INSIGHT ENTERPRISES INC
Form 10-Q
August 04, 2016
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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: June 30, 2016

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) 333-3000

(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 July 29, 2016 was 35,471,330.

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INSIGHT ENTERPRISES, INC.

QUARTERLY REPORT ON FORM 10-Q

Three Months Ended June 30, 2016

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INSIGHT ENTERPRISES, INC.

FORWARD-LOOKING INFORMATION

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. 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, cash needs and the payment of accrued expenses and liabilities; our expectation that clients will consume more of their software through the Cloud and its effect on our top-line results and profitability; the expected dollar amount and timing of recognition of savings from recent cost reduction initiatives across our North America business; the expected effects of seasonality on our business; our intentions concerning the payment of dividends; our acquisition strategy; projections of capital expenditures in 2016; the sufficiency of our capital resources and the availability of financing and our needs or plans relating thereto; our compliance with leverage ratio requirements; the effect of new accounting principles or changes in accounting policies; expectations regarding the timing of recognition of compensation costs; the effect of indemnification obligations; projections about the outcome of ongoing tax audits; our positions, accruals and strategies with respect to ongoing and threatened litigation; our intention not to repatriate certain foreign undistributed earnings where management considers those earnings to be reinvested indefinitely and plans related thereto; our plans to use cash flow from operations for working capital, to pay down debt balances, to make capital expenditures and to fund acquisitions; 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, 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, which are discussed in Risk Factors in Part I, Item 1A of the Company s Annual Report on Form 10-K for the year ended December 31, 2015:

- actions of our competitors, including manufacturers and publishers of products we sell;
- our reliance on partners for product availability, competitive products to sell and related marketing funds and purchasing incentives;
- changes in the information technology (IT) industry and/or rapid changes in technology;
- possible significant fluctuations in our future operating results;

- general economic conditions;
- the risks associated with our international operations;
- the security of our electronic and other confidential information;
- disruptions in our IT systems and voice and data networks;
- failure to comply with the terms and conditions of our commercial and public sector contracts;
- our reliance on commercial delivery services;
- our dependence on certain personnel;
- exposure to changes in, interpretations of, or enforcement trends related to tax rules and regulations; and
- intellectual property infringement claims and challenges to our registered trademarks and trade names.

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, 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.

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PART I - FINANCIAL INFORMATION

Item 1. Financial Statements.

INSIGHT ENTERPRISES, INC.

CONSOLIDATED BALANCE SHEETS

(in thousands, except per share data)

(unaudited)

	June 30, 2016	December 31, 2015
ASSETS		
Current assets:		
Cash and cash equivalents	$ 175,145	$ 187,978
Accounts receivable, net of allowance for doubtful accounts of $10,211 and $11,872, respectively	1,476,184	1,315,094
Inventories	145,929	119,820
Inventories not available for sale	51,613	51,756
Other current assets	89,323	77,011
Total current assets	1,938,194	1,751,659
Property and equipment, net of accumulated depreciation and amortization of $302,486 and $291,643, respectively	80,737	88,281
Goodwill	55,688	56,195
Intangible assets, net of accumulated amortization of $100,870 and $94,406, respectively	20,507	26,983
Deferred income taxes	61,213	62,986
Other assets	30,201	27,913
	$ 2,186,540	$ 2,014,017
LIABILITIES AND STOCKHOLDERS EQUITY		
Current liabilities:		
Accounts payable trade	$ 1,030,869	$ 905,464
Accounts payable inventory financing facility	155,683	106,327
Accrued expenses and other current liabilities	148,671	144,633
Current portion of long-term debt	1,288	1,535
Deferred revenue	50,179	50,166
Total current liabilities	1,386,690	1,208,125
Long-term debt	86,045	89,000
Deferred income taxes	155	239
Other liabilities	32,900	30,911

	1,505,790	1,328,275
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; 35,532 shares at June 30, 2016 and 37,106 shares at December 31, 2015 issued and outstanding	355	371
Additional paid-in capital	304,455	316,686
Retained earnings	417,814	408,721
Accumulated other comprehensive loss foreign currency translation adjustments	(41,874)	(40,036)
Total stockholders equity	680,750	685,742
	$ 2,186,540	$ 2,014,017

See accompanying notes to consolidated financial statements.

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INSIGHT ENTERPRISES, INC.

CONSOLIDATED STATEMENTS OF OPERATIONS

(in thousands, except per share data)

(unaudited)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2016	**2015**	**2016**	**2015**
Net sales	$ 1,456,234	$ 1,424,031	$ 2,625,216	$ 2,643,710
Costs of goods sold	1,247,017	1,232,616	2,254,891	2,290,482
Gross profit	209,217	191,415	370,325	353,228
Operating expenses:				
Selling and administrative expenses	150,186	148,004	296,305	288,800
Severance and restructuring expenses	909	372	2,265	1,095
Earnings from operations	58,122	43,039	71,755	63,333
Non-operating (income) expense:				
Interest income	(216)	(192)	(466)	(346)
Interest expense	1,992	1,718	3,840	3,456
Net foreign currency exchange (gain) loss	(153)	20	463	633
Other expense, net	359	281	627	612
Earnings before income taxes	56,140	41,212	67,291	58,978
Income tax expense	21,073	15,713	25,336	22,528
Net earnings	$ 35,067	$ 25,499	$ 41,955	$ 36,450
Net earnings per share:				
Basic	$ 0.96	$ 0.67	$ 1.14	$ 0.94
Diluted	$ 0.96	$ 0.67	$ 1.13	$ 0.93
Shares used in per share calculations:				
Basic	36,380	38,067	36,728	38,870
Diluted	36,612	38,326	36,999	39,160

See accompanying notes to consolidated financial statements.

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INSIGHT ENTERPRISES, INC.

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(in thousands)

(unaudited)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2016	**2015**	**2016**	**2015**
Net earnings	$ 35,067	$ 25,499	$ 41,955	$ 36,450
Other comprehensive income (loss), net of tax:				
Foreign currency translation adjustments	(9,257)	7,509	(1,838)	(9,373)
Total comprehensive income	$ 25,810	$ 33,008	$ 40,117	$ 27,077

See accompanying notes to consolidated financial statements.

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INSIGHT ENTERPRISES, INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS

(in thousands)

(unaudited)

	Six Months Ended June 30, 2016	Six Months Ended June 30, 2015
Cash flows from operating activities:		
Net earnings	$ 41,955	$ 36,450
Adjustments to reconcile net earnings to net cash (used in) provided by operating activities:		
Depreciation and amortization	20,462	19,001
Provision for losses on accounts receivable	1,255	1,962
Write-downs of inventories	1,164	1,473
Non-cash stock-based compensation	5,283	4,627
Excess tax benefit from employee gains on stock-based compensation	(286)	(543)
Deferred income taxes	1,662	94
Gain on sale of real estate	(338)	
Changes in assets and liabilities:		
Increase in accounts receivable	(178,019)	(167,600)
Increase in inventories	(28,604)	(48,376)
Increase in other assets	(12,563)	(11,542)
Increase in accounts payable	131,886	263,120
Increase (decrease) in deferred revenue	1,208	(438)
Increase (decrease) in accrued expenses and other liabilities	10,027	(1,904)
Net cash (used in) provided by operating activities	(4,908)	96,324
Cash flows from investing activities:		
Purchases of property and equipment	(4,974)	(6,552)
Proceeds from sale of real estate, net	1,378	
Acquisition of BlueMetal, net of cash acquired	507	
Net cash used in investing activities	(3,089)	(6,552)
Cash flows from financing activities:		
Borrowings on senior revolving credit facility	261,920	243,910
Repayments on senior revolving credit facility	(261,920)	(227,410)
Borrowings on accounts receivable securitization financing facility	962,000	781,100
Repayments on accounts receivable securitization financing facility	(966,000)	(808,100)
Repayments under other financing agreements	(632)	
Payments on capital lease obligations	(100)	(110)
Net borrowings under inventory financing facility	49,356	28,171

Payment of deferred financing fees	(2,819)	
Excess tax benefit from employee gains on stock-based compensation	286	543
Payment of payroll taxes on stock-based compensation through shares withheld	(2,126)	(2,117)
Repurchases of common stock	(48,467)	(85,951)
Net cash used in financing activities	(8,502)	(69,964)
Foreign currency exchange effect on cash and cash equivalent balances	3,666	(8,824)
(Decrease) increase in cash and cash equivalents	(12,833)	10,984
Cash and cash equivalents at beginning of period	187,978	164,524
Cash and cash equivalents at end of period	$ 175,145	$ 175,508

See accompanying notes to consolidated financial statements.

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INSIGHT ENTERPRISES, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(unaudited)

1. Basis of Presentation and Recently Issued Accounting Standards

We are a Fortune 500-ranked global provider of IT hardware, software, Cloud and service solutions to business, government, healthcare and educational clients. Our company is organized in the following three operating segments, which are primarily defined by their related geographies:

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

Our offerings in North America and select countries in EMEA include hardware, software and services. Our offerings in the remainder of our EMEA segment and in APAC are largely 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 June 30, 2016, our results of operations for the three and six months ended June 30, 2016 and 2015 and our cash flows for the six months ended June 30, 2016 and 2015. The consolidated balance sheet as of December 31, 2015 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 and consequently do not include all of the disclosures normally required by United States generally accepted accounting principles (GAAP).

The results of operations for interim periods are not necessarily indicative of results for the full year, due in part to the seasonal nature of our 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, 2015. Our results of operations include the results of BlueMetal Architects, Inc. (BlueMetal) from its acquisition date of October 1, 2015.

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.

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 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.

Recently Issued Accounting Standards

In February 2016, the Financial Accounting Standards Board (FASB) issued Accounting Standard Update (ASU) 2016-02, Leases (Topic 842), which supersedes the lease recognition requirements in Accounting Standards Codification Topic 840, Leases. The core principal of the guidance is that an entity should recognize assets and liabilities arising from a lease for both financing and operating leases, along with additional qualitative and quantitative disclosures. The standard will be effective for fiscal years beginning after December 15, 2018, including interim periods within such fiscal years. Early adoption is permitted. The guidance is to be applied using a modified retrospective transition method with the option to elect a number of practical expedients. We are in the process of determining the effect that the adoption of ASU 2016-02 will have on our consolidated financial statements and disclosures and have not yet selected our planned transition approach or the timing of adoption.

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INSIGHT ENTERPRISES, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

(unaudited)

In March 2016, FASB issued ASU No. 2016-09, Improvements to Employee Share-Based Payment Accounting (Topic 718). This ASU simplifies the accounting for share-based payment transactions, including the income tax consequences, classification of awards as either equity or liabilities and classification on the statement of cash flows. This ASU requires that excess tax benefits and deficiencies be recognized as income tax benefit or expense in the income statement, and, therefore, we anticipate increased income tax expense volatility after adoption of this ASU. The standard will be effective for fiscal years beginning after December 15, 2016, including interim periods within such fiscal years. Early adoption is permitted. We are currently evaluating the effect of this guidance on our financial statements and the timing of adoption.

There have been no other material changes or additions to the recently issued accounting standards 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, 2015 that affect or may affect our financial statements.

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2016	**2015**	**2016**	**2015**
Numerator:				
Net earnings	$ 35,067	$ 25,499	$ 41,955	$ 36,450
Denominator:				
Weighted average shares used to compute basic EPS	36,380	38,067	36,728	38,870
Dilutive potential common shares due to dilutive RSUs, net of tax effect	232	259	271	290
Weighted average shares used to compute diluted EPS	36,612	38,326	36,999	39,160
Net earnings per share:				
Basic	$ 0.96	$ 0.67	$ 1.14	$ 0.94

Diluted	$ 0.96	$ 0.67	$ 1.13	$ 0.93

For the three and six months ended June 30, 2016, 2,000 and 70,000, 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. There were no anti-dilutive RSUs for the three and six months ended June 30, 2015.

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INSIGHT ENTERPRISES, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

(unaudited)

3. Goodwill

During the three months ended June 30, 2016, we resolved the working capital contingency associated with the acquisition of BlueMetal. We recorded the adjustment of the purchase price allocation as a reduction of goodwill in our North America operating segment upon the receipt of $507,000 in cash during the quarter.

4. Debt, Inventory Financing Facility, Capital Leases and Other Financing Obligations

Debt

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

	June 30, 2016	December 31, 2015
Senior revolving credit facility	$	$
Accounts receivable securitization financing facility	85,000	89,000
Capital leases and other financing obligations	2,333	1,535
Total	87,333	90,535
Less: current portion of capital leases and other financing obligations	(1,288)	(1,535)
Less: current portion of revolving credit facilities		
Long-term debt	$ 86,045	$ 89,000

On June 23, 2016, we entered into amendments to our senior revolving credit facility (revolving facility) and our accounts receivable securitization financing facility (ABS facility).

Although the maximum borrowing capacity remained at an aggregate U.S. dollar equivalent amount of $350,000,000, our revolving facility was amended to increase the portion of the maximum borrowing capacity that may be used for borrowing in certain foreign currencies from $25,000,000 to $50,000,000. From time to time and at our option, we may request to increase the aggregate amount available for borrowing under the revolving facility by up to an aggregate of the U.S. dollar equivalent of $175,000,000, subject to customary conditions. The revolving facility is guaranteed by the Company s material domestic subsidiaries and is secured by a lien on substantially all of the Company s and each guarantor s assets. The interest rates applicable to borrowings under the revolving facility are based on the leverage ratio of the Company as set forth on a pricing grid in the amended agreement. Amounts outstanding under the amended revolving facility bear interest, payable quarterly, at a floating rate equal to the prime rate plus a predetermined spread of 0.00% to 0.75% or, at our option, a LIBOR rate plus a pre-determined spread of 1.25% to 2.25%. There were no outstanding borrowings under the facility as of June 30, 2016. In addition, we pay a quarterly commitment fee on the unused portion of the facility of 0.25% to 0.45%, and our letter of credit participation fee ranges from 1.25% to 2.25%. The amended revolving facility matures on June 23, 2021.

Our ABS facility was amended to increase the aggregate borrowing availability from $200,000,000 to $250,000,000, to renew the borrowing program under the ABS facility for a three-year term expiring June 23, 2019, and to modify interest rates and fees for used and unused capacity under the facility. Under the amended ABS facility, interest is payable monthly, and the floating interest rate applicable at June 30, 2016 was 1.35% per annum, including a 0.85% usage fee on any outstanding balances. In addition, we pay a monthly commitment fee on the unused portion of the facility of 0.375%. While the ABS facility has a stated maximum amount, the actual availability under the ABS facility is limited by the quantity and quality of the underlying accounts receivable. As of June 30, 2016, qualified receivables were sufficient to permit access to the full $250,000,000 facility amount, of which $85,000,000 was outstanding.

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 revolving facility and our ABS facility is limited by certain financial covenants, particularly a maximum leverage ratio. The maximum leverage ratio is calculated as aggregate debt outstanding divided by the sum of our trailing twelve month net earnings (loss) plus (i) interest expense, excluding non-cash imputed interest on our inventory financing facility, (ii) income tax expense (benefit), (iii) depreciation and amortization, (iv) non-cash stock-based compensation, (v) extraordinary or non-recurring non-cash losses or expenses and (vi) certain cash restructuring charges, not to exceed a specified cap (adjusted earnings). The maximum leverage ratio permitted under the facilities was increased from 2.75 times to 3.00 times our trailing twelve-month adjusted earnings in conjunction with the amendments to the facilities. A significant drop in our adjusted earnings would limit the amount of indebtedness that could be outstanding at the end of any fiscal quarter to a level that would be below our consolidated maximum facility amount. Based on our maximum leverage ratio as of June 30, 2016, our aggregate debt balance that could have been outstanding under our revolving facility and our ABS facility was reduced from the maximum borrowing capacity of $600,000,000 to $563,134,000, of which $85,000,000 was outstanding at June 30, 2016.

Inventory Financing Facility

On June 23, 2016, our inventory financing facility was also amended to increase our maximum borrowing capacity from $250,000,000 to $325,000,000, of which $155,683,000 was outstanding at June 30, 2016, and to extend the maturity date of the facility to June 23, 2021. From time to time and at our option, we may request to increase the aggregate amount available under the inventory financing facility by up to an aggregate of $25,000,000, subject to customary conditions. Amounts outstanding under this facility are classified separately as accounts payable - inventory financing facility in the accompanying consolidated balance sheets. Interest does not accrue on advances paid within vendor terms. The inventory financing facility is guaranteed by the Company and each of its material domestic subsidiaries, and is secured by a lien on substantially all of the Company s and each guarantor s assets.

Capital Lease

In March 2016, we entered into a new capitalized lease with a 36-month term for certain IT equipment. The obligation under the capitalized lease is included in long-term debt in our consolidated balance sheet as of June 30, 2016. The current and long-term portions of the obligation are included in the table above. The capital lease was a non-cash transaction and, accordingly, has been excluded from our consolidated statement of cash flows for the six months ended June 30, 2016.

5. Severance and Restructuring Activities

During the three and six months ended June 30, 2016, we recorded severance expense associated with the realignment of certain roles and responsibilities, primarily cost reduction initiatives across our U.S. business.

The following table details the activity related to these resource actions for the six months ended June 30, 2016 and the outstanding obligations as of June 30, 2016 (in thousands):

	North America	EMEA	APAC	Consolidated
Balances at December 31, 2015	$ 505	$ 2,983	$	$ 3,488
Severance costs, net of adjustments	1,808	342	115	2,265
Cash payments	(1,691)	(1,652)	(100)	(3,443)
Foreign currency translation adjustments		11		11
Balances at June 30, 2016	$ 622	$ 1,684	$ 15	$ 2,321

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INSIGHT ENTERPRISES, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

(unaudited)

Adjustments were recorded as a reduction to severance and restructuring expense in North America and EMEA of $338,000 and $126,000, respectively, in the six months ended June 30, 2016, due to changes in estimates.

The remaining outstanding obligations are expected to be paid during the next 12 months and, therefore, are included in accrued expenses and other current liabilities in the accompanying consolidated balance sheets.

6. 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):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2016	2015	2016	2015
North America	$ 1,791	$ 1,724	$ 3,888	$ 3,455
EMEA	586	484	1,177	986
APAC	107	96	218	186
Total Consolidated	$ 2,484	$ 2,304	$ 5,283	$ 4,627

As of June 30, 2016, total compensation cost related to nonvested RSUs not yet recognized is $20,332,000, which is expected to be recognized over the next 1.39 years on a weighted-average basis.

The following table summarizes our RSU activity during the six months ended June 30, 2016:

	Number	Weighted Average Grant Date Fair Value	Fair Value
Nonvested at January 1, 2016	951,784	$ 24.35	
Granted[a]	456,808	25.77	
Vested, including shares withheld to cover taxes	(338,588)	23.55	$ 8,697,917[b]
Forfeited	(42,865)	25.25	

Nonvested at June 30, 2016[(a)]	1,027,139	25.21	$ 26,705,614[(c)]
Expected to vest	921,921		$ 23,969,946[(c)]

(a) Includes 125,410 RSUs subject to remaining performance conditions. The number of RSUs subject to performance conditions are based on the Company achieving 100% of its 2016 targeted financial results. The number of RSUs ultimately awarded under the performance-based RSUs varies based on actual achieved financial results for 2016.

(b) 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.

(c) 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 $26.00 as of June 30, 2016, which would have been received by holders of RSUs had all such holders sold their underlying shares on that date.

7. Gain on Assets Held for Sale

In May 2016, we sold real estate that we owned in Bloomingdale, Illinois that was previously classified as a held for sale asset and included in other current assets in the accompanying consolidated balance sheet as of December 31, 2015. In previous years, we recorded non-cash charges to reduce the carrying amount of the related assets to their estimated fair value less costs to sell. During the second quarter of 2016, we recorded a gain on sale of approximately $338,000, which is included in selling and administrative expenses in the accompanying consolidated statement of operations for the three and six months ended June 30, 2016.

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INSIGHT ENTERPRISES, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

(unaudited)

8. Income Taxes

Our effective tax rate for the three and six months ended June 30, 2016 was 37.5% and 37.7%, respectively. For the three and six months ended June 30, 2016, 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. Additionally, the effect of lower taxes on earnings in foreign jurisdictions was offset partially by losses in certain foreign jurisdictions, resulting in an increase in the valuation allowance for deferred tax assets related to these foreign operating losses.

Our effective tax rate for the three and six months ended June 30, 2015 was 38.1% and 38.2%, respectively. For the three and six months ended June 30, 2015, 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. Additionally, the effect of lower taxes on earnings in foreign jurisdictions was offset partially by higher losses in certain foreign jurisdictions in the 2015 periods, resulting in an increase in the valuation allowance for deferred tax assets related to these foreign operating losses.

As of June 30, 2016 and December 31, 2015, we had approximately $3,478,000 and $3,335,000, respectively, of unrecognized tax benefits. Of these amounts, approximately $357,000 and $296,000, respectively, related to accrued interest.

Several of our subsidiaries are currently under audit for tax years 2006 through 2014. 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.

9. Share Repurchase Programs

In February 2016, our Board of Directors authorized the repurchase of up to $50,000,000 of our common stock. During the six months ended June 30, 2016, we purchased 1,830,739 shares of our common stock on the open market at a total cost of approximately $48,467,000 (an average price of $26.47 per share). All shares repurchased were retired. In early July 2016, we completed repurchases using the remaining $1,533,000 available under our current share repurchase plan authorization, and all shares repurchased were retired.

During the comparative six months ended June 30, 2015, under previously authorized share repurchase programs, we purchased 3,106,528 shares of our common stock at a total cost of approximately $85,951,000 (an average price of $27.67 per share). All shares repurchased were retired.

10. Commitments and Contingencies

Contractual

In the ordinary course of business, we issue performance bonds to secure our performance under certain contracts or state tax requirements. As of June 30, 2016, we had approximately $2,108,000 of performance bonds outstanding. These bonds are issued on our behalf by a surety company on an unsecured basis; however, if the surety company is ever required to pay out under the bonds, we have contractually agreed to reimburse the surety company.

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INSIGHT ENTERPRISES, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

(unaudited)

Employment Contracts and Severance Plans

We have employment contracts with, and severance 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 June 30, 2016. Accordingly, we have not accrued any liabilities related to such indemnifications in our 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 the consolidated financial statements. Such estimates are subject to change and may affect our results of operations and our cash flows.

Legal Proceedings

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

INSIGHT ENTERPRISES, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

(unaudited)

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

11. Segment Information

We operate in three reportable geographic operating segments: North America; EMEA; and APAC. Our offerings in North America and select countries in EMEA include IT hardware, software and services. Our offerings in the remainder of our EMEA segment and in APAC are largely software and select software-related services. Net sales by offering for North America, EMEA and APAC were as follows (in thousands):

	North America Three Months Ended June 30,		EMEA Three Months Ended June 30,		APAC Three Months Ended June 30,	
Sales Mix	**2016**	**2015**	**2016**	**2015**	**2016**	**2015**
Hardware	$ 632,643	$ 587,563	$ 111,336	$ 121,410	$ 5,427	$ 3,651
Software	331,389	326,192	238,104	250,055	50,722	59,356
Services	72,222	64,895	12,268	9,161	2,123	1,748
	$ 1,036,254	$ 978,650	$ 361,708	$ 380,626	$ 58,272	$ 64,755

	North America Six Months Ended June 30,		EMEA Six Months Ended June 30,		APAC Six Months Ended June 30,	
Sales Mix	**2016**	**2015**	**2016**	**2015**	**2016**	**2015**
Hardware	$ 1,150,664	$ 1,092,815	$ 231,383	$ 267,394	$ 9,090	$ 5,577
Software	574,757	584,684	412,152	448,515	84,253	98,178
Services	137,721	123,860	21,533	19,559	3,663	3,128
	$ 1,863,142	$ 1,801,359	$ 665,068	$ 735,468	$ 97,006	$ 106,883

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 for the three or six months ended June 30, 2016 or 2015.

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.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

(unaudited)

The following tables present our results of operations by reportable operating segment for the periods indicated (in thousands):

	Three Months Ended June 30, 2016			
	North America	EMEA	APAC	Consolidated
Net sales	$ 1,036,254	$ 361,708	$ 58,272	$ 1,456,234
Costs of goods sold	892,886	306,632	47,499	1,247,017
Gross profit	143,368	55,076	10,773	209,217
Operating expenses:				
Selling and administrative expenses	101,261	43,091	5,834	150,186
Severance and restructuring expenses	591	318		909
Earnings from operations	$ 41,516	$ 11,667	$ 4,939	$ 58,122

	Three Months Ended June 30, 2015			
	North America	EMEA	APAC	Consolidated
Net sales	$ 978,650	$ 380,626	$ 64,755	$ 1,424,031
Costs of goods sold	850,434	327,811	54,371	1,232,616
Gross profit	128,216	52,815	10,384	191,415
Operating expenses:				
Selling and administrative expenses	99,033			