INSIGHT ENTERPRISES INC
Form 10-Q
May 03, 2012
Table of Contents

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended: March 31, 2012

OR

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

For the transition period from to

Commission File Number: 0-25092

INSIGHT ENTERPRISES, INC.

(Exact name of registrant as specified in its charter)

Delaware	**86-0766246**
(State or other jurisdiction of incorporation or organization)	**(I.R.S. Employer Identification Number)**

6820 South Harl Avenue, Tempe, Arizona 85283

(Address of principal executive offices) (Zip Code)

(480) 902-1001

(Registrant s telephone number, including area code)

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

Indicate by check mark whether the registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes x No ¨

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Date File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§ 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes x No ¨

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

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

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

The number of shares outstanding of the issuer s common stock as of April 27, 2012 was 44,407,949.

Table of Contents

INSIGHT ENTERPRISES, INC.

QUARTERLY REPORT ON FORM 10-Q

Three Months Ended March 31, 2012

TABLE OF CONTENTS

Table of Contents

INSIGHT ENTERPRISES, INC.

FORWARD-LOOKING INFORMATION

Certain statements in this Quarterly Report on Form 10-Q, including statements in Management s Discussion and Analysis of Financial Condition and Results of Operations in Part I, Item 2 of this report, are forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. These forward-looking statements may include: projections of matters that affect net sales, gross profit, operating expenses, earnings from operations, non-operating income and expenses, net earnings or cash flows, working capital needs, sources and uses, cash needs and the sufficiency of our capital resources and the payment of accrued expenses and liabilities; details of our business strategy and our strategic initiatives, including the anticipated benefits of our acquisitions; our plans relating to products and services; projections of capital expenditures; our intentions not to pay dividends; the availability of financing and our needs or plans relating thereto; the effect of new accounting principles or changes in accounting principles; the effect of indemnification obligations and other off-balance sheet arrangements; projections about the outcome of ongoing tax audits; statements related to accounting estimates, including estimated stock-based compensation award forfeitures, the realization of deferred tax assets and future purchase price adjustments relating to acquisitions; the timing of amortization of stock-based compensation expense and the payment of accrued severance and restructuring costs; projections of compliance with debt covenants; our intention to reinvest undistributed earnings of foreign subsidiaries outside the United States; our expectations regarding seasonality; our anticipated compliance with our debt covenants; the sufficiency of our provisions for litigation losses; our positions and strategies with respect to ongoing and threatened litigation, including those matters identified in Legal Proceedings in Part II, Item 1 of this report; statements of belief; and statements of assumptions underlying any of the foregoing. Forward-looking statements are identified by such words as believe, anticipate, expect, estimate, intend, plan, project, will, may and variations of such words and similar expressio inherently subject to risks and uncertainties, some of which cannot be predicted or quantified. Future events and actual results could differ materially from those set forth in, contemplated by, or underlying the forward-looking statements. There can be no assurances that the results discussed in the forward-looking statements will be achieved, and actual results could differ materially from those suggested by the forward-looking statements. Some of the important factors that could cause our actual results to differ materially from those projected in any forward-looking statements include, but are not limited to, the following:

our reliance on partners for product availability and competitive products to sell as well as our competition with our partners;

our reliance on partners for marketing funds and purchasing incentives;

disruptions in our information technology systems and voice and data networks, including risks and costs associated with the integration and upgrade of our IT systems;

general economic conditions;

the security of our electronic and other confidential information;

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

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

changes in the IT industry and/or rapid changes in product standards;

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

- the availability of future financing and our ability to access and/or refinance our credit facilities;
- the variability of our net sales and gross profit;
- the risks associated with our international operations;
- exposure to changes in, interpretations of, or enforcement trends related to tax rules and regulations;
- our dependence on key personnel; and
- intellectual property infringement claims and challenges to our registered trademarks and trade names.

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

Table of Contents

PART I - FINANCIAL INFORMATION

Item 1. Financial Statements.

INSIGHT ENTERPRISES, INC.

CONSOLIDATED BALANCE SHEETS

(in thousands, except per share data)

(unaudited)

	March 31, 2012	December 31, 2011
ASSETS		
Current assets:		
Cash and cash equivalents	$ 132,609	$ 128,336
Accounts receivable, net of allowance for doubtful accounts of $19,041 and $18,803, respectively	1,092,851	1,208,276
Inventories	117,021	114,763
Inventories not available for sale	46,203	43,816
Deferred income taxes	17,052	17,344
Other current assets	25,375	23,144
Total current assets	1,431,111	1,535,679
Property and equipment, net of accumulated depreciation of $215,166 and $208,099, respectively	142,923	140,705
Goodwill	26,257	26,257
Intangible assets, net of accumulated amortization of $69,043 and $60,822, respectively	57,271	59,021
Deferred income taxes	68,799	70,771
Other assets	24,343	25,178
	$ 1,750,704	$ 1,857,611
LIABILITIES AND STOCKHOLDERS EQUITY		
Current liabilities:		
Accounts payable	$ 753,269	$ 882,384
Accrued expenses and other current liabilities	142,277	178,749
Current portion of long-term debt	1,021	1,017
Deferred revenue	56,961	47,012
Total current liabilities	953,528	1,109,162
Long-term debt	138,845	115,602
Deferred income taxes	1,091	1,186
Other liabilities	35,172	34,829
	1,128,636	1,260,779
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; 44,408 shares at March 31, 2012 and 43,919 shares at December 31, 2011 issued and outstanding	444	439
Additional paid-in capital	361,973	360,370
Retained earnings	240,517	223,125

Accumulated other comprehensive income foreign currency translation adjustments	19,134	12,898
Total stockholders equity	622,068	596,832
	$ 1,750,704	$ 1,857,611

See accompanying notes to consolidated financial statements.

Table of Contents

INSIGHT ENTERPRISES, INC.

CONSOLIDATED STATEMENTS OF OPERATIONS

(in thousands, except per share data)

(unaudited)

	Three Months Ended March 31, 2012	Three Months Ended March 31, 2011
Net sales	$ 1,244,182	$ 1,219,896
Costs of goods sold	1,073,810	1,057,416
Gross profit	170,372	162,480
Operating expenses:		
Selling and administrative expenses	143,394	139,101
Severance and restructuring expenses	1,374	524
Earnings from operations	25,604	22,855
Non-operating (income) expense:		
Interest income	(351)	(358)
Interest expense	1,558	1,812
Gain on bargain purchase	(2,022)	
Net foreign currency exchange gain	(828)	(478)
Other expense, net	244	406
Earnings before income taxes	27,003	21,473
Income tax expense	9,611	8,406
Net earnings	$ 17,392	$ 13,067
Net earnings per share:		
Basic	$ 0.39	$ 0.28
Diluted	$ 0.39	$ 0.28
Shares used in per share calculations:		
Basic	44,150	46,508
Diluted	44,754	47,182

See accompanying notes to consolidated financial statements.

2

Table of Contents

INSIGHT ENTERPRISES, INC.

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(in thousands)

(unaudited)

	Three Months Ended March 31,	
	2012	**2011**
Net earnings	$ 17,392	$ 13,067
Other comprehensive income, net of tax:		
Foreign currency translation adjustments	6,236	8,023
Total comprehensive income	$ 23,628	$ 21,090

See accompanying notes to consolidated financial statements.

3

Table of Contents

INSIGHT ENTERPRISES, INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS

(in thousands)

(unaudited)

	Three Months Ended March 31, 2012	2011
Cash flows from operating activities:		
Net earnings	$ 17,392	$ 13,067
Adjustments to reconcile net earnings to net cash (used in) provided by operating activities:		
Depreciation and amortization	10,182	9,618
Provision for losses on accounts receivable	717	973
Write-downs of inventories	857	2,274
Write-off of computer software development costs		1,390
Non-cash stock-based compensation	2,141	1,895
Gain on bargain purchase	(2,022)	
Excess tax benefit from employee gains on stock-based compensation	(1,893)	(1,566)
Deferred income taxes	2,762	1,822
Changes in assets and liabilities:		
Decrease in accounts receivable	138,608	144,054
Increase in inventories	(1,436)	(29,607)
(Increase) decrease in other current assets	(1,637)	17,995
Decrease (increase) in other assets	925	(2,239)
Decrease in accounts payable	(157,051)	(21,901)
Increase (decrease) in deferred revenue	8,644	(20,501)
Decrease in accrued expenses and other liabilities	(38,629)	(33,648)
Net cash (used in) provided by operating activities	(20,440)	83,626
Cash flows from investing activities:		
Acquisition, net of cash acquired	(3,831)	
Purchases of property and equipment	(7,823)	(5,044)
Net cash used in investing activities	(11,654)	(5,044)
Cash flows from financing activities:		
Borrowings on senior revolving credit facility	418,000	283,000
Repayments on senior revolving credit facility	(394,500)	(303,000)
Borrowings on accounts receivable securitization financing facility	50,000	
Repayments on accounts receivable securitization financing facility	(50,000)	
Payments on capital lease obligation	(253)	(248)
Net borrowings (repayments) under inventory financing facility	9,316	(46,906)
Proceeds from sales of common stock under employee stock plans	889	16
Excess tax benefit from employee gains on stock-based compensation	1,893	1,566
Payment of payroll taxes on stock-based compensation through shares withheld	(3,000)	(2,448)
Net cash provided by (used in) financing activities	32,345	(68,020)
Foreign currency exchange effect on cash flows	4,022	6,262
Increase in cash and cash equivalents	4,273	16,824

Cash and cash equivalents at beginning of period		128,336		123,763
Cash and cash equivalents at end of period	$	132,609	$	140,587

See accompanying notes to consolidated financial statements.

4

Table of Contents

INSIGHT ENTERPRISES, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(unaudited)

1. Basis of Presentation and Recently Issued Accounting Pronouncements

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

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

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

In the opinion of management, the accompanying unaudited consolidated financial statements contain all adjustments necessary to present fairly our financial position as of March 31, 2012, our results of operations and cash flows for the three months ended March 31, 2012 and 2011. The consolidated balance sheet as of December 31, 2011 was derived from the audited consolidated balance sheet at such date. The accompanying unaudited consolidated financial statements and notes have been prepared in accordance with the rules and regulations promulgated by the Securities and Exchange Commission (SEC) and consequently do not include all of the disclosures normally required by United States generally accepted accounting principles (GAAP).

The results of operations for such interim periods are not necessarily indicative of results for the full year, due in part to the seasonal nature of the business. These unaudited consolidated financial statements should be read in conjunction with the audited consolidated financial statements, including the related notes thereto, in our Annual Report on Form 10-K for the year ended December 31, 2011.

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

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

Recently Issued Accounting Pronouncements

There have been no material changes or additions to the recently issued accounting pronouncements as previously reported in Note 1 to our Consolidated Financial Statements in Part II, Item 8 of our Annual Report on Form 10-K for the year ended December 31, 2011 that affect or may affect our financial statements.

Table of Contents

INSIGHT ENTERPRISES, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

(unaudited)

2. Net Earnings Per Share (EPS)

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

	Three Months Ended March 31,	
	2012	**2011**
Numerator:		
Net earnings	$ 17,392	$ 13,067
Denominator:		
Weighted average shares used to compute basic EPS	44,150	46,508
Dilutive potential common shares due to dilutive options and restricted stock units, net of tax effect	604	674
Weighted average shares used to compute diluted EPS	44,754	47,182
Net earnings per share:		
Basic	$ 0.39	$ 0.28
Diluted	$ 0.39	$ 0.28

For the three months ended March 31, 2012 all weighted average outstanding stock options were included in the diluted EPS calculations because the exercise prices of these options were less than the average market price of our common stock during the period. For the three months ended March 31, 2011, 224,000 weighted average outstanding stock options were not included in the diluted EPS calculations because the exercise prices of these options were greater than the average market price of our common stock during the period.

3. Debt, Capital Lease Obligation and Inventory Financing Facility

Debt

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

	March 31, 2012	**December 31, 2011**
Senior revolving credit facility	$ 138,500	$ 115,000
Accounts receivable securitization financing facility		
Capital lease obligation	1,366	1,619

Total	139,866	116,619
Less: current portion of obligation under capital lease	(1,021)	(1,017)
Less: current portion of revolving credit facilities		
Long-term debt	$ 138,845	$ 115,602

See Note 12 for a discussion of amendments made to our senior revolving credit facility and accounts receivable securitization financing facility (the ABS facility) effective April 26, 2012. While the ABS facility has a stated maximum amount, the actual availability under the ABS facility is limited by the quantity and quality of the underlying accounts receivable.

6

INSIGHT ENTERPRISES, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

(unaudited)

Our consolidated debt balance that can be outstanding at the end of any fiscal quarter under our senior revolving credit facility and our ABS facility is limited by certain financial covenants, particularly a maximum leverage ratio. The maximum leverage ratio is calculated as aggregate debt outstanding divided by the sum of the Company s trailing twelve month net earnings (loss) plus (i) interest expense, excluding non-cash imputed interest on our inventory financing facility, (ii) income tax expense (benefit), (iii) depreciation and amortization and (iv) non-cash stock-based compensation (referred to herein as adjusted earnings). The maximum leverage ratio permitted under the agreements is 2.50 times trailing twelve-month adjusted earnings. A significant drop in the Company s adjusted earnings would limit the amount of indebtedness that could be outstanding at the end of any fiscal quarter to a level that would be below the Company s consolidated maximum debt capacity. As of March 31, 2012, the Company s debt balance that could have been outstanding under our senior revolving credit facility and our ABS facility was equal to the maximum available under the facilities of $450,000,000.

Our senior revolving credit facility and ABS facility also contain various other covenants, including the requirement that we comply with minimum fixed charge and minimum asset coverage ratio requirements and meet monthly, quarterly and annual reporting requirements. If we fail to comply with these covenants, the lenders would be able to demand payment within a specified period of time. At March 31, 2012, we were in compliance with all such covenants.

Capital Lease Obligation

The present value of minimum lease payments under our capital lease and the current portion thereof are included in our debt balances as summarized in the table above. The value of the IT equipment held under the capital lease of $3,867,000 is included in property and equipment, with accumulated depreciation on the capital lease assets of $2,538,000 and $2,287,000 as of March 31, 2012 and December 31, 2011, respectively.

Inventory Financing Facility

As of March 31, 2012 and December 31, 2011, $103,249,000 and $93,933,000, respectively, were included in accounts payable within our consolidated balance sheets related to our inventory financing facility. See Note 12 for a discussion of amendments made to our inventory financing facility effective April 26, 2012.

4. Income Taxes

Our effective tax rate for the three months ended March 31, 2012 and 2011 was 35.6% and 39.1%, respectively. For the three months ended March 31, 2012 and 2011, our effective tax rate was higher than the United States federal statutory rate of 35.0% due primarily to state income taxes, net of federal benefit and other non-deductible expenses, partially offset by lower taxes on earnings in foreign jurisdictions.

As of March 31, 2012 and December 31, 2011, we had $5,098,000 and $5,052,000, respectively, of unrecognized tax benefits. Of these amounts, approximately $497,000 and $477,000 relate to accrued interest as of March 31, 2012 and December 31, 2011, respectively.

Several of our subsidiaries are currently under audit for the 2003 through 2010 tax years. It is reasonably possible that the examination phase of these audits may conclude in the next 12 months and that the related unrecognized tax benefits for uncertain tax positions may change, potentially having a material effect on our effective tax rate. However, based on the status of the various examinations in multiple jurisdictions, an estimate of the range of reasonably possible outcomes cannot be made at this time.

Table of Contents

INSIGHT ENTERPRISES, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

(unaudited)

5. Severance and Restructuring Activities

Severance Costs Expensed for 2012 Resource Actions

During the three months ended March 31, 2012, North America and EMEA recorded severance expense totaling $677,000 and $1,333,000, respectively, related to 2012 resource actions. The charge in North America was related to the elimination of certain positions because of a re-alignment of roles and responsibilities. The charge in EMEA was primarily associated with the integration of Inmac, which was acquired effective February 1, 2012 (see Note 11).

The following table details the 2012 activity and the outstanding obligation related to the 2012 resource actions as of March 31, 2012 (in thousands):

	North America	EMEA	Consolidated
Severance costs	$ 677	$ 1,333	$ 2,010
Foreign currency translation adjustments		13	13
Cash payments	(599)		(599)
Balance at March 31, 2012	$ 78	$ 1,346	$ 1,424

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

Severance Costs Expensed for 2011 Resource Actions

During the year ended December 31, 2011, North America and EMEA recorded severance expense totaling $2,425,000 and $2,737,000, respectively, relating to 2011 restructuring actions. The charges were associated with severance for the elimination of certain positions based on a re-alignment of roles and responsibilities.

The following table details the 2012 activity and the outstanding obligation related to the 2011 resource actions as of March 31, 2012 (in thousands):

	North America	EMEA	Consolidated
Balance at December 31, 2011	$ 625	$ 1,224	$ 1,849
Foreign currency translation adjustments		27	27
Adjustments	(188)	(423)	(611)
Cash payments	(381)	(476)	(857)
Balance at March 31, 2012	$ 56	$ 352	$ 408

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

Prior Resource Actions

In 2010 and 2009, as a result of ongoing restructuring efforts to reduce operating expenses, we recorded severance costs in each of our operating segments. As of December 31, 2011, the total remaining obligation recorded in our North America and EMEA segments related to these resource actions was approximately $34,000 and $231,000, respectively. During the three months ended March 31, 2012, the total liability decreased from $265,000 to $209,000 due to cash payments totaling approximately $37,000, adjustments recorded as a reduction to severance and restructuring expense of $25,000 in EMEA due to changes in estimates and foreign currency translation adjustments of approximately $6,000. The remaining outstanding obligations relate to our EMEA segment and are included in accrued expenses and other current liabilities because they are expected to be paid during the next twelve months.

Table of Contents

INSIGHT ENTERPRISES, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

(unaudited)

6. Stock-Based Compensation

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

	Three Months Ended March 31,	
	2012	**2011**
North America	$ 1,565	$ 1,422
EMEA	515	424
APAC	61	49
Total	$ 2,141	$ 1,895

Stock Options

As of January 1, 2012, there were 200,000 outstanding options, all of which were exercisable with an exercise price of $17.77. No options were granted during the three months ended March 31, 2012, and none were forfeited or expired. The only stock option activity during the three months ended March 31, 2012 was the exercise of 50,000 options with an aggregate intrinsic value when exercised of $211,000. As of March 31, 2012, the remaining 150,000 exercisable options outstanding have an aggregate intrinsic value of $624,000, based on our closing stock price of $21.93 as of March 30, 2012 (the last business day of the quarter), which represents the total pre-tax value which would have been received by the option holder had the options been exercised and the underlying shares sold on that date. These options expire in December 2012.

Restricted Stock

For the three months ended March 31, 2012 and 2011, we recorded stock-based compensation expense, net of estimated forfeitures, related to restricted stock units (RSUs) of $2,141,000 and $1,895,000, respectively. As of March 31, 2012, total compensation cost not yet recognized related to nonvested RSUs is $19,275,000, which is expected to be recognized over the next 1.46 years on a weighted-average basis.

The following table summarizes our RSU activity during the three months ended March 31, 2012:

	Number	Weighted Average Grant Date Fair Value	Fair Value
Nonvested at January 1, 2012	1,469,733	$ 13.93	
Granted	453,951	21.87	
Vested, including shares withheld to cover taxes	(579,274)	11.36	$ 12,420,414[(a)]
Forfeited	(51,203)	18.08	
Nonvested at March 31, 2012	1,293,207	17.70	$ 28,360,030[(b)]

Expected to vest	1,019,193	$ 22,350,902(b)

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

(b) The aggregate fair value represents the total pre-tax fair value, based on our closing stock price of $21.93 as of March 30, 2012 (March 31, 2012 was a Saturday), which would have been received by holders of RSUs had all such holders sold their underlying shares on that date.

During the three months ended March 31, 2012 and 2011, the RSUs that vested for teammates in the United States were net-share settled such that we withheld shares with value equivalent to the teammates minimum statutory United States tax obligations for the applicable income and other employment taxes and remitted the corresponding cash amount to the appropriate taxing authorities. The total shares withheld during the three months ended March 31, 2012 and 2011 of 140,684 and 138,284, respectively, were based on the value of the RSUs on their vesting date as determined by our closing stock price on such vesting date. For the three months ended March 31, 2012 and 2011, total payments for the employees tax obligations to the taxing authorities were $3,000,000 and $2,448,000, respectively, and are reflected as a financing activity within the consolidated statements of cash flows. These net-share settlements had the economic effect of repurchases of common stock as they reduced the number of shares that would have otherwise been issued as a result of the vesting and did not represent a repurchase of shares or an expense to us.

9

Table of Contents

INSIGHT ENTERPRISES, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

(unaudited)

7. Derivative Financial Instruments

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

The following table summarizes our derivative financial instruments as of March 31, 2012 and December 31, 2011 (in thousands):

		March 31, 2012		December 31, 2011	
	Balance Sheet Location	Asset Derivatives Fair Value	Liability Derivatives Fair Value	Asset Derivatives Fair Value	Liability Derivatives Fair Value
Derivatives not designated as hedging instruments:					
Foreign exchange forward contracts	Other current assets	$ 102	$	$ 20	$
Foreign exchange forward contracts	Accrued expenses and other current liabilities				114
Total derivatives not designated as hedging instruments		$ 102	$	$ 20	$ 114

The following table summarizes the effect of our derivative financial instruments on our results of operations during the three months ended March 31, 2012 and 2011 (in thousands):

Derivatives Not Designated as Hedging Instruments	Location of Loss (Gain) Recognized in Earnings on Derivatives	Amount of Loss (Gain) Recognized in Earnings on Derivatives: Three Months Ended March 31, 2012	Amount of Loss (Gain) Recognized in Earnings on Derivatives: Three Months Ended March 31, 2011
Foreign exchange forward contracts	Net foreign currency exchange loss (gain)	$ 448	$ (344)
Total		$ 448	$ (344)

8. Fair Value Measurements

The following table summarizes the valuation of our financial instruments by the following three categories as of March 31, 2012 and December 31, 2011 (in thousands):

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

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

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

Table of Contents

INSIGHT ENTERPRISES, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

(unaudited)

		March 31, 2012		December 31, 2011	
Balance Sheet Classification		**Foreign Exchange Derivatives**	**Non-qualified Deferred Compensation Plan Investments**	**Foreign Exchange Derivatives**	**Non-qualified Deferred Compensation Plan Investments**
Other current assets	Level 1	$	$	$	$
	Level 2	102		20	
	Level 3				
		$ 102	$	$ 20	$
Other assets	Level 1	$	$ 1,241	$	$ 1,182
	Level 2		&nb		