INSIGHT ENTERPRISES INC
Form 10-Q
August 03, 2017
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended: June 30, 2017

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 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 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 (Do not check if a smaller reporting company)	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 Exchange Act). Yes No

The number of shares outstanding of the issuer s common stock as of July 28, 2017 was 35,786,168.

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INSIGHT ENTERPRISES, INC.

QUARTERLY REPORT ON FORM 10-Q

Three Months Ended June 30, 2017

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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 include: expectations regarding net sales, gross profit, gross margin, operating expenses, earnings from operations, non-operating income and expenses, net earnings or cash flows, cash needs, the payment of accrued expenses and liabilities, the timing of the inventory shipments; the expected non-cash loss on the sale of our Russia business; the expected effects of seasonality on our business; our intentions concerning the payment of dividends; our acquisition strategy; projections of capital expenditures; the sufficiency of our capital resources, the availability of financing and our needs or plans relating thereto; the estimated effect of new accounting principles and expected dates of adoption; the effect of indemnification obligations; projections about the outcome of ongoing tax audits; expectations regarding future employee termination benefits; estimates regarding future asset-retirement activities; adequate provisions for and our positions 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 relating thereto; our expectations regarding the use of cash flow from operations for working capital, to pay down debt, make capital expenditures and fund acquisitions; our expectations regarding stock-based compensation and future income tax expense; our compliance with leverage ratio requirements; 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 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, 2016:

- 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 related marketing funds and purchasing incentives;
- changes in the information technology (IT) industry and/or rapid changes in technology;
- risks associated with the integration and operation of acquired businesses;
- possible significant fluctuations in our future operating results;

the risks associated with our international operations;

general economic conditions;

increased debt and interest expense and decreased availability of funds under our financing facilities;

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;

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 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; and

legal proceedings and audits and failure to comply with laws and regulations.

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, 2017	December 31, 2016
ASSETS		
Current assets:		
Cash and cash equivalents	$ 194,783	$ 202,882
Accounts receivable, net of allowance for doubtful accounts of $9,487 and $9,138, respectively	1,821,694	1,436,742
Inventories	210,496	148,203
Inventories not available for sale	61,856	68,619
Other current assets	212,228	127,159
Total current assets	2,501,057	1,983,605
Property and equipment, net of accumulated depreciation and amortization of $322,894 and $308,127, respectively	77,486	70,910
Goodwill	127,226	62,645
Intangible assets, net of accumulated amortization of $30,970 and $22,982, respectively	107,006	20,707
Deferred income taxes	40,434	52,347
Other assets	65,258	29,086
	$ 2,918,467	$ 2,219,300
LIABILITIES AND STOCKHOLDERS EQUITY		
Current liabilities:		
Accounts payable trade	$ 1,288,764	$ 1,070,259
Accounts payable inventory financing facility	203,901	154,930
Accrued expenses and other current liabilities	174,381	151,895
Current portion of long-term debt	14,644	480
Deferred revenue	115,764	61,098
Total current liabilities	1,797,454	1,438,662
Long-term debt	286,219	40,251
Deferred income taxes	702	900
Other liabilities	48,090	26,044

	2,132,465	1,505,857
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; 35,779 shares at June 30, 2017 and 35,484 shares at December 31, 2016 issued and outstanding	358	355
Additional paid-in capital	311,848	309,650
Retained earnings	513,640	459,537
Accumulated other comprehensive loss foreign currency translation adjustments	(39,844)	(56,099)
Total stockholders equity	786,002	713,443
	$ 2,918,467	$ 2,219,300

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, 2017	Three Months Ended June 30, 2016	Six Months Ended June 30, 2017	Six Months Ended June 30, 2016
Net sales	$ 1,684,032	$ 1,456,234	$ 3,161,575	$ 2,625,216
Costs of goods sold	1,432,653	1,247,017	2,701,969	2,254,891
Gross profit	251,379	209,217	459,606	370,325
Operating expenses:				
Selling and administrative expenses	180,752	150,186	358,384	296,305
Severance and restructuring expenses	1,022	909	5,717	2,265
Acquisition-related expenses	276		3,223	
Earnings from operations	69,329	58,122	92,282	71,755
Non-operating (income) expense:				
Interest income	(205)	(216)	(636)	(466)
Interest expense	4,326	1,992	8,259	3,840
Net foreign currency exchange loss (gain)	251	(153)	631	463
Other expense, net	326	359	641	627
Earnings before income taxes	64,631	56,140	83,387	67,291
Income tax expense	24,376	21,073	29,284	25,336
Net earnings	$ 40,255	$ 35,067	$ 54,103	$ 41,955
Net earnings per share:				
Basic	$ 1.13	$ 0.96	$ 1.52	$ 1.14
Diluted	$ 1.11	$ 0.96	$ 1.50	$ 1.13
Shares used in per share calculations:				
Basic	35,765	36,380	35,684	36,728
Diluted	36,169	36,612	36,177	36,999

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,	
	2017	**2016**	**2017**	**2016**
Net earnings	$ 40,255	$ 35,067	$ 54,103	$ 41,955
Other comprehensive income (loss), net of tax:				
Foreign currency translation adjustments	8,975	(9,257)	16,255	(1,838)
Total comprehensive income	$ 49,230	$ 25,810	$ 70,358	$ 40,117

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, 2017	Six Months Ended June 30, 2016
Cash flows from operating activities:		
Net earnings	$ 54,103	$ 41,955
Adjustments to reconcile net earnings to net cash used in operating activities:		
Depreciation and amortization of property and equipment	12,729	13,963
Amortization of intangible assets	8,433	6,499
Provision for losses on accounts receivable	2,225	1,255
Write-downs of inventories	1,077	1,164
Non-cash stock-based compensation	6,749	5,283
Deferred income taxes	(25)	1,662
Gain on sale of real estate		(338)
Changes in assets and liabilities, net of acquisitions:		
Increase in accounts receivable	(230,762)	(178,019)
Increase in inventories	(54,276)	(28,604)
Increase in other assets	(64,875)	(12,563)
Increase in accounts payable	163,451	131,886
Increase in deferred revenue	4,944	1,208
(Decrease) increase in accrued expenses and other liabilities	(3,039)	10,027
Net cash used in operating activities	(99,266)	(4,622)
Cash flows from investing activities:		
Purchases of property and equipment	(10,274)	(4,974)
Proceeds from sale of real estate, net		1,378
Acquisition of Ignia and BlueMetal, net of cash acquired	(35)	507
Acquisition of Datalink, net of cash and cash equivalents acquired	(180,859)	
Net cash used in investing activities	(191,168)	(3,089)
Cash flows from financing activities:		
Borrowings on senior revolving credit facility	386,609	261,920
Repayments on senior revolving credit facility	(386,609)	(261,920)
Borrowings on accounts receivable securitization financing facility	1,802,889	962,000
Repayments on accounts receivable securitization financing facility	(1,718,389)	(966,000)
Borrowings under Term Loan A	175,000	
Repayments under Term Loan A	(4,375)	

Repayments under other financing agreements		(3,957)		(632)
Payments on capital lease obligations		(255)		(100)
Net borrowings under inventory financing facility		25,470		49,356
Payment of debt issuance costs		(1,123)		(2,819)
Payment of payroll taxes on stock-based compensation through shares withheld		(4,548)		(2,126)
Repurchases of common stock				(48,467)
Net cash provided by (used in) financing activities		270,712		(8,788)
Foreign currency exchange effect on cash and cash equivalent balances		11,623		3,666
Decrease in cash and cash equivalents		(8,099)		(12,833)
Cash and cash equivalents at beginning of period		202,882		187,978
Cash and cash equivalents at end of period	$	194,783	$	175,145

See accompanying notes to consolidated financial statements.

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 and APAC include hardware, software and services. Our offerings in the remainder of our EMEA and APAC segments 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, 2017, our results of operations for the three and six months ended June 30, 2017 and 2016 and our cash flows for the six months ended June 30, 2017 and 2016. The consolidated balance sheet as of December 31, 2016 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, 2016. Our results of operations include the results of Datalink Corporation (Datalink) from its acquisition date of January 6, 2017 and Ignia, Pty Ltd (Ignia) from its acquisition date of September 1, 2016. See Note 10 for further discussion of our acquisition of Datalink.

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.

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INSIGHT ENTERPRISES, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

(unaudited)

Recently Issued Accounting Standards

In March 2016, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2016-09, Improvements to Employee Share-Based Payment Accounting. This new standard simplifies the accounting for share-based payment transactions, including the income tax consequences, the calculation of diluted earnings per share, the treatment of forfeitures, the classification of awards as either equity or liabilities and the classification on the statement of cash flows. This new standard increases volatility in the statement of operations by requiring all excess tax benefits and deficiencies to be recognized as income tax benefit or expense in the statement of operations and treated as discrete items in the period in which they occur. We adopted the new standard as of January 1, 2017, and prospectively applied the provisions in this guidance requiring recognition of excess tax benefits and deficits in the statement of operations, which resulted in an income tax benefit of $193,000 and $2,189,000 for the three and six months ended June 30, 2017, respectively. The corresponding increase in net earnings equated to $0.01 and $0.06 per diluted share, during the three and six months ended June 30, 2017, respectively. Also, as a result of the adoption of the new standard, we made an accounting policy election to recognize forfeitures as they occur and no longer estimate expected forfeitures. The provisions in this guidance requiring the use of a modified retrospective transition method would have required us to record a cumulative-effect adjustment in retained earnings as of January 1, 2017. We elected not to adjust retained earnings and to record such cumulative-effect adjustment as stock-based compensation in the first quarter of 2017 on the basis of immateriality. Lastly, we applied the provisions of this guidance relating to classification on the statement of cash flows retrospectively. As a result, excess tax benefits from employee gains on stock-based compensation of $286,000 were reclassified from cash flows from financing activities to cash flows from operating activities for the six months ended June 30, 2016 to conform to the current period presentation.

In July 2015, the FASB issued ASU No. 2015-11, Simplifying the Measurement of Inventory. This standard changes the measurement from lower of cost or market to lower of cost and net realizable value. We adopted the standard in the first quarter of 2017 and applied the provisions prospectively. The standard did not have a material effect on our consolidated financial statements.

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, 2016 that affect or may affect our financial statements.

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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 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,	
	2017	**2016**	**2017**	**2016**
Numerator:				
Net earnings	$ 40,255	$ 35,067	$ 54,103	$ 41,955
Denominator:				
Weighted average shares used to compute basic EPS	35,765	36,380	35,684	36,728
Dilutive potential common shares due to dilutive RSUs, net of tax effect	404	232	493	271
Weighted average shares used to compute diluted EPS	36,169	36,612	36,177	36,999
Net earnings per share:				
Basic	$ 1.13	$ 0.96	$ 1.52	$ 1.14
Diluted	$ 1.11	$ 0.96	$ 1.50	$ 1.13

For the three and six months ended June 30, 2017, 12,000 and 54,000, 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 2,000 and 70,000 anti-dilutive RSUs for the three and six months ended June 30, 2016, respectively.

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

Debt

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

	June 30, 2017	December 31, 2016
Senior revolving credit facility	$	$
Term Loan A (less unamortized debt issuance costs of $1,033)	169,592	
Accounts receivable securitization financing facility	124,000	39,500
Capital leases and other financing obligations	7,271	1,231
Total	300,863	40,731
Less: current portion of long-term debt	(14,644)	(480)
Long-term debt	$ 286,219	$ 40,251

Our senior revolving credit facility (revolving facility) has an aggregate U.S. dollar equivalent maximum borrowing amount of $350,000,000, including a maximum borrowing capacity that may be used for borrowing in certain foreign currencies of $50,000,000, and matures on June 23, 2021. On January 6, 2017, we amended our revolving facility to expand the facility by $175,000,000 in the form of an incremental Term Loan A (TLA). Pricing and all other general terms and conditions of the TLA are governed by the existing revolving facility. The TLA requires amortization payments of 5%, 7.5%, 10%, 12.5% and 15% of the original principal balance in years one through five, respectively, to be paid quarterly through March 31, 2021, with the remaining balance of $107,187,500 due at maturity on June 23, 2021. The revolving facility and

INSIGHT ENTERPRISES, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

(unaudited)

TLA are guaranteed by the Company s material domestic subsidiaries and are 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 and the TLA are based on the leverage ratio of the Company as set forth on a pricing grid in the amended agreement. Amounts outstanding under the revolving facility and TLA 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%. The floating interest rate applicable at June 30, 2017 was 2.94% per annum for the revolving facility and 2.84% per annum for the TLA. In addition, we pay a quarterly commitment fee on the unused portion of the revolving facility of 0.25% to 0.45%, and our letter of credit participation fee ranges from 1.25% to 2.25%. As of June 30, 2017, we had no amounts outstanding under our revolving facility and approximately $170,625,000 outstanding under the TLA.

Our accounts receivable securitization financing facility (the ABS facility) has a maximum aggregate borrowing availability of $250,000,000, and matures on June 23, 2019. Interest is payable monthly, and the floating interest rate applicable at June 30, 2017 was 2.09% 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, 2017, qualified receivables were sufficient to permit access to the full $250,000,000 facility amount, of which $124,000,000 was outstanding.

Our consolidated debt balance that can be outstanding at the end of any fiscal quarter under our revolving facility, our TLA 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 and acquisition-related charges and synergies, not to exceed a specified cap (adjusted earnings). The maximum leverage ratio permitted under the facilities was increased to 3.50 times our trailing twelve-month adjusted earnings in conjunction with the acquisition of Datalink effective January 6, 2017. 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, 2017, our aggregate debt balance that could have been outstanding under our revolving facility and our ABS facility was the full amount of the maximum borrowing capacity of $770,625,000, of which $124,000,000 was outstanding under our ABS facility and $170,625,000 was outstanding under our TLA at June 30, 2017.

Inventory Financing Facility

Our inventory financing facility has a maximum borrowing capacity of $325,000,000, of which $203,901,000 was outstanding at June 30, 2017, and matures on June 23, 2021. If balances are not paid within stated vendor terms, they will accrue interest at prime plus 1.25%. 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.

INSIGHT ENTERPRISES, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

(unaudited)

Capital Lease and Other Financing Obligations

In March 2016 and May 2017, we entered into new capitalized leases with 36-month terms for certain IT equipment. The capital leases were non-cash transactions and, accordingly, have been excluded from our consolidated statement of cash flows for the six months ended June 30, 2017 and 2016.

In conjunction with our acquisition of Datalink effective January 6, 2017, we acquired certain obligations associated with Datalink s financing of the equipment that it leased to its clients. These financing obligations totaled $4,169,000 as of June 30, 2017.

Our obligations under the capitalized leases and these other financing obligations are included in long-term debt in our consolidated balance sheet as of June 30, 2017. The current and long-term portions of the obligations are included in the table above.

4. Severance and Restructuring Activities

During the three and six months ended June 30, 2017, we recorded severance expense in each of our operating segments. The North America charges primarily related to severance actions taken to realign roles and responsibilities subsequent to the acquisition of Datalink. The EMEA charges primarily related to a headcount reduction in Germany and France as part of our cost reduction and restructuring initiatives in that country.

The following table details the activity related to these resource actions for the six months ended June 30, 2017 and the outstanding obligations as of June 30, 2017 (in thousands):

	North America	EMEA	APAC	Consolidated
Balances at December 31, 2016	$ 947	$ 1,217	$	$ 2,164
Severance costs, net of adjustments	1,647	4,009	61	5,717
Cash payments	(1,363)	(1,365)	(61)	(2,789)
Foreign currency translation adjustments		275		275
Balances at June 30, 2017	$ 1,231	$ 4,136	$	$ 5,367

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.

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INSIGHT ENTERPRISES, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

(unaudited)

5. 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,	
	2017	2016	2017	2016
North America	$ 2,589	$ 1,791	$ 5,127	$ 3,888
EMEA	691	586	1,436	1,177
APAC	57	107	186	218
Total Consolidated	$ 3,337	$ 2,484	$ 6,749	$ 5,283

As of June 30, 2017, total compensation cost related to nonvested RSUs not yet recognized is $23,795,000, which is expected to be recognized over the next 1.37 years on a weighted-average basis.

The following table summarizes our RSU activity during the six months ended June 30, 2017:

	Number	Weighted Average Grant Date Fair Value	Fair Value
Nonvested at January 1, 2017	1,067,557	$ 25.37	
Granted(a)	325,558	44.35	
Vested, including shares withheld to cover taxes	(397,567)	24.64	$ 17,614,505(b)
Forfeited	(43,213)	29.45	
Nonvested at June 30, 2017(a)	952,335	32.01	$ 38,083,877(c)

(a) Includes 79,118 RSUs subject to remaining performance conditions. The number of RSUs subject to performance conditions are based on the Company achieving 100% of its 2017 targeted financial results. The number of RSUs ultimately awarded under the performance-based RSUs varies based on actual achieved financial results for 2017.

(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 $39.99 as of June 30, 2017, which would have been received by holders of RSUs had all such holders sold their underlying shares on that date.

6. Income Taxes

Our effective tax rate for the three and six months ended June 30, 2017 was 37.7% and 35.1%, respectively. For the three months ended June 30, 2017, 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. For the six months ended June 30, 2017, our effective tax rate approximated the United States federal statutory rate of 35.0% due primarily to increases in the rate caused by state income taxes, net of federal benefit, offset by decreases in the rate caused by the recognition of $2,189,000 of tax benefits on the settlement of employee share-based awards during the first half of 2017 in accordance with a new accounting standard, which was adopted effective January 1, 2017. See Note 1 for additional information relating to this new accounting standard. 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.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

(unaudited)

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.

As of June 30, 2017 and December 31, 2016, we had approximately $3,943,000 and $2,246,000, respectively, of unrecognized tax benefits. Of these amounts, approximately $267,000 and $195,000, respectively, related to accrued interest. 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 2015. 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.

7. Share Repurchase Programs

We did not repurchase shares of our common stock during the six months ended June 30, 2017 and no share repurchase programs are currently authorized by the Board of Directors. During the comparative six months ended June 30, 2016, under previously authorized share repurchase programs, 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.

8. 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, 2017, we had approximately $2,704,000 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.

Management believes that payments, if any, related to these performance bonds are not probable at June 30, 2017. 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 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.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

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Indemnifications

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

Management believes that payments, if any, related to these indemnifications are not probable at June 30, 2017. 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.

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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 would reasonably be expected to have a material adverse effect on its business, financial condition or results of operations.

9. 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 and APAC include IT hardware, software and services. Our offerings in the remainder of our EMEA and APAC segments 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	**2017**	**2016**	**2017**	**2016**	**2017**	**2016**
Hardware	$ 803,498	$ 632,643	$ 123,992	$ 111,336	$ 6,920	$ 5,427
Software	374,229	331,389	209,346	238,104	44,260	50,722
Services	103,585	72,222	12,722	12,268	5,480	2,123
	$ 1,281,312	$ 1,036,254	$ 346,060	$ 361,708	$ 56,660	$ 58,272

	North America Six Months Ended June 30,		EMEA Six Months Ended June 30,		APAC Six Months Ended June 30,	
Sales Mix	**2017**	**2016**	**2017**	**2016**	**2017**	**2016**
Hardware	$ 1,514,431	$ 1,150,664	$ 262,869	$ 231,383	$ 11,002	$ 9,090
Software	670,124	574,757	389,540	412,152	71,277	84,253
Services	207,709	137,721	24,006	21,533	10,617	3,663
	$ 2,392,264	$ 1,863,142	$ 676,415	$ 665,068	$ 92,896	$ 97,006

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, 2017 or 2016.

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, 2017			
	North America	**EMEA**	**APAC**	**Consolidated**
Net sales	$ 1,281,312	$ 346,060	$ 56,660	$ 1,684,032
Costs of goods sold	1,098,526	290,327	43,800	1,432,653
Gross profit	182,786	55,733	12,860	251,379
Operating expenses:				
Selling and administrative expenses	131,560	41,772	7,420	180,752