditures; our plans to continue to evolve our IT systems, including migration of EMEA's current system; the sufficiency of our capital resources, the availability of financing and our needs or plans relating thereto; the effects of new accounting principles and expected dates of adoption; the effect of indemnification obligations; projections about the outcome of ongoing tax audits; our expectations regarding future tax rates; adequate provisions for and our positions and strategies with respect to ongoing and threatened litigation and expected outcomes; our ability to expand our client relationships; our expectations that pricing pressures in the IT industry will continue; our plans to use cash flow from operations for working capital, to pay down debt, repurchase shares of our common stock, make capital expenditures, and fund acquisitions; our belief that our office facilities are adequate and that we will be able to extend our current leases or locate substitute facilities on satisfactory terms; our belief that we have adequate provisions for losses; our expectation that we will not incur interest payments under our inventory financing facilities; our expectations that future income will be sufficient to fully recover deferred tax assets; our exposure to off-balance sheet arrangements; statements of belief; and statements of assumptions underlying any of the foregoing. Forward-looking statements are identified by such words as "believe," "anticipate," "expect," "estimate," "intend," "plan," "project," "will," "may" and variations of such words and similar expressions and are inherently subject to risks and uncertainties, some of which cannot be predicted or quantified. Future events and actual results could differ materially from those set forth in, contemplated by, or underlying the forward-looking statements. There can be no assurances that results described in forward-looking statements will be achieved, and actual results could differ materially from those suggested by the forward-looking statements. Some of the important factors that could cause our actual results to differ materially from those projected in any forward-looking statements include, but are not limited to, the following:

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

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- accounts receivable risks, including increased credit loss experience or extended payment terms with our clients;
- our reliance on independent shipping companies;
- our dependence on certain key personnel;
- natural disasters or other adverse occurrences;
- exposure to changes in, interpretations of, or enforcement trends related to tax rules and regulations;
- intellectual property infringement claims and challenges to our registered trademarks and trade names;
- our substantial amount of indebtedness;
- the conditional conversion feature of the notes, if triggered, may adversely affect the Company's financial condition and operating results;
- the accounting method for convertible debt securities that may be settled in cash, such as the notes, could have a material effect on the Company's reported financial results;
- future sales of the Company's common stock or equity-linked securities in the public market could lower the market price for our common stock;
- the Company is subject to counterparty risk with respect to the convertible note hedge transactions; and
- risks associated with the discontinuation of LIBOR as a benchmark rate.

Any forward-looking statements in this report, including those identified under "Risk Factors" in Part I, Item 1A of this report, should be considered in light of various important factors, including the risks and uncertainties listed above, as well as others. Additionally, there are risks described from time to time in the reports that we file with the Securities and Exchange Commission (the "SEC"). We assume no obligation to update, and, except as may be required by law, do not intend to update, any forward-looking statements. We do not endorse any projections regarding future performance that may be made by third parties.

INSIGHT ENTERPRISES, INC.

PART I

Item 1. Business

Our Company

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

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

Operating Segment*	Geography	Percent of 2019 Consolidated Net Sales
North America	United States and Canada	78%
EMEA	Europe, Middle East and Africa	20%
APAC	Asia-Pacific	2%

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

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

Prior to 2015 we acquired Software Spectrum, Inc. (2006), Calence, LLC (2008), MINX Limited (2008), Ensynch, Inc. (2011), Inmac GmbH (2012) and Micro Warehouse BV (2012).

Our acquisitions from 2015 through today were as follows:

- 2015 – Acquired BlueMetal Architects, Inc. (“BlueMetal”), an interactive design and technology architecture firm, and strengthened our digital innovation services capabilities in the area of application design, mobility and big data;
- 2016 – Acquired Ignia, Pty Ltd (“Ignia”), and expanded our global footprint in the areas of application design, digital solutions, cloud, mobility and business analytics, while also building on our ability to bring digital innovation solutions to our clients in APAC;
- 2017 – Acquired Datalink Corporation (“Datalink”) and strengthened our position as a leading IT solutions provider with deep technical expertise delivering data center transformation solutions to clients on premise or in the cloud. Additionally, we acquired Caase Group B.V. (referred to herein as, “Caase.com”) and strengthened our ability to deliver cloud and data center solutions to our clients in EMEA;
- 2018 – Acquired Cardinal Solutions Group, Inc. (“Cardinal”), a digital solutions provider and strengthened our digital innovations capabilities; and
- 2019 – On August 30, 2019, we acquired PCM, Inc. (“PCM”), a provider of multi-vendor technology offerings, including hardware, software and services which complemented our supply chain optimization solution offering, adding scale and clients in the mid-market and corporate space primarily in North America.

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Our Purpose and Values

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

Our core values are:

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

Heart – We seek to have a positive impact in the lives of the people we serve by putting our clients, partners and teammates first.

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

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

Our Market

The worldwide total addressable market for information technology is forecasted to be \$3.7 trillion annually according to Gartner, a leading IT research and advisory company. Based on our analysis of Gartner market data, we believe the top 10 most comparable global solution providers represent less than 20% of the worldwide total addressable market. We believe our addressable worldwide market in the indirect sales IT channel represents approximately \$671 billion in annual sales and for the year ended December 31, 2019, our net sales of \$7.7 billion represented approximately 1% of that highly diverse market. We believe that we are well positioned in this highly fragmented global market with locations in 21 countries and our deep experience delivering IT hardware, software and services solutions across the globe.

Our Value Proposition

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

We believe that Insight has a unique position in the market to gain profitable market share by offering Intelligent Technology Solutions™ that empower our clients to manage their IT environments so they can drive meaningful business outcomes today and transform their operations for tomorrow.

Insight’s Strategic Assets are a Platform for Growth

- **Culture, people and leadership** – we have many teammates on one global team who live by our core values; we show hunger, heart and harmony in everything we do. We put people first, believing that technology can connect people in powerful ways.
- **Innovation led solution area expertise** –
 - *Software DNA* – we understand complex software licensing requirements and have the know-how to optimize our clients’ usage and compliance management through a portfolio of license consulting and optimization services.
 - *Data center transformation skills* – in support of our long-term strategy, we acquired Datalink (2017, U.S.) and Caase.com (2017, Netherlands), providers of IT services, cloud and enterprise data center solutions. This added deep technical expertise and complementary services offerings to our internally developed solutions and increased our addressable market opportunity in hybrid cloud and other high-growth data center categories.

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- *Next-generation tech skills* – we quickly adapt to new technology trends and innovation, investing internally to advance our technical capabilities while at the same time making strategic acquisitions that establish us as thought leaders, with scale and reach, around emerging market trends. Annually, we gather thought leaders from our technical expert pool to share best practices through peer led learning sessions. The BlueMetal (2015, U.S.), Ignia (2016, Australia) and Cardinal (2018, U.S.) acquisitions are examples of acquisitions that have given us global capabilities to support our clients as they look to accelerate in the digital world.
- *App development and Internet-of-Things ("IoT") expertise* – we were recognized as Microsoft's Worldwide Partner of the Year for IoT as well as Mobile App Development in 2018 and 2017. That expertise combined with our hardware and software expertise, makes us well-positioned to deliver holistic connected product and IoT solutions.
- **Global reach and scale** – we have the capabilities to serve clients across the globe with hardware, software provisioning and related services, and with integrated technology solutions in multiple countries directly or through our partner network.
- **Diverse partner relationships** – we have a multi-partner approach and have deep relationships with leading product manufacturers, software publishers and distribution partners, as well as emerging cloud and other technology partners, to service our global portfolio of commercial and public sector clients with the integrated IT solutions that make the most sense for their IT environments.
- **Operational rigor and financial health** – we offer efficient supply chain execution, as well as product fulfillment, logistics capabilities, management tools and technical expertise. We also have a track record for successfully integrating mergers and acquisitions to accelerate growth.

Our Business Strategy

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

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



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



Cloud and Data Center Transformation – We help businesses modernize and secure critical platforms to transform IT. Through end-to-end services from architecture through management, we help leverage the right platforms to increase agility and support innovation.



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



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

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

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

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

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

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

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

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

Our Offerings

Our offerings in North America and certain countries in EMEA and APAC include hardware, software and services. Our offerings in the remainder of our EMEA and APAC segments consist of largely software and certain software-related services. On a consolidated basis, hardware, software and services represented approximately 60%, 27% and 13%, respectively, of our net sales in 2019. This compares to 61%, 27% and 12%, respectively, of our net sales in 2018 and 58%, 32% and 10%, respectively, of our consolidated net sales in 2017. Additional detailed sales mix information by operating segment can be found in "Management's Discussion and Analysis of Financial Condition and Results of Operations" in Part II, Item 7 and in Note 19 to the Consolidated Financial Statements in Part II, Item 8 of this report.

Services Solutions Offerings

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

Digital Innovation – Our clients are looking for business outcomes, whether they are trying to improve their customer engagement, enable their workforce, or improve their operations, our clients face strong competition and digital disruption throughout their industries. We help our clients leverage technology to digitally transform their businesses. Our digital innovation solutions

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build upon our deep expertise in public cloud, IoT, mobility, big data and artificial intelligence as well as our extensive project management and organizational change management capabilities to ensure success across our clients' digital transformation journeys.

- *Intelligent Endpoints*: Digital signage, kiosk, tablet and smartphone endpoints integrated with off-the-shelf software applications.
- *Intelligent Applications*: Custom-developed applications to enable client-to-customer engagement. These applications are increasingly cloud-based and mobile-centric.
- *Modern Applications*: Custom-developed mobile, cloud and IoT applications. Typically, these applications are specific to the client vertical market, e.g., healthcare, financial services or retail.
- *Big Data & Analytics*. Custom solutions to help clients quickly review actionable insights within their data, such as weather-based predictive analytics to drive weekly marketing campaigns for consumer products and patient-based intake and health outcomes analysis to optimize nurse staffing.

Cloud and Data Center Transformation – Consumption-based models and technology convergence are reinventing decades-old approaches to IT infrastructure. We assess, align, manage and secure our clients' data and workloads, defining and executing platform strategies for optimized IT environments. Our end-to-end services empower companies to effectively leverage technology solutions to overcome challenges, support growth and innovation, reduce risk, and transform the business.

- *Data center and cloud transformation*: Modernizing and optimizing IT across the business. Our services span hybrid cloud, migration and consolidation, workload-platform alignment, converged/hyperconverged solutions, and software-defined data center.
- *Data platform modernization*: Improving how data is stored, protected, consumed, analyzed and restored. We address data protection, backup to cloud — independent software vendor, business continuity and disaster recovery, artificial intelligence/machine learning private infrastructure and graphics processing unit acceleration, and data security.
- *Integrated network and security*: Securing networks and data, including cloud. Our focus areas are security operations and controls, compliance and governance, cloud security, micro-segmentation, and software-defined networking in a wide area network and SD fabric.
- *Comprehensive services*: Our consulting services, professional services, managed services and support services help clients throughout transformation, with advisory, technical needs, 24/7/365 monitoring, residencies and more.

Connected Workforce – The consumerization of IT, increase in the millennial population and proliferation of alternate work models is transforming the workplace. We provide our clients' workforces with solutions to enable and enhance employee productivity and retention. We offer a full range of services to clients including discovery, transformation, adoption and management. We deliver managed solutions in three domains:

- *Digital Workplace*: Desktop, notebook, tablet and mobile devices coupled with cloud-based productivity software, deployed via an "over the air" model and remotely managed by Insight's 24x7 Service Desk.
- *Collaboration*: Digital collaboration software suites coupled with technology-enabled "huddle spaces" that enable teams to seamlessly collaborate across functional areas and geographies. We deliver managed solutions spanning messaging, voice, video and content management.
- *Workplace Services*: Full support of end users and their technology including deskside support, remote service desk, automated self-service and self-healing solutions.

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

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- *Hardware Life Cycle*: Source, procure, stage, configure, integrate, test, deploy and maintain IT products spanning endpoints to infrastructure, regionally, or across the globe via the Insight footprint and an engaged network of suppliers.
- *Software Life Cycle*: Portfolio management, compliance, integration and adoption, on premise or in the cloud, regionally or across the globe.
- *Hardware Warranty and Software Maintenance*: Warranty and maintenance services covering an array of products that can be purchased as a point solution or as a managed service delivered by Insight.

Hardware Product Offerings

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

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

Software Product Offerings

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

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

Our Information Technology Systems

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

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

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

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Our Competition

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

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

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

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

Our Partners

We partner with market leaders offering the top technology brands as well as emerging entrants in the marketplace. During 2019, we purchased products and software from approximately 4,500 partners. Approximately 62% (based on dollar volume) of these purchases were directly from manufacturers or software publishers, with the balance purchased through distributors. Purchases from Microsoft and Tech Data (a distributor) accounted for approximately 12% each, of our aggregate purchases in 2019. No other partner accounted for more than 10% of purchases in 2019. Our top five partners as a group for 2019 were Microsoft, Tech Data (a distributor), Cisco Systems, HP Inc. and Dell, and approximately 61% of our total purchases during 2019 came from this group of partners. Although brand names and individual products are important to our business, we believe that competitive sources of supply are available in substantially all of our product categories such that, with the exception of Microsoft, we are not dependent on any single partner for sourcing products.

During 2019, sales of Microsoft and Dell products accounted for approximately 16% and 11%, respectively, of our consolidated net sales. No other manufacturer's or publisher's products accounted for more than 10% of our consolidated net sales in 2019. Sales of product from our top five manufacturers/publishers as a group (Microsoft, Dell, Cisco Systems, HP Inc. and Lenovo) accounted for approximately 51% of Insight's consolidated net sales during 2019.

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

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

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

Our Teammates

As of December 31, 2019, we employed 11,261 teammates, of whom 3,193 were engaged in sales related activities, 3,961 were engaged in management, support services and administration activities, 3,822 were skilled, certified consulting and service delivery professionals and 285 were engaged in distribution activities. Our teammates in the United States are not represented by a labor union. Our workforces in certain foreign countries, such as Germany, have worker representative committees or work councils with which we maintain strong relationships. We believe our relations with our teammates are good, and we have never experienced a labor related work stoppage.

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

Our Seasonality

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

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

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

Our Backlog

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

Our Intellectual Property

We do not maintain a traditional research and development group, but we do develop and seek to protect a range of intellectual property, including trademarks, service marks, copyrights, domain name rights, trade dress, trade secrets and similar intellectual property, relying for such protection on applicable statutes and common law rights, trade-secret protection and confidentiality and license agreements, as applicable, with teammates, clients, partners and others to protect our intellectual property rights. Our principal trademark is a registered mark, and we also license certain of our proprietary intellectual property rights to third parties. We have registered a number of domain

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names, applied for registration of other marks in the United States and in certain international jurisdictions, and, from time to time, filed patent applications. We believe our trademarks and service marks, in particular, have significant value, and we continue to invest in the promotion of our trademarks and service marks and in our protection of them.

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

Available Information

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

Item 1A. Risk Factors

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

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

Generally, pricing is very aggressive in the industry, and we expect pricing pressures to continue. There can be no assurance that we will be able to negotiate prices as favorable as those negotiated by our competitors or that we will be able to offset the effects of price reductions with an increase in the number of clients, higher net sales, cost reductions or higher sales of services, which are typically at higher gross margins, or otherwise. Price reductions by our competitors that we either cannot or choose not to match could result in an erosion of our market share and/or reduced sales or, to the extent we match such reductions, could result in reduced operating margins or inventory impairment charges, any of which could have a material adverse effect on our business, financial condition and results of operations.

Some of our competitors in each of our operating segments may have greater technical, marketing and other resources than we do. In addition, some of these competitors may be able to respond more quickly to new or changing opportunities, technologies and client requirements. Many current and potential competitors also may have greater name recognition and engage in more

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extensive promotional activities, offer more attractive terms to their customers and adopt more aggressive pricing policies than we do. Additionally, some of our competitors have higher margins and/or lower operating cost structures, allowing them to price more aggressively. There can be no assurance that we will be able to compete effectively with current or future competitors or that the competitive pressures we face will not have a material adverse effect on our business, financial condition and results of operations.

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

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

Changes in the IT industry and/or rapid changes in technology may reduce demand for the IT hardware, software and services we sell or change who makes purchasing decisions for IT hardware, software and services. Our results of operations are influenced by a variety of factors, including the condition of the IT industry, shifts in demand for, or availability of, IT hardware, software, peripherals and services, and industry innovation and the introduction of new products and technologies. The IT industry is characterized by rapid technological change and the frequent introduction of new products and changing delivery channels and models, which can decrease demand for current products and services and can disrupt purchasing patterns. If we fail to react in a timely manner to such changes, we may experience lower sales and, with respect to hardware, we may have to record write-downs of obsolete inventory. In addition, in order to satisfy client demand, protect ourselves against product shortages, obtain greater purchasing discounts and react to changes in original equipment manufacturers' terms and conditions, we may decide to carry inventory of products that may have limited or no return privileges. There can be no assurance that we will be able to avoid losses related to inventory obsolescence on these products. Additionally, if purchasing power within our clients shifts from centralized procurement functions to business units or individual end users and we are unable to react timely to any such changes, these shifts in purchasing power could have a material adverse effect on our business, financial conditions and results of operations.

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

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

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

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

- political or economic instability;
- changes in governmental regulation or taxation (foreign and domestic);
- currency exchange fluctuations;
- changes in import/export laws, regulations and customs and duties and tariffs (foreign and domestic);
- trade restrictions (foreign and domestic);
- difficulties of conducting business, managing operations, and costs of staffing in certain foreign countries;
- work stoppages or other changes in labor conditions;

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- taxes and other restrictions on repatriating foreign profits back to the United States;
- extended payment terms;
- seasonal reductions in business activity in some parts of the world; and
- natural disasters, terrorism, civil unrest, public health concerns (including health epidemics or outbreaks of communicable diseases such as the coronavirus) and other geopolitical uncertainties.

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

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

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

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

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

Political developments, economic instability or natural disasters impacting international trade, including continued uncertainty surrounding the Referendum on the United Kingdom’s Membership in the European Union (“EU”) (referred to as “Brexit”) and, trade disputes and increased tariffs, particularly between the United States and China, may negatively impact markets and cause weaker macroeconomic conditions or drive sentiment that weakens demand for our products and services. Potential adverse consequences of Brexit such as global market uncertainty, volatility in currency exchange rates, greater restrictions on imports and exports between the United Kingdom and EU countries and increased regulatory complexities could have a negative impact on our business, financial condition and results of operations.

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We may face risks related to health epidemics or outbreaks of communicable diseases. For example, there have been recent outbreaks in several countries, including China, of the highly transmissible and pathogenic coronavirus. The outbreak of such communicable diseases could result in a widespread health crisis that could adversely affect general commercial activity and the economies and financial markets of many countries. Since some of our business partners' and our operations are in China and other Asian countries, an outbreak of communicable diseases in Asia or elsewhere, or the perception that such an outbreak could occur, and the measures taken by the governments of countries affected could adversely affect our business, supply chain, financial condition or results of operations. Additionally, an outbreak could significantly disrupt our business by limiting our ability to travel or adversely impact the ability of our manufacturers, publishers and distributors to ship materials, thereby forcing temporary disruption in the availability of products that we sell to our clients.

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

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

Cyberattacks and breaches in the security of our electronic and other confidential information could materially adversely affect our financial condition and results of operations. We are dependent upon automated information technology processes. Privacy, security, and compliance concerns have continued to increase as technology has evolved to facilitate commerce and as cross-border commerce increases. As part of our normal business activities, we collect and store certain proprietary and confidential information, including information about teammates and information about partners and clients which may be entitled to protection under a number of regulatory regimes. In the course of normal and customary business practice, we may share some of this information with vendors who assist us with certain aspects of our business. Moreover, the success of our operations depends upon the secure transmission of confidential and personal data over public networks, including the use of cashless payments. We have privacy and data security policies in place that are designed to prevent security breaches; however, as newer technologies evolve, and the portfolio of the service providers we share confidential information with grows, we could be exposed to increased risks from breaches in security, including those from human error, negligence or mismanagement or from illegal or fraudulent acts, such as cyberattacks.

The evolving nature of threats to data security, in light of new and sophisticated methods used by criminals and cyberterrorists, including computer viruses, malware, phishing, misrepresentation, social engineering and forgery, make it increasingly challenging to anticipate and adequately mitigate these risks. Any failure on the part of us or our vendors to maintain the security of data we are required to protect, including via the penetration of our network security and the misappropriation of confidential and personal information, could result in business disruption, damage to our reputation, financial obligations to third parties, fines, penalties, regulatory proceedings and private litigation with potentially large costs, and also result in deterioration in our teammates', partners' and clients' confidence in us and other competitive disadvantages, and thus could have a material adverse effect on our business, financial condition and results of operations.

Cyberthreats are constantly evolving, increasing the difficulty of detecting and successfully defending against them. Malicious individuals or organizations may attempt to penetrate our network

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security and misappropriate or compromise our confidential information or that of third parties, create system disruptions or cause shutdowns. Such individuals or organizations also may develop or deploy viruses, worms, ransomware or otherwise exploit security vulnerabilities of our systems or our product offerings, or attempt to fraudulently induce our employees, customers or others to disclose passwords or other sensitive information or unwittingly provide access to our systems or data. Cyberthreats, data breaches, malware and similar disruptions from unauthorized access or tampering by malicious actors or inadvertent error could disrupt the security of our systems and business applications, impair our ability to provide services to our customers and protect the privacy of their data, resulting in compromise of confidential or technical business information harming our reputation and competitive position.

Like many other businesses, we have been, and expect to continue to be, subject to electronic data attacks and threats, although we do not believe attacks have resulted in the misappropriation of sensitive data in a material way. Additionally, some of the hardware and software products we resell could have defects or otherwise be the subject of security breaches and other attacks. We would consider the consequences of such attacks to be the responsibility of the respective manufacturers and publishers of such products, however, if such circumstances were to arise, we may be required to notify regulators and individuals of a data breach and could be subject to litigation.

Disruptions in our IT systems and voice and data networks could affect our ability to service our clients and cause us to incur additional expenses. We believe that our success to date has been, and future results of operations will be, dependent in large part upon our ability to provide prompt and efficient service to our clients. Our ability to provide that level of service is largely dependent on the ease of use, accuracy, quality and utilization of our IT systems, which affects our ability to manage our sales, client service, distribution, inventories and accounting systems, and the reliability of our voice and data networks and managed services offerings. If our current technology is determined to have a shorter economic life or the value of our current system is impaired, or necessary improvements to our technology are significantly delayed, we could incur additional expense and/or charges. The continuing development of our IT systems is crucial for our success. Accordingly, some of our IT systems are subject to ongoing IT projects designed to streamline or optimize the information systems. In addition, we plan to migrate our EMEA operations to the same IT system used in North America and APAC. There is no guarantee that we will be successful in these efforts at all times or that there will not be implementation or integration difficulties. In addition, a substantial interruption in our IT systems or in our voice and data networks, however caused, could occur and could have a material adverse effect on our business, financial condition and results of operations.

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

We are exposed to risks from legal proceedings and client audits and failure to comply with the laws and regulations applicable to our operations could adversely impact our business, results of operations or cash flows. We are party to various legal proceedings that arise in the ordinary course of our business, which include commercial, employment, tort and other litigation. Because of our significant sales to governmental entities, we also are subject to audits by federal, state, international, national, provincial and local authorities in the ordinary course of our business. We also are subject to and currently engage in audits by various vendor partners and large customers, including government agencies, relating to purchases and sales under various contracts. In addition, we are subject to indemnification claims under various contracts. Current and future

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litigation, infringement claims, governmental proceedings and investigations, audits or indemnification claims that we face may result in substantial costs and expenses and significantly divert the attention of our management regardless of the outcome. Additionally, our operations are subject to numerous U.S. and foreign laws and regulations in a number of areas including areas of labor and employment, advertising, e-commerce, tax, import and export requirements, anti-corruption, data privacy requirements, including data privacy restrictions such as the GDPR or the California Consumer Privacy Act ("CCPA"), anti-competition, and environmental, health, and safety. Compliance with these laws, regulations and similar requirements may be onerous and expensive, and they may be inconsistent from jurisdiction to jurisdiction, further increasing the cost of compliance and doing business, and the risk of noncompliance. We have implemented policies and procedures designed to help ensure compliance with applicable laws and regulations, but there can be no guarantee against teammates, contractors, or agents violating such laws and regulations or our policies and procedures.

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

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

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

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

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

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

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

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

We have a substantial amount of indebtedness, which could have important consequences to our business. We have a substantial amount of indebtedness. As of December 31, 2019, we had \$859.4 million of total long-term debt outstanding, as defined by U.S. generally accepted accounting principles ("GAAP"), and an additional \$253.7 million of obligations outstanding under our inventory financing agreements. We also have the ability to borrow an additional \$629.3 million under our senior secured credit facility. Our substantial indebtedness could have important consequences, that could have a material adverse effect on our business, financial condition and results of operations, including the following:

- making it more difficult for us to satisfy our obligations with respect to our indebtedness;
- requiring us to dedicate a substantial portion of our cash flow from operations to debt service payments on our and our subsidiaries' debt, which reduces the funds available for working capital, capital expenditures, acquisitions and other general corporate purposes;
- requiring us to comply with restrictive covenants in our senior secured debt facility, which limits the manner in which we conduct our business;
- limiting our flexibility in planning for, or reacting to, changes in the industry in which we operate;
- placing us at a competitive disadvantage compared to any of our less-leveraged competitors;

INSIGHT ENTERPRISES, INC.

- increasing our vulnerability to both general and industry-specific adverse economic conditions; and
- limiting our ability to obtain additional debt or equity financing to fund future working capital, capital expenditures, acquisitions or other general corporate requirements and increasing our cost of borrowing.

The conditional conversion feature of the notes, if triggered, may adversely affect the Company's financial condition and operating results. In the event the conditional conversion feature of the notes is triggered, holders of notes will be entitled to convert the notes at any time during specified periods at their option. If one or more holders elect to convert their notes, unless we elect to satisfy our conversion obligation by delivering solely shares of our common stock (other than paying cash in lieu of delivering any fractional share), we would be required to settle a portion or all of our conversion obligation through the payment of cash, which could adversely affect our liquidity. In addition, even if holders of notes do not elect to convert their notes, we could be required under applicable accounting rules to reclassify all or a portion of the outstanding principal of the notes as a current rather than long-term liability, which would result in a material reduction of our net current assets.

The accounting method for convertible debt securities that may be settled in cash, such as the notes, could have a material effect on the Company's reported financial results. Under Accounting Standards Codification ("ASC") 470-20, "Debt with Conversion and Other Options," an entity must separately account for the liability and equity components of the convertible debt instruments (such as the notes) that may be settled entirely or partially in cash upon conversion in a manner that reflects the issuer's economic interest cost. The effect of ASC 470-20 on the accounting for the notes is that the equity component is required to be included in the additional paid-in capital section of stockholders' equity on our consolidated balance sheet at the issuance date and the value of the equity component is treated as debt discount for purposes of accounting for the debt component of the notes. As a result, we record a greater amount of non-cash interest expense as a result of the amortization of the discounted carrying value of the notes to their face amount over the term of the notes. We will report larger net losses (or lower net income) in our financial results because ASC 470-20 requires interest to include both the amortization of the debt discount and the instrument's non-convertible coupon interest rate, which could adversely affect our reported or future financial results, the trading price of our common stock and the trading price of the notes.

In addition, under certain circumstances, convertible debt instruments (such as the notes) that may be settled entirely or partly in cash at the election of the issuer and are in the money at the reporting date may be included in the treasury stock method under ASC 260, "Earnings Per Share." To the extent that the conversion value of the notes exceeds their principal amount, the shares issuable upon conversion of such notes are included in the calculation of diluted earnings per share thus increasing the number of shares included in this calculation. We cannot be sure that the accounting standards in the future will continue to permit the use of the treasury stock method. If we are required to include the notes in the treasury stock method in accounting for the shares issuable upon conversion of the notes, then our diluted earnings per share could be adversely affected.

Future sales of the Company's common stock or equity-linked securities in the public market could lower the market price for our common stock. In the future, we may sell additional shares of our common stock or equity-linked securities to raise capital. In addition, a substantial number of shares of our common stock is reserved for issuance upon the exercise of stock options, restricted stock units, upon conversion of the notes and in connection with the warrants to be issued in connection with the convertible note hedge and warrant transactions. We cannot predict the size of future issuances or the effect, if any, that they may have on the market price for our common stock. The issuance and sale of substantial amounts of common stock or equity-linked securities, or the perception that such issuances and sales may occur, could adversely affect the market price of our common stock and impair our ability to raise capital through the sale of additional equity or equity-linked securities.

The Company is subject to counterparty risk with respect to the convertible note hedge transactions. The option counterparties are financial institutions or affiliates of financial institutions, and we are subject to the risk that one or more of such option counterparties may default under the convertible note hedge transactions. Our exposure to the credit risk of the option counterparties will

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not be secured by any collateral. If any option counterparty becomes subject to insolvency proceedings, we will become an unsecured creditor in those proceedings with a claim equal to our exposure at that time under the convertible note hedge transaction. Our exposure will depend on many factors but, generally, the increase in our exposure will be correlated to the increase in our common stock market price and in the volatility of the market price of our common stock. In addition, upon a default by the option counterparty, we may suffer adverse tax consequences and dilution with respect to our common stock.

The Company may face risk associated with the discontinuation of and transition from London Interbank Offered Rate (LIBOR) as a benchmark interest rate. The Company has outstanding debt with variable interest rates based on LIBOR, and it is anticipated that LIBOR will be discontinued as of the year ending 2021. The expected discontinuation of LIBOR will require lenders and their borrowers to transition from LIBOR to an alternative benchmark interest rate, which could have an impact on and risk to the Company if not completed in a timely manner. The Company's current material loan documents include an alternative benchmark interest rate. At this time, however, it is not possible to predict the effect of any changes to LIBOR, any phase out of LIBOR or any establishment of alternative benchmark rates in the future. Any new benchmark rate will likely not replicate LIBOR exactly, which could impact our contracts which terminate after 2021. In addition, any changes to benchmark rates in the future may have an uncertain impact on our cost of funds and our access to the capital markets, which could impact our results of operations and cash flows.

Item 1B. *Unresolved Staff Comments*

Not applicable.

INSIGHT ENTERPRISES, INC.

Item 2. *Properties*

Our principal executive offices are located in Tempe, Arizona. At December 31, 2019, we owned or leased approximately 2.3 million square feet of office and warehouse space, and, while approximately 73% of the square footage is in the United States, we own or lease office and warehouse facilities in Canada and in 10 countries in EMEA and we lease office facilities in eight countries in APAC. We believe that our facilities are suitable and adequate for our present purposes, and we anticipate that we will be able to extend our existing leases on terms satisfactory to us or, if necessary, to locate substitute facilities on acceptable terms.

Information about significant sales, distribution, services and administration facilities in use as of December 31, 2019 is summarized in the following table:

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

In addition to those listed above, we have leased sales offices in various cities across North America, EMEA and APAC and during the fourth quarter of 2019, we completed the purchase of real estate in Chandler, Arizona that we intend to use as our global headquarters. A portion of the client support center that we own in Tempe, Arizona (included in the table above) is currently leased to TTEC, formerly known as Direct Alliance Corporation, a discontinued operation that was sold to a third party in 2006. For additional information on property and equipment and operating leases, see Notes 4 and 9 to the Consolidated Financial Statements in Part II, Item 8 of this report.

INSIGHT ENTERPRISES, INC.

Item 3. *Legal Proceedings*

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

Item 4. *Mine Safety Disclosures*

Not applicable.

PART II

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

Market Information

Our common stock trades under the symbol "NSIT" on The Nasdaq Global Select Market. As of February 7, 2020, we had 35,264,486 shares of common stock outstanding held by 48 stockholders of record. This figure does not include an estimate of the number of beneficial holders whose shares are held of record by brokerage firms and clearing agencies.

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

Issuer Purchases of Equity Securities

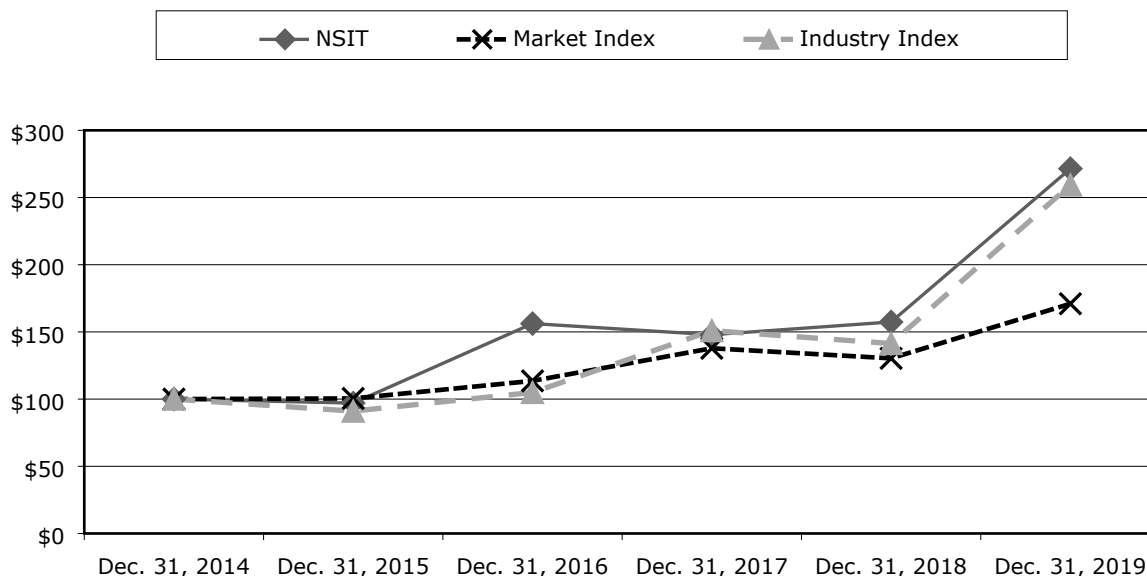
We did not repurchase shares of our common stock during the quarter ended December 31, 2019.

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

INSIGHT ENTERPRISES, INC.

Stock Price Performance Graph

Set forth below is a graph comparing the percentage change in the cumulative total stockholder return on our common stock with the cumulative total return of the Nasdaq US Benchmark TR Index (Market Index) and the Nasdaq US Benchmark Computer Hardware TR Index (Industry Index). The graph assumes that \$100 was invested on December 31, 2014 in our common stock and in each of the two Nasdaq indices, and that, as to such indices, dividends were reinvested. We have not, since our inception, paid any cash dividends on our common stock. Historical stock price performance shown on the graph is not necessarily indicative of future price performance.



	Dec. 31, 2014	Dec. 31, 2015	Dec. 31, 2016	Dec. 31, 2017	Dec. 31, 2018	Dec. 31, 2019
Insight Enterprises, Inc. Common Stock (NSIT)	\$100.00	\$ 97.00	\$156.00	\$148.00	\$157.00	\$271.00
Nasdaq US Benchmark TR Index (Market Index).....	100.00	100.00	114.00	138.00	130.00	171.00
Nasdaq US Benchmark Computer Hardware TR Index (Industry Index)	100.00	91.00	105.00	151.00	141.00	259.00

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Item 6. Selected Financial Data

The following selected consolidated financial data should be read in conjunction with our Consolidated Financial Statements and the Notes thereto in Part II, Item 8 and "Management's Discussion and Analysis of Financial Condition and Results of Operations" in Part II, Item 7 of this report. The selected consolidated financial data presented below under the captions "Consolidated Statements of Operations Data" and "Consolidated Balance Sheet Data" as of and for each of the years in the five-year period ended December 31, 2019 is derived from our audited consolidated financial statements. The consolidated financial statements as of December 31, 2019 and 2018, and for each of the years in the three-year period ended December 31, 2019, which have been audited by KPMG LLP, our independent registered public accounting firm, are included in Part II, Item 8 of this report.

	Years Ended December 31,				
	2019	2018	2017	2016	2015
	(in thousands, except per share data)				
Consolidated Statements of Operations Data ⁽¹⁾⁽²⁾⁽³⁾					
Net sales	\$7,731,190	\$7,080,136	\$6,703,623	\$5,485,515	\$5,373,090
Costs of goods sold	6,593,092	6,086,418	5,785,053	4,742,413	4,656,758
Gross profit	1,138,098	993,718	918,570	743,102	716,332
Operating expenses:					
Selling and administrative expenses	880,737	756,529	723,328	585,243	584,906
Severance and restructuring expenses	5,425	3,424	9,002	4,580	4,907
Loss on sale of foreign entity	—	—	3,646	—	—
Acquisition-related expenses	11,342	282	3,329	4,447	—
Earnings from operations	240,594	233,483	179,265	148,832	126,519
Non-operating (income) expense:					
Interest expense, net	28,478	21,737	17,965	7,562	6,441
Other expense (income)	400	(156)	2,202	1,812	902
Earnings before income taxes	211,716	211,902	159,098	139,458	119,176
Income tax expense	52,309	48,225	68,415	54,768	43,325
Net earnings	<u>\$ 159,407</u>	<u>\$ 163,677</u>	<u>\$ 90,683</u>	<u>\$ 84,690</u>	<u>\$ 75,851</u>
Net earnings per share:					
Basic	<u>\$ 4.49</u>	<u>\$ 4.60</u>	<u>\$ 2.54</u>	<u>\$ 2.35</u>	<u>\$ 2.00</u>
Diluted	<u>\$ 4.43</u>	<u>\$ 4.55</u>	<u>\$ 2.50</u>	<u>\$ 2.32</u>	<u>\$ 1.98</u>
Shares used in per share calculations:					
Basic	<u>35,538</u>	<u>35,586</u>	<u>35,741</u>	<u>36,102</u>	<u>37,984</u>
Diluted	<u>35,959</u>	<u>36,009</u>	<u>36,207</u>	<u>36,438</u>	<u>38,275</u>

INSIGHT ENTERPRISES, INC.

	December 31,				
	2019	2018	2017	2016	2015
	(in thousands)				
Consolidated Balance Sheet Data					
Working capital.....	\$1,164,504	\$ 801,915	\$ 804,369	\$ 544,943	\$ 543,534
Total assets	4,178,179	2,775,947	2,685,651	2,219,300	2,014,017
Short-term debt, including finance leases and other financing obligations ⁽⁴⁾	1,691	1,395	16,592	480	1,535
Long-term debt, including finance leases and other financing obligations ⁽⁴⁾	857,673	195,525	296,576	40,251	89,000
Stockholders' equity.....	1,160,318	986,989	843,469	713,443	685,742
Cash dividends declared per common share	—	—	—	—	—

- (1) Our consolidated statements of operations data includes results of the following acquisitions from their respective dates of acquisition: PCM from August 30, 2019, Cardinal from August 1, 2018, Caase.com from September 26, 2017, Datalink from January 6, 2017, Ignia from September 1, 2016 and BlueMetal from October 1, 2015.
- (2) Our consolidated statement of operations for 2019 and 2018 includes the impact of adopting ASU No. 2014-09, "Revenue from Contracts with Customers," which created FASB Topic 606 ("Topic 606").
- (3) Our consolidated statements of operations for 2017 through 2019 include the impact of U.S federal tax reform that was enacted in December 2017 as part of the U.S Tax Cuts and Jobs Act. See Note 11 to the Consolidated Financial Statements in Part II, Item 8 of this report.
- (4) Excludes obligations under our inventory financing facilities of \$253.7 million, \$304.1 million, \$319.5 million, \$154.9 million and \$106.3 million as of December 31, 2019, 2018, 2017, 2016 and 2015, respectively. We do not include these obligations in total debt because we have not in the past incurred, and in the future do not expect to incur, any interest payments due under these facilities. These amounts are classified separately as accounts payable-inventory financing facilities on our consolidated balance sheets. See Note 7 to the Consolidated Financial Statements in Part II, Item 8 of this report.

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

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

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

Overview

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

Full year 2019 financial and operational highlights included the following:

- We generated growth in earnings from operations on a consolidated basis and in our North America and EMEA reporting segments.
- We grew our services business by 20% on a consolidated basis with growth in each of our reporting segments.
- We generated cash flows from operations of \$127.9 million.
- We completed the acquisition of PCM on August 30, 2019 and commenced the integration of IT systems and back office operations which we expect to complete in 2020.

On a consolidated basis, for the year ended December 31, 2019:

- Net sales of \$7.7 billion increased 9% compared to 2018.
- Gross profit of \$1.1 billion increased 15% compared to 2018, also up 16% year over year excluding the effects of fluctuating foreign currency exchange rates.
- Consolidated gross margin improved approximately 70 basis points to 14.7% of net sales in 2019. This increase reflects growth in services net sales and gross profit together with the impact of PCM from August 30, 2019.
- Earnings from operations increased to \$240.6 million in 2019, up 3% compared to the prior year, which represented 3.1% of net sales.
- Our effective tax rate in 2019 was 24.7%, which compares to our effective tax rate of 22.8% in 2018.
- Net earnings and diluted net earnings per share were \$159.4 million and \$4.43, respectively, in 2019. In 2018, we reported net earnings of \$163.7 million and diluted net earnings per share of \$4.55.

The results of operations for 2019 include the following items:

- the results of the acquisition of PCM, effective August 30, 2019;
- transaction costs totaling \$11.3 million, \$9.9 million net of tax, associated with the acquisition of PCM;
- severance and restructuring expenses of \$5.4 million, \$4.0 million net of tax;
- the repurchase of approximately 541,000 shares of the Company's common stock for an aggregate of \$27.9 million; and
- the impact of the adoption of FASB Topic 842 ("Topic 842"), effective January 1, 2019, resulting in the recording of net operating lease right-of-use assets and lease liabilities of \$65.9 million and \$70.5 million, respectively.

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

The results of operations for 2018 include the following items:

- the impact of the adoption of FASB Topic 606 ("Topic 606");
- the results of the acquisition of Cardinal, effective August 1, 2018;
- transaction costs totaling \$282,000 associated with the acquisition of Cardinal;
- severance and restructuring expenses of \$3.4 million, \$2.7 million net of tax; and
- the repurchase of approximately 641,000 shares of the Company's common stock for an aggregate of \$22.0 million.

The results of operations for 2017 include the following items:

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

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

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

During 2019, we generated \$127.9 million of cash from operating activities, we utilized \$664.3 million, net of cash and cash equivalents acquired to fund our acquisition of PCM and for the final working capital and tax true up paid for Cardinal. We borrowed \$550.0 million under our new senior secured revolving credit facility (the "ABL facility") and received \$341.3 million from the issuance of our convertible senior notes. We ended the year with \$114.7 million of cash and cash equivalents and \$855.5 million of debt outstanding under our long-term debt facilities.

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

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

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

RESULTS OF OPERATIONS

The following table sets forth certain financial data as a percentage of net sales for the years ended December 31, 2019, 2018 and 2017:

	<u>2019</u>	<u>2018</u>	<u>2017</u>
Net sales	100.0%	100.0%	100.0%
Costs of goods sold	85.3	86.0	86.3
Gross profit	14.7	14.0	13.7
Operating expenses:			
Selling and administrative expenses.....	11.4	10.6	10.8
Severance and restructuring expenses, loss on sale of foreign entity and acquisition-related expenses	0.2	0.1	0.2
Earnings from operations.....	3.1	3.3	2.7
Non-operating expense, net	0.4	0.3	0.3
Earnings before income taxes	2.7	3.0	2.4
Income tax expense.....	0.6	0.7	1.0
Net earnings.....	<u>2.1%</u>	<u>2.3%</u>	<u>1.4%</u>

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

2019 Compared to 2018

Net Sales. Net sales increased 9%, or \$651 million, in 2019 compared to 2018. Net sales of products (hardware and software) increased 8% and net sales of services increased 20% in 2019 compared to 2018. Our net sales by operating segment for 2019 and 2018 were as follows (dollars in thousands):

	<u>2019</u>	<u>2018</u>	<u>% Change</u>
North America	\$ 6,024,305	\$ 5,362,981	12%
EMEA	1,526,644	1,530,241	—
APAC	180,241	186,914	(4%)
Consolidated	<u>\$ 7,731,190</u>	<u>\$ 7,080,136</u>	<u>9%</u>

Our net sales by offering category for North America for 2019 and 2018, were as follows (dollars in thousands):

Sales Mix	<u>North America</u>		<u>% Change</u>
	<u>2019</u>	<u>2018</u>	
Hardware	\$ 3,957,507	\$ 3,610,356	10%
Software	1,269,983	1,112,715	14%
Services	796,815	639,910	25%
	<u>\$ 6,024,305</u>	<u>\$ 5,362,981</u>	<u>12%</u>

Net sales in North America increased 12%, or \$661.3 million, in 2019 compared to 2018. This increase reflects the addition of PCM, which reported \$716.1 million in net sales in 2019, partially offset by a decline in net sales of the core business of \$51.3 million. Net sales of hardware, software and services increased 10%, 14% and 25%, respectively, year over year.

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

The increases year over year were the result of the following:

- PCM accounted for the higher volume of hardware net sales in 2019 compared to 2018. This was partially offset by lower volume of hardware net sales to large enterprise clients in the core business due to a slow-down of the device refresh cycle.
- PCM accounted for approximately 70% of the year over year increase in software net sales. In our core business there was also an increase in software net sales as a result of a significant transaction during the first quarter of 2019 with a large enterprise client, with no comparable transaction in the same quarter in the prior year.
- PCM accounted for approximately 56% of the year over year increase in services net sales. In our core business, application related services net sales which is part of our digital innovation solution area accounted for approximately 30% of the increase in services net sales, including the acquisition of Cardinal Solutions which we completed in the third quarter of 2018. The trend toward higher sales of cloud solution offerings continued, as did, higher software aintenance sales and increases in supplier reimbursements that are recorded on a net sales recognition basis. These were offset partially by declines in warranty net sales and consulting and managed services net sales in our core business.

Our net sales by offering category for EMEA for 2019 and 2018, were as follows (dollars in thousands):

Sales Mix	EMEA		% Change
	2019	2018	
Hardware	\$ 622,949	\$ 653,499	(5%)
Software	753,729	736,509	2%
Services.....	149,966	140,233	7%
	<u>\$1,526,644</u>	<u>\$ 1,530,241</u>	<u>—</u>

Net sales in EMEA remained flat (increased 5% excluding the effects of fluctuating foreign currency exchange rates), or down \$3.6 million, in 2019 compared to 2018. Net sales of hardware declined 5%, year to year, while net sales of software and services were up 2% and 7%, respectively, year over year. The changes were the result of the following:

- Lower volume of net sales of networking solutions, partially offset by higher volume of net sales of devices, to large enterprise and public sector clients in hardware net sales.
- Higher volume of software net sales to large enterprise and public sector clients.
- Higher volume of net sales of cloud solution offerings and increased software referral fees that are recorded on a net sales recognition basis. In addition, there was an increase in the volume of Insight delivered services.

Our net sales by offering category for APAC for 2019 and 2018, were as follows (dollars in thousands):

Sales Mix	APAC		% Change
	2019	2018	
Hardware	\$ 34,965	\$ 29,496	19%
Software	92,988	107,363	(13%)
Services.....	52,288	50,055	4%
	<u>\$ 180,241</u>	<u>\$ 186,914</u>	<u>(4%)</u>

Net sales in APAC decreased 4% (increased 2% excluding the effects of fluctuating foreign currency rates), or \$6.7 million, in 2019 compared to 2018. In APAC, increases in hardware and services net sales year over year were offset by a decrease in software net sales during 2019 compared to 2018. The changes were the result of the following:

- Continued expansion of hardware offerings in the APAC market resulted in higher net sales in this category.

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

- Continued trend toward higher sales of cloud solution offerings that are recorded on a net sales recognition basis in the services net sales category resulted in declines in the software net sales category.
- Higher volume of net sales of cloud solution offerings and software referral fees that are recorded on a net sales recognition basis positively impacted services net sales. Additionally, there were contributions from Insight delivered services from increased net sales of our digital innovation solutions offering.

Net sales by category for North America, EMEA and APAC were as follows for 2019 and 2018:

Sales Mix	North America		EMEA		APAC	
	2019	2018	2019	2018	2019	2018
Hardware.....	66%	67%	41%	43%	19%	16%
Software.....	21%	21%	49%	48%	52%	57%
Services	13%	12%	10%	9%	29%	27%
	<u>100%</u>	<u>100%</u>	<u>100%</u>	<u>100%</u>	<u>100%</u>	<u>100%</u>

Gross Profit. Gross profit increased 15%, or \$144.4 million, in 2019 compared to 2018, with gross margin increasing approximately 70 basis points to 14.7% of net sales. Our gross profit and gross profit as a percent of net sales by operating segment for 2019 and 2018 were as follows (dollars in thousands):

	2019	% of Net Sales	2018	% of Net Sales
North America	\$ 871,114	14.5%	\$ 732,695	13.7%
EMEA.....	\$ 227,083	14.9%	\$ 221,467	14.5%
APAC	\$ 39,901	22.1%	\$ 39,556	21.2%
Consolidated.....	<u>\$1,138,098</u>	14.7%	<u>\$ 993,718</u>	14.0%

North America's gross profit in 2019 increased 19% compared to 2018, and as a percentage of net sales, gross margin increased by approximately 80 basis points year over year. The year over year net increase in gross margin was primarily attributable to the following:

- A net increase in product margin, which includes partner funding and freight, of 30 basis points year over year. This increase was due primarily to improvements in hardware and software product margin partially as a result of improvements in core business margins on product net sales and also as a result of PCM.
- Services margin improvement year over year of 50 basis points was generated from increased vendor funding, cloud solution offerings and referral fees. In addition, there was a 21 basis point improvement in margins from Insight delivered services.

EMEA's gross profit in 2019 increased 3% (increased 8% excluding the effects of fluctuating foreign currency exchange rates), compared to 2018. As a percentage of net sales, gross margin increased by approximately 40 basis points year over year. APAC's gross profit in 2019 increased 1% (increased 6% excluding the effects of fluctuating foreign currency exchange rates), compared to 2018, with gross margin increasing to 22.1% in 2019 from 21.2% in 2018. The improvement in gross margin for both EMEA and APAC in 2019 compared to 2018 was due primarily to changes in sales mix to higher margin products and services.

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 \$124.2 million in 2019 compared to 2018. Our selling and administrative expenses by major expense type for 2019 and 2018 were as follows (dollars in thousands):

	2019	2018	Change
Personnel costs, including teammate benefits	\$ 684,837	\$ 593,955	\$ 90,882
Depreciation and amortization	46,209	37,458	8,751
Facility expenses	30,945	26,396	4,549
Travel and entertainment.....	28,402	25,656	2,746
Legal and professional fees	16,839	16,103	736
Marketing	11,597	10,345	1,252
Other	61,908	46,616	15,292
Total	<u>\$ 880,737</u>	<u>\$ 756,529</u>	<u>\$ 124,208</u>
Percentage of net sales.....	11.4%	10.7%	

Selling and administrative expenses increased approximately 70 basis points as a percentage of net sales in 2019 compared to 2018. The increase in expenses reflects the addition of PCM to our North America and EMEA segments, effective August 30, 2019. The addition of PCM and increased variable compensation resulting from increased sales and gross profit in 2019 compared to 2018 were the primary drivers for the \$90.9 million increase in personnel costs. PCM was also the primary driver for year over year increases in facilities, travel and entertainment, and marketing expenses. Depreciation and amortization expense increased approximately \$8.8 million year over year, primarily due to additional amortization expense on newly acquired intangible assets.

Severance and Restructuring Expenses. During 2019, we recorded severance expense, net of adjustments, totaling \$5.4 million. The North America and EMEA charges related to severance actions taken to realign roles and responsibilities subsequent to the acquisition of PCM in August 2019, as well as a headcount reduction as part of cost reduction initiatives in the fourth quarter of 2019. For 2019, charges were partially offset by immaterial adjustments for changes in estimates of previous accruals as cash payments were made during the year. During 2018, we recorded severance expense, net of adjustments, totaling \$3.4 million.

Acquisition-related Expenses. During 2019, we incurred \$11.3 million in direct third-party costs related to the acquisition of PCM. Comparatively, during 2018, we incurred \$282,000 in such costs related to the acquisition of Cardinal. See Note 20 to the Consolidated Financial Statements in Part II, Item 8 of this report for further discussion of acquisitions.

Non-Operating (Income) Expense.

Interest Expense, net. Interest expense, net primarily relates to borrowings under our financing facilities and imputed interest under our convertible notes and inventory financing facilities, partially offset by interest income generated from interest earned on cash and cash equivalent bank balances. Interest expense increased 30%, or \$6.8 million, in 2019 compared to 2018 due primarily to higher average daily balances under our debt facilities, in 2019 compared to 2018, while imputed interest under our inventory financing facilities increased \$200,000 to \$10.8 million in 2019 and imputed interest under our convertible senior notes was \$3.7 million in 2019.

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

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

Income Tax Expense. Our effective tax rate for 2019 was 24.7% compared to 22.8% in 2018. The increase in the tax rate from 2018 to 2019 was primarily due to a non-recurring benefit recorded in 2018 to true-up provisional amounts related to U.S tax reform. The effective tax rate in 2019 was higher than the federal statutory rate of 21.0% primarily due to state income taxes, net of federal income tax benefits, and higher taxes on earnings in foreign jurisdictions. These increases to the federal statutory rate in 2019 were offset partially by decreases in the valuation allowance in certain foreign jurisdictions and the recognition of tax benefits, net of reserves, related to research and development activities. See Note 11 to the Consolidated Financial Statements in Part II, Item 8 of this report for further discussion of income tax expense.

2018 Compared to 2017

For a comparison of our results of operations for the fiscal years ended December 31, 2018 and 2017, see "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 fiscal year ended December 31, 2018 filed with the SEC on February 22, 2019.

Liquidity and Capital Resources

The following table sets forth certain consolidated cash flow information for 2019, 2018 and 2017 (in thousands):

	<u>2019</u>	<u>2018</u>	<u>2017</u>
Net cash provided by (used in) operating activities	\$ 127,876	\$ 292,647	\$ (307,066)
Net cash used in investing activities	(733,373)	(91,710)	(204,645)
Net cash provided by (used in) financing activities.....	577,587	(159,028)	397,121
Foreign currency exchange effect on cash and cash equivalent and restricted cash balances	(86)	(5,061)	16,089
(Decrease) increase in cash and cash equivalents and restricted cash.....	(27,996)	36,848	(98,501)
Cash and cash equivalents and restricted cash at beginning of year.....	144,293	107,445	205,946
Cash and cash equivalents and restricted cash at end of year.....	<u>\$ 116,297</u>	<u>\$ 144,293</u>	<u>\$ 107,445</u>

Cash and Cash Flow

- Our primary uses of cash during 2019 were to fund the acquisition of PCM, fund working capital requirements, fund capital expenditures, including the purchase of real estate, and to repurchase shares of our common stock.
- Operating activities generated \$127.9 million in cash in 2019.
- During 2019, we drew down net combined borrowings on our long-term debt facilities of \$356.0 million and acquired PCM for \$660.9 million, net of cash and cash equivalents acquired.
- We received net proceeds of \$341.3 million from the issuance of our convertible senior notes in 2019.
 - In connection with the issuance of our convertible senior notes, we entered into certain convertible note hedge and warrant transactions with respect to our common stock. We paid approximately \$66.3 million for the convertible note hedge transaction using proceeds from the convertible senior notes offering.
 - In addition, we received aggregate proceeds of approximately \$34.4 million for the sale of related warrants.
- In August 2019, we terminated our senior revolving credit facility ("revolving credit facility") and accounts receivable securitization financing facility (the "ABS facility") and entered into a new \$1.2 billion ABL facility. Net repayments of the revolving credit facility and ABS facility combined during 2019 were \$194.0 million. Net borrowings under the ABL revolving credit facility during 2019 were \$550.0 million.

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

- In July 2019, we entered into an unsecured inventory financing facility with MUFG Bank Ltd and in August 2019 we terminated our existing inventory financing facility with Wells Fargo Capital Finance, LLC (“Wells Fargo”) and entered into a new unsecured facility with Wells Fargo, creating a combined total maximum capacity of \$450.0 million, of which \$253.7 million was outstanding as of December 31, 2019.
- Capital expenditures were \$69.1 million in 2019, a significant increase from 2018, reflecting our purchase of real estate for future use as our global corporate headquarters and continued IT investments in our core ERP systems and e-commerce and digital marketing platforms.
- During 2019, we repurchased an aggregate of \$27.9 million of our common stock, using proceeds from the convertible notes offering, under a previously announced repurchase program compared to \$22.1 million repurchased during 2018.

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

Net cash provided by (used in) operating activities.

- Cash flow from operating activities in 2019 was \$127.9 million, a significant decrease in cash generation compared to 2018. This decrease is the result of timing of payment of accounts payable as we typically pay our partners on average terms that are shorter than the average terms we grant to our clients in order to take advantage of supplier discounts.
- The significant increases in both other assets and accrued expenses and other liabilities for 2019 resulted from a single significant transaction in 2019 with no comparable activity in the prior year.
- In 2018, cash flow from operating activities was \$292.6 million, a significant increase in cash generation compared to 2017. This increase is the result of our focus on expense control, optimizing working capital, including an enhanced focus on collection of receivables, and reducing our investments in inventory.

Our consolidated cash flow operating metrics for the quarters ended December 31, 2019, 2018 and 2017 were as follows:

	<u>2019</u>	<u>2018</u>	<u>2017</u>
Days sales outstanding in ending accounts receivable (“DSOs”) (a).....	100	102	94
Days inventory outstanding (“DIOs”) (b).....	10	10	13
Days purchases outstanding in ending accounts payable (“DPOs”) (c).....	(72)	(79)	(72)
Cash conversion cycle (days) (d).....	<u>38</u>	<u>33</u>	<u>35</u>

- (a) Calculated as the balance of accounts receivable, net at the end of the period divided by daily net sales. Daily net sales is calculated as net sales for the quarter divided by 92 days.
- (b) Calculated as average inventories (excluding inventories not available for sale in 2017) divided by daily costs of goods sold. Average inventories is calculated as the sum of the balances of inventories at the beginning of the period plus inventories at the end of the period divided by two. Daily costs of goods sold is calculated as costs of goods sold for the quarter divided by 92 days.
- (c) Calculated as the sum of the balances of accounts payable – trade and accounts payable – inventory financing facility at the end of the period divided by daily costs of goods sold. Daily costs of goods sold is calculated as costs of goods sold for the quarter divided by 92 days.
- (d) Calculated as DSOs plus DIOs, less DPOs.

- Our cash conversion cycle was 38 days in the quarter ended December 31, 2019, compared to 33 days in the fourth quarter of 2018.
- The increase resulted from the net effect of a two day decrease in DSO and a seven day decrease in DPOs due to the impact of the addition of PCM and the relative timing of client receipts and supplier payments during the respective quarters.

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

- We expect that cash flow from operations will be used, at least partially, to fund working capital as we typically pay our partners on average terms that are shorter than the average terms we grant to our clients in order to take advantage of supplier discounts.
- We intend to use cash generated in 2020 in excess of working capital needs to support our capital expenditures for the year and to pay down our debt balances. We also may use cash to fund potential acquisitions.

Net cash used in investing activities.

- In 2019, we acquired PCM for \$660.9 million net of cash and cash equivalents acquired of \$84.6 million and including the payment of PCM's outstanding debt.
- Capital expenditures of \$69.1 million in 2019 was due primarily to our purchase of real estate to be used in the future for our global corporate headquarters.
- Capital expenditures of \$17.3 million in 2018 were primarily related to technology and facility enhancements.
- We expect total capital expenditures in 2020 to be between \$55.0 million and \$60.0 million, of which approximately \$35.0 million is for the build out of our global corporate headquarters, and the remainder is for technology-related upgrade projects and the integration of prior acquisitions.
- During 2018, we acquired Cardinal for \$78.8 million net of cash and cash equivalents acquired. We paid the final working capital and tax adjustments of approximately \$3.4 million related to this acquisition in 2019.

Net cash provided by (used in) financing activities.

- During 2019, we had net combined borrowings on our long-term debt under our new ABL revolving credit facility, our revolving credit facility and ABS facility of \$356.0 million and had net repayments under our inventory financing facilities of \$50.5 million.
 - In connection with the issuance of our convertible senior notes, we entered into certain convertible note hedge and warrant transactions with respect to our common stock. We paid approximately \$66.3 million for the convertible note hedge transaction using proceeds from the convertible senior notes offering.
 - In addition, we received aggregate proceeds of approximately \$34.4 million for the sale of related warrants.
- In 2019, we also funded \$27.9 million of repurchases of our common stock.
- During 2018, we had net combined repayments on our long-term debt under our revolving credit facility, our Term Loan A and ABS facility of \$114.8 million and had net repayments under our inventory financing facility of \$15.3 million.
- In 2018, we also funded \$22.1 million of repurchases of our common stock.

2018 Compared to 2017

For a comparison of our cash flows for the fiscal years ended December 31, 2018 and 2017, see "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 fiscal year ended December 31, 2018 filed with the SEC on February 22, 2019.

Financing Facilities

As of December 31, 2019, our long-term debt balance includes \$570.7 million outstanding under our \$1.2 billion ABL facility. As of December 31, 2019, the current portion of our long-term debt relates to our finance leases and other financing obligations.

- Our objective is to pay our debt balances down while retaining adequate cash balances to meet overall business objectives.
- Our convertible senior notes are subject to certain events of default and certain acceleration clauses. As of December 31, 2019, no such events have occurred.
- Our ABL revolving credit facility contains various covenants customary for transactions of this type, including complying with a minimum receivable and inventory requirement and meeting monthly, quarterly and annual reporting requirements.

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

- The credit agreement contains customary affirmative and negative covenants and events of default.
- At December 31, 2019, we were in compliance with all such covenants.
- While the ABL facility has a stated maximum amount, the actual availability under the ABL facility is limited by a minimum accounts receivable and inventory requirement. As of December 31, 2019, eligible accounts receivables and inventory were sufficient to permit access to the full \$1.2 billion under the ABL facility.

We also have agreements with financial intermediaries to facilitate the purchase of inventory from certain suppliers under certain terms and conditions. These amounts are classified separately as accounts payable - inventory financing facilities in our consolidated balance sheets.

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

Undistributed Foreign Earnings

Cash and cash equivalents held by foreign subsidiaries may be subject to U.S. income taxation upon repatriation to the United States. As a result of U.S. Federal tax reform enacted in December 2017, all undistributed foreign earnings as of December 31, 2017 were deemed distributed and we provided for U.S. income and withholding taxes on those earnings. For years subsequent to December 31, 2017, we continue to assert indefinite reinvestment of foreign earnings for certain foreign entities. As of December 31, 2019, we had approximately \$101.7 million in cash and cash equivalents in certain of our foreign subsidiaries. As of December 31, 2019, the majority of our foreign cash resides in the Netherlands, Canada and Australia. Certain of these cash balances will be remitted to the U.S. by paying down intercompany payables generated in the ordinary course of business or through actual dividend distributions.

Off-Balance Sheet Arrangements

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

Contractual Obligations

At December 31, 2019, our contractual obligations for continuing operations were as follows (in thousands):

	Payments due by period				
	Total	Less than 1 Year	1-3 Years	3-5 Years	More than 5 Years
Long-term debt ^(a)	\$ 855,542	\$ —	\$ —	\$ 570,706	\$ 284,836
Estimated interest payments ^(b)	93,176	19,404	38,807	33,215	1,750
Inventory financing facilities ^(c)	253,676	253,676	—	—	—
Operating lease obligations ^(d)	89,712	22,234	33,046	14,873	19,559
Other contractual obligations	14,357	7,214	3,500	1,362	2,281
Total	<u>\$ 1,306,463</u>	<u>\$ 302,528</u>	<u>\$ 75,353</u>	<u>\$ 620,156</u>	<u>\$ 308,426</u>

(a) Reflects the \$570.7 million outstanding at December 31, 2019 under our ABL facility due in August 2024, the date at which the facility matures, as well as \$284.8 million outstanding at December 31, 2019 under our senior convertible notes due in August 2025. See further discussion in Note 8 to the Consolidated Financial Statements in Part II, Item 8 of this report.

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

- (b) The table above includes:
- I. Estimated interest payments of \$16.8 million in each of 2020 through 2023, and \$28.0 million in the first eight months of 2024, based on the current debt balance at December 31, 2019 of \$570.7 million under our ABL facility, multiplied by the floating interest rate applicable at December 31, 2019 of 2.94% per annum.
 - II. Estimated interest payments of \$2.6 million in each of 2020 through 2024, and \$1.8 million in the first eight months of 2025, based on the principal debt balance at December 31, 2019 of \$350.0 million under our senior convertible notes, multiplied by the stated interest rate applicable at December 31, 2019 of 0.75% per annum.
- (c) As of December 31, 2019, this amount has been included in our contractual obligations table above as being due in less than 1 year due to the 30- to 120-day stated vendor terms. See further discussion in Note 7 to the Consolidated Financial Statements in Part II, Item 8 of this report.
- (d) Amounts in the table above exclude non-cancellable rental income.

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

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

Acquisitions

Our strategy includes the possible acquisition of or investments in other businesses to expand or complement our operations or to add certain services capabilities. The magnitude, timing and nature of any future acquisitions or investments will depend on a number of factors, including the availability of suitable candidates, the negotiation of acceptable terms, our financial capabilities and general economic and business conditions. Financing for future transactions would result in the utilization of cash, incurrence of additional debt, issuance of stock or some combination of the three. See Note 20 to the Consolidated Financial Statements in Part II, Item 8 of this report for a discussion of our acquisition of PCM on August 30, 2019.

Inflation

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

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

Critical Accounting Estimates

General

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

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

Sales Recognition

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

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

For each of our product and services offerings, described in detail at Note 1 to the Consolidated Financial Statements in Part II, Item 8 of this report, the determination needs to be made as to whether we are the principal or the agent in the transaction. This determination leads to how the revenue for each offering is recognized, either gross, where we are the principal in the transaction, or net, where we are the agent in the transaction. This determination is made by assessing whether or not we control the product or service at any time during the transaction. If we take control of the product or service prior to delivery to the client, then we are the principal in the transaction.

Partner Funding

We receive payments and credits from partners, including consideration pursuant to volume sales incentive programs, volume purchase incentive programs and shared marketing expense programs. Partner funding received pursuant to volume sales incentive programs is recognized as it is earned as a reduction to costs of goods sold. Partner funding received pursuant to volume purchase incentive programs is allocated as a reduction to inventories based on the applicable incentives earned from each partner and is recorded in costs of goods sold as the related inventory is sold. Partner funding received pursuant to shared marketing expense programs is recorded as it is earned as a reduction of the related selling and administrative expenses in the period the program takes place if the consideration represents a reimbursement of specific, incremental, identifiable costs. Consideration that exceeds the specific, incremental, identifiable costs is classified as a reduction of costs of goods sold. Changes in estimates of anticipated achievement levels under individual partner programs could have a material effect on our results of operations and our cash flows.

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

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

Acquisition Accounting

We allocate the purchase price of an acquired business, using the acquisition method of accounting, to its tangible and identifiable intangible assets acquired and liabilities assumed based on their estimated fair values. The excess purchase price over fair value of net assets acquired is recorded as goodwill. Certain assumptions and judgements are used to estimate the fair value of acquired assets and liabilities. We engage outside appraisal firms to assist in the fair value determination of identifiable intangible assets. We may adjust the preliminary purchase price allocation, after the acquisition closing date and through the end of the measurement period of one year or less, as we finalize the valuation of acquired assets and liabilities. Changes in estimates used in the preliminary purchase price allocation could have a material effect on the final valuation and result in changes to goodwill and intangible assets. Additionally, if forecasts supporting the valuation of intangible assets or goodwill are not achieved, then an impairment charge could be recorded.

See further information on acquisition accounting in Notes 1 and 20 to the Consolidated Financial Statements in Part II, Item 8 of this report.

Goodwill

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

We may first perform a qualitative assessment to determine whether it is more likely than not that the fair value of a reporting unit is less than its carrying value. If it is concluded that this is the case, it is necessary to perform a quantitative goodwill impairment test. Otherwise, the goodwill impairment test is not required. In completing a quantitative test for a potential impairment of goodwill, we compare the estimated fair value of each reporting unit in which the goodwill resides to its book value, including goodwill. Our reporting units are our operating segments. Management must apply judgment in determining the reporting units and in estimating the fair value of our reporting units. Multiple valuation techniques can be used to assess the fair value of the reporting unit, including the market and income approaches. All of these techniques include the use of estimates and assumptions that are inherently uncertain. Changes in these estimates and assumptions could materially affect the determination of fair value or goodwill impairment, or both. These estimates and assumptions primarily include, but are not limited to, an appropriate control premium in excess of the market capitalization of the Company, future market growth, forecasted sales and costs and appropriate discount rates. Due to the inherent uncertainty involved in making these estimates, actual results could differ from those estimates. Management evaluates the merits of each significant assumption, both individually and in the aggregate, used to determine the fair value of the reporting units. If the estimated fair value exceeds book value, goodwill is considered not to be impaired. If the carrying amount of the reporting unit exceeds its fair value, then an impairment charge is recognized for the amount by which the carrying value exceeds the fair value. To ensure the reasonableness of the estimated fair values of our reporting units, we perform a reconciliation of our total market capitalization to the estimated fair value of all of our reporting units.

See further information on the carrying value of goodwill in Note 5 to the Consolidated Financial Statements in Part II, Item 8 of this report.

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

Income Taxes

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

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

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

Recently Issued Accounting Standards

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

Item 7A. Quantitative and Qualitative Disclosures About Market Risk

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

INSIGHT ENTERPRISES, INC.
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Item 8. *Financial Statements and Supplementary Data*

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Stockholders and Board of Directors
Insight Enterprises, Inc.:

Opinion on the Consolidated Financial Statements

We have audited the accompanying consolidated balance sheets of Insight Enterprises, Inc. and subsidiaries (the Company) as of December 31, 2019 and 2018, the related consolidated statements of operations, comprehensive income, stockholders' equity, and cash flows for each of the years in the three-year period ended December 31, 2019, and the related notes (collectively, the consolidated financial statements). In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2019 and 2018, and the results of its operations and its cash flows for each of the years in the three-year period ended December 31, 2019, in conformity with U.S. generally accepted accounting principles.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (PCAOB), the Company's internal control over financial reporting as of December 31, 2019, based on criteria established in *Internal Control – Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission, and our report dated February 21, 2020 expressed an unqualified opinion on the effectiveness of the Company's internal control over financial reporting.

Change in Accounting Principle

As discussed in Note 9 to the consolidated financial statements, the Company changed its method of accounting for leases in 2019 due to the adoption of the FASB's Accounting Standards Codification (ASC) Topic 842, *Leases*.

As discussed in Note 2 to the consolidated financial statements, the Company changed its method of accounting for revenue in 2018 due to the adoption of the FASB's ASC Topic 606, *Revenue from Contracts with Customers*.

Basis for Opinion

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

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

Critical Audit Matters

The critical audit matters communicated below are matters arising from the current period audit of the consolidated financial statements that were communicated or required to be communicated to the audit committee and that: (1) relate to accounts or disclosures that are material to the consolidated financial statements and (2) involved our especially challenging, subjective, or complex judgments. The communication of critical audit matters does not alter in any way our opinion on the consolidated financial statements, taken as a whole, and we are not, by communicating the critical audit matters below, providing separate opinions on the critical audit matters or on the accounts or disclosures to which they relate.

Evaluation of revenue recognition

As discussed in Note 1 to the consolidated financial statements, the Company recognizes revenue when it satisfies a performance obligation 1) as a principal by transferring control of a product or service or 2) as an agent by arranging for sales of a vendor's product or service. The Company

measures revenue based on the consideration received in a contract with a customer, and excludes any sales incentives and amounts collected on behalf of third parties. The Company offers hardware and software products, as well as services. Given the number of product and service offerings, significant judgment is exercised by the Company in recognizing revenue, including the following decisions:

- Determining the point in time when a customer takes control of hardware.
- Determining the point in time when the customer acquires or renews the right to use or copy software under license and control transfers to the customer.
- Evaluating the Company as either a principal or an agent for hardware and software products and services, and the related recognition of revenue from the customer on a gross or a net basis.
- Determining an appropriate pattern of revenue recognition for service performance obligations.

We identified the evaluation of revenue recognition as a critical audit matter because the audit effort to evaluate the Company's revenue recognition judgments was extensive and required a high degree of auditor judgment.

The primary procedures we performed to address this critical audit matter included the following. We tested certain internal controls over the revenue recognition process, including controls related to the timing and pattern of revenue recognition and gross versus net revenue recognition. As part of testing the Company's internal controls, we also involved information technology (IT) professionals with specialized skills and knowledge, who assisted in testing of general IT controls over significant systems and the evaluation of system interface controls and automated controls designed to determine the existence, accuracy, and completeness of revenue. We evaluated the Company's significant accounting policies related to its product and service offerings by reviewing the terms of certain vendor and customer contracts and comparing to the revenue recognition standard. We selected a sample of revenue transactions and performed the following for each selection:

- Obtained evidence of a contract with the customer.
- Compared the amounts recognized to underlying documentation, including purchase orders, shipping documentation, and evidence of payment, if applicable.
- Evaluated the Company's application of their accounting policies to determine the timing and amount of revenue to be recognized.
- Tested the presentation of revenue as gross or net by comparing the attributes of the underlying vendor support to the Company's accounting policy.

Evaluation of acquisition-date fair value of customer relationship intangible asset acquired in the PCM, Inc. business combination.

As discussed in Notes 1 and 20 to the consolidated financial statements, on August 30, 2019, the Company acquired PCM, Inc. (PCM) in a business combination. As a result of the transaction, the Company acquired a customer relationship intangible asset associated with the generation of future income from PCM's existing customers. The acquisition-date fair value for the customer relationship intangible asset was \$175.5 million.

We identified the evaluation of the acquisition-date fair value of the customer relationship intangible asset acquired in the PCM transaction as a critical audit matter. There was a high degree of subjectivity in evaluating the assumptions within the discounted cash flow model used to estimate the acquisition-date fair value of the customer relationship intangible asset. The evaluation was challenging as the discounted cash flow model included the following internally-developed assumptions for which there was limited observable market information, and the estimated fair value of the customer relationship intangible asset was sensitive to possible changes to these assumptions:

- Forecasted revenue growth rates attributable to existing customers
- Estimated annual customer attrition rate
- Forecasted earnings before interest, taxes, and amortization (EBITA) margins
- Weighted-average cost of capital (WACC), including the discount rate

The primary procedures we performed to address this critical audit matter included the following. We tested certain internal controls over the Company's acquisition-date fair value of the customer relationship process to develop the relevant assumptions listed above, including controls related to the analysis of the assumptions based on market participants' views. We evaluated the Company's forecasted growth rates for existing customers by comparing forecasted growth assumptions to those of PCM's peers and industry reports. We compared the Company's forecasted PCM revenue growth and EBITA margins to PCM's historical actual results to assess the Company's ability to accurately forecast. We evaluated the estimated annual customer attrition rate by comparing to the Company's

historical small-medium business customer attrition data. In addition, we involved valuation professionals with specialized skills and knowledge, who assisted in:

- Evaluating the Company's discount rate, by comparing it against a discount rate range that was independently developed using publicly available market data for comparable entities;
- Assessing the Company's WACC calculation by comparing it against an independent estimated WACC range based on inputs obtained through published surveys and studies; and
- Developing an estimate of the acquisition-date fair value of the customer relationship intangible asset using the Company's cash flow forecast and an independently developed discount rate, and compared the results to the Company's fair value estimate.

/s/ KPMG LLP

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

Phoenix, Arizona
February 21, 2020

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Stockholders and Board of Directors
Insight Enterprises, Inc.:

Opinion on Internal Control Over Financial Reporting

We have audited Insight Enterprises, Inc. and subsidiaries' (the Company) internal control over financial reporting as of December 31, 2019, based on criteria established in Internal Control – Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission. In our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2019, based on criteria established in Internal Control – Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (PCAOB), the consolidated balance sheets of the Company as of December 31, 2019 and 2018, the related consolidated statements of operations, comprehensive income, stockholders' equity, and cash flows for each of the years in the three-year period ended December 31, 2019, and the related notes (collectively, the consolidated financial statements), and our report dated February 21, 2020 expressed an unqualified opinion on those consolidated financial statements.

The Company acquired PCM, Inc. during 2019, and management excluded from its assessment of the effectiveness of the Company's internal control over financial reporting as of December 31, 2019, PCM Inc.'s internal control over financial reporting associated with 18% of total assets and 10% of net sales included in the consolidated financial statements of the Company as of and for the year ended December 31, 2019. Our audit of internal control over financial reporting of the Company also excluded an evaluation of the internal control over financial reporting of PCM, Inc.

Basis for Opinion

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

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

Definition and Limitations of Internal Control Over Financial Reporting

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

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

/s/ KPMG LLP

Phoenix, Arizona
February 21, 2020

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

ASSETS	December 31,	
	2019	2018
Current assets:		
Cash and cash equivalents	\$ 114,668	\$ 142,655
Accounts receivable, net	2,511,383	1,931,736
Inventories	190,833	148,503
Other current assets	231,148	115,683
Total current assets	3,048,032	2,338,577
Property and equipment, net	130,907	72,954
Goodwill	415,149	166,841
Intangible assets, net	278,584	112,179
Other assets	305,507	85,396
	\$ 4,178,179	\$ 2,775,947
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable—trade	\$ 1,275,957	\$ 978,104
Accounts payable—inventory financing facilities	253,676	304,130
Accrued expenses and other current liabilities	352,204	253,033
Current portion of long-term debt	1,691	1,395
Total current liabilities	1,883,528	1,536,662
Long-term debt	857,673	195,525
Deferred income taxes	44,633	683
Other liabilities	232,027	56,088
	3,017,861	1,788,958
Commitments and contingencies		
Stockholders' equity:		
Preferred stock, \$0.01 par value, 3,000 shares authorized; no shares issued	—	—
Common stock, \$0.01 par value, 100,000 shares authorized; 35,263 and 35,482 shares issued and outstanding, respectively	353	355
Additional paid-in capital	357,032	323,622
Retained earnings	841,097	704,665
Accumulated other comprehensive loss – foreign currency translation adjustments	(38,164)	(41,653)
Total stockholders' equity	1,160,318	986,989
	\$ 4,178,179	\$ 2,775,947

See accompanying notes to consolidated financial statements.

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

	Years Ended December 31,		
	2019	2018	2017
Net sales:			
Products	\$ 6,732,121	\$ 6,249,938	\$ 6,038,744
Services	999,069	830,198	664,879
Total net sales.....	<u>7,731,190</u>	<u>7,080,136</u>	<u>6,703,623</u>
Costs of goods sold:			
Products	6,125,360	5,711,400	5,512,402
Services	467,732	375,018	272,651
Total costs of goods sold.....	<u>6,593,092</u>	<u>6,086,418</u>	<u>5,785,053</u>
Gross profit.....	1,138,098	993,718	918,570
Operating expenses:			
Selling and administrative expenses	880,737	756,529	723,328
Severance and restructuring expenses.....	5,425	3,424	9,002
Loss on sale of foreign entity	—	—	3,646
Acquisition-related expenses	11,342	282	3,329
Earnings from operations.....	<u>240,594</u>	<u>233,483</u>	<u>179,265</u>
Non-operating (income) expense:			
Interest expense, net	28,478	21,737	17,965
Other expense (income), net.....	400	(156)	2,202
Earnings before income taxes.....	<u>211,716</u>	<u>211,902</u>	<u>159,098</u>
Income tax expense	52,309	48,225	68,415
Net earnings	<u>\$ 159,407</u>	<u>\$ 163,677</u>	<u>\$ 90,683</u>
Net earnings per share:			
Basic.....	<u>\$ 4.49</u>	<u>\$ 4.60</u>	<u>\$ 2.54</u>
Diluted	<u>\$ 4.43</u>	<u>\$ 4.55</u>	<u>\$ 2.50</u>
Shares used in per share calculations:			
Basic.....	<u>35,538</u>	<u>35,586</u>	<u>35,741</u>
Diluted	<u>35,959</u>	<u>36,009</u>	<u>36,207</u>

See accompanying notes to consolidated financial statements.

INSIGHT ENTERPRISES, INC.
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
(in thousands)

	Years Ended December 31,		
	2019	2018	2017
Net earnings	\$ 159,407	\$ 163,677	\$ 90,683
Other comprehensive income (loss), net of tax:			
Foreign currency translation adjustments	3,489	(17,389)	31,835
Total comprehensive income	\$ 162,896	\$ 146,288	\$ 122,518

See accompanying notes to consolidated financial statements.

INSIGHT ENTERPRISES, INC.
CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY
(in thousands)

	Common Stock		Treasury Stock		Additional Paid-in Capital	Accumulated Other Comprehensive Loss	Retained Earnings	Total Stockholders' Equity
	Shares	Par Value	Shares	Amount				
Balances at December 31, 2016.....	35,484	\$ 355	—	\$ —	\$ 309,650	\$ (56,099)	\$ 459,537	\$ 713,443
Issuance of common stock under employee stock plans, net of shares withheld for payroll taxes.....	345	3	—	—	(5,321)	—	—	(5,318)
Stock-based compensation expense	—	—	—	—	12,826	—	—	12,826
Foreign currency translation adjustments, net of tax	—	—	—	—	—	31,835	—	31,835
Net earnings	—	—	—	—	—	—	90,683	90,683
Balances at December 31, 2017.....	35,829	358	—	—	317,155	(24,264)	550,220	843,469
Cumulative effect of accounting change	—	—	—	—	—	—	7,176	7,176
Issuance of common stock under employee stock plans, net of shares withheld for payroll taxes.....	294	3	—	—	(3,233)	—	—	(3,230)
Stock-based compensation expense	—	—	—	—	15,355	—	—	15,355
Repurchase of treasury stock	—	—	(641)	(22,069)	—	—	—	(22,069)
Retirement of treasury stock	(641)	(6)	641	22,069	(5,655)	—	(16,408)	—
Foreign currency translation adjustments, net of tax	—	—	—	—	—	(17,389)	—	(17,389)
Net earnings	—	—	—	—	—	—	163,677	163,677
Balances at December 31, 2018.....	35,482	355	—	—	323,622	(41,653)	704,665	986,989
Issuance of common stock under employee stock plans, net of shares withheld for payroll taxes.....	322	3	—	—	(6,575)	—	—	(6,572)
Stock-based compensation expense	—	—	—	—	16,011	—	—	16,011
Equity component of convertible senior notes, net of deferred tax of \$14,819 and issuance costs of \$1,700.....	—	—	—	—	44,731	—	—	44,731
Issuance of warrants related to convertible senior notes	—	—	—	—	34,440	—	—	34,440
Purchase of note hedge related to convertible senior notes, net of deferred tax of \$16,047	—	—	—	—	(50,278)	—	—	(50,278)
Repurchase of treasury stock	—	—	(541)	(27,899)	—	—	—	(27,899)
Retirement of treasury stock	(541)	(5)	541	27,899	(4,919)	—	(22,975)	—
Foreign currency translation adjustments, net of tax	—	—	—	—	—	3,489	—	3,489
Net earnings	—	—	—	—	—	—	159,407	159,407
Balances at December 31, 2019.....	<u>35,263</u>	<u>\$ 353</u>	<u>—</u>	<u>\$ —</u>	<u>\$ 357,032</u>	<u>\$ (38,164)</u>	<u>\$ 841,097</u>	<u>\$ 1,160,318</u>

See accompanying notes to consolidated financial statements.

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

	Years Ended December 31,		
	2019	2018	2017
Cash flows from operating activities:			
Net earnings	\$ 159,407	\$ 163,677	\$ 90,683
Adjustments to reconcile net earnings to net cash provided by (used in) operating activities:			
Depreciation and amortization	46,209	37,458	42,599
Provision for losses on accounts receivable	5,079	4,776	5,245
Non-cash stock-based compensation	16,011	15,355	12,826
Deferred income taxes	7,418	9,126	19,139
Other adjustments	11,546	3,929	6,840
Changes in assets and liabilities:			
Increase in accounts receivable	(118,971)	(46,883)	(208,065)
Decrease (increase) in inventories	11,944	46,534	(14,046)
(Increase) decrease in other assets	(129,745)	12,424	3,342
(Decrease) increase in accounts payable	(612)	29,844	(237,457)
Increase (decrease) in accrued expenses and other liabilities	119,590	16,407	(28,172)
Net cash provided by (used in) operating activities	<u>127,876</u>	<u>292,647</u>	<u>(307,066)</u>
Cash flows from investing activities:			
Acquisitions, net of cash and cash equivalents acquired	(664,287)	(74,938)	(186,932)
Purchases of property and equipment	(69,086)	(17,251)	(19,230)
Proceeds from sale of foreign entity	—	479	1,517
Net cash used in investing activities	<u>(733,373)</u>	<u>(91,710)</u>	<u>(204,645)</u>
Cash flows from financing activities:			
Borrowings on senior revolving credit facility	242,936	569,232	1,151,216
Repayments on senior revolving credit facility	(242,936)	(686,732)	(1,033,716)
Borrowings on ABL revolving credit facility, net of initial lender fees	1,680,515	—	—
Repayments on ABL revolving credit facility	(1,130,544)	—	—
Borrowings on accounts receivable securitization financing facility	2,364,500	3,357,000	3,961,389
Repayments on accounts receivable securitization financing facility	(2,558,500)	(3,188,000)	(3,975,889)
Borrowings under Term Loan A	—	—	175,000
Repayments under Term Loan A	—	(166,250)	(8,750)
Net (repayments) borrowings under inventory financing facility	(50,454)	(15,338)	141,037
Proceeds from issuance of convertible senior notes	341,250	—	—
Proceeds from issuance of warrants	34,440	—	—
Purchase of note hedge related to convertible senior notes	(66,325)	—	—
Repurchases of treasury stock	(27,899)	(22,069)	—
Other payments	(9,396)	(6,871)	(13,166)
Net cash provided by (used in) financing activities	<u>577,587</u>	<u>(159,028)</u>	<u>397,121</u>
Foreign currency exchange effect on cash, cash equivalents and restricted cash	(86)	(5,061)	16,089
(Decrease) increase in cash, cash equivalents and restricted cash	(27,996)	36,848	(98,501)
Cash, cash equivalents and restricted cash at beginning of year ...	<u>144,293</u>	<u>107,445</u>	<u>205,946</u>
Cash, cash equivalents and restricted cash at end of year	<u>\$ 116,297</u>	<u>\$ 144,293</u>	<u>\$ 107,445</u>

See accompanying notes to consolidated financial statements.

INSIGHT ENTERPRISES, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(1) Operations and Summary of Significant Accounting Policies

Description of Business

We empower organizations of all sizes with Intelligent Technology Solutions™ and services to maximize the business value of Information Technology ("IT") in North America; Europe, the Middle East and Africa ("EMEA"); and Asia-Pacific ("APAC"). As a Fortune 500-ranked global provider of digital innovation, cloud/data center transformation, connected workforce, and supply chain optimization solutions, we help clients innovate and optimize their operations to run smarter. Our company is organized in the following three operating segments, which are primarily defined by their related geographies:

Operating Segment

North America
EMEA
APAC

Geography

United States ("U.S.") and Canada
Europe, Middle East and Africa
Asia-Pacific

Our offerings in North America and certain countries in EMEA and APAC include hardware, software and services. Our offerings in the remainder of our EMEA and APAC segments are largely software and certain software-related services.

Acquisitions

Effective August 30, 2019, we acquired PCM, Inc. ("PCM"), a provider of multi-vendor technology offerings, including hardware, software and services, for a purchase price of approximately \$745,562,000, including cash and cash equivalents of \$84,637,000 and the payment of PCM's outstanding debt. The acquisition was funded through a combination of using cash on hand and borrowings under our senior secured revolving credit facility (the "ABL facility").

Effective August 1, 2018, we acquired Cardinal Solutions Group, Inc. ("Cardinal"), a digital solutions provider, for a purchase price, net of cash acquired, of approximately \$78,400,000, including the final working capital adjustment and tax gross up adjustments. The acquisition was funded using cash on hand.

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

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

Principles of Consolidation and Presentation

The consolidated financial statements include the accounts of Insight Enterprises, Inc. and its wholly owned subsidiaries. All significant intercompany balances and transactions have been eliminated in consolidation. Included in our accounts receivable, net balance at December 31, 2019 is \$15,078,000 of accounts receivable from an unconsolidated affiliate. References to "the Company," "Insight," "we," "us," "our" and other similar words refer to Insight Enterprises, Inc. and its consolidated subsidiaries, unless the context suggests otherwise.

Acquisition Accounting

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

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

Use of Estimates

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

Cash, Cash Equivalents and Restricted Cash

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

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

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

Allowance for Doubtful Accounts

We establish an allowance for doubtful accounts to reflect our best estimate of probable losses inherent in our accounts receivable balance. The allowance is based on our evaluation of the aging of the receivables, historical write-offs and the current economic environment. We write off individual accounts against the reserve when we no longer believe that it is probable that we will collect the receivable because we become aware of a client's or partner's inability to meet its financial obligations. Such awareness may be as a result of bankruptcy filings, or deterioration in the client's or partner's operating results or financial position.

Inventories

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

Inventories not available for sale relate to product sales transactions in which we are warehousing the product and will be deploying the product to our clients' designated locations subsequent to period-end. Additionally, we may perform services on a portion of the product prior to shipment to our clients and will be paid a fee for doing so. Although these product contracts are non-cancelable with customary credit terms beginning the date the inventories are segregated in our warehouse and invoiced to the client and the warranty periods begin on the date of invoice under previous accounting

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

guidance, prior to Topic 606, these transactions did not meet the sales recognition criteria under GAAP. Therefore, we did not record sales and the inventories were classified as inventories not available for sale on our consolidated balance sheet until the product was delivered. If clients remitted payment before we delivered the product to them, then we recorded the payments received as deferred revenue on our consolidated balance sheet until such time as the product was delivered. For additional information about our accounting policy related to these transactions after adopting Topic 606, see the *Bill and Hold Transactions* section of our *Sales Recognition* policy, below.

Property and Equipment

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

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

External direct costs of materials and services consumed in developing or obtaining internal-use computer software and payroll and payroll-related costs for teammates who are directly associated with and who devote time to internal-use computer software development projects, to the extent of the time spent directly on the project and specific to application development, are capitalized.

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

Goodwill

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

Intangible Assets

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

We regularly perform reviews to determine if facts and circumstances exist which indicate that the economic lives of our intangible assets are shorter than originally estimated or the carrying amount of these assets may not be recoverable. When an indication exists that the carrying amount of

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

intangible assets may not be recoverable, we assess the recoverability of our assets by comparing the projected undiscounted net cash flows associated with the related asset or group of assets over their remaining lives against their respective carrying amounts. Such impairment test is based on the lowest level for which identifiable cash flows are largely independent of the cash flows of other groups of assets and liabilities. Impairment, if any, is based on the excess of the carrying amount over the estimated fair value of those assets.

Leases

We adopted ASU No. 2016-02, "Leases" (Topic 842) with a date of initial application of January 1, 2019. As a result, we updated our accounting policy for leases. We determine if a contract or arrangement is, or contains, a lease at inception. Balances related to operating leases are included in other assets, other current liabilities, and other liabilities in our consolidated balance sheet. Balances related to financing leases are included in property and equipment, current portion of long-term debt, and long-term debt in our consolidated balance sheet. Right of use ("ROU") assets represent our right to use an underlying asset for the lease term and lease liabilities represent our obligation to make lease payments arising from the lease.

Operating lease ROU assets and liabilities are recognized at commencement date based on the present value of lease payments over the lease term. As most of our leases do not provide an implicit rate, we use our incremental borrowing rate based on the information available at commencement date in determining the present value of lease payments. We use the implicit rate when readily determinable. The operating lease ROU asset includes any prepaid lease payments and additional direct costs and excludes lease incentives. Our lease terms may include options to extend or terminate the lease when it is reasonably certain that we will exercise that option.

Self-Insurance

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

Treasury Stock

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

Sales Recognition

We adopted ASU No. 2014-09, "Revenue from Contracts with Customers," which created FASB Topic 606 ("Topic 606") with a date of initial application of January 1, 2018. As a result, we changed our accounting policy for sales recognition where detailed below. Revenue is measured based on the consideration specified in a contract with a client, and excludes any sales incentives and amounts collected on behalf of third parties. The Company recognizes revenue when it satisfies a performance obligation 1) as a principal by transferring control of a product or service or 2) as an agent by arranging for the sales of a vendor's product or service.

Taxes assessed by a governmental authority that are both imposed on and concurrent with a specific revenue-producing transaction, that are collected by the Company from a client, are excluded from revenue.

We record the freight we bill to our clients as product net sales and the related freight costs we pay as product costs of goods sold.

Nature of Goods and Services

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

When we provide a combination of hardware and software products with the provision of services, we separately identify our performance obligations under our contract with the client as the distinct

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

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

Product Offerings

Hardware

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

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

Bill and Hold Transactions

We offer a service to our customers whereby clients may purchase product that we procure on their behalf and, at our clients' direction, store the product in our warehouse for a designated period of time, with the intention of deploying the product to the clients' designated locations at a later date. These warehousing services are designed to help our clients with inventory management challenges associated with technology roll-outs, product that is moving to end of life, or clients needing integrated stock available for immediate deployment. The client is invoiced and title transfers to the client upon receipt of the product at our warehouse. These product contracts are non-cancelable with customary credit terms beginning the date the product is received in our warehouse and the warranty periods begin on the date of invoice. Revenue is recognized for the sale of the product to the client upon receipt of the product at our warehouse.

Under previous accounting guidance, prior to the adoption of Topic 606, it was determined that these product sales transactions did not meet the revenue recognition criteria under GAAP. Therefore, we did not record product net sales, and the inventories were classified as inventories not available for sale on our consolidated balance sheets, until the product was delivered to the clients' designated location. If clients remitted payment before we delivered the product to them, we recorded the payments received as deferred revenue on our consolidated balance sheets until such time as the product was delivered.

Software

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

INSIGHT ENTERPRISES, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

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

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

Services Offerings

Software Maintenance

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

Vendor Direct Support Services Contracts

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

Cloud / Software-as-a-Service Offerings

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

Insight Delivered Services

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

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

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

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

Time and Materials Services Contracts

We recognize revenue for professional services engagements that are on a time and materials basis based upon hours incurred for the performance completed to date for which we have the right to consideration, even if such amounts have not yet been invoiced as of period end.

Fixed Fee Services Contracts

We recognize revenue on fixed fee professional services contracts using a proportional performance method of revenue recognition based on the ratio of direct labor and other allocated costs incurred to total estimated direct labor and other allocated costs.

OneCall Support Services Contracts

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

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

Third-party Provided Services

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

Costs of Goods Sold

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

Selling and Administrative Expenses

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

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

professional fees, amortization of intangible assets, provisions for losses on accounts receivable and other operating expenses.

Partner Funding

We receive payments and credits from partners, including consideration pursuant to volume sales incentive programs, volume purchase incentive programs and shared marketing expense programs. Partner funding received pursuant to volume sales incentive programs is recognized as it is earned as a reduction to costs of goods sold. Partner funding received pursuant to volume purchase incentive programs is allocated as a reduction to inventories based on the applicable incentives earned from each partner and is recorded in cost of goods sold as the related inventory is sold. Partner funding received pursuant to shared marketing expense programs is recorded as it is earned as a reduction of the related selling and administrative expenses in the period the program takes place if the consideration represents a reimbursement of specific, incremental, identifiable costs. Consideration that exceeds the specific, incremental, identifiable costs is classified as a reduction of costs of goods sold. The amount of partner funding recorded as a reduction of selling and administrative expenses in our statements of operations totaled \$77,668,000, \$68,571,000 and \$53,227,000 in 2019, 2018 and 2017, respectively.

Concentrations of Risk

Credit Risk

Although we are affected by the international economic climate, management does not believe material credit risk concentration existed at December 31, 2019. We monitor our clients' financial condition and do not require collateral. No single client accounted for more than 3% of our consolidated net sales in 2019.

Partner Risk

Purchases from Microsoft and Tech Data (a distributor) accounted for approximately 12% each of our aggregate purchases in 2019. No other partner accounted for more than 10% of purchases in 2019. Our top five partners as a group for 2019 were Microsoft, Tech Data (a distributor), Cisco Systems, HP Inc. and Dell, and approximately 61% of our total purchases during 2019 came from this group of partners. Although brand names and individual products are important to our business, we believe that competitive sources of supply are available in substantially all of our product categories such that, with the exception of Microsoft, we are not dependent on any single partner for sourcing products.

Advertising Costs

Advertising costs are expensed as they are incurred. Advertising expense of \$62,913,000, \$57,448,000 and \$47,053,000 was recorded in 2019, 2018 and 2017, respectively. These amounts were predominantly offset by partner funding earned pursuant to shared marketing expense programs recorded as a reduction of selling and administrative expenses, as discussed in "Partner Funding" above.

Stock-Based Compensation

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

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

Foreign Currencies

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

Income Taxes

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

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

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

Contingencies

From time to time, we are subject to potential claims and assessments from third parties. We are also subject to various government agency, client and partner audits. We continually assess whether or not such claims have merit and warrant accrual. An accrual is made if it is both probable that a liability has been incurred and the amount of the loss can be reasonably estimated. Such estimates are subject to change and may affect our results of operations and our cash flows.

Net Earnings Per Share ("EPS")

Basic EPS is computed by dividing net earnings available to common stockholders by the weighted average number of common shares outstanding during each year. Diluted EPS is computed on the basis of the weighted average number of shares of common stock plus the effect of dilutive potential common shares outstanding during the period using the treasury stock method. Dilutive potential common shares include outstanding RSUs.

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

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

	<u>Years Ended December 31,</u>		
	<u>2019</u>	<u>2018</u>	<u>2017</u>
Numerator:			
Net earnings	\$ 159,407	\$ 163,677	\$ 90,683
Denominator:			
Weighted-average shares used to compute basic EPS.....	35,538	35,586	35,741
Dilutive potential common shares due to dilutive:			
RSUs, net of tax effect.....	421	423	466
Weighted-average shares used to compute diluted EPS	<u>35,959</u>	<u>36,009</u>	<u>36,207</u>
Net earnings per share:			
Basic.....	<u>\$ 4.49</u>	<u>\$ 4.60</u>	<u>\$ 2.54</u>
Diluted	<u>\$ 4.43</u>	<u>\$ 4.55</u>	<u>\$ 2.50</u>

In 2019, 2018 and 2017, approximately 42,000, 17,000 and 40,000, respectively, of our RSUs were not included in the diluted EPS calculations because their inclusion would have been anti-dilutive. These share-based awards could be dilutive in the future. In the year ended December 31, 2019, certain potential outstanding shares from convertible senior notes and warrants were not included in the diluted EPS calculations because their inclusion would have been anti-dilutive.

Recently Issued Accounting Standards

In December 2019, the Financial Accounting Standards Board's ("FASB") issued Accounting Standard Update ("ASU") No. 2019-12, "Simplifying the Accounting for Income Taxes." The new standard is intended to simplify various aspects of accounting for income taxes by removing specific exceptions and amending certain requirements. The new standard is effective for interim and annual periods beginning after December 15, 2020, and early adoption is permitted. We do not expect this new standard to have a material effect on our consolidated financial statements.

In December 2019, the FASB issued ASU No. 2019-08, "Compensation – Stock Compensation (Topic 718) and Revenue from Contracts with Customers (Topic 606): Codification Improvements – Share-Based Consideration Payable to a Customer." The new standard is intended to provide guidance on measuring share-based payment awards granted to a customer. The new standard is effective for interim and annual periods beginning after December 15, 2019, and early adoption is permitted. We adopted this new standard in the fourth quarter of 2019. The adoption of this new standard did not have a material effect on our consolidated financial statements.

In June 2016, the FASB issued ASU No. 2016-13, "Financial Instruments – Credit Losses." The new standard is intended to provide financial statement users with more decision-useful information about the expected credit losses on financial instruments and other commitments to extend credit held at each reporting date. The new standard is effective for interim and annual periods beginning after December 15, 2019, and early adoption is permitted. We will adopt the new standard as of January 1, 2020 and do not expect the adoption to have a material effect on our consolidated financial statements.

In November 2019, the FASB issued ASU No. 2019-11, "Codification Improvements to Topic 326, Financial Instruments – Credit Losses." The new standard provides amendments to the reporting of expected recoveries. The new standard is effective with the adoption of ASU No. 2016-13. We will adopt the new standard as of January 1, 2020 and do not expect the adoption to have a material effect on our consolidated financial statements.

In April 2019, the FASB issued ASU No. 2019-04, "Codification Improvements to Topic 326, Financial Instruments – Credit Losses, Topic 815, Derivatives and Hedging, and Topic 825, Financial Instruments." The new standard provides changes for how a company considers expected recoveries and contractual extensions or renewal options when estimating expected credit losses. The new standard is effective with the adoption of ASU No. 2016-13. We will adopt the new standard as of

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

January 1, 2020 and do not expect the adoption to have a material effect on our consolidated financial statements.

In February 2016 and July 2018, the FASB issued ASU No. 2016-02, "Leases" and ASU No. 2018-11, "Leases (Topic 842) – Targeted Improvements," respectively, which amends the existing accounting standards for leases. We adopted the standards in the first quarter of 2019. See Note 9 for further discussion.

(2) Sales Recognition

Disaggregation of Revenue

In the following table, revenue is disaggregated by our reportable operating segments, which are primarily defined by their related geographies, as well as by major product offering, by major client group and by recognition on either a gross basis as a principal in the arrangement, or on a net basis as an agent, for the years ended December 31, 2019 and 2018 (in thousands):

	Year Ended December 31, 2019			
	North America	EMEA	APAC	Consolidated
Major Offerings				
Hardware.....	\$ 3,957,507	\$ 622,949	\$ 34,965	\$ 4,615,421
Software.....	1,269,983	753,729	92,988	2,116,700
Services.....	796,815	149,966	52,288	999,069
	<u>\$ 6,024,305</u>	<u>\$ 1,526,644</u>	<u>\$ 180,241</u>	<u>\$ 7,731,190</u>
Major Client Groups				
Large Enterprise / Corporate.....	\$ 4,466,384	\$ 1,126,388	\$ 59,786	\$ 5,652,558
Public Sector	597,489	323,590	55,422	976,501
Small and Medium-Sized Businesses.....	960,432	76,666	65,033	1,102,131
	<u>\$ 6,024,305</u>	<u>\$ 1,526,644</u>	<u>\$ 180,241</u>	<u>\$ 7,731,190</u>
Revenue Recognition based on acting as Principal or Agent in the Transaction				
Gross revenue recognition (Principal).....	\$ 5,759,247	\$ 1,432,300	\$ 156,279	\$ 7,347,826
Net revenue recognition (Agent)	265,058	94,344	23,962	383,364
	<u>\$ 6,024,305</u>	<u>\$ 1,526,644</u>	<u>\$ 180,241</u>	<u>\$ 7,731,190</u>
	Year Ended December 31, 2018			
	North America	EMEA	APAC	Consolidated
Major Offerings				
Hardware.....	\$ 3,610,356	\$ 653,499	\$ 29,496	\$ 4,293,351
Software.....	1,112,715	736,509	107,363	1,956,587
Services.....	639,910	140,233	50,055	830,198
	<u>\$ 5,362,981</u>	<u>\$ 1,530,241</u>	<u>\$ 186,914</u>	<u>\$ 7,080,136</u>
Major Client Groups				
Large Enterprise / Corporate.....	\$ 3,951,900	\$ 1,134,696	\$ 49,826	\$ 5,136,422
Public Sector	498,873	327,818	76,567	903,258
Small and Medium-Sized Businesses.....	912,208	67,727	60,521	1,040,456
	<u>\$ 5,362,981</u>	<u>\$ 1,530,241</u>	<u>\$ 186,914</u>	<u>\$ 7,080,136</u>
Revenue Recognition based on acting as Principal or Agent in the Transaction				
Gross revenue recognition (Principal).....	\$ 5,143,228	\$ 1,439,979	\$ 164,394	\$ 6,747,601
Net revenue recognition (Agent)	219,753	90,262	22,520	332,535
	<u>\$ 5,362,981</u>	<u>\$ 1,530,241</u>	<u>\$ 186,914</u>	<u>\$ 7,080,136</u>

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

Contract Balances

The following table provides information about receivables and contract liabilities as of December 31, 2019 and 2018 (in thousands):

	<u>December 31,</u> <u>2019</u>	<u>December 31,</u> <u>2018</u>
Current receivables, which are included in “Accounts receivable, net”	\$ 2,511,383	\$ 1,931,736
Non-current receivables, which are included in “Other assets”.....	154,417	38,157
Contract liabilities, which are included in “Accrued expenses and other current liabilities” and “Other liabilities”	84,814	82,117

Significant changes in the contract liabilities balances during the year ended December 31, 2019 are as follows (in thousands):

	<u>Increase</u> <u>(Decrease)</u>
Balances at January 1, 2018	\$ 86,743
Recognition of the beginning contract liabilities to revenue, as the result of performance obligations satisfied	(72,779)
Cash received in advance and not recognized as revenue.....	68,153
Balances at December 31, 2018	\$ 82,117
Recognition of the beginning contract liabilities to revenue, as the result of performance obligations satisfied	(73,750)
Cash received in advance and not recognized as revenue.....	69,376
Contract liabilities assumed in an acquisition	7,071
Balances at December 31, 2019	<u>\$ 84,814</u>

Transaction price allocated to the remaining performance obligations

The following table includes estimated net sales related to performance obligations that are unsatisfied (or partially unsatisfied) as of December 31, 2019 that are expected to be recognized in the future (in thousands):

	<u>Services</u>
2020.....	104,178
2021.....	32,080
2022.....	12,838
2023 and thereafter.....	6,254
Total remaining performance obligations.....	<u>\$ 155,350</u>

Remaining performance obligations that have original expected durations of one year or less are not included in the table above, with the exception of those associated with our OneCall Support Services contracts. OneCall Support Services contracts are included in the table above regardless of original duration. Amounts not included in the table above have an average original expected duration of nine months. Additionally, for our time and material services contracts, whereby we have the right to consideration from a client in an amount that corresponds directly with the value to the client of our performance completed to date, we recognized revenue in the amount to which we have a right to invoice as of December 31, 2019 and do not disclose information about related remaining performance obligations in the table above. Our open time and material contracts at December 31, 2019, have an average expected duration of 12 months.

The majority of our backlog historically has been and continues to be open cancelable purchase orders. We do not believe that backlog as of any particular date is predictive of future results, therefore we do not include performance obligations under open cancelable purchase orders, which do not qualify for revenue recognition as of December 31, 2019, in the table above.

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

The following summarize the effects of adopting Topic 606 on the Company's consolidated statement of operations and statement of cash flows for the year ended December 31, 2018 (in thousands, except for per share data):

STATEMENT OF OPERATIONS FOR THE YEAR ENDED DECEMBER 31, 2018

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

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

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

(3) Assets Held for Sale

On November 1, 2019, we completed the purchase of real estate in Chandler, Arizona that we intend to use as our global corporate headquarters (see Note 4 for a discussion of the purchase). During the fourth quarter of 2019, properties in Tempe, Arizona, El Segundo, Irvine and Santa Monica, California and Woodbridge, Illinois were classified as held for sale, for approximately \$83,191,000, which is included in other current assets in the accompanying consolidated balance sheet as of December 31, 2019, as we look to sell current properties in preparation for our move to Chandler in 2020.

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

(4) Property and Equipment

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

	December 31,	
	2019	2018
Software	\$ 114,674	\$ 170,327
Buildings	92,092	64,263
Equipment.....	60,661	100,421
Furniture and fixtures	34,768	38,200
Leasehold improvements	33,668	26,319
Land.....	31,374	5,124
	<u>367,237</u>	<u>404,654</u>
Accumulated depreciation and amortization	(236,330)	(331,700)
Property and equipment, net.....	<u>\$ 130,907</u>	<u>\$ 72,954</u>

Depreciation and amortization expense related to property and equipment was \$22,538,000, \$21,721,000 and \$25,787,000 in 2019, 2018 and 2017, respectively.

On November 1, 2019, we completed the purchase of real estate in Chandler, Arizona for approximately \$48,000,000 that we intend to use as our global corporate headquarters. The property contains a building and some infrastructure in place that we will complete readying for our use over the next year. We intend to sell our current properties in Tempe, Arizona.

Included within the software, buildings and land values presented above are assets in the process of being readied for use in the amounts of approximately \$12,138,000, \$27,658,000 and \$11,700,000, respectively. Depreciation on these assets will commence, as appropriate, when they are ready for use and placed in service.

(5) Goodwill

The changes in the carrying amount of goodwill for the year ended December 31, 2019 are as follows (in thousands):

	North America	EMEA	APAC	Consolidated
Goodwill.....	\$ 443,250	\$ 155,480	\$ 21,535	\$ 620,265
Accumulated impairment losses	(323,422)	(151,439)	(13,973)	(488,834)
Goodwill acquired during 2018	36,440	(108)	—	36,332
Foreign currency translation adjustment.....	—	(184)	(738)	(922)
Balance at December 31, 2018	156,268	3,749	6,824	166,841
Goodwill acquired during 2019	240,550	7,910	—	248,460
Foreign currency translation adjustment.....	—	(87)	(65)	(152)
Balance at December 31, 2019	<u>\$ 396,818</u>	<u>\$ 11,572</u>	<u>\$ 6,759</u>	<u>\$ 415,149</u>

On August 30, 2019, we acquired PCM, which is being integrated into our North America and EMEA businesses. Under the acquisition method of accounting, the preliminary purchase price for the acquisition was allocated to the tangible and identifiable intangible assets acquired and liabilities assumed based on their estimated fair values. The excess purchase price over fair value of net assets acquired of approximately \$248,860,000 was recorded as goodwill in the North America and EMEA reporting units (see Note 20). The primary driver for this acquisition was to help existing PCM clients in positioning their businesses for future growth, transforming and securing their data platforms, creating modern and mobile experiences for their workforce and optimizing the procurement of technology. The addition of PCM complements our supply chain optimization solution offering, adding scale and clients in the mid-market and corporate space in North America.

On August 1, 2018, we acquired Cardinal, which has been integrated into our North America business. Under the acquisition method of accounting, the purchase price for the acquisition was allocated to the tangible and identifiable intangible assets acquired and liabilities assumed based on their estimated fair values. The excess purchase price over fair value of net assets acquired of approximately

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

\$36,040,000, net of a measurement period adjustment of \$400,000 recognized in 2019, was recorded as goodwill in the North America reporting unit (see Note 20). The primary driver for this acquisition was to strengthen our services capabilities and bring value to our clients within our digital innovation services solution offering.

During 2019, we periodically assessed whether any indicators of impairment existed which would require us to perform an interim impairment review. As of each interim period end during the year, we concluded that a triggering event had not occurred that would more likely than not reduce the fair value of our reporting units below their carrying values. We performed our annual test of goodwill for impairment during the fourth quarter of 2019. The results of the goodwill impairment test indicated that the fair values of our North America, EMEA and APAC reporting units, estimated using the market approach, were in excess of their respective carrying values.

(6) Intangible Assets

Intangible assets consist of the following (in thousands):

	December 31,	
	2019	2018
Customer relationships	\$ 336,455	\$ 159,566
Other	15,621	5,555
	352,076	165,121
Accumulated amortization	(73,492)	(52,942)
Intangible assets, net	278,584	112,179

During 2019, we periodically assessed whether any indicators of impairment existed related to our intangible assets. As of each interim period end during the year, we concluded that a triggering event had not occurred that would more likely than not reduce the fair value of our intangible assets below their carrying values.

Amortization expense recognized in 2019, 2018 and 2017 was \$23,671,000, \$15,737,000 and \$16,812,000, respectively.

Future amortization expense for the remaining unamortized balance as of December 31, 2019 is estimated as follows (in thousands):

Years Ending December 31,	Amortization Expense
2020	\$ 36,562
2021	31,259
2022	30,631
2023	29,297
2024	27,846
Thereafter	122,989
Total amortization expense	\$ 278,584

(7) Accounts Payable - Inventory Financing Facilities

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

On July 10, 2019, we entered into an unsecured inventory financing facility with a maximum availability for vendor purchases of \$200,000,000 with MUFG Bank Ltd ("MUFG"). On August 30, 2019, we terminated our existing inventory financing facility with Wells Fargo Capital Finance, LLC ("Wells Fargo") and entered into a new unsecured inventory financing facility with Wells Fargo with an aggregate availability for vendor purchases under the facility of \$250,000,000. As of December 31, 2019, our combined inventory financing facilities had a total maximum capacity of \$450,000,000, of which \$253,676,000 was outstanding at December 31, 2019. The facilities remain in effect until they are terminated by any of the parties. Interest does not accrue on accounts payable under these

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

facilities provided the accounts payable are paid within stated vendor terms (typically 60 days); however, we impute interest on the average daily balance outstanding during these stated vendor terms based on our incremental borrowing rate during the period. Imputed interest of \$10,801,000, \$10,593,000 and \$6,736,000 was recorded in 2019, 2018 and 2017, respectively. If balances are not paid within stated vendor terms, they will accrue interest at prime plus 2.00% or prime plus 1.25% with respect to the MUFG facility and the Wells Fargo facility, respectively.

(8) Debt, Finance Leases and Other Financing Obligations

Debt

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

	December 31,	
	2019	2018
Senior revolving credit facility.....	\$ —	\$ —
ABL revolving credit facility	570,706	—
Accounts receivable securitization financing facility.....	—	194,000
Convertible senior notes due 2025	284,836	—
Finance leases and other financing obligations	3,822	2,920
Total.....	859,364	196,920
Less: current portion of long-term debt	(1,691)	(1,395)
Long-term debt	\$ 857,673	\$ 195,525

On August 30, 2019, we entered into a credit agreement (the "credit agreement") providing for a senior secured revolving credit facility (the "ABL facility"), which has an aggregate U.S. dollar equivalent maximum borrowing amount of \$1,200,000,000, including a maximum borrowing capacity that could be used for borrowing in certain foreign currencies of \$150,000,000. While the ABL facility has a stated maximum amount, the actual availability under the ABL facility is limited by specified percentages of eligible accounts receivable and certain eligible inventory, in each case as set forth in the credit agreement. From time to time and at our option, we may request to increase the aggregate amount available for borrowing under the ABL facility by up to an aggregate of the U.S. dollar equivalent of \$500,000,000, subject to customary conditions, including receipt of commitments from lenders. The ABL facility is guaranteed by certain of our material subsidiaries and is secured by a lien on certain of our assets and certain of each other borrower's and each guarantor's assets. The ABL facility matures on August 30, 2024. As of December 31, 2019, eligible accounts receivable and inventory were sufficient to permit access to the full \$1,200,000,000 facility amount, of which \$570,706,000 was outstanding.

The interest rates applicable to borrowings under the ABL facility are based on the average aggregate excess availability under the ABL facility as set forth on a pricing grid in the credit agreement. Amounts outstanding under the ABL facility bear interest, payable quarterly, at a floating rate equal to a LIBOR rate plus a pre-determined spread of 1.25% to 1.50%. The floating interest rate applicable at December 31, 2019 was 2.94% per annum for the ABL facility. In addition, we pay a quarterly commitment fee on the unused portion of the facility of 0.25%, and our letter of credit participation fee ranges from 1.25% to 1.50%. During 2019, weighted average borrowings under our ABL facility were \$634,361,000. Interest expense associated with the ABL facility was \$8,880,000 in 2019, including the commitment fee and amortization of deferred financing fees.

The ABL facility contains customary affirmative and negative covenants and events of default. If a default occurs (subject to customary grace periods and materiality thresholds) under the credit agreement, certain actions may be taken, including, but not limited to, possible termination of commitments and required payment of all outstanding principal amounts plus accrued interest and fees payable under the credit agreement.

On August 30, 2019, we repaid in full and terminated our then existing senior revolving credit facility (the "revolving credit facility"). The revolving credit facility had an aggregate U.S. dollar equivalent maximum borrowing amount of \$350,000,000, including a maximum borrowing capacity that could be used for borrowing in certain foreign currencies of \$50,000,000.

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

On August 30, 2019, we repaid in full and terminated our accounts receivable securitization financing facility (the "ABS facility"). The ABS facility had a maximum aggregate borrowing availability of \$250,000,000, subject to limitations based on the quantity and quality of the underlying accounts receivable.

Convertible Senior Notes

On August 15, 2019, we issued \$300,000,000 aggregate principal amount of convertible senior notes (the "notes") that mature on February 15, 2025. On August 23, 2019, we issued an additional \$50,000,000 aggregate principal amount of the notes pursuant to the exercise in full by the initial purchasers of the notes of their option to purchase additional notes. The notes bear interest at an annual rate of 0.75% payable semiannually, in arrears, on February 15th and August 15th of each year. The notes are general unsecured obligations of Insight and are guaranteed on a senior unsecured basis by Insight Direct USA, Inc., a wholly owned subsidiary of Insight.

Holders of the notes may convert their notes at their option at any time prior to the close of business on the business day immediately preceding June 15, 2024, under the following circumstances: (1) during any calendar quarter commencing after the calendar quarter ending on December 31, 2019 (and only during such calendar quarter), if the last reported sale price of our common stock for at least 20 trading days (whether or not consecutive) during a period of 30 consecutive trading days ending on, and including, the last trading day of the immediately preceding calendar quarter is greater than or equal to 130% of the conversion price on each applicable trading day; (2) during the five business day period after any five consecutive trading day period (the "measurement period") in which the trading price of our common stock per \$1,000 principal amount of notes for each trading day of the measurement period was less than 98% of the product of the last reported sale price of our common stock and the conversion rate on each such trading day; (3) if we call any or all of the notes for redemption, at any time prior to the close of business on the second scheduled trading day immediately preceding the redemption date; or (4) upon the occurrence of specified corporate events. On or after June 15, 2024 until the close of business on the second scheduled trading day immediately preceding the maturity date, the holders may convert their notes at any time, regardless of the foregoing circumstances.

Upon conversion, we will pay or deliver cash, shares of our common stock or a combination of the two, at our discretion. The conversion rate will initially be 14.6376 shares of common stock per \$1,000 principal amount of notes (equivalent to an initial conversion price of approximately \$68.32 per share of common stock). The conversion rate is subject to change in certain circumstances and will not be adjusted for any accrued and unpaid interest. In addition, following certain events that occur prior to the maturity date or following our issuance of a notice of redemption, the conversion rate is subject to an increase for a holder who elects to convert their notes in connection with those events or during the related redemption period in certain circumstances.

If we undergo a fundamental change, the holders may require us to repurchase for cash all or any portion of their notes at a fundamental change repurchase price equal to 100% of the principal amount of the notes to be repurchased, plus accrued and unpaid interest to, but excluding, the fundamental change repurchase date. As of December 31, 2019, none of the criteria for a fundamental change or a conversion rate adjustment had been met.

The maximum number of shares issuable upon conversion, including the effect of a fundamental change and subject to other conversion rate adjustments, would be 6,788,208.

We may redeem for cash all or any portion of the notes, at our option, on or after August 20, 2022 if the last reported sale price of our common stock has been at least 130% of the conversion price then in effect for at least 20 trading days (whether or not consecutive) during any 30 consecutive trading day period (including the last trading day of such period) ending on, and including, the trading day immediately preceding the date on which we provide notice of redemption at a redemption price equal to 100% of the principal amount of the notes to be redeemed, plus accrued and unpaid interest to, but excluding, the redemption date. No sinking fund is provided for the notes.

The notes are subject to certain customary events of default and acceleration clauses. As of December 31, 2019, no such events have occurred.

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

The notes consist of the following balances reported within the consolidated balance sheet as of December 31, 2019 (in thousands):

	December 31, 2019
Liability:	
Principal	\$ 350,000
Less: debt discount and issuance costs, net of accumulated accretion	(65,164)
Net carrying amount	\$ 284,836
Equity, net of deferred tax	\$ 44,731

The remaining life of the debt discount and issuance cost accretion is approximately 5.125 years. The effective interest rate on the liability component of the notes is 4.325%.

The following table summarizes the equity components of the notes included in additional paid-in capital reported within the consolidated balance sheet as of December 31, 2019 (in thousands):

	Embedded Conversion Option	Embedded Conversion Option - Debt Issuance Costs	Deferred Tax	Total
Convertible Senior Notes due 2025.....	\$ 61,250	\$ (1,700)	\$ (14,819)	\$ 44,731

The following table summarizes the interest expense components resulting from the notes reported within the consolidated statement of operations for the year ended December 31, 2019 (in thousands):

	Year ended December 31, 2019
Interest expense	
Contractual coupon interest	\$ 984
Amortization of debt discount	\$ 3,728
Amortization of debt issuance costs.....	\$ 479

Convertible Note Hedge and Warrant Transaction

In connection with the issuance of the notes, we entered into certain convertible note hedge and warrant transactions (the "Call Spread Transactions") with respect to the Company's common stock.

The convertible note hedge consists of an option to purchase up to 5,123,160 common stock shares at a price of \$68.32 per share. The hedge expires on February 15, 2025 and can only be concurrently executed upon the conversion of the notes. We paid approximately \$66,325,000 for the convertible note hedge transaction.

Additionally, we sold warrants to purchase 5,123,160 shares of common stock at a price of \$103.12 per share. The warrants expire on May 15, 2025 and can only be exercised at maturity. The Company received aggregate proceeds of approximately \$34,440,000 for the sale of the warrants.

The Call Spread Transactions have no effect on the terms of the notes and reduce potential dilution by effectively increasing the initial conversion price of the notes to \$103.12 per share of the Company's common stock.

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

Finance Leases and Other Financing Obligations

From time to time, we enter into finance leases and other financing agreements with financial intermediaries to facilitate the purchase of products from certain vendors.

The current and long-term portions of our finance lease and other financing obligations are included in the current and long-term portions of long-term debt in the table above and in our consolidated balance sheets as of December 31, 2019 and 2018.

(9) Leases

Effective January 1, 2019, we adopted the FASB ASU No. 2016-02 — “Leases” (Topic 842) using the effective date transition method. This approach provides a method for recording existing leases at adoption without restating comparative periods. We elected the package of practical expedients permitted under the transition guidance within the new standard, which among other things, allowed us to carry forward the historical lease classification. In addition, we made an accounting policy election not to separate non-lease components from lease components for all existing classes of underlying assets with the exception of land and buildings. We also made an accounting policy election to not record right of use (“ROU”) assets and lease liabilities for leases with an initial term of twelve months or less on our consolidated balance sheet.

Adoption of the new standard resulted in the recording of net operating lease ROU assets and lease liabilities of \$65,922,000 and \$70,512,000, respectively, as of January 1, 2019. The difference between the additional lease assets and lease liabilities reflected existing accrued and prepaid rent balances that were reclassified to the operating lease ROU asset at January 1, 2019. The standard did not materially impact our consolidated net earnings and had no impact on cash flows.

We lease office space, distribution centers, land, vehicles and equipment. We recognize lease expense for these leases on a straight-line basis over the lease term.

Certain lease agreements include one or more options to renew, with renewal terms that can extend the lease term from one to five years or more. The exercise of lease renewal options is at our sole discretion. Some agreements also include options to purchase the leased property. The estimated life of assets and leasehold improvements are limited by the expected lease term, unless there is a transfer of title or purchase option reasonably certain of exercise.

Certain of our lease agreements include rental payments adjusted periodically for inflation. Our lease agreements do not contain any material residual value guarantees or material restrictive covenants.

The following table provides information about the financial statement classification of our lease balances reported within the consolidated balance sheets as of December 31, 2019 and January 1, 2019 (in thousands):

Leases	Classification	December 31, 2019	January 1, 2019
Assets			
Operating lease assets	Other assets	\$ 74,684	\$ 65,922
Finance lease assets	Property and equipment ^(a)	3,297	1,693
Total lease assets		\$ 77,981	\$ 67,615
Liabilities			
Current			
Operating lease liabilities	Accrued expenses and other current liabilities	\$ 19,648	\$ 15,788
Finance lease liabilities	Current portion of long-term debt	1,691	1,395
Non-current			
Operating lease liabilities	Other liabilities	60,285	54,724
Finance lease liabilities	Long-term debt	2,131	1,525
Total lease liabilities		\$ 83,755	\$ 73,432

(a) Recorded net of accumulated amortization of \$861,000 as of December 31, 2019 and there is no accumulated amortization as of January 1, 2019.

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

The following table provides information about the financial statement classification of our lease expenses reported within the consolidated statement of operations for the year ended December 31, 2019 (in thousands):

Lease cost	Classification	Year ended December 31, 2019	
Operating lease cost ^{(a) (b)}	Selling and administrative expenses	\$	21,393
Finance lease cost			
Amortization of leased assets	Selling and administrative expenses		861
Interest on lease liabilities	Interest expense, net		110
Total lease cost		\$	22,364

(a) Includes immaterial amounts recorded to cost of goods sold.

(b) Excludes short-term and variable lease costs, which are immaterial.

Future minimum lease payments under non-cancelable leases as of December 31, 2019 are as follows (in thousands):

	Operating leases	Finance leases	Total
2020.....	\$ 22,234	\$ 1,795	\$ 24,029
2021.....	18,279	1,076	19,355
2022.....	14,767	645	15,412
2023.....	9,220	449	9,669
2024.....	5,653	45	5,698
After 2024	19,559	—	19,559
Total lease payments	89,712	4,010	93,722
Less: Interest	(9,779)	(188)	(9,967)
Present value of lease liabilities	<u>\$ 79,933</u>	<u>\$ 3,822</u>	<u>\$ 83,755</u>

Operating lease payments include \$13.4 million related to options to extend lease terms that are reasonably certain of being exercised.

The following table provides information about the remaining lease terms and discount rates applied as of December 31, 2019:

	December 31, 2019
Weighted average remaining lease term (years)	
Operating leases	6.03
Finance leases	2.92
Weighted average discount rate (%)	
Operating leases	3.62
Finance leases	3.65

The following table provides other information related to leases for the year ended December 31, 2019 (in thousands):

	December 31, 2019
Cash paid for amounts included in the measurement of lease liabilities:	
Operating cash flows from operating leases	\$ 20,928
Leased assets obtained in exchange for new operating lease liabilities ^(a)	10,460

(a) Excludes operating lease assets acquired as part of the PCM acquisition of \$17,951,000.

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

Operating Leases pre-Topic 842 adoption:

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

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

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

(10) Stock-Based Compensation

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

	Years Ended December 31,		
	2019	2018	2017
North America	\$ 12,055	\$ 11,697	\$ 9,697
EMEA	3,437	3,170	2,737
APAC.....	519	488	392
Total Consolidated.....	<u>\$ 16,011</u>	<u>\$ 15,355</u>	<u>\$ 12,826</u>

Company Plan

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

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

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

The Plan is administered by the Compensation Committee of Insight's Board of Directors, and, except as provided below, the Compensation Committee has the exclusive authority to administer the Plan, including the power to determine eligibility, the types of awards to be granted, the price and the timing of awards. Under the Plan, the Compensation Committee may delegate some of its authority to

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

our Chief Executive Officer to grant awards to individuals other than individuals who are subject to the reporting requirements of Section 16(a) of the Securities Exchange Act of 1934, as amended. As of December 31, 2019, of the 7,250,000 shares of common stock reserved and available for grant under the Plan, 2,567,260 shares of common stock remain available for grant under the Plan.

Accounting for Restricted Stock Units

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

As of December 31, 2019, total compensation cost related to nonvested RSUs not yet recognized is \$25,243,000, which is expected to be recognized over the next 1.26 years on a weighted-average basis.

The following table summarizes our RSU activity during 2019:

	Number	Weighted Average Grant Date Fair Value	Fair Value
Nonvested at the beginning of year	1,020,930	\$ 36.10	
Granted	418,709	\$ 56.17	
Vested, including shares withheld to cover taxes	(437,789)	\$ 34.07	<u>\$24,837,997</u> (a)
Forfeited	(78,450)	\$ 42.97	
Nonvested at the end of year	<u>923,400</u>	\$ 45.58	<u>\$64,905,786</u> (b)

- (a) The aggregate fair value of vested RSUs represents the total pre-tax fair value, based on the closing stock price on the day of vesting, which would have been received by holders of RSUs had all such holders sold their underlying shares on that date. The aggregate intrinsic value for RSUs which vested during 2018 and 2017 was \$14,302,223 and \$20,284,762, respectively.
- (b) The aggregate fair value of the nonvested RSUs and the RSUs expected to vest represents the total pre-tax fair value, based on our closing stock price of \$70.29 as of December 31, 2019, which would have been received by holders of RSUs had all such holders sold their underlying shares on that date.

During each of the years in the three-year period ended December 31, 2019, the RSUs that vested for teammates in the United States were net-share settled such that we withheld shares with value equivalent to the teammates' minimum statutory United States tax obligation for the applicable income and other employment taxes and remitted the equivalent cash amount to the appropriate taxing authorities. The total shares withheld during 2019, 2018 and 2017 of 115,831, 88,638 and 122,255, respectively, were based on the value of the RSUs on their vesting dates as determined by our closing stock price on such dates. For 2019, 2018 and 2017, total payments for our teammates' tax obligations to the taxing authorities were \$6,572,000, \$3,230,000 and \$5,318,000, respectively, and are reflected as a financing activity within the accompanying consolidated statements of cash flows. These net-share settlements had the effect of repurchases of our common stock as they reduced the number of shares that would have otherwise been issued as a result of the vesting and did not represent an expense to us.

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

(11) Income Taxes

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

	<u>Years Ended December 31,</u>		
	<u>2019</u>	<u>2018</u>	<u>2017</u>
<u>Earnings before income taxes:</u>			
United States	\$ 142,410	\$ 145,907	\$ 119,330
Foreign.....	69,306	65,995	39,768
	<u>\$ 211,716</u>	<u>\$ 211,902</u>	<u>\$ 159,098</u>
<u>Income tax expense:</u>			
Current:			
U.S. Federal.....	\$ 20,254	\$ 18,334	\$ 31,067
U.S. State and local	5,457	3,218	3,636
Foreign	19,180	17,547	14,573
	<u>44,891</u>	<u>39,099</u>	<u>49,276</u>
Deferred:			
U.S. Federal.....	9,180	8,123	20,327
U.S. State and local	1,210	1,142	(427)
Foreign	(2,972)	(139)	(761)
	<u>7,418</u>	<u>9,126</u>	<u>19,139</u>
	<u>\$ 52,309</u>	<u>\$ 48,225</u>	<u>\$ 68,415</u>

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

	<u>2019</u>		<u>2018</u>		<u>2017</u>	
Statutory federal income tax rate	\$44,460	21.0%	\$44,499	21.0%	\$55,684	35.0%
State income tax expense, net of federal income tax benefit	7,239	3.4	6,767	3.2	2,808	1.8
Audits and adjustments, net	2,556	1.2	2,659	1.3	(313)	(0.2)
Change in valuation allowances.....	(2,739)	(1.3)	60	—	2,472	1.5
Foreign income taxed at different rates	4,024	1.9	2,639	1.2	(6,057)	(3.8)
U.S. mandatory deemed repatriation	—	—	(1,396)	(0.7)	5,625	3.5
Adjustment of net deferred tax assets for enacted U.S. federal tax reform.....	—	—	(4,198)	(2.0)	7,738	4.9
Research and development credits.....	(5,438)	(2.6)	(4,132)	(1.9)	—	—
Other, net	2,207	1.1	1,327	0.7	458	0.3
Effective tax rate.....	<u>\$52,309</u>	<u>24.7%</u>	<u>\$48,225</u>	<u>22.8%</u>	<u>\$68,415</u>	<u>43.0%</u>

In December 2017, U.S. federal tax reform was enacted as part of the U.S. Tax Cuts and Jobs Act. As part of the change in tax law, beginning in 2018, the U.S. statutory federal income tax rate was reduced from 35% to 21%. This reduction required a remeasurement of our deferred tax balances that resulted in an increase in our 2017 income tax expense. In addition, the change in tax law included provisions requiring mandatory deemed repatriation of undistributed foreign earnings. In 2017 and the first nine months of 2018, we recorded provisional amounts for certain tax enactment-date effects of the new law by applying the guidance of SEC Staff Accounting Bulletin 118 because we had not yet completed our enactment-date accounting for these effects. In 2017 and 2018, the company recorded tax expense and benefit, respectively, related to the new tax law that included remeasurement of U.S. deferred income taxes, the mandatory deemed repatriation provision and the state tax effects of these items. The changes to 2017 provisional amounts resulted in a benefit of \$5,600,000, which reduced our annual effective tax rate by 2.7% in 2018. The accounting for the enactment-date income tax effects for the new tax law was completed in 2018.

At December 31, 2017, all undistributed foreign earnings were taxed as part of the deemed repatriation of previously untaxed foreign earnings required by the U.S. Tax Cuts and Jobs Act of

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

2017. For foreign entities not treated as branches for U.S. tax purposes, we continue to assert indefinite reinvestment of foreign earnings, and accordingly have not accrued any additional income or withholding taxes on the potential repatriation of these earnings. At the present time, given the various complexities involved in repatriating earnings, it is not practicable to estimate the amount of tax that may be payable if these earnings were not reinvested indefinitely.

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

	December 31,	
	2019	2018
Deferred tax assets:		
Net operating losses	\$ 27,328	\$ 23,926
Foreign tax credits	16,091	16,800
Other	20,153	16,335
Gross deferred tax assets	63,572	57,061
Valuation allowances	(38,247)	(40,630)
Total deferred tax assets	<u>25,325</u>	<u>16,431</u>
Deferred tax liabilities:		
Goodwill and other intangibles	(48,279)	(1,202)
Property and equipment	(12,702)	(998)
Other	(5,406)	(6,947)
Total deferred tax liabilities	<u>(66,387)</u>	<u>(9,147)</u>
Net deferred tax (liabilities) assets	<u>\$ (41,062)</u>	<u>\$ 7,284</u>

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

	December 31,	
	2019	2018
Net non-current deferred tax assets, which are included in "Other assets"	\$ 3,571	\$ 7,967
Net non-current deferred tax liabilities, which are included in "Other liabilities"	(44,633)	(683)
Net deferred tax (liabilities) assets	<u>\$ (41,062)</u>	<u>\$ 7,284</u>

As of December 31, 2019, we have a federal net operating loss carryforward ("NOL") and U.S. state NOLs that will expire between 2020 and 2038. We also have NOLs from various non-U.S. jurisdictions of \$93,090,000. While the majority of the non-U.S. NOLs have no expiration date, certain of them will expire between 2020 and 2026. Certain federal and state NOLs relate to pre-acquisition losses from acquired subsidiaries, and accordingly, are subject to annual limitations as to their use under the provisions of Internal Revenue Code Section 382 – Limitation on net operating loss carry forwards and certain built-in losses following ownership change.

On the basis of currently available information, we have provided valuation allowances for certain of our deferred tax assets where we believe it is more likely than not that the related tax benefits will not be realized. At December 31, 2019 and 2018, our valuation allowances totaled \$38,247,000 and \$40,630,000, respectively, representing non-U.S. NOLs, foreign depreciation allowances and foreign tax credits.

We believe it is more likely than not that forecasted income, including income that may be generated as a result of prudent and feasible tax planning strategies, together with the tax effects of deferred tax liabilities, will be sufficient to fully recover our remaining deferred tax assets. In the future, if we determine that realization of the remaining deferred tax assets and the availability of certain previously paid taxes to be refunded are not more likely than not, we will need to increase our valuation allowances and record additional income tax expense. Changes to our valuation allowance for the years ended December 31, 2019 and 2018 were primarily driven by U.S. federal tax reform, specifically related to U.S. mandatory deemed repatriation, foreign currency translation and other adjustments. Various taxing jurisdictions are examining our tax returns for certain tax years. Although the outcome of tax audits cannot be predicted with certainty, management believes the ultimate resolution of these examinations will not result in a material adverse effect to our financial position, results of operations or cash flows.

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

As of December 31, 2019 and 2018, we had approximately \$9,736,000 and \$6,849,000, respectively, of unrecognized tax benefits. Of these amounts, approximately \$442,000 and \$313,000, respectively, related to accrued interest. The immaterial changes in the unrecognized tax benefits balance during the year reflect additions for tax positions in prior and current periods, subtractions due to foreign currency translation and subtractions due to audit settlements and statute expirations.

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

Several of our subsidiaries are currently under audit for tax years 2012 through 2018. Although the timing of the resolutions and/or closures of audits is highly uncertain, it is reasonably possible that the examination phase of these audits may be concluded within the next 12 months which could significantly increase or decrease the balance of our gross unrecognized tax benefits. However, based on the status of the various examinations in multiple jurisdictions, an estimate of the range of reasonably possible outcomes cannot be made at this time, but the estimated effect on our income tax expense and net earnings is not expected to be significant.

We, including our subsidiaries, file income tax returns in the U.S. federal jurisdiction and many state and local and non-U.S. jurisdictions. In the U.S., federal income tax returns for 2016, 2017 and 2018 remain open to examination. For U.S. state and local taxes as well as in non-U.S. jurisdictions, the statute of limitations generally varies between three and ten years. However, to the extent allowable by law, the tax authorities may have a right to examine and make adjustment to prior periods when amended returns have been filed, or when net operating losses or tax credits were generated and carried forward for subsequent utilization.

(12) Market Risk Management

Interest Rate Risk

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

We do not believe that the effect of reasonably possible near-term changes in interest rates will be material to our financial position, results of operations and cash flows. Our financing facilities expose our net earnings to changes in short-term interest rates since interest rates on the underlying obligations are variable. We had \$570,706,000 outstanding under our ABL facility and \$284,836,000 outstanding under our senior convertible notes at December 31, 2019. The interest rate attributable to the borrowings under our ABL facility and our senior convertible notes was 2.94% and 0.75%, respectively, per annum at December 31, 2019. The change in annual pre-tax earnings from operations resulting from a hypothetical 10% increase or decrease in the applicable interest rate would have been immaterial.

Although our senior convertible notes are based on a fixed rate, changes in interest rates could impact the fair market value of such notes. As of December 31, 2019, the fair market value of our convertible senior notes was \$414,295,000.

Foreign Currency Exchange Risk

We have foreign currency exchange risk related to the translation of our foreign subsidiaries' operating results, assets and liabilities (see Note 1 for a description of our Foreign Currencies policy). We also maintain cash accounts denominated in currencies other than the functional currency, which expose us to fluctuations in foreign exchange rates. Remeasurement of these cash balances results in gains/losses that are also reported in other expense (income), net within non-operating (income) expense. We monitor our foreign currency exposure and selectively enter into forward exchange contracts to mitigate risk associated with certain non-functional currency monetary assets and liabilities related to foreign denominated payables, receivables and cash balances. Transaction gains and losses resulting from non-functional currency assets and liabilities are offset by gains and losses on forward contracts in non-operating (income) expense, net in our consolidated statements of operations. The counterparties associated with our foreign exchange forward contracts are large creditworthy commercial banks. The derivatives transacted with these institutions are short in

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

duration and, therefore, we do not consider counterparty concentration and non-performance to be material risks. The Company does not have a significant concentration of credit risk with any single counterparty.

(13) Fair Value Measurements

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

- Level 1: Quoted market prices in active markets for identical assets or liabilities.
- Level 2: Observable market based inputs or unobservable inputs that are corroborated by market data.
- Level 3: Unobservable inputs that are not corroborated by market data.

As of December 31, 2019, we have no non-financial assets or liabilities that are measured and recorded at fair value on a recurring basis, and our other financial assets or liabilities generally consist of cash and cash equivalents, accounts receivable, accounts payable, accrued expenses and other current liabilities and long-term debt. The estimated fair values of our cash and cash equivalents approximate their carrying values and are determined based on quoted prices in active markets for identical assets. The estimated fair values of our long-term debt balances approximate their carrying values based on their variable interest rate terms that are based on current market interest rates for similar debt instruments. The fair values of the other financial assets and liabilities are based on the values that would be received or paid in an orderly transaction between market participants and approximate their carrying values due to their nature and short duration.

(14) Benefit Plans

We adopted a defined contribution benefit plan (the "Defined Contribution Plan") for our U.S. teammates which complies with section 401(k) of the Internal Revenue Code. The Company provides a discretionary match to all participants who make 401(k) contributions pursuant to the Defined Contribution Plan. The discretionary match provided to participants is equivalent to 50% of a participant's pre-tax contributions up to a maximum of 6% of eligible compensation per pay period. Additionally, we offer several defined contribution benefit plans to our teammates outside of the United States. These plans and their related terms vary by country. Total consolidated contribution expense under these plans was \$19,126,000, \$15,216,000 and \$14,083,000 for 2019, 2018 and 2017, respectively.

(15) Share Repurchase Programs

In February 2018, our Board of Directors authorized share repurchase programs of \$50,000,000. No share repurchase program was authorized in 2019 or 2017. The following table summarizes the shares of our common stock that we repurchased on the open market under these repurchase programs during the years ended December 31, 2019, 2018 and 2017, respectively, in thousands, except per share amounts:

Year	Total Number of Shares Purchased	Average Price Paid per Share	Approximate Dollar Value of Shares Purchased
2019	541	\$ 51.56	\$ 27,899
2018	641	34.42	22,069
2017	—	—	—
Total	<u>1,182</u>		<u>\$ 49,968</u>

All shares repurchased were retired.

(16) Commitments and Contingencies

Contractual

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

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

Management believes that payments, if any, related to these performance bonds are not probable at December 31, 2019. Accordingly, we have not accrued any liabilities related to such performance bonds in our consolidated financial statements.

Employment Contracts and Severance Plans

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

Indemnifications

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

Management believes that payments, if any, related to these indemnifications are not probable at December 31, 2019. Accordingly, we have not accrued any liabilities related to such indemnifications in the accompanying consolidated financial statements.

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

Contingencies Related to Third-Party Review

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

Legal Proceedings

From time to time, we are party to various legal proceedings incidental to the business, including preference payment claims asserted in client bankruptcy proceedings, indemnification claims, claims of alleged infringement of patents, trademarks, copyrights and other intellectual property rights, employment claims, claims of alleged non-compliance with contract provisions and claims related to alleged violations of laws and regulations. We regularly evaluate the status of the legal proceedings in which we are involved to assess whether a loss is probable or there is a reasonable possibility that a loss, or an additional loss, may have been incurred and determine if accruals are appropriate. If accruals are not appropriate, we further evaluate each legal proceeding to assess whether an estimate of possible loss or range of possible loss can be made. Although litigation is inherently unpredictable, we believe that we have adequate provisions for any probable and estimable losses. It is possible, nevertheless, that our consolidated financial position, results of operations or liquidity could be materially and adversely affected in any particular period by the work required pursuant to any legal proceedings or the resolution of any legal proceedings during such period. Legal expenses related to

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

defense of any legal proceeding or the negotiations, settlements, rulings and advice of outside legal counsel in connection with any legal proceedings are expensed as incurred.

In connection with the acquisition of PCM, the Company has effectively assumed responsibility for PCM litigation matters, including various disputes related to PCM's acquisition of certain assets of En Pointe Technologies in 2015. The seller of En Pointe Technologies and related entities providing various post-closing support functions to PCM have asserted claims regarding the sufficiency of earnout payments paid by PCM under the asset purchase agreement and the unwinding of the support functions post-closing. PCM has rejected and vigorously responded to those claims and is pursuing various counterclaims. The disputes are being heard by multiple courts and arbitrators in several different jurisdictions including California, Delaware and Pakistan. The Company cannot determine with certainty the costs or outcome of these matters. However, the Company is not involved in any pending or threatened legal proceedings, including the PCM litigation matters, that it believes would reasonably be expected to have a material adverse effect on its business, financial condition or results of operations.

(17) Supplemental Financial Information

Additions and deductions related to the allowance for doubtful accounts receivable for 2019, 2018 and 2017 were as follows (in thousands):

	<u>Balance at Beginning of Year</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balance at End of Year</u>
Allowance for doubtful accounts receivable:				
Year ended December 31, 2019.....	\$ 10,462	\$ 5,079	\$ (4,779)	\$ 10,762
Year ended December 31, 2018.....	\$ 10,158	\$ 4,776	\$ (4,472)	\$ 10,462
Year ended December 31, 2017.....	\$ 9,138	\$ 5,245	\$ (4,225)	\$ 10,158

(18) Cash Flows

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

	<u>Years Ended December 31,</u>		
	<u>2019</u>	<u>2018</u>	<u>2017</u>
Supplemental disclosures of cash flow information:			
Cash paid during the year for interest.....	\$ 6,246	\$ 10,155	\$ 10,976
Cash paid during the year for income taxes, net of refunds.....	\$ 42,484	\$ 31,218	\$ 55,470

(19) Segment and Geographic Information

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

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

<u>Sales Mix</u>	<u>North America</u> <u>Years Ended December 31,</u>		
	<u>2019</u>	<u>2018</u>	<u>2017</u>
Hardware.....	\$ 3,957,507	\$ 3,610,356	\$ 3,352,355
Software.....	1,269,983	1,112,715	1,310,118
Services	796,815	639,910	519,261
	<u>\$ 6,024,305</u>	<u>\$ 5,362,981</u>	<u>\$ 5,181,734</u>

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

	EMEA		
	Years Ended December 31,		
	2019	2018	2017
Sales Mix			
Hardware.....	\$ 622,949	\$ 653,499	\$ 536,500
Software.....	753,729	736,509	710,452
Services	149,966	140,233	108,464
	<u>\$ 1,526,644</u>	<u>\$ 1,530,241</u>	<u>\$ 1,355,416</u>

	APAC		
	Years Ended December 31,		
	2019	2018	2017
Sales Mix			
Hardware.....	\$ 34,965	\$ 29,496	\$ 27,907
Software.....	92,988	107,363	101,412
Services	52,288	50,055	37,154
	<u>\$ 180,241</u>	<u>\$ 186,914</u>	<u>\$ 166,473</u>

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

All significant intercompany transactions are eliminated upon consolidation, and there are no differences between the accounting policies used to measure profit and loss for our segments or on a consolidated basis. Net sales are defined as net sales to external clients. None of our clients exceeded ten percent of consolidated net sales in 2019, 2018 or 2017.

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

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

	Year Ended December 31, 2019			
	North America	EMEA	APAC	Consolidated
Net Sales:				
Products	\$ 5,227,490	\$ 1,376,678	\$ 127,953	\$ 6,732,121
Services	796,815	149,966	52,288	999,069
Total net sales.....	<u>6,024,305</u>	<u>1,526,644</u>	<u>180,241</u>	<u>7,731,190</u>
Costs of goods sold:				
Products	4,748,608	1,258,974	117,778	6,125,360
Services	404,583	40,587	22,562	467,732
Total costs of goods sold.....	<u>5,153,191</u>	<u>1,299,561</u>	<u>140,340</u>	<u>6,593,092</u>
Gross profit.....	871,114	227,083	39,901	1,138,098
Operating expenses:				
Selling and administrative expenses	664,374	186,957	29,406	880,737
Severance and restructuring expenses	4,946	334	145	5,425
Acquisition-related expenses	11,342	—	—	11,342
Earnings from operations.....	<u>\$ 190,452</u>	<u>\$ 39,792</u>	<u>\$ 10,350</u>	<u>\$ 240,594</u>

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

	Year Ended December 31, 2018			
	North America	EMEA	APAC	Consolidated
Net Sales:				
Products	\$4,723,071	\$1,390,008	\$ 136,859	\$ 6,249,938
Services.....	639,910	140,233	50,055	830,198
Total net sales.....	<u>5,362,981</u>	<u>1,530,241</u>	<u>186,914</u>	<u>7,080,136</u>
Costs of goods sold:				
Products	4,313,070	1,273,422	124,908	5,711,400
Services.....	317,216	35,352	22,450	375,018
Total costs of goods sold.....	<u>4,630,286</u>	<u>1,308,774</u>	<u>147,358</u>	<u>6,086,418</u>
Gross profit.....	732,695	221,467	39,556	993,718
Operating expenses:				
Selling and administrative expenses.....	545,091	182,470	28,968	756,529
Severance and restructuring expenses	1,617	1,677	130	3,424
Acquisition-related expenses.....	282	—	—	282
Earnings from operations	<u>\$ 185,705</u>	<u>\$ 37,320</u>	<u>\$ 10,458</u>	<u>\$ 233,483</u>

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

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

	December 31, 2019	December 31, 2018
North America.....	\$ 3,814,408	\$ 2,660,886
EMEA.....	699,856	611,338
APAC	123,349	98,959
Corporate assets and intercompany eliminations, net	(459,434)	(595,236)
Total assets.....	<u>\$ 4,178,179</u>	<u>\$ 2,775,947</u>

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

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

	<u>United States</u>	<u>United Kingdom</u>	<u>Other Foreign</u>	<u>Total</u>
<u>2019</u>				
Net sales.....	\$5,696,422	\$ 776,051	\$1,258,717	\$7,731,190
Total long-lived assets	\$ 103,678	\$ 13,448	\$ 13,781	\$ 130,907
<u>2018</u>				
Net sales.....	\$5,100,456	\$ 843,145	\$1,136,535	\$7,080,136
Total long-lived assets	\$ 52,346	\$ 12,434	\$ 8,174	\$ 72,954
<u>2017</u>				
Net sales.....	\$4,933,805	\$ 684,632	\$1,085,186	\$6,703,623

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

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

	<u>Years Ended December 31,</u>		
	<u>2019</u>	<u>2018</u>	<u>2017</u>
Depreciation and amortization of property and equipment:			
North America	\$ 17,827	\$ 17,164	\$ 20,241
EMEA	4,166	4,058	5,025
APAC.....	545	499	521
	<u>22,538</u>	<u>21,721</u>	<u>25,787</u>
Amortization of intangible assets:			
North America	22,382	14,791	15,971
EMEA	828	285	73
APAC.....	461	661	768
	<u>23,671</u>	<u>15,737</u>	<u>16,812</u>
Total	<u>\$ 46,209</u>	<u>\$ 37,458</u>	<u>\$ 42,599</u>

(20) Acquisitions

PCM

Effective August 30, 2019, we acquired 100 percent of the issued and outstanding shares of PCM for a cash purchase price of \$745,562,000, which included cash and cash equivalents acquired of \$84,637,000 and the payment of PCM's outstanding debt. PCM is a provider of multi-vendor technology offerings, including hardware, software and services to small, mid-sized and corporate/enterprise commercial clients, state, local and federal governments and educational institutions across the United States, Canada and the United Kingdom. Based in El Segundo, California, PCM has 40 office locations in North America and the United Kingdom and more than 4,000 teammates. We believe that this acquisition allows us to help existing PCM clients in positioning their businesses for future growth, transforming and securing their data platforms, creating modern and mobile experiences for their workforce and optimizing the procurement of technology. The addition of PCM complements our supply chain optimization solution offering, adding scale and clients in the mid-market and corporate space primarily in North America.

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

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

Purchase price net of cash and cash equivalents acquired	\$	660,925
Fair value of net assets acquired:		
Current assets	\$	532,433
Identifiable intangible assets - see description below		187,990
Property and equipment.....		91,213
Other assets.....		32,699
Current liabilities.....		(368,647)
Long-term liabilities, including deferred taxes		(63,623)
Total fair value of net assets acquired		<u>412,065</u>
Excess purchase price over fair value of net assets acquired ("goodwill")	\$	<u>248,860</u>

Under the acquisition method of accounting, the total purchase price as shown in the table above was allocated to the tangible and identifiable intangible assets acquired and liabilities assumed based on their estimated fair values. The excess of the purchase price over fair value of net assets acquired was recorded as goodwill. In the fourth quarter of 2019, an adjustment of \$56,700,000 was recorded to goodwill primarily due to a change in the customer relationships valuation based on updated information received for key inputs as well as an associated change in deferred taxes.

The estimated fair values of current assets and liabilities are based upon their historical costs on the date of acquisition due to their short-term nature. The estimated fair values of the majority of property and equipment excluding acquired real estate are also based upon historical costs as they approximate fair value. Certain long-term assets, including PCM's IT systems, have been written down to the estimated fair value.

The preliminary estimated fair value of net assets acquired was approximately \$412,065,000, including \$187,990,000 of identifiable intangible assets, consisting primarily of customer relationships of \$175,500,000. The fair value of the customer relationships were determined using the multiple-period excess earnings method.

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

Intangible Assets	Estimated Economic Life
Customer relationships	10 - 12 Years
Trade name	1 Year
Non-compete agreements	1 - 3 Years

Acquisition-related expenses recognized for the period from the acquisition date through December 31, 2019 was \$11,342,000.

Goodwill of \$248,860,000, which was recorded in our North America and EMEA operating segments, represents the excess of the purchase price over the estimated fair value assigned to tangible and identifiable intangible assets acquired and liabilities assumed from PCM. The goodwill is not amortized and will be tested for impairment annually in the fourth quarter of our fiscal year. The addition of the PCM technical employees to our team and the opportunity to grow our business are the primary factors making up the goodwill recognized as part of the transaction. None of the goodwill is tax deductible.

The purchase price allocation is preliminary and was allocated using information currently available. Further information related to legal accruals, taxes and other statutory assessments may lead to an adjustment of the purchase price allocation.

We have consolidated the results of operations for PCM since its acquisition on August 30, 2019. Consolidated net sales and gross profit for the year ended December 31, 2019 include \$733,774,000 and \$105,961,000, respectively, from PCM.

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

The following table reports unaudited pro forma information as if the acquisition of PCM had been completed at the beginning of the earliest period presented (in thousands, except per share amounts):

	Year Ended December 31,		
	2019	2018	2017
Net sales.....As reported	\$ 7,731,190	\$ 7,080,136	\$ 6,703,623
Pro forma	\$ 9,207,512	\$ 9,241,183	\$ 8,894,128
Net earnings.....As reported	\$ 159,407	\$ 163,677	\$ 90,683
Pro forma	\$ 171,102	\$ 167,499	\$ 77,496
Diluted earnings per share.....As reported	\$ 4.43	\$ 4.55	\$ 2.50
Pro forma	\$ 4.76	\$ 4.65	\$ 2.14

Cardinal

Effective August 1, 2018, we acquired 100 percent of the issued and outstanding shares of Cardinal, a digital solutions provider based in Cincinnati, Ohio, with offices across the Midwest and Southeast United States, for a cash purchase price, net of cash acquired, of approximately \$78,400,000, including final working capital and tax gross up adjustments of \$3,400,000. Cardinal provides technology solutions to digitally transform organizations through their expertise in mobile applications development, Internet of Things and cloud enabled business intelligence. We believe that this acquisition strengthens our services capabilities and will bring value to our clients within our digital innovation services solution offering.

The fair value of net assets acquired was approximately \$42,360,000, including \$27,540,000 of identifiable intangible assets, consisting primarily of customer relationships that will be amortized using the straight line method over the estimated economic life of ten years. The fair value of the customer relationships was determined using the multiple-period excess earnings method. The preliminary purchase price was allocated using the acquisition method of accounting using the information available at the time. During the fourth quarter of 2018, we finalized the fair value assumptions for identifiable intangible assets with no changes being made to amounts previously recorded. Goodwill acquired approximated \$36,040,000 which was recorded in our North America operating segment. The goodwill is tax deductible. The working capital adjustment was finalized in the fourth quarter of 2018 and paid in January 2019. Additionally, we finalized the purchase price allocation when the tax gross up adjustment was agreed upon in April 2019. This resulted in a reduction of the previously recorded purchase price in the second quarter of 2019.

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

Datalink

Effective January 6, 2017, we acquired 100 percent of the issued and outstanding shares of Datalink, a leading provider of IT services and enterprise data center solutions based in Eden Prairie, Minnesota, for a cash purchase price of \$257,456,000, which included cash and cash equivalents acquired of \$76,597,000. We believe that this acquisition strengthened our position as a leading IT solutions provider with deep technical talent delivering data center solutions to clients on premise or in the cloud.

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

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

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

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

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

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

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

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

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

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

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

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

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

		Year Ended December 31, 2017
Net sales	As reported	\$ 6,703,623
	Proforma	\$ 6,707,533
Net earnings	As reported	\$ 90,683
	Proforma	\$ 92,276
Diluted earnings per share	As reported	\$ 2.50
	Proforma	\$ 2.55

(21) Selected Quarterly Financial Information (unaudited)

The following tables set forth selected unaudited consolidated quarterly financial information for 2019 and 2018 (in thousands, except per share data):

	Quarters Ended			
	December 31	September 30	June 30,	March 31,
	2019	2019	2019	2019
Net sales.....	\$ 2,297,156	\$ 1,912,547	\$ 1,836,021	\$ 1,685,466
Costs of goods sold	1,959,174	1,636,352	1,560,572	1,436,994
Gross profit.....	337,982	276,195	275,449	248,472
Operating expenses:				
Selling and administrative expenses	266,970	223,215	199,489	191,063
Severance and restructuring expenses	1,713	2,662	680	370
Acquisition-related expenses	2,283	5,896	3,163	—
Earnings from operations	67,016	44,422	72,117	57,039
Non-operating (income) expense:				
Interest expense, net	11,897	7,694	4,335	4,552
Other (income) expense, net	(458)	(538)	346	1,050
Earnings before income taxes	55,577	37,266	67,436	51,437
Income tax expense	12,627	10,134	17,438	12,110
Net earnings	<u>\$ 42,950</u>	<u>\$ 27,132</u>	<u>\$ 49,998</u>	<u>\$ 39,327</u>
Net earnings per share:				
Basic	<u>\$ 1.22</u>	<u>\$ 0.76</u>	<u>\$ 1.40</u>	<u>\$ 1.10</u>
Diluted	<u>\$ 1.20</u>	<u>\$ 0.76</u>	<u>\$ 1.38</u>	<u>\$ 1.09</u>
Shares used in per share calculations:				
Basic	<u>35,259</u>	<u>35,512</u>	<u>35,772</u>	<u>35,609</u>
Diluted	<u>35,755</u>	<u>35,868</u>	<u>36,111</u>	<u>36,103</u>

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

	Quarters Ended			
	December 31	September 30	June 30,	March 31,
	2018	2018	2018	2018
Net sales.....	\$ 1,749,046	\$ 1,747,726	\$ 1,840,870	\$ 1,742,494
Costs of goods sold.....	1,494,882	1,512,812	1,576,493	1,502,231
Gross profit	254,164	234,914	264,377	240,263
Operating expenses:				
Selling and administrative expenses	194,790	184,095	189,464	188,180
Severance and restructuring expenses	715	683	382	1,644
Acquisition-related expenses.....	—	188	94	—
Earnings from operations	58,659	49,948	74,437	50,439
Non-operating (income) expense:				
Interest expense, net	5,141	5,802	4,932	5,862
Other (income) expense, net	(1,194)	932	49	57
Earnings before income taxes	54,712	43,214	69,456	44,520
Income tax expense	7,671	11,060	17,977	11,517
Net earnings	<u>\$ 47,041</u>	<u>\$ 32,154</u>	<u>\$ 51,479</u>	<u>\$ 33,003</u>
Net earnings per share:				
Basic	<u>\$ 1.33</u>	<u>\$ 0.91</u>	<u>\$ 1.45</u>	<u>\$ 0.92</u>
Diluted	<u>\$ 1.31</u>	<u>\$ 0.89</u>	<u>\$ 1.44</u>	<u>\$ 0.91</u>
Shares used in per share calculations:				
Basic	<u>35,480</u>	<u>35,468</u>	<u>35,483</u>	<u>35,913</u>
Diluted	<u>35,999</u>	<u>35,957</u>	<u>35,815</u>	<u>36,263</u>

INSIGHT ENTERPRISES, INC.

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

Not applicable.

Item 9A. Controls and Procedures

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

Our management is responsible for establishing and maintaining adequate internal control over financial reporting (as such term is defined under Rules 13a-15(f) and 15d-15(f) of the Securities Exchange Act of 1934, as amended (the "Exchange Act")). Our management, including our Chief Executive Officer and Chief Financial Officer, conducted an evaluation of the effectiveness of our internal control over financial reporting as of December 31, 2019. In making this assessment, our management used the criteria established in *Internal Control – Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission ("COSO"). Management has concluded that the Company maintained effective internal control over financial reporting as of December 31, 2019, based on the criteria established in COSO's *Internal Control – Integrated Framework (2013)*. We completed the acquisition of PCM on August 30, 2019. As permitted under SEC guidance, management's assessment as of December 31, 2019 did not include an assessment of the effectiveness of internal control over financial reporting of PCM, which constituted approximately 17.8% of total assets as of December 31, 2019 and 9.5% of net sales for the year ended December 31, 2019.

KPMG LLP, the independent registered public accounting firm that audited the Consolidated Financial Statements in Part II, Item 8 of this report, has issued an attestation report on the Company's internal control over financial reporting as of December 31, 2019.

(b) Changes in Internal Control Over Financial Reporting

Except as described below, there was no change in our internal control over financial reporting (as such term is defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act) during the quarter ended December 31, 2019 that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

As noted above, on August 30, 2019 we completed the acquisition of PCM. We are currently integrating PCM into our control environment. In executing this integration, we are analyzing, evaluating, and where necessary, making changes in controls and procedures related to the PCM business, which is expected to be completed in the year ended December 31, 2020.

(c) Disclosure Controls and Procedures

We maintain disclosure controls and procedures (as defined in Rule 13a-15(e) and 15d-15(e) under the Exchange Act). Our Chief Executive Officer and Chief Financial Officer, as of the end of the period covered by this report, evaluated the effectiveness of our disclosure controls and procedures and determined that as of December 31, 2019 our disclosure controls and procedures were effective to ensure that information required to be disclosed by us in reports that we file or submit under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms and that such information is accumulated and communicated to our management, including our Chief Executive Officer and Chief Financial Officer, as appropriate to allow timely decisions regarding required disclosure. We completed the acquisition of PCM on August 30, 2019. As permitted under SEC guidance, management's assessment as of December 31, 2019 did not include an assessment of the effectiveness of disclosure controls and procedures of PCM, which constituted approximately 17.8% of total assets as of December 31, 2019 and 9.5% of net sales for the year ended December 31, 2019.

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

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

Item 9B. Other Information

Not applicable.

INSIGHT ENTERPRISES, INC.

PART III

Item 10. *Directors, Executive Officers and Corporate Governance*

The information required by this item can be found in our definitive Proxy Statement relating to our 2020 Annual Meeting of Stockholders (our "Proxy Statement") and is incorporated herein by reference.

Item 11. *Executive Compensation*

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

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

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

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

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

Item 14. *Principal Accounting Fees and Services*

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

INSIGHT ENTERPRISES, INC.

PART IV

Item 15. Exhibits, Financial Statement Schedules

(a) Financial Statements and Schedules

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

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

(b) Exhibits

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

Item 16. Form 10-K Summary

None.

INSIGHT ENTERPRISES, INC.
EXHIBITS TO FORM 10-K
YEAR ENDED DECEMBER 31, 2019
Commission File No. 000-25092

Exhibit Number	Exhibit Description	Form	Incorporated by Reference			Filed/Furnished Herewith
			File No.	Exhibit Number	Filing Date	
2.1 ⁽¹⁾	Agreement and Plan of Merger, dated as of November 6, 2016, by and among Insight Enterprises, Inc., Reef Acquisition Co., and Datalink Corporation	8-K	000-25092	2.1	November 7, 2016	
2.2 ⁽¹⁾	Agreement and Plan of Merger, dated as of June 23, 2019, by and among Insight Enterprises, Inc., Trojan Acquisition Corp. and PCM	8-K	000-25092	2.1	June 24, 2019	
3.1	Amended and Restated Certificate of Incorporation of Insight Enterprises, Inc.	10-K	000-25092	3.1	February 17, 2006	
3.2	Certificate of Amendment of Amended and Restated Certificate of Incorporation of Insight Enterprises, Inc.	8-K	000-25092	3.1	May 21, 2015	
3.3	Amended and Restated Bylaws of Insight Enterprises, Inc.	8-K	000-25092	3.2	May 21, 2015	
4.1 (P)	Specimen Common Stock Certificate	S-1	33-86142	4.1	January 20, 1995	
4.2	Indenture (including Form of Note) with respect to Insight Enterprises, Inc.'s 0.750% Convertible Senior Notes due 2025, dated August 15, 2019, by and among Insight Enterprises, Inc., Insight Direct USA, Inc. and U.S. Bank National Association, as trustee.	8-K	000-25092	4.1	August 15, 2019	
4.3	Description of Company's securities					X
10.1 ⁽²⁾	Form of Indemnification Agreement	10-K	000-25092	10.1	July 26, 2007	
10.2 ⁽³⁾	Amended Insight Enterprises, Inc. 2007 Omnibus Plan	Proxy Statement	000-25092	Annex A	April 4, 2011	
10.3 ⁽³⁾	First Amendment to the Amended Insight Enterprises, Inc. 2007 Omnibus Plan	Proxy Statement	000-25092	Annex A	April 5, 2016	
10.4 ⁽³⁾	Executive Management Separation Plan effective as of January 1, 2008	10-Q	000-25092	10.5	November 7, 2008	
10.5 ⁽³⁾	First Amendment to the Insight Enterprises, Inc. Executive Management Separation Plan effective as of February 1, 2020					X
10.6 ⁽³⁾	Amended and Restated Employment Agreement between Insight Enterprises, Inc. and Glynis A. Bryan dated as of January 1, 2009	8-K	000-25092	10.3	January 7, 2009	
10.7 ⁽³⁾	Executive Employment Agreement between Insight Enterprises, Inc. and Kenneth T. Lamneck, dated as of December 14, 2009	10-K	000-25092	10.24	February 25, 2010	
10.8 ⁽³⁾	Employment Agreement between Insight Enterprises, Inc. and Steven W. Dodenhoff, dated as of January 30, 2012	10-K	000-25092	10.16	February 24, 2012	

INSIGHT ENTERPRISES, INC.
EXHIBITS TO FORM 10-K (continued)
YEAR ENDED DECEMBER 31, 2019
Commission File No. 000-25092

<u>Exhibit Number</u>	<u>Exhibit Description</u>	<u>Form</u>	<u>Incorporated by Reference</u>			<u>Filed/Furnished Herewith</u>
			<u>File No.</u>	<u>Exhibit Number</u>	<u>Filing Date</u>	
10.9 ⁽³⁾	Employment Agreement between Insight Enterprises, Inc. and Rachael A. Bertrandt, dated as of September 30, 2018	10-Q	000-25092	10.1	November 7, 2018	
10.10 ⁽³⁾	Managing Director Service Agreement dated October 25, 2013 between Insight Technology Solutions GmbH and Wolfgang Ebermann	8-K	000-25092	10.1	October 30, 2013	
10.11 ⁽³⁾	Executive Employment Agreement between Insight Enterprises, Inc. and Samuel C. Cowley, dated June 7, 2016	10-K	000-25092	10.12	February 2, 2017	
10.12 ⁽³⁾	Executive Employment Agreement between Insight Enterprises, Inc. and Jeffery Shumway, dated May 6, 2019					X
10.13	Form of Bond Hedge Confirmation.	8-K	000-25092	10.1	August 15, 2019	
10.14	Form of Warrant Confirmation.	8-K	000-25092	10.2	August 15, 2019	
10.15 ⁽⁴⁾	Credit Agreement, dated as of August 30, 2019, by and among Insight Enterprises, Inc., the subsidiaries of Insight Enterprises, Inc. party thereto as borrowers and guarantors, JPMorgan Chase Bank, N.A., as administrative agent, and the lenders party thereto.	8-K	000-25092	10.1	August 30, 2019	
21	Subsidiaries of Insight Enterprises, Inc.					X
23.1	Consent of KPMG LLP					X
24.1	Power of Attorney for Timothy A. Crown dated February 11, 2020					X
24.2	Power of Attorney for Richard E. Allen dated February 11, 2020					X
24.3	Power of Attorney for Bruce W. Armstrong dated February 11, 2020					X
24.4	Power of Attorney for Linda M. Breard dated February 11, 2020					X
24.5	Power of Attorney for Catherine Courage dated February 11, 2020					X
24.6	Power of Attorney for Anthony A. Ibarguen dated February 11, 2020					X
24.7	Power of Attorney for Kathleen S. Pushor dated February 11, 2020					X
24.8	Power of Attorney for Girish Rishi dated February 4, 2020					X
31.1	Certification of Chief Executive Officer Pursuant to Securities and Exchange Act Rule 13a-14					X
31.2	Certification of Chief Financial Officer Pursuant to Securities and Exchange Act Rule 13a-14					X

INSIGHT ENTERPRISES, INC.
EXHIBITS TO FORM 10-K (continued)
YEAR ENDED DECEMBER 31, 2019
Commission File No. 000-25092

<u>Exhibit Number</u>	<u>Exhibit Description</u>	<u>Incorporated by Reference</u>			<u>Filed/Furnished Herewith</u>
		<u>Form</u>	<u>File No.</u>	<u>Exhibit Number</u>	
32.1	Certification of Chief Executive Office 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				X
101.INS	XBRL Instance Document - the instance document does not appear in the Interactive Data File because its XBRL tags are embedded within the Inline XBRL document				X
101.SCH	Inline XBRL Taxonomy Extension Schema Document				X
101.CAL	Inline XBRL Taxonomy Extension Calculation Linkbase Document				X
101.DEF	Inline XBRL Taxonomy Extension Definition Linkbase Document				X
101.LAB	Inline XBRL Taxonomy Extension Label Linkbase Document				X
101.PRE	Inline XBRL Taxonomy Extension Presentation Linkbase Document				X
104	Cover Page Interactive Data File (formatted as Inline XBRL with applicable taxonomy extension information contained in Exhibits 101)				X
	(1) Certain schedules and exhibits (or similar attachments) have been omitted pursuant to Item 601(b)(2) of Regulation S-K. The Company agrees to furnish copies of any such schedules and exhibits (or similar attachments) to the SEC upon request.				
	(2) We have entered into a separate indemnification agreement with each of the following directors and executive officers that differ only in names and dates: Richard E. Allen, Bruce W. Armstrong, Rachael A. Bertrand, Linda Breard, Glynis A. Bryan, Catherine Courage, Samuel C. Cowley, Timothy A. Crown, Steven W. Dodenhoff, Wolfgang Ebermann, Anthony A. Ibarguen, Helen K. Johnson, Kenneth T. Lamneck, Kathleen S. Pushor, Girish Rishi and Jeffery Shumway. Pursuant to the instructions accompanying Item 601 of Regulation S-K, the Registrant is filing the form of such indemnification agreement.				
	(3) Management contract or compensatory plan or arrangement.				
	(4) Certain schedules and exhibits (or similar attachments) have been omitted pursuant to Item 601(b)(10)(iv) of Regulation S-K. The Company agrees to furnish copies of any such schedules and exhibits (or similar attachments) to the SEC upon request.				
	(P) Paper exhibit.				

INSIGHT ENTERPRISES, INC.

SIGNATURES

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

INSIGHT ENTERPRISES, INC.

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

Dated: February 21, 2020

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

<u>Signature</u>	<u>Title</u>	<u>Date</u>
<u>/s/ Kenneth T. Lamneck</u> Kenneth T. Lamneck	President, Chief Executive Officer and Director (principal executive officer)	February 21, 2020
<u>/s/ Glynis A. Bryan</u> Glynis A. Bryan	Chief Financial Officer (principal financial officer)	February 21, 2020
<u>/s/ Rachael A. Bertrandt</u> Rachael A. Bertrandt	Global Corporate Controller (principal accounting officer)	February 21, 2020
<u>/s/ Timothy A. Crown*</u> Timothy A. Crown	Chairman of the Board	February 21, 2020
<u>/s/ Richard E. Allen*</u> Richard E. Allen	Director	February 21, 2020
<u>/s/ Bruce W. Armstrong*</u> Bruce W. Armstrong	Director	February 21, 2020
<u>/s/ Linda M. Breard*</u> Linda Breard	Director	February 21, 2020
<u>/s/ Catherine Courage*</u> Catherine Courage	Director	February 21, 2020
<u>/s/ Anthony A. Ibargüen*</u> Anthony A. Ibargüen	Director	February 21, 2020
<u>/s/ Kathleen S. Pushor*</u> Kathleen S. Pushor	Director	February 21, 2020
<u>/s/ Girish Rishi*</u> Girish Rishi	Director	February 21, 2020

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

CERTIFICATION

I, Kenneth T. Lamneck, certify that:

1. I have reviewed this Annual Report on Form 10-K of Insight Enterprises, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c. Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d. Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: February 21, 2020

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

CERTIFICATION

I, Glynis A. Bryan, certify that:

1. I have reviewed this Annual Report on Form 10-K of Insight Enterprises, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c. Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d. Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: February 21, 2020

**By: /s/ Glynis A. Bryan
Glynis A. Bryan
Chief Financial Officer**

**CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

In connection with the Annual Report of Insight Enterprises, Inc. (the "Company") on Form 10-K for the period ended December 31, 2019 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), we, Kenneth T. Lamneck, Chief Executive Officer of the Company, and Glynis A. Bryan, Chief Financial Officer of the Company, certify, pursuant to 18 U.S.C. §1350, as adopted pursuant to §906 of the Sarbanes-Oxley Act of 2002, that to the best of our knowledge:

(1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

By: /s/ Kenneth T. Lamneck
Kenneth T. Lamneck
Chief Executive Officer
February 21, 2020

By: /s/ Glynis A. Bryan
Glynis A. Bryan
Chief Financial Officer
February 21, 2020

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