

File No. 220177

Committee Item No. 4

Board Item No. _____

COMMITTEE/BOARD OF SUPERVISORS

AGENDA PACKET CONTENTS LIST

Committee: Budget and Finance Committee Date April 13, 2022

Board of Supervisors Meeting Date _____

Cmte Board

- Motion
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- Original Agreement - 1/1/2019
- Insight Novation Agreement - Reduced
- Amendment No. 1 - 10/15/2020
- Amendment No. 2 - 9/15/2021
- Office of Contract Administration Memo - 2/14/2022
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- _____

Completed by: Brent Jalipa Date April 7, 2022

Completed by: Brent Jalipa Date _____

1 [Contract Amendment - Insight Public Sector, Inc. - Technology Marketplace - Not to Exceed
2 \$39,700,000]

3 **Resolution authorizing the Office of Contract Administration to execute Amendment**
4 **No. 3 to Contract 1000018903 with Insight Public Sector, Inc. for the purchase of**
5 **technology products and specialized services on an as-needed basis; increasing the**
6 **contract amount by \$11,700,000 for a total not to exceed amount of \$39,700,000 with no**
7 **change to the total contract duration of five years from January 1, 2019, through**
8 **December 31, 2023.**

9

10 WHEREAS, Amendment No. 3 is substantially in the form attached and are on file with
11 the Clerk of the Board of Supervisors in File No. 220177, which is hereby declared to be a
12 part of this Resolution as if set forth fully herein; and

13 WHEREAS, Charter, Section 9.118(b), requires the Board of Supervisors to approve by
14 Resolution contracts estimated to cost the City \$10,000,000 or more; and

15 WHEREAS, Insight Public Sector, Inc. ("Contractor") was competitively awarded the
16 Agreement through a Request for Proposals (RFP, Sourcing Event ID 0000000974) issued by
17 the Office of Contract Administration on June 20, 2018, pursuant to Administrative Code,
18 Chapter 21.1, in which City selected Contractor as a qualified proposer pursuant to the RFP;
19 and

20 WHEREAS, The Contractor was one of 29 Proposers selected pursuant to the RFP,
21 which resulted in three tiers of contractors; and

22 WHEREAS, The contracts awarded pursuant to the RFP are part of the City's
23 Technology Marketplace (previously known at the "Computer Store") which originated in the
24 1990's as an efficient purchasing model for the City's evolving technology needs; and

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1 WHEREAS, The Technology Marketplace contracts provide an efficient purchasing
2 model City departments to purchase technology goods and services on an as-needed basis
3 based on departments' specific business needs and reduces the amount of time needed to
4 complete a transaction from several months to one to two weeks; and

5 WHEREAS, All Technology Marketplace transactions above established thresholds
6 must be competitively solicited to all Technology Marketplace contractors within their
7 respective tiers and 87% of the total amount awarded to Contractor through the Technology
8 Marketplace process was awarded pursuant to a solicitation; and

9 WHEREAS, The Local Business Entity ("LBE") subcontracting participation
10 requirement for the Agreement is 15% of the total value of professional services awarded to
11 the Contractor and 10% of the total value of training services awarded to the Contractor; and

12 WHEREAS, The Civil Services approval of this Agreement has been granted under File
13 No. 44114-17/18; and

14 WHEREAS, The Agreement commenced on January 1, 2019, with an initial term of
15 three years through December 31, 2021; and

16 WHEREAS, Amendment No. 1 to the Agreement increased the not to exceed amount
17 from \$20,000,000 to \$28,000,000 (File No. 200938); and

18 WHEREAS, Amendment No. 2 to the Agreement extended the Agreement end date by
19 two years to December 31, 2023, which the extension did not require approval by the Board of
20 Supervisors; now, therefore, be it

21 RESOLVED, That the Board of Supervisors authorizes the Purchaser and Director of
22 the Office of Contract Administration to execute Amendment No. 3 to Contract 1000018903
23 with Insight Public Sector, Inc. for the purchase of technology products and specialized
24 services on an as-needed basis; increasing the contract amount by \$11,700,000 for a total not
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1 to exceed amount of \$39,700,000 with no change to the total contract duration of five years
2 from January 1, 2019, through December 31, 2023; and, be it

3 FURTHER RESOLVED, That within 30 days of the contract being fully executed by all
4 parties, the Purchaser and Director of the Office of Contract Administration shall provide the
5 final contract to the Clerk of the Board for inclusion into the official file.

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Items 2 - 7 Files 22-0175 – 22-0180	Department: Office of Contract Administration (OCA)
EXECUTIVE SUMMARY	
<p>Legislative Objectives</p> <ul style="list-style-type: none"> • The proposed resolutions would approve amendments to the Technology Marketplace contracts with the following vendors: (1) CCT Technologies Inc., increasing the not-to-exceed amount by \$18,900,000, for a total not to exceed \$62,900,000 (File 22-0175); (2) Cornerstone Technology Partners II JV, increasing the not-to-exceed amount by \$11,200,000, for a total not to exceed \$31,200,000 (File 22-0176); (3) Insight Public Sector Inc., increasing the not-to-exceed amount by \$11,700,000, for a total not to exceed \$39,700,000 (File 22-0177); (4) InterVision Systems, LLC, increasing the not-to-exceed amount by \$13,400,000, for a total not to exceed \$44,400,000 (File 22-0178); (5) XTech JV, increasing the not-to-exceed amount by \$35,700,000, for a total not to exceed \$115,700,000 (File 22-0179); and (6) Zones, LLC, increasing the not-to-exceed amount by \$3,600,000, for a total not to exceed \$23,600,000 (File 22-0180). <p>Key Points</p> <ul style="list-style-type: none"> • The Office of Contract Administration (OCA) manages the Technology Marketplace, a set of Citywide agreements that provide information technology goods and services. City departments may make purchases from these agreements on an as-needed basis. The agreements expire in December 2023, after which OCA intends to issue a new competitive solicitation. • According to the original agreements, each vendor is an authorized reseller of various manufacturers, including Cisco, Dell, Hewlett Packard, IBM, Juniper, and VM Ware products. Vendors may also offer hardware maintenance, training, consulting, and cloud services and become authorized resellers of other manufacturers. City departments use these contracts based on their business needs and pay for services from their budgets. <p>Fiscal Impact</p> <ul style="list-style-type: none"> • The proposed resolutions would increase the not-to-exceed amounts of the six contracts by a total of \$94,500,000. The amended not-to-exceed amounts are projections based on previous spending through January 31, 2022. • In addition to the Technology Marketplace, OCA has entered into stand-alone agreements for various technology products. Some of these agreements, such as the contract with InterVision Systems for Juniper Networks products (File 21-1228), essentially replace purchases that had previously been made through Technology Marketplace vendors. Therefore, future spending on these Technology Marketplace contracts may be less than what has been projected using past spending. <p>Recommendation</p> <ul style="list-style-type: none"> • Approve the proposed resolutions. 	

MANDATE STATEMENT

City Charter Section 9.118(b) states that any contract entered into by a department, board or commission that (1) has a term of more than ten years, (2) requires expenditures of \$10 million or more, or (3) requires a modification of more than \$500,000 is subject to Board of Supervisors approval.

BACKGROUND

The Office of Contract Administration (OCA) selects information technology firms through a competitive Request for Proposals (RFP) process to provide goods and services through the Technology Marketplace. City departments may purchase technology products and specialized services through the Technology Marketplace on an as-needed basis.

In 2018, OCA implemented Technology Marketplace 2.0, which allowed a broader pool of vendors. In its current form, the Technology Marketplace offers three tiers of as-needed contracts which are utilized by City departments based on their business needs. Tier 1 contracts have initial amounts of \$20 million each and require the vendor to provide a wide selection of technology products, professional and cloud services, maintenance, and training for City departments. Tier 2 contracts have initial amounts of \$3 million and offer a more limited set of options such as technology hardware and training. Finally, Tier 3 contracts which were awarded pursuant to a Micro LBE (Local Business Enterprise) Set Aside solicitation, have initial amounts of \$600,000 each which is equal to the Minimum Competitive Amount at the time of the solicitation.

In June 2018, OCA issued an RFP for Technology Marketplace 2.0 and received 21 Tier 1 proposals, of which 19 met the minimum requirements and minimum score of at least 60 out of 100 points. In January 2019, the Board of Supervisors approved contracts with the 19 vendors, including the following six vendors: (1) CCT Technologies, Inc., dba ComputerLand of Silicon Valley (File 18-1117); (2) Cornerstone Technology Partners II JV (File 18-1119); (3) Insight Public Sector Inc., formerly known as En Pointe Technologies Sales, LLC (File 18-1122); (4) InterVision Systems, LLC (File 18-1123); (5) XTech JV (File 18-1131); and (6) Zones, LLC (File 18-1132). Each contract had an initial term of approximately three years, from January 2019 through December 2021, with two one-year options to extend through December 2023, and an amount not to exceed \$20,000,000.

In September 2019, the Board of Supervisors approved Amendment 1 to the CCT Technology contract, increasing the not-to-exceed amount to \$23,000,000 (File 19-0877), and Amendment 1 to the XTech JV contract, increasing the not-to-exceed amount to \$44,000,000 (File 19-0878). In October 2020, the Board of Supervisors approved the following contract amendments: (1) Amendment 2 to the CCT Technology contract, increasing the not-to-exceed amount to \$44,000,000 (File 20-0936); (2) Amendment 1 to the Insight Public Sector contract, increasing the not-to-exceed amount to \$28,000,000 (File 20-0938); (3) Amendment 1 to the InterVision Systems contract, increasing the not-to-exceed amount to \$31,000,000 (File 20-0939); and (4) Amendment 2 to the XTech JV contract, increasing the not-to-exceed amount to \$80,000,000 (File 20-0940). In September 2021, OCA amended all Tier 1, 2, and 3 Technology Marketplace

contracts to exercise the options to extend through December 2023, with no changes to the not-to-exceed amounts, which did not require Board of Supervisors approval. The September 2021 contract amendments are the final contract extension authorized under the RFP for Technology Marketplace 2.0. According to Jonathan Jew, OCA IT Purchasing Supervisor, , OCA intends to issue an RFP for new Technology Marketplace contracts to be in place when the current contracts expire.

DETAILS OF PROPOSED LEGISLATION

The proposed resolutions would approve the following Technology Marketplace contract amendments:

1. Amendment 4 to the CCT Technologies contract, increasing the not-to-exceed amount by \$18,900,000, for a total not to exceed \$62,900,000 (File 22-0175);
2. Amendment 2 to the Cornerstone Technology Partners contract, increasing the not-to-exceed amount by \$11,200,000, for a total not to exceed \$31,200,000 (File 22-0176);
3. Amendment 3 to the Insight Public Sector contract, increasing the not-to-exceed amount by \$11,700,000, for a total not to exceed \$39,700,000 (File 22-0177);
4. Amendment 3 to the InterVision Systems contract, increasing the not-to-exceed amount by \$13,400,000, for a total not to exceed \$44,400,000 (File 22-0178);
5. Amendment 4 to the XTech JV contract, increasing the not-to-exceed amount by \$35,700,000, for a total not to exceed \$115,700,000 (File 22-0179); and
6. Amendment 2 to the Zones contract, increasing the not-to-exceed amount by \$3,600,000, for a total not to exceed \$23,600,000 (File 22-0180).

The underlying amendments for InterVision (22-0178) and Xtech (22-0179) are each \$100,000 more than stated in each of the pending resolutions. However, OCA intends to correct the final contracts once the resolutions are approved by the Board of Supervisors.

The proposed contract amendments would not make other changes to the contracts.

The amended not-to-exceed amounts are projections based on previous spending through January 31, 2022, or approximately 37 months through the contract terms. According IT Purchasing Supervisor Jew, OCA chose to amend contracts with less than 30 percent of expenditure authority remaining.

Services Provided

According to the original agreements, each vendor is an authorized reseller of various manufacturers, including Cisco, Dell, Hewlett Packard, IBM, Juniper, and VM Ware products. Vendors may also offer hardware maintenance, training, consulting, and cloud services and become authorized resellers of other manufacturers. City departments use these contracts based on their business needs and pay for services from their budgets.

Technology Marketplace Purchases

According to IT Purchasing Supervisor Jew, City departments procuring goods or services through the Technology Marketplace must submit requisitions to OCA for approval. For commodity purchases over \$25,000, OCA conducts an informal competitive solicitation of Technology Marketplace vendors and approves vendors for each requisition based on cost. For professional services, City departments conduct the competitive solicitation, and provide bid documents with the requisition to OCA for approval. Transactions through the Technology Marketplace are limited to \$2.5 million.

FISCAL IMPACT

The proposed resolutions would increase the not-to-exceed amounts of the six contracts by a total of \$94,500,000. The proposed not-to-exceed amounts are projections based on actual average monthly expenditures, rounded to the nearest \$100,000. Actual and projected expenditures for each vendor are shown in Exhibit 1 below.

Exhibit 1: Actual and Projected Contract Expenditures

Vendor	Actual Expenditures (through 1/31/22)	Actual Expenditures per Month	Projected Expenditures (23 Months)	Amended Not-to-Exceed (Actual + Projected Rounded to Nearest \$100,000)
CCT Technologies (File 22-0175)	\$38,787,870	\$1,048,321	\$24,111,378	\$62,900,000
Cornerstone Technology Partners (File 22-0176)	19,230,841	519,752	11,954,306	31,200,000
Insight Public Sector File (File 22-0177)	24,466,199	661,249	15,208,718	39,700,000
InterVision Systems (File 22-0178)	27,388,323	740,225	17,025,174	44,400,000
XTech JV (File 22-0179)	71,367,235	1,928,844	44,363,416	115,700,000
Zones (File 22-0180)	14,546,538	393,150	9,042,443	23,600,000
Total	\$195,787,006	\$5,291,541	\$121,705,436	\$317,500,000

Source: OCA

Purchases through the Technology Marketplace are funded by various City departments that make the purchases. Actual expenditures by City department are shown in Attachment 1.

In addition to the Technology Marketplace, OCA has entered into stand-alone agreements for various technology products. Some of these agreements, such as the contract with InterVision Systems for Juniper Networks products (File 21-1228), essentially replace purchases that had previously been made through Technology Marketplace vendors. Therefore, future spending on these Technology Marketplace contracts may be less than what has been projected using past spending. However, according to OCA, the Technology Marketplace vendors may sell a wide range of products and services, so they may be able to use available expenditure authority to sell new products and services requested by City departments. The contracts are as-needed and will expire December 31, 2023 regardless of total actual expenditures.

RECOMMENDATION

Approve the proposed resolutions.

Attachment 1: Actual Expenditures for the Six Contracts by City Department

Department	Amount (Through 1/31/22)
Airport	\$45,521,677
Department of Technology	33,831,826
Public Utilities Commission	30,634,681
Human Services Agency	15,845,716
Department of Public Health	9,432,172
Public Works	9,007,465
Public Library	8,679,973
City Administrator's Office	6,022,583
Police Department	5,447,565
Controller's Office	4,767,348
Treasurer/Tax Collector	3,059,332
Fire Department	2,505,003
General City Responsibility	2,494,600
Assessor/Recorder	2,469,171
City Planning	2,324,274
District Attorney's Office	2,077,837
Recreation and Park Department	1,518,885
Department of Emergency Management	1,224,337
Port	886,191
Department of Children, Youth, & their Families	828,550
Department of Building Inspection	812,877
Mayor's Office	597,587
City Attorney's Office	560,261
Department of Elections	530,709
Department of Human Resources	510,268
Other City Departments (Under \$500,000 in Expenditures)	3,722,393
Total	\$195,313,280

Source: OCA



**City and County of San Francisco
Office of Contract Administration
Purchasing Division
City Hall, Room 430
1 Dr. Carlton B. Goodlett Place
San Francisco, California 94102-4685**

**Third Amendment
To Agreement between the City and County of San Francisco and
Insight Public Sector, Inc**

**Term Contract # 99400
Tier 1 Contractor of the Technology Marketplace 2.0
PeopleSoft Supplier Contract ID: 1000018903**

THIS AMENDMENT (this “Amendment”) is made as of February 14, 2022, in San Francisco, California, by and between **Insight Public Sector, Inc** (“Contractor”), and the City and County of San Francisco, a municipal corporation (“City”), acting by and through its Director of the Office of Contract Administration.

Recitals

WHEREAS, City and Contractor have entered into the Agreement (as defined below); and

WHEREAS, City and Contractor desire to modify the Agreement on the terms and conditions set forth herein to increase the contract amount; and

WHEREAS, the Agreement was competitively procured as required by San Francisco Administrative Code Chapter 21.1 through Request for Proposals #99400 “Tiers 1 and 2 of the Technology Marketplace 2.0” a Request for Proposal (“RFP”) issued on June 20, 2018 and this modification is consistent therewith; and

WHEREAS, approval for this Amendment was obtained when the Civil Service Commission approved Contract number 44114-17/18 on July 10, 2018;

WHEREAS, the City’s Board of Supervisors approved the Agreement by Resolution No. 009-19 on January 15, 2019;

WHEREAS, the City’s Board of Supervisors approved the First Amendment by Resolution No. 441-20 on September 29, 2020 modifying the Agreement to increase the not-to-exceed amount from \$20,000,000 to \$28,000,000;

WHEREAS, the City’s Board of Supervisors approved the Third Amendment by Resolution No. XXX-XX on February XX, 2022 modifying the Agreement to increase the not-to-exceed amount from \$28,000,000 to \$XX,XXX,000;

NOW, THEREFORE, Contractor and the City agree as follows:



Article 1 Definitions

The following definitions shall apply to this Amendment:

1.1 **Agreement.** The term “Agreement” shall mean the Agreement dated January 1, 2019 between Contractor and City as amended by the First Amendment dated October 15, 2020, and as amended by the Second Amendment dated September 15, 2021.

1.2 **Other Terms.** Terms used and not defined in this Amendment shall have the meanings assigned to such terms in the Agreement.

Article 2 Modifications to the Agreement.

The Agreement is hereby modified as follows:

2.1 **Payment.** *Section 3.3.1 “Payment” of the Agreement currently reads as follows:*

3.3.1 **Payment.** Contractor shall provide an invoice to the City on a monthly basis for Services completed in the immediate preceding month. Compensation shall be made for Services identified in the invoice that the Ordering Department’s department head, in his or her sole discretion, concludes has been satisfactorily performed. Payment shall be made within 30 calendar days of receipt of the invoice, unless the City notifies the Contractor that a dispute as to the invoice exists. In no event shall the amount of this Agreement exceed Twenty-Eight Million dollars (\$28,000,000). In no event shall City be liable for interest or late charges for any late payments.

Such section is hereby amended in its entirety to read as follows:

3.3.1 **Payment.** Contractor shall provide an invoice to the City on a monthly basis for Services completed in the immediate preceding month. Compensation shall be made for Services identified in the invoice that the Ordering Department’s department head, in his or her sole discretion, concludes has been satisfactorily performed. Payment shall be made within 30 calendar days of receipt of the invoice, unless the City notifies the Contractor that a dispute as to the invoice exists. In no event shall the amount of this Agreement exceed Thirty-Nine Million Seven Hundred Thousand dollars (\$39,700,000). In no event shall City be liable for interest or late charges for any late payments.

Article 3 Effective Date



Each of the modifications set forth in Article 2 shall be effective on and after the date of this Amendment.

Article 4 Legal Effect

Except as expressly modified by this Amendment, all of the terms and conditions of the Agreement shall remain unchanged and in full force and effect.



IN WITNESS WHEREOF, Contractor and City have executed this Amendment as of the date first referenced above.

CITY

Recommended by:

Jonathan Jew
IT Purchasing Supervisor
Office of Contract Administration

Approved as to Form:

Dennis J. Herrera
City Attorney

By: _____
Gustin R. Guibert
Deputy City Attorney

Approved:

Sailaja Kurella
Director of the Office of Contract
Administration, and Purchaser

By: _____
Sailaja Kurella

CONTRACTOR

Insight Public Sector, Inc.

Signature of Authorized Representative

Name of Authorized Representative

President

City Supplier number: 0000040338

**City and County of San Francisco
Office of Contract Administration
Purchasing Division
City Hall, Room 430
1 Dr. Carlton B. Goodlett Place
San Francisco, California 94102-4685**

**Agreement between the City and County of San Francisco and
En Pointe Technologies Sales, LLC**

**Term Contract # 99400
Tier 1 Contractor of the Technology Marketplace 2.0
PeopleSoft Supplier Contract ID: 1000012609**

This Agreement is made this first day of January, 2019, in the City and County of San Francisco (“City”), State of California, by and between En Pointe Technologies Sales, LLC 1 Market Street, Spear Towers, Suite 3619 San Francisco, CA 94105 (“Contractor”) and City.

Recitals

WHEREAS, the Office of Contract Administration (“Department”) wishes to procure Informational Technology products and services on an as-needed basis through the Technology Marketplace; and,

WHEREAS, this Agreement was competitively procured as required by San Francisco Administrative Code Chapter 21.1 through Request for Proposals #99400 “Tiers 1 and 2 of the Technology Marketplace 2.0” a Request for Proposal (“RFP”) issued on June 20, 2018, in which City selected Contractor as a qualified proposer pursuant to the RFP; and

WHEREAS, the Local Business Entity (“LBE”) subcontracting participation requirement for this Agreement is 15 % for services, with the exception that the requirement will be 10% for training services;

WHEREAS, Contractor represents and warrants that it is qualified to perform the Services required by City as set forth under this Agreement; and

WHEREAS, the City’s Civil Service Commission approved Contract number 44114-17/18 on July 10, 2018;

WHEREAS, the City’s Board of Supervisors approved resolution number 0009-19 on January 15, 2019 ;

Now, THEREFORE, the parties agree as follows:

Article 1 Definitions

The following definitions apply to this Agreement:

1.1 "Agreement" means this contract document, including all attached appendices, and all applicable City Ordinances and Mandatory City Requirements that are specifically incorporated into this Agreement by reference as provided herein.

1.2 "City" or "the City" means the City and County of San Francisco, a municipal corporation, acting by and through both its Director of the Office of Contract Administration or the Director's designated agent, hereinafter referred to as "Purchasing" and the Office of Contract Administration."

1.3 "CMD" means the Contract Monitoring Division of the City.

1.4 "Contractor" means En Pointe Technologies Sales, LLC 1 Market Street, Spear Towers, Suite 3619 San Francisco, CA 94105.

1.5 "Cloud Services" means any provision of products or services rendered via a hosted cloud delivery structure. There are three cloud computing service models: Software as a Service (the use of applications running on a cloud infrastructure environment), Platform as a Service (the deployment of applications created using programming languages, libraries, services, and tools supported by a cloud provider), and Infrastructure as a Service (the provision of processing, storage, networking and other fundamental computing resources). There are four cloud computing deployment models: private (for use by a single organization), public (for use by general public), community (for use by a specific community of organizations with a shared purpose), and hybrid (A composition of two or more cloud infrastructures (public, private, community)).

1.6 "Deliverables" means Contractor's work product resulting from the Services that are provided by Contractor to City during the course of Contractor's performance of the Agreement, including without limitation, the work product described in the "Administrative Procedures and Requirements" attached as Appendix A and any TMTPO executed under the Agreement..

1.7 "Effective Date" means the date upon which the City's Controller certifies the availability of funds for this Agreement as provided in Section 3.1.

1.8 "Hardware" means tangible products such as physical devices and components that make up a computing system or any technology based solution which may include but is not limited to internal components such as CPUs, power supplies, hard drives, fans, heat sinks and video cards or external components such as webcams, microphones, routers, network switches, data cables, monitors, battery back-ups, printers, speakers and card readers.

1.9 "Hardware Maintenance Services" means the general services category refers to hardware maintenance of any technology related product, device, component or part. Examples may include but are not limited to on-site repair of stand-alone or networked PCs, printer maintenance and repair of network hardware.

1.10 "Installation and Configuration Services" means installation and configuration services incidental to the purchase of hardware and software products.

1.11 "Mandatory City Requirements" means those City laws set forth in the San Francisco Municipal Code, including the duly authorized rules, regulations, and guidelines implementing such laws, that impose specific duties and obligations upon Contractor.

1.12 "Ordering Department" means a department of the City and County of San Francisco, or other public agency, which initiates a requisition for the order of products or services pursuant to the authorized procedures set forth in this Agreement.

1.13 "Party" and "Parties" mean the City and Contractor either collectively or individually.

1.14 "Product" means hardware, software or any combination of them, procured through this Agreement.

1.15 "Professional Services" means services requiring specialized computer and IT related knowledge, expertise, or training acquired either by a prolonged course of study or equivalent experience in the field. Examples may include but are not limited to software developers, programmers, engineers, analysts, project managers, system architects, and system integrators. This category will also cover more specialized professional services that require a specific area of expertise. Examples may include, but are not limited to, network security testing services, data migration services and facility security system configuration and testing services.

1.16 "Services" means the work performed by Contractor under this Agreement as specifically described in the "Administrative Procedures and Requirements" attached as Appendix A and any TMTPO executed under this Agreement, including procurement of Hardware Maintenance Services, Training Services, Professional Services, Cloud Services, labor, supervision, Products, materials, equipment, actions and other requirements to be performed and furnished by Contractor under this Agreement.

1.17 "Software" means intangible products such as organized collections of computer data, code, firmware, patches, digital keys, upgrades or updates which may include but is not limited to operating system software, applications, programs, Software-as-a-Service (SaaS), licenses, and subscriptions.

1.18 "Software Maintenance" means maintenance that is either optional or required to ensure that the software remains operational and continues to satisfy user requirements. Software maintenance may include but is not limited to software updates, patches, upgrades, technical support, and after sale support related to purchased licenses, and including all improvements or actions needed to keep the licensed software operating as specified.

1.19 "Technology Marketplace" means a virtual marketplace comprised of the multiple award pool of contracts made available to City ordering departments and other governmental agencies and jurisdictions for the efficient and cost-effective procurement of IT products and services.

1.20 "Technology Marketplace Transaction" means an event resulting in a purchase of Products, Hardware Maintenance Services, Training Services, Professional Services or Cloud Services through the Technology Marketplace.

1.21 "Technology Marketplace Transaction Purchase Order" ("TMTPO") means the authorization document designated as such by the Purchaser for a procurement resulting from a Technology Marketplace Transaction, whether issued in a paper or electronic format, including blanket purchase orders for purchases involving multiple payments, and shall also include the scope of work for that particular purchase.

1.22 "Training Services" means training for technology products and services including but not limited to instruction, assistance and training services for end users and technical support.

Article 2 Term of the Agreement

2.1 The term of this Agreement shall commence on the later of: (i) January 1, 2019; or (ii) the Effective Date and expire on December 31, 2021, unless earlier terminated as otherwise provided herein.

2.2 The City has two options to renew the Agreement for a period of one year each. The City may extend this Agreement beyond the expiration date by exercising an option at the City's sole and absolute discretion and by modifying this Agreement as provided in Section 11.5, "Modification of this Agreement."

Article 3 Financial Matters

3.1 **Certification of Funds; Budget and Fiscal Provisions; Termination in the Event of Non-Appropriation.** This Agreement is subject to the budget and fiscal provisions of the City's Charter. Charges will accrue only after prior written authorization certified by the Controller, and the amount of City's obligation hereunder shall not at any time exceed the amount certified for the purpose and period stated in such advance authorization. This Agreement will terminate without penalty, liability or expense of any kind to City at the end of any fiscal year if funds are not appropriated for the next succeeding fiscal year. If funds are appropriated for a portion of the fiscal year, this Agreement will terminate, without penalty, liability or expense of any kind at the end of the term for which funds are appropriated. City has no obligation to make appropriations for this Agreement in lieu of appropriations for new or other agreements. City budget decisions are subject to the discretion of the Mayor and the Board of Supervisors. Contractor's assumption of risk of possible non-appropriation is part of the consideration for this Agreement.

THIS SECTION CONTROLS AGAINST ANY AND ALL OTHER PROVISIONS OF THIS AGREEMENT.

3.2 **Guaranteed Maximum Costs.** The City's payment obligation to Contractor cannot at any time exceed the amount certified by City's Controller for the purpose and period stated in such certification. Absent an authorized Emergency per the City Charter or applicable Code, no City representative is authorized to offer or promise, nor is the City required to honor, any offered or promised payments to Contractor under this Agreement in excess of the certified maximum amount without the Controller having first certified the additional promised amount and the Parties having modified this Agreement as provided in Section 11.5, "Modification of this Agreement."

3.3 Compensation.

3.3.1 **Payment.** Contractor shall provide an invoice to the City on a monthly basis for Services completed in the immediate preceding month. Compensation shall be made for Services identified in the invoice that the Ordering Department's department head, in his or her sole discretion, concludes has been satisfactorily performed. Payment shall be made within 30 calendar days of receipt of the invoice, unless the City notifies the Contractor that a dispute as to the invoice exists. In no event shall the amount of this Agreement exceed Twenty Million dollars (\$20,000,000). In no event shall City be liable for interest or late charges for any late payments.

3.3.2 **Payment Limited to Satisfactory Services.** Contractor is not entitled to any payments from City until the Ordering Department accepts and approves Services, including any furnished Deliverables, as satisfying all of the requirements of this Agreement. Payments to Contractor by City shall not excuse Contractor from its obligation to replace unsatisfactory Deliverables, including equipment, components, materials, or Services even if the unsatisfactory character of such Deliverables, equipment, components, materials, or Services may not have been apparent or detected at the time such payment was made. Deliverables, equipment, components, materials and Services that do not conform to the requirements of this Agreement may be rejected by City and in such case must be replaced by Contractor without delay at no cost to the City.

3.3.3 **Withhold Payments.** If Contractor fails to provide Services in accordance with Contractor's obligations under this Agreement, the City may withhold any and all payments due Contractor until such failure to perform is cured, and Contractor shall not stop work as a result of City's withholding of payments as provided herein.

3.3.4 **Invoice Format.** Invoices furnished by Contractor under this Agreement must be in a form acceptable to the Controller and City, and must include a unique invoice number. Payment shall be made by City as specified in 3.3.6 ,” or in such alternate manner as the Parties have mutually agreed upon in writing.

3.3.5 **LBE Payment and Utilization Tracking System.** Contractor must submit all required payment information using the City's Financial System as required by CMD to enable the City to monitor Contractor's compliance with the LBE subcontracting commitments in this Agreement. Contractor shall pay its LBE subcontractors within three working days after receiving payment from the City, except as otherwise authorized by the LBE Ordinance. The Controller is not authorized to pay invoices submitted by Contractor prior to Contractor's submission of all required CMD payment information. Failure to submit all required payment information to the City's Financial System with each payment request may result in the Controller withholding 20% of the payment due pursuant to that invoice until the required payment information is provided. Following City's payment of an invoice, Contractor has ten calendar days to acknowledge using the City's Financial System that all subcontractors have been paid. Self-Service Training for suppliers is located at this link: <https://sfcitypartner.sfgov.org/Training/TrainingGuide> .

3.3.6 Getting paid for goods and/or services from the City.

(a) All City vendors receiving new contracts, contract renewals, or contract extensions must sign up to receive electronic payments through the City's Automated

Clearing House (ACH) payments service/provider. Electronic payments are processed every business day and are safe and secure. To sign up for electronic payments, visit www.sfgov.org/ach.

(b) The following information is required to sign up: (i) The enroller must be their company's authorized financial representative, (ii) the company's legal name, main telephone number and all physical and remittance addresses used by the company, (iii) the company's U.S. federal employer identification number (EIN) or Social Security number (if they are a sole proprietor), and (iv) the company's bank account information, including routing and account numbers.

3.4 Audit and Inspection of Records. Contractor agrees to maintain and make available to the City, during regular business hours, accurate books and accounting records relating to its Services. Contractor will permit City to audit, examine and make excerpts and transcripts from such books and records, and to make audits of all invoices, materials, payrolls, records or personnel and other data related to all other matters covered by this Agreement, whether funded in whole or in part under this Agreement. Contractor shall maintain such data and records in an accessible location and condition for a period of not fewer than five years after final payment under this Agreement or until after final audit has been resolved, whichever is later. The State of California or any Federal agency having an interest in the subject matter of this Agreement shall have the same rights as conferred upon City by this Section. Contractor shall include the same audit and inspection rights and record retention requirements in all subcontracts.

3.5 Submitting False Claims. The full text of San Francisco Administrative Code Chapter 21, Section 21.35, including the enforcement and penalty provisions, is incorporated into this Agreement. Pursuant to San Francisco Administrative Code §21.35, any contractor or subcontractor who submits a false claim shall be liable to the City for the statutory penalties set forth in that section. A contractor or subcontractor will be deemed to have submitted a false claim to the City if the contractor or subcontractor: (a) knowingly presents or causes to be presented to an officer or employee of the City a false claim or request for payment or approval; (b) knowingly makes, uses, or causes to be made or used a false record or statement to get a false claim paid or approved by the City; (c) conspires to defraud the City by getting a false claim allowed or paid by the City; (d) knowingly makes, uses, or causes to be made or used a false record or statement to conceal, avoid, or decrease an obligation to pay or transmit money or property to the City; or (e) is a beneficiary of an inadvertent submission of a false claim to the City, subsequently discovers the falsity of the claim, and fails to disclose the false claim to the City within a reasonable time after discovery of the false claim.

3.6 Reserved. (Payment of Prevailing Wages)

Article 4 Services and Resources

4.1 Services Contractor Agrees to Perform. Contractor agrees to perform the Services provided for in Appendix A, "Administration Procedures and Requirements" and each TMTPO executed pursuant to this Agreement. Officers and employees of the City are not authorized to request, and the City is not required to reimburse the Contractor for, Services beyond the Services listed in Appendix A and any executed TMTPO, unless Appendix A is

modified as provided in Section 11.5, "Modification of this Agreement, or the TMTPO is modified in writing by City and Contractor.

4.2 Qualified Personnel. Contractor shall utilize only competent personnel under the supervision of, and in the employment of, Contractor (or Contractor's authorized subcontractors) to perform the Services. Contractor will comply with City's reasonable requests regarding assignment and/or removal of personnel, but all personnel, including those assigned at City's request, must be supervised by Contractor. Contractor shall commit adequate resources to allow timely completion within the project schedule specified in this Agreement.

4.3 Subcontracting.

4.3.1 It is anticipated that Contractor will subcontract portions of the Services rendered under this Contract. Such subcontracting shall occur only upon prior written approval of City. Contractor is responsible for its subcontractors throughout the course of the work required to perform the Services. All Subcontracts must incorporate the terms of Article 10 "Additional Requirements Incorporated by Reference" of this Agreement, unless inapplicable. Neither Party shall, on the basis of this Agreement, contract on behalf of, or in the name of, the other Party. Any agreement made in violation of this provision shall be null and void.

4.4 Independent Contractor; Payment of Employment Taxes and Other Expenses.

4.4.1 **Independent Contractor.** For the purposes of this Article 4, "Contractor" shall be deemed to include not only Contractor, but also any agent or employee of Contractor. Contractor acknowledges and agrees that at all times, Contractor or any agent or employee of Contractor shall be deemed at all times to be an independent contractor and is wholly responsible for the manner in which it performs the services and work requested by City under this Agreement. Contractor, its agents, and employees will not represent or hold themselves out to be employees of the City at any time. Contractor or any agent or employee of Contractor shall not have employee status with City, nor be entitled to participate in any plans, arrangements, or distributions by City pertaining to or in connection with any retirement, health or other benefits that City may offer its employees. Contractor or any agent or employee of Contractor is liable for the acts and omissions of itself, its employees and its agents. Contractor shall be responsible for all obligations and payments, whether imposed by federal, state or local law, including, but not limited to, FICA, income tax withholdings, unemployment compensation, insurance, and other similar responsibilities related to Contractor's performing services and work, or any agent or employee of Contractor providing same. Nothing in this Agreement shall be construed as creating an employment or agency relationship between City and Contractor or any agent or employee of Contractor. Any terms in this Agreement referring to direction from City shall be construed as providing for direction as to policy and the result of Contractor's work only, and not as to the means by which such a result is obtained. City does not retain the right to control the means or the method by which Contractor performs work under this Agreement. Contractor agrees to maintain and make available to City, upon request and during regular business hours, accurate books and accounting records demonstrating Contractor's compliance with this section. Should City determine that Contractor, or any agent or employee of Contractor, is not performing in accordance with the requirements of this Agreement, City shall provide Contractor

with written notice of such failure. Within five (5) business days of Contractor's receipt of such notice, and in accordance with Contractor policy and procedure, Contractor shall remedy the deficiency. Notwithstanding, if City believes that an action of Contractor, or any agent or employee of Contractor, warrants immediate remedial action by Contractor, City shall contact Contractor and provide Contractor in writing with the reason for requesting such immediate action.

4.4.2 Payment of Employment Taxes and Other Expenses. Should City, in its discretion, or a relevant taxing authority such as the Internal Revenue Service or the State Employment Development Division, or both, determine that Contractor is an employee for purposes of collection of any employment taxes, the amounts payable under this Agreement shall be reduced by amounts equal to both the employee and employer portions of the tax due (and offsetting any credits for amounts already paid by Contractor which can be applied against this liability). City shall then forward those amounts to the relevant taxing authority. Should a relevant taxing authority determine a liability for past services performed by Contractor for City, upon notification of such fact by City, Contractor shall promptly remit such amount due or arrange with City to have the amount due withheld from future payments to Contractor under this Agreement (again, offsetting any amounts already paid by Contractor which can be applied as a credit against such liability). A determination of employment status pursuant to the preceding two paragraphs shall be solely for the purposes of the particular tax in question, and for all other purposes of this Agreement, Contractor shall not be considered an employee of City. Notwithstanding the foregoing, Contractor agrees to indemnify and save harmless City and its officers, agents and employees from, and, if requested, shall defend them against any and all claims, losses, costs, damages, and expenses, including attorneys' fees, arising from this section.

4.5 Assignment. The Services to be performed by Contractor are personal in character and neither this Agreement nor any duties or obligations hereunder may be assigned or delegated by Contractor unless first approved by City by written instrument executed and approved in the same manner as this Agreement. Any purported assignment made in violation of this provision shall be null and void.

4.6 Warranty. Contractor warrants to City that the Services will be performed with the degree of skill and care that is required by current, good and sound professional procedures and practices, and in conformance with generally accepted professional standards prevailing at the time the Services are performed so as to ensure that all Services performed are correct and appropriate for the purposes contemplated in this Agreement.

4.7 Liquidated Damages. Contractor acknowledges that certain Technology Marketplace Transactions may require that Contractor meet specific dates for providing Deliverables under the Agreement. In such cases, Contractor agrees that its failure to adhere to the schedule specified in the TMTPO may subject City to actual damages that are impractical or extremely difficult to ascertain. Contractor understands and agrees that City may specify in the TMTPO, as a reasonable estimate of the loss City will incur because of Contractor's delay, a daily rate of liquidated damages. By accepting the TMTPO, Contractor agrees that this sum shall not be considered a penalty and is an agreed upon sum of monetary damages sustained by City because of Contractor's failure to furnish Deliverables to City within the time period fixed or such extensions of time permitted in writing by City.

4.8 **Bonding Requirements.** The Contractor may be required on a case by case basis to furnish a performance bond on the form in a form acceptable to the City, to guarantee the faithful performance of this contract. The bonds must be approved as to sufficiency and qualifications of the surety by the Controller and City Attorney.

Article 5 Insurance and Indemnity

5.1 Insurance.

5.1.1 The following insurance requirements are the minimum coverages required under this Agreement. At the individual purchase level, on a project by project basis, these requirements may be modified based on the products and/or services the City is procuring under its agreement from a specific contractor. Such modifications may include the type of insurance, the required minimum limits of insurance, as well as exclusions or inclusions related to coverage. Furthermore, the amount and type of insurance required for a particular purchase will be based on the types and amount of risk involved. Insurance policies that include coverage for both technology errors and omissions as well as cyber privacy are acceptable so long as they meet the limits the Risk Manager requires in the contract.

5.1.2 Ordering Departments shall contact the City's Risk Manager with any questions related to insurance requirements, and are encouraged to do this early in the contracting process. Any reductions below the amount of insurance coverage required, or any waivers of these coverages require the specific approval of the City's Risk Manager.

5.1.3 **Required Minimum Coverages.** Without in any way limiting Contractor's liability pursuant to the "Indemnification" section of this Agreement, Contractor must maintain in force, during the full term of the Agreement, insurance in the following amounts and coverages:

- (a) Workers' Compensation, in statutory amounts, with Employers' Liability Limits not less than \$1,000,000 each accident, injury, or illness; and
- (b) Commercial General Liability Insurance with limits not less than \$1,000,000 each occurrence for Bodily Injury and Property Damage, including Contractual Liability, Personal Injury, Products and Completed Operations; and
- (c) Commercial Automobile Liability Insurance with limits not less than \$1,000,000 each occurrence, "Combined Single Limit" for Bodily Injury and Property Damage, including Owned, Non-Owned and Hired auto coverage, as applicable.
- (d) Professional liability insurance, applicable to Contractor's profession, with limits not less than \$1,000,000 each claim with respect to negligent acts, errors or omissions in connection with the Services.
- (e) Technology Errors and Omissions Liability coverage, with limits of \$1,000,000 each occurrence and each loss. The policy shall at a minimum cover professional misconduct or lack of the requisite skill required for the performance of services defined in the contract and shall also provide coverage for the following risks:

(i) Network security liability arising from the unauthorized access to, use of, or tampering with computers or computer systems, including hacker attacks; and

(ii) Liability arising from the introduction of any form of malicious software including computer viruses into, or otherwise causing damage to the City's or third person's computer, computer system, network, or similar computer related property and the data, software, and programs thereon.

(f) Contractor shall maintain in force during the full life of the agreement Cyber and Privacy Insurance with limits of not less than \$1,000,000 per occurrence. Such insurance shall include coverage for liability arising from theft, dissemination, and/or use of confidential information, including but not limited to, bank and credit card account information or personal information, such as name, address, social security numbers, protected health information or other personally identifying information, stored or transmitted in electronic form.

5.1.4 Commercial General Liability and Commercial Automobile Liability Insurance policies must be endorsed to provide:

(a) Name as Additional Insured the City and County of San Francisco, its Officers, Agents, and Employees.

(b) That such policies are primary insurance to any other insurance available to the Additional Insureds, with respect to any claims arising out of this Agreement, and that insurance applies separately to each insured against whom claim is made or suit is brought.

5.1.5 All policies shall be endorsed to provide thirty (30) days' advance written notice to the City of cancellation for any reason, intended non-renewal, or reduction in coverages. Notices shall be sent to the City address set forth in Section 11.1, entitled "Notices to the Parties."

5.1.6 Should any of the required insurance be provided under a claims-made form, Contractor shall maintain such coverage continuously throughout the term of this Agreement and, without lapse, for a period of three years beyond the expiration of this Agreement, to the effect that, should occurrences during the contract term give rise to claims made after expiration of the Agreement, such claims shall be covered by such claims-made policies.

5.1.7 Should any of the required insurance be provided under a form of coverage that includes a general annual aggregate limit or provides that claims investigation or legal defense costs be included in such general annual aggregate limit, such general annual aggregate limit shall be double the occurrence or claims limits specified above.

5.1.8 Should any required insurance lapse during the term of this Agreement, requests for payments originating after such lapse shall not be processed until the City receives satisfactory evidence of reinstated coverage as required by this Agreement, effective as of the lapse date. If insurance is not reinstated, the City may, at its sole option, terminate this Agreement effective on the date of such lapse of insurance.

5.1.9 Before commencing any Services, Contractor shall furnish to City certificates of insurance and additional insured policy endorsements with insurers with ratings comparable to A-, VIII or higher, that are authorized to do business in the State of California, and that are satisfactory to City, in form evidencing all coverages set forth above. Approval of the insurance by City shall not relieve or decrease Contractor's liability hereunder.

5.1.10 The Workers' Compensation policy(ies) shall be endorsed with a waiver of subrogation in favor of the City for all work performed by the Contractor, its employees, agents and subcontractors.

5.1.11 If Contractor will use any subcontractor(s) to provide Services, Contractor shall require the subcontractor(s) to provide all necessary insurance and to name the City and County of San Francisco, its officers, agents and employees and the Contractor as additional insureds.

5.2 Indemnification. Contractor shall indemnify and hold harmless City and its officers, agents and employees from, and, if requested, shall defend them from and against any and all claims, demands, losses, damages, costs, expenses, and liability (legal, contractual, or otherwise) arising from or in any way connected with any: (i) injury to or death of a person, including employees of City or Contractor; (ii) loss of or damage to property; (iii) violation of local, state, or federal common law, statute or regulation, including but not limited to privacy or personally identifiable information, health information, disability and labor laws or regulations; (iv) strict liability imposed by any law or regulation; or (v) losses arising from Contractor's execution of subcontracts not in accordance with the requirements of this Agreement applicable to subcontractors; so long as such injury, violation, loss, or strict liability (as set forth in subsections (i) – (v) above) arises directly or indirectly from Contractor's performance of this Agreement, including, but not limited to, Contractor's use of facilities or equipment provided by City or others, regardless of the negligence of, and regardless of whether liability without fault is imposed or sought to be imposed on City, except to the extent that such indemnity is void or otherwise unenforceable under applicable law, and except where such loss, damage, injury, liability or claim is the result of the active negligence or willful misconduct of City and is not contributed to by any act of, or by any omission to perform some duty imposed by law or agreement on Contractor, its subcontractors, or either's agent or employee. The foregoing indemnity shall include, without limitation, reasonable fees of attorneys, consultants and experts and related costs and City's costs of investigating any claims against the City.

In addition to Contractor's obligation to indemnify City, Contractor specifically acknowledges and agrees that it has an immediate and independent obligation to defend City from any claim which actually or potentially falls within this indemnification provision, even if the allegations are or may be groundless, false or fraudulent, which obligation arises at the time such claim is tendered to Contractor by City and continues at all times thereafter.

Contractor shall indemnify and hold City harmless from all loss and liability, including attorneys' fees, court costs and all other litigation expenses for any infringement of the patent rights, copyright, trade secret or any other proprietary right or trademark, and all other intellectual property claims of any person or persons arising directly or indirectly from the receipt by City, or any of its officers or agents, of Contractor's Services.

Article 6 Liability of the Parties

6.1 Liability of City. CITY'S PAYMENT OBLIGATIONS UNDER THIS AGREEMENT SHALL BE LIMITED TO THE PAYMENT OF THE COMPENSATION PROVIDED FOR IN SECTION 3.3.1, "PAYMENT," OF THIS AGREEMENT. NOTWITHSTANDING ANY OTHER PROVISION OF THIS AGREEMENT, IN NO EVENT SHALL CITY BE LIABLE, REGARDLESS OF WHETHER ANY CLAIM IS BASED ON CONTRACT OR TORT, FOR ANY SPECIAL, CONSEQUENTIAL, INDIRECT OR INCIDENTAL DAMAGES, INCLUDING, BUT NOT LIMITED TO, LOST PROFITS, ARISING OUT OF OR IN CONNECTION WITH THIS AGREEMENT OR THE SERVICES PERFORMED IN CONNECTION WITH THIS AGREEMENT.

6.2 Liability for Use of Equipment. City shall not be liable for any damage to persons or property as a result of the use, misuse or failure of any equipment used by Contractor, or any of its subcontractors, or by any of their employees, even though such equipment is furnished, rented or loaned by City.

6.3 Liability for Incidental and Consequential Damages. Contractor shall be responsible for incidental and consequential damages resulting in whole or in part from Contractor's acts or omissions.

Article 7 Payment of Taxes

7.1 Except for any applicable California sales and use taxes charged by Contractor to City, Contractor shall pay all taxes, including possessory interest taxes levied upon or as a result of this Agreement, or the Services delivered pursuant hereto. Contractor shall remit to the State of California any sales or use taxes paid by City to Contractor under this Agreement. Contractor agrees to promptly provide information requested by the City to verify Contractor's compliance with any State requirements for reporting sales and use tax paid by City under this Agreement.

7.2 Contractor acknowledges that this Agreement may create a "possessory interest" for property tax purposes. Generally, such a possessory interest is not created unless the Agreement entitles the Contractor to possession, occupancy, or use of City property for private gain. If such a possessory interest is created, then the following shall apply:

7.2.1 Contractor, on behalf of itself and any permitted successors and assigns, recognizes and understands that Contractor, and any permitted successors and assigns, may be subject to real property tax assessments on the possessory interest.

7.2.2 Contractor, on behalf of itself and any permitted successors and assigns, recognizes and understands that the creation, extension, renewal, or assignment of this Agreement may result in a "change in ownership" for purposes of real property taxes, and therefore may result in a revaluation of any possessory interest created by this Agreement. Contractor accordingly agrees on behalf of itself and its permitted successors and assigns to report on behalf of the City to the County Assessor the information required by Revenue and Taxation Code section 480.5, as amended from time to time, and any successor provision.

7.2.3 Contractor, on behalf of itself and any permitted successors and assigns, recognizes and understands that other events also may cause a change of ownership of the possessory interest and result in the revaluation of the possessory interest. (see, e.g., Rev. & Tax. Code section 64, as amended from time to time). Contractor accordingly agrees on behalf of

itself and its permitted successors and assigns to report any change in ownership to the County Assessor, the State Board of Equalization or other public agency as required by law.

7.2.4 Contractor further agrees to provide such other information as may be requested by the City to enable the City to comply with any reporting requirements for possessory interests that are imposed by applicable law.

Article 8 Termination and Default

8.1 Termination for Convenience

8.1.1 City shall have the option, in its sole discretion, to terminate this Agreement, at any time during the term hereof, for convenience and without cause. City shall exercise this option by giving Contractor written notice of termination. The notice shall specify the date on which termination shall become effective.

8.1.2 Upon receipt of the notice of termination, Contractor shall commence and perform, with diligence, all actions necessary on the part of Contractor to effect the termination of this Agreement on the date specified by City and to minimize the liability of Contractor and City to third parties as a result of termination. All such actions shall be subject to the prior approval of City. Such actions shall include, without limitation:

- (a) Halting the performance of all Services under this Agreement on the date(s) and in the manner specified by City.
- (b) Terminating all existing orders and subcontracts, and not placing any further orders or subcontracts for materials, Services, equipment or other items.
- (c) At City's direction, assigning to City any or all of Contractor's right, title, and interest under the orders and subcontracts terminated. Upon such assignment, City shall have the right, in its sole discretion, to settle or pay any or all claims arising out of the termination of such orders and subcontracts.
- (d) Subject to City's approval, settling all outstanding liabilities and all claims arising out of the termination of orders and subcontracts.
- (e) Completing performance of any Services that City designates to be completed prior to the date of termination specified by City.
- (f) Taking such action as may be necessary, or as the City may direct, for the protection and preservation of any property related to this Agreement which is in the possession of Contractor and in which City has or may acquire an interest.

8.1.3 Within 30 days after the specified termination date, Contractor shall submit to City an invoice, which shall set forth each of the following as a separate line item:

- (a) The reasonable cost to Contractor, without profit, for all Services prior to the specified termination date, for which Services City has not already tendered payment. Reasonable costs may include a reasonable allowance for actual overhead, not to exceed a total of 10% of Contractor's direct costs for Services. Any overhead allowance shall be separately itemized. Contractor may also recover the reasonable cost of preparing the invoice.
- (b) A reasonable allowance for profit on the cost of the Services described in the immediately preceding subsection (a), provided that Contractor can establish, to

the satisfaction of City, that Contractor would have made a profit had all Services under this Agreement been completed, and provided further, that the profit allowed shall in no event exceed 5% of such cost.

(c) The reasonable cost to Contractor of handling material or equipment returned to the vendor, delivered to the City or otherwise disposed of as directed by the City.

(d) A deduction for the cost of materials to be retained by Contractor, amounts realized from the sale of materials and not otherwise recovered by or credited to City, and any other appropriate credits to City against the cost of the Services or other work.

8.1.4 In no event shall City be liable for costs incurred by Contractor or any of its subcontractors after the termination date specified by City, except for those costs specifically enumerated and described in Section 8.1.3. Such non-recoverable costs include, but are not limited to, anticipated profits on the Services under this Agreement, post-termination employee salaries, post-termination administrative expenses, post-termination overhead or unabsorbed overhead, attorneys' fees or other costs relating to the prosecution of a claim or lawsuit, prejudgment interest, or any other expense which is not reasonable or authorized under Section 8.1.3.

8.1.5 In arriving at the amount due to Contractor under this Section, City may deduct: (i) all payments previously made by City for Services covered by Contractor's final invoice; (ii) any claim which City may have against Contractor in connection with this Agreement; (iii) any invoiced costs or expenses excluded pursuant to the immediately preceding subsection 8.1.4; and (iv) in instances in which, in the opinion of the City, the cost of any Service performed under this Agreement is excessively high due to costs incurred to remedy or replace defective or rejected Services, the difference between the invoiced amount and City's estimate of the reasonable cost of performing the invoiced Services in compliance with the requirements of this Agreement.

8.1.6 City's payment obligation under this Section shall survive termination of this Agreement.

8.2 Termination for Default; Remedies.

8.2.1 Each of the following shall constitute an immediate event of default ("Event of Default") under this Agreement:

(a) Contractor fails or refuses to perform or observe any term, covenant or condition contained in any of the following Sections of this Agreement:

3.5	Submitting False Claims.	10.10	Alcohol and Drug-Free Workplace
4.5	Assignment	10.13	Working with Minors
Article 5	Insurance and Indemnity	11.10	Compliance with Laws
Article 7	Payment of Taxes	13.1	Nondisclosure of Private, Proprietary or Confidential Information

(b) Contractor fails or refuses to perform or observe any other term, covenant or condition contained in this Agreement, including any obligation imposed by ordinance or statute and incorporated by reference herein, and such default continues for a period of ten days after written notice thereof from City to Contractor.

(c) Contractor (i) is generally not paying its debts as they become due; (ii) files, or consents by answer or otherwise to the filing against it of a petition for relief or reorganization or arrangement or any other petition in bankruptcy or for liquidation or to take advantage of any bankruptcy, insolvency or other debtors' relief law of any jurisdiction; (iii) makes an assignment for the benefit of its creditors; (iv) consents to the appointment of a custodian, receiver, trustee or other officer with similar powers of Contractor or of any substantial part of Contractor's property; or (v) takes action for the purpose of any of the foregoing.

(d) A court or government authority enters an order (i) appointing a custodian, receiver, trustee or other officer with similar powers with respect to Contractor or with respect to any substantial part of Contractor's property, (ii) constituting an order for relief or approving a petition for relief or reorganization or arrangement or any other petition in bankruptcy or for liquidation or to take advantage of any bankruptcy, insolvency or other debtors' relief law of any jurisdiction or (iii) ordering the dissolution, winding-up or liquidation of Contractor.

8.2.2 On and after any Event of Default, City shall have the right to exercise its legal and equitable remedies, including, without limitation, the right to terminate this Agreement or to seek specific performance of all or any part of this Agreement. In addition, where applicable, City shall have the right (but no obligation) to cure (or cause to be cured) on behalf of Contractor any Event of Default; Contractor shall pay to City on demand all costs and expenses incurred by City in effecting such cure, with interest thereon from the date of incurrence at the maximum rate then permitted by law. City shall have the right to offset from any amounts due to Contractor under this Agreement or any other agreement between City and Contractor: (i) all damages, losses, costs or expenses incurred by City as a result of an Event of Default; and (ii) any liquidated damages levied upon Contractor pursuant to the terms of this Agreement; and (iii), any damages imposed by any ordinance or statute that is incorporated into this Agreement by reference, or into any other agreement with the City.

8.2.3 All remedies provided for in this Agreement may be exercised individually or in combination with any other remedy available hereunder or under applicable laws, rules and regulations. The exercise of any remedy shall not preclude or in any way be deemed to waive any other remedy. Nothing in this Agreement shall constitute a waiver or limitation of any rights that City may have under applicable law.

8.2.4 Any notice of default must be sent by registered mail to the address set forth in Article 11.

8.3 **Non-Waiver of Rights.** The omission by either party at any time to enforce any default or right reserved to it, or to require performance of any of the terms, covenants, or provisions hereof by the other party at the time designated, shall not be a waiver of any such default or right to which the party is entitled, nor shall it in any way affect the right of the party to enforce such provisions thereafter.

8.4 Rights and Duties upon Termination or Expiration.

8.4.1 This Section and the following Sections of this Agreement listed below, shall survive termination or expiration of this Agreement:

3.3.2	Payment Limited to Satisfactory Services	9.1	Ownership of Results
3.3.7(a)	Grant Funded Contracts - Disallowance	9.2	Works for Hire
3.4	Audit and Inspection of Records	11.6	Dispute Resolution Procedure
3.5	Submitting False Claims	11.7	Agreement Made in California; Venue
Article 5	Insurance and Indemnity	11.8	Construction
6.1	Liability of City	11.9	Entire Agreement
6.3	Liability for Incidental and Consequential Damages	11.10	Compliance with Laws
Article 7	Payment of Taxes	11.11	Severability
8.1.6	Payment Obligation	13.1	Nondisclosure of Private, Proprietary or Confidential Information

8.4.2 Subject to the survival of the Sections identified in Section 8.4.1, above, if this Agreement is terminated prior to expiration of the term specified in Article 2, this Agreement shall be of no further force or effect. Contractor shall transfer title to City, and deliver in the manner, at the times, and to the extent, if any, directed by City, any work in progress, completed work, supplies, equipment, and other materials produced as a part of, or acquired in connection with the performance of this Agreement, and any completed or partially completed work which, if this Agreement had been completed, would have been required to be furnished to City.

Article 9 Rights In Deliverables

9.1 **Ownership of Results.** Any interest of Contractor or its subcontractors, in the Deliverables, including any drawings, plans, specifications, blueprints, studies, reports, memoranda, computation sheets, computer files and media or other documents prepared by Contractor or its subcontractors for the purposes of this agreement, shall become the property of and will be transmitted to City. However, unless expressly prohibited elsewhere in this Agreement, Contractor may retain and use copies for reference and as documentation of its experience and capabilities.

9.2 **Works for Hire.** If, in connection with Services, Contractor or its subcontractors creates Deliverables including, without limitation, artwork, copy, posters, billboards, photographs, videotapes, audiotapes, systems designs, software, reports, diagrams, surveys, blueprints, source codes, or any other original works of authorship, whether in digital or any other format, such works of authorship shall be works for hire as defined under Title 17 of the United States Code, and all copyrights in such works shall be the property of the City. If any Deliverables created by Contractor or its subcontractor(s) under this Agreement are ever

determined not to be works for hire under U.S. law, Contractor hereby assigns all Contractor's copyrights to such Deliverables to the City, agrees to provide any material and execute any documents necessary to effectuate such assignment, and agrees to include a clause in every subcontract imposing the same duties upon subcontractor(s). With City's prior written approval, Contractor and its subcontractor(s) may retain and use copies of such works for reference and as documentation of their respective experience and capabilities.

Article 10 Additional Requirements Incorporated by Reference

10.1 Laws Incorporated by Reference. The full text of the laws listed in this Article 10, including enforcement and penalty provisions, are incorporated by reference into this Agreement. The full text of the San Francisco Municipal Code provisions incorporated by reference in this Article and elsewhere in the Agreement ("Mandatory City Requirements") are available at http://www.amlegal.com/codes/client/san-francisco_ca/ .

10.2 Conflict of Interest. By executing this Agreement, Contractor certifies that it does not know of any fact which constitutes a violation of Section 15.103 of the City's Charter; Article III, Chapter 2 of City's Campaign and Governmental Conduct Code; Title 9, Chapter 7 of the California Government Code (Section 87100 *et seq.*), or Title 1, Division 4, Chapter 1, Article 4 of the California Government Code (Section 1090 *et seq.*), and further agrees promptly to notify the City if it becomes aware of any such fact during the term of this Agreement.

10.3 Prohibition on Use of Public Funds for Political Activity. In performing the Services, Contractor shall comply with San Francisco Administrative Code Chapter 12G, which prohibits funds appropriated by the City for this Agreement from being expended to participate in, support, or attempt to influence any political campaign for a candidate or for a ballot measure. Contractor is subject to the enforcement and penalty provisions in Chapter 12G.

10.4 Reserved.

10.5 Nondiscrimination Requirements.

10.5.1 Non Discrimination in Contracts. Contractor shall comply with the provisions of Chapters 12B and 12C of the San Francisco Administrative Code. Contractor shall incorporate by reference in all subcontracts the provisions of Sections 12B.2(a), 12B.2(c)-(k), and 12C.3 of the San Francisco Administrative Code and shall require all subcontractors to comply with such provisions. Contractor is subject to the enforcement and penalty provisions in Chapters 12B and 12C.

10.5.2 Nondiscrimination in the Provision of Employee Benefits. San Francisco Administrative Code 12B.2. Contractor does not as of the date of this Agreement, and will not during the term of this Agreement, in any of its operations in San Francisco, on real property owned by San Francisco, or where work is being performed for the City elsewhere in the United States, discriminate in the provision of employee benefits between employees with domestic partners and employees with spouses and/or between the domestic partners and spouses of such employees, subject to the conditions set forth in San Francisco Administrative Code Section 12B.2.

10.6 Local Business Enterprise and Non-Discrimination in Contracting Ordinance. Contractor shall comply with all applicable provisions of Chapter 14B ("LBE Ordinance"). Contractor is subject to the enforcement and penalty provisions in Chapter 14B.

Contractor shall utilize LBE Subcontractors for at least 15% of the Services, except that for training services the requirement is 10%, and except as otherwise authorized in writing by the Director of CMD. Contractor shall incorporate the requirements of the LBE Ordinance in each subcontract made in the fulfillment of Contractor's LBE subcontracting commitments.

10.7 Minimum Compensation Ordinance. Contractor shall pay covered employees no less than the minimum compensation required by San Francisco Administrative Code Chapter 12P. Contractor is subject to the enforcement and penalty provisions in Chapter 12P. By signing and executing this Agreement, Contractor certifies that it is in compliance with Chapter 12P.

10.8 Health Care Accountability Ordinance. Contractor shall comply with San Francisco Administrative Code Chapter 12Q. Contractor shall choose and perform one of the Health Care Accountability options set forth in San Francisco Administrative Code Chapter 12Q.3. Contractor is subject to the enforcement and penalty provisions in Chapter 12Q.

10.9 First Source Hiring Program. Contractor must comply with all of the provisions of the First Source Hiring Program, Chapter 83 of the San Francisco Administrative Code, that apply to this Agreement, and Contractor is subject to the enforcement and penalty provisions in Chapter 83.

10.10 Alcohol and Drug-Free Workplace. City reserves the right to deny access to, or require Contractor to remove from, City facilities personnel of any Contractor or subcontractor who City has reasonable grounds to believe has engaged in alcohol abuse or illegal drug activity which in any way impairs City's ability to maintain safe work facilities or to protect the health and well-being of City employees and the general public. City shall have the right of final approval for the entry or re-entry of any such person previously denied access to, or removed from, City facilities. Illegal drug activity means possessing, furnishing, selling, offering, purchasing, using or being under the influence of illegal drugs or other controlled substances for which the individual lacks a valid prescription. Alcohol abuse means possessing, furnishing, selling, offering, or using alcoholic beverages, or being under the influence of alcohol.

10.11 Limitations on Contributions. By executing this Agreement, Contractor acknowledges that it is familiar with section 1.126 of the City's Campaign and Governmental Conduct Code, which prohibits any person who contracts with the City for the rendition of personal services, for the furnishing of any material, supplies or equipment, for the sale or lease of any land or building, or for a grant, loan or loan guarantee, from making any campaign contribution to (1) an individual holding a City elective office if the contract must be approved by the individual, a board on which that individual serves, or the board of a state agency on which an appointee of that individual serves, (2) a candidate for the office held by such individual, or (3) a committee controlled by such individual, at any time from the commencement of negotiations for the contract until the later of either the termination of negotiations for such contract or six months after the date the contract is approved. The prohibition on contributions applies to each prospective party to the contract; each member of Contractor's board of directors; Contractor's chairperson, chief executive officer, chief financial officer and chief operating officer; any person with an ownership interest of more than 20 percent in Contractor; any subcontractor listed in the bid or contract; and any committee that is sponsored or controlled by Contractor. Contractor must inform each such person of the limitation on contributions imposed by Section 1.126 and provide the names of the persons required to be informed to City.

10.12 Reserved. (Slavery Era Disclosure)

10.13 Reserved. (Working with Minors)

10.14 Consideration of Criminal History in Hiring and Employment Decisions.

10.14.1 Contractor agrees to comply fully with and be bound by all of the provisions of Chapter 12T, "City Contractor/Subcontractor Consideration of Criminal History in Hiring and Employment Decisions," of the San Francisco Administrative Code ("Chapter 12T"), including the remedies provided, and implementing regulations, as may be amended from time to time. The provisions of Chapter 12T are incorporated by reference and made a part of this Agreement as though fully set forth herein. The text of the Chapter 12T is available on the web at <http://sfgov.org/olse/fco>. Contractor is required to comply with all of the applicable provisions of 12T, irrespective of the listing of obligations in this Section. Capitalized terms used in this Section and not defined in this Agreement shall have the meanings assigned to such terms in Chapter 12T.

10.14.2 The requirements of Chapter 12T shall only apply to a Contractor's or Subcontractor's operations to the extent those operations are in furtherance of the performance of this Agreement, shall apply only to applicants and employees who would be or are performing work in furtherance of this Agreement, and shall apply when the physical location of the employment or prospective employment of an individual is wholly or substantially within the City of San Francisco. Chapter 12T shall not apply when the application in a particular context would conflict with federal or state law or with a requirement of a government agency implementing federal or state law.

10.15 Reserved. (Public Access to Nonprofit Records and Meetings)

10.16 Food Service Waste Reduction Requirements. Contractor shall comply with the Food Service Waste Reduction Ordinance, as set forth in San Francisco Environment Code Chapter 16, including but not limited to the remedies for noncompliance provided therein.

10.17 Reserved. (Sugar-Sweetened Beverage Prohibition)

10.18 Tropical Hardwood and Virgin Redwood Ban. Pursuant to San Francisco Environment Code Section 804(b), the City urges Contractor not to import, purchase, obtain, or use for any purpose, any tropical hardwood, tropical hardwood wood product, virgin redwood or virgin redwood wood product.

10.19 Reserved. (Preservative Treated Wood Products)

Article 11 General Provisions

11.1 Notices to the Parties. Unless otherwise indicated in this Agreement, all written communications sent by the Parties may be by U.S. mail or e-mail, and shall be addressed as follows:

To City: Shawn Peeters
Office of Contract Administration
1 Dr. Carlton B. Goodlett Place
City Hall, Room 430
San Francisco, CA 94102
email: shawn.peeters@sfgov.org

To Contractor: Kathy Perez, Director of Government Sales
En Pointe Technologies Sales, LLC
1 Market Street, Spear Towers, Suite 3619
San Francisco, CA 94105
1(800)819-7501
Kathy.perez@pcm.com

Any notice of default must be sent by registered mail. Either Party may change the address to which notice is to be sent by giving written notice thereof to the other Party. If email notification is used, the sender must specify a receipt notice.

11.2 Compliance with Americans with Disabilities Act. Contractor shall provide the Services in a manner that complies with the Americans with Disabilities Act (ADA), including but not limited to Title II's program access requirements, and all other applicable federal, state and local disability rights legislation.

11.3 Reserved.

11.4 Sunshine Ordinance. Contractor acknowledges that this Agreement and all records related to its formation, Contractor's performance of Services, and City's payment are subject to the California Public Records Act, (California Government Code §6250 et. seq.), and the San Francisco Sunshine Ordinance, (San Francisco Administrative Code Chapter 67). Such records are subject to public inspection and copying unless exempt from disclosure under federal, state or local law.

11.5 Modification of this Agreement. This Agreement may not be modified, nor may compliance with any of its terms be waived, except as noted in Section 11.1, "Notices to Parties," regarding change in personnel or place, and except by written instrument executed and approved in the same manner as this Agreement. Contractor shall cooperate with Department to submit to the Director of CMD any amendment, modification, supplement or change order that would result in a cumulative increase of the original amount of this Agreement by more than 20% (CMD Contract Modification Form).

11.6 Dispute Resolution Procedure.

11.6.1 Negotiation; Alternative Dispute Resolution. The Parties will attempt in good faith to resolve any dispute or controversy arising out of or relating to the performance of services under this Agreement. If the Parties are unable to resolve the dispute, then, pursuant to San Francisco Administrative Code Section 21.36, Contractor may submit to the Contracting Officer a written request for administrative review and documentation of the Contractor's claim(s). Upon such request, the Contracting Officer shall promptly issue an administrative decision in writing, stating the reasons for the action taken and informing the Contractor of its right to judicial review. If agreed by both Parties in writing, disputes may be resolved by a mutually agreed-upon alternative dispute resolution process. If the parties do not mutually agree to an alternative dispute resolution process or such efforts do not resolve the dispute, then either Party may pursue any remedy available under California law. The status of any dispute or controversy notwithstanding, Contractor shall proceed diligently with the performance of its obligations under this Agreement in accordance with the Agreement and the written directions of

the City. Neither Party will be entitled to legal fees or costs for matters resolved under this section.

11.6.2 Government Code Claim Requirement. No suit for money or damages may be brought against the City until a written claim therefor has been presented to and rejected by the City in conformity with the provisions of San Francisco Administrative Code Chapter 10 and California Government Code Section 900, et seq. Nothing set forth in this Agreement shall operate to toll, waive or excuse Contractor's compliance with the California Government Code Claim requirements set forth in San Francisco Administrative Code Chapter 10 and California Government Code Section 900, et seq.

11.7 Agreement Made in California; Venue. The formation, interpretation and performance of this Agreement shall be governed by the laws of the State of California. Venue for all litigation relative to the formation, interpretation and performance of this Agreement shall be in San Francisco.

11.8 Construction. All paragraph captions are for reference only and shall not be considered in construing this Agreement.

11.9 Entire Agreement. This contract sets forth the entire Agreement between the parties, and supersedes all other oral or written provisions. This Agreement may be modified only as provided in Section 11.5, "Modification of this Agreement."

11.10 Compliance with Laws. Contractor shall keep itself fully informed of the City's Charter, codes, ordinances and duly adopted rules and regulations of the City and of all state, and federal laws in any manner affecting the performance of this Agreement, and must at all times comply with such local codes, ordinances, and regulations and all applicable laws as they may be amended from time to time.

11.11 Severability. Should the application of any provision of this Agreement to any particular facts or circumstances be found by a court of competent jurisdiction to be invalid or unenforceable, then (a) the validity of other provisions of this Agreement shall not be affected or impaired thereby, and (b) such provision shall be enforced to the maximum extent possible so as to effect the intent of the parties and shall be reformed without further action by the parties to the extent necessary to make such provision valid and enforceable.

11.12 Cooperative Drafting. This Agreement has been drafted through a cooperative effort of City and Contractor, and both Parties have had an opportunity to have the Agreement reviewed and revised by legal counsel. No Party shall be considered the drafter of this Agreement, and no presumption or rule that an ambiguity shall be construed against the Party drafting the clause shall apply to the interpretation or enforcement of this Agreement.

11.13 Order of Precedence. Contractor agrees to perform the services described below in accordance with the terms and conditions of this Agreement, implementing TMTPOs, the RFP, Contractor's proposal dated August 8, 2018, and Contractor's proposal or bid in response to the Technology Marketplace Transaction solicitation. The RFP and Contractor's proposal are incorporated by reference as though fully set forth herein. Should there be a conflict of terms or conditions, this Agreement and any implementing TMTPOs shall control over the RFP and the Contractor's proposal.

Article 12 Department Specific Terms

12.1 **Reserved.**

Article 13 Data and Security

13.1 **Nondisclosure of Private, Proprietary or Confidential Information.**

13.1.1 If this Agreement or any TMTPO excuted hereto requires City to disclose "Private Information" to Contractor within the meaning of San Francisco Administrative Code Chapter 12M, Contractor and subcontractor shall use such information only in accordance with the restrictions stated in Chapter 12M and in this Agreement and only as necessary in performing the Services. Contractor is subject to the enforcement and penalty provisions in Chapter 12M.

13.1.2 In the performance of Services, Contractor may have access to City's proprietary or confidential information, the disclosure of which to third parties may damage City. If City discloses proprietary or confidential information to Contractor, such information must be held by Contractor in confidence and used only in performing the Agreement. Contractor shall exercise the same standard of care to protect such information as a reasonably prudent contractor would use to protect its own proprietary or confidential information.

13.2 **Reserved. (Payment Card Industry ("PCI") Requirements)**

13.3 **Reserved. (Business Associate Agreement)**

13.4

Article 14 Appendices

14.1 The following appendices of supplemental terms and conditions are hereby attached and incorporated into this Agreement as though fully set forth herein and together form the complete Agreement between the parties. Each Technology Marketplace Transaction will include specialized terms and conditions as required which may be in the forms attached in Appendix D, or in a form substantially similar to Appendix D.

- (a) Administrative Procedures and Requirements
- (b) RFP Documentation
- (c) Technology Marketplace Categories
- (d) Supplemental Terms and Conditions:
 - (i) P-530 Equipment Maintenance Template;
 - (ii) P-540 Software Maintenance Template;
 - (iii) P-542 Software Development Template;
 - (iv) P-545 Software Licensing Template;
 - (v) P-600 Professional Services Template; and
 - (vi) P-648 Software as a Service Template.

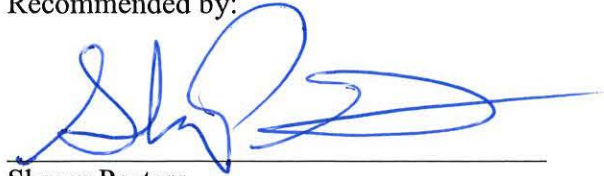
Article 15 MacBride And Signature

MacBride Principles - Northern Ireland. The provisions of San Francisco Administrative Code §12F are incorporated herein by this reference and made part of this Agreement. By signing this Agreement, Contractor confirms that Contractor has read and understood that the City urges companies doing business in Northern Ireland to resolve employment inequities and to abide by the MacBride Principles, and urges San Francisco companies to do business with corporations that abide by the MacBride Principles.

IN WITNESS WHEREOF, the parties hereto have executed this Agreement on the day first mentioned above.

CITY

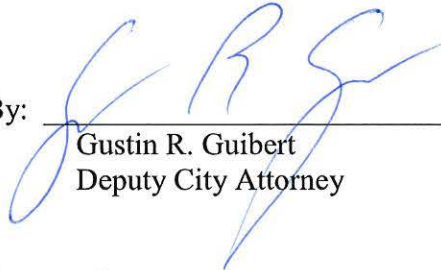
Recommended by:



Shawn Peeters
Supervising Purchaser
Office of Contract Administration

Approved as to Form:

Dennis J. Herrera
City Attorney

By: 

Gustin R. Guibert
Deputy City Attorney

Approved:



Alaric Degraffried
Director of the Office of Contract Administration,
and Purchaser

CONTRACTOR

En Pointe Technologies Sales, LLC



Signature of Authorized Representative

Simon Abuyounes

Name of Authorized Representative

Executive Vice President

Title

City Supplier ID: 0000020671

Appendices

- A: Administrative Procedures and Requirements
- B: RFP Documentation
- C: Tech Marketplace Categories
- D: Supplemental Transaction Based Terms

Appendix A
Administrative Procedures and Requirements

The following is a general guide for procedures for ordering Products and Services under the Technology Marketplace. Although they should be similar, procedures are subject to change and this guide is not intended to be a complete list of all work necessary under the Agreement.

The Technology Marketplace is a pool of IT contractors that provide Products and/or Services to City departments on an as-needed basis. Contractor is responsible for responding to City's requests for quotations, bids or proposals for products and services. When a Technology Marketplace Transaction results in a TMTPO, Contractor shall be responsible for procuring the Product or Service and for ensuring that all Products are delivered and Services provided in accordance with the City's specifications, terms and conditions. TMTPO's are awarded to Technology Marketplace contractors in accordance with the policies of the Office of Contract Administration ("OCA") and applicable laws and regulations of City as they may be amended from time to time.

The Technology Marketplace Contractors are divided into three tiers and organized by the Product and service categories for which each has qualified. Competitive solicitations will occur within each tier among contractors in the tier. A competitive solicitation will be required for all Technology Marketplace Transactions greater than a \$10,000 threshold, which may be revised during the term of this Agreement. OCA and Ordering Departments may solicit quotations, bids or proposals from within particular tiers and categories. Tier 1 Transactions shall not exceed \$2,500,000 unless otherwise authorized by the Purchaser, which limit may be revised during the term of this Agreement at the sole discretion of the City. No transaction exceeding \$2,500,000 may be procured through the Technology Marketplace. Tier 2 Transactions shall not exceed \$220,000 for a Commodities transaction, \$110,000 for a Professional Services transaction, and \$600,000 for a General Services transaction. Tier 3 Transactions shall not exceed \$110,000 for a Commodities transaction, \$110,000 for a Professional Services transaction, and \$600,000 for a General Services transaction. Commodities, Professional and General Services are defined according to the definitions provided in Chapter 21 of the San Francisco Administrative Code. The foregoing transaction limits may be revised during the term of the contract at the sole discretion of the City.

A. Summary of the quotation and ordering process

This section describes generally how the day-to-day operations of the Technology Marketplace work. This guide is subject to change. Below is a summary of the current quotation and ordering process:

1. Typically, a City Department emails the appropriate Technology Marketplace Tier and requests competitive written quotations for products or services from three (3) or more contractors as outlined below:

a. High-dollar purchases are defined as those orders exceeding the Minimum Competitive Amount which is currently set at \$110,000.00.

- b. The Minimum Competitive Amount could change during the life of the new contract.
 - c. For Product requests in excess of the Minimum Competitive Amount, Purchasing requires Departments to seek at least one Product Quotation from the Technology Marketplace, and OCA will perform a Request For Quotes (RFQ) amongst the appropriate Marketplace Tier.
 - d. For Service requests exceeding the Minimum Competitive Amount, Departments are required to perform a competitive Request For Proposals (RFP) amongst the appropriate Marketplace Tier. Additional Terms and Conditions, insurances, and subcontracting information may be required on a case by case basis.
 - e. For all Product requests below the Minimum Competitive Amount, but greater than \$10,000.00, Departments are to solicit competitive Product Quotes from at least three (3) contractors from the appropriate Tier, and OCA will process the request without further solicitation.
 - f. For all Service requests below the Minimum Competitive Amount, but greater than \$10,000.00, Departments are required to perform a competitive Request For Proposals (RFP) amongst the appropriate Marketplace Tier. Additional Terms and Conditions, insurances, and subcontracting information may be required on a case by case basis.
 - g. For all Product and Service orders below \$10,000.00, Departments are encouraged to solicit competitive quotations from the appropriate Tiered contractors, but must provide at least a single quotations from one of the appropriate Technology Marketplace contractors, and OCA will process the request without further solicitation..
 - h. For all appropriate Product & Service orders, Departments should first look to Micro LBEs in Tier 3 if possible for set aside contracting.
2. Under the conditions described above, the Contractor completes the quotation and e-mails it to the Department.
3. The Department submits the requisition supported by the quotations received to the Department of Technology (“DT”) for review. If the requisition contains any services, the request is sent to the Civil Service Commission or their designee for review and comment.
4. If a competitive bid is required, OCA will conduct the solicitation on behalf of the Department.
5. Once a requisition is approved, Purchasing creates the TMTPO in PeopleSoft and dispatches the PO to the contractor.
6. All requests for quotations, bids or proposals by a Department will be accompanied by special terms and conditions that apply to that particular procurement. Contractor may be required to execute a TMTPO containing additional contractual provisions as applicable and outlined in Appendix D.

B. Ordering, delivery, invoicing and related procedures

1. Preparing the Quotation

Contractor must provide written responses to requests for quotes within 48 hours (excluding weekends) for products only, and within 7 days (excluding weekends) for products and services, with one of the following: a quote, request for an extension of time (which may or may not be granted), or “no bid”.

2. Ordering

a. Products and services shall be ordered by the City by means of a TMTPO. All orders must be approved and issued by Purchasing or as authorized by Purchasing in writing.

b. Contractors shall not accept verbal orders from Departments or any order that is not in PeopleSoft, the City’s Financial and Procurement System, on a [new term] approved by Purchasing. Contractors shall accept orders by dispatch via PeopleSoft, fax, or e-mail.

c. Within three working days after receipt of an order, the Contractor must verify the accuracy of the order and provide written or electronic notification of Contractor's acceptance or rejection of the order and delivery dates.

d. Contractor shall not accept orders from any Department that has had its ordering privileges suspended. A list of Departments receiving such suspensions will be furnished to the Contractor by Purchasing.

e. If an item is discontinued, the Contractor must notify Purchasing and the end user Department within three working days of receipt of an order or upon notification by the manufacturer or distributor (whichever comes first) that the order cannot be filled. The Contractor must not fill the order with a substitute item without the prior written approval of Purchasing. Items that are substituted without approval may be returned at no cost to the City and the order cancelled.

3. Delivery

a.. Contractor shall deliver products to Departments within ten City business days after receipt of the order, unless the product is not available from the manufacturer. Contractor must notify any Department placing an order within 72 hours if delivery of that order will be delayed beyond ten City business days. Contractor must keep Technology Marketplace customers apprised of changes in the delivery status of their delayed orders.

b. Contractor must deliver, free of charge, all products sold through the Technology Marketplace. All shipments of Products shall be made “FOB Destination” to all City delivery locations identified on the TMTPO. Some delivery locations may be outside of San Francisco City limits.

c. Orders must be delivered in total, unless a prior written authorization for partial shipment has been received from the Technology Marketplace customer placing the order.

d. All Products shall be delivered inside the building designated in the TMTPO.

e. If the Contractor fails to deliver an article or service of the quality, in the manner or within the time called for by this Agreement or an individual order, then City may cancel the order at no cost to the City and acquire such article or service from any source. If City pays a greater price than that named in the Agreement or order for such article or service, the excess price may be charged to and collected from Contractor and/or from the financial guarantee provided by Contractor; or, the City may treat the failure as a default subject to all applicable rights and remedies under the Agreement; or, the City may return deliveries already made and receive a refund from Contractor.

4. Invoicing

Invoices may be submitted only after delivery is complete. Invoices must clearly state the terms of any "prompt pay" discount. A packing slip must be included with each shipment of products and must show the order number, a complete list of items delivered, and the Department name and contact person. The order number must also appear on the outside of the package.

5. Return rights

Contractors shall accept all Standard Products if they have not been opened, for return within thirty days of delivery and credit the customer in full. The City shall not pay any restocking fees. Standard Products are products from the product categories identified in the RFP. For all other products, Contractors may only pass through actual restocking fees incurred from a third party. Administrative costs and handling fees are not allowed.

6. Cancellation

Contractor must allow any order, other than orders of non-Standard Products, to be cancelled by the Department that placed the order 7 days prior to its scheduled delivery.

7. Title and Warranties

a. Warranty Service

Contractors shall transfer all warranties offered by manufacturers to the City on all products within 48 hours (excluding weekends) of delivery to City. The Contractor must also offer any additional warranty services offered by a manufacturer for purchase.

b. Passage of title

Contractors must pass title of product purchased to the City within 48 hours (excluding weekends) of delivery and the City must be eligible for all benefits of ownership including free services provided under manufacturer's warranties within 48 hours (excluding weekends) of delivery of product. If after 48 hours the City cannot obtain service under the manufacturer's warranty, because title has not been properly passed to the City by the Contractor or the Contractor has not properly recorded ownership, the City shall immediately notify the Contractor. Contractor will have 24 hours to record title of the product properly, repair the product or replace the non-working product with a comparable working product. Failure to comply with any of the above may result in irreparable harm to the City and a \$100 per day liquidated damage will be assessed from the date that the issue is first reported by the City.

8. Software Licenses

All software licenses procured through the Technology Marketplace shall be passed on to the City within 48 hours (excluding weekends) of delivery and the City must be eligible for all benefits of ownership including free services provided under manufacturer's warranties within 48 hours (excluding weekends) of delivery of software license. Failure to comply with any of the above may result in irreparable harm to the City and a \$100 per day liquidated damage will be assessed from the date that the issue is first reported by the City.

C. Communications with the City

1. General communications with the City

a. Contractors must make reasonable efforts to respond to inquiries from City Departments within one business day. City inquiries may include requests for consultation, design, pricing, order status, product comparisons, compatibility information and return information.

b. Contractors must provide a toll-free number to accommodate telephone inquiries staffed by adequate personnel to provide prompt, courteous, and informed answers to customer inquiries within two hours of the customer's initial call. Contractors must offer a "Help Desk" option to Technology Marketplace clients.

2. E-mail

Contractors must provide E-mail communication capacity with the City. Such E-mail communication must be compatible with that used by the City and any public sector entities to which the Technology Marketplace Contract applies.

3. Account Manager

a. Contractors must provide an Account Manager to function as the single point of contact with the City at the Technology Marketplace. The Account Manager must be dedicated to servicing the City's account exclusively, and cannot be used to service other accounts of the

Contractor. This person will be responsible for all aspects of the Agreement and its facilitation. The Account Manager must be available to the City by phone, fax and e-mail

b. The proposed Account Manager should meet with Purchasing at least once per month, or as the need arises, at no additional cost to the City to ensure that services continually meet the City's needs.

D. General product policies

1. New products

a. Contractors must sell only new products to the City. Contractors must offer the latest commercially available versions of any and all hardware and software sold to the City. The City will not accept "gray market products."

b. If the latest commercially available version is not provided at the time of an order, the version sold must be replaced with the latest version when it becomes available, giving the City full credit for the version that was temporarily supplied.

c. If a new product is no longer available, then a remanufactured product will only be considered upon prior written notification from Contractor to the City. A remanufactured product will not be shipped to the City unless Purchasing has issued a written letter of acceptance. Remanufactured equipment will only be accepted if it includes the full manufacturer's warranty, is eligible for inclusion under any applicable maintenance contracts and can be certified (as applicable) for maintenance purposes at no additional cost to the City.

2. Prohibited products and minimum specifications

From time to time, the City reserves the right to prohibit Contractor from selling to the City certain products, and to prohibit user Departments from purchasing the same. The City may also set minimum specifications for performance or energy efficiency that may be updated from time to time. Contractor will be required to provide products that comply with these specifications. A Contractor found to be selling products that do not comply with these specifications may be suspended from selling to the City under this Agreement for a period of up to 3 months.

3. Environmentally preferable product purchasing

a. The City wishes to ensure that its expenditures of public money are made in a manner consistent with its human health and environmental policies. A primary tool for meeting this goal is the purchase of environmentally preferable products, that is, products for which the environmental impacts have been considered and found to be less damaging to the environment and human health than competing products and services that serve the same purpose. The Precautionary Purchasing Ordinance (San Francisco Environment Code, Chapter 2) establishes the framework for environmentally preferable purchasing efforts in San Francisco.

b. Computer equipment has been designated as a high priority product category for the City's environmentally preferable purchasing efforts. It is the intention of the City to contract with computer equipment vendors that are willing and able to work as active partners with City staff in promoting environmentally preferable purchasing. The City also wishes to reward vendors and manufacturers that are leaders in reducing the overall environmental impacts of their operations. Vendors selected to participate in this contract will be expected to maintain complete and easily accessible environmental information on their product offerings, including—but not limited to—listings of available equipment that meets the federal Electronic Products Environmental Assessment Tool (EPEAT) criteria, Energy Star® certified product offerings, and information necessary for completing the Federal Electronics Challenge Product Information Sheet. Vendors will be required to offer EPEAT silver- and gold-certified computer products as part of this contract. The City also intends to continually upgrade its environmental criteria for computer purchases.

E. Maintenance and Repair

All maintenance and repair work will be performed by qualified and trained personnel. Contractor must offer written quotes for all product repairs including an estimate of the time and cost of repairs.

F. Consulting and Professional services projects

1. General

a. The professional services category consists of services such as project management, software development, hardware and software installation, system design, training, and other professional services related to the deployment of technology. It excludes sales and routine maintenance of hardware and software.

b. A Contractor must submit a detailed Scope of Work defining any consulting or professional services project requested by a Department. The Scope of Work may be subject to approval by DT and may be subject to other reviews such as the Civil Service Commission or their designee before the project will be permitted to proceed. As applicable, the City may request that the project include a transition plan detailing how the project will eventually be transitioned to City personnel, including a designation of City employees and training plans.

c. Performance Bonds may be required by Ordering Departments on a project by project basis based on the level of risk associated with the project

2. Projects over \$110,000

a. The Contractor must submit the following to the requesting Department:

i. A detailed Scope of Work ("SOW") defining the project to be delivered to the Department.

- ii. The SOW should include a schedule with agreed upon deliverables and milestones.
- iii. The SOW should designate any critical milestones that would be subject to liquidated damages for delay, if applicable.
- iv. The name of the project management software that will be used (such as MS Project).
- v. Estimated cost of sub-contractors and materials.
- vi. Training should be specified as a separate line item and deliverable.

Including:

- 01. A detailed description of the training and a list of skills that will be made available through the training to provide for the ongoing maintenance of said project.
- 02. Estimated timeframe for training.
- 03. Number of employees to be trained and the number of hours of training to be provided to each employee.
- 04. The cost associated with training.
- 05. Travel must conform to CONUS guidelines.

b. The Contractor must agree to 10% retention by the City on progress payments. The retention will be released for payment to the Contractor when the project is accepted by the Department. Progress payments will be linked to a specific deliverable or the meeting of a specific milestone.

c. The Contractor may be required to provide formal status reports during the life of the project. The format of the status report and the frequency of its preparation will be determined during the project approval process and will be dependent upon a number of variables such as:

- i. Estimated cost
- ii. Project complexity
- iii. Estimated time
- iv. Other aspects of the project deemed relevant by the City

d. Any consulting or personal services project that exceeds \$100,000 or is expected to require over 90 days to complete may require quarterly meetings that include representation from:

- i. The ordering Department
- ii. COIT and/or DT
- iii. Contract Monitoring Division (“CMD”)
- iv. The Technology Marketplace Contractor
- v. All project sub-Contractors

G. Cloud Services

Technology Marketplace Transactions for Cloud Services shall first be reviewed by the City's Chief Information Security Officer, Risk Management, and the Ordering Department's City Attorney, before they are presented to OCA for issuance of a TMTPO.

H. Pricing policies

1. Pricing

Purchases made within the Marketplace will be competitively solicited.

2. Pricing offered to other customers

Should a Contractor participate in any government, educational, or other special pricing program, e.g., CMAS, GSA, Western States Contracting Alliance, etc., the Contractor must make the same pricing available to the City.

3. Mandatory federal and state fees

Contractor shall be responsible for collecting applicable federal and state mandatory fees with no additional cost mark-up to City, and shall be responsible for remitting the fees to the appropriate agency, including, but not limited to, the California Electronic Waste Recycling Fee: http://www.boe.ca.gov/sptaxprog/electronic_waste_recycling_fee.htm .

4. Payment for Travel Expenses and Other Direct Costs (ODC)

The need for travel under this Agreement or ODCs shall be approved in advance of the date of travel in writing by a memo stating the dates of the travel, the purpose, the planned expenses by person, with the City's Project Manager's dated signature indicating approval. Reimbursable expenses shall include actual direct costs (with no mark up) of expenses directly incurred by Contractor. Payments will be made by City to Contractor within 30 days after the City has received Contractor's invoice for expenses, submitted in compliance with the United States General Services Administration per diem rates (CONUS) for San Francisco at <http://www.gsa.gov>.

The following items will be eligible for reimbursement as ODCs:

a. Contractor's out-of-town travel ("out-of-town" shall mean outside the nine Bay Area counties: San Francisco, Alameda, Marin, Santa Clara, Sonoma, Contra Costa, Napa, San Mateo, Solano);

b. Contractor's out-of-town meal, travel and lodging expenses for project-related business trips, including, but not limited to:

i. Rental vehicle: Contractor must select the most economical rental agency and type of vehicle available and acquire any commercial rate or government discount available when the vehicle is rented;

ii. Personal vehicle use: Contractor will be paid per mile as established by the United State Internal Revenue Service and only for that portion of travel that is outside the nine Bay Area counties. Contractor shall submit to the City an approved mileage log with his/her expense sheet;

iii. Contractor meal and lodging expenses shall be reasonable and actual but limited to CONUS per diem rates.

Anything not listed above is not eligible for reimbursement.

I. Cooperative Agreement

1. The Director of Purchasing may allow other public agencies or non-profit organizations made up of multiple public agencies to utilize this Agreement to obtain some or all of the commodities to be provided by Contractor under the same terms and conditions as the City.

2. With the exception of City, Contractor shall charge each public agency (the "Ordering Agency") that procures any goods or services under the Technology Marketplace an administrative fee in the amount of 1.9% on each transaction. Contractor shall pay the administrative fee irrespective of whether the Ordering Agency has paid the amount of the fee to Contractor. Contractor shall provide City a monthly report detailing each invoice for goods or services that Contractor submitted to an Ordering Agency. The City may modify the amount of the administrative fee for any fiscal year (July 1 to June 30).

3. Contractor agrees that this does not create a contractual relationship between City and any Ordering Agency, and that City shall have no liability to Contractor arising out of any agreement between Contractor and any Ordering Agency for goods or services under the Technology Marketplace.

J. Reports

1. Monthly sales reports

By the tenth day of each month, or the next workday thereafter, Contractors must deliver a report to Purchasing, of products and services sold the previous month, including: the type, quantity, manufacturer name, manufacturer's part number and description, price paid per item and name of Department. The City may make changes to the format or specifications for this report. The Contractor must comply with all such changes. Contractor shall prepare and submit additional reports in accordance with format and content specifications to be provided by Purchasing.

2. LBE report

Contractors must provide CMD with CMD Form 7 demonstrating LBE participation and CMD Form 9, if applicable, by the tenth day of each month or the next workday thereafter.

3. Proposed Subcontractors report

Prior to commencing work on any project involving the use of subcontractors, Contractors will submit a list of all proposed subcontractors to the ordering Department before that project can be approved by City. Contractor must submit supplemental subcontractor reports during the course of the project to show any substitution or addition of subcontractors. The substitution and addition will be subject to Department and City's approval. Please provide the following information for each sub-Supplier: name; address; telephone number; contact name; summary of work to be performed; and mark-up percentage.

K. Local Presence

Contractor shall have a business presence within the City and County of San Francisco for the duration of this Agreement. A "business presence" means an office, retail location, warehouse or service facility within the City limits, in a location that is not residentially zoned. Home offices or home warehouses will not be considered to satisfy this requirement. Firms certified by the Contract Monitoring Division as LBEs automatically meet this requirement. All of the Contractor's offices that are intended to support the requirements of this RFP must be open and its Technology Marketplace personnel must be available during normal working hours Monday through Friday (8 a.m. to 5 p.m.) except for official City holidays.

L. Green Purchasing Policies

Contractors must offer processes and commit to ensure compliance with City green purchasing requirements. Contractor must agree to comply with the City's Green Purchasing policies established by the Department of the Environment as updated from time to time.

1. Client Education: Contractor shall educate departments on environmentally preferable ('green') product offerings designated by the City at the following link:
<https://www.sfapproved.org/>.
2. Free Take Back and Recycling of Packaging Materials: Proposers shall offer free take back and recycling of packaging materials to City departments.

M. Refreshing the Marketplace

1. The Marketplace may periodically be re-opened to allow new vendors to apply to get into the Marketplace and to allow current vendors to propose new product and service categories requested by the City.
2. New Vendors

When the Marketplace is re-opened, it will be open to new vendors interested in joining the Marketplace. New vendors will go through the same evaluation and selection processes described in this RFP. Contracts awarded to new contractors will contain the same terms and conditions as the contracts awarded to original contractors, with the exception that the duration term of the new contracts may be limited to the duration term remaining on the original contracts at the time the new contracts are awarded, such that all contracts, those of original and new contractors, will end on the same date. New contractors may provide any allowable category within the Marketplace.

3. New Categories

The City may add new product and service categories to the Marketplace and allow existing and new contractors to apply for the new categories.

N. Incorporation

All terms and conditions in the Marketplace Agreement shall be incorporated into every Marketplace Transaction.

O. Marketplace Transactions Surviving the Term of this Agreement

1. Marketplace Transactions may extend beyond the term of the Agreement. In such situations, the terms and conditions of the Agreement shall be incorporated into the new term created under the Marketplace Agreements and shall survive the end of the contract term until the date agreed to in the new term.
2. At least ninety (90) days before the Agreement expires, the Contractor shall provide the City with a list of all Marketplace Transactions for which obligations extend beyond expiration of this Agreement. At City's direction, Contractor shall assign to City all of the Contractor's right, title, and interest that will not be fully executed or performed by the Agreement expiration date, including, without limitation, ongoing software licenses and software maintenance agreements not previously assigned to City. City shall have the right, in its sole discretion, to direct the Contractor to assign any and all such orders and subcontracts.

Appendix B
RFP Documents and Contractor's Response

The Revised RFP 99400 "Tiers 1 and 2 of the Technology Marketplace 2.0" dated June 20, 2018, all accompanying Addenda, and Contractor's proposal in response to the RFP, are incorporated herein by reference as though fully set forth herein.

Appendix C
Tech Marketplace Categories

Contractor has been qualified to provide products and/or services within the following categories of the Technology Marketplace:

1. Products
 - a. Cisco
 - b. Dell
 - c. HP
 - d. HPE
 - e. IBM
 - f. Juniper
 - g. Microsoft
 - h. VMWare
 - i. Other
2. Hardware Maintenance Services
3. Training Services
4. Professional Services
5. Cloud Services

Appendix D
Supplemental Transaction Based Terms

Agreements are to be executed as applicable on a per project or purchase basis, substantially in the form of the Technology Marketplace Term Sheet Templates found at the Office of Contract Administration's Resources website: <https://sfgov.org/oca/frequently-asked-questions-0> as may be modified in the future. Contractor acknowledges and agrees that the terms and conditions of the executed Technology Marketplace Term Sheet shall control over the applicable City purchases.

1. P-530 Equipment Maintenance Term Sheet Template;
2. P-540 Software Maintenance Term Sheet Template;
3. P-542 Software Development Term Sheet Template;
4. P-545 Software Licensing Term Sheet Template;
5. P-600 Professional Services Term Sheet Template; and
6. P-648 Software as a Service Term Sheet Template.

**City and County of San Francisco
Office of Contract Administration
Purchasing Division
City Hall, Room 430
1 Dr. Carlton B. Goodlett Place
San Francisco, California 94102-4685**

NOVATION AGREEMENT

THIS NOVATION AGREEMENT ("Novation") is made as of August 5, 2020, in San Francisco, California, by and between En Pointe Technologies Sales, LLC, a corporation duly organized and existing under the laws of Delaware with its principal office in El Segundo, CA ("Transferor"), Insight Public Sector, Inc., a corporation duly organized and existing under the laws of Illinois with its principal office in Herndon, VA ("Transferee"), and City and County of San Francisco, a municipal corporation ("City").

Recitals

WHEREAS, Transferor is a party to the Agreement (as defined below); and

WHEREAS, Transferor desires to transfer the Agreement, and Transferee desires to assume the Agreement in full, each on the terms and conditions set forth herein; and

WHEREAS, Transferor warrants that Transferee is able to fully perform all obligations that may exist under the Agreement, and

WHEREAS, Transferee warrants that it is able to fully perform all obligations that may exist under this Agreement, and

WHEREAS, It is consistent with the City's interest to recognize the Transferee as the successor party to the Agreement, and

WHEREAS, Transferor has transferred to the Transferee all the assets of the Transferor that are used for the performance of the Agreement and documents evidencing of the above transfer has been filed with the City, and

WHEREAS, the City consents to the transfer of the Agreement based on Transferor's warranties stated herein and under the terms below;

NOW, THEREFORE, in consideration of the promises and the mutual covenants contained in this Novation, and for other good and valuable consideration, the receipt and adequacy of which are hereby acknowledged, Transferor and Transferee agree as follows:

Article 1 Definitions

The following definitions apply to this Novation:

1.1 "Agreement". Agreement means agreement dated 1000012609 dated January 1, 2019 between Transferor and City and County of San Francisco, a municipal corporation. The Agreement is attached to this Novation as Appendix A.

1.2 "Effective Date." Effective Date means August 5, 2020.

1.3 Other terms. Other terms used and not defined in this Novation shall have the meanings assigned to such terms in the Agreement.

Article 2 Transfer of Agreement

2.1 **Transfer.** Transferor hereby assigns, transfers and conveys to Transferee all of Transferor's rights, title and interest in and to the Agreement and all of Transferor's duties and obligations thereunder.

2.2 **Acceptance.** Transferee hereby accepts the transfer and conveyance set forth in Article 2.1 and agrees to perform all of Transferor's duties and obligations under the Agreement.

2.3 **Rights to Enforce.** Subject to the terms of the Agreement, this Novation shall be binding upon, and inure to the benefit of, the parties hereto and their successors and transferees. Nothing in this Novation, whether express or implied, shall be construed to give any person or entity (other than City and the parties hereto and their respective successors and Transferees) any legal or equitable right, remedy or claim under or in respect of this Novation or any covenants, conditions or provisions contained herein.

2.4 **Consent of City.** The City consents to the transfer described in this Article 2 based on the evidence provided below, which indicates that Transferee is in a position to fully perform all obligations that may and will exist under the Agreement. All the evidence is attached to this Novation as Appendices B, C and D. Further, each of Transferor and Transferee acknowledges that the prior written consent of City to this Novation is required under the terms of the Agreement. City shall have the right to enforce this Novation.

2.5 Documentation in support of this transfer:

(a) **Appendix B:** Exhibit 21 to the 2019 Form 10-K filed by Insight Enterprises Inc. confirming that Transferee is a wholly owned subsidiary of Insight Enterprises Inc;

(b) **Appendix C:** A signed and authenticated Agreement and Plan of Merger by and among Insight Enterprises Inc., Trojan Acquisition Corp. and PCM, Inc. dated June 23, 2019 which precisely describes the specifics of the transactional relationship, including the description of all the transfers of the assets used to perform the Agreement, between the Transferee's Parent, Insight Enterprises Inc., and PCM Inc.; and

(c) **Appendix D:** 2019 Form 10-K filed with the United States Securities and Exchange Commission demonstrating that the Transferee, as a wholly owned subsidiary of Insight Enterprises Inc., has adequate assets by which to perform the Agreement.

2.6 **Successor.** The City recognizes the Transferee as the Transferor's successor in interest in and to the Agreement. The Transferee by this Novation becomes liable for all responsibilities and entitled to all rights, titles, and interests of the Transferor in and to the Agreement. The City will treat the Transferee as if the Transferee were the original party to the Agreement. Following the Novation, the term "Contractor," as used in the Agreement, shall refer to the Transferee. The Agreement shall remain in full force and effect, except as modified by this Novation. Each party has executed this Novation as of the day and year first above written.

2.7 **Further Assurances.** From and after the date of this Novation, Transferor and Transferee agree to do such things, perform such acts, and make, execute, acknowledge and deliver such documents as may be reasonably necessary or proper and usual to complete the conveyance contemplated by this Novation or as may be required by City.

Article 3 Obligations and Liabilities

3.1 **Transfer, Waiver, and Assumption.** The Transferor confirms the transfer to the Transferee, and waives any claims and rights against the City that it now has or may have in the future in connection with the Agreement. The Transferee agrees to be bound by and to perform the Agreement in accordance with the conditions contained therein. The Transferee also assumes all obligations and liabilities of, and all claims against, the Transferor under the Agreement as if the Transferee were the original party to the Agreement. The Transferee ratifies all previous actions taken by the Transferor with respect to the Agreement, with the same force and effect as if the action has been taken by the Transferee. Except as expressly provided in this Novation, nothing in it shall be construed as a waiver of any rights of the City against the Transferor.

3.2 **Past Payments.** All payments and reimbursements previously made by City to the Transferor, and all other previous actions taken by City under the Agreement, shall be considered to have discharged those parts of City's obligations thereunder. All payments and reimbursements made by City after the date of this Novation in the name of or to the Transferor shall have the same force and effect as if made to the Transferee, and shall constitute a complete discharge of City's obligations under the Agreement, to the extent of the amounts paid or reimbursed. The Transferor and the Transferee agree and confirm that City is not obligated to pay or reimburse either of them for, or otherwise give effect to, any costs, taxes, or other expenses, or any related increases, directly or indirectly arising out of or resulting from the transfer of this Novation, other than those that City in the absence of this transfer would have been obligated to pay or reimburse under the terms of the Agreement.

Article 4 Insurance and Indemnification

4.1 **Insurance Certificates.** For this Novation to be effective, Transferee shall provide to City insurance certificates and endorsements for the identical type and amount of coverage currently required under the Agreement.

4.2 **City.** Transferor and Transferee shall, to the fullest extent permitted by law, indemnify, defend and protect City, and hold City harmless from and against any and all liabilities, losses, damages, claims, costs or expenses (including attorneys' fees) arising out of Transferor and/or Transferee's failure to comply with any term or obligation of this Novation or the Agreement. Defense obligations under this Section 4.2 shall be provided immediately following a tender of defense.

Article 5 General Provisions

5.1 **Governing Law.** This Novation shall be governed by the laws of the State of California, without regard to its conflict of laws principles.

5.2 **Headings.** All section headings and captions contained in this Novation are for reference only and shall not be considered in construing this Novation.

5.3 **Notices.** All notices, consents, directions, approvals, instructions, requests and other communications regarding this Novation or the Agreement shall be in writing, shall be addressed to the person and address set forth below and shall be (i) deposited in the U.S. mail, first class, certified with return receipt requested and with appropriate postage, (ii) hand delivered or (iii) sent via email with a return receipt. All communications sent in accordance with this Section shall become effective on the date of receipt. From time to time Transferor, Transferee or City may designate a new address for purposes of this Section by notice to the other signatories to this Novation.

If to Transferor:

En Pointe Technologies Sales, LLC
Lisanne Steinheiser
6820 S Harl Ave
Tempe, AZ 85283
Email : Lisanne.steinheiser@insight.com

If to Transferee:

Insight Public Sector, Inc.
Lisanne Steinheiser
6820 S Harl Ave
Tempe, AZ 85283
Email : Lisanne.steinheiser@insight.com

If to City:

Office of Contract Administration
1 Dr Carlton B Goodlett Pl, Room 430
San Francisco, CA 94102
Email: OCA@sfgov.org

5.4 **Entire Agreement.** This Novation sets forth the entire agreement between Transferor and Transferee relating to the Agreement and supersedes all other oral or written provisions.

5.5 **Severability.** Should the application of any word, phrase, clause, sentence, paragraph and/or provision of this Novation to any particular facts or circumstances be found by a court of competent jurisdiction to be invalid or unenforceable, then (i) the validity of other words, phrases, clauses, sentences, paragraphs and/or provisions of this Novation shall not be affected or impaired thereby and (ii) such words, phrases, clauses, sentences, paragraphs and/or provisions shall be enforced to the maximum extent possible so as to effect the intent of Transferor, Transferee and City.

IN WITNESS WHEREOF, Transferor and Transferee have each duly executed this Novation as of the date first referenced above.

TRANSFEROR

TRANSFEEE

En Pointe Technologies Sales LLC

Insight Public Sector, Inc.

0000020671

0000040338

DocuSigned by:

DocuSigned by:

Lisanne Steinheiser

Lisanne Steinheiser

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Lisanne Steinheiser

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Lisanne Steinheiser

8/5/2020

8/5/2020

Assistant Secretary

Assistant Secretary

City hereby consents to the transfer described in Article 2 of this Novation.

Recommended by:

Approved:

DocuSigned by:
Taraneh Moayed
9AEA44694D514E7...

DocuSigned by:
Sailaja Kurella
78EAEA4AB01C4E0...

Signature for Department
Taraneh Moayed
Assistant Director
Office of Contract Administration

Sailaja Kurella
Director of the Office of Contract
Administration, and Purchaser

Approved as to Form:

Dennis J. Herrera

City Attorney

DocuSigned by:
Gustin R. Guibert
D39D934F443D4CB...

By

Gustin R. Guibert
Deputy City Attorney

Appendices:

- Appendix A Agreement 1000012609 dated January 1, 2019 between Transferor and City and County of San Francisco.
- Appendix B Exhibit 21 to the 2019 Form 10-K filed by Insight Enterprises Inc. confirming that Transferee is a wholly owned subsidiary of Insight Enterprises Inc.
- Appendix C A signed and authenticated Agreement and Plan of Merger by and among Insight Enterprises Inc., Trojan Acquisition Corp. and PCM, Inc. dated June 23, 2019.
- Appendix D 2019 Form 10-K filed with the United States Securities and Exchange Commission.

Appendix A

**Agreement 100012609 dated January 1, 2019 between Transferor and
City and County of San Francisco**

**City and County of San Francisco
Office of Contract Administration
Purchasing Division
City Hall, Room 430
1 Dr. Carlton B. Goodlett Place
San Francisco, California 94102-4685**

**Agreement between the City and County of San Francisco and
En Pointe Technologies Sales, LLC**

**Term Contract # 99400
Tier 1 Contractor of the Technology Marketplace 2.0
PeopleSoft Supplier Contract ID: 1000012609**

This Agreement is made this first day of January, 2019, in the City and County of San Francisco (“City”), State of California, by and between En Pointe Technologies Sales, LLC 1 Market Street, Spear Towers, Suite 3619 San Francisco, CA 94105 (“Contractor”) and City.

Recitals

WHEREAS, the Office of Contract Administration (“Department”) wishes to procure Informational Technology products and services on an as-needed basis through the Technology Marketplace; and,

WHEREAS, this Agreement was competitively procured as required by San Francisco Administrative Code Chapter 21.1 through Request for Proposals #99400 “Tiers 1 and 2 of the Technology Marketplace 2.0” a Request for Proposal (“RFP”) issued on June 20, 2018, in which City selected Contractor as a qualified proposer pursuant to the RFP; and

WHEREAS, the Local Business Entity (“LBE”) subcontracting participation requirement for this Agreement is 15 % for services, with the exception that the requirement will be 10% for training services;

WHEREAS, Contractor represents and warrants that it is qualified to perform the Services required by City as set forth under this Agreement; and

WHEREAS, the City’s Civil Service Commission approved Contract number 44114-17/18 on July 10, 2018;

WHEREAS, the City’s Board of Supervisors approved resolution number 0009-19 on January 15 2019 ;

Now, THEREFORE, the parties agree as follows:

Article 1 Definitions

The following definitions apply to this Agreement:

1.1 "Agreement" means this contract document, including all attached appendices, and all applicable City Ordinances and Mandatory City Requirements that are specifically incorporated into this Agreement by reference as provided herein.

1.2 "City" or "the City" means the City and County of San Francisco, a municipal corporation, acting by and through both its Director of the Office of Contract Administration or the Director's designated agent, hereinafter referred to as "Purchasing" and the Office of Contract Administration."

1.3 "CMD" means the Contract Monitoring Division of the City.

1.4 "Contractor" means En Pointe Technologies Sales, LLC 1 Market Street, Spear Towers, Suite 3619 San Francisco, CA 94105.

1.5 "Cloud Services" means any provision of products or services rendered via a hosted cloud delivery structure. There are three cloud computing service models: Software as a Service (the use of applications running on a cloud infrastructure environment), Platform as a Service (the deployment of applications created using programming languages, libraries, services, and tools supported by a cloud provider), and Infrastructure as a Service (the provision of processing, storage, networking and other fundamental computing resources). There are four cloud computing deployment models: private (for use by a single organization), public (for use by general public), community (for use by a specific community of organizations with a shared purpose), and hybrid (A composition of two or more cloud infrastructures (public, private, community)).

1.6 "Deliverables" means Contractor's work product resulting from the Services that are provided by Contractor to City during the course of Contractor's performance of the Agreement, including without limitation, the work product described in the "Administrative Procedures and Requirements" attached as Appendix A and any TMTPO executed under the Agreement..

1.7 "Effective Date" means the date upon which the City's Controller certifies the availability of funds for this Agreement as provided in Section 3.1.

1.8 "Hardware" means tangible products such as physical devices and components that make up a computing system or any technology based solution which may include but is not limited to internal components such as CPUs, power supplies, hard drives, fans, heat sinks and video cards or external components such as webcams, microphones, routers, network switches, data cables, monitors, battery back-ups, printers, speakers and card readers.

1.9 "Hardware Maintenance Services" means the general services category refers to hardware maintenance of any technology related product, device, component or part. Examples may include but are not limited to on-site repair of stand-alone or networked PCs, printer maintenance and repair of network hardware.

1.10 "Installation and Configuration Services" means installation and configuration services incidental to the purchase of hardware and software products.

1.11 "Mandatory City Requirements" means those City laws set forth in the San Francisco Municipal Code, including the duly authorized rules, regulations, and guidelines implementing such laws, that impose specific duties and obligations upon Contractor.

1.12 "Ordering Department" means a department of the City and County of San Francisco, or other public agency, which initiates a requisition for the order of products or services pursuant to the authorized procedures set forth in this Agreement.

1.13 "Party" and "Parties" mean the City and Contractor either collectively or individually.

1.14 "Product" means hardware, software or any combination of them, procured through this Agreement.

1.15 "Professional Services" means services requiring specialized computer and IT related knowledge, expertise, or training acquired either by a prolonged course of study or equivalent experience in the field. Examples may include but are not limited to software developers, programmers, engineers, analysts, project managers, system architects, and system integrators. This category will also cover more specialized professional services that require a specific area of expertise. Examples may include, but are not limited to, network security testing services, data migration services and facility security system configuration and testing services.

1.16 "Services" means the work performed by Contractor under this Agreement as specifically described in the "Administrative Procedures and Requirements" attached as Appendix A and any TMTPO executed under this Agreement, including procurement of Hardware Maintenance Services, Training Services, Professional Services, Cloud Services, labor, supervision, Products, materials, equipment, actions and other requirements to be performed and furnished by Contractor under this Agreement.

1.17 "Software" means intangible products such as organized collections of computer data, code, firmware, patches, digital keys, upgrades or updates which may include but is not limited to operating system software, applications, programs, Software-as-a-Service (SaaS), licenses, and subscriptions.

1.18 "Software Maintenance" means maintenance that is either optional or required to ensure that the software remains operational and continues to satisfy user requirements. Software maintenance may include but is not limited to software updates, patches, upgrades, technical support, and after sale support related to purchased licenses, and including all improvements or actions needed to keep the licensed software operating as specified.

1.19 "Technology Marketplace" means a virtual marketplace comprised of the multiple award pool of contracts made available to City ordering departments and other governmental agencies and jurisdictions for the efficient and cost-effective procurement of IT products and services.

1.20 "Technology Marketplace Transaction" means an event resulting in a purchase of Products, Hardware Maintenance Services, Training Services, Professional Services or Cloud Services through the Technology Marketplace.

1.21 "Technology Marketplace Transaction Purchase Order" ("TMTPO") means the authorization document designated as such by the Purchaser for a procurement resulting from a Technology Marketplace Transaction, whether issued in a paper or electronic format, including blanket purchase orders for purchases involving multiple payments, and shall also include the scope of work for that particular purchase.

1.22 "Training Services" means training for technology products and services including but not limited to instruction, assistance and training services for end users and technical support.

Article 2 Term of the Agreement

2.1 The term of this Agreement shall commence on the later of: (i) January 1, 2019; or (ii) the Effective Date and expire on December 31, 2021, unless earlier terminated as otherwise provided herein.

2.2 The City has two options to renew the Agreement for a period of one year each. The City may extend this Agreement beyond the expiration date by exercising an option at the City's sole and absolute discretion and by modifying this Agreement as provided in Section 11.5, "Modification of this Agreement."

Article 3 Financial Matters

3.1 **Certification of Funds; Budget and Fiscal Provisions; Termination in the Event of Non-Appropriation.** This Agreement is subject to the budget and fiscal provisions of the City's Charter. Charges will accrue only after prior written authorization certified by the Controller, and the amount of City's obligation hereunder shall not at any time exceed the amount certified for the purpose and period stated in such advance authorization. This Agreement will terminate without penalty, liability or expense of any kind to City at the end of any fiscal year if funds are not appropriated for the next succeeding fiscal year. If funds are appropriated for a portion of the fiscal year, this Agreement will terminate, without penalty, liability or expense of any kind at the end of the term for which funds are appropriated. City has no obligation to make appropriations for this Agreement in lieu of appropriations for new or other agreements. City budget decisions are subject to the discretion of the Mayor and the Board of Supervisors. Contractor's assumption of risk of possible non-appropriation is part of the consideration for this Agreement.

THIS SECTION CONTROLS AGAINST ANY AND ALL OTHER PROVISIONS OF THIS AGREEMENT.

3.2 **Guaranteed Maximum Costs.** The City's payment obligation to Contractor cannot at any time exceed the amount certified by City's Controller for the purpose and period stated in such certification. Absent an authorized Emergency per the City Charter or applicable Code, no City representative is authorized to offer or promise, nor is the City required to honor, any offered or promised payments to Contractor under this Agreement in excess of the certified maximum amount without the Controller having first certified the additional promised amount and the Parties having modified this Agreement as provided in Section 11.5, "Modification of this Agreement."

3.3 Compensation.

3.3.1 **Payment.** Contractor shall provide an invoice to the City on a monthly basis for Services completed in the immediate preceding month. Compensation shall be made for Services identified in the invoice that the Ordering Department's department head, in his or her sole discretion, concludes has been satisfactorily performed. Payment shall be made within 30 calendar days of receipt of the invoice, unless the City notifies the Contractor that a dispute as to the invoice exists. In no event shall the amount of this Agreement exceed Twenty Million dollars (\$20,000,000). In no event shall City be liable for interest or late charges for any late payments.

3.3.2 **Payment Limited to Satisfactory Services.** Contractor is not entitled to any payments from City until the Ordering Department accepts and approves Services, including any furnished Deliverables, as satisfying all of the requirements of this Agreement. Payments to Contractor by City shall not excuse Contractor from its obligation to replace unsatisfactory Deliverables, including equipment, components, materials, or Services even if the unsatisfactory character of such Deliverables, equipment, components, materials, or Services may not have been apparent or detected at the time such payment was made. Deliverables, equipment, components, materials and Services that do not conform to the requirements of this Agreement may be rejected by City and in such case must be replaced by Contractor without delay at no cost to the City.

3.3.3 **Withhold Payments.** If Contractor fails to provide Services in accordance with Contractor's obligations under this Agreement, the City may withhold any and all payments due Contractor until such failure to perform is cured, and Contractor shall not stop work as a result of City's withholding of payments as provided herein.

3.3.4 **Invoice Format.** Invoices furnished by Contractor under this Agreement must be in a form acceptable to the Controller and City, and must include a unique invoice number. Payment shall be made by City as specified in 3.3.6 ,” or in such alternate manner as the Parties have mutually agreed upon in writing.

3.3.5 **LBE Payment and Utilization Tracking System.** Contractor must submit all required payment information using the City's Financial System as required by CMD to enable the City to monitor Contractor's compliance with the LBE subcontracting commitments in this Agreement. Contractor shall pay its LBE subcontractors within three working days after receiving payment from the City, except as otherwise authorized by the LBE Ordinance. The Controller is not authorized to pay invoices submitted by Contractor prior to Contractor's submission of all required CMD payment information. Failure to submit all required payment information to the City's Financial System with each payment request may result in the Controller withholding 20% of the payment due pursuant to that invoice until the required payment information is provided. Following City's payment of an invoice, Contractor has ten calendar days to acknowledge using the City's Financial System that all subcontractors have been paid. Self-Service Training for suppliers is located at this link: <https://sfcitypartner.sfgov.org/Training/TrainingGuide> .

3.3.6 Getting paid for goods and/or services from the City.

(a) All City vendors receiving new contracts, contract renewals, or contract extensions must sign up to receive electronic payments through the City's Automated

Clearing House (ACH) payments service/provider. Electronic payments are processed every business day and are safe and secure. To sign up for electronic payments, visit www.sfgov.org/ach.

(b) The following information is required to sign up: (i) The enroller must be their company's authorized financial representative, (ii) the company's legal name, main telephone number and all physical and remittance addresses used by the company, (iii) the company's U.S. federal employer identification number (EIN) or Social Security number (if they are a sole proprietor), and (iv) the company's bank account information, including routing and account numbers.

3.4 Audit and Inspection of Records. Contractor agrees to maintain and make available to the City, during regular business hours, accurate books and accounting records relating to its Services. Contractor will permit City to audit, examine and make excerpts and transcripts from such books and records, and to make audits of all invoices, materials, payrolls, records or personnel and other data related to all other matters covered by this Agreement, whether funded in whole or in part under this Agreement. Contractor shall maintain such data and records in an accessible location and condition for a period of not fewer than five years after final payment under this Agreement or until after final audit has been resolved, whichever is later. The State of California or any Federal agency having an interest in the subject matter of this Agreement shall have the same rights as conferred upon City by this Section. Contractor shall include the same audit and inspection rights and record retention requirements in all subcontracts.

3.5 Submitting False Claims. The full text of San Francisco Administrative Code Chapter 21, Section 21.35, including the enforcement and penalty provisions, is incorporated into this Agreement. Pursuant to San Francisco Administrative Code §21.35, any contractor or subcontractor who submits a false claim shall be liable to the City for the statutory penalties set forth in that section. A contractor or subcontractor will be deemed to have submitted a false claim to the City if the contractor or subcontractor: (a) knowingly presents or causes to be presented to an officer or employee of the City a false claim or request for payment or approval; (b) knowingly makes, uses, or causes to be made or used a false record or statement to get a false claim paid or approved by the City; (c) conspires to defraud the City by getting a false claim allowed or paid by the City; (d) knowingly makes, uses, or causes to be made or used a false record or statement to conceal, avoid, or decrease an obligation to pay or transmit money or property to the City; or (e) is a beneficiary of an inadvertent submission of a false claim to the City, subsequently discovers the falsity of the claim, and fails to disclose the false claim to the City within a reasonable time after discovery of the false claim.

3.6 Reserved. (Payment of Prevailing Wages)

Article 4 Services and Resources

4.1 Services Contractor Agrees to Perform. Contractor agrees to perform the Services provided for in Appendix A, "Administration Procedures and Requirements" and each TMTPO executed pursuant to this Agreement. Officers and employees of the City are not authorized to request, and the City is not required to reimburse the Contractor for, Services beyond the Services listed in Appendix A and any executed TMTPO, unless Appendix A is

modified as provided in Section 11.5, "Modification of this Agreement, or the TMTPO is modified in writing by City and Contractor.

4.2 Qualified Personnel. Contractor shall utilize only competent personnel under the supervision of, and in the employment of, Contractor (or Contractor's authorized subcontractors) to perform the Services. Contractor will comply with City's reasonable requests regarding assignment and/or removal of personnel, but all personnel, including those assigned at City's request, must be supervised by Contractor. Contractor shall commit adequate resources to allow timely completion within the project schedule specified in this Agreement.

4.3 Subcontracting.

4.3.1 It is anticipated that Contractor will subcontract portions of the Services rendered under this Contract. Such subcontracting shall occur only upon prior written approval of City. Contractor is responsible for its subcontractors throughout the course of the work required to perform the Services. All Subcontracts must incorporate the terms of Article 10 "Additional Requirements Incorporated by Reference" of this Agreement, unless inapplicable. Neither Party shall, on the basis of this Agreement, contract on behalf of, or in the name of, the other Party. Any agreement made in violation of this provision shall be null and void.

4.4 Independent Contractor; Payment of Employment Taxes and Other Expenses.

4.4.1 **Independent Contractor.** For the purposes of this Article 4, "Contractor" shall be deemed to include not only Contractor, but also any agent or employee of Contractor. Contractor acknowledges and agrees that at all times, Contractor or any agent or employee of Contractor shall be deemed at all times to be an independent contractor and is wholly responsible for the manner in which it performs the services and work requested by City under this Agreement. Contractor, its agents, and employees will not represent or hold themselves out to be employees of the City at any time. Contractor or any agent or employee of Contractor shall not have employee status with City, nor be entitled to participate in any plans, arrangements, or distributions by City pertaining to or in connection with any retirement, health or other benefits that City may offer its employees. Contractor or any agent or employee of Contractor is liable for the acts and omissions of itself, its employees and its agents. Contractor shall be responsible for all obligations and payments, whether imposed by federal, state or local law, including, but not limited to, FICA, income tax withholdings, unemployment compensation, insurance, and other similar responsibilities related to Contractor's performing services and work, or any agent or employee of Contractor providing same. Nothing in this Agreement shall be construed as creating an employment or agency relationship between City and Contractor or any agent or employee of Contractor. Any terms in this Agreement referring to direction from City shall be construed as providing for direction as to policy and the result of Contractor's work only, and not as to the means by which such a result is obtained. City does not retain the right to control the means or the method by which Contractor performs work under this Agreement. Contractor agrees to maintain and make available to City, upon request and during regular business hours, accurate books and accounting records demonstrating Contractor's compliance with this section. Should City determine that Contractor, or any agent or employee of Contractor, is not performing in accordance with the requirements of this Agreement, City shall provide Contractor

with written notice of such failure. Within five (5) business days of Contractor's receipt of such notice, and in accordance with Contractor policy and procedure, Contractor shall remedy the deficiency. Notwithstanding, if City believes that an action of Contractor, or any agent or employee of Contractor, warrants immediate remedial action by Contractor, City shall contact Contractor and provide Contractor in writing with the reason for requesting such immediate action.

4.4.2 Payment of Employment Taxes and Other Expenses. Should City, in its discretion, or a relevant taxing authority such as the Internal Revenue Service or the State Employment Development Division, or both, determine that Contractor is an employee for purposes of collection of any employment taxes, the amounts payable under this Agreement shall be reduced by amounts equal to both the employee and employer portions of the tax due (and offsetting any credits for amounts already paid by Contractor which can be applied against this liability). City shall then forward those amounts to the relevant taxing authority. Should a relevant taxing authority determine a liability for past services performed by Contractor for City, upon notification of such fact by City, Contractor shall promptly remit such amount due or arrange with City to have the amount due withheld from future payments to Contractor under this Agreement (again, offsetting any amounts already paid by Contractor which can be applied as a credit against such liability). A determination of employment status pursuant to the preceding two paragraphs shall be solely for the purposes of the particular tax in question, and for all other purposes of this Agreement, Contractor shall not be considered an employee of City. Notwithstanding the foregoing, Contractor agrees to indemnify and save harmless City and its officers, agents and employees from, and, if requested, shall defend them against any and all claims, losses, costs, damages, and expenses, including attorneys' fees, arising from this section.

4.5 Assignment. The Services to be performed by Contractor are personal in character and neither this Agreement nor any duties or obligations hereunder may be assigned or delegated by Contractor unless first approved by City by written instrument executed and approved in the same manner as this Agreement. Any purported assignment made in violation of this provision shall be null and void.

4.6 Warranty. Contractor warrants to City that the Services will be performed with the degree of skill and care that is required by current, good and sound professional procedures and practices, and in conformance with generally accepted professional standards prevailing at the time the Services are performed so as to ensure that all Services performed are correct and appropriate for the purposes contemplated in this Agreement.

4.7 Liquidated Damages. Contractor acknowledges that certain Technology Marketplace Transactions may require that Contractor meet specific dates for providing Deliverables under the Agreement. In such cases, Contractor agrees that its failure to adhere to the schedule specified in the TMTPO may subject City to actual damages that are impractical or extremely difficult to ascertain. Contractor understands and agrees that City may specify in the TMTPO, as a reasonable estimate of the loss City will incur because of Contractor's delay, a daily rate of liquidated damages. By accepting the TMTPO, Contractor agrees that this sum shall not be considered a penalty and is an agreed upon sum of monetary damages sustained by City because of Contractor's failure to furnish Deliverables to City within the time period fixed or such extensions of time permitted in writing by City.

4.8 **Bonding Requirements.** The Contractor may be required on a case by case basis to furnish a performance bond on the form in a form acceptable to the City, to guarantee the faithful performance of this contract. The bonds must be approved as to sufficiency and qualifications of the surety by the Controller and City Attorney.

Article 5 Insurance and Indemnity

5.1 Insurance.

5.1.1 The following insurance requirements are the minimum coverages required under this Agreement. At the individual purchase level, on a project by project basis, these requirements may be modified based on the products and/or services the City is procuring under its agreement from a specific contractor. Such modifications may include the type of insurance, the required minimum limits of insurance, as well as exclusions or inclusions related to coverage. Furthermore, the amount and type of insurance required for a particular purchase will be based on the types and amount of risk involved. Insurance policies that include coverage for both technology errors and omissions as well as cyber privacy are acceptable so long as they meet the limits the Risk Manager requires in the contract.

5.1.2 Ordering Departments shall contact the City's Risk Manager with any questions related to insurance requirements, and are encouraged to do this early in the contracting process. Any reductions below the amount of insurance coverage required, or any waivers of these coverages require the specific approval of the City's Risk Manager.

5.1.3 **Required Minimum Coverages.** Without in any way limiting Contractor's liability pursuant to the "Indemnification" section of this Agreement, Contractor must maintain in force, during the full term of the Agreement, insurance in the following amounts and coverages:

- (a) Workers' Compensation, in statutory amounts, with Employers' Liability Limits not less than \$1,000,000 each accident, injury, or illness; and
- (b) Commercial General Liability Insurance with limits not less than \$1,000,000 each occurrence for Bodily Injury and Property Damage, including Contractual Liability, Personal Injury, Products and Completed Operations; and
- (c) Commercial Automobile Liability Insurance with limits not less than \$1,000,000 each occurrence, "Combined Single Limit" for Bodily Injury and Property Damage, including Owned, Non-Owned and Hired auto coverage, as applicable.
- (d) Professional liability insurance, applicable to Contractor's profession, with limits not less than \$1,000,000 each claim with respect to negligent acts, errors or omissions in connection with the Services.
- (e) Technology Errors and Omissions Liability coverage, with limits of \$1,000,000 each occurrence and each loss. The policy shall at a minimum cover professional misconduct or lack of the requisite skill required for the performance of services defined in the contract and shall also provide coverage for the following risks:

(i) Network security liability arising from the unauthorized access to, use of, or tampering with computers or computer systems, including hacker attacks; and

(ii) Liability arising from the introduction of any form of malicious software including computer viruses into, or otherwise causing damage to the City's or third person's computer, computer system, network, or similar computer related property and the data, software, and programs thereon.

(f) Contractor shall maintain in force during the full life of the agreement Cyber and Privacy Insurance with limits of not less than \$1,000,000 per occurrence. Such insurance shall include coverage for liability arising from theft, dissemination, and/or use of confidential information, including but not limited to, bank and credit card account information or personal information, such as name, address, social security numbers, protected health information or other personally identifying information, stored or transmitted in electronic form.

5.1.4 Commercial General Liability and Commercial Automobile Liability Insurance policies must be endorsed to provide:

(a) Name as Additional Insured the City and County of San Francisco, its Officers, Agents, and Employees.

(b) That such policies are primary insurance to any other insurance available to the Additional Insureds, with respect to any claims arising out of this Agreement, and that insurance applies separately to each insured against whom claim is made or suit is brought.

5.1.5 All policies shall be endorsed to provide thirty (30) days' advance written notice to the City of cancellation for any reason, intended non-renewal, or reduction in coverages. Notices shall be sent to the City address set forth in Section 11.1, entitled "Notices to the Parties."

5.1.6 Should any of the required insurance be provided under a claims-made form, Contractor shall maintain such coverage continuously throughout the term of this Agreement and, without lapse, for a period of three years beyond the expiration of this Agreement, to the effect that, should occurrences during the contract term give rise to claims made after expiration of the Agreement, such claims shall be covered by such claims-made policies.

5.1.7 Should any of the required insurance be provided under a form of coverage that includes a general annual aggregate limit or provides that claims investigation or legal defense costs be included in such general annual aggregate limit, such general annual aggregate limit shall be double the occurrence or claims limits specified above.

5.1.8 Should any required insurance lapse during the term of this Agreement, requests for payments originating after such lapse shall not be processed until the City receives satisfactory evidence of reinstated coverage as required by this Agreement, effective as of the lapse date. If insurance is not reinstated, the City may, at its sole option, terminate this Agreement effective on the date of such lapse of insurance.

5.1.9 Before commencing any Services, Contractor shall furnish to City certificates of insurance and additional insured policy endorsements with insurers with ratings comparable to A-, VIII or higher, that are authorized to do business in the State of California, and that are satisfactory to City, in form evidencing all coverages set forth above. Approval of the insurance by City shall not relieve or decrease Contractor's liability hereunder.

5.1.10 The Workers' Compensation policy(ies) shall be endorsed with a waiver of subrogation in favor of the City for all work performed by the Contractor, its employees, agents and subcontractors.

5.1.11 If Contractor will use any subcontractor(s) to provide Services, Contractor shall require the subcontractor(s) to provide all necessary insurance and to name the City and County of San Francisco, its officers, agents and employees and the Contractor as additional insureds.

5.2 Indemnification. Contractor shall indemnify and hold harmless City and its officers, agents and employees from, and, if requested, shall defend them from and against any and all claims, demands, losses, damages, costs, expenses, and liability (legal, contractual, or otherwise) arising from or in any way connected with any: (i) injury to or death of a person, including employees of City or Contractor; (ii) loss of or damage to property; (iii) violation of local, state, or federal common law, statute or regulation, including but not limited to privacy or personally identifiable information, health information, disability and labor laws or regulations; (iv) strict liability imposed by any law or regulation; or (v) losses arising from Contractor's execution of subcontracts not in accordance with the requirements of this Agreement applicable to subcontractors; so long as such injury, violation, loss, or strict liability (as set forth in subsections (i) – (v) above) arises directly or indirectly from Contractor's performance of this Agreement, including, but not limited to, Contractor's use of facilities or equipment provided by City or others, regardless of the negligence of, and regardless of whether liability without fault is imposed or sought to be imposed on City, except to the extent that such indemnity is void or otherwise unenforceable under applicable law, and except where such loss, damage, injury, liability or claim is the result of the active negligence or willful misconduct of City and is not contributed to by any act of, or by any omission to perform some duty imposed by law or agreement on Contractor, its subcontractors, or either's agent or employee. The foregoing indemnity shall include, without limitation, reasonable fees of attorneys, consultants and experts and related costs and City's costs of investigating any claims against the City.

In addition to Contractor's obligation to indemnify City, Contractor specifically acknowledges and agrees that it has an immediate and independent obligation to defend City from any claim which actually or potentially falls within this indemnification provision, even if the allegations are or may be groundless, false or fraudulent, which obligation arises at the time such claim is tendered to Contractor by City and continues at all times thereafter.

Contractor shall indemnify and hold City harmless from all loss and liability, including attorneys' fees, court costs and all other litigation expenses for any infringement of the patent rights, copyright, trade secret or any other proprietary right or trademark, and all other intellectual property claims of any person or persons arising directly or indirectly from the receipt by City, or any of its officers or agents, of Contractor's Services.

Article 6 Liability of the Parties

6.1 Liability of City. CITY'S PAYMENT OBLIGATIONS UNDER THIS AGREEMENT SHALL BE LIMITED TO THE PAYMENT OF THE COMPENSATION PROVIDED FOR IN SECTION 3.3.1, "PAYMENT," OF THIS AGREEMENT. NOTWITHSTANDING ANY OTHER PROVISION OF THIS AGREEMENT, IN NO EVENT SHALL CITY BE LIABLE, REGARDLESS OF WHETHER ANY CLAIM IS BASED ON CONTRACT OR TORT, FOR ANY SPECIAL, CONSEQUENTIAL, INDIRECT OR INCIDENTAL DAMAGES, INCLUDING, BUT NOT LIMITED TO, LOST PROFITS, ARISING OUT OF OR IN CONNECTION WITH THIS AGREEMENT OR THE SERVICES PERFORMED IN CONNECTION WITH THIS AGREEMENT.

6.2 Liability for Use of Equipment. City shall not be liable for any damage to persons or property as a result of the use, misuse or failure of any equipment used by Contractor, or any of its subcontractors, or by any of their employees, even though such equipment is furnished, rented or loaned by City.

6.3 Liability for Incidental and Consequential Damages. Contractor shall be responsible for incidental and consequential damages resulting in whole or in part from Contractor's acts or omissions.

Article 7 Payment of Taxes

7.1 Except for any applicable California sales and use taxes charged by Contractor to City, Contractor shall pay all taxes, including possessory interest taxes levied upon or as a result of this Agreement, or the Services delivered pursuant hereto. Contractor shall remit to the State of California any sales or use taxes paid by City to Contractor under this Agreement. Contractor agrees to promptly provide information requested by the City to verify Contractor's compliance with any State requirements for reporting sales and use tax paid by City under this Agreement.

7.2 Contractor acknowledges that this Agreement may create a "possessory interest" for property tax purposes. Generally, such a possessory interest is not created unless the Agreement entitles the Contractor to possession, occupancy, or use of City property for private gain. If such a possessory interest is created, then the following shall apply:

7.2.1 Contractor, on behalf of itself and any permitted successors and assigns, recognizes and understands that Contractor, and any permitted successors and assigns, may be subject to real property tax assessments on the possessory interest.

7.2.2 Contractor, on behalf of itself and any permitted successors and assigns, recognizes and understands that the creation, extension, renewal, or assignment of this Agreement may result in a "change in ownership" for purposes of real property taxes, and therefore may result in a revaluation of any possessory interest created by this Agreement. Contractor accordingly agrees on behalf of itself and its permitted successors and assigns to report on behalf of the City to the County Assessor the information required by Revenue and Taxation Code section 480.5, as amended from time to time, and any successor provision.

7.2.3 Contractor, on behalf of itself and any permitted successors and assigns, recognizes and understands that other events also may cause a change of ownership of the possessory interest and result in the revaluation of the possessory interest. (see, e.g., Rev. & Tax. Code section 64, as amended from time to time). Contractor accordingly agrees on behalf of

itself and its permitted successors and assigns to report any change in ownership to the County Assessor, the State Board of Equalization or other public agency as required by law.

7.2.4 Contractor further agrees to provide such other information as may be requested by the City to enable the City to comply with any reporting requirements for possessory interests that are imposed by applicable law.

Article 8 Termination and Default

8.1 Termination for Convenience

8.1.1 City shall have the option, in its sole discretion, to terminate this Agreement, at any time during the term hereof, for convenience and without cause. City shall exercise this option by giving Contractor written notice of termination. The notice shall specify the date on which termination shall become effective.

8.1.2 Upon receipt of the notice of termination, Contractor shall commence and perform, with diligence, all actions necessary on the part of Contractor to effect the termination of this Agreement on the date specified by City and to minimize the liability of Contractor and City to third parties as a result of termination. All such actions shall be subject to the prior approval of City. Such actions shall include, without limitation:

- (a) Halting the performance of all Services under this Agreement on the date(s) and in the manner specified by City.
- (b) Terminating all existing orders and subcontracts, and not placing any further orders or subcontracts for materials, Services, equipment or other items.
- (c) At City's direction, assigning to City any or all of Contractor's right, title, and interest under the orders and subcontracts terminated. Upon such assignment, City shall have the right, in its sole discretion, to settle or pay any or all claims arising out of the termination of such orders and subcontracts.
- (d) Subject to City's approval, settling all outstanding liabilities and all claims arising out of the termination of orders and subcontracts.
- (e) Completing performance of any Services that City designates to be completed prior to the date of termination specified by City.
- (f) Taking such action as may be necessary, or as the City may direct, for the protection and preservation of any property related to this Agreement which is in the possession of Contractor and in which City has or may acquire an interest.

8.1.3 Within 30 days after the specified termination date, Contractor shall submit to City an invoice, which shall set forth each of the following as a separate line item:

- (a) The reasonable cost to Contractor, without profit, for all Services prior to the specified termination date, for which Services City has not already tendered payment. Reasonable costs may include a reasonable allowance for actual overhead, not to exceed a total of 10% of Contractor's direct costs for Services. Any overhead allowance shall be separately itemized. Contractor may also recover the reasonable cost of preparing the invoice.
- (b) A reasonable allowance for profit on the cost of the Services described in the immediately preceding subsection (a), provided that Contractor can establish, to

the satisfaction of City, that Contractor would have made a profit had all Services under this Agreement been completed, and provided further, that the profit allowed shall in no event exceed 5% of such cost.

(c) The reasonable cost to Contractor of handling material or equipment returned to the vendor, delivered to the City or otherwise disposed of as directed by the City.

(d) A deduction for the cost of materials to be retained by Contractor, amounts realized from the sale of materials and not otherwise recovered by or credited to City, and any other appropriate credits to City against the cost of the Services or other work.

8.1.4 In no event shall City be liable for costs incurred by Contractor or any of its subcontractors after the termination date specified by City, except for those costs specifically enumerated and described in Section 8.1.3. Such non-recoverable costs include, but are not limited to, anticipated profits on the Services under this Agreement, post-termination employee salaries, post-termination administrative expenses, post-termination overhead or unabsorbed overhead, attorneys' fees or other costs relating to the prosecution of a claim or lawsuit, prejudgment interest, or any other expense which is not reasonable or authorized under Section 8.1.3.

8.1.5 In arriving at the amount due to Contractor under this Section, City may deduct: (i) all payments previously made by City for Services covered by Contractor's final invoice; (ii) any claim which City may have against Contractor in connection with this Agreement; (iii) any invoiced costs or expenses excluded pursuant to the immediately preceding subsection 8.1.4; and (iv) in instances in which, in the opinion of the City, the cost of any Service performed under this Agreement is excessively high due to costs incurred to remedy or replace defective or rejected Services, the difference between the invoiced amount and City's estimate of the reasonable cost of performing the invoiced Services in compliance with the requirements of this Agreement.

8.1.6 City's payment obligation under this Section shall survive termination of this Agreement.

8.2 Termination for Default; Remedies.

8.2.1 Each of the following shall constitute an immediate event of default ("Event of Default") under this Agreement:

(a) Contractor fails or refuses to perform or observe any term, covenant or condition contained in any of the following Sections of this Agreement:

3.5	Submitting False Claims.	10.10	Alcohol and Drug-Free Workplace
4.5	Assignment	10.13	Working with Minors
Article 5	Insurance and Indemnity	11.10	Compliance with Laws
Article 7	Payment of Taxes	13.1	Nondisclosure of Private, Proprietary or Confidential Information

(b) Contractor fails or refuses to perform or observe any other term, covenant or condition contained in this Agreement, including any obligation imposed by ordinance or statute and incorporated by reference herein, and such default continues for a period of ten days after written notice thereof from City to Contractor.

(c) Contractor (i) is generally not paying its debts as they become due; (ii) files, or consents by answer or otherwise to the filing against it of a petition for relief or reorganization or arrangement or any other petition in bankruptcy or for liquidation or to take advantage of any bankruptcy, insolvency or other debtors' relief law of any jurisdiction; (iii) makes an assignment for the benefit of its creditors; (iv) consents to the appointment of a custodian, receiver, trustee or other officer with similar powers of Contractor or of any substantial part of Contractor's property; or (v) takes action for the purpose of any of the foregoing.

(d) A court or government authority enters an order (i) appointing a custodian, receiver, trustee or other officer with similar powers with respect to Contractor or with respect to any substantial part of Contractor's property, (ii) constituting an order for relief or approving a petition for relief or reorganization or arrangement or any other petition in bankruptcy or for liquidation or to take advantage of any bankruptcy, insolvency or other debtors' relief law of any jurisdiction or (iii) ordering the dissolution, winding-up or liquidation of Contractor.

8.2.2 On and after any Event of Default, City shall have the right to exercise its legal and equitable remedies, including, without limitation, the right to terminate this Agreement or to seek specific performance of all or any part of this Agreement. In addition, where applicable, City shall have the right (but no obligation) to cure (or cause to be cured) on behalf of Contractor any Event of Default; Contractor shall pay to City on demand all costs and expenses incurred by City in effecting such cure, with interest thereon from the date of incurrence at the maximum rate then permitted by law. City shall have the right to offset from any amounts due to Contractor under this Agreement or any other agreement between City and Contractor: (i) all damages, losses, costs or expenses incurred by City as a result of an Event of Default; and (ii) any liquidated damages levied upon Contractor pursuant to the terms of this Agreement; and (iii), any damages imposed by any ordinance or statute that is incorporated into this Agreement by reference, or into any other agreement with the City.

8.2.3 All remedies provided for in this Agreement may be exercised individually or in combination with any other remedy available hereunder or under applicable laws, rules and regulations. The exercise of any remedy shall not preclude or in any way be deemed to waive any other remedy. Nothing in this Agreement shall constitute a waiver or limitation of any rights that City may have under applicable law.

8.2.4 Any notice of default must be sent by registered mail to the address set forth in Article 11.

8.3 Non-Waiver of Rights. The omission by either party at any time to enforce any default or right reserved to it, or to require performance of any of the terms, covenants, or provisions hereof by the other party at the time designated, shall not be a waiver of any such default or right to which the party is entitled, nor shall it in any way affect the right of the party to enforce such provisions thereafter.

8.4 Rights and Duties upon Termination or Expiration.

8.4.1 This Section and the following Sections of this Agreement listed below, shall survive termination or expiration of this Agreement:

3.3.2	Payment Limited to Satisfactory Services		9.1	Ownership of Results
3.3.7(a)	Grant Funded Contracts - Disallowance		9.2	Works for Hire
3.4	Audit and Inspection of Records		11.6	Dispute Resolution Procedure
3.5	Submitting False Claims		11.7	Agreement Made in California; Venue
Article 5	Insurance and Indemnity		11.8	Construction
6.1	Liability of City		11.9	Entire Agreement
6.3	Liability for Incidental and Consequential Damages		11.10	Compliance with Laws
Article 7	Payment of Taxes		11.11	Severability
8.1.6	Payment Obligation		13.1	Nondisclosure of Private, Proprietary or Confidential Information

8.4.2 Subject to the survival of the Sections identified in Section 8.4.1, above, if this Agreement is terminated prior to expiration of the term specified in Article 2, this Agreement shall be of no further force or effect. Contractor shall transfer title to City, and deliver in the manner, at the times, and to the extent, if any, directed by City, any work in progress, completed work, supplies, equipment, and other materials produced as a part of, or acquired in connection with the performance of this Agreement, and any completed or partially completed work which, if this Agreement had been completed, would have been required to be furnished to City.

Article 9 Rights In Deliverables

9.1 **Ownership of Results.** Any interest of Contractor or its subcontractors, in the Deliverables, including any drawings, plans, specifications, blueprints, studies, reports, memoranda, computation sheets, computer files and media or other documents prepared by Contractor or its subcontractors for the purposes of this agreement, shall become the property of and will be transmitted to City. However, unless expressly prohibited elsewhere in this Agreement, Contractor may retain and use copies for reference and as documentation of its experience and capabilities.

9.2 **Works for Hire.** If, in connection with Services, Contractor or its subcontractors creates Deliverables including, without limitation, artwork, copy, posters, billboards, photographs, videotapes, audiotapes, systems designs, software, reports, diagrams, surveys, blueprints, source codes, or any other original works of authorship, whether in digital or any other format, such works of authorship shall be works for hire as defined under Title 17 of the United States Code, and all copyrights in such works shall be the property of the City. If any Deliverables created by Contractor or its subcontractor(s) under this Agreement are ever

determined not to be works for hire under U.S. law, Contractor hereby assigns all Contractor's copyrights to such Deliverables to the City, agrees to provide any material and execute any documents necessary to effectuate such assignment, and agrees to include a clause in every subcontract imposing the same duties upon subcontractor(s). With City's prior written approval, Contractor and its subcontractor(s) may retain and use copies of such works for reference and as documentation of their respective experience and capabilities.

Article 10 Additional Requirements Incorporated by Reference

10.1 Laws Incorporated by Reference. The full text of the laws listed in this Article 10, including enforcement and penalty provisions, are incorporated by reference into this Agreement. The full text of the San Francisco Municipal Code provisions incorporated by reference in this Article and elsewhere in the Agreement ("Mandatory City Requirements") are available at http://www.amlegal.com/codes/client/san-francisco_ca/ .

10.2 Conflict of Interest. By executing this Agreement, Contractor certifies that it does not know of any fact which constitutes a violation of Section 15.103 of the City's Charter; Article III, Chapter 2 of City's Campaign and Governmental Conduct Code; Title 9, Chapter 7 of the California Government Code (Section 87100 *et seq.*), or Title 1, Division 4, Chapter 1, Article 4 of the California Government Code (Section 1090 *et seq.*), and further agrees promptly to notify the City if it becomes aware of any such fact during the term of this Agreement.

10.3 Prohibition on Use of Public Funds for Political Activity. In performing the Services, Contractor shall comply with San Francisco Administrative Code Chapter 12G, which prohibits funds appropriated by the City for this Agreement from being expended to participate in, support, or attempt to influence any political campaign for a candidate or for a ballot measure. Contractor is subject to the enforcement and penalty provisions in Chapter 12G.

10.4 Reserved.

10.5 Nondiscrimination Requirements.

10.5.1 Non Discrimination in Contracts. Contractor shall comply with the provisions of Chapters 12B and 12C of the San Francisco Administrative Code. Contractor shall incorporate by reference in all subcontracts the provisions of Sections 12B.2(a), 12B.2(c)-(k), and 12C.3 of the San Francisco Administrative Code and shall require all subcontractors to comply with such provisions. Contractor is subject to the enforcement and penalty provisions in Chapters 12B and 12C.

10.5.2 Nondiscrimination in the Provision of Employee Benefits. San Francisco Administrative Code 12B.2. Contractor does not as of the date of this Agreement, and will not during the term of this Agreement, in any of its operations in San Francisco, on real property owned by San Francisco, or where work is being performed for the City elsewhere in the United States, discriminate in the provision of employee benefits between employees with domestic partners and employees with spouses and/or between the domestic partners and spouses of such employees, subject to the conditions set forth in San Francisco Administrative Code Section 12B.2.

10.6 Local Business Enterprise and Non-Discrimination in Contracting Ordinance. Contractor shall comply with all applicable provisions of Chapter 14B ("LBE Ordinance"). Contractor is subject to the enforcement and penalty provisions in Chapter 14B.

Contractor shall utilize LBE Subcontractors for at least 15% of the Services, except that for training services the requirement is 10%, and except as otherwise authorized in writing by the Director of CMD. Contractor shall incorporate the requirements of the LBE Ordinance in each subcontract made in the fulfillment of Contractor's LBE subcontracting commitments.

10.7 Minimum Compensation Ordinance. Contractor shall pay covered employees no less than the minimum compensation required by San Francisco Administrative Code Chapter 12P. Contractor is subject to the enforcement and penalty provisions in Chapter 12P. By signing and executing this Agreement, Contractor certifies that it is in compliance with Chapter 12P.

10.8 Health Care Accountability Ordinance. Contractor shall comply with San Francisco Administrative Code Chapter 12Q. Contractor shall choose and perform one of the Health Care Accountability options set forth in San Francisco Administrative Code Chapter 12Q.3. Contractor is subject to the enforcement and penalty provisions in Chapter 12Q.

10.9 First Source Hiring Program. Contractor must comply with all of the provisions of the First Source Hiring Program, Chapter 83 of the San Francisco Administrative Code, that apply to this Agreement, and Contractor is subject to the enforcement and penalty provisions in Chapter 83.

10.10 Alcohol and Drug-Free Workplace. City reserves the right to deny access to, or require Contractor to remove from, City facilities personnel of any Contractor or subcontractor who City has reasonable grounds to believe has engaged in alcohol abuse or illegal drug activity which in any way impairs City's ability to maintain safe work facilities or to protect the health and well-being of City employees and the general public. City shall have the right of final approval for the entry or re-entry of any such person previously denied access to, or removed from, City facilities. Illegal drug activity means possessing, furnishing, selling, offering, purchasing, using or being under the influence of illegal drugs or other controlled substances for which the individual lacks a valid prescription. Alcohol abuse means possessing, furnishing, selling, offering, or using alcoholic beverages, or being under the influence of alcohol.

10.11 Limitations on Contributions. By executing this Agreement, Contractor acknowledges that it is familiar with section 1.126 of the City's Campaign and Governmental Conduct Code, which prohibits any person who contracts with the City for the rendition of personal services, for the furnishing of any material, supplies or equipment, for the sale or lease of any land or building, or for a grant, loan or loan guarantee, from making any campaign contribution to (1) an individual holding a City elective office if the contract must be approved by the individual, a board on which that individual serves, or the board of a state agency on which an appointee of that individual serves, (2) a candidate for the office held by such individual, or (3) a committee controlled by such individual, at any time from the commencement of negotiations for the contract until the later of either the termination of negotiations for such contract or six months after the date the contract is approved. The prohibition on contributions applies to each prospective party to the contract; each member of Contractor's board of directors; Contractor's chairperson, chief executive officer, chief financial officer and chief operating officer; any person with an ownership interest of more than 20 percent in Contractor; any subcontractor listed in the bid or contract; and any committee that is sponsored or controlled by Contractor. Contractor must inform each such person of the limitation on contributions imposed by Section 1.126 and provide the names of the persons required to be informed to City.

10.12 Reserved. (Slavery Era Disclosure)**10.13 Reserved. (Working with Minors)****10.14 Consideration of Criminal History in Hiring and Employment Decisions.**

10.14.1 Contractor agrees to comply fully with and be bound by all of the provisions of Chapter 12T, "City Contractor/Subcontractor Consideration of Criminal History in Hiring and Employment Decisions," of the San Francisco Administrative Code ("Chapter 12T"), including the remedies provided, and implementing regulations, as may be amended from time to time. The provisions of Chapter 12T are incorporated by reference and made a part of this Agreement as though fully set forth herein. The text of the Chapter 12T is available on the web at <http://sfgov.org/olse/fco>. Contractor is required to comply with all of the applicable provisions of 12T, irrespective of the listing of obligations in this Section. Capitalized terms used in this Section and not defined in this Agreement shall have the meanings assigned to such terms in Chapter 12T.

10.14.2 The requirements of Chapter 12T shall only apply to a Contractor's or Subcontractor's operations to the extent those operations are in furtherance of the performance of this Agreement, shall apply only to applicants and employees who would be or are performing work in furtherance of this Agreement, and shall apply when the physical location of the employment or prospective employment of an individual is wholly or substantially within the City of San Francisco. Chapter 12T shall not apply when the application in a particular context would conflict with federal or state law or with a requirement of a government agency implementing federal or state law.

10.15 Reserved. (Public Access to Nonprofit Records and Meetings)

10.16 **Food Service Waste Reduction Requirements.** Contractor shall comply with the Food Service Waste Reduction Ordinance, as set forth in San Francisco Environment Code Chapter 16, including but not limited to the remedies for noncompliance provided therein.

10.17 Reserved. (Sugar-Sweetened Beverage Prohibition)

10.18 **Tropical Hardwood and Virgin Redwood Ban.** Pursuant to San Francisco Environment Code Section 804(b), the City urges Contractor not to import, purchase, obtain, or use for any purpose, any tropical hardwood, tropical hardwood wood product, virgin redwood or virgin redwood wood product.

10.19 Reserved. (Preservative Treated Wood Products)**Article 11 General Provisions**

11.1 **Notices to the Parties.** Unless otherwise indicated in this Agreement, all written communications sent by the Parties may be by U.S. mail or e-mail, and shall be addressed as follows:

To City: Shawn Peeters
Office of Contract Administration
1 Dr. Carlton B. Goodlett Place
City Hall, Room 430
San Francisco, CA 94102
email: shawn.peeters@sfgov.org

To Contractor: Kathy Perez, Director of Government Sales
En Pointe Technologies Sales, LLC
1 Market Street, Spear Towers, Suite 3619
San Francisco, CA 94105
1(800)819-7501
Kathy.perez@pcm.com

Any notice of default must be sent by registered mail. Either Party may change the address to which notice is to be sent by giving written notice thereof to the other Party. If email notification is used, the sender must specify a receipt notice.

11.2 Compliance with Americans with Disabilities Act. Contractor shall provide the Services in a manner that complies with the Americans with Disabilities Act (ADA), including but not limited to Title II's program access requirements, and all other applicable federal, state and local disability rights legislation.

11.3 Reserved.

11.4 Sunshine Ordinance. Contractor acknowledges that this Agreement and all records related to its formation, Contractor's performance of Services, and City's payment are subject to the California Public Records Act, (California Government Code §6250 et. seq.), and the San Francisco Sunshine Ordinance, (San Francisco Administrative Code Chapter 67). Such records are subject to public inspection and copying unless exempt from disclosure under federal, state or local law.

11.5 Modification of this Agreement. This Agreement may not be modified, nor may compliance with any of its terms be waived, except as noted in Section 11.1, "Notices to Parties," regarding change in personnel or place, and except by written instrument executed and approved in the same manner as this Agreement. Contractor shall cooperate with Department to submit to the Director of CMD any amendment, modification, supplement or change order that would result in a cumulative increase of the original amount of this Agreement by more than 20% (CMD Contract Modification Form).

11.6 Dispute Resolution Procedure.

11.6.1 Negotiation; Alternative Dispute Resolution. The Parties will attempt in good faith to resolve any dispute or controversy arising out of or relating to the performance of services under this Agreement. If the Parties are unable to resolve the dispute, then, pursuant to San Francisco Administrative Code Section 21.36, Contractor may submit to the Contracting Officer a written request for administrative review and documentation of the Contractor's claim(s). Upon such request, the Contracting Officer shall promptly issue an administrative decision in writing, stating the reasons for the action taken and informing the Contractor of its right to judicial review. If agreed by both Parties in writing, disputes may be resolved by a mutually agreed-upon alternative dispute resolution process. If the parties do not mutually agree to an alternative dispute resolution process or such efforts do not resolve the dispute, then either Party may pursue any remedy available under California law. The status of any dispute or controversy notwithstanding, Contractor shall proceed diligently with the performance of its obligations under this Agreement in accordance with the Agreement and the written directions of

the City. Neither Party will be entitled to legal fees or costs for matters resolved under this section.

11.6.2 Government Code Claim Requirement. No suit for money or damages may be brought against the City until a written claim therefor has been presented to and rejected by the City in conformity with the provisions of San Francisco Administrative Code Chapter 10 and California Government Code Section 900, et seq. Nothing set forth in this Agreement shall operate to toll, waive or excuse Contractor's compliance with the California Government Code Claim requirements set forth in San Francisco Administrative Code Chapter 10 and California Government Code Section 900, et seq.

11.7 Agreement Made in California; Venue. The formation, interpretation and performance of this Agreement shall be governed by the laws of the State of California. Venue for all litigation relative to the formation, interpretation and performance of this Agreement shall be in San Francisco.

11.8 Construction. All paragraph captions are for reference only and shall not be considered in construing this Agreement.

11.9 Entire Agreement. This contract sets forth the entire Agreement between the parties, and supersedes all other oral or written provisions. This Agreement may be modified only as provided in Section 11.5, "Modification of this Agreement."

11.10 Compliance with Laws. Contractor shall keep itself fully informed of the City's Charter, codes, ordinances and duly adopted rules and regulations of the City and of all state, and federal laws in any manner affecting the performance of this Agreement, and must at all times comply with such local codes, ordinances, and regulations and all applicable laws as they may be amended from time to time.

11.11 Severability. Should the application of any provision of this Agreement to any particular facts or circumstances be found by a court of competent jurisdiction to be invalid or unenforceable, then (a) the validity of other provisions of this Agreement shall not be affected or impaired thereby, and (b) such provision shall be enforced to the maximum extent possible so as to effect the intent of the parties and shall be reformed without further action by the parties to the extent necessary to make such provision valid and enforceable.

11.12 Cooperative Drafting. This Agreement has been drafted through a cooperative effort of City and Contractor, and both Parties have had an opportunity to have the Agreement reviewed and revised by legal counsel. No Party shall be considered the drafter of this Agreement, and no presumption or rule that an ambiguity shall be construed against the Party drafting the clause shall apply to the interpretation or enforcement of this Agreement.

11.13 Order of Precedence. Contractor agrees to perform the services described below in accordance with the terms and conditions of this Agreement, implementing TMTPOs, the RFP, Contractor's proposal dated August 8, 2018, and Contractor's proposal or bid in response to the Technology Marketplace Transaction solicitation. The RFP and Contractor's proposal are incorporated by reference as though fully set forth herein. Should there be a conflict of terms or conditions, this Agreement and any implementing TMTPOs shall control over the RFP and the Contractor's proposal.

Article 12 Department Specific Terms

12.1 **Reserved.**

Article 13 Data and Security

13.1 **Nondisclosure of Private, Proprietary or Confidential Information.**

13.1.1 If this Agreement or any TMTPO excuted hereto requires City to disclose "Private Information" to Contractor within the meaning of San Francisco Administrative Code Chapter 12M, Contractor and subcontractor shall use such information only in accordance with the restrictions stated in Chapter 12M and in this Agreement and only as necessary in performing the Services. Contractor is subject to the enforcement and penalty provisions in Chapter 12M.

13.1.2 In the performance of Services, Contractor may have access to City's proprietary or confidential information, the disclosure of which to third parties may damage City. If City discloses proprietary or confidential information to Contractor, such information must be held by Contractor in confidence and used only in performing the Agreement. Contractor shall exercise the same standard of care to protect such information as a reasonably prudent contractor would use to protect its own proprietary or confidential information.

13.2 **Reserved. (Payment Card Industry ("PCI") Requirements)**

13.3 **Reserved. (Business Associate Agreement)**

13.4

Article 14 Appendices

14.1 The following appendices of supplemental terms and conditions are hereby attached and incorporated into this Agreement as though fully set forth herein and together form the complete Agreement between the parties. Each Technology Marketplace Transaction will include specialized terms and conditions as required which may be in the forms attached in Appendix D, or in a form substantially similar to Appendix D.

- (a) Administrative Procedures and Requirements
- (b) RFP Documentation
- (c) Technology Marketplace Categories
- (d) Supplemental Terms and Conditions:
 - (i) P-530 Equipment Maintenance Template;
 - (ii) P-540 Software Maintenance Template;
 - (iii) P-542 Software Development Template;
 - (iv) P-545 Software Licensing Template;
 - (v) P-600 Professional Services Template; and
 - (vi) P-648 Software as a Service Template.

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Article 15 MacBride And Signature

MacBride Principles - Northern Ireland. The provisions of San Francisco Administrative Code §12F are incorporated herein by this reference and made part of this Agreement. By signing this Agreement, Contractor confirms that Contractor has read and understood that the City urges companies doing business in Northern Ireland to resolve employment inequities and to abide by the MacBride Principles, and urges San Francisco companies to do business with corporations that abide by the MacBride Principles.

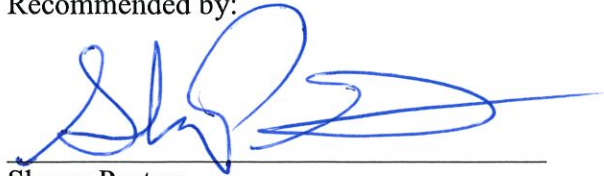
IN WITNESS WHEREOF, the parties hereto have executed this Agreement on the day first mentioned above.

CITY

CONTRACTOR

Recommended by:

En Pointe Technologies Sales, LLC



Shawn Peeters
Supervising Purchaser
Office of Contract Administration

Signature of Authorized Representative

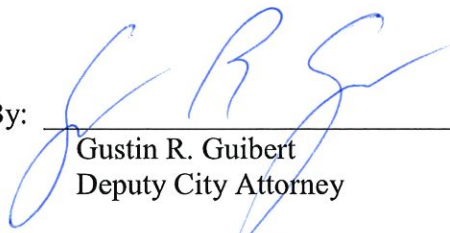
Simon Abuyounes
Name of Authorized Representative

Executive Vice President
Title

Approved as to Form:

Dennis J. Herrera
City Attorney

City Supplier ID: **0000020671**

By: 
Gustin R. Guibert
Deputy City Attorney

Approved:


Alaric Degraffried
Director of the Office of Contract Administration,
and Purchaser

Appendices

- A: Administrative Procedures and Requirements
- B: RFP Documentation
- C: Tech Marketplace Categories
- D: Supplemental Transaction Based Terms

Appendix A

Administrative Procedures and Requirements

The following is a general guide for procedures for ordering Products and Services under the Technology Marketplace. Although they should be similar, procedures are subject to change and this guide is not intended to be a complete list of all work necessary under the Agreement.

The Technology Marketplace is a pool of IT contractors that provide Products and/or Services to City departments on an as-needed basis. Contractor is responsible for responding to City's requests for quotations, bids or proposals for products and services. When a Technology Marketplace Transaction results in a TMTPO, Contractor shall be responsible for procuring the Product or Service and for ensuring that all Products are delivered and Services provided in accordance with the City's specifications, terms and conditions. TMTPO's are awarded to Technology Marketplace contractors in accordance with the policies of the Office of Contract Administration ("OCA") and applicable laws and regulations of City as they may be amended from time to time.

The Technology Marketplace Contractors are divided into three tiers and organized by the Product and service categories for which each has qualified. Competitive solicitations will occur within each tier among contractors in the tier. A competitive solicitation will be required for all Technology Marketplace Transactions greater than a \$10,000 threshold, which may be revised during the term of this Agreement. OCA and Ordering Departments may solicit quotations, bids or proposals from within particular tiers and categories. Tier 1 Transactions shall not exceed \$2,500,000 unless otherwise authorized by the Purchaser, which limit may be revised during the term of this Agreement at the sole discretion of the City. No transaction exceeding \$2,500,000 may be procured through the Technology Marketplace. Tier 2 Transactions shall not exceed \$220,000 for a Commodities transaction, \$110,000 for a Professional Services transaction, and \$600,000 for a General Services transaction. Tier 3 Transactions shall not exceed \$110,000 for a Commodities transaction, \$110,000 for a Professional Services transaction, and \$600,000 for a General Services transaction. Commodities, Professional and General Services are defined according to the definitions provided in Chapter 21 of the San Francisco Administrative Code. The foregoing transaction limits may be revised during the term of the contract at the sole discretion of the City.

A. Summary of the quotation and ordering process

This section describes generally how the day-to-day operations of the Technology Marketplace work. This guide is subject to change. Below is a summary of the current quotation and ordering process:

1. Typically, a City Department emails the appropriate Technology Marketplace Tier and requests competitive written quotations for products or services from three (3) or more contractors as outlined below:
 - a. High-dollar purchases are defined as those orders exceeding the Minimum Competitive Amount which is currently set at \$110,000.00.

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- b. The Minimum Competitive Amount could change during the life of the new contract.
 - c. For Product requests in excess of the Minimum Competitive Amount, Purchasing requires Departments to seek at least one Product Quotation from the Technology Marketplace, and OCA will perform a Request For Quotes (RFQ) amongst the appropriate Marketplace Tier.
 - d. For Service requests exceeding the Minimum Competitive Amount, Departments are required to perform a competitive Request For Proposals (RFP) amongst the appropriate Marketplace Tier. Additional Terms and Conditions, insurances, and subcontracting information may be required on a case by case basis.
 - e. For all Product requests below the Minimum Competitive Amount, but greater than \$10,000.00, Departments are to solicit competitive Product Quotes from at least three (3) contractors from the appropriate Tier, and OCA will process the request without further solicitation.
 - f. For all Service requests below the Minimum Competitive Amount, but greater than \$10,000.00, Departments are required to perform a competitive Request For Proposals (RFP) amongst the appropriate Marketplace Tier. Additional Terms and Conditions, insurances, and subcontracting information may be required on a case by case basis.
 - g. For all Product and Service orders below \$10,000.00, Departments are encouraged to solicit competitive quotations from the appropriate Tiered contractors, but must provide at least a single quotations from one of the appropriate Technology Marketplace contractors, and OCA will process the request without further solicitation..
 - h. For all appropriate Product & Service orders, Departments should first look to Micro LBEs in Tier 3 if possible for set aside contracting.
2. Under the conditions described above, the Contractor completes the quotation and e-mails it to the Department.
3. The Department submits the requisition supported by the quotations received to the Department of Technology (“DT”) for review. If the requisition contains any services, the request is sent to the Civil Service Commission or their designee for review and comment.
4. If a competitive bid is required, OCA will conduct the solicitation on behalf of the Department.
5. Once a requisition is approved, Purchasing creates the TMTPO in PeopleSoft and dispatches the PO to the contractor.
6. All requests for quotations, bids or proposals by a Department will be accompanied by special terms and conditions that apply to that particular procurement. Contractor may be required to execute a TMTPO containing additional contractual provisions as applicable and outlined in Appendix D.

B. Ordering, delivery, invoicing and related procedures**1. Preparing the Quotation**

Contractor must provide written responses to requests for quotes within 48 hours (excluding weekends) for products only, and within 7 days (excluding weekends) for products and services, with one of the following: a quote, request for an extension of time (which may or may not be granted), or “no bid”.

2. Ordering

a. Products and services shall be ordered by the City by means of a TMTPO. All orders must be approved and issued by Purchasing or as authorized by Purchasing in writing.

b. Contractors shall not accept verbal orders from Departments or any order that is not in PeopleSoft, the City’s Financial and Procurement System, on a [new term] approved by Purchasing. Contractors shall accept orders by dispatch via PeopleSoft, fax, or e-mail.

c. Within three working days after receipt of an order, the Contractor must verify the accuracy of the order and provide written or electronic notification of Contractor's acceptance or rejection of the order and delivery dates.

d. Contractor shall not accept orders from any Department that has had its ordering privileges suspended. A list of Departments receiving such suspensions will be furnished to the Contractor by Purchasing.

e. If an item is discontinued, the Contractor must notify Purchasing and the end user Department within three working days of receipt of an order or upon notification by the manufacturer or distributor (whichever comes first) that the order cannot be filled. The Contractor must not fill the order with a substitute item without the prior written approval of Purchasing. Items that are substituted without approval may be returned at no cost to the City and the order cancelled.

3. Delivery

a.. Contractor shall deliver products to Departments within ten City business days after receipt of the order, unless the product is not available from the manufacturer. Contractor must notify any Department placing an order within 72 hours if delivery of that order will be delayed beyond ten City business days. Contractor must keep Technology Marketplace customers apprised of changes in the delivery status of their delayed orders.

b. Contractor must deliver, free of charge, all products sold through the Technology Marketplace. All shipments of Products shall be made “FOB Destination” to all City delivery locations identified on the TMTPO. Some delivery locations may be outside of San Francisco City limits.

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c. Orders must be delivered in total, unless a prior written authorization for partial shipment has been received from the Technology Marketplace customer placing the order.

d. All Products shall be delivered inside the building designated in the TMTPO.

e. If the Contractor fails to deliver an article or service of the quality, in the manner or within the time called for by this Agreement or an individual order, then City may cancel the order at no cost to the City and acquire such article or service from any source. If City pays a greater price than that named in the Agreement or order for such article or service, the excess price may be charged to and collected from Contractor and/or from the financial guarantee provided by Contractor; or, the City may treat the failure as a default subject to all applicable rights and remedies under the Agreement; or, the City may return deliveries already made and receive a refund from Contractor.

4. Invoicing

Invoices may be submitted only after delivery is complete. Invoices must clearly state the terms of any "prompt pay" discount. A packing slip must be included with each shipment of products and must show the order number, a complete list of items delivered, and the Department name and contact person. The order number must also appear on the outside of the package.

5. Return rights

Contractors shall accept all Standard Products if they have not been opened, for return within thirty days of delivery and credit the customer in full. The City shall not pay any restocking fees. Standard Products are products from the product categories identified in the RFP. For all other products, Contractors may only pass through actual restocking fees incurred from a third party. Administrative costs and handling fees are not allowed.

6. Cancellation

Contractor must allow any order, other than orders of non-Standard Products, to be cancelled by the Department that placed the order 7 days prior to its scheduled delivery.

7. Title and Warranties

a. Warranty Service

Contractors shall transfer all warranties offered by manufacturers to the City on all products within 48 hours (excluding weekends) of delivery to City. The Contractor must also offer any additional warranty services offered by a manufacturer for purchase.

b. Passage of title

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Contractors must pass title of product purchased to the City within 48 hours (excluding weekends) of delivery and the City must be eligible for all benefits of ownership including free services provided under manufacturer's warranties within 48 hours (excluding weekends) of delivery of product. If after 48 hours the City cannot obtain service under the manufacturer's warranty, because title has not been properly passed to the City by the Contractor or the Contractor has not properly recorded ownership, the City shall immediately notify the Contractor. Contractor will have 24 hours to record title of the product properly, repair the product or replace the non-working product with a comparable working product. Failure to comply with any of the above may result in irreparable harm to the City and a \$100 per day liquidated damage will be assessed from the date that the issue is first reported by the City.

8. Software Licenses

All software licenses procured through the Technology Marketplace shall be passed on to the City within 48 hours (excluding weekends) of delivery and the City must be eligible for all benefits of ownership including free services provided under manufacturer's warranties within 48 hours (excluding weekends) of delivery of software license. Failure to comply with any of the above may result in irreparable harm to the City and a \$100 per day liquidated damage will be assessed from the date that the issue is first reported by the City.

C. Communications with the City

1. General communications with the City

a. Contractors must make reasonable efforts to respond to inquiries from City Departments within one business day. City inquiries may include requests for consultation, design, pricing, order status, product comparisons, compatibility information and return information.

b. Contractors must provide a toll-free number to accommodate telephone inquiries staffed by adequate personnel to provide prompt, courteous, and informed answers to customer inquiries within two hours of the customer's initial call. Contractors must offer a "Help Desk" option to Technology Marketplace clients.

2. E-mail

Contractors must provide E-mail communication capacity with the City. Such E-mail communication must be compatible with that used by the City and any public sector entities to which the Technology Marketplace Contract applies.

3. Account Manager

a. Contractors must provide an Account Manager to function as the single point of contact with the City at the Technology Marketplace. The Account Manager must be dedicated to servicing the City's account exclusively, and cannot be used to service other accounts of the

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Contractor. This person will be responsible for all aspects of the Agreement and its facilitation. The Account Manager must be available to the City by phone, fax and e-mail

b. The proposed Account Manager should meet with Purchasing at least once per month, or as the need arises, at no additional cost to the City to ensure that services continually meet the City's needs.

D. General product policies

1. New products

a. Contractors must sell only new products to the City. Contractors must offer the latest commercially available versions of any and all hardware and software sold to the City. The City will not accept "gray market products."

b. If the latest commercially available version is not provided at the time of an order, the version sold must be replaced with the latest version when it becomes available, giving the City full credit for the version that was temporarily supplied.

c. If a new product is no longer available, then a remanufactured product will only be considered upon prior written notification from Contractor to the City. A remanufactured product will not be shipped to the City unless Purchasing has issued a written letter of acceptance. Remanufactured equipment will only be accepted if it includes the full manufacturer's warranty, is eligible for inclusion under any applicable maintenance contracts and can be certified (as applicable) for maintenance purposes at no additional cost to the City.

2. Prohibited products and minimum specifications

From time to time, the City reserves the right to prohibit Contractor from selling to the City certain products, and to prohibit user Departments from purchasing the same. The City may also set minimum specifications for performance or energy efficiency that may be updated from time to time. Contractor will be required to provide products that comply with these specifications. A Contractor found to be selling products that do not comply with these specifications may be suspended from selling to the City under this Agreement for a period of up to 3 months.

3. Environmentally preferable product purchasing

a. The City wishes to ensure that its expenditures of public money are made in a manner consistent with its human health and environmental policies. A primary tool for meeting this goal is the purchase of environmentally preferable products, that is, products for which the environmental impacts have been considered and found to be less damaging to the environment and human health than competing products and services that serve the same purpose. The Precautionary Purchasing Ordinance (San Francisco Environment Code, Chapter 2) establishes the framework for environmentally preferable purchasing efforts in San Francisco.

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b. Computer equipment has been designated as a high priority product category for the City's environmentally preferable purchasing efforts. It is the intention of the City to contract with computer equipment vendors that are willing and able to work as active partners with City staff in promoting environmentally preferable purchasing. The City also wishes to reward vendors and manufacturers that are leaders in reducing the overall environmental impacts of their operations. Vendors selected to participate in this contract will be expected to maintain complete and easily accessible environmental information on their product offerings, including—but not limited to—listings of available equipment that meets the federal Electronic Products Environmental Assessment Tool (EPEAT) criteria, Energy Star® certified product offerings, and information necessary for completing the Federal Electronics Challenge Product Information Sheet. Vendors will be required to offer EPEAT silver- and gold-certified computer products as part of this contract. The City also intends to continually upgrade its environmental criteria for computer purchases.

E. Maintenance and Repair

All maintenance and repair work will be performed by qualified and trained personnel. Contractor must offer written quotes for all product repairs including an estimate of the time and cost of repairs.

F. Consulting and Professional services projects

1. General

a. The professional services category consists of services such as project management, software development, hardware and software installation, system design, training, and other professional services related to the deployment of technology. It excludes sales and routine maintenance of hardware and software.

b. A Contractor must submit a detailed Scope of Work defining any consulting or professional services project requested by a Department. The Scope of Work may be subject to approval by DT and may be subject to other reviews such as the Civil Service Commission or their designee before the project will be permitted to proceed. As applicable, the City may request that the project include a transition plan detailing how the project will eventually be transitioned to City personnel, including a designation of City employees and training plans.

c. Performance Bonds may be required by Ordering Departments on a project by project basis based on the level of risk associated with the project

2. Projects over \$110,000

a. The Contractor must submit the following to the requesting Department:

i. A detailed Scope of Work ("SOW") defining the project to be delivered to the Department.

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- ii. The SOW should include a schedule with agreed upon deliverables and milestones.
- iii. The SOW should designate any critical milestones that would be subject to liquidated damages for delay, if applicable.
- iv. The name of the project management software that will be used (such as MS Project).
- v. Estimated cost of sub-contractors and materials.
- vi. Training should be specified as a separate line item and deliverable.

Including:

- 01. A detailed description of the training and a list of skills that will be made available through the training to provide for the ongoing maintenance of said project.
- 02. Estimated timeframe for training.
- 03. Number of employees to be trained and the number of hours of training to be provided to each employee.
- 04. The cost associated with training.
- 05. Travel must conform to CONUS guidelines.

b. The Contractor must agree to 10% retention by the City on progress payments. The retention will be released for payment to the Contractor when the project is accepted by the Department. Progress payments will be linked to a specific deliverable or the meeting of a specific milestone.

c. The Contractor may be required to provide formal status reports during the life of the project. The format of the status report and the frequency of its preparation will be determined during the project approval process and will be dependent upon a number of variables such as:

- i. Estimated cost
- ii. Project complexity
- iii. Estimated time
- iv. Other aspects of the project deemed relevant by the City

d. Any consulting or personal services project that exceeds \$100,000 or is expected to require over 90 days to complete may require quarterly meetings that include representation from:

- i. The ordering Department
- ii. COIT and/or DT
- iii. Contract Monitoring Division (“CMD”)
- iv. The Technology Marketplace Contractor
- v. All project sub-Contractors

G. Cloud Services

Technology Marketplace Transactions for Cloud Services shall first be reviewed by the City's Chief Information Security Officer, Risk Management, and the Ordering Department's City Attorney, before they are presented to OCA for issuance of a TMTPO.

H. Pricing policies

1. Pricing

Purchases made within the Marketplace will be competitively solicited.

2. Pricing offered to other customers

Should a Contractor participate in any government, educational, or other special pricing program, e.g., CMAS, GSA, Western States Contracting Alliance, etc., the Contractor must make the same pricing available to the City.

3. Mandatory federal and state fees

Contractor shall be responsible for collecting applicable federal and state mandatory fees with no additional cost mark-up to City, and shall be responsible for remitting the fees to the appropriate agency, including, but not limited to, the California Electronic Waste Recycling Fee: http://www.boe.ca.gov/sptaxprog/electronic_waste_recycling_fee.htm .

4. Payment for Travel Expenses and Other Direct Costs (ODC)

The need for travel under this Agreement or ODCs shall be approved in advance of the date of travel in writing by a memo stating the dates of the travel, the purpose, the planned expenses by person, with the City's Project Manager's dated signature indicating approval. Reimbursable expenses shall include actual direct costs (with no mark up) of expenses directly incurred by Contractor. Payments will be made by City to Contractor within 30 days after the City has received Contractor's invoice for expenses, submitted in compliance with the United States General Services Administration per diem rates (CONUS) for San Francisco at <http://www.gsa.gov>.

The following items will be eligible for reimbursement as ODCs:

- a. Contractor's out-of-town travel ("out-of-town" shall mean outside the nine Bay Area counties: San Francisco, Alameda, Marin, Santa Clara, Sonoma, Contra Costa, Napa, San Mateo, Solano);
- b. Contractor's out-of-town meal, travel and lodging expenses for project-related business trips, including, but not limited to:

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Supplier Contract 1000012601

i. Rental vehicle: Contractor must select the most economical rental agency and type of vehicle available and acquire any commercial rate or government discount available when the vehicle is rented;

ii. Personal vehicle use: Contractor will be paid per mile as established by the United State Internal Revenue Service and only for that portion of travel that is outside the nine Bay Area counties. Contractor shall submit to the City an approved mileage log with his/her expense sheet;

iii. Contractor meal and lodging expenses shall be reasonable and actual but limited to CONUS per diem rates.

Anything not listed above is not eligible for reimbursement.

I. Cooperative Agreement

1. The Director of Purchasing may allow other public agencies or non-profit organizations made up of multiple public agencies to utilize this Agreement to obtain some or all of the commodities to be provided by Contractor under the same terms and conditions as the City.

2. With the exception of City, Contractor shall charge each public agency (the "Ordering Agency") that procures any goods or services under the Technology Marketplace an administrative fee in the amount of 1.9% on each transaction. Contractor shall pay the administrative fee irrespective of whether the Ordering Agency has paid the amount of the fee to Contractor. Contractor shall provide City a monthly report detailing each invoice for goods or services that Contractor submitted to an Ordering Agency. The City may modify the amount of the administrative fee for any fiscal year (July 1 to June 30).

3. Contractor agrees that this does not create a contractual relationship between City and any Ordering Agency, and that City shall have no liability to Contractor arising out of any agreement between Contractor and any Ordering Agency for goods or services under the Technology Marketplace.

J. Reports

1. Monthly sales reports

By the tenth day of each month, or the next workday thereafter, Contractors must deliver a report to Purchasing, of products and services sold the previous month, including: the type, quantity, manufacturer name, manufacturer's part number and description, price paid per item and name of Department. The City may make changes to the format or specifications for this report. The Contractor must comply with all such changes. Contractor shall prepare and submit additional reports in accordance with format and content specifications to be provided by Purchasing.

2. LBE report

Contractors must provide CMD with CMD Form 7 demonstrating LBE participation and CMD Form 9, if applicable, by the tenth day of each month or the next workday thereafter.

3. Proposed Subcontractors report

Prior to commencing work on any project involving the use of subcontractors, Contractors will submit a list of all proposed subcontractors to the ordering Department before that project can be approved by City. Contractor must submit supplemental subcontractor reports during the course of the project to show any substitution or addition of subcontractors. The substitution and addition will be subject to Department and City's approval. Please provide the following information for each sub-Supplier: name; address; telephone number; contact name; summary of work to be performed; and mark-up percentage.

K. Local Presence

Contractor shall have a business presence within the City and County of San Francisco for the duration of this Agreement. A "business presence" means an office, retail location, warehouse or service facility within the City limits, in a location that is not residentially zoned. Home offices or home warehouses will not be considered to satisfy this requirement. Firms certified by the Contract Monitoring Division as LBEs automatically meet this requirement. All of the Contractor's offices that are intended to support the requirements of this RFP must be open and its Technology Marketplace personnel must be available during normal working hours Monday through Friday (8 a.m. to 5 p.m.) except for official City holidays.

L. Green Purchasing Policies

Contractors must offer processes and commit to ensure compliance with City green purchasing requirements. Contractor must agree to comply with the City's Green Purchasing policies established by the Department of the Environment as updated from time to time.

1. Client Education: Contractor shall educate departments on environmentally preferable ('green') product offerings designated by the City at the following link:
<https://www.sfapproved.org/>.
2. Free Take Back and Recycling of Packaging Materials: Proposers shall offer free take back and recycling of packaging materials to City departments.

M. Refreshing the Marketplace

1. The Marketplace may periodically be re-opened to allow new vendors to apply to get into the Marketplace and to allow current vendors to propose new product and service categories requested by the City.
2. New Vendors

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Supplier Contract 1000012601

When the Marketplace is re-opened, it will be open to new vendors interested in joining the Marketplace. New vendors will go through the same evaluation and selection processes described in this RFP. Contracts awarded to new contractors will contain the same terms and conditions as the contracts awarded to original contractors, with the exception that the duration term of the new contracts may be limited to the duration term remaining on the original contracts at the time the new contracts are awarded, such that all contracts, those of original and new contractors, will end on the same date. New contractors may provide any allowable category within the Marketplace.

3. New Categories

The City may add new product and service categories to the Marketplace and allow existing and new contractors to apply for the new categories.

N. Incorporation

All terms and conditions in the Marketplace Agreement shall be incorporated into every Marketplace Transaction.

O. Marketplace Transactions Surviving the Term of this Agreement

1. Marketplace Transactions may extend beyond the term of the Agreement. In such situations, the terms and conditions of the Agreement shall be incorporated into the new term created under the Marketplace Agreements and shall survive the end of the contract term until the date agreed to in the new term.
2. At least ninety (90) days before the Agreement expires, the Contractor shall provide the City with a list of all Marketplace Transactions for which obligations extend beyond expiration of this Agreement. At City's direction, Contractor shall assign to City all of the Contractor's right, title, and interest that will not be fully executed or performed by the Agreement expiration date, including, without limitation, ongoing software licenses and software maintenance agreements not previously assigned to City. City shall have the right, in its sole discretion, to direct the Contractor to assign any and all such orders and subcontracts.

OCA TC 99400
Supplier Contract 1000012609

Appendix B
RFP Documents and Contractor's Response

The Revised RFP 99400 "Tiers 1 and 2 of the Technology Marketplace 2.0" dated June 20, 2018, all accompanying Addenda, and Contractor's proposal in response to the RFP, are incorporated herein by reference as though fully set forth herein.

OCA TC 99400
Supplier Contract 1000012609

Appendix C

Tech Marketplace Categories

Contractor has been qualified to provide products and/or services within the following categories of the Technology Marketplace:

1. Products
 - a. Cisco
 - b. Dell
 - c. HP
 - d. HPE
 - e. IBM
 - f. Juniper
 - g. Microsoft
 - h. VMWare
 - i. Other
2. Hardware Maintenance Services
3. Training Services
4. Professional Services
5. Cloud Services

Appendix D

Supplemental Transaction Based Terms

Agreements are to be executed as applicable on a per project or purchase basis, substantially in the form of the Technology Marketplace Term Sheet Templates found at the Office of Contract Administration's Resources website: <https://sfgov.org/oca/frequently-asked-questions-0> as may be modified in the future. Contractor acknowledges and agrees that the terms and conditions of the executed Technology Marketplace Term Sheet shall control over the applicable City purchases.

1. P-530 Equipment Maintenance Term Sheet Template;
2. P-540 Software Maintenance Term Sheet Template;
3. P-542 Software Development Term Sheet Template;
4. P-545 Software Licensing Term Sheet Template;
5. P-600 Professional Services Term Sheet Template; and
6. P-648 Software as a Service Term Sheet Template.

Appendix B

**Agreement and Plan of Merger by and Among Insight Enterprises Inc., Trojan Acquisition Corp. and
PCM, Inc. dated June 23, 2019**

Exhibit 21

SUBSIDIARIES OF THE REGISTRANT**SUBSIDIARY**

3683371 Canada, Inc.
 Abreon, LLC
 Action Computer Supplies Limited (Dormant)
 Action Ltd. (Dormant)
 Bear Data Solutions HK Ltd (Dormant)
 Bear Data Solutions Pte Ltd (Dormant)
 Bear Data Solutions UK Ltd (Dormant)
 BlueMetal Architects, Inc.
 Caase Group BV
 Caase Services BV
 Calence, LLC
 Calence Physical Security Solutions, LLC
 Cardinal Solutions Group, Inc.
 Cardinal Solutions Group-Florida, LLC
 Cardinal Solutions Group-Georgia, LLC
 Cardinal Solutions Group-North Carolina, LLC
 Cardinal Solutions Group-Tennessee, LLC
 Computers by Post Limited (Dormant)
 Datalink Holding LLC (Dormant)
 Datalink Nevada LLC (Dormant)
 Docufile Limited (Dormant)
 DSI Data Systems International Limited (Dormant)
 En Pointe Technology Sales, LLC
 Fraser Associates Ltd (Dormant)
 Ignia Pty Ltd
 Insight Australia Holdings Pty Ltd
 Insight Canada Holdings, Inc.
 Insight Canada Inc.
 Insight Consulting Services, LLC
 Insight Data Technologies Ltd
 Insight Deutschland GmbH & Ko KG (Dormant)
 Insight Development Corp Limited (Dormant)
 Insight Direct (GB) Limited (Dormant)
 Insight Direct (UK) Limited
 Insight Direct Canada, Inc.
 Insight Direct Services Limited (Dormant)
 Insight Direct USA, Inc.
 Insight Direct Worldwide, Inc.
 Insight Enterprises Australia Pty Limited
 Insight Enterprises BV
 Insight Enterprises CV
 Insight Enterprises UK, Ltd.
 Insight Enterprises Holdings BV
 Insight Enterprises Hong Kong
 Insight Enterprises Netherlands BV
 Insight Enterprises (NZ) Limited
 Insight Enterprises (Shanghai) Co. Ltd
 Insight Holding (Deutschland) GmbH (Dormant)
 Insight Managed Services, S.L.
 Insight Marketing GmbH (Dormant)

**STATE OR OTHER JURISDICTION OF
INCORPORATION OR ORGANIZATION**

Canada
 Delaware
 United Kingdom
 United Kingdom
 Hong Kong
 Singapore
 United Kingdom
 Delaware
 Netherlands
 Netherlands
 Delaware
 Arizona
 Ohio
 Florida
 Georgia
 North Carolina
 Tennessee
 United Kingdom
 California
 Nevada
 United Kingdom
 United Kingdom
 Delaware
 United Kingdom
 Australia
 Australia
 Arizona
 Ontario
 Arizona
 Ireland
 Germany
 United Kingdom
 United Kingdom
 United Kingdom
 Canada
 United Kingdom
 Illinois
 Arizona
 Australia
 Netherlands
 Netherlands
 United Kingdom
 Netherlands
 Hong Kong
 Hong Kong
 Netherlands
 New Zealand
 China
 Germany
 Spain
 Germany

Insight Networking Solutions Ltd
Insight North America, Inc.
Insight Public Sector, Inc.
Insight Receivables Holding, LLC
Insight Receivables, LLC
Insight Stadium Services, LLC (Dormant)
Insight Technology Solutions AB
Insight Technology Solutions AG
Insight Technology Solutions ApS
Insight Technology Solutions BVBA (Dormant)
Insight Technology Solutions GmbH
Insight Technology Solutions GmbH
Insight Technology Solutions, Inc.
Insight Technology Solutions, Inc.
Insight Technology Solutions NUF
Insight Technology Solutions Oy
Insight Technology Solutions Pte Ltd
Insight Technology Solutions SAS
Insight Technology Solutions S.L.
Insight Technology Solutions SRL
Insight Technology Solutions s.r.o. (Dormant)
Insight UK Acquisitions Limited (Dormant)
M2 Marketplace, Inc.
Minx Limited (Dormant)
MV Sub, Inc. (Dormant)
OnSale Holdings, Inc.
PC Wholesale Ltd (Dormant)
PCM, Inc.
PCM BPO, LLC
PCM Logistics, LLC
PCM Sales, LLC
PCM Sales Canada, Inc.
PCM Technology Solutions UK, Ltd
PCMG, Inc.
Pulse Building Limited (Dormant)
Software Spectrum Holdings Limited (Dormant)
Software Spectrum (UK) Limited (Dormant)
Software Spectrum Services BV (Dormant)
SSI Britain Limited (Dormant)
STI Acquisition (Dormant)

United Kingdom
Arizona
Illinois
Illinois
Illinois
Arizona
Sweden
Switzerland
Denmark
Belgium
Austria
Germany
Delaware
Belgium
Norway
Finland
Singapore
France
Spain
Italy
Czech Republic
United Kingdom
Delaware
United Kingdom
Minnesota
Illinois
United Kingdom
Delaware
Delaware
Delaware
Delaware
Quebec
United Kingdom
Delaware
United Kingdom
United Kingdom
United Kingdom
Netherlands
United Kingdom
Minnesota

Appendix C

**A signed and authenticated Agreement and Plan of Merger by and among Insight Enterprises Inc.,
Trojan Acquisition Corp. and PCM, Inc. dated June 23, 2019**

EXECUTION VERSION

AGREEMENT AND PLAN OF MERGER

by and among

INSIGHT ENTERPRISES, INC.,

TROJAN ACQUISITION CORP.

and

PCM, INC.

Dated as of June 23, 2019

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AGREEMENT AND PLAN OF MERGER

This AGREEMENT AND PLAN OF MERGER (this “**Agreement**”), dated as of June 23, 2019, is by and among Insight Enterprises, Inc., a Delaware corporation (“**Parent**”), Trojan Acquisition Corp., a Delaware corporation and a wholly-owned Subsidiary of Parent (“**Merger Sub**”), and PCM, Inc., a Delaware corporation (the “**Company**,” with the Company and Merger Sub sometimes being hereinafter collectively referred to as the “**Constituent Corporations**”).

RECITALS

WHEREAS, the parties intend that, on the terms and subject to the conditions set forth in this Agreement, Merger Sub shall merge with and into the Company (the “**Merger**”), with the Company surviving the Merger, pursuant to and in accordance with the provisions of the General Corporation Law of the State of Delaware (the “**DGCL**”);

WHEREAS, the board of directors of Parent has unanimously approved and declared advisable this Agreement, the Voting Agreement, and the transactions contemplated hereby and thereby, including the Merger, and determined that this Agreement, the Voting Agreement and the transactions contemplated hereby and thereby, including the Merger are fair to and in the best interests of Parent;

WHEREAS, the board of directors of Merger Sub has unanimously (a) approved and declared advisable this Agreement and the Voting Agreement and the transactions contemplated hereby and thereby, including the Merger, (b) determined that this Agreement and the Voting Agreement and the transactions contemplated hereby and thereby, including the Merger, are fair to and in the best interests of Merger Sub and Parent (as Merger Sub’s sole stockholder), and (c) resolved to recommend that Parent (as Merger Sub’s sole stockholder) adopt this Agreement;

WHEREAS, the board of directors of the Company (the “**Company Board**”) has unanimously (a) (i) determined that this Agreement and the Voting Agreement and the transactions contemplated hereby and thereby, including the Merger, are fair to, and in the best interests of, the Company and its stockholders, (ii) approved and declared advisable this Agreement and the Voting Agreement and the transactions contemplated hereby and thereby, including the Merger, and (iii) resolved to recommend that the holders of shares of common stock of the Company, par value \$0.001 per share (“**Shares**”), adopt this Agreement; and (b) directed that this Agreement be submitted to the holders of Shares for their adoption;

WHEREAS, concurrently with the execution and delivery of this Agreement, as a condition and inducement to Parent’s and Merger Sub’s willingness to enter into this Agreement, each of the stockholders of the Company listed on Annex B hereto, including each of the members of the Company Board, as beneficial owners of Shares representing, in the aggregate, twenty-three percent of the issued and outstanding Shares as of the date of this Agreement, is entering into a voting agreement of even date herewith in favor of Parent (the “**Voting Agreement**”), which is attached hereto as Exhibit A, pursuant to which, among other things,

such Persons have agreed to vote the Shares beneficially owned by each of them in favor of the adoption of this Agreement as more particularly set forth therein;

WHEREAS, the Company Board has taken all action so that, assuming the representations set forth in Section 5.2(g) are true, Parent will not be an “interested stockholder” or prohibited from entering into or consummating a “business combination” with the Company (in each case as such term is used in Section 203 of the DGCL) as a result of the execution of this Agreement or the Voting Agreement or the consummation of the transactions contemplated hereby or thereby, including the Merger, in the manner contemplated hereby or thereby; and

WHEREAS, Parent, Merger Sub and the Company desire to make certain representations, warranties, covenants and agreements in connection with this Agreement and to set forth certain conditions to the Merger.

NOW, THEREFORE, in consideration of the representations, warranties, covenants and agreements set forth in this Agreement, the parties, intending to be legally bound, agree as follows:

ARTICLE I

The Merger; Closing; Effective Time

1.1. The Merger. Upon the terms and subject to the conditions set forth in this Agreement, at the Effective Time, Merger Sub shall be merged with and into the Company and the separate existence of Merger Sub shall thereupon cease. The Company shall be the surviving corporation in the Merger (sometimes hereinafter referred to as the “**Surviving Corporation**”) and, following the Merger, shall be a wholly-owned Subsidiary of Parent, and the separate existence of the Company, with all of its rights, privileges, immunities, powers and franchises, shall continue unaffected by the Merger, except as set forth in this Agreement. The Merger shall have the effects specified in this Agreement and in the DGCL.

1.2. Closing. Unless otherwise mutually agreed in writing between the Company and Parent, the closing of the Merger (the “**Closing**”) shall take place at the offices of Sullivan & Cromwell LLP, 125 Broad Street, New York, New York, 10004, at 9:00 a.m. (New York time) on the third Business Day (the “**Closing Date**”) following the day on which the last to be satisfied or waived of the conditions set forth in Article VII (other than those conditions that by their nature are to be satisfied at the Closing, but subject to the satisfaction or waiver of those conditions) shall be satisfied or waived in accordance with this Agreement; provided, however, that (i) if the Marketing Period has not ended at the time of the satisfaction or waiver of the conditions set forth in Article VII (other than those conditions that by their nature are to be satisfied at the Closing, but subject to the satisfaction or waiver of those conditions), the Closing Date shall occur instead on the earlier to occur of (x) a date during the Marketing Period specified by Parent on no less than three (3) Business Days’ notice to the Company and (y) the third (3rd) Business Day after the end of the Marketing Period (subject in each case to the satisfaction or waiver (by the party entitled to grant such waiver) of all the conditions set forth in Article VII for the Closing as of the date determined pursuant to this proviso) and (ii) if the

Closing Date would otherwise occur on any of the following dates: July 30, 2019 through and including August 2, 2019 and August 29, 2019 through and including September 5, 2019, then the Closing Date shall not occur until the first Business Day following August 2, 2019 or September 5, 2019, as applicable. For purposes of this Agreement, the following terms have the following meanings:

“**Business Day**” means any day ending at 11:59 p.m. (New York time) (other than a Saturday or Sunday) on which the Department of State of the State of Delaware and banks in the County of New York, New York are open for general business.

“**Marketing Period**” shall mean the first period of 15 consecutive Business Days commencing on July 15, 2019; provided, that if the Marketing Period shall not have been completed on or prior to August 16, 2019, then the Marketing Period shall not commence until September 3, 2019.

1.3. Effective Time. As soon as practicable following, and on the date of, the Closing, the Company and Parent will cause a Certificate of Merger (the “**Certificate of Merger**”) to be executed, acknowledged and filed with the Secretary of State of the State of Delaware as provided in Section 251 of the DGCL. The Merger shall become effective at the time when the Certificate of Merger has been duly filed with the Secretary of State of the State of Delaware or at such later time as may be agreed by the parties in writing and specified in the Certificate of Merger (the “**Effective Time**”).

ARTICLE II

Certificate of Incorporation and Bylaws of the Surviving Corporation

2.1. Certificate of Incorporation of the Surviving Corporation. At the Effective Time, the certificate of incorporation of the Surviving Corporation (the “**Charter**”) shall be amended and restated in its entirety to read as set forth in Exhibit B to this Agreement, until thereafter amended, restated or amended and restated as provided therein or as provided by applicable Law.

2.2. Bylaws of the Surviving Corporation. Except as to the name of the Surviving Corporation, which shall be “PCM, Inc.”, the bylaws of Merger Sub in effect immediately prior to the Effective Time shall be the bylaws of the Surviving Corporation (the “**Bylaws**”) until thereafter duly amended, restated or amended and restated as provided therein or as provided by applicable Law.

ARTICLE III

Directors and Officers of the Surviving Corporation

3.1. Directors of the Surviving Corporation. The parties hereto shall take all actions necessary so that the directors of Merger Sub at the Effective Time shall, from and after the Effective Time, be the directors of the Surviving Corporation until their successors have been

duly elected or appointed and qualified or until their earlier death, resignation or removal in accordance with the Charter and the Bylaws and applicable Law.

3.2. Officers of the Surviving Corporation. The parties hereto shall take all actions necessary so that the individuals designated in writing by the Parent prior to the Effective Time shall, from and after the Effective Time, be the officers of the Surviving Corporation until their successors have been duly elected or appointed and qualified or until their earlier death, resignation or removal in accordance with the Charter and the Bylaws and applicable Law.

ARTICLE IV

Effect of the Merger on Capital Stock; Exchange of Share Certificates

4.1. Effect on Capital Stock. At the Effective Time, as a result of the Merger and without any action on the part of the holder of any capital stock of the Company:

(a) Merger Consideration. Each Share issued and outstanding immediately prior to the Effective Time (other than (i) Shares owned by Parent, Merger Sub or any other direct or indirect wholly-owned Subsidiary of Parent and Shares owned by the Company or any direct or indirect wholly-owned Subsidiary of the Company, and in each case not held on behalf of third parties and (ii) Shares that are owned by stockholders of the Company who have perfected and not withdrawn a demand for appraisal rights pursuant to Section 262 of the DGCL (the Shares referred to in this clause (ii), “**Dissenting Shares**”, the holders of such Shares, “**Dissenting Stockholders**,” and the Dissenting Shares together with the Shares referred to in clause (i), “**Excluded Shares**”)) shall be converted into the right to receive \$35.00 per Share in cash, without interest (the “**Per Share Merger Consideration**”). At the Effective Time, each Share converted into the right to receive the Per Share Merger Consideration pursuant to this Section 4.1(a) shall cease to be outstanding, shall be cancelled and shall cease to exist as of the Effective Time, and each certificate formerly representing any of the Shares (other than Excluded Shares) (each, a “**Share Certificate**”) and each book entry account formerly representing any non-certificated Shares (other than Excluded Shares) (each, a “**Book Entry Share**”) shall thereafter represent only the right to receive the Per Share Merger Consideration in respect of each Share represented thereby, without interest.

(b) Cancellation of Excluded Shares. Each Excluded Share shall, as a result of the Merger and without any action on the part of the holder of such Excluded Share, cease to be outstanding, be cancelled without payment of any consideration therefor and shall cease to exist, subject to any rights any Dissenting Stockholder may have pursuant to Section 4.2(g) with respect to any Excluded Shares that are Dissenting Shares.

(c) Merger Sub. Each share of common stock, par value \$0.01 per share, of Merger Sub issued and outstanding immediately prior to the Effective Time shall be converted into one share of common stock, par value \$0.01 per share, of the Surviving Corporation.

4.2. Exchange of Share Certificates; Surrender of Book Entry Shares.

(a) Appointment of Paying Agent. Prior to the Effective Time, Parent and Merger Sub shall appoint a bank or trust company reasonably acceptable to the Company to serve as the paying agent (the “**Paying Agent**”) and shall enter into an agreement reasonably acceptable to the Company relating to the Paying Agent’s responsibilities with respect to this Agreement.

(b) Deposit of Merger Consideration. At or prior to the Effective Time, Parent or Merger Sub shall deposit, or cause to be deposited, with the Paying Agent, cash in U.S. Dollars in immediately available funds sufficient in the aggregate to provide all funds necessary for the Payment Agent to make payments in respect of Shares (other than Excluded Shares) pursuant to Section 4.1(a) (such cash being hereinafter referred to as the “**Payment Fund**”). The Payment Fund shall not be used for any purpose other than a purpose expressly provided for in this Agreement. Pending its disbursement in accordance with this Section 4.2, the Payment Fund shall be invested by the Paying Agent, if and as directed by Parent. Any such investment, if made, must be made in (i) short-term direct obligations of the United States of America, (ii) short-term obligations for which the full faith and credit of the United States of America is pledged to provide for the payment of principal and interest, (iii) short-term commercial paper rated the highest quality by either Moody’s Investors Service, Inc. or Standard and Poor’s Ratings Services or (iv) certificates of deposit, bank repurchase agreements or banker’s acceptances of commercial banks with capital exceeding \$1 billion. Parent shall or shall cause the Surviving Corporation to promptly replace or restore the cash in the Payment Fund so as to ensure that the Payment Fund is at all times maintained at a level sufficient for the Paying Agent to make all payments of the aggregate Per Share Merger Consideration as contemplated by Section 4.1(a). No investment losses resulting from investment of the funds deposited with the Paying Agent shall diminish the rights of any holder of Shares to receive the Per Share Merger Consideration in respect of each Share (other than any Excluded Share) as provided herein. Payments to holders in respect of Company Options and Company RSUs shall be paid through the Surviving Corporation’s applicable payroll procedures at or as soon as practicable following the Effective Time.

(c) Procedures for Surrender.

(i) Promptly after the Effective Time (and in any event within three Business Days thereafter), the Surviving Corporation shall cause the Paying Agent to mail to each holder of record of Shares (other than Excluded Shares) (A) a notice advising such holders of the effectiveness of the Merger, (B) a letter of transmittal in customary form specifying that delivery shall be effected, and risk of loss and title shall pass, only upon delivery of the Share Certificates (or affidavits of loss in lieu of the Share Certificates as provided in Section 4.2(f)) or transfer of the Book Entry Shares to the Paying Agent (including customary provisions with respect to delivery of an “agent’s message” with respect to Book Entry Shares) to the Paying Agent (the “**Letter of Transmittal**”), and (C) instructions for effecting the surrender of the Share Certificates (or affidavits of loss in lieu of the Share Certificates as provided in Section 4.2(f)) or the Book Entry Shares to the Paying Agent in exchange for payment of the amount (after giving effect to any required Tax withholdings as provided in Section 4.2(h)) of cash that such holder has the right to receive pursuant to Section 4.1(a).

(ii) Upon surrender to the Paying Agent of Share Certificates (or affidavits of loss in lieu of the Share Certificates as provided in Section 4.2(f)) or Book Entry Shares, together with, in the case of Share Certificates, the Letter of Transmittal, duly completed and validly executed in accordance with the instructions thereto, or, in the case of Book Entry Shares held through the Depositary Trust Company, receipt of an “agent’s message” by the Paying Agent, and such other documents as may be reasonably required by the Paying Agent, the holder of such Share Certificates or Book Entry Shares shall be entitled to receive in exchange therefor, and the Paying Agent shall be required to deliver to each such holder, a check in the amount (after giving effect to any required Tax withholdings as provided in Section 4.2(h)) of cash that such holder has the right to receive pursuant to Section 4.1(a).

(iii) No interest will be paid or accrued on any amount payable upon surrender of any Shares.

(iv) In the event of a transfer of ownership of Shares (other than Excluded Shares) represented by a Share Certificate or Share Certificates that is not registered in the stock transfer books and records of the Company or if the consideration payable is to be paid in a name other than that in which the Share Certificate or Share Certificates surrendered or transferred in exchange therefor registered in the stock transfer books and records of the Company, a check for any cash to be paid upon due surrender of the Share Certificate or Share Certificates may be issued to such transferee if the Share Certificate or Share Certificates formerly representing such Shares are duly endorsed and otherwise in proper form for surrender and presented to the Paying Agent, accompanied by all documents reasonably required to evidence and effect such transfer and to evidence that any applicable stock transfer Taxes have been paid or are not applicable, in each case, in form and substance reasonably satisfactory to the Paying Agent. Payment of the Per Share Merger Consideration in respect of Book Entry Shares shall only be made to the Person in whose name such Book Entry Shares are registered in the transfer books and records of the Company.

(d) Transfers. From and after the Effective Time, there shall be no transfers on the stock transfer books and records of the Company of the Shares that were outstanding immediately prior to the Effective Time.

(e) Termination of Payment Fund. Any portion of the Payment Fund that remains unclaimed by, or otherwise undistributed to, the holders of Share Certificates and Book Entry Shares by the one-year anniversary of the Effective Time shall be delivered to the Surviving Corporation. Any holder of Shares (other than Excluded Shares) who has not theretofore complied with this Article IV shall thereafter look only to the Surviving Corporation for payment of the Per Share Merger Consideration (after giving effect to any required Tax withholdings as provided in Section 4.2(h)) in respect thereof upon delivery of the Share Certificates (or affidavits of loss in lieu of the Share Certificates as provided in Section 4.2(f)) or surrender of Book Entry Shares, without any interest thereon. Notwithstanding the foregoing, none of the Surviving Corporation, Parent, the Paying Agent or any other Person shall be liable to any former holder of Shares for any amount properly delivered to a public official pursuant to applicable abandoned property, escheat or similar Laws. To the fullest extent permitted by Law, immediately prior to the date any Per Share Merger Consideration would otherwise escheat to or

become the property of any Governmental Authority, such Per Share Merger Consideration shall become the property of the Surviving Corporation, free and clear of all claims or interest of any Person previously entitled thereto. For the purposes of this Agreement, the term “**Person**” means any individual, corporation (including not-for-profit), general or limited partnership, limited liability company, joint venture, estate, trust, association, organization, Governmental Authority or other entity of any kind or nature.

(f) Lost, Stolen or Destroyed Share Certificates. In the event any Share Certificate shall have been lost, stolen or destroyed, upon the making of an affidavit of that fact by the Person claiming such Share Certificate to be lost, stolen or destroyed and, if required by Parent or the Paying Agent pursuant to the Paying Agent Agreement or otherwise, the posting by such Person of a bond, in such reasonable and customary amount as Parent may direct, sufficient to indemnify Parent and the Surviving Corporation against any claim that may be made against Parent or the Surviving Corporation with respect to such Share Certificate, the Paying Agent will issue in exchange for such lost, stolen or destroyed Share Certificate a check in the amount (after giving effect to any required Tax withholdings as provided in Section 4.2(h)) equal to the number of Shares (other than Excluded Shares) represented by such lost, stolen or destroyed Share Certificate multiplied by the Per Share Merger Consideration.

(g) Appraisal Rights. No Dissenting Stockholder shall be entitled to receive the Per Share Merger Consideration with respect to any Dissenting Share owned by such Dissenting Stockholder. Each Dissenting Stockholder shall be entitled to receive only the payment provided by Section 262 of the DGCL with respect to the Dissenting Shares owned by such Dissenting Stockholder and such Dissenting Stockholder shall cease to have any other rights with respect to such Dissenting Shares. The Company shall give Parent (i) prompt notice and copies of any written demands for appraisal of Shares, actual, attempted or purported withdrawals of such demands and any other instruments served pursuant to (or purportedly pursuant to) applicable Law that are received by the Company relating to the Company’s stockholders’ demands of appraisal after receipt thereof by the Company, and (ii) shall give Parent the opportunity to direct and participate in all negotiations and proceedings with respect to such demands. The Company shall not, except with the prior written consent of Parent, schedule any meeting or make any voluntary payment with respect to any such demands for appraisal or offer to settle or settle any such demands.

(h) Withholding Rights. Each of Parent, the Company, Merger Sub, the Surviving Corporation and the Paying Agent, as applicable (each a “**Withholding Agent**”), shall be entitled to deduct and withhold from the consideration otherwise payable pursuant to this Agreement such amounts as it is required to deduct and withhold with respect to the making of such payment under the Internal Revenue Code of 1986, as amended (the “**Code**”), or any other applicable federal, state, local or foreign Tax Law. To the extent that amounts are so withheld by a Withholding Agent, such withheld amounts (i) shall be timely remitted by such Withholding Agent to the applicable Governmental Authority and (ii) shall be treated for all purposes of this Agreement as having been paid to the Person in respect of which such deduction and withholding was made to the extent such withheld amounts are remitted to the appropriate Governmental Authority, and no Withholding Agent shall be required to pay any additional amounts with respect to such deducted or withheld amounts.

4.3. Treatment of Stock-Based Awards.

(a) Treatment of Company Options. At the Effective Time, each outstanding option to purchase Shares under the Stock Plans (a “Company Option”), whether vested or unvested, shall, automatically and without any action on the part of the holder thereof be deemed to be vested, be cancelled and shall only entitle the holder of such Company Option to receive (without interest), at or as soon as reasonably practicable after the Effective Time, an amount in cash equal to the product of (i) the number of unexercised Shares subject to the Company Option immediately prior to the Effective Time multiplied by (ii) the excess, if any, of (A) the Per Share Merger Consideration over (B) the exercise price per Share of such Company Option. For purposes of the calculation set forth in the preceding sentence, the vesting of any Company Option subject to performance conditions shall be fully accelerated and deemed achieved contingent and effective upon the Closing. For the avoidance of doubt, any Company Option which has an exercise price per Share that is greater than or equal to the Per Share Merger Consideration shall be cancelled at the Effective Time for no consideration or payment.

(b) Treatment of Company RSUs. At the Effective Time, each outstanding restricted stock unit under the Stock Plans (a “Company RSU”), whether vested or unvested, shall, automatically and without any action on the part of the holder thereof be deemed to be vested, be cancelled and shall only entitle the holder of such Company RSU to receive, at or as soon as reasonably practicable after the Effective Time, an amount in cash equal to the Per Share Merger Consideration plus any accrued and unpaid dividend equivalents with respect to such Company RSU; provided, that, with respect to any Company RSUs that constitute nonqualified deferred compensation subject to Section 409A of the Code and that are not permitted to be paid at the Effective Time without triggering a Tax or penalty under Section 409A of the Code, such payment shall be made at the earliest time permitted under the applicable Stock Plan and award agreement that will not trigger a Tax or penalty under Section 409A of the Code.

(c) Corporate Actions. At or prior to the Effective Time, the Company, the Company Board and the compensation committee of the Company Board, as applicable, shall adopt any resolutions and take any actions that are necessary to effectuate the treatment of the Company Options and the Company RSUs, in each case, pursuant to Section 4.3(a) and Section 4.3(b), including obtaining the acknowledgements set forth on Section 4.3(c) of the Company Disclosure Schedule. The Company shall take all actions necessary to ensure that, from and after the Effective Time, neither Parent nor the Surviving Corporation will be required to deliver Shares or other capital stock of the Company to any Person pursuant to or in settlement of Company Options or Company RSUs. The Surviving Corporation shall, subject to Section 4.2(h), pay through its payroll systems the amounts due in respect of Company Options and Company RSUs pursuant to Section 4.3(a) and Section 4.3(b).

4.4. Adjustments to Prevent Dilution. Notwithstanding anything in this Agreement to the contrary, if, from the date of this Agreement to the earlier of the Effective Time and termination of this Agreement in accordance with Article VIII, the number of Shares or securities convertible or exchangeable into or exercisable for Shares shall have been changed into a different number of Shares or securities, or a different class, by reason of any reclassification, stock split (including a reverse stock split), stock dividend or distribution,

recapitalization or other similar transaction the Per Share Merger Consideration shall be equitably adjusted to provide the holders of Shares, Company Options and Company RSUs the same economic effect as contemplated by this Agreement prior to such event; provided, however, that nothing in this Section 4.4 shall be construed to permit the Company or any Subsidiary of the Company to take any action otherwise prohibited by the terms of this Agreement.

ARTICLE V

Representations and Warranties

5.1. Representations and Warranties of the Company. Except as set forth in the Company Reports filed by the Company with the SEC since January 1, 2018 and publicly available prior to the date of this Agreement (excluding, in each case, any disclosures set forth in any risk factor or in any other section thereof to the extent they are cautionary, predictive or forward-looking in nature, except to the extent such information consists of factual historical or current statements) or in the correspondingly numbered sections or subsections of the disclosure schedule delivered to Parent and Merger Sub by the Company immediately prior to the execution of this Agreement (the “**Company Disclosure Schedule**”) (it being agreed that disclosure of any item in any section or subsection of the Company Disclosure Schedule shall be deemed disclosure with respect to any other section or subsection to the extent (and only to the extent) that the relevance of such item is reasonably apparent on the face of such disclosure), the Company hereby represents and warrants to Parent and Merger Sub that:

(a) Organization, Good Standing and Qualification. The Company is a legal entity duly incorporated, validly existing and in good standing under the Laws of the State of Delaware and has all requisite corporate power and authority to own, lease and operate its properties and assets and to carry on its business as presently conducted. The Company is qualified to do business and is in good standing in each jurisdiction where the ownership, leasing or operation of its assets or properties or conduct of its business requires such qualification, except where the failure to be so qualified or in good standing would not reasonably be expected to have, individually or in the aggregate, a Material Adverse Effect. Each of the Company’s Subsidiaries and each joint venture entity set forth in Section 5.1(a) of the Company Disclosure Schedule (each, a “**Joint Venture Entity**”) is a legal entity duly organized, validly existing and in good standing (with respect to jurisdictions that recognize such concept or a similar concept) under the Laws of its respective jurisdiction of organization and has all requisite corporate or similar power and authority to own, lease and operate its properties and assets and to carry on its business as presently conducted and is qualified to do business and is in good standing as a foreign corporation or other legal entity in each jurisdiction where the ownership, leasing or operation of its assets or properties or conduct of its business requires such qualification, except where the failure to be so organized, existing, qualified or in good standing, or to have such power or authority, would not reasonably be expected to have, individually or in the aggregate, a Material Adverse Effect. The Company has made available to Parent, prior to the date of this Agreement, true, correct and complete copies of each of the Company’s Subsidiaries’ and each Joint Venture Entity’s certificate of incorporation and bylaws or comparable governing

documents, each as amended to the date of this Agreement, and each, as so disclosed, is in full force and effect.

As used in this Agreement: (i) the term “**Subsidiary**” means, with respect to any Person, any other Person of which at least a majority of the securities or ownership interests having by their terms ordinary voting power to elect a majority of the board of directors or other persons performing similar functions is directly or indirectly owned or controlled by such Person and/or by one or more of its Subsidiaries and (ii) the term “**Material Adverse Effect**” means any effect, change, event, condition, occurrence, development or state of facts or circumstances that, individually or in the aggregate, has had or would reasonably be expected to have, a material adverse effect on the business, financial condition, properties, assets, liabilities, or results of operations of the Company and its Subsidiaries, taken as a whole; provided, however, that no effect, change, event, condition, occurrence, development or state of facts or circumstances to the extent resulting from the following shall on its own constitute or be considered in determining whether there has occurred a Material Adverse Effect:

(A) changes in the global economy or capital or financial markets generally;

(B) changes in United States generally accepted accounting principles (“**U.S. GAAP**”) or other accounting standards or interpretations thereof or in any Law or interpretations thereof;

(C) changes in general regulatory, political or economic conditions in the industry or industries in which the Company operates;

(D) general market or economic conditions in the industry or industries in which the Company operates;

(E) the threat, occurrence, escalation, outbreak or worsening of any force majeure event, acts of God, acts of war, police or military action, armed hostilities, sabotage or terrorism;

(F) the occurrence of any natural disaster;

(G) a decline in the price or trading volume of the Shares or any change in the ratings or ratings outlook for the Company or any of its Subsidiaries; provided that the exception in this clause (G) shall not prevent, subject to the other limitations set forth in this definition, any effect, change, event, condition, occurrence, development or state of facts or circumstances underlying such decline from being taken into account in determining whether a Material Adverse Effect has occurred;

(H) the announcement or pendency of this Agreement, the Voting Agreement or the transactions contemplated hereby or thereby, including the Merger, the execution, performance or existence of this Agreement, the identity of the parties hereto or any of their respective Affiliates, Representatives or financing sources (including any actual or potential loss or impairment after the date hereof of any Contract or business relationship as a result of any of the foregoing) or any Action brought or threatened by shareholders of the Company

asserting allegations of breach of fiduciary duty relating to this Agreement or the transactions contemplated hereby; provided, that the exception in this clause (H) shall not apply to references to “Material Adverse Effect” in the representations and warranties set forth in Section 5.1(d) (Governmental Filings; No Violations);

(I) any failure by the Company to meet any (or the publication of any report regarding) projections, forecasts, budgets estimates or outlook of or relating to the Company or its Subsidiaries, including with respect to revenues or earnings or other internal or external financial or operating projections; provided that the exception in this clause (I) shall not prevent subject to the other limitations set forth in this definition, any change, effect, event, circumstance, occurrence or development underlying such decline from being taken into account in determining whether a Material Adverse Effect has occurred;

(J) the taking or not taking of any action at the request of or with the express consent of Parent or Merger Sub or as expressly required by this Agreement (including any actual or potential loss or impairment after the date hereof of any Contract or business relationship as a result of such action or inaction); or

(K) any event, condition or circumstance to the extent disclosed on the Company Disclosure Schedule;

provided, further, that, the exceptions in clauses (A) through (D) will not apply to the extent any such effect, change, event, condition, occurrence, development or state of facts or circumstances has a disproportionate effect on the Company and its Subsidiaries, taken as a whole, compared to other participants in the industries in which the Company and its Subsidiaries conduct their businesses.

(b) Capital Structure.

(i) The authorized capital stock of the Company consists of 30,000,000 Shares and 5,000,000 shares of preferred stock, par value \$0.001 per share (the “**Preferred Shares**”). As of the close of business on June 21, 2019, 12,327,791 Shares were issued and outstanding (excluding 5,390,652 Shares held in treasury) and no Preferred Shares were issued and outstanding on such date. All of the outstanding Shares have been duly authorized and validly issued and are fully paid and nonassessable. Other than Shares reserved for issuance under the Company’s 1994 Stock Incentive Plan and 2012 Equity Incentive Plan (the “**Stock Plans**”), the Company has no Shares or Preferred Shares reserved for issuance. As of the close of business on June 21, 2019, 1,382,311 Shares were underlying outstanding Company Options and 284,500 Shares were underlying outstanding Company RSUs granted under the Stock Plans. All of the outstanding shares of capital stock or other equity or voting securities of each of the Company’s Subsidiaries and, to the Knowledge of the Company, each Joint Venture Entity have been duly authorized and validly issued and are fully paid and nonassessable and are owned by the Company or by a direct or indirect wholly-owned Subsidiary of the Company, free and clear of any Lien, other than transfer restrictions imposed by any applicable Law; provided that with respect to the equity securities of each Joint Venture Entity, the foregoing representation is only given with respect to the interests owned by the Company

and/or its Subsidiaries in such Joint Venture Entity as set forth in Section 5.1(b)(iii) of the Company Disclosure Schedule. Except as set forth in this Section 5.1(b)(i) and except for securities issued after the date of this Agreement in compliance with Section 6.1(b), there are no other outstanding shares of capital stock of, or other equity or voting interests in, the Company, and there are no preemptive or similar rights, options, warrants, conversion rights, stock appreciation rights, redemption rights, repurchase rights, agreements, arrangements, securities, calls, commitments or rights of any kind that obligate the Company or any of its Subsidiaries or, to the Knowledge of the Company, any Joint Venture Entity to issue or sell to any Person any shares of capital stock or other securities of the Company or any of its Subsidiaries or, to the Knowledge of the Company, any Joint Venture Entity or any securities or obligations convertible or exchangeable into or exercisable for, or giving any Person (other than the Company or one or more of its wholly-owned Subsidiaries) a right to subscribe for or acquire, any securities of the Company or any of its Subsidiaries or, to the Knowledge of the Company, any Joint Venture Entity. Upon any issuance of any Shares in accordance with the terms of the Stock Plans, such Shares will be duly authorized, validly issued, fully paid and nonassessable and free and clear of any Lien, other than transfer restrictions imposed by applicable securities Laws. Since the close of business on June 21, 2019, (x) no Shares have been issued, except pursuant to the exercise of Company Options and the settlement of Company RSUs outstanding prior to the close of business on June 21, 2019 in accordance with the terms of the Stock Plans and (y) no grants or awards of Company Options, Company RSUs or other awards under the Stock Plans have been made. The Company does not have outstanding any bonds, debentures, notes or other obligations, the holders of which have the right to vote (or convertible into or exercisable for securities having the right to vote) with the stockholders of the Company on any matter. Other than the Voting Agreement, neither the Company nor any of its Subsidiaries nor, to the Knowledge of the Company, any Joint Venture Entity is a party to any shareholders' agreement, voting trust agreement, registration rights agreement or other similar agreement or understanding relating to any voting or equity interests in the Company or any of its Subsidiaries or, to the Knowledge of the Company, any Joint Venture Entity or any other agreement relating to the disposition, voting or dividends with respect to any voting or equity interests in the Company or any of its Subsidiaries or, to the Knowledge of the Company, any Joint Venture Entity.

(ii) Section 5.1(b)(ii) of the Company Disclosure Schedule contains a correct and complete list, as of the close of business on May 17, 2019, of all outstanding Company Options and Company RSUs granted under the Stock Plans by holder, including the date of grant, term, number of vested and unvested Shares subject thereto, vesting, exercisability or settlement schedules (as applicable), and exercise price, in each case, where applicable. The Company has made available to Parent complete and accurate copies of (x) the Stock Plans; (y) forms of agreements evidencing Company Options; and (z) forms of agreements evidencing Company RSUs. Each Company Option and Company RSU (A) was granted in material compliance with all applicable Laws and all of the terms and conditions of the Stock Plan, (B) if applicable, has an exercise price per share of Company common stock equal to or greater than the fair market value of a share of Company common stock on the date of such grant, (C) qualifies for the Tax and accounting treatment afforded to such Company Option or Company RSU, as applicable, in the Company's Tax Returns and the Company Reports, respectively and (D) does not trigger any liability for the holder thereof under Section

409A of the Code. For the purposes of this Agreement, “**Affiliate**” means a Person that directly or indirectly, through one or more intermediaries, controls, is controlled by or is under common control with a second Person.

(iii) Section 5.1(b)(iii) of the Company Disclosure Schedule sets forth (A) each of the Company’s Subsidiaries and each Joint Venture Entity and the ownership interest of the Company in each such Subsidiary and Joint Venture Entity, together with the jurisdiction of incorporation or formation of each such Subsidiary and Joint Venture Entity, as well as the ownership interest of any other Person or Persons in each such Subsidiary or Joint Venture Entity and (B) the Company’s or its Subsidiaries’ capital stock, equity interest or other direct or indirect ownership interest in any other Person, together with the jurisdiction of incorporation or formation of each such Person. The Company does not own, directly or indirectly, any voting interest in any Person that requires an additional filing by Parent under the Hart-Scott-Rodino Antitrust Improvements Act of 1976, as amended (the “**HSR Act**”) and any applicable antitrust, competition or merger control Laws promulgated by any non-U.S. Governmental Authority (and, together with the HSR Act, “**Antitrust Laws**”) in connection with the transactions contemplated by this Agreement.

(c) Corporate Authority; Approval and Fairness.

(i) Assuming the representations set forth in Section 5.2(g) are true, the Company has all requisite corporate power and authority and has taken all corporate action necessary in order to execute, deliver and perform its obligations under this Agreement and the Voting Agreement and to consummate the transactions contemplated hereby and thereby, including the Merger, subject only to approval of this Agreement by the holders of a majority of the outstanding Shares entitled to vote on such matter at a stockholders’ meeting duly called and held for such purpose (the “**Requisite Company Vote**”). Assuming the representations set forth in Section 5.2(g) are true, each of this Agreement and the Voting Agreement has been duly executed and delivered by the Company and constitutes a valid and binding agreement of the Company enforceable against the Company in accordance with its terms, subject to bankruptcy, insolvency, fraudulent transfer, reorganization, moratorium and similar Laws of general applicability relating to or affecting creditors’ rights and to general equity principles (the “**Bankruptcy and Equity Exception**”).

(ii) The Company Board has (A) unanimously (1) determined that this Agreement, the Voting Agreement and the transactions contemplated hereby and thereby, including the Merger, are fair to, and in the best interests of, the Company and its stockholders, (2) approved and declared advisable this Agreement and the Voting Agreement and the transactions contemplated hereby and thereby, including the Merger and (3) resolved to recommend that the holders of Shares adopt this Agreement (the “**Company Recommendation**”); (B) unanimously directed that this Agreement be submitted to the holders of Shares for their adoption; and (C) received the opinion of its outside financial advisor, B. Riley FBR, Inc., to the effect that based on and subject to the assumptions, procedures, factors, qualifications and limitations set forth therein, the Per Share Merger Consideration to be received by the holders of Shares pursuant to this Agreement is fair, from a financial point of view, as of the date of such opinion, a copy of which opinion has been delivered to Parent.

Assuming the representations set forth in Section 5.2(g) are true, the Company Board has also taken all action so that Parent will not be an “interested stockholder” or prohibited from entering into or consummating a “business combination” with the Company (in each case as such term is used in Section 203 of the DGCL) as a result of the execution of this Agreement or the Voting Agreement or the consummation of the transactions contemplated hereby or thereby in the manner contemplated hereby or thereby.

(d) Governmental Filings; No Violations.

(i) The execution, delivery and performance by the Company of this Agreement and the Voting Agreement and the consummation by the Company of the transactions contemplated hereby and thereby, including the Merger, require no authorization or other action by or in respect of, or filing with, any (A) federal, state, local, municipal, foreign or other government; (B) governmental, quasi-governmental, supranational or regulatory authority (including any governmental division, department, agency, commission, instrumentality, organization, unit or body and any court or other tribunal); or (C) self-regulatory organization (including the NASDAQ Global Market or the NASDAQ Global Select Market (“NASDAQ”)) (each, a “Governmental Authority”) other than (1) the filing of the Certificate of Merger with the Secretary of State of the State of Delaware, (2) compliance with any applicable requirements of the Antitrust Laws, (3) compliance with any applicable requirements of the Securities Exchange Act of 1934, as amended (the “Exchange Act”), the Securities Act and any other applicable U.S. state or federal securities, takeover or “blue sky” Laws, (4) compliance with any applicable rules of NASDAQ and (5) where failure to obtain such authorization or take any such action would not reasonably be expected to have a Material Adverse Effect.

(ii) Assuming the representations set forth in Section 5.2(g) are true, the execution, delivery and performance by the Company of this Agreement and the Voting Agreement and the consummation by the Company of the transactions contemplated hereby and thereby, including the Merger, do not and will not (A) conflict with or result in any violation or breach of any provision of the Charter or bylaws of the Company or the similar organizational documents of any of its Subsidiaries, (B) assuming compliance with the matters referred to in Section 5.1(d)(i), conflict with or result in a violation or breach of any applicable Law, (C) assuming compliance with the matters referred to in Section 5.1(d)(i), require any consent by any Person under, constitute a default, or an event that, with or without notice or lapse of time or both, would constitute a default, under, or cause or permit the termination, modification, cancellation or acceleration of any right or obligation or the loss of any benefit to which the Company or any of its Subsidiaries are entitled, under (I) any agreement, lease, license, contract, note, mortgage, indenture, arrangement or other obligation (each a “Contract”) binding upon the Company or any of its Subsidiaries or to which any of their respective properties, rights or other assets are subject or (II) any Company Permit governing the operation of the business of the Company or any of its Subsidiaries, or (D) result in the creation or imposition of any mortgage, lien, license, covenant not to sue, pledge, charge, security interest, deed of trust, right of first refusal, easement, or similar encumbrance in respect of such property or asset (each a “Lien”) on any property or asset of the Company or any of its Subsidiaries, except in the case of clauses (B), (C) and (D) above, any such violation,

breach, conflict, default, right, termination, modification, acceleration, cancellation, loss or Lien that would not reasonably be expected to have a Material Adverse Effect.

(e) Company Reports; Financial Statements; Internal Controls.

(i) The Company has filed or furnished, as applicable, on a timely basis, all forms, statements, certifications, reports and documents required to be filed or furnished by it with the Securities and Exchange Commission (the “**SEC**”) pursuant to the Exchange Act or the Securities Act of 1933, as amended (the “**Securities Act**”) since January 1, 2017 (the “**Applicable Date**”) (the forms, statements, certifications, reports and documents filed or furnished to the SEC since the Applicable Date and those filed or furnished to the SEC subsequent to the date of this Agreement, including any amendments thereto, the “**Company Reports**”). Each of the Company Reports, at the time of its filing or being furnished (and, if amended, as of the date of such amendment, and, in the case of the Proxy Statement, at the date of mailing to shareholders of the Company and at the time of the Company Shareholders Meeting) complied or, if not yet filed or furnished, will comply in all material respects with the applicable requirements of the Securities Act, the Exchange Act and the Sarbanes-Oxley Act of 2002 and any rules and regulations promulgated thereunder applicable to the Company Reports. As of their respective dates (and, if amended, as of the date of such amendment), the Company Reports did not, and any Company Reports filed with or furnished to the SEC subsequent to the date of this Agreement will not, contain any untrue statement of a material fact or omit to state a material fact required to be stated therein or necessary to make the statements made therein, in light of the circumstances in which they were made, not misleading. Notwithstanding the foregoing sentence, the Company makes no representation or warranty with respect to any information supplied by Parent or Merger Sub or any of their Representatives in writing specifically for inclusion in the Proxy Statement.

(ii) The Company is in compliance in all material respects with the applicable listing and corporate governance rules and regulations of NASDAQ. Following the consummation of the Merger and the other transactions contemplated by this Agreement, the Company will not be required to be an SEC registrant.

(iii) The Company and its Subsidiaries maintain disclosure controls and procedures (as defined in Rule 13a-15(e) or 15d-15(e), as applicable, under the Exchange Act) as required by Rule 13a-15 or 15d-15 under the Exchange Act. Such disclosure controls and procedures provide reasonable assurance that information required to be disclosed by the Company in the reports that it files or furnishes under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the rules of the SEC and is accumulated and communicated to the Company’s management as appropriate to allow timely decisions regarding required disclosures. The Company maintains a system of internal control over financial reporting (as defined in Rule 13a-15(f) or 15d-15(f), as applicable, under the Exchange Act) reasonably designed to provide reasonable assurance regarding the reliability of the Company’s financial reporting and the preparation of financial statements for external purposes in accordance with U.S. GAAP. Since the Applicable Date, none of the Company’s auditors, the Company Board or the audit committee thereof have received any oral or written notification of, nor is any such Person aware of (A) any significant deficiencies or material

weaknesses in the design or operation of the Company's or any of its Subsidiaries' internal controls over financial reporting that are reasonably likely to adversely affect the Company's ability to record, process, summarize and report financial information or (B) any fraud, whether or not material, that involves management or other employees who have a significant role in the Company's internal controls over financial reporting. For purposes of this Agreement, the terms "**significant deficiency**" and "**material weakness**" have the meanings assigned to such terms in Auditing Standard No. 5 of the Public Company Accounting Oversight Board, as in effect on the date of this Agreement.

(iv) The consolidated financial statements included in or incorporated by reference into the Company Reports (including the related notes and schedules) fairly present, or, in the case of consolidated financial statements included in or incorporated by reference into Company Reports filed after the date of this Agreement, will fairly present, in each case, in all material respects, the consolidated financial position of the Company and its consolidated Subsidiaries as of the respective dates thereof and their consolidated statements of operations, comprehensive income, shareholders' equity and cash flows for the respective periods set forth therein (subject, in the case of unaudited statements, to notes and normal year-end adjustments that would not be material in amount or effect), in each case in conformity with U.S. GAAP (except, in the case of the unaudited statements, to the extent permitted by the SEC) applied on a consistent basis during the periods involved, except as may be noted therein or in the notes thereto.

(v) The books of account of the Company and its Subsidiaries have been kept accurately in all material respects in the ordinary course of business, the transactions entered therein represent bona fide transactions, and the revenues, expenses, assets and liabilities of the Company and its Subsidiaries have been properly recorded therein in all material respects. The corporate records and minute books of the Company and each of its Subsidiaries have been maintained in accordance with all applicable Laws in all material respects, and such corporate records and minute books are complete and accurate in all material respects, including the fact that the minute books contain the minutes of all meetings of the boards of directors, committees of the board and the stockholders and all resolutions passed by the boards of directors, committees of the boards and the stockholders, except that minutes of certain recent meetings of the Company Board or committees thereof have not been finalized as of the date of this Agreement.

(vi) Since January 1, 2017, (A) none of the Company or any of its Subsidiaries nor any director or officer of the Company or any of its Subsidiaries has received any material written complaint or allegation regarding questionable financial accounting, internal accounting controls or auditing matters with respect to the Company or any of its Subsidiaries (I) through the Company's whistleblower hotline, (II) that was otherwise reasonably credible or (III) from the Company's outside auditors; and (B) no attorney representing the Company or any of its Subsidiaries, whether or not employed by the Company or any of its Subsidiaries, has reported credible evidence of any material violation of the Securities Act, the Exchange Act or the Sarbanes-Oxley Act of 2002 or any rules and regulations promulgated thereunder, breach of fiduciary duty, or other similar material violation by the Company or any of its Subsidiaries.

(vii) None of the Company or any of its Subsidiaries is a party to, nor does the Company or any of its Subsidiaries have any commitment to become a party to, any joint venture, partnership agreement or any similar Contract (including any Contract relating to any transaction, arrangement or relationship between or among the Company or any of its Subsidiaries, on the one hand, and any unconsolidated Affiliate, on the other hand, including any structured finance, special purpose or limited purpose entity or Person, on the other hand (such as any arrangement described in Section 303(a)(4) of Regulation S-K)) where the intended result, purpose or effect of such arrangement is to avoid disclosure of any material transaction involving, or material liabilities of, the Company or any of its Subsidiaries in the Company's consolidated financial statements included in the Company Reports.

(f) Absence of Certain Changes. Since December 31, 2018 and through the date of this Agreement, there has not been any Material Adverse Effect. From December 31, 2018 to the date of this Agreement, except as contemplated hereby, (i) the business of the Company and its Subsidiaries, taken as a whole, has been conducted in all material respects in the ordinary course and (ii) there has not been any action taken by the Company or its Subsidiaries that would have constituted a material breach of Section 6.1(b) (other than actions or events of the kind set forth in Sections 6.1(b)(vi), (vii), (xx) and (xxi) (as it relates to Sections 6.1(b)(vi), (vii) and (xx)) that have been taken or occurred in the ordinary course of business consistent with past practice), if such action had been taken after the date of this Agreement without the consent of Parent.

(g) Litigation and Liabilities.

(i) There are no currently pending or, to the Knowledge of the Company, threatened, civil, criminal or administrative actions, suits, claims, hearings, arbitrations, investigations or proceedings (each, an "Action") before any Governmental Authority or arbitral tribunal to which the Company or any of its Subsidiaries is a party or any Action by any Governmental Authority against or involving the Company or its Subsidiaries, in each case that (A) has a possibility of an unfavorable outcome that is not remote and, in the event of any such unfavorable outcome, the Company and its Subsidiaries would reasonably be expected to incur a loss that would reasonably be expected to exceed \$500,000, (B) seeks (or sought) injunctive or other non-monetary relief that in either case would reasonably be expected to restrict the manner in which the Company and its Subsidiaries conduct their businesses in any material respect or (C) would reasonably be expected to prevent or materially delay the ability of the Company to consummate the Merger and the other transactions contemplated by this Agreement.

(ii) Neither the Company nor any of its Subsidiaries is, and since December 31, 2015, neither the Company nor any of its Subsidiaries has been, a party to or subject to the provisions of any order, award, judgment, injunction, writ, decree (including any consent decree or similar agreed order or judgment), directive, settlement, stipulation, ruling determination, decision or verdict, whether civil, criminal or administrative, in each case, that is or was entered, issued, made or rendered by any Governmental Authority (each, an "Order") that (A) restricts (or restricted) the manner in which the Company and its Subsidiaries conduct or conducted their businesses, (B) involves (or involved) payment by the

Company or its Subsidiaries of amounts in excess of \$500,000 or (C) would reasonably be expected to prevent or materially delay the ability of the Company to consummate the Merger and the other transactions contemplated by this Agreement.

(iii) There are no obligations or liabilities of the Company or any of its Subsidiaries (whether absolute, accrued, contingent, fixed or otherwise) of any nature, whether or not required to be recorded or reflected on a balance sheet in accordance with GAAP other than:

(A) obligations or liabilities to the extent disclosed in the audited consolidated balance sheet of the Company for the year ended December 31, 2018 (or any notes thereto) or otherwise disclosed in the Company Reports since December 31, 2018;

(B) obligations or liabilities arising in connection with the transactions contemplated by this Agreement or the Voting Agreement;

(C) obligations or liabilities incurred in the ordinary course of business since December 31, 2018; or

(D) obligations or liabilities that have not had, and would not reasonably be expected to have, individually or in the aggregate, a Material Adverse Effect.

As used in this Agreement, the term “**Knowledge**” means, when used with respect to the Company, the actual knowledge, after reasonable inquiry, of any of the Chief Executive Officer, the President, the Chief Financial Officer, the Chief Legal Officer and Secretary or the Executive Vice President – IT and Operations; provided, that with respect to any representation or warranty made in respect of or pertaining to any Joint Venture Entity, “Knowledge” means the actual knowledge, with no duty of inquiry, of the aforementioned individuals.

(h) Employee Benefits.

(i) Section 5.1(h)(i) of the Company Disclosure Schedule sets forth an accurate and complete list, as of the date of this Agreement, of all material Benefit Plans, excluding any arrangement whereby sales employees of the Company are promised or paid additional sales bonuses by a third party supplier of the Company upon the achievement of certain sales objectives that relate to sales by the Company employee of the supplier’s products or services, in amounts previously agreed to by the third party supplier (each such arrangement, a “**Spiff**”) and separately identifies any Benefit Plans maintained outside of the United States primarily for the benefit of employees working outside of the United States (the “**Non-U.S. Benefit Plans**”). For purposes of this Agreement, “**Benefit Plan**” means any benefit or compensation plan, program, policy, practice, agreement, contract, arrangement or other obligation, whether or not in writing and whether or not funded, in each case, which is sponsored or maintained by, or required to be contributed to, or with respect to which any potential liability is borne by the Company or any of its Subsidiaries. Benefit Plans include, but are not limited to, “employee benefit plans” within the meaning of Section 3(3) of the Employee Retirement Income Security Act of 1974, as amended (“**ERISA**”), employment,

consulting, retirement, severance, termination or change in control agreements, deferred compensation, equity-based, incentive, bonus, supplemental retirement, profit sharing, insurance, medical, welfare, fringe or other benefits or remuneration of any kind. With respect to each material Benefit Plan (other than Spiffs), the Company has made available to Parent, to the extent applicable, accurate and complete copies of (A) the Benefit Plan document, including any amendments thereto, and all related trust documents, insurance contracts or other funding vehicles, (B) a written description of such Benefit Plan if such plan is not set forth in a written document, (C) the most recently prepared actuarial report, (4) the most recent Internal Revenue Service (“**IRS**”) determination or opinion letter, and (D) all material correspondence to or from any Governmental Authority received in the last three years with respect to any Benefit Plan.

(ii) Each Benefit Plan has been established, operated and administered in all material respects in compliance with its terms and applicable Laws, including, without limitation, ERISA and the Code, (ii) all contributions or other amounts payable by the Company or any Subsidiary with respect to each Benefit Plan in respect of current or prior plan years have been paid or accrued in accordance with generally accepted accounting principles, and (iii) there are no actions, suits or claims pending or, to the Company’s Knowledge, threatened (other than routine claims for benefits) with respect to any Benefit Plan which could reasonably be expected to result in a material liability to the Company or any of its Subsidiaries.

(iii) Each Benefit Plan that is intended to be qualified under Section 401(a) of the Code has been determined by the IRS to be qualified under Section 401(a) of the Code and, to the Company’s Knowledge, nothing has occurred that would reasonably be expected to adversely affect the qualification or tax exemption of any such Benefit Plan.

(iv) Neither the Company nor any ERISA Affiliate has in the last six years (A) contributed (or had any obligation of any sort) to a plan that is subject to Section 412 of the Code or Section 302 or Title IV of ERISA, or (B) contributed to, or is or has been obligated to contribute to, or has otherwise incurred any obligation or liability (including any contingent liability) under, any “multiemployer plan” within the meaning of Section 3(37) of ERISA. For purposes of this Agreement, “**ERISA Affiliate**” means any entity which is considered a single employer with the Company under Section 4001 of ERISA or Section 414 of the Code.

(v) None of the Benefit Plans promise or provide for retiree or post-employment health, medical, disability, life insurance or other welfare benefits to any Person, other than coverage mandated by applicable Law.

(vi) Each Benefit Plan that is a “nonqualified deferred compensation plan” (within the meaning of Section 409A of the Code) is in documentary compliance with, and has been operated and administered in all material respects in compliance with, Section 409A of the Code and the guidance issued by the IRS provided thereunder.

(vii) Neither the execution and delivery of this Agreement, the Voting Agreement, shareholder or other approval of this Agreement nor the consummation of the

transactions contemplated hereby or by the Voting Agreement could, either alone or in combination with another event (A) entitle any current or former employee, director, officer or independent contractor of the Company or any of its Subsidiaries to severance pay or any material increase in severance pay, (B) accelerate the time of payment or vesting or materially increase the amount of compensation due to any such employee, director, officer or independent contractor, (C) directly or indirectly cause the Company to transfer or set aside any assets to fund any material benefits under any Benefit Plan, (D) otherwise give rise to any material liability under any Benefit Plan, (E) limit or restrict the right of the Company or, after the consummation of the transactions contemplated hereby, Parent and its Subsidiaries to merge, amend, terminate or transfer the assets of any Benefit Plan or (F) result in the payment of any amount that could, individually or in combination with any other such payment, constitute an “excess parachute payment” as defined in Section 280G(b)(1) of the Code.

(viii) Neither the Company nor any Subsidiary has any obligation to provide, and no Benefit Plan or other agreement provides any individual with the right to, a gross-up, indemnification, reimbursement or other payment for any excise or additional Taxes, interest or penalties incurred pursuant to Section 409A or Section 4999 of the Code or due to the failure of any payment to be deductible under Section 280G of the Code. The Company has made available to Parent accurate and complete copies of any Section 280G calculations prepared (whether or not final) with respect to any disqualified individual in connection with the transactions contemplated by this Agreement.

(ix) All Non-U.S. Benefit Plans comply with applicable local Law, and all such plans that are intended to be funded and/or book-reserved are funded and/or book reserved, as appropriate, based upon reasonable actuarial assumptions.

(i) Compliance with Laws; Company Permits.

(i) Compliance with Laws. Except as has not had, and would not reasonably be expected to have, individually or in the aggregate, a Material Adverse Effect, (A) since January 1, 2017, the businesses of each of the Company and its Subsidiaries, and, to the Knowledge of the Company, each Joint Venture Entity have been, and are being, conducted in compliance with all applicable laws, statutes, codes, treaties and ordinances, common law, and any rules, regulations, standards, Orders and agency requirements of any Governmental Authority (collectively, “**Laws**”) and (B) since January 1, 2017, none of the Company or any of its Subsidiaries or, to the Knowledge of the Company, any Joint Venture Entity has received any written notice or written communication of any noncompliance with any Laws.

(ii) Permits. Except as has not had, and would not reasonably be expected to have, individually or in the aggregate, a Material Adverse Effect, (A) the Company and its Subsidiaries, and, to the Knowledge of the Company, each Joint Venture Entity hold all permits, certifications, approvals, registrations, consents, authorizations, franchises, variances, exemptions and orders (including all product certifications) issued or granted by any Governmental Authority or other Person responsible for issuing such permit, certification, approval, registration, consent, authorization, franchise, variance, exemption or order (the “**Company Permits**”) necessary for the Company and its Subsidiaries, and, to the Knowledge

of the Company, each Joint Venture Entity to own, lease and operate their properties or other assets and to conduct their businesses in the manner in which they conduct them, (B) all such Company Permits of the Company and its Subsidiaries and, to the Knowledge of the Company, each Joint Venture Entity are valid and in full force and effect, (C) all documents submitted by the Company or any of its Subsidiaries or, to the Knowledge of the Company, any Joint Venture Entity to a Governmental Authority in order to obtain, maintain or defend any Company Permit were compiled, prepared and submitted in accordance with all applicable Laws, (D) the Company and its Subsidiaries, and, to the knowledge of the Company, each Joint Venture Entity are in compliance with such Company Permits and (E) there is not pending or, to the Company's Knowledge, threatened any administrative or judicial proceeding that would reasonably be expected to result in any suspension, modification, revocation or cancellation of any of the Company Permits of the Company or any of its Subsidiaries or, to the Knowledge of the Company, any Joint Venture Entity.

(j) Material Contracts.

(i) As used in this Agreement, "**Material Contract**" means each Contract to which the Company or any of its Subsidiaries is a party or by which the Company or any of its Subsidiaries or any of their respective properties or assets are bound, in each case as of the date hereof:

(A) that is a "material contract" (as such term is defined in Item 601(b)(10) of Regulation S-K of the Exchange Act);

(B) that contains any non-compete or exclusivity provisions to which the Company or any of its Affiliates is subject with respect to any line of business or geographic area with respect to the Company or any of its Affiliates, or which restricts the conduct of any line of business by the Company or any of its Subsidiaries or any geographic area in which the Company or any of its Subsidiaries conducts business;

(C) that contains material rights of first or last offer, negotiation or refusal or a material obligation to lease real property, in each case, to which the Company or any of its Affiliates is subject;

(D) that provides for or relates to a partnership, joint venture, collaboration or similar arrangement (in each case, other than with respect to wholly-owned Subsidiaries of the Company);

(E) that is an indenture, credit agreement, loan agreement, security agreement, guarantee, note, bond, mortgage or other agreement providing for or guaranteeing indebtedness of any Person (except for any letter of credit or Contract solely among or between the Company and any of its Subsidiaries or any guaranty by the Company or any Subsidiary of the indebtedness or obligations of the Company or any Subsidiary) relating to indebtedness for borrowed money in an amount in excess of \$2,000,000 individually;

(F) that is a Real Property Lease;

(G) (1) pursuant to which a third party has granted to the Company or any of its Subsidiaries a material license or other material right to any Intellectual Property Rights or IT Assets; or (2) pursuant to which the Company or any of its Subsidiaries has granted a third party a material license or other material right to any Intellectual Property or any IT Assets that are material to the business of the Company and its Subsidiaries (taken as a whole), in each case, other than any licenses or other rights granted to or by the Company or any of its Subsidiaries in the ordinary course of business.

(H) under which the Company or any of its Subsidiaries grants to or receives from any significant supplier a license or any other right to use any Intellectual Property that is material to the business of the Company and its Subsidiaries (taken as a whole), except for licenses or other rights granted to or by the Company or any of its Subsidiaries for generally commercially available, non-customized software entered into in the ordinary course of business;

(I) is a settlement or similar agreement with any Governmental Authority or order of a Governmental Authority (including any consent decree or settlement order) to which the Company or any of its Subsidiaries is subject involving future performance by, or continuing restrictions on, the Company or any of its Subsidiaries;

(J) that is an acquisition agreement or a divestiture agreement pursuant to which (1) the Company reasonably expects that it or any of its Subsidiaries will be required to pay total consideration including assumption of debt after the date of this Agreement in excess of \$1,000,000, (2) any other Person has the right to acquire any assets of the Company or any of its Subsidiaries after the date of this Agreement with a fair market value or purchase price of more than \$1,000,000, individually or in the aggregate or (3) any other Person has the right to acquire any shares of capital stock or other equity securities of the Company or any of its Subsidiaries or securities convertible or exchangeable into or exercisable for any shares of such capital stock or other equity securities, or any options, warrants, restricted shares, restricted share units, performance share units, stock appreciation rights, phantom stock or other rights of any kind to acquire any shares of such capital stock or other equity securities or such convertible or exchangeable securities or options or warrants (“**Group Securities**” and the equivalent securities of each Joint Venture Entity, collectively, “**Joint Venture Entity Securities**”), excluding, in the case of clauses (1) and (2), acquisitions or dispositions of supplies, inventory, merchandise or products or consumption of managed services assets in connection with the conduct of the Company’s and its Subsidiaries’ business or of supplies, inventory, merchandise, products, equipment, properties or other assets that are obsolete, worn out, surplus or no longer used or useful in the conduct of the business of the Company or its Subsidiaries, and excluding, in the case of clause (3), rights pursuant to any Stock Plans or award thereunder;

(K) that is with respect to an interest rate, currency or other swap or derivative transaction (other than between the Company and its Subsidiaries) with a fair value in excess of \$1,000,000;

(L) that obligates the Company or any of its Subsidiaries to make any capital commitment, loan or capital expenditure in an amount in excess of \$2,000,000 in the aggregate in any one-year period after the date of this Agreement that cannot be terminated by the Company or any of its Subsidiaries on less than 60 days' notice without payment or penalty;

(M) that is a Contract (other than any Benefit Plan) between the Company or any of its Subsidiaries or, to the Knowledge of the Company, any Joint Venture Entity, on the one hand, and any current director or officer of the Company or its Subsidiaries, or any person who beneficially owns (as defined in Rules 13d-3 and 13d-5 of the Exchange Act) five percent (5%) or more of the outstanding Shares (or any of such person's affiliates, associates or family members) (other than Subsidiaries of the Company), on the other hand;

(N) that is a written Contract by and among the Company or any of its Subsidiaries on the one hand, and any Joint Venture Entity, on the other hand; or

(O) that is not covered by clauses (A) through (N) and involves or could reasonably be expected to involve the payment by or to the Company or any of its Subsidiaries of more than \$2,000,000 in the aggregate in any future one-year period.

(ii) The Company has made available to Parent prior to the date of this Agreement, accurate and complete copies of all written Material Contracts, including all amendments thereto.

(iii) Each Material Contract is a valid and binding agreement of the Company and/or any of its Subsidiaries party thereto, enforceable against the Company and/or any of its Subsidiaries, as applicable, and, to the Knowledge of the Company, each other party thereto, and is in full force and effect (except for such failures to be binding, enforceable or in full force and effect that have not had and would not reasonably be expected to have a Material Adverse Effect or prevent or materially adversely affect or delay the ability of the Company to carry out its obligations under this Agreement and to consummate the transactions contemplated hereby). Neither the Company nor any of its Subsidiaries has received written notice of any default, violation or breach in any material respect under the terms of any such Material Contract (except as have not had and would not reasonably be expected to have a Material Adverse Effect or prevent or materially adversely affect or delay the ability of the Company to carry out its obligations under this Agreement and to consummate the transactions contemplated hereby). The execution, delivery and performance of this Agreement by the Company and the consummation of the transactions contemplated hereby and the compliance by the Company with the provisions of this Agreement will not result in a breach or violation of, or default under, in any material respect, any Material Contract, except for such breaches, violations or defaults that would not reasonably be expected to, individually or in the aggregate, (A) prevent or materially impair or delay the ability of the Company to carry out its obligations under this Agreement, and to consummate the transactions contemplated hereby; or (B) otherwise have a Material Adverse Effect.

(k) Customers. Section 5.1(k) of the Company Disclosure Schedule sets forth a list of the top fifty largest customers, with respect to the fiscal year ended December 31, 2018, of the Company and its Subsidiaries during such period based on revenues received by the Company and its Subsidiaries in such period. Since January 1, 2018, none of the Company or any of its Subsidiaries has had any outstanding material dispute with any of the twenty-five largest customers of the Company and its Subsidiaries based on revenues received by the Company and its Subsidiaries with respect to the fiscal year ended December 31, 2018 (each, a “**Significant Customer**”). Since January 1, 2018, none of the Company or any of its Subsidiaries has received any written or, to the Knowledge of the Company, verbal notice from any Significant Customer that such customer shall not continue, or does not expect to continue, as a customer of the Company or any of its Subsidiaries, as applicable, or that such customer intends to materially reduce the scale of the business conducted with the Company or any of its Subsidiaries.

(l) Real Property.

(i) Title to Real Property; Liens.

(A) Leased Real Property. Set forth in Section 5.1(l)(i)(A) of the Company Disclosure Schedule is an accurate and complete list of all Leased Real Property and all Real Property Leases relating to such Leased Real Property. Each of the Real Property Leases relating to the Leased Real Property is valid, binding and enforceable in accordance with its terms and is in full force and effect, except where the failure to be binding, enforceable or in full force and effect has not had and would not reasonably be expected to have, individually or in the aggregate, a Material Adverse Effect. To the Company’s Knowledge, there are no Liens on the estate or interest created by any such Real Property Lease, except Permitted Liens.

(B) Owned Real Property. Set forth in Section 5.1(l)(i)(B) of the Company Disclosure Schedule is an accurate and complete list of all land, buildings and improvements and other real property owned by the Company or any of its Subsidiaries (the “**Owned Real Property**”). The Company or its applicable Subsidiary has good and marketable indefeasible fee simple title to such Owned Real Property, free and clear of all Liens, except Permitted Liens. The Company has not leased or otherwise granted to any person the right to use or occupy such Owned Real Property or any portion thereof. Other than the right of Parent pursuant to this Agreement, there are no outstanding options, rights of first offer or rights of first refusal to purchase such Owned Real Property or any portion thereof or interest therein.

(C) For purposes of this Agreement:

- a. “**Leased Real Property**” shall mean the leasehold or subleasehold interests and any other rights to use or occupy any land, buildings, structures, improvements, fixtures or other interests in real property held by the Company or any of its Subsidiaries under the Real Property Leases.

- b. **“Permitted Liens”** shall mean: (1) liens for current Taxes that are not yet due or delinquent or are being contested in good faith by appropriate proceedings and for which adequate reserves have been taken on the financial statements contained in the Company Reports; (2) statutory liens or landlords’, carriers’, warehousemen’s, mechanics’, suppliers’, workmen’s, materialmen’s or repairmen’s liens or other like Liens arising in the ordinary course of business with respect to amounts that not yet overdue or are being contested in good faith by appropriate proceedings and for which adequate reserves have been taken on the financial statements contained in the Company Reports; (3) with respect to the Real Property, zoning restrictions, minor title defects or irregularities that, in the case of zoning restrictions, are not violated by, and in each case do not, individually or in the aggregate, materially impair the use, occupancy or value of, such Real Property, the consummation of the transactions contemplated by this Agreement or the ordinary course operations or business of the Company and its Subsidiaries; (4) as to any Leased Real Property, any Lien affecting solely the interest of the landlord thereunder and not the interest of the tenant thereunder, which does not materially impair the use, occupancy or value of such Leased Real Property; (5) non-exclusive licenses of Intellectual Property Rights granted in the ordinary course of Business; (6) Liens to the extent disclosed or reflected on the consolidated balance sheet of the Company for the annual period ended December 31, 2018; and (7) the Liens listed on Section 5.1(1)(i)(C) of the Company Disclosure Schedule.
- c. **“Real Property”** shall mean the Leased Real Property and the Owned Real Property.
- d. **“Real Property Leases”** shall mean the leases, subleases, ground leases, licenses or other agreements, including all amendments, extensions, renewals, guaranties or other agreements with respect thereto, pursuant to which the Company or any of its Subsidiaries leases any real property.

(D) Neither the Company nor any applicable Subsidiary has received notice of or has, to the Company’s Knowledge, an expropriation or condemnation proceeding pending or threatened against any material Real Property.

(E) To the Company’s Knowledge, the Company has not received any written notice that its present use of the Real Property is not in conformity in any material respect with all applicable Laws, rules, regulations and ordinances, including all applicable zoning Laws, ordinances and regulations and with all registered deeds, restrictions of record or other agreements affecting such Real Property. No damage or destruction has occurred with respect to any of the Real Property that would reasonably be expected to have, individually or in the aggregate, a Material Adverse Effect.

(m) Takeover Statutes. Other than Section 203 of the DGCL, no “fair price,” “moratorium,” “control share acquisition,” “business combination” or other similar anti-takeover statute or regulation (each, a “**Takeover Statute**”) or any anti-takeover provision in the Company’s Charter or bylaws is applicable to the Company, Parent, Merger Sub, the Shares, this Agreement, the Voting Agreement or the transactions contemplated hereby and thereby, including the Merger. There is no shareholder rights plan, “poison pill” antitakeover plan or similar device in effect to which the Company or any of its Subsidiaries is subject, party to or otherwise bound. Prior to the date of this Agreement, the Company Board has taken all action necessary so that, assuming the representations set forth in Section 5.2(g) are true, the restrictions set forth in Section 203 of the DGCL applicable to “business combinations” (as such term is defined in Section 203 of the DGCL) are and will be inapplicable to the execution and delivery of and performance under this Agreement and the Voting Agreement and the consummation of the transactions contemplated by hereby and thereby.

(n) Environmental Matters.

(i) Except as has not had and would not reasonably be expected to have, individually or in the aggregate, a Material Adverse Effect:

(A) Each of the Company and its Subsidiaries is and has for the past five years been in compliance with all applicable Environmental Laws which compliance includes obtaining, maintaining and complying with all permits, notices, approvals and authorizations, if any, required under Environmental Laws in connection with the operation of the Company’s and its Subsidiaries’ business, as applicable.

(B) Neither the Company nor any of its Subsidiaries has stored, released, used or disposed of any Hazardous Substances in a manner that would reasonably be expected to give rise to any liability under any Environmental Laws.

(C) Neither the Company nor any of its Subsidiaries is the subject of any pending material claims, notices, demand letters, investigations, proceedings or information requests indicating or alleging any liability relating to any Environmental Law and, to the Knowledge of the Company, none are threatened.

(ii) To the Knowledge of the Company, the Company has made available to Parent copies of all material environmental reports, assessments and studies in its possession concerning its or its Subsidiaries’ operations or any properties currently or formerly owned or operated by the Company or any of its Subsidiaries.

As used in this Agreement, (i) the term “**Environmental Law**” means any applicable federal, state or local law or other legal requirement pertaining to pollution, the protection, restoration or remediation of or prevention of harm to the environment or natural resources, or the protection of human health and safety, including any law or legal requirement relating to Hazardous Substances and (ii) the term “**Hazardous Substance**” means any pollutant, contaminant, hazardous substance, hazardous waste or petroleum products, and any other

chemical waste, substance or material listed in or regulated or identified in any Environmental Law.

(o) Taxes.

(i) The Company and each of its Subsidiaries (A) have duly and timely filed (taking into account any valid extension of time within which to file) all material Tax Returns required to be filed by any of them and all such filed Tax Returns are true, correct and complete in all material respects; (B) have paid all material Taxes that are required to be paid (whether or not shown to be due on any such Tax Returns) or that the Company or any of its Subsidiaries are obligated to withhold from amounts owing to any employee, creditor or third party, except, in each case, for Taxes that are being contested in good faith in appropriate proceedings and for which adequate reserves have been established in accordance with U.S. GAAP in the financial statements included in the Company Reports filed prior to the date of this Agreement; and (C) other than as a result of extending the due date for filing a Tax Return, have not waived any statute of limitations with respect to any income Tax Return or any other material Tax Return or agreed to any extension of time with respect to a material Tax assessment or deficiency and there has been no request by a Governmental Authority to execute such a waiver or extension. The federal income Tax Returns referred to in clause (i) have been examined by the IRS or the period for assessment of the Taxes in respect of which such Tax Returns were required to be filed has expired.

(ii) All deficiencies for Taxes asserted or assessed in writing against the Company or any of its Subsidiaries have been fully or timely paid, settled or properly reflected in the financial statements included in the most recent Company Reports.

(iii) There are no Tax Liens upon any property or assets of the Company or any of its Subsidiaries except Liens for current Taxes not yet due and payable that may thereafter be paid without interest or penalty, and Liens for material Taxes that are being contested in good faith by appropriate proceedings and for which adequate reserves have been established in accordance with U.S. GAAP. No deficiency for any amount of Taxes has been proposed or asserted in writing or assessed by any Governmental Authority against the Company or any of its Subsidiaries that remains unpaid or unresolved. As of the date of this Agreement, there are not pending or threatened any audits, suits, claims, examinations, investigations, proceedings or other administrative or judicial proceedings in respect of Taxes or Tax matters. No written claim or, to the Knowledge of the Company, oral notice has been received by the Company or any of its Subsidiaries from a Governmental Authority in a jurisdiction where the Company or any of its Subsidiaries does not file Tax Returns (i) indicating that the Company or any of its Subsidiaries are or may be subject to taxation by, or required to file any Tax Return in, that jurisdiction, (ii) indicating an intent to open an audit or other review or (iii) requesting information related to Tax matters.

(iv) Neither the Company nor any of its Subsidiaries (A) is or will be required to include any material adjustment in taxable income for any Tax period ending after the Closing Date or in any Tax Return not yet filed pursuant to Section 481 or 263A of the Code or any comparable provision under state or foreign Tax Laws as a result of transactions

or events occurring, or accounting methods employed, prior to the date of this Agreement; (B) has entered into a material transaction that is being accounted for under the installment method of Section 453 of the Code or similar provision of U.S. state, U.S. local or foreign Tax Law; or (C) will be required to recognize a material amount of taxable income or take into account any other measure of Tax that will be reportable in taxable periods beginning on or after the Closing Date that is attributable to a transaction or event that occurred prior to the Closing. No power of attorney that currently is in effect has been granted by the Company or any of its Subsidiaries with respect to any Tax matter to any non-employee third party.

(v) None of the Company or any of its Subsidiaries has executed or entered into a closing agreement pursuant to Section 7121 of the Code or any predecessor provision thereof or any similar provision of state, local or foreign Law relating to any taxable period ending after the Closing Date.

(vi) None of the Company or any of its Subsidiaries (i) has been a member of an affiliated group (within the meaning of Section 1504(a) of the Code) filing a United States consolidated federal income Tax Return (other than the affiliated group of which the Company is the common parent); (ii) has any liability for the Taxes of any other Person (other than the Company or any of its Subsidiaries) under Treasury Regulations Section 1.1502-6 or any similar provision of state, local or foreign Tax Law, as a transferee or successor, by contract, or otherwise; or (iii) is a party to any Tax sharing agreement other than with respect to any such agreement or arrangement solely among the Company and its Affiliates, or any gross-up and indemnification provisions in credit agreements, derivatives, leases, supply agreements or other commercial agreements, each of which legal arrangements being entered into in the ordinary course of business and the primary purposes of which being unrelated to Taxes, pursuant to which it will have any obligation to make any payments in respect of Taxes after the Effective Time. In the last five years, neither the Company nor any of its Subsidiaries has been either a “distributing corporation” or a “controlled corporation” in a transaction intended to qualify under Section 355 of the Code.

(vii) Neither the Company nor any of its Subsidiaries has been a United States real property holding company within the meaning of Section 897(c) of the Code during the applicable period specified in Section 897(c)(1)(A)(ii) of the Code.

As used in this Agreement, (i) the term “**Tax**” (including, with correlative meaning, the term “**Taxes**”) includes all federal, state, local and foreign income, windfall or other profits, franchise, gross receipts, environmental, customs duty, capital stock, severances, stamp, transfer, payroll, sales, employment, unemployment, disability, use, property, withholding, excise, production, value added, escheat, unclaimed property, occupancy and other taxes, duties or assessments of any nature whatsoever, together with all interest, penalties and additions imposed with respect to such amounts and any interest in respect of such penalties and additions, and (ii) the term “**Tax Return**” includes all returns and reports (including elections, declarations, disclosures, schedules, estimates and information returns) required to be supplied to a Tax authority relating to Taxes.

(p) Labor Matters.

(i) As of the date hereof, neither the Company nor any of its Subsidiaries is a party to, nor is it currently negotiating in connection with entering into, any collective bargaining agreement or other agreement with a labor union, works council or similar organization, and, to the Company's Knowledge, there are no union organizing activities involving any employees of the Company or any of its Subsidiaries, nor have there been any such activities within the past three years.

(ii) As of the date hereof, there is no strike, lockout, slowdown, work stoppage, unfair labor practice or material labor dispute, arbitration or grievance pending or, to the Company's Knowledge, threatened, nor have there been any such actions within the past three years. To the Company's Knowledge, each of the Company and its Subsidiaries is in compliance in all material respects with all applicable Laws respecting labor, employment and employment practices, terms and conditions of employment, wages and hours, sexual harassment and occupational safety and health. Neither the Company nor any of its Subsidiaries is a party to, or is otherwise bound by, any consent decree with any Governmental Authority relating to employees or employment practices. No material Action brought by or on behalf of any employee, prospective employee, former employee, retiree, labor organization or other representative of any employees of the Company is pending or, to the Company's Knowledge, threatened. Neither the Company nor any of its Subsidiaries has incurred any liability or obligation under the Worker Adjustment and Retraining Notification Act and the regulations promulgated thereunder (the "**WARN Act**") or any similar state or local Law that remains unsatisfied.

(q) Intellectual Property.

(i) Section 5.1(q)(i) of the Company Disclosure Schedule sets forth an accurate and complete list, as of the date of this Agreement, of all (A) Owned Intellectual Property that is Registered (collectively, the "**Registered Intellectual Property**"), indicating for each item of Registered Intellectual Property, the record owner, registration or application number, and the jurisdictions in which each such item of Registered Intellectual Property has been issued or registered or in which any application for such issuance and registration has been filed (or in the case of an Internet domain name, the applicable domain name registrar); and (B) all Social Media Accounts owned by, or used by or on behalf of, the Company or any of its Subsidiaries. The Company or one of its Subsidiaries exclusively owns, free and clear of all Liens, each item included in the Registered Intellectual Property.

(ii) to the Knowledge of the Company, the Company and its Subsidiaries, each as applicable, owns or has valid and sufficient rights to use, all Intellectual Property Rights and Social Media Accounts used in or otherwise necessary for the operation of the businesses of the Company and its Subsidiaries as currently conducted;

(iii) to the Knowledge of the Company, none of the products or services distributed, sold or offered by the Company or any of its Subsidiaries nor the conduct of the businesses of the Company and its Subsidiaries currently infringes, misappropriates or violates

in any material respect or has, during the three-year period prior to the date of this Agreement, infringed, misappropriated or violated the Intellectual Property Rights of any Person in any material respect;

(iv) to the Knowledge of the Company, no Person currently infringes, misappropriates or otherwise violates any Owned Intellectual Property in any material respect;

(v) within the prior three years, neither the Company nor any of its Subsidiaries has received any written claim or notice from any Person (including by way of a cease and desist letter or an offer for a license) (A) alleging any infringement, violation or misappropriation of Intellectual Property Rights of any Person in any material respect; or (B) advising that such Person is challenging or threatening to challenge the ownership, use, validity or enforceability of any Owned Intellectual Property;

(vi) within the prior three years, to the Knowledge of the Company, there has been no unauthorized access to or unauthorized use of any Social Media Accounts owned by, or used by or on behalf of, the Company or any of its Subsidiaries;

(vii) except as set forth in Section 5.1(q)(vii) of the Company Disclosure Schedule, there is not presently any Action before any Governmental Authority to which the Company or any of its Subsidiaries is a party or any Action by any Governmental Authority against or involving the Company or its Subsidiaries, or, to the Knowledge of the Company, is any such Action threatened against the Company or any of its Subsidiaries, in each case, concerning the ownership, validity, registrability, enforceability or use of, or licensed right to use, any Intellectual Property Rights;

(viii) the Company and each of its Subsidiaries has taken commercially reasonable steps to maintain the confidentiality of any material Trade Secrets that are owned, used or held by the Company or any of its Subsidiaries, and such Trade Secrets have not been used, disclosed to or discovered by any Person except pursuant to valid and appropriate confidentiality restrictions or non-disclosure agreements;

(ix) the IT Assets (A) operate and perform in all material respects as required by the Company and its Subsidiaries and are otherwise sufficient for the needs of the Company and its Subsidiaries in connection with the businesses of the Company and its Subsidiaries as currently conducted, (B) within the prior three years, have not materially malfunctioned or failed and (C) to the Knowledge of the Company, are free from material bugs or other defects, and do not contain or make available any disabling codes or instructions, spyware, Trojan horses, worms, viruses or other software routines that permit or cause unauthorized access to, or disruption, impairment, disablement, or destruction of, software, data or other materials; the Company and its Subsidiaries have in place commercially reasonable disaster recovery and business continuity plans, procedures and technologies; to the Knowledge of the Company, no Person has gained unauthorized access to the IT Assets during the three-year period prior to the date of this Agreement;

(x) except as would not reasonably be expected to have, individually or in the aggregate, a Material Adverse Effect: (A) the Company and each of its Subsidiaries have complied in all material respects with all applicable Laws and contractual and fiduciary obligations relating to the collection, storage, use, transfer and any other processing of any Personal Information collected or used by the Company or any of its Subsidiaries; (B) the Company and each of its Subsidiaries has taken commercially reasonable steps to protect all such Personal Information against unwanted loss and unauthorized access, use or disclosure; and (C) there has been no unauthorized access to or misuse of such Personal Information;

(xi) except as would not reasonably be expected to have, individually or in the aggregate, a Material Adverse Effect, the Company and its Subsidiaries have not provided copies, nor agreed to provide copies (including pursuant to any escrow arrangement), of any source code for any software owned or developed by the Company or any of its Subsidiaries (such software, "**Company Proprietary Software**") to any other Person, other than employees, contractors and consultants in the ordinary course of business consistent with past practice and subject to appropriate confidentiality restrictions; no event has occurred and no circumstance or condition exists that (with or without notice or the lapse of time, or both) will result in the delivery of any source code for any Company Proprietary Software to any other Person;

(xii) For purposes of this Agreement, the following terms have the following meanings:

"Intellectual Property Rights" means any or all material intellectual and industrial property and proprietary rights, including: (a) patents, trademarks, service marks, trade names, copyrights and copyrighted works (including website content and advertising materials), Internet domain names, designs; (b) trade secrets, know-how and other information of a confidential nature (collectively, "**Trade Secrets**"); (c) applications for and registrations of the foregoing (including divisions, provisional, continuations, continuations-in-part, reissues, re-examinations, foreign counterparts, extensions and renewals); (d) inventions (whether patentable or not), discoveries, utility models, processes, formulae, methods, confidential information, schematics, technology, computer software programs and applications, code, databases, systems and documentation; and (e) customer lists and confidential information.

"IT Assets" means computers, computer software, firmware, middleware, servers, workstations, routers, hubs, switches, data communications lines, and all other information technology equipment, and all associated documentation, in each case, used by the Company or any of its Subsidiaries.

"Owned Intellectual Property" means all Intellectual Property Rights owned by the Company or any of its Subsidiaries.

"Personal Information" means any information that alone or in combination with other information collected or used by the Company or any of its Subsidiaries can be used to specifically identify a Person. Personal Information includes credit card numbers, bank account numbers and other payment information, any individual's name, address or phone

number, usernames and passwords, social security numbers (or similar identification numbers), dates of birth and email addresses.

“**Registered**” means issued by, registered with, renewed by or the subject of a pending application before any Governmental Authority or Internet domain name registrar.

“**Social Media Accounts**” means social media profiles, accounts and handles, including those made available through Facebook, Twitter, Instagram and other similar platforms.

(r) Certain Business Practices.

(i) The Company, its Subsidiaries and, to the Knowledge of the Company, each Joint Venture Entity, and, to the Knowledge of the Company, each of their respective directors, officers, employees, consultants, sales representatives, distributors and agents have complied in all material respects with the provisions of the U.S. Foreign Corrupt Practices Act of 1977, as amended (15 U.S.C. § 78dd1, et seq.), the UK Bribery Act, any applicable Law enacted in connection with, or arising under, the Organization for Economic Cooperation and Development Convention Against Bribery of Foreign Officials in International Business Transactions and any other applicable Law that relates to bribery or corruption (collectively, “**Anti-Bribery Laws**”). The Company and its Subsidiaries and, to the Knowledge of the Company, each Joint Venture Entity (x) have instituted policies and procedures reasonably designed to ensure compliance with applicable Anti-Bribery Laws and (y) have maintained in all material respects such policies and procedures in full force and effect.

(ii) Neither the Company nor any of its Subsidiaries nor, to the Knowledge of the Company, any Joint Venture Entity, nor, to the Company’s Knowledge, any director, officer, employee, consultant, sales representative, distributor or agent of the Company or any of its Subsidiaries or any Joint Venture Entity acting on behalf of the Company or any of its Subsidiaries or, to the Knowledge of the Company, any Joint Venture Entity, have been subject to any Actions or Orders, or made any voluntary disclosures to any Governmental Authority, involving the Company or any of its Subsidiaries or, to the Knowledge of the Company, any Joint Venture Entity in any way relating to applicable Anti-Bribery Laws.

(s) Brokers and Finders. Neither the Company nor any of its officers, directors or employees has employed any broker or finder or incurred any liability for any brokerage fees, commissions or finder’s fees in connection with the Merger or the other transactions contemplated in this Agreement, except that the Company has employed B. Riley FBR, Inc. as its outside financial advisor. Prior to the date of this Agreement, the Company has delivered to Parent complete and accurate copies of all agreements pursuant to which its outside financial advisor is entitled to any fees and expenses in connection with this Agreement, the Voting Agreement or the transactions contemplated hereby or thereby, including the Merger.

(t) No Other Representations or Warranties. Except for the representations and warranties in Section 5.2, the Company acknowledges and agrees that neither Parent, Merger Sub nor any Person on behalf of Parent or Merger Sub makes any express or implied

representation or warranty with respect to Parent or Merger Sub or with respect to any other information provided to the Company in connection with the Merger and other transactions contemplated by this Agreement, including the accuracy and completeness thereof, and the Company has not relied on any information or any representation or warranty not set forth in Section 5.2.

5.2. Representations and Warranties of Parent and Merger Sub. Except as set forth in the correspondingly numbered sections or subsections of the disclosure schedule delivered to the Company by Parent immediately prior to the execution of this Agreement (the “Parent Disclosure Schedule”) (it being agreed that disclosure of any item in any section or subsection of the Parent Disclosure Schedule shall be deemed disclosure with respect to any other section or subsection to the extent (and only to the extent) that the relevance of such item is reasonably apparent on the face of such disclosure), Parent and Merger Sub each hereby represent and warrant to the Company that:

(a) Organization, Good Standing and Qualification. Each of Parent and Merger Sub (i) is a corporation duly incorporated, validly existing and in good standing under the Laws of the State of Delaware, (ii) has all requisite corporate power and authority to own, lease and operate its properties and assets and to carry on its business as presently conducted and (iii) is qualified to do business and is in good standing in each jurisdiction where the ownership, leasing or operation of its assets or properties or conduct of its business require such qualification, except where the failure to be so qualified or in good standing would not reasonably be expected, individually or in the aggregate, to prevent, materially delay or materially impair the ability of Parent or Merger Sub, as applicable, to consummate the Merger and the other transactions contemplated by this Agreement and the Voting Agreement.

(b) Corporate Authority. No vote of holders of capital stock of Parent is necessary to approve this Agreement or the Voting Agreement or the transactions contemplated hereby or thereby, including the Merger. Each of Parent and Merger Sub has all requisite corporate power and authority and has taken all corporate action necessary in order to execute, deliver and perform its obligations under this Agreement and the Voting Agreement and to consummate transactions contemplated hereby and thereby, including the Merger, subject only to the approval of this Agreement by the sole shareholder of Merger Sub. Each of this Agreement and the Voting Agreement have been duly executed and delivered by each of Parent and Merger Sub and constitutes a valid and binding agreement of Parent and Merger Sub, enforceable against each of Parent and Merger Sub in accordance with its terms, subject to the Bankruptcy and Equity Exception.

(c) Governmental Filings; No Violations.

(i) The execution, delivery and performance by Parent and Merger Sub of this Agreement and the Voting Agreement and the consummation by Parent and Merger Sub of the transactions contemplated hereby and thereby require no authorization or other action by or in respect of, or filing with, any Governmental Authority other than (A) the filing of the Certificate of Merger with the Secretary of State of the State of Delaware, (B) compliance with any applicable requirements of the Antitrust Laws, (C) compliance with any applicable

requirements of the Exchange Act, the Securities Act and any other applicable U.S. state or federal securities, takeover or “blue sky” Laws, (D) compliance with any applicable rules of NASDAQ, and (E) where the failure to take such actions or obtain such authorization would not, individually or in the aggregate, reasonably be expected to prevent, materially delay or materially impair the ability of Parent or Merger Sub to consummate the Merger and the other transactions contemplated by this Agreement.

(ii) The execution, delivery and performance by Parent and Merger Sub of this Agreement and the Voting Agreement and the consummation by Parent and Merger Sub of the transactions contemplated hereby and thereby do not and will not (A) conflict with or result in any violation or breach of any provision of the certificate or articles of incorporation or bylaws of Parent or Merger Sub, respectively, or the similar organizational documents of any of Parent’s Subsidiaries, (B) assuming compliance with the matters referred to in Section 5.2(c)(i), conflict with or result in a violation or breach of any applicable Law or (C) assuming compliance with the matters referred to in Section 5.2(c)(i), require any consent by any Person, except in the case of clauses (B) and (C) above, any such violation, breach or conflict that would not, individually or in the aggregate, reasonably be expected to prevent, materially delay or materially impair the ability of Parent or Merger Sub to consummate the Merger and the other transactions contemplated by this Agreement.

(d) Litigation. There are no pending or, to the knowledge of the executive officers of Parent, threatened Actions against Parent or Merger Sub that seek to enjoin, or would reasonably be expected to have the effect of preventing, making illegal, or otherwise interfering with, any of the transactions contemplated by this Agreement or the Voting Agreement, except as would not, individually or in the aggregate, reasonably be expected to prevent or materially delay the ability of Parent and Merger Sub to consummate the Merger and the other transactions contemplated by this Agreement.

(e) [Reserved].

(f) Ownership of Merger Sub; No Prior Activities. The authorized capital stock of Merger Sub consists solely of 1,000 shares of common stock, par value \$0.01 per share, all of which are validly issued and outstanding. All of the issued and outstanding capital stock of Merger Sub is, and at the Effective Time will be, owned by Parent or a direct or indirect wholly-owned Subsidiary of Parent, and there are (i) no other shares of capital stock or voting securities of Merger Sub, (ii) no securities of Merger Sub convertible into or exchangeable for shares of capital stock or voting securities of Merger Sub and (iii) no options or other rights to acquire from Merger Sub, and no obligations of Merger Sub to issue, any capital stock, voting securities or securities convertible into or exchangeable for capital stock or voting securities of Merger Sub. Merger Sub has not conducted any business prior to the date of this Agreement and has no, and prior to the Effective Time will have no, assets, liabilities or obligations of any nature other than those incident to its formation and pursuant to this Agreement and the Merger and the other transactions contemplated by this Agreement.

(g) Interested Stockholder Statutes. For the three years prior to the date of the Voting Agreement, none of Parent, Merger Sub or any of their respective “affiliates” or

“associates” (as defined in Section 203 of the DGCL) or, to the Knowledge of Parent, any of its stockholders has been an “interested stockholder” (as defined in Section 203 of the DGCL) with respect to the Company. Other than any deemed beneficial ownership resulting from the execution and delivery of the Voting Agreement, neither Parent, nor any of its Subsidiaries beneficially owns any Shares.

(h) Brokers and Finders. Except for J.P. Morgan Securities LLC, the fees and expenses of which will be paid by Parent, neither Parent nor Merger Sub has employed any broker or finder or incurred any liability for any brokerage fees, commissions or finder’s fees for which the Company would be responsible in connection with this Agreement, the Voting Agreement or the transactions contemplated hereby or thereby, including the Merger.

(i) Debt Financing. Parent has delivered to the Company a true and correct copy of an executed debt commitment letter to Parent (the “**Commitment Letter**”) pursuant to which the lender named therein (the “**Lender**”) has committed, subject only to the terms and conditions set forth therein, to lend Parent (and certain of Parent’s Subsidiaries) the amounts set forth therein (the “**Financing**”) for the purpose of funding the transactions contemplated by this Agreement. Parent has also delivered to the Company a true and complete (other than the redactions referenced herein) copy of any fee letter related to the Commitment Letter (it being understood that any such fee letter provided to the Company shall be redacted in a customary manner solely with respect to the fees, pricing caps and certain economic terms (including economic flex terms), which redacted information does not adversely affect the amount, availability or conditionality of the funding of the Financing) (any such fee letter, a “**Fee Letter**”). As of the date hereof, the Commitment Letter and the Fee Letters (i) are in full force and effect and (ii) have not been withdrawn or terminated or otherwise amended or modified in any respect. As of the date hereof, each Fee Letter and the Commitment Letter, in the form so delivered, is a legal, valid and binding obligation of Parent and, to the knowledge of Parent, the other parties thereto, subject in each case to the bankruptcy and principles of equity exceptions. As of the date hereof, there are no other agreements, side letters, understandings or arrangements relating to the Commitment Letter or Fee Letters, the Financing or any alternative debt financing for the transactions contemplated hereby to which Parent or any of its Subsidiaries is a party (other than the Commitment Letter and the Fee Letters). As of the date hereof, no event has occurred which, with or without notice, lapse of time or both, would constitute a default or breach on the part of Parent under any term or condition of the Commitment Letter or Fee Letters. There are no conditions precedent or other contingencies related to the funding of the full amount of the Financing, other than as expressly set forth in the Commitment Letter. Parent has (or has caused to be) fully paid any and all commitment fees or other fees required by the Commitment Letter or Fee Letters to be paid by it on or prior to the date of this Agreement. As of the date hereof, assuming the accuracy of the representations and warranties set forth in Section 5.1 and the performance by the Company of its obligations under Article VI and the satisfaction of the conditions set forth in Article VII, Parent is not aware of any fact or occurrence that, with or without notice, lapse of time or both, would reasonably be expected to (i) result in any of the conditions in the Commitment Letter not being satisfied, or (ii) otherwise result in the Financing not being available on a timely basis and in a sufficient amount, in each case in order to consummate the transactions contemplated by this Agreement. The net proceeds from the Financing, together with cash on hand of Parent and its Subsidiaries and the Company

and the Subsidiaries, will be sufficient to consummate the transactions contemplated by this Agreement. Parent confirms that it is not a condition to Closing or any of its other obligations under this Agreement that Parent obtain financing for or in connection with the transactions contemplated by this Agreement.

(j) No Other Representations or Warranties. Except for the representations and warranties in Section 5.1 (as modified by the Company Disclosure Schedule), each of Parent and Merger Sub acknowledges and agrees that neither the Company nor its Subsidiaries, Affiliates or Representatives or the Joint Venture Entity, nor any Person on their behalf makes any express or implied representation or warranty with respect to the Company or any Subsidiary of the Company or the Joint Venture Entity or with respect to any other information, including the accuracy and completeness thereof, provided to Parent or Merger Sub in connection with the Merger and the other transactions contemplated by this Agreement (including any relating to financial condition, results of operations, prospects, assets or liabilities of the Company or its Subsidiaries or the Joint Venture Entity), and neither Parent nor Merger Sub has relied on any information or any representation or warranty not set forth in Section 5.1. Without limiting the express representations and warranties in Section 5.1, and without limiting the broad nature of the disclaimer set forth in the prior sentence, each of Parent and Merger Sub acknowledges and agrees that no representation or warranty is made or implied as a result of the Company making available to Parent and Merger Sub any management presentations, information, documents, projections, forecasts and other material in the electronic data room maintained by or on behalf of the Company to which Parent and its Representatives were provided access prior to the date of this Agreement (the “**Data Room**”) or otherwise, including the accuracy and completeness thereof, and neither Parent nor Merger Sub has relied on such information.

ARTICLE VI

Covenants

6.1. Interim Operations.

(a) Except as otherwise (i) expressly permitted or required by this Agreement, (ii) required by applicable Law, (iii) expressly approved in writing by Parent (such approval not to be unreasonably withheld, delayed or conditioned) or (iv) expressly set forth in Section 6.1(a) of the Company Disclosure Schedule, from the date of this Agreement until the Effective Time, the Company will, and will cause its Subsidiaries to conduct their businesses in the ordinary course of business consistent with past practice and use its and their reasonable best efforts to maintain and preserve intact the material aspects of their business organizations, to maintain their business relationships and goodwill with suppliers, contractors, distributors, customers, partners, employees, licensors, licensees and others having material business relationships with it, to retain the services of the Company’s and its Subsidiaries’ employees and business associates and agents and to comply in all material respects with all applicable Laws and the requirements of all Material Contracts.

(b) Without limiting the generality of the foregoing, except as otherwise

expressly (x) permitted or required by this Agreement, (y) approved in writing by Parent (such approval not to be unreasonably withheld, delayed or conditioned) or (z) set forth in Section 6.1(b) of the Company Disclosure Schedule, from the date of this Agreement until the Effective Time, the Company will not, and will cause its Subsidiaries not to:

(i) (x) adopt or propose any change in the Charter or bylaws of the Company or (y) adopt any change in the comparable organizational document of any Subsidiary of the Company;

(ii) merge or consolidate the Company or any of its Subsidiaries with any other Person, except for any such transaction between or among any of its Subsidiaries that would not impose, individually or in the aggregate, any changes or restrictions on its assets, operations or business or on the assets, operations and business of the Company and its Subsidiaries taken as a whole that would be adverse to Parent or any of its Affiliates, or restructure, reorganize or completely or partially liquidate or otherwise enter into any agreement or arrangement imposing, individually or in the aggregate, any changes or restrictions on the assets, operations or business or on the assets, operations and business of the Company or any of its Subsidiaries that would be adverse to Parent or any of its Affiliates;

(iii) acquire (by merger, consolidation, acquisition of stock or assets or otherwise), directly or indirectly, any material assets, securities, properties, rights, interests or businesses (other than purchases of supplies, equipment, managed services, cloud services, software or inventory in the ordinary course of business consistent with past practice);

(iv) sell, lease, license, mortgage, pledge, surrender, encumber, divest, cancel, abandon or allow to lapse or expire, transfer or dispose of, or create or incur any Lien (other than Permitted Liens) on, any of the Company's or its Subsidiaries' material assets (including Intellectual Property Rights), securities, properties, rights, interests or businesses (including pursuant to any sale-leaseback transaction or asset securitization transaction but excluding any sale, disposition, lease or license of inventory or product in the ordinary course of business consistent with past practice);

(v) purchase, redeem or otherwise acquire, or authorize or agree to purchase, redeem or acquire, any Group Securities (other than Group Securities of wholly owned Subsidiaries of the Company and other than the acceptance of Shares as payment for the exercise price of Company Options (including pursuant to a net exercise feature) or for withholding taxes incurred in connection with the exercise of Company Options or the vesting or net settlement of other Group Securities outstanding under the Stock Plans (and dividend equivalents thereon, if any), in each case to the extent such Group Securities for withholding taxes that are outstanding as of the date of this Agreement and in accordance with their applicable terms on the date of this Agreement);

(vi) except (A) for Shares issuable upon the exercise or conversion of Company Options or Company RSUs outstanding on the date hereof; or (B) with respect to Parent's and Merger Sub's participation in the transactions contemplated by this Agreement, issue, sell, grant, dispose of, pledge, deliver, transfer or otherwise encumber or authorize,

propose or agree to the issuance, sale, grant, disposition, pledge, delivery, transfer or encumbrance by the Company or any of its Subsidiaries of, any Group Securities;

(vii) make any loans, advances or capital contributions to, or investments in, any Person (other than the Company or any of its wholly-owned Subsidiaries), whether or not in the ordinary course of business consistent with past practice, in an amount greater than \$500,000 individually or \$2,000,000 in the aggregate;

(viii) declare, set aside, make or pay any dividend or other distribution, payable in cash, stock, property or otherwise, with respect to any Group Securities or consent to any dividend or distribution of each Joint Venture Entity (except for dividends or other distributions paid by any wholly-owned Subsidiary of the Company to the Company or to any other wholly-owned Subsidiary of the Company or pro rata dividends or distributions by Joint Venture Entities) or enter into any agreement with respect to the voting of Group Securities or Joint Venture Entity Securities;

(ix) reclassify, split, combine or subdivide any of the capital stock of the Company;

(x) create, incur or assume any material indebtedness for borrowed money (other than trade payables (including, for avoidance of doubt, indebtedness associated with the purchase of products or services of the Company) and company credit cards, in each case in the ordinary course of business consistent with past practice) or guarantee, endorse or otherwise become responsible (whether directly, contingently or otherwise) for any such indebtedness;

(xi) other than facilities or technology capital expenditures in the ordinary course of business consistent with past practice, make or commit to any capital expenditure or expenditures in an amount greater than \$500,000 individually or \$2,000,000 in the aggregate;

(xii) enter into any agreement, arrangement or commitment that materially limits or otherwise restricts the Company or its Subsidiaries from engaging or competing in any line of business or in any geographic area or otherwise enter into any agreements, arrangements or commitments imposing material changes or restrictions on its assets, operations or business, except in the ordinary course of business consistent with past practices;

(xiii) (A) enter into any Contract that, if in effect on the date hereof, would have been a Material Contract (other than in the ordinary course of business consistent with past practices), (B) terminate or amend or modify in any material respect any Material Contract or any Contract that, if in effect on the date hereof, would have been a Material Contract (other than terminations or amendments in the ordinary course of business consistent with past practice), (C) waive in any material respect any term of, or waive any material default under, or release, settle or compromise any material claim against the Company or any of its Subsidiaries or material liability or obligation owing to the Company or any of its Subsidiaries under, any Material Contract or any Contract that, if in effect on the date hereof, would have been a Material Contract or (D) enter into any Contract that contains a change of control provision or any similar provision that would require a payment to the other party or parties thereto as a

result of the consummation of the Merger or the other transactions contemplated by this Agreement (including in combination with any other event or circumstance); it being agreed that the entry into, termination, amendment or modification of any Contract that (x) is or would be a Material Contract of the type described in clauses (A), (B), (C), (D), (F) (with respect to entering into a new Real Property Lease or terminating, amending or modifying a Real Property Lease in effect as of the date of this Agreement), (J), (K), (M) or (N) of Section 5.1(j)(i), or (y) will involve payments to or from the Company and/or any of its Subsidiaries in excess of \$15,000,000 in any one-year period, in each case, will not be considered to be in the ordinary course of business consistent with past practices;

(xiv) materially change the Company's methods of accounting, except as required by concurrent changes in GAAP or in Regulation S-X of the Exchange Act;

(xv) agree to or otherwise settle, compromise or otherwise resolve in whole or in part any Action for an amount in excess of \$500,000 individually or \$2,000,000 in the aggregate; provided, however, neither the Company nor any of its Subsidiaries shall settle any Action (regardless of the amount involved) if any such settlement would impose any material obligation or restriction on the Company or its Subsidiaries from time to time or on the Company's or its Subsidiaries' ability to own or operate any of its assets, licenses, operations, rights, product lines, businesses or interests therein or require any material changes to the business of the Company or its Subsidiaries from time to time;

(xvi) except as may be required by applicable Law, (A) make a new material Tax election or change any material Tax election, (B) change any entity classification of any Subsidiary, (C) create a permanent establishment in any country other than the country in which the Company or any of its Subsidiaries is organized, (D) file any amended income Tax Return or other material amended Tax Return, (E) adopt or change any annual Tax accounting period or material accounting method for Taxes, (F) settle or compromise any material Tax claim, (G) surrender any material claim for a refund of Taxes, (H) enter into any closing agreement relating to Taxes or (I) file any income Tax Return or other material Tax Return that is inconsistent with past practice;

(xvii) take or fail to take any action that would reasonably be expected to result in any of the conditions set forth in Article VII (Conditions) not to be satisfied or prevent or materially impede the consummation of the transactions contemplated by this Agreement, except as permitted under Section 6.2;

(xviii) announce, implement or effect any material reduction in labor force, lay-off, early retirement program, severance program or other program or effort concerning the termination of employment of employees of the Company (including any "plant closing" or "mass layoff" as those terms are defined in the WARN Act or any similar action under a similar Law), other than routine employee terminations in the ordinary course of business consistent with past practice;

(xix) adopt a plan of complete or partial liquidation, dissolution, merger, consolidation, restructuring, recapitalization or other reorganization of the Company (other than the Merger);

(xx) except as required by applicable Law or pursuant to the terms of any Benefit Plan as in effect as of the date of this Agreement and set forth in the Company Disclosure Schedule, (A) terminate, adopt, establish, enter into, amend or renew (or communicate any intention to take such action) any Benefit Plan, (B) increase in any manner the compensation, benefits, severance or termination pay of any of the current or former directors, officers, employees or consultants who are natural persons of the Company or its Subsidiaries, (C) pay any bonus or incentive compensation under any Benefit Plan, other than payments based on actual performance for completed performance periods, (D) accelerate the vesting of or lapsing of restrictions, or amend the vesting requirements, with respect to any equity-based compensation or other long-term incentive compensation under any Benefit Plan, (E) grant any new awards, or amend or modify the terms of any outstanding awards, under any Benefit Plan, (F) take any action to accelerate the payment, or to fund or secure the payment, of any amounts under any Benefit Plan, (G) forgive any loans or issue any loans (other than routine travel advances issued in the ordinary course of business) to any Company employee, (H) hire any employee or consultant who is a natural person with a target total annual cash compensation (e.g., base pay or base rate and short-term cash incentive target amounts) opportunity in excess of \$200,000, (I) enter into any collective bargaining agreement or other agreement with a labor union, works council or similar organization or (J) terminate without cause the employment of any executive officer of the Company; or

(xxi) agree, authorize or commit to do any of the foregoing.

(c) Prior to making any broad-based written or oral communications to the officers or employees of the Company or any of its Subsidiaries pertaining to compensation or benefit matters that are affected by the transactions contemplated by this Agreement, the Company shall provide Parent with a copy of the intended communication (or, in the case of any oral communications, copies of scripts, talking points or other similar materials), upon providing Parent with the communication, Parent shall have a reasonable period of time to review and comment on the communication, and Parent and the Company shall cooperate in providing any such mutually agreeable communication.

(d) Nothing contained in this Agreement is intended to give Parent or Merger Sub, directly or indirectly, the right to control or direct the operations of the Company and its Subsidiaries prior to the Effective Time. Prior to the Effective Time, the Company shall exercise, consistent with the terms and conditions of this Agreement, complete control and supervision over its and its Subsidiaries' respective operations.

6.2. Acquisition Proposals; Change of Recommendation.

(a) No Solicitation or Negotiation. Except as expressly permitted by this Section 6.2, the Company shall not, and shall cause its Subsidiaries and each of their respective directors and officers not to, and shall use its reasonable best efforts to cause its and its

Subsidiaries' employees, investment bankers, attorneys, accountants and other advisors or representatives (such directors, officers, employees, investment bankers, attorneys, accountants and other advisors or representatives, collectively, "**Representatives**") not to, directly or indirectly:

(i) initiate, solicit, propose, knowingly encourage or knowingly facilitate any inquiry, proposal, indication of interest or offer that constitutes, or could reasonably be expected to lead to, an Acquisition Proposal;

(ii) engage in, continue or otherwise participate in any discussions or negotiations relating to any Acquisition Proposal or any inquiry, proposal, indication of interest or offer that could reasonably be expected to lead to an Acquisition Proposal (other than to state that the terms of this provision prohibit such discussions);

(iii) provide any information to any Person in connection with any Acquisition Proposal;

(iv) subject to Section 6.2(i), waive, terminate, modify or fail to enforce any "standstill" or confidentiality or similar obligation of any Person (other than any party hereto) with respect to the Company or any of its Subsidiaries; or

(v) otherwise knowingly facilitate any effort or attempt to make an Acquisition Proposal.

(b) Notwithstanding anything to the contrary in Section 6.2(a), prior to the time, but not after, the Requisite Company Vote is obtained, in response to an Acquisition Proposal not solicited in material violation of this Section 6.2, the Company may:

(i) contact the Person making such Acquisition Proposal or its Representatives solely to ascertain the facts or clarify the terms and conditions of such Acquisition Proposal;

(ii) provide information in response to a request therefor (including non-public information regarding the Company or any of its Subsidiaries) to the Person who made such Acquisition Proposal, provided that such information has previously been made available to, or is made available to, Parent substantially concurrently at the time such information is made available to such Person (and in any event within 24 hours of such time) and that, prior to furnishing any such information, the Company receives from the Person making such Acquisition Proposal an executed confidentiality agreement with terms not less restrictive, with respect to confidentiality, to the other party than the terms in the Confidentiality Agreement are on Parent; provided, that the Company shall not enter into any confidentiality agreement with any Person subsequent to the date of this Agreement which prohibits the Company from providing any information to Parent in accordance with this Section 6.2 or otherwise prohibits the Company from complying with its obligations under this Agreement; provided, further, that the Company shall not provide information to any Person pursuant to any confidentiality agreement entered into prior to the date of this Agreement unless such Person agrees prior to receipt of such information to waive any provision that would prohibit the Company from

providing any information to Parent in accordance with this Section 6.2 or otherwise prohibit the Company from complying with its obligations under this Agreement; and

(iii) participate in discussions or negotiations with any such Person regarding such Acquisition Proposal;

in each case, if, and only if, prior to taking any action described in clauses (ii) or (iii) above, the Company Board determines in good faith after consultation with outside legal counsel that (A) based on the information then available and after consultation with its outside financial advisors, such Acquisition Proposal either constitutes a Superior Proposal or would reasonably be expected to result in a Superior Proposal and (B) the failure to take such action would be inconsistent with the directors' fiduciary duties under applicable Law.

(c) The Company shall promptly (and, in any event, within 24 hours) give written notice to Parent if the Company or any of its Subsidiaries receives (i) any inquiry, proposal, indication of interest or offer with respect to an Acquisition Proposal, (ii) any request by any Person or group for information in connection with or with respect to any Acquisition Proposal, or (iii) any request by any Person or group for discussions or negotiations, or to initiate or continue discussions or negotiations, with respect to an Acquisition Proposal, setting forth in such notice the name of such Person or group and the material terms and conditions of any proposals or offers (including, if applicable, complete copies of any written request, inquiry, proposal, indication of interest or offer) and thereafter shall keep Parent informed, on a reasonably current basis (and, in any event, within 24 hours), of the status and material terms of any such proposals or offers (including any material amendments thereto) and any material changes to the status of any such discussions or negotiations, including any change in its intentions as previously notified.

(d) For purposes of this Agreement:

"Acquisition Proposal" means any proposal, indication of interest or offer relating to (i) a merger, joint venture, partnership, collaboration, consolidation, dissolution, liquidation, tender offer, recapitalization, reorganization, spin-off, share exchange, business combination or similar transaction involving the Company or any of its Subsidiaries, (ii) any acquisition by any Person or group resulting in, or any proposal, indication of interest or offer that in the case of either of the foregoing clauses (i) or (ii), if consummated, would result in any Person or group becoming the beneficial owner of, directly or indirectly, in one or a series of related transactions, 15% or more of the total voting power or of any class of equity securities of the Company or those of any of its Subsidiaries or assets representing 15% or more of the consolidated net revenues, net income or total assets (including equity securities of any of the Company's Subsidiaries and equity securities of any other entity) of the Company or (iii) any combination of the foregoing, in each case other than the transactions contemplated by this Agreement.

"Superior Proposal" means a bona fide written Acquisition Proposal that did not result from a material breach of this Agreement or the Voting Agreement that would result in any Person or group becoming the beneficial owner of, directly or indirectly, more than 50% of the

total voting power or of any class of equity securities of the Company or assets representing more than 50% of the consolidated net revenues, net income or total assets (including equity securities of the Company's Subsidiaries and equity securities of any other entity) of the Company, that the Company Board has determined in good faith, after consultation with its outside legal counsel and its outside financial advisor, taking into account all legal, financial, financing and regulatory aspects of the Acquisition Proposal, the identity of the Person(s) making the proposal and the likelihood of the proposal being consummated in accordance with its terms, that, if consummated, would result in a transaction that is more favorable to the Company's stockholders from a financial point of view than the transactions contemplated by this Agreement (after taking into account any revisions to the terms of this Agreement proposed by Parent pursuant to Section 6.2(f)).

(e) No Change of Recommendation or Alternative Acquisition Agreement. Except as permitted by Section 6.2(f) and Section 6.2(g), the Company Board, including any committee thereof, shall not:

(i) withhold or withdraw or fail to make when required by this Agreement (or publicly propose or resolve to withhold or withdraw or fail to make when required by this Agreement) the Company Recommendation with respect to the Merger;

(ii) qualify or modify (or publicly propose or resolve to qualify or modify) the Company Recommendation with respect to the Merger in a manner adverse to Parent;

(iii) approve or recommend, or publicly declare advisable, any Acquisition Proposal;

(iv) fail to include the Company Recommendation in the Proxy Statement;

(v) if any Acquisition Proposal that is structured as a tender offer or exchange offer for outstanding Shares is commenced pursuant to Rule 14d-2 of the Exchange Act, fail to recommend against acceptance of such offer by the Company's stockholders within ten Business Days following a request by Parent or, if sooner, the Business Day prior to the Company Shareholders Meeting;

(vi) approve or recommend, or publicly declare advisable or publicly propose to enter into, any letter of intent, memorandum of understanding, agreement in principle, acquisition agreement, merger agreement, option agreement, joint venture agreement, partnership agreement, collaboration agreement or other agreement (other than a confidentiality agreement pursuant to Section 6.2(b)), in each case providing for an Acquisition Proposal (an "Alternative Acquisition Agreement," the transaction(s) contemplated thereby, an "Alternative Transaction"); and any of the actions set forth in the foregoing clauses (i) through (vi), a "Change of Recommendation"); or

(vii) cause or permit the Company to enter into an Alternative Acquisition Agreement.

(f) Notwithstanding anything to the contrary set forth in this Agreement, prior

to the time, but not after, the Requisite Company Vote is obtained, the Company Board may effect a Change of Recommendation if the Company Board has determined in good faith, after consultation with its outside financial advisors and outside legal counsel, that (x) in the case that the Change of Recommendation is not made in response to an Acquisition Proposal, that an Intervening Event has occurred and the failure to take such action would be in violation of the directors' fiduciary duties under applicable Law, and (y) in the case that such Change of Recommendation is made in response to an Acquisition Proposal, such Acquisition Proposal constitutes a Superior Proposal and the failure to take such action would be inconsistent with the directors' fiduciary duties under applicable Law; provided, however, that the Company Board shall not take any action set forth above unless and until (1) the Company has given Parent written notice of its intention to take such action three Business Days in advance, which notice shall comply with the provisions of Section 6.2(c) (if applicable), setting forth in writing that management of the Company intends to recommend to the Company Board that it take such action; (2) after giving such notice and prior to taking such action, the Company has negotiated in good faith with Parent (to the extent Parent wishes to negotiate) to enable Parent to propose in writing a binding offer to make such revisions to the terms of this Agreement such that it would cause such Superior Proposal to no longer constitute a Superior Proposal (or, in the case of a Change of Recommendation not involving an Acquisition Proposal, that the failure to effect a Change of Recommendation would not be reasonably likely to be inconsistent with the directors' fiduciary duties under applicable Law); and (3) at the end of the three Business Day period and prior to taking any such action, the Company Board has considered in good faith any such binding offer to make revisions to the terms of this Agreement proposed by Parent and any other information offered by Parent in response to the notice, and has determined in good faith, after consultation with outside legal counsel and its outside financial advisors, that in the case of a Superior Proposal, the Superior Proposal continues to constitute a Superior Proposal (or, in the case of a Change of Recommendation not involving an Acquisition Proposal, that the failure to effect a Change of Recommendation would be inconsistent with the directors' fiduciary duties under applicable Law) if such changes proposed in such binding offer by Parent were to be given effect. In the event of any modification to the financial terms or any other material terms of any Acquisition Proposal, the proviso in the immediately preceding sentence shall apply again with references to "three Business Days" being replaced with "two Business Days".

"Intervening Event" means a change, effect, event, circumstance or development that was not known to or reasonably foreseeable by the Company or the Company Board as of the date of this Agreement; provided, however, that in no event shall any of the following constitute or be deemed to be an Intervening Event: (i) the receipt, existence or terms of an Acquisition Proposal or any matter arising therefrom; (ii) changes in the stock price of the Company, as such, it being understood that, subject to the other limitations set forth in this definition, one or more events underlying a change in the Company's stock price may qualify as an Intervening Event; (iii) any event, change or circumstance relating to Parent, Merger Sub or any of their respective Affiliates; (iv) the timing of any regulatory approvals or other action by or in respect of any Governmental Authority; or (v) any failure by the Company to meet any (or the publication of any report regarding) projections, forecasts, budgets estimates or outlook of or relating to the Company or its Subsidiaries, including with respect to revenues or earnings or other internal or external financial or operating projections.

(g) Certain Permitted Disclosure. Nothing contained in this Agreement shall prohibit the Company, the Company Board or any committee of the Company Board from (i) taking and disclosing to the stockholders of the Company a position contemplated by Rule 14e-2(a), Rule 14d-9 or Item 1012(a) of Regulation M-A promulgated under the Exchange Act or (ii) making any disclosure to the stockholders of the Company that is required by applicable Law; provided, however, that if such disclosure has the substantive effect of withholding or withdrawing, adversely qualifying, modifying or failing to make when required by this Agreement the Company Recommendation, such disclosure shall be deemed to be a Change of Recommendation and Parent shall have the right to terminate this Agreement as set forth in Section 8.1(g); it being understood that a “stop, look and listen” or similar communication of the type contemplated by Rule 14d-9(f) under the Exchange Act shall not be deemed to be a Change of Recommendation.

(h) Existing Discussions. The Company shall, and shall cause its Subsidiaries and their respective Representatives to immediately cease and cause to be terminated any discussions and negotiations with any Person conducted heretofore with respect to any Acquisition Proposal or proposal or transaction that could reasonably be expected to lead to an Acquisition Proposal. The Company shall within 24 hours after execution of this Agreement deliver a written notice to each such Person providing only that the Company is ending all discussions and negotiations with such Person with respect to any Acquisition Proposal or proposal or transaction that could reasonably be expected to lead to an Acquisition Proposal, which notice shall also request the prompt return or destruction of all confidential information concerning the Company and any of its Subsidiaries. The Company will immediately terminate all physical and electronic data access previously granted to such Persons.

(i) Limits on Release of Standstill and Confidentiality. During the period commencing with the execution and delivery of this Agreement and continuing until the earlier to occur of the termination of this Agreement pursuant to Article VIII and the Effective Time, the Company shall not terminate, amend, modify or waive any provision of any confidentiality, “standstill” or similar agreement entered into in connection with any Acquisition Proposal proposed, discussed or negotiated on or prior to the date of this Agreement to which the Company or any of its Subsidiaries is a party and shall enforce, to the fullest extent permitted under applicable Law, the provisions of any such agreement, including by obtaining injunctions to prevent any breaches of such agreements and to enforce specifically the terms and provisions thereof. Notwithstanding anything to the contrary contained in this Agreement, the Company shall be permitted to terminate, amend, modify, waive or fail to enforce any provision of any such confidentiality, “standstill” or similar obligation of any Person (i) if the Company Board determines in good faith, after consultation with its outside legal counsel, that the failure to take such action would be inconsistent with the directors’ fiduciary duties under applicable Law or (ii) to the extent such provisions would prohibit any Person or Group from making an Acquisition Proposal privately to the Company Board.

6.3. Proxy Statement Filing; Information Supplied.

(a) The Company shall prepare and file with the SEC, as promptly as practicable and in any event within fifteen (15) Business Days after the date of this Agreement, a

proxy statement in preliminary form relating to the Company Shareholders Meeting (such proxy statement, including any amendment or supplement thereto, the “**Proxy Statement**”). The Company shall promptly notify Parent of the receipt of all comments from the SEC with respect to the Proxy Statement and of any request by the SEC for any amendment or supplement thereto or for additional information and shall promptly provide to Parent copies of all correspondence between the Company and/or any of its Representatives and the SEC with respect to the Proxy Statement. The Company shall use its reasonable best efforts to promptly provide responses to the SEC with respect to all comments received on the Proxy Statement from the SEC, and the Company shall cause the definitive Proxy Statement to be mailed to the stockholders of the Company as promptly as practicable after the date the SEC staff advises (i) that it has no further comments thereon or (ii) that the Company may commence mailing the Proxy Statement. The Company agrees, as to itself and its Subsidiaries, that (i) the Proxy Statement will comply in all material respects with the applicable provisions of the Exchange Act and the rules and regulations thereunder and (ii) none of the information supplied by it or any of its Subsidiaries for inclusion or incorporation by reference in the Proxy Statement will, at the date of mailing to stockholders of the Company or at the time of the Company Shareholders Meeting, contain any untrue statement of a material fact or omit to state any material fact required to be stated therein or necessary in order to make the statements therein, in light of the circumstances under which they were made, not misleading. Parent agrees that none of the information supplied by it in writing specifically for inclusion in the Proxy Statement will, at the date of mailing to stockholders of the Company or at the time of the Company Shareholders Meeting, contain any untrue statement of a material fact or omit to state any material fact required to be stated therein or necessary in order to make the statements therein, in light of the circumstances under which they were made, not misleading.

(b) The Company shall provide legal counsel to Parent with a reasonable opportunity to review and comment on drafts of the Proxy Statement and any other documents related to the Company Shareholders Meeting prior to filing such documents with the applicable Governmental Authority and mailing such documents to the Company’s stockholders. The Company shall include in the Proxy Statement and such other documents related to the Company Shareholders Meeting all comments reasonably proposed by Parent or its legal counsel and agrees that all information relating to Parent and its Subsidiaries included in the Proxy Statement shall be in form and content reasonably satisfactory to Parent. The foregoing provisions of this Section 6.3(b) shall not apply to any document relating to a Change of Recommendation.

6.4. Company Shareholders Meeting.

(a) The Company will take, in accordance with applicable Law and its Charter and bylaws, all action necessary to convene a meeting of the holders of Shares (the “**Company Shareholders Meeting**”) as promptly as practicable after the SEC confirms that it has no further comments on the Proxy Statement, to consider and vote upon the adoption of this Agreement and to cause such vote to be taken, and shall not postpone or adjourn such meeting, except to the extent required by Law or pursuant to this Section 6.4(a). Notwithstanding anything to the contrary in this Agreement, the Company may adjourn, recess, or postpone, and at the request of Parent it shall adjourn, recess or postpone, the Company Shareholders Meeting (i) for a reasonable period to solicit additional proxies, if the Company or Parent, respectively,

reasonably believes there will be insufficient Shares represented (either in person or by proxy) to constitute a quorum necessary to conduct the business of the Company Shareholders Meeting or to obtain the Requisite Company Vote (provided that, unless agreed in writing by the Company and Parent, all such adjournments, recesses or postponements in the aggregate shall be for a period of no more than twenty Business Days). In addition, the Company may adjourn, recess or postpone the Company Shareholders Meeting (i) with the consent of Parent (not to be unreasonably withheld, conditioned or delayed), (ii) if the Company determines, in consultation with Parent, an amendment or supplement to the Proxy Statement is required by applicable Law (in which case the Company Shareholders Meeting shall be adjourned to the extent necessary to ensure that such required amendment or supplement is provided to the Company's stockholders for the amount of time required by Law in advance of the Company Shareholders Meeting) and (iii) to a date no later than the second Business Day following the expiration of any three or two Business Day period following written notice provided by the Company to Parent in accordance with the proviso of Section 6.2(f) regarding an intent to make a Change of Recommendation. Subject to Section 6.2(f), the Company Board shall include the Company Recommendation in the Proxy Statement and shall take all lawful action to obtain the Requisite Company Vote.

(b) The Company agrees (i) to use reasonable best efforts to provide Parent reasonably detailed periodic updates concerning proxy solicitation results on a timely basis (including, if requested, promptly providing daily voting reports) and (ii) to give written notice to Parent one Business Day prior to the Company Shareholders Meeting and on the day of, but prior to, the Company Shareholders Meeting, indicating whether as of such date sufficient proxies representing the Requisite Company Vote have been obtained.

6.5. Cooperation; Antitrust Matters; Status.

(a) Subject to the terms of this Agreement, including Section 6.2, each of the Company, Parent and Merger Sub shall use reasonable best efforts to: (i) consummate and make effective the transactions contemplated by this Agreement and the Voting Agreement as promptly as reasonably practicable; (ii) obtain from any Governmental Authority any consents, licenses, permits, waivers, approvals, authorizations, clearances or orders required to be obtained by Parent or the Company or any of their respective Subsidiaries, or to avoid any proceeding by any Governmental Authority, in connection with the authorization, execution and delivery of this Agreement and the Voting Agreement and the consummation of the transactions contemplated hereby and thereby, including the Merger; (iii) defend any lawsuits or other proceedings, whether judicial or administrative, challenging this Agreement or the consummation of the transactions contemplated by this Agreement and the Voting Agreement in accordance with the terms of this Agreement or the Voting Agreement, as applicable, including seeking to have any stay, temporary restraining order or injunction entered by any court or other Governmental Authority vacated, lifted, overturned or reversed; and (iv) as promptly as reasonably practicable after the date of this Agreement, make all necessary registrations, declarations, submissions and filings, and thereafter make any other required registrations, declarations, submissions and filings with respect to the transactions contemplated by this Agreement required under the Exchange Act, any other applicable federal or state securities Laws, the HSR Act, any applicable Antitrust Laws, and any other applicable Law. Parent shall pay all filing fees required under the HSR Act or any applicable Antitrust Laws.

(b) The parties shall give (or shall cause their respective Subsidiaries to give, and in the case of the Company, will use its reasonable best efforts to cause each Joint Venture Entity to give) any notices to third parties, and shall use, and shall cause their respective Subsidiaries to use, reasonable best efforts to obtain any third-party consents that are necessary, proper or advisable to consummate the transactions contemplated by this Agreement; provided, however, that the parties shall coordinate and cooperate in determining whether any actions, consents, approvals or waivers are required to be obtained from parties to any Contracts of the Company or any of its Subsidiaries in connection with consummation of the transactions contemplated by this Agreement and seeking any such actions, consents, approvals or waivers.

(c) Without limiting the generality of anything contained in this Section 6.5, each party shall: (i) give the other parties prompt notice of the making or commencement of any request or proceeding by or before any Governmental Authority with respect to the transactions contemplated by this Agreement or the Voting Agreement; (ii) keep the other parties informed as to the status of any such request or proceeding; and (iii) promptly inform the other parties of any communication to or from the Federal Trade Commission, the Department of Justice or any other domestic or foreign Governmental Authority regarding the transactions contemplated by this Agreement or the Voting Agreement. Subject to applicable Laws relating to the exchange of information, Parent shall have the right to direct and control all matters with any Governmental Authority consistent with its obligations under this Section 6.5; provided that Parent and the Company shall have the right to review in advance and, to the extent reasonably practicable, each will consult with the other on and consider in good faith the views of the other in connection with, all of the information relating to Parent or the Company, as the case may be, and any of their respective Subsidiaries, that appears in any filing made with, or written materials submitted to, any third party and/or any Governmental Authority in connection with the transactions contemplated by this Agreement or the Voting Agreement. In addition, except as may be prohibited by any Governmental Authority or by any applicable Law, in connection with any such request or proceeding, each party hereto will permit authorized representatives of the other parties to be present at each meeting, conference or telephone call relating to such request or proceeding and to have access to and be consulted in connection with any document, opinion or proposal made or submitted to any Governmental Authority in connection with such request or proceeding.

(d) In furtherance of the covenants set forth in this Section 6.5 and subject to the limitations set forth in this Section 6.5(d), if any objections are asserted with respect to the transactions contemplated by this Agreement or the Voting Agreement under the HSR Act, any applicable Antitrust Laws or any other applicable Law or if any lawsuit or other proceeding, whether judicial or administrative, is instituted (or threatened to be instituted) by the Federal Trade Commission, the Department of Justice or any other Governmental Authority challenging the transactions contemplated by this Agreement or the Voting Agreement or which would otherwise prohibit or materially impair or delay the consummation of the transactions contemplated by this Agreement, each of Parent and the Company shall cause their respective Subsidiaries to use their respective reasonable best efforts to resolve any such objections or lawsuits or other proceedings (or threatened lawsuits or other proceedings) so as to permit consummation of the transactions contemplated by this Agreement and the Voting Agreement as soon as reasonably practicable; provided, that notwithstanding anything to the contrary contained

in this Section 6.5, nothing in this Agreement or the Voting Agreement shall require, or be construed to require, Parent or any of its Subsidiaries or other Affiliates, in order to resolve any such objections or lawsuits or other proceedings (or threatened lawsuits or other proceedings) or otherwise, to (i)(A) sell, lease, license, transfer, dispose of, divest or otherwise encumber, or hold separate pending any such action, or (B) propose, negotiate or offer to effect, or consent or commit to, any such sale, leasing, licensing, transfer, disposal, divestiture or other encumbrance, or holding separate, before or after the Effective Time, of any assets, licenses, operations, rights, product lines, businesses or interest therein of Parent, the Company or the Surviving Corporation (or any of their respective Subsidiaries or other Affiliates), or (ii) take or agree to take any other action or agree or consent to any limitations or restrictions on freedom of actions with respect to, or its ability to retain, or make changes in, any such assets, licenses, operations, rights, product lines, businesses or interest therein of Parent, the Company or the Surviving Corporation (or any of their respective Subsidiaries or other Affiliates); provided, however, that Parent can compel the Company to take any of the actions referred to above (or agree to take such actions) if such actions are effective only after the Effective Time and the Company may not take any of the actions referred to above in connection with the matters contemplated by this Section 6.5 without the written consent of Parent.

6.6. Information; Access and Reports.

(a) Subject to applicable Law and the other provisions of this Section 6.6 and solely for purposes of furthering the Merger and the other transactions contemplated hereby or integration planning relating thereto, (i) the Company and Parent each shall and shall cause its Subsidiaries to, upon reasonable request by the other, furnish the other with reasonable information in its possession concerning itself, its Subsidiaries, directors, officers and stockholders and such other matters as may be reasonably necessary or advisable in connection with the Proxy Statement or any other statement, filing, notice or application made by or on behalf of Parent, the Company or any of their respective Subsidiaries to any third party and/or any Governmental Authority in connection with the Merger or the other transactions contemplated by this Agreement or the Voting Agreement, (ii) the Company shall (and shall cause its Subsidiaries to, upon the giving by Parent of notice to the Company at least 24 hours in advance, afford Parent's officers and other authorized Representatives reasonable access, during normal business hours throughout the period prior to the Effective Time, to its officers, employees, agents, contracts, books and records, stores, offices, distribution facilities and other facilities, provided that any such access shall be conducted under the supervision of personnel of the Company and in a manner that does not unreasonably interfere with the normal operations of the Company, and, during such period, the Company shall cause its Subsidiaries to furnish to Parent reasonable information in its possession concerning its business, properties and personnel as may reasonably be requested by Parent, and (iii) the Company shall continue to provide access to Parent and its Representatives to the Data Room.

(b) The foregoing provisions of this Section 6.6 shall not require either the Company or Parent to permit any access to any of its officers, employees, agents, contracts, books or records, or its stores, offices, distribution facilities or other facilities, or to permit any inspection, review, sampling or audit, or to disclose or otherwise make available any information, documents or materials that (x) in the reasonable judgment of the Company or

Parent, would result in the violation of Law or the disclosure of any trade secrets of any third parties or violate the terms of any confidentiality provisions in any agreement with a third party entered into prior to the date of this Agreement or (y) is subject to attorney-client privilege, work product doctrine or similar privilege or (z) relates to the Company Board's consideration of this Agreement or alternatives thereto. In the event that Parent or the Company objects to any request submitted pursuant to and in accordance with this Section 6.6 and withholds information on the basis of the foregoing sentence, the Company or Parent, as applicable, shall promptly inform the other party as to the general nature of what is being withheld and the Company and Parent shall use their respective commercially reasonable efforts to make appropriate substitute arrangements to permit reasonable disclosure as promptly as reasonably practicable that does not suffer from any of the foregoing impediments, including through the use of commercially reasonable efforts to (A) obtain the required consent or waiver of any third party required to provide such information and/or (B) implement appropriate and mutually agreeable measures to permit the disclosure of such information in a manner to remove the basis for the objection, including by entering into a common interest or joint defense or similar agreement in form and substance to be reasonably agreed among the parties or the arrangement of appropriate clean room procedures or redaction of text from documents. Each of Parent and the Company, as it deems advisable and necessary, may reasonably designate competitively sensitive material provided to the other as "Outside Counsel Only Material" or with similar restrictions. All information exchanged or made available shall be governed by the terms of the confidentiality and non-disclosure agreement, dated as of July 23, 2018, between Parent and the Company, as modified by the letter agreement, dated November 23, 2018, regarding the authorization to propose a potential transaction (as it may be further amended from time to time, the "Confidentiality Agreement").

(c) No exchange of information or investigation by Parent or its Representatives pursuant to this Section 6.6 shall affect or be deemed to affect, modify or waive the representations and warranties of the Company set forth in this Agreement, and no investigation by the Company or its Representatives pursuant to this Section 6.6 shall affect or be deemed to affect, modify or waive the representations and warranties of Parent or Merger Sub set forth in this Agreement.

(d) For the avoidance of doubt, neither the foregoing provisions of this Section 6.6 nor any other provision of this Agreement or the Confidentiality Agreement shall be deemed to limit any customary disclosure (subject to customary confidentiality restrictions, including customary "click-through" confidentiality agreements, as applicable) made by Parent, Merger Sub and their Affiliates and/or Representatives to the Financing Sources, rating agencies, or otherwise in connection with efforts or activities by Parent and Merger Sub to obtain the Debt Financing.

6.7. Stock Exchange Delisting. Prior to the Closing Date, the Company shall cooperate with Parent and use reasonable best efforts to take, or cause to be taken, all actions, and do or cause to be done all things, reasonably necessary, proper or advisable on its part under applicable Laws and rules and policies of NASDAQ to enable the delisting by the Surviving Corporation of the Shares from NASDAQ and the deregistration of the Shares under the Exchange Act as promptly as practicable after the Effective Time, and in any event no more than

ten days after the Closing Date. If the Surviving Corporation is reasonably likely to be required to file any reports pursuant to the Exchange Act during the ten days after the Effective Time, the Company will deliver to Parent at least five Business Days prior to the Effective Time a substantially final draft of any such report reasonably likely to be filed during such period and fully executed officer certifications required to be filed with such reports.

6.8. Publicity. The initial press release regarding the Merger shall be a joint press release of Parent and the Company. Thereafter, neither the Company nor Parent, nor any of their respective Subsidiaries, shall issue any press release or make any other public announcement or public statement (to the extent not previously publicly disclosed or made in accordance with this Agreement) with respect to this Agreement or the transactions contemplated by this Agreement without the prior written consent of the Company (in the case of a press release or public announcement by Parent or its Subsidiaries) or Parent (in the case of a public announcement by the Company or its Subsidiaries) (such consent not to be unreasonably withheld, conditioned or delayed), except (i) as such press release or other public announcement may be required by applicable Law, in which case the party required to or whose Subsidiary is required to issue the release or make such public announcement shall use reasonable best efforts to provide the other party with a reasonable opportunity to review and comment on such release or announcement in advance of its issuance and shall give reasonable and good faith consideration to any such comments proposed by the other party or (ii) in connection with a Change of Recommendation, if and to the extent permitted by the terms of this Agreement. Notwithstanding anything to the contrary in this Section 6.8, each of the parties may make public statements in response to specific questions by the press, analysts, investors or those attending industry conferences or financial analyst conference calls, so long as any such statements are not inconsistent with previous press releases, public disclosures or public statements made jointly by Parent and the Company and do not reveal material, non-public information regarding the other parties or the transactions contemplated by this Agreement; provided, however, that without limiting the generality of the foregoing and subject to applicable Law and the rules and policies of NASDAQ, the parties agree to use reasonable best efforts to coordinate communications regarding this Agreement, the Merger and the other transactions contemplated hereby with customers, suppliers, employees, shareholders and the community in general in accordance with the joint communications plan set forth in Schedule 6.8.

6.9. Employee Benefits.

(a) Parent agrees that during the period commencing at the Effective Time and ending on December 31, 2019, each employee of the Company and its Subsidiaries who continues to be employed after the Effective Time (the “**Continuing Employees**”), including any such Continuing Employee on an approved leave of absence (including without limitation short-term disability leave), will be provided with (i) a base salary or base wage that is substantially comparable in the aggregate to the base salary or base wage provided by the Company and its Subsidiaries to such Continuing Employee immediately prior to the Effective Time, (ii) target short-term cash bonus opportunities that are substantially comparable in the aggregate as the target short-term cash bonus opportunities provided by the Company and its Subsidiaries to such Continuing Employee immediately prior to the Effective Time and (iii) retirement and welfare benefits (excluding equity and long-term incentive compensation and

defined benefit pension benefits) that are substantially comparable in the aggregate to those provided by the Company and its Subsidiaries to the Continuing Employees immediately prior to the Effective Time.

(b) Parent shall use commercially reasonable efforts to (i) cause any pre-existing conditions or limitations and eligibility waiting periods under any group health plans of Parent or its Affiliates to be waived with respect to the Continuing Employees and their eligible dependents, (ii) give each Continuing Employee credit for the plan year in which the Effective Time occurs towards applicable deductibles and annual out-of-pocket limits for medical expenses incurred prior to the Effective Time for which payment has been made and (iii) give each Continuing Employee service credit for such Continuing Employee's employment with the Company and its Subsidiaries for purposes of vesting, benefit accrual and eligibility to participate under each applicable Benefit Plan, as if such service had been performed with Parent (except for benefit accrual under defined benefit pension plans, for purposes of qualifying for subsidized early retirement benefits or retiree medical benefits or to the extent it would result in a duplication of benefits).

(c) If requested by Parent in writing no later than twenty (20) Business Days prior to the Effective Time, the Company shall cause the Company's 401(k) savings plan (the "**Company 401(k) Plan**") to be terminated effective the Business Day immediately preceding the Effective Time; provided, however, that the effectiveness of such termination may be conditioned on the occurrence of the Effective Time. In the event that Parent requests that the Company 401(k) Plan be terminated, the Company shall provide Parent with evidence that such Plan has been terminated (the form and substance of which shall be subject to review and approval by Parent) not later than the day immediately preceding the Effective Time. In the event that Parent requests that the Company 401(k) Plan be terminated, and provided that Parent has first received a Favorable IRS determination letter regarding the Company 401(k) Plan, Parent shall cause its 401(k) plan (or the plan of an Affiliate) to accept rollovers of outstanding balances and participant loans under the Company 401(k) Plan as soon as administratively practicable after the Closing Date.

(d) Notwithstanding the foregoing, nothing contained in this Agreement will (i) be treated as an amendment of any particular Benefit Plan, (ii) prevent Parent, the Surviving Corporation or any of their Affiliates from amending or terminating any of their benefit plans or, after the Effective Time, any Benefit Plan, in each case in accordance with their terms, (iii) obligate Parent, the Surviving Corporation or any of their Affiliates to retain the employment of any particular employee or (iv) create any third party beneficiary rights for the benefit of any employee of the Company or any of its Subsidiaries, any beneficiary or dependent thereof, or any collective bargaining representative thereof, with respect to this Section 6.9 or any compensation, terms and conditions of employment and/or benefits that may be provided to any Continuing Employee by Parent, the Surviving Corporation or any of their Affiliates or under any benefit plan which Parent, the Surviving Corporation or any of their Affiliates may maintain.

(e) Prior to making any written or oral communications to the directors, officers or employees of the Company or any of its Subsidiaries pertaining to compensation or

benefits that are affected by the transactions contemplated by this Agreement, the Company shall provide Parent with a copy of the intended communication, Parent shall have a reasonable period of time to review and comment on the communication, and the Company shall consider any such comments in good faith.

6.10. Expenses. Except as otherwise provided in Section 8.2(b), whether or not the Merger is consummated, all costs and expenses incurred in connection with the preparation, negotiation, execution and performance of this Agreement and the Merger and the other transactions contemplated by this Agreement, including all fees and expenses of its Representatives, shall be paid by the party incurring such expense. Notwithstanding the foregoing sentence, Parent shall bear and timely pay all filing fees associated with the HSR Act or any other applicable Antitrust Laws.

6.11. Indemnification; Directors' and Officers' Insurance.

(a) After the Effective Time, Parent shall, and shall cause the Surviving Corporation to, indemnify and hold harmless the individuals who on or prior to the Effective Time were officers or directors of the Company or its Subsidiaries or were serving at the request of the Company as an officer or director of any other corporation, partnership or joint venture, trust, employee benefit plan or other enterprise with respect to all acts or omissions by them in their capacities as such or taken at the request of the Company or any of its Subsidiaries at any time prior to the Effective Time to the fullest extent that the Company or the Subsidiary for which they were acting in such capacity would have been permitted to indemnify and hold harmless such individuals by applicable Law (including with respect to advancement of expenses).

(b) Parent and Merger Sub agree that all rights to advancement of expenses, exculpation or indemnification for acts or omissions occurring prior to the Effective Time existing as of the date of this Agreement in favor of the current and former directors and officers of the Company or any of its Subsidiaries or any of their predecessors and the heirs, executors, trustees, fiduciaries and administrators of such officer or director (each, a "**D&O Indemnitee**"), as provided in the Company's or each of its Subsidiaries' respective certificate of incorporation or bylaws (or comparable organizational or governing documents) or in any agreement, shall survive the Merger and the transactions contemplated by this Agreement and the Voting Agreement and shall continue in full force and effect in accordance with their terms. After the Effective Time, Parent and the Surviving Corporation shall (and Parent shall cause the Surviving Corporation to) fulfill and honor such obligations to the maximum extent that the Company or applicable Subsidiary would have been permitted to fulfill and honor them by applicable Law. In addition, for a period of six years following the Effective Time, Parent shall, and shall cause the Surviving Corporation and its Subsidiaries to, cause the certificate of incorporation and bylaws (and other similar organizational documents) of the Surviving Corporation and its Subsidiaries to contain provisions with respect to advancement of expenses, indemnification and exculpation that are at least as favorable as the indemnification and exculpation provisions contained in the certificate of incorporation and bylaws (or other similar organizational documents) of the Company and its Subsidiaries immediately prior to the Effective Time, and during such six-year period, such provisions shall not be amended, repealed or otherwise

modified in any respect, except as required by applicable Law.

(c) Prior to the Effective Time, the Company shall and, if the Company is unable to, Parent shall cause the Surviving Corporation as of the Effective Time to, obtain and fully pay the premium for “tail” insurance policies for the extension of (i) the directors’ and officers’ liability coverage of the Company’s existing directors’ and officers’ insurance policies and (ii) the Company’s existing fiduciary liability insurance policies, in each case providing for a claims reporting or discovery period of six years from and after the Effective Time (the “**Tail Period**”) from one or more insurance carriers with the same or better credit rating as the Company’s insurance carrier as of the date of this Agreement with respect to directors’ and officers’ liability insurance policies and fiduciary liability insurance policies (collectively, “**D&O Insurance**”), for the persons who are covered by the Company’s existing D&O Insurance as of the date of this Agreement, with terms, conditions, retentions and levels of coverage that are at least as favorable to such insured individuals as the Company’s existing D&O Insurance with respect to matters existing or occurring at or prior to the Effective Time (including in connection with this Agreement, the Voting Agreement or the transactions or actions contemplated hereby or thereby); provided, however, that the Company shall not pay, and the Surviving Corporation shall not be required to pay (and the Parent shall not be required to cause the Surviving Corporation to pay), as the case may be, for such Tail Period aggregate one-time premium costs in excess of the amount set forth in Section 6.11(c) of the Company Disclosure Schedule (the “**Premium Cap**”). If the Company and the Surviving Corporation for any reason fail to obtain such “tail” insurance policies as of the Effective Time, the Surviving Corporation shall, and Parent shall cause the Surviving Corporation to, continue to maintain in effect for the persons who are covered by the Company’s D&O Insurance existing as of the date of this Agreement for the Tail Period such D&O Insurance with terms, conditions, retentions and levels of coverage that are at least as favorable to the insureds as provided in the Company’s existing policies as of the date of this Agreement, or the Surviving Corporation shall, and Parent shall cause the Surviving Corporation to, purchase comparable D&O Insurance for the persons who are covered by the Company’s existing D&O Insurance for the Tail Period with terms, conditions, retentions and levels of coverage that are at least as favorable to the insureds as provided in the Company’s existing policies as of the date of this Agreement; provided, however, that the Surviving Corporation shall be not be required to pay (and the Parent shall not be required to cause the Surviving Corporation to pay) for such Tail Period aggregate one-time premium costs in excess of the Premium Cap and if the cost of such insurance coverage exceeds such amount, the Surviving Corporation shall obtain (and the Parent shall cause the Surviving Corporation to obtain) a policy with the greatest coverage available for a cost not exceeding such amount.

(d) The provisions of this Section 6.11 shall survive the Closing and are intended to be for the benefit of, and enforceable by, each D&O Indemnitee, and nothing in this Agreement or the Voting Agreement shall affect any indemnification rights that any such D&O Indemnitee may have under the certificate of incorporation or bylaws of the Company or any of its Subsidiaries or any Contract or applicable Law. Notwithstanding anything in this Agreement to the contrary, the obligations under this Section 6.11 shall not be terminated or modified in such a manner as to adversely affect any D&O Indemnitee without the consent of such D&O Indemnitee.

(e) In the event that the Company, the Surviving Corporation or any of their Subsidiaries (or any of their respective successors or assigns) shall consolidate or merge with any other Person and shall not be the continuing or surviving corporation or entity in such consolidation or merger, or transfers at least 50% of its properties and assets to any other Person, then in each case proper provision shall be made so that the continuing or surviving corporation or entity (or its successors or assigns, if applicable), or transferee of such assets, as the case may be, shall assume the obligations set forth in this Section 6.11.

6.12. Resignations. To the extent requested by Parent, the Company shall cause each director or officer of the Company to resign in such capacity, with such resignations to be effective as of the Effective Time.

6.13. Shareholder Litigation. Each of Parent and the Company shall promptly notify the other of any shareholder litigation against it or any of its Representatives, in each case, arising out of or relating to this Agreement, the Voting Agreement or the other transactions contemplated hereby or thereby, including the Merger, and shall keep the other reasonably informed regarding any such shareholder litigation. The Company shall give Parent the opportunity to participate in on a regular basis, but not control or direct, the defense, prosecution or settlement of any shareholder litigation against the Company, its Subsidiaries or any of their respective directors or officers (including by providing copies of all pleadings with respect thereto), (b) afford Parent a reasonable opportunity to review and comment on filings and responses related thereto and (c) on a current basis, keep Parent apprised of, and consult with Parent with respect to, proposed strategy and any significant decisions related thereto. In no event shall the Company settle or offer, compromise or agree to settle or compromise, or take any other action to settle, compromise or moot, any shareholder litigation without Parent's prior written consent (which consent shall not be unreasonably withheld, conditioned or delayed).

6.14. Other Actions by the Company.

(a) Takeover Statutes. If any Takeover Statute is or may become applicable to the Merger or the other transactions contemplated by this Agreement or the Voting Agreement, the Company and the Company Board shall grant such approvals and take such actions as are necessary so that such transactions may be consummated as promptly as practicable on the terms contemplated by this Agreement and otherwise act to eliminate or minimize the effects of such statute or regulation on such transactions.

(b) Section 16 Matters. The Company and the Company Board (or a duly formed committee thereof consisting of non-employee directors (as such term is defined for the purposes of Rule 16b-3 promulgated under the Exchange Act)), shall, prior to the Effective Time, take all such actions as may be necessary or appropriate to cause the transactions contemplated by this Agreement and any other dispositions of equity securities of the Company (including derivative securities) in connection with the transactions contemplated by this Agreement by any individual who is subject to the reporting requirements of Section 16(a) of the Exchange Act with respect to the Company to be exempt under Rule 16b-3 promulgated under the Exchange Act, to the extent permitted by applicable Law.

6.15. Approval of Sole Shareholder of Merger Sub. Immediately following execution of this Agreement, Parent (directly or through its Subsidiaries) shall cause the sole shareholder of Merger Sub to execute and deliver, in accordance with applicable Law and its certificate of incorporation and bylaws, a written consent approving the plan of merger contained in this Agreement and thereafter, (i) Parent shall give prompt written notice of such consent to the Company and (ii) neither Parent nor its Subsidiaries shall amend, modify or withdraw such consent.

6.16. Treatment of Company Indebtedness. Upon request of Parent, the Company and its Subsidiaries shall use its commercially reasonable efforts to take any actions reasonably requested by Parent that are necessary to facilitate the payoff by Parent of the indebtedness pursuant to (a) the Fifth Amended and Restated Loan and Security Agreement, dated as of October 24, 2017, by and among PCM, Inc. and certain of its Subsidiaries, the lenders party thereto, Wells Fargo Capital Finance, LLC, as administrative agent, and the other parties party thereto from time to time (as amended, restated, supplemented or otherwise modified), (b) the Credit Agreement, dated as of July 7, 2016, between PCM, Inc. and Castle Pines Capital LLC (as amended, restated, supplemented or otherwise modified), (c) the Loan Agreement, dated as of May 11, 2010, between Stack Data Solutions Ltd and National Westminster Bank Plc (as amended, restated, supplemented or otherwise modified), (d) the Term Loan Agreement, dated as of January 15, 2015, between PCM, Inc. and The Huntington National Bank (as amended, restated, supplemented or otherwise modified), (e) the Credit Agreement, dated as of June 15, 2011, between PCM, Inc. and U.S. Bank National Association (as amended, restated, supplemented or otherwise modified), (f) the Note Secured by Deed of Trust, dated as of March 25, 2015, between PCM, Inc. and Citi National Bank (as amended, restated, supplemented or otherwise modified), and (g) the Credit Agreement, dated as of July 9, 2013, between PCM, Inc. and U.S. Bank National Association (as amended, restated, supplemented or otherwise modified), including by obtaining a payoff letter in customary form from the agent or other applicable party under each such debt instrument (and delivering a draft of each such payoff letter to Parent not less than two (2) Business Days prior to the Closing) setting forth (i) the amount that must be paid in satisfaction or discharge of the applicable indebtedness, (ii) wire instructions for payment and (iii) assurances that upon payment of the amounts specified therein, all outstanding indebtedness, liabilities or other obligations of the Company and its Subsidiaries under such debt instrument (other than contingent obligations for which no demand has been made and other liabilities which by their terms survive the termination of the applicable agreements) shall have been paid and discharged in full and that any and all Liens securing such obligations shall be released, together with any termination statements on Form UCC-3 or other releases reasonably necessary to evidence the satisfaction and release of any Liens on the assets of the Company or its Subsidiaries arising in connection therewith; it being understood that Parent shall provide all funds required (or shall use funds of the Surviving Corporation) to actually effect such payoff and termination.

6.17. Financing.

(a) Parent shall use (and shall cause each of its Subsidiaries to use) its commercially reasonable efforts to take, or cause to be taken, all actions and to do, or cause to be done, all things necessary, proper or advisable to arrange and consummate the Financing on the

terms described in the Commitment Letter or on such other terms that are acceptable to Parent (to the extent in compliance with Section 6.17(b)), including using commercially reasonable efforts to (i) satisfy on a timely basis all conditions applicable to Parent set forth in the Commitment Letter that are within its control, (ii) maintain in effect the Commitment Letter or definitive agreements with respect thereto, (iii) negotiate and enter into definitive agreements with respect to the Commitment Letter on the terms and conditions contemplated by the Commitment Letter or on such other terms that are acceptable to Parent (to the extent in compliance with Section 6.17(b)) and enforce its rights under the Commitment Letter and (iv) consummate the Financing at or prior to the Closing; provided, however, that if funds in the amounts and on the terms set forth in the Commitment Letter become unavailable to Parent, Parent shall use (and shall cause each of its Subsidiaries to use) commercially reasonable efforts to obtain alternative debt financing (the “**Alternative Financing**”) in amounts and otherwise on terms and conditions no less favorable in the aggregate to Parent than as set forth in the Commitment Letter or on such other terms that are acceptable to Parent (to the extent in compliance with Section 6.17(b)); provided, that if Parent proceeds with Alternative Financing, it shall be subject to the same obligations as set forth in this Section 6.17 with respect to the Financing. Parent shall promptly notify the Company of (i) the expiration or termination (or attempted or purported termination, whether or not valid) of the Commitment Letter, (ii) any refusal by the Lender to provide or any stated intent by the Lender to refuse to provide the full financing contemplated by the Commitment Letter, (iii) any breach or default (or any event or circumstance that, with or without notice, lapse of time or both, would reasonably be expected to give rise to any breach or default) by any Financing Source party to the Commitment Letter or definitive document related to the Financing of which Parent becomes aware or (iv) receipt of any written notice or other written communication from the Lender with respect to any actual or potential breach, default, termination or repudiation by any party to the Commitment Letter or any definitive document related to the Financing; provided that in no event will Parent be under any obligation to disclose any information that is subject to attorney client or similar privilege if Parent shall have used its commercially reasonable efforts to disclose such information in a way that would not waive such privilege. Parent shall not replace, amend or waive the Commitment Letter (including, for the avoidance of doubt, any provision of any Fee Letter) without the Company’s prior written consent if such replacement, amendment or waiver (i) reduces the aggregate amount of the Financing below the amount required to consummate the transactions contemplated by this Agreement, or (ii) imposes new or additional conditions, or otherwise expands any of the conditions, to the receipt of Financing in a manner that would (A) reasonably be expected to delay or prevent the Closing or (B) adversely impact in any respect the ability of Parent to consummate the transactions contemplated hereby or the likelihood of consummation of the transactions contemplated hereby (provided, that, for the avoidance of doubt, Parent may replace or amend the Commitment Letter and the Fee Letters solely to add lenders, lead arrangers, bookrunners, syndication agents or similar entities that have not executed the Commitment Letter as of the date hereof). Parent shall provide to the Company copies of any commitment letter and fee letters (it being understood that any such fee letter provided to the Company shall be redacted in a customary manner solely with respect to the fees, pricing caps and certain economic terms (including economic flex terms)) associated with a replacement Financing or Alternative Financing as well as any amendment or waiver of any commitment letter (including the Commitment Letter) or fee letter (it being understood that any such amendment or waiver of any fee letter provided to the Company shall be redacted in a customary

manner solely with respect to the fees, pricing caps and certain economic terms (including economic flex terms)) that is permitted hereunder.

(b) Prior to the Closing, the Company shall provide to Parent, and shall cause its Subsidiaries, and shall use its commercially reasonable efforts to cause the respective Representatives of the Company and its Subsidiaries to, provide to Parent all cooperation reasonably requested by Parent in connection with the arrangement of any debt financing to be consummated in connection with the transactions contemplated by this Agreement (the “**Debt Financing**”), including, without limitation, the following:

(i) furnishing Parent and the Financing Sources the financial and other pertinent information regarding the Company and its Subsidiaries reasonably requested by Parent or its Financing Sources to consummate the Debt Financing and customary to be included in marketing materials for senior secured bank deals (including asset-based financings) (all such information in this clause (i), the “**Required Information**”); provided that the Required Information shall include (A) the unaudited condensed consolidated balance sheet of the Company and related unaudited condensed consolidated statements of operations, comprehensive income and cash flows of the Company for each fiscal quarter (other than the fourth fiscal quarter in any fiscal year) that shall have ended after March 31, 2019 and at least 45 days prior to the Closing Date and (B) to the extent reasonably requested by Parent, and to the extent reasonably available and determinable in the Company’s historical books and records, information with respect to the Company and its Subsidiaries as is reasonably necessary for Parent to prepare pro forma consolidated financial statements of Parent and its Subsidiaries (including the Company and its Subsidiaries) (it being understood that Parent shall be responsible for the preparation of such pro forma financial statements, including any pro forma adjustments related to the Debt Financing or any actions to be taken on or after the Closing Date and such cooperation by the Company and its Subsidiaries under this clause (B) shall relate solely to the financial information derived from the historical books and records of the Company and its Subsidiaries);

(ii) participation by management of an appropriate level in a reasonable number of meetings (including customary one-on-one meetings with the parties acting as lead arrangers or agents for, and prospective lenders and purchasers of, the Debt Financing and the applicable management and representatives of the Company), presentations, drafting sessions and sessions with rating agencies in connection with the Debt Financing (including assisting Parent in obtaining ratings as contemplated by the Debt Financing);

(iii) providing Required Information for use in the preparation of materials for rating agency presentations, bank information memoranda and similar documents required in connection with the Debt Financing;

(iv) consulting with Parent and Merger Sub in connection with the negotiation and execution of documents for the Debt Financing as may be reasonably requested by Parent, including, (A) executing customary authorization letters in connection with the Required Information and any bank information memoranda, (B) documents relating to the repayment of the existing indebtedness of the Company and its Subsidiaries and the release of

related liens, including customary payoff letters, and (C) agreements, documents or certificates that facilitate the creation and perfection of liens securing the Debt Financing as reasonably requested by Parent or the Financing Sources; provided, that no obligation of the Company or any of its Subsidiaries under any such document, agreement or pledge shall be effective until the Closing (other than any authorization letter provided pursuant to clause (A) above);

(v) if reasonably requested in writing at least ten days prior to Closing, providing at least three Business Days prior to the Closing Date, all documentation and other information required by regulatory authorities under applicable “know-your-customer” and anti-money laundering rules and regulations, including the Proceeds of Crime Act and the Patriot Act (including a certificate regarding beneficial ownership required by 31 C.F.R. §1010.230);

(vi) reasonably cooperating with the marketing efforts of Parent and the Financing Sources for all or any portion of the Debt Financing;

(vii) permitting the Debt Financing Sources to evaluate and assess the assets of the Company and its Subsidiaries for the purpose of establishing collateral arrangements and determining collateral values, to the extent customary and reasonable; and

(viii) using commercially reasonable efforts to cooperate with the due diligence investigation of the Financing Sources, to the extent customary and reasonable and not unreasonably interfering with the business of the Company or any of its Subsidiaries;

provided that nothing herein shall require such cooperation to the extent it would interfere unreasonably with the business or operations of the Company or its Subsidiaries; and provided, further, that neither the Company nor any of its Subsidiaries or their respective Representatives shall (1) be required to pay any commitment or other similar fee or incur any other cost or expense that is not reimbursed by Parent in connection with the Debt Financing as provided in Section 6.17(c) or to pass resolutions or consents to approve or authorize the execution of the Debt Financing (other than any continuing officers or directors that will remain after the Closing Date), (2) have any liability or obligation under any loan agreement and related documents (other than, subject to Section 6.17(c) below, with respect to the Company in connection with authorization letters provided pursuant to clause (iv)(A) above), in each case unless and until the Closing occurs, (3) be under any obligation to disclose any information that is subject to attorney-client or similar privilege if the Company shall have used its commercially reasonable efforts to disclose such information in a way that would not waive such privilege, or (4) be required to take any action that will conflict with or violate any Laws or result in the default under any material Contract to which the Company or any of its Subsidiaries is a party.

(c) If the Closing does not occur, Parent shall, promptly upon request by the Company, reimburse the Company for all reasonable and documented out-of-pocket costs (including reasonable and documented attorney’s fees and expenses) incurred by the Company or its Subsidiaries in connection with the cooperation described above in Section 6.17(b). Parent shall indemnify and hold harmless the Company and its Subsidiaries and their respective Representatives from and against any and all liabilities or losses suffered or incurred by them in connection with the arrangement of the Debt Financing and any information utilized in

connection therewith, in each case, except to the extent such liabilities or losses are suffered or incurred directly as a result of the bad faith, gross negligence, or willful misconduct by the Company or any of its Subsidiaries or, in each case, their respective Representatives.

(d) The Company hereby consents to the use of the logos of the Company and its Subsidiaries in connection with the Debt Financing and authorizes the Financing Sources to download copies of such logos from its website for such purposes; provided, that such logos are used solely in a manner that is not intended to nor reasonably likely to harm or disparage the Company or any of its Subsidiaries or the reputation or goodwill of the Company or any of its Subsidiaries and its or their marks.

(e) Parent acknowledges and agrees that obtaining the Debt Financing is not a condition to the Closing.

6.18. Transfer Taxes. Parent shall be responsible for, and the parties shall reasonably cooperate in the preparation, execution and filing of all returns, questionnaires, applications or other documents regarding any real property Taxes of the Company, as well as any transfer, sales, use, recording, registration and any similar Taxes of the Company incurred in connection with the transactions contemplated by this Agreement. Parent shall be responsible for the payment of all such Taxes incurred by the Company, and the parties shall reasonably cooperate in minimizing the amount of such Taxes.

ARTICLE VII

Conditions

7.1. Conditions to Each Party's Obligation to Effect the Merger. The respective obligation of each party to effect the Merger is subject to the satisfaction or waiver at or prior to the Closing of each of the following conditions:

(a) Company Shareholder Approval. This Agreement shall have been duly approved by holders of Shares constituting the Requisite Company Vote.

(b) Competition Law Filings. The waiting period applicable to the consummation of the Merger under the HSR Act shall have expired or been earlier terminated and any approval or clearance under any other Antitrust Laws shall have been obtained or deemed to have been obtained.

(c) No Legal Prohibition. No court or other Governmental Authority of competent jurisdiction shall have enacted, issued, promulgated, enforced or entered any Law (whether temporary, preliminary or permanent) that is in effect and restrains, enjoins or otherwise prohibits consummation of the Merger or the other transactions contemplated by this Agreement.

7.2. Conditions to Obligations of Parent and Merger Sub. The obligations of Parent and Merger Sub to effect the Merger are also subject to the satisfaction or waiver by Parent at or prior to the Closing of the following conditions:

(a) Representations and Warranties. (i) Each of the representations and warranties of the Company set forth in Section 5.1(c) (*Corporate Authority; Approval and Fairness*), the first sentence of Section 5.1(f) (*Absence of Certain Changes*) and Section 5.1(s) (*Brokers and Finders*) shall have been true and correct as of the date of this Agreement and shall be true and correct as of the Closing Date (except to the extent that any such representation and warranty expressly speaks as of a particular date or period of time, in which case such representation and warranty shall be so true and correct as of such particular date or period of time); (ii) each of the representations and warranties of the Company set forth in Section 5.1(b)(i) (*Capital Structure*) shall be true and correct, subject to *de minimis* inaccuracies in the aggregate, as of the date of this Agreement and shall be true and correct as of the Closing Date (except to the extent that any such representation and warranty expressly speaks as of a particular date or period of time, in which case such representation and warranty shall be so true and correct as of such particular date or period of time); and (iii) the other representations and warranties of the Company set forth in this Agreement (without giving effect to any materiality limitations, such as “material,” “in all material respects” and “Material Adverse Effect” set forth therein) shall have been true and correct as of the date of this Agreement and shall be true and correct as of the Closing Date (except to the extent that any such representation and warranty expressly speaks as of a particular date or period of time, in which case such representation and warranty shall be so true and correct as of such particular date or period of time), except, in the case of this clause (iii), for any failures of such representations and warranties to be so true and correct that have not had, and would not reasonably be expected to have, individually or in the aggregate, a Material Adverse Effect.

(b) Performance of Obligations of the Company. The Company shall have performed in all material respects all obligations required to be performed by it under this Agreement at or prior to the Closing Date.

(c) No Material Adverse Effect. Since the date of this Agreement, there shall not have occurred any Material Adverse Effect.

(d) Company Closing Certificate. Parent and Merger Sub shall have received at the Closing a certificate signed on behalf of the Company by the Chief Executive Officer or Chief Financial Officer of the Company certifying that the conditions set forth in Section 7.2(a), Section 7.2(b) and Section 7.2(c) are satisfied.

(e) Litigation. There shall not be pending any Action by any Governmental Authority that seeks, directly or indirectly, to restrain, enjoin or otherwise prohibit consummation of the Merger or the other transactions contemplated by this Agreement.

7.3. Conditions to Obligation of the Company. The obligation of the Company to effect the Merger is also subject to the satisfaction or waiver by the Company at or prior to the Closing of the following conditions:

(a) Representations and Warranties. The representations and warranties of Parent and Merger Sub set forth in this Agreement shall have been true and correct in all material respects as of the date of this Agreement and shall be true and correct in all material respects as

of the Closing Date (except to the extent that any such representation and warranty expressly speaks as of a particular date or period of time, in which case such representation and warranty shall be so true and correct in all material respects as of such particular date or period of time).

(b) Performance of Obligations of Parent and Merger Sub. Each of Parent and Merger Sub shall have performed in all material respects all obligations required to be performed by it under this Agreement at or prior to the Closing Date.

(c) Parent Closing Certificate. The Company shall have received at the Closing a certificate signed on behalf of Parent and Merger Sub by an officer of Parent certifying that the conditions set forth in Section 7.3(a) and Section 7.3(b) are satisfied.

ARTICLE VIII

Termination

8.1. Termination. This Agreement may be terminated and the Merger may be abandoned at any time prior to the Effective Time:

(a) by mutual written consent of the Company and Parent;

(b) by either Parent or the Company, if the Merger shall not have been consummated by November 20, 2019 (the “**Outside Date**”), provided that the right to terminate this Agreement pursuant to this Section 8.1(b) shall not be available to any party that has breached in any material respect its obligations under this Agreement in any manner that shall have proximately contributed to the occurrence of the failure of a condition to the consummation of the Merger;

(c) by either Parent or the Company, if the Requisite Company Vote shall not have been obtained upon a vote taken thereon at the Company Shareholders Meeting (as such meeting may have been adjourned or postponed);

(d) by either Parent or the Company, if any court or other Governmental Authority of competent jurisdiction shall have enacted, issued, promulgated, enforced or entered any Law permanently restraining, enjoining or otherwise prohibiting the consummation of the Merger or the other transactions contemplated by this Agreement and such Law shall have become final and non-appealable;

(e) by Parent, if there has been a breach by the Company of any representation, warranty, covenant or agreement set forth in this Agreement, or if any representation or warranty of the Company shall have become untrue, in either case such that any condition set forth in Section 7.2(a), Section 7.2(b) or Section 7.2(c) would not be satisfied (and such breach or failure to be true and correct is not curable prior to the Outside Date, or if curable prior to the Outside Date, has not been cured within the earlier of (i) 30 calendar days after the giving of notice thereof by Parent to the Company or (ii) three Business Days prior to the Outside Date); provided that neither Parent nor Merger Sub is then in breach of any representation, warranty, covenant or agreement under this Agreement (except where such

breach by Parent or Merger Sub would not cause any of the conditions set forth in Section 7.3(a), Section 7.3(b) or Section 7.3(c) not to be satisfied);

(f) by the Company, if there has been a breach by Parent or Merger Sub of any representation, warranty, covenant or agreement set forth in this Agreement, or if any representation or warranty of Parent or Merger Sub shall have become untrue, in either case such that any condition set forth in Section 7.3(a) or Section 7.3(b) would not be satisfied (and such breach or failure to be true and correct is not curable prior to the Outside Date, or if curable prior to the Outside Date, has not been cured within the earlier of (i) 30 calendar days after the giving of notice thereof by the non-breaching party to the breaching party or (ii) three Business Days prior to the Outside Date); provided that the Company is not then in breach of any representation, warranty, covenant or agreement under this Agreement (except where such breach by the Company would not cause any of the conditions set forth in Section 7.2(a), Section 7.2(b) or Section 7.2(c) not to be satisfied);

(g) by Parent, prior to the time the Requisite Company Vote is obtained, if a Change of Recommendation shall have been made or occurred; or

(h) by the Company, prior to the time the Requisite Company Vote is obtained and so long as the Company has complied with Section 6.2 in all material respects, in connection with entering into an Alternative Acquisition Agreement providing for a Superior Proposal in accordance with Section 6.2(f); provided that prior to or concurrently with such termination, the Company pays the Company Termination Fee due.

8.2. Effect of Termination and Abandonment

(a) Except to the extent provided in Section 9.1, in the event of termination of this Agreement and the abandonment of the Merger in accordance with Section 8.1, this Agreement shall become void and of no effect with no liability to any Person on the part of any party hereto (or of any of its Representatives or Affiliates); provided, however, that (x), subject to Section 8.2(e), no such termination shall relieve any party hereto of any liability or damages to the other party hereto resulting from any willful and material breach (as defined in Section 9.8) of this Agreement and (y) the provisions set forth in this Section 8.2 and Article IX shall survive the termination of this Agreement. The parties acknowledge and agree that nothing in this Section 8.2(a) shall be deemed to affect their right to specific performance under Section 9.5(b).

(b) In the event that this Agreement is terminated:

(i) by (I) either the Company or Parent pursuant to Section 8.1(b) (*Outside Date*) or Section 8.1(c) (*Requisite Company Vote Not Obtained*) or (II) Parent pursuant to Section 8.1(e) (*Company Breach*), in each such case:

(A) a bona fide Acquisition Proposal shall have been made to the Company or any of its Subsidiaries or any Person shall have publicly announced an intention (whether or not conditional) to make an Acquisition Proposal that has not been fully withdrawn without qualification prior to the earlier of (x) five days prior to the Company Shareholders Meeting or (y) termination of this Agreement; and

(B) within 12 months after such termination, the Company or any of its Subsidiaries shall have entered into an Alternative Acquisition Agreement with respect to such Acquisition Proposal and such Acquisition Proposal is subsequently consummated; provided that, for purposes of this Section 8.2(b)(i), the references to “15%” in the definition of “Acquisition Proposal” shall be deemed to be references to “50%”;

(ii) by Parent pursuant to Section 8.1(g) (*Company Recommendation Matters*); or

(iii) by the Company pursuant to Section 8.1(h) (*Superior Proposal*);

then, (1) in the case of Section 8.2(b)(i), within two Business Days after consummation of such Acquisition Proposal, (2) in the case of Section 8.2(b)(ii), within two Business Days after termination of this Agreement and (3) in the case of Section 8.2(b)(iii), concurrently with or prior to termination of this Agreement, the Company shall pay a termination fee of \$16.6 million (the “**Company Termination Fee**”) to Parent by wire transfer of immediately available funds to an account designated in writing by Parent.

(c) Each party acknowledges that the agreements contained in this Section 8.2 are an integral part of the transactions contemplated by this Agreement, and that, without these agreements, no party would have entered into this Agreement; accordingly, if the Company fails to timely pay Parent any amount due pursuant to Section 8.2(b) (any such amount due, a “**Termination Payment**”), and, in order to obtain such payment, Parent commences a suit that results in a judgment against the Company for the applicable Termination Payment, or any portion thereof, the Company shall pay to Parent its costs and expenses (including attorneys’ fees) in connection with such suit, together with interest thereon at the prime rate as published in *The Wall Street Journal* (or if not reported thereby, as reported in another authoritative source reasonably selected by Parent) in effect on the date such Termination Payment was required to be paid from such date through the date of full payment thereof.

(d) Each of the parties acknowledges that the Company Termination Fee is not intended to be a penalty, but rather is liquidated damages in a reasonable amount that will compensate Parent in the circumstances in which such Company Termination Fee is due and payable, for the efforts and resources expended and opportunities forgone while negotiating this Agreement and in reliance on this Agreement and on the expectation of the consummation of the transactions contemplated by this Agreement, which amount would otherwise be impossible to calculate with precision. Each of the parties acknowledges and agrees that the Company Termination Fee, if paid to Parent, shall be treated as liquidated damages that are capital in nature to which Section 1234A of the Code applies.

(e) No more than one Company Termination Fee may be payable under this Article VIII. Parent (for itself and its affiliates) hereby agrees that, upon any termination of this Agreement under circumstances in which Parent is entitled to the Company Termination Fee under Section 8.2, Parent and its Affiliates are precluded from any other remedy (other than any costs and expenses that may become payable pursuant to Section 8.2(c)) against the Company, at law or in equity or otherwise, and neither Parent nor any of its Affiliates may seek (and Parent

will cause its Affiliates not to seek) to obtain any recovery, judgment, or damages of any kind, including consequential, indirect, or punitive damages, against the Company, its Subsidiaries or Affiliates, or any of their respective Representatives, partners, managers, members, or shareholders in connection with this Agreement or the Transactions.

ARTICLE IX

Miscellaneous and General

9.1. Survival. This Article IX and the agreements of the Company, Parent and Merger Sub contained in Article IV, Section 5.1(t) (*No Other Representations or Warranties*), Section 5.2(j) (*No Other Representations or Warranties*), Section 6.9 (*Employee Benefits*), Section 6.11 (*Indemnification; Directors' and Officers' Insurance*) and Section 6.17(b) (*Financing*) shall survive the consummation of the Merger. This Article IX and the agreements of the Company, Parent and Merger Sub contained in Section 6.10 (*Expenses*), Section 6.17(b) (*Financing*), and Section 8.2 (*Effect of Termination and Abandonment*) and the Confidentiality Agreement shall survive the termination of this Agreement. All other representations, warranties, covenants and agreements in this Agreement shall not survive the consummation of the Merger or the termination of this Agreement.

9.2. Modification or Amendment. Subject to the provisions of applicable Law, at any time prior to the Effective Time, this Agreement may be amended, modified or waived if, and only if, such amendment, modification or waiver is in writing and signed, in the case of an amendment or modification by Parent, Merger Sub and the Company, or in the case of a waiver, by the party against whom the waiver is to be effective; provided that (x) after the receipt of the Requisite Company Vote, no amendment shall be made which by applicable Law requires further approval by the holders of Shares without first obtaining such further approval and (y) no provision with respect to which any Financing Source is a third party beneficiary hereunder shall be amended, modified, discharged or waived in a manner materially adverse to such Financing Source without its prior written consent. For purposes of this Agreement, the term "**Financing Sources**" means the agents, arrangers, lenders and other entities (other than Parent or Merger Sub) that have committed to provide all or any part of the Debt Financing, as parties (other than Parent or Merger Sub) to any joinder agreements, indentures or credit agreements entered into in connection therewith, together with their respective Affiliates and their and their respective Affiliates' controlling persons, officers, directors, employees, agents and representatives and their respective successors and assigns.

9.3. Waiver. The conditions to each of the respective parties' obligations to consummate the Merger and the other transactions contemplated by this Agreement are for the sole benefit of such party and may be waived by such party in whole or in part to the extent permitted by applicable Law. No failure or delay by any party in exercising any right, power or privilege hereunder shall operate as a waiver thereof nor shall any single or partial exercise thereof preclude any other or further exercise thereof or the exercise of any other right, power or privilege. The rights and remedies herein provided shall be cumulative and not exclusive of any rights or remedies provided by Law (except to the extent specifically provided otherwise in Section 8.2).

9.4. Counterparts. This Agreement may be executed in any number of counterparts, each such counterpart being deemed to be an original instrument, and all such counterparts shall together constitute the same agreement. Delivery of an executed counterpart of a signature page to this Agreement by facsimile transmission or by email of a .pdf attachment shall be effective as delivery of a manually executed counterpart of this Agreement.

9.5. Governing Law and Venue; Waiver of Jury Trial; Specific Performance.

(a) THIS AGREEMENT SHALL BE DEEMED TO BE MADE IN AND IN ALL RESPECTS SHALL BE INTERPRETED, CONSTRUED AND GOVERNED BY AND IN ACCORDANCE WITH THE LAW OF THE STATE OF DELAWARE WITHOUT REGARD TO THE CONFLICT OF LAW PRINCIPLES THEREOF TO THE EXTENT THAT SUCH PRINCIPLES WOULD DIRECT A MATTER TO ANOTHER JURISDICTION. Each of the parties to this Agreement hereby agrees that it shall bring any action or proceeding in respect of any claim arising under or relating to this Agreement or the transactions contemplated by this Agreement exclusively in the Court of Chancery of the State of Delaware or, if such court shall not have jurisdiction, another federal or state court located in the State of Delaware (the "Chosen Courts") and, solely in connection with such claims, (i) irrevocably submits to the exclusive jurisdiction of the Chosen Courts, (ii) waives any objection to the laying of venue in any such action or proceeding in the Chosen Courts, (iii) waives any objection that the Chosen Courts are an inconvenient forum or do not have jurisdiction over any party to this Agreement and (iv) agrees that mailing of process or other papers in connection with any such action or proceeding in the manner provided in Section 9.6 or in such other manner as may be permitted by Law shall be valid and sufficient service thereof. EACH PARTY ACKNOWLEDGES AND AGREES THAT ANY CONTROVERSY WHICH MAY ARISE UNDER THIS AGREEMENT (INCLUDING ANY SUCH ACTION INVOLVING THE FINANCING SOURCES) IS LIKELY TO INVOLVE COMPLICATED AND DIFFICULT ISSUES, AND THEREFORE EACH SUCH PARTY HEREBY IRREVOCABLY AND UNCONDITIONALLY WAIVES ANY RIGHT SUCH PARTY MAY HAVE TO A TRIAL BY JURY IN RESPECT OF ANY LITIGATION DIRECTLY OR INDIRECTLY ARISING OUT OF OR RELATING TO THIS AGREEMENT OR THE TRANSACTIONS CONTEMPLATED BY THIS AGREEMENT. EACH PARTY HEREBY ACKNOWLEDGES AND CERTIFIES THAT (i) NO REPRESENTATIVE, AGENT OR ATTORNEY OF ANY OTHER PARTY HAS REPRESENTED, EXPRESSLY OR OTHERWISE, THAT SUCH OTHER PARTY WOULD NOT, IN THE EVENT OF LITIGATION, SEEK TO ENFORCE THE FOREGOING WAIVER, (ii) EACH PARTY UNDERSTANDS AND HAS CONSIDERED THE IMPLICATIONS OF THIS WAIVER, (iii) EACH PARTY MAKES THIS WAIVER VOLUNTARILY AND (iv) EACH PARTY HAS BEEN INDUCED TO ENTER INTO THIS AGREEMENT BY, AMONG OTHER THINGS, THE MUTUAL WAIVERS AND CERTIFICATIONS IN THIS SECTION 9.5.

(b) Each of the parties to this Agreement acknowledges and agrees that the rights of each party to consummate the Merger and the other transactions contemplated by this Agreement are special, unique and of extraordinary character and that if for any reason any of the provisions of this Agreement are not performed in accordance with their specific terms or are otherwise breached, immediate and irreparable harm or damage would be caused for which

money damages would not be an adequate remedy. Accordingly, each party agrees that, in addition to any other available remedies a party may have at law or in equity, each party shall be entitled to enforce specifically the terms and provisions of this Agreement and to obtain an injunction restraining any breach or violation or threatened breach or violation of the provisions of this Agreement without necessity of posting a bond or other form of security. In the event that any action or proceeding should be brought in equity to enforce the provisions of this Agreement, no party shall allege or assert, and each party hereby waives the defense, that there is an adequate remedy at law.

(c) Notwithstanding anything to the contrary in this Agreement, the Company (on behalf of itself and on behalf of each of its Subsidiaries) and Parent agrees that it will not bring or support any action, cause of action, claim, cross-claim or third-party claim of any kind or description, whether in law or in equity, whether in contract or in tort or otherwise, against the Financing Sources in any way relating to this Agreement or any of the transactions contemplated by this Agreement, including any dispute arising out of or relating in any way to the Debt Financing or the performance thereof, in any forum other than the Supreme Court of the State of New York, County of New York, or, if under applicable law exclusive jurisdiction is vested in the Federal courts, the United States District Court for the Southern District of New York (and appellate courts thereof).

9.6. Notices. All notices, requests, instructions or other communications or documents to be given or made hereunder by any party to the other parties to this Agreement shall be in writing and (a) served by personal delivery upon the party for whom it is intended, (b) by an internationally recognized overnight courier service upon the party for whom it is intended, (c) delivered by registered or certified mail, return receipt requested or (d) sent by facsimile:

If to Parent or Merger Sub:

Insight Enterprises, Inc.
6820 South Harl Avenue
Tempe, AZ 85283
Attention: Samuel C. Cowley
Facsimile: (480) 760-7892

with copies to (which shall not constitute notice):

Sullivan & Cromwell LLP
125 Broad Street
New York, NY 10004
Attention: Stephen Kotran
Facsimile: (212) 291 9086

If to the Company:

PCM, Inc.
1940 East Mariposa Avenue
El Segundo, CA 90245
Attention: Robert I Newton and Brandon H. LaVerne
E-Mail: rob.newton@pcm.com and brandon.laverne@pcm.com

with a copy to (which shall not constitute notice):

Sheppard Mullin Richter & Hampton LLP
650 Town Center Drive, Tenth Floor
Costa Mesa, CA 92626
Attention: Craig S. Mordock
Facsimile: (714) 513-5130

or to such other Person or addressees as has or have been designated in writing by the party to receive such notice provided above. Any notice, request, instruction or other communications or document given as provided above shall be deemed given to the receiving party (w) upon actual receipt, if delivered personally, (x) on the next Business Day after deposit with an overnight courier, if sent by an overnight courier, (y) three Business Days after deposit in the mail, if sent by registered or certified mail or (z) upon confirmation of successful transmission if sent by facsimile and followed up within one Business Day by dispatch pursuant to one of the other methods described herein. Copies to outside counsel are for convenience only and failure to provide a copy to outside counsel does not alter the effectiveness of any notice, request, instruction or other communication otherwise given in accordance with this Section 9.6.

9.7. Entire Agreement. This Agreement (including any exhibits, annexes and schedules hereto) and the documents and other agreements among the parties hereto as contemplated by or referred to herein, including the Company Disclosure Schedule and the Parent Disclosure Schedule, together with each other agreement entered into by or among any of Parent, Merger Sub and the Company as of the date of this Agreement that makes reference to this Section 9.7, constitute the entire agreement among the parties with respect to the subject matter hereof and supersede all other prior agreements, understandings, representations and warranties, both written and oral, among the parties with respect to the subject matter hereof, other than the Confidentiality Agreement and the Voting Agreement.

9.8. No Third Party Beneficiaries. Except as provided in Section 6.11 (*Indemnification; Directors' and Officers' Insurance*), Section 6.17(b) (*Financing*), this Section 9.8, Section 9.15 (*Non-Recourse of Other Persons*) and Article IV (following the Effective Time) and the Company's right, on behalf of the holders of Shares, to pursue equitable relief or damages for Parent's or Merger Sub's willful and material breach of this Agreement, which right is hereby acknowledged and agreed by Parent and Merger Sub (provided, that this clause is not intended to, and under no circumstances shall this Agreement be construed to, create any right of the holders of Shares to bring an action directly against Parent or Merger Sub pursuant to this Agreement (other than pursuant to Article IV following the Effective Time),

only, Parent and the Company hereby agree that their respective representations, warranties and covenants set forth herein are solely for the benefit of the other parties hereto, in accordance with and subject to the terms of this Agreement, and this Agreement is not intended to, and does not, confer upon any Person other than the parties hereto any rights or remedies hereunder, including the right to rely upon the representations and warranties set forth herein; provided that the Financing Sources shall be express third party beneficiaries of clause (y) of the proviso in Section 9.2, Section 9.5(a), Section 9.5(c), this Section 9.8 and Section 9.14. The parties hereto further agree that the rights of third party beneficiaries under Section 6.11 shall not arise unless and until the Effective Time occurs. For purposes of this Agreement, “willful and material breach” means a breach that is a consequence of an act deliberately taken by the breaching party, or the deliberate failure by the breaching party to take an act it is required to take under this Agreement, in each case with actual knowledge that the taking of, or the failure to take, such act would, or would be reasonably expected to, cause a material breach of this Agreement; provided, that any failure of Parent or Merger Sub to consummate the Merger in breach of this Agreement will be deemed to be a willful and material breach by Parent and Merger Sub (whether or not Parent or Merger Sub had sufficient funds).

9.9. Obligations of Parent and of the Company. Whenever this Agreement requires a Subsidiary of Parent to take any action, such requirement shall be deemed to include an undertaking on the part of Parent to cause such Subsidiary to take such action. Whenever this Agreement requires a Subsidiary of the Company to take any action, such requirement shall be deemed to include an undertaking on the part of the Company to cause such Subsidiary to take such action and, after the Effective Time, on the part of the Surviving Corporation to cause such Subsidiary to take such action. Any obligation of one party to another party under this Agreement, which obligation is performed, satisfied or fulfilled by an Affiliate of such party, shall be deemed to have been performed, satisfied or fulfilled by such party.

9.10. Definitions. Each of the terms set forth in Annex A is defined in the Section of this Agreement set forth opposite such term.

9.11. Severability. The provisions of this Agreement shall be deemed severable and the invalidity or unenforceability of any provision shall not affect the validity or enforceability of the other provisions hereof. If any provision of this Agreement, or the application of such provision to any Person or any circumstance, is invalid or unenforceable, (a) a suitable and equitable provision shall be substituted therefor in order to carry out, so far as may be valid and enforceable, the intent and purpose of such invalid or unenforceable provision and (b) the remainder of this Agreement and the application of such provision to other Persons or circumstances shall not be affected by such invalidity or unenforceability, nor shall such invalidity or unenforceability affect the validity or enforceability of such provision, or the application of such provision, in any other jurisdiction.

9.12. Interpretation; Construction.

(a) The table of contents and headings herein are for convenience of reference only, do not constitute part of this Agreement and shall not be deemed to limit or otherwise affect any of the provisions hereof. Where a reference in this Agreement is made to a Section or

Exhibit, such reference shall be to a Section of or Exhibit to this Agreement unless otherwise indicated.

(b) If a term is defined as one part of speech (such as a noun), it shall have a corresponding meaning when used as another part of speech (such as a verb). Unless the context of this Agreement clearly requires otherwise, words importing the masculine gender shall include the feminine and neutral genders and vice versa, and the definitions of terms contained in this Agreement are applicable to the singular as well as the plural forms of such terms. The words “includes” or “including” shall mean “including without limitation,” the words “hereof,” “hereby,” “herein,” “hereunder” and similar terms in this Agreement shall refer to this Agreement as a whole and not any particular section or article in which such words appear and any reference to a Law shall include any rules and regulations promulgated thereunder, and any reference to any Law in this Agreement shall mean such Law as from time to time amended, modified or supplemented. Currency amounts referenced herein are in U.S. Dollars. Each reference to a “wholly-owned Subsidiary” or “wholly-owned Subsidiaries” of a Person shall be deemed to include any Subsidiary of such Person where all of the equity interests of such Subsidiary are directly or indirectly owned by such Person (other than directors qualifying shares, nominee shares or other equity interests that are required by law or regulation to be held by a director or nominee).

(c) The parties have participated jointly in negotiating and drafting this Agreement. In the event that an ambiguity or a question of intent or interpretation arises, this Agreement shall be construed as if drafted jointly by the parties, and no presumption or burden of proof shall arise favoring or disfavoring any party by virtue of the authorship of any provision of this Agreement.

9.13. Successors and Assigns. This Agreement shall be binding upon and inure to the benefit of the parties and their respective successors, legal representatives and permitted assigns. No party to this Agreement may assign any of its rights or delegate any of its obligations under this Agreement, by operation of Law or otherwise, without the prior written consent of the other parties, except that Merger Sub may assign any and all of its rights under this Agreement, by written notice to the Company, to another wholly-owned direct or indirect Subsidiary of Parent to be a Constituent Corporation in lieu of Merger Sub, in which event all references to Merger Sub in this Agreement shall be deemed references to such other Subsidiary, except that all representations and warranties made in this Agreement with respect to Merger Sub as of the date of this Agreement shall be deemed representations and warranties made with respect to such other Subsidiary as of the date of such designation; provided that no assignment shall relieve Parent of any of its obligations pursuant to this Agreement. Any purported assignment in violation of this Agreement is void.

9.14. Non-Recourse. Notwithstanding anything to the contrary in this Agreement, the Financing Sources (in their capacity as such) shall not have any liability to the Company or any of its equity holders, representatives or Affiliates (in each case, with respect to such equity holders, representatives or Affiliates, prior to the Closing) relating to or arising out of this Agreement, the Debt Financing or the transactions contemplated hereby or thereby, whether at law or equity, in contract or in tort or otherwise, and the Company and its equity

holders, representatives and Affiliates (in each case, with respect to such equity holders, representatives or Affiliates, prior to the Closing) shall not have any rights or claims, and shall not seek any loss or damage or any other recovery or judgment of any kind, including direct, indirect, consequential, special, exemplary or punitive damages, against any Financing Source (in its capacity as such) under this Agreement or the Debt Financing, whether at law or equity, in contract or in tort or otherwise; provided that nothing in this Section 9.14 shall limit the liability or obligations of the Financing Sources to Parent (and its successors and assigns) under the commitment letters relating to the Debt Financing (or any fee letters referred to therein or definitive financing agreements with respect to the Debt Financing).

9.15. Non-Recourse of Other Persons. This Agreement may only be enforced against, and any claim or cause of action based upon, arising out of, or related to this Agreement or the transactions contemplated hereby may only be brought against, the Persons that are expressly named as parties to this Agreement and then only with respect to the specific obligations set forth herein with respect to each such party. Except to the extent a named party to this Agreement, no past, present or future director, officer, employee, incorporator, member, partner, stockholder, Affiliate, agent, attorney, advisor or representative or Affiliate of any of the foregoing shall have any liability (whether in contract, tort, equity or otherwise) for any one or more of the representations, warranties, covenants, agreements or other obligations or liabilities of any one or more of the Company, Parent or Merger Sub under this Agreement or for any claim based on, arising out of, or related to this Agreement or the transactions contemplated hereby.

[Signature Page Follows]

IN WITNESS WHEREOF, this Agreement has been duly executed and delivered by the duly authorized officers of the parties hereto as of the date first written above.

INSIGHT ENTERPRISES, INC.

Signature on next page.

By:  _____

Name: Kenneth T. Lamneck

Title: President and Chief Executive Officer

PCM, INC.

By: _____

Name:

Title:

TROJAN ACQUISITION CORP.

By:  _____

Name: Kenneth T. Lamneck

Title: Authorized Officer

ANNEX A**Defined Terms**

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ANNEX B

Stockholder Parties to the Voting Agreement

1. Frank F. Khulusi
2. Khulusi Revocable Family Trust, dated November 3, 1993
3. Frank F. Khulusi and Mona C. Khulusi Charitable Lead Annuity Trust
4. Frank F. Khulusi and Mona C. Khulusi Foundation Trust
5. Robert J. Miley
6. 2006 Robert J. Miley and Amy S. Miley Revocable Trust, dated February 9, 2006
7. Brandon H. LaVerne
8. Robert I. Newton
9. Simon M. Abuyounes
10. Thomas A. Maloof
11. Maloof Living Trust with Thomas and Robin Maloof Trustees Dated 9/15/92
12. Ronald B. Reck
13. Paul C. Heeschen
14. Heeschen Revocable Trust

EXHIBIT A

Voting Agreement

VOTING AGREEMENT

Dated as of June 23, 2019

by and among

INSIGHT ENTERPRISES, INC.,

TROJAN ACQUISITION CORP.,

PCM, INC.

and

THE STOCKHOLDERS OF
PCM, INC. LISTED ON THE SIGNATURE PAGES HERETO

VOTING AGREEMENT

VOTING AGREEMENT, dated as of June 23, 2019 (this “**Agreement**”), by and among Insight Enterprises, Inc., a Delaware corporation (“**Parent**”), Trojan Acquisition Corp., a Delaware corporation (“**Merger Sub**”), PCM, Inc., a Delaware corporation (the “**Company**”), and the Persons listed on the signature pages hereto (each, a “**Stockholder**” and collectively, the “**Stockholders**”). Capitalized terms used herein and not otherwise defined shall have the meanings ascribed to them in the Merger Agreement (as herein defined).

RECITALS

WHEREAS, as of the date hereof, each Stockholder is the record and beneficial (as such term is defined in Rule 13d-3 under the Exchange Act, which meaning will apply for all purposes of this Agreement whenever the term “beneficial” or “beneficially” is used) holder of the number of shares of common stock, par value \$0.001 per share (the “**Shares**”), of the Company, set forth opposite the Stockholder’s signature on such Stockholder’s signature page hereto (all such shares set forth opposite the Stockholder’s signature, together with any shares of Company Stock that are hereafter issued to or otherwise acquired, held of record or beneficially owned by the Stockholder prior to the termination of this Agreement being referred to as the “**Subject Shares**” of the Stockholder);

WHEREAS, concurrently with the execution and delivery of this Agreement, the Company, Parent and Merger Sub, are entering into an Agreement and Plan of Merger, dated as of the date hereof (as the same may be amended or modified in accordance with its terms, the “**Merger Agreement**”), which provides for the merger of Merger Sub with and into the Company (the “**Merger**”), with the Company surviving the Merger (sometimes hereinafter referred to as the “**Surviving Corporation**”); and

WHEREAS, the Company Board has taken all action so that Parent will not be an “interested stockholder” or prohibited from entering into or consummating a “business combination” with the Company (in each case as such term is used in Section 203 of the DGCL) as a result of the execution of this Agreement or the Merger Agreement or the consummation of the transactions, including the Merger, in the manner contemplated hereby or thereby.

NOW, THEREFORE, in consideration of the premises, and of the representations, warranties, covenants and agreements contained herein, and for other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the parties hereto, intending to be legally bound, agree as follows:

ARTICLE I

Voting and Transfer of Company Stock

1.1 Voting. Each Stockholder irrevocably and unconditionally agrees, during the period beginning on the date of this Agreement and ending immediately prior to the earlier of the Effective Time and the termination of this Agreement (the “**Applicable Period**”), at every meeting of the holders of Shares (a “**Meeting**”) and at every adjournment or postponement of such Meeting, to cause to be present and counted and to vote (or cause to be voted or acted upon by

written consent with respect to) all Subject Shares which are entitled to be voted as follows: (a) in favor of the adoption of the Merger Agreement and approval of the transactions contemplated thereby, including the Merger; (b) in favor of any proposal to adjourn or postpone a Meeting at which there is a proposal for such stockholders to vote upon the adoption of the Merger Agreement to a later date if there are not sufficient votes to adopt the Merger Agreement or if there are not sufficient Shares present in person or by proxy at the Meeting to constitute a quorum; (c) against any Acquisition Proposal or Alternative Transaction or the adoption of any agreement providing for or contemplating an Alternative Transaction; and (c) against any amendment of the Company's Charter or other action or agreement of the Company, in each case, for which the vote of the holders of Shares is required to authorize such action or agreement, that would reasonably be expected to (i) result in any of the conditions to the consummation of the Merger under the Merger Agreement not being fulfilled, or (ii) reasonably be expected to prevent or materially delay the consummation of the Merger and the other transactions contemplated by the Merger Agreement.

1.2 Proxy. Each Stockholder, with respect to the Subject Shares, hereby irrevocably constitutes and appoints Parent, with full power of substitution, as the Stockholder's true and lawful attorney in fact and proxy, for and in such Stockholder's name, place and stead, to vote, at any time during the Applicable Period, each Subject Share as such Stockholder's proxy, at every meeting of the stockholders of the Company and to execute and deliver on behalf of such Stockholder any written consent relating to each Subject Share that may be required in order to cause such Stockholder to perform the covenants, in each case solely as set forth in Section 1.1. The proxy described in this Section 1.2 is limited solely to the voting of Subject Shares (or acting by written consent with respect thereto) solely in order to cause each Stockholder to perform the covenants set forth in Section 1.1. This proxy is delivered in connection with the Merger, is coupled with an interest, including for the purposes of Section 212 of the General Corporation Law of the State of Delaware ("DGCL"), revokes any and all prior proxies granted by each Stockholder with respect to the Stockholder's Subject Shares and is irrevocable, provided that this proxy shall automatically terminate upon the termination of this Agreement.

1.3 No Transfer. During the period beginning on the date of this Agreement and ending immediately prior to the earlier of the Effective Time and the termination of this Agreement, the Stockholder shall not, directly or indirectly: (a) sell, convey, transfer, pledge or otherwise encumber or dispose of any Subject Shares or any capital stock of any of the Company's Subsidiaries; (b) deposit any Subject Shares or capital stock of the Company's Subsidiaries into a voting trust or enter into a voting agreement or any other arrangement with respect to any such shares or purport to grant any proxy with respect thereto; (c) enter into any contract, option or other arrangement or undertaking with respect to the direct or indirect acquisition or sale, assignment, transfer or other disposition of any Subject Shares or capital stock of the Company's Subsidiaries; (d) otherwise permit any Liens to be created on any Subject Shares or capital stock of the Company's Subsidiaries (other than Liens under securities laws) or (e) commit or agree to take any of the foregoing actions (any action described in clauses (a), (b), (c), (d) and (e), a "Transfer"); provided, that the foregoing shall not prohibit Transfers (i) between a Stockholder and any other Person that directly or indirectly, through one or more intermediaries, controls, is controlled by, or is under common control with, such Person ("Affiliate"), (ii) to any member of a Stockholder's immediate family, or to a trust for the benefit of a Stockholder or any member of a Stockholder's immediate family, so long as, prior to any such Transfer, and as a condition to the effectiveness of any such Transfer, such Affiliate or transferee executes and delivers to the

Company a joinder to this Agreement in the form attached hereto as Annex A, or (iii) to the Company in connection with the exercise, net settlement or tax withholding provisions of equity awards granted pursuant to the Company's stockholder-approved equity incentive plans. Any Transfer or action in violation of this Section 1.3 shall be void *ab initio*.

1.4 Stop Transfer. The Company hereby acknowledges the restrictions on the Transfer of Subject Shares and capital stock of the Company's Subsidiaries contained in Section 1.3. The Company agrees not to register any Transfer of any Certificate or Book Entry Share or other uncertificated interest representing any Subject Shares or capital stock of the Company's Subsidiaries by any Stockholder made in violation of the restrictions set forth in this Section 1.4.

1.5 Waiver of Appraisal Rights. Each Stockholder hereby agrees not to exercise, and irrevocably and unconditionally waives, any rights of appraisal provided under Section 262 of the DGCL with respect to the Merger and agrees not to dissent with respect to the Merger.

1.6 Public Announcements; Filings; Disclosures. No Stockholder (nor any of its respective Affiliates) shall issue any press release or make any other public announcement or public statement (to the extent not previously publicly disclosed or made in accordance with the Merger Agreement) with respect to this Agreement, the Merger Agreement, or the transactions contemplated hereby or thereby, without the prior written consent of Parent or Merger Sub (such consent not to be unreasonably withheld, conditioned or delayed), except (i) as such press release or other public announcement may be required by applicable Law, in which case such Stockholder shall use its reasonable best efforts to provide Parent and Merger Sub with a reasonable opportunity to review and comment on such release or announcement in advance of its issuance and shall give reasonable and good faith consideration to any such comments proposed by Parent or Merger Sub or (ii) in connection with a Change of Recommendation, if and to the extent permitted by the terms of the Merger Agreement. Each Stockholder shall permit and hereby authorizes Parent, Merger Sub and the Company to publish and disclose in all documents and schedules filed with the SEC, any proxy statement to stockholders or other disclosure document that Parent, Merger Sub or the Company reasonably determines to be necessary in connection with the Merger and any other transactions contemplated by the Merger Agreement, the Stockholder's identity and ownership of the Stockholder's Subject Shares and the nature of the Stockholder's commitments and obligations under this Agreement. Notwithstanding anything to the contrary in this Section 1.6, each Stockholder that is a director or officer of the Company, in his or her capacity as a director or officer of the Company, may make public statements in response to specific questions by the press, analysts, investors or those attending industry conferences or financial analyst conference calls, so long as any such statements are not inconsistent with previous press releases, public disclosures or public statements made jointly by Parent and the Company and do not reveal material, non-public information regarding the other parties, this Agreement, the Merger Agreement or the transactions contemplated hereby or thereby.

1.7 Non-Solicitation.

(a) No Solicitation or Negotiation. Except as expressly permitted pursuant to Section 6.2 of the Merger Agreement (including Section 6.2(b) thereof), each Stockholder agrees

that neither it nor any of its Affiliates shall, and that it shall instruct and use its reasonable best efforts to cause its and its Affiliate's Representatives not to, directly or indirectly:

- (i) initiate, solicit, propose, knowingly encourage or knowingly facilitate any inquiry, proposal, indication of interest or offer that constitutes, or could reasonably be expected to lead to, an Acquisition Proposal;
- (ii) engage in, continue or otherwise participate in any discussions or negotiations relating to any Acquisition Proposal or any inquiry, proposal, indication of interest or offer that could reasonably be expected to lead to an Acquisition Proposal (other than to state that the terms of this provision prohibit such discussions);
- (iii) provide any information to any Person in connection with any Acquisition Proposal;
- (iv) subject to Section 6.2(i) of the Merger Agreement, waive, terminate, modify or fail to enforce any "standstill" or confidentiality or similar obligation of any Person (other than any party hereto) with respect to the Company or any of its Subsidiaries; or
- (v) otherwise knowingly facilitate any effort or attempt to make an Acquisition Proposal.

The activities specified in clauses (i) through (v) are hereinafter referred to as the "Restricted Activities."

(b) Notice. Each Stockholder shall promptly (and, in any event, within 24 hours) give written notice to Parent if such Stockholder receives (i) any inquiry, proposal, indication of interest or offer with respect to an Acquisition Proposal, (ii) any request by any Person or group for information in connection with or with respect to any Acquisition Proposal, or (iii) any request by any Person or group for discussions or negotiations, or to initiate or continue discussions or negotiations, with respect to an Acquisition Proposal, setting forth in such notice the name of such Person or group and the material terms and conditions of any proposals or offers (including, if applicable, complete copies of any written request, inquiry, proposal, indication of interest or offer, including proposed agreements and any other written communications) and thereafter shall keep Parent informed, on a reasonably current basis (and, in any event, within 24 hours), of the status and material terms of any such proposals or offers (including any material amendments thereto) and any changes to the status of any such discussions or negotiations, including any change in its intentions as previously notified.

(c) Exceptions. Notwithstanding anything in this Agreement to the contrary, each Stockholder, directly or indirectly through one or more of its Representatives, and its Affiliates may engage in any Restricted Activities with any Person if the Company is permitted to engage in such activities with such Person pursuant to Section 6.2(b)(i)-(iii) of the Merger Agreement, in each case subject to the restrictions and limitations set forth in Section 6.2 of the Merger Agreement.

1.8 No Agreement as Director or Officer. Each Stockholder hereby makes no agreement or understanding in this Agreement in Stockholder's capacity as a director or officer of

the Company or any of its Subsidiaries (if such Stockholder holds such office), and nothing in this Agreement: (a) will limit or affect any actions or omissions taken by any Stockholder in such stockholder's capacity as such a director or officer, including in exercising rights under the Merger Agreement, and no such actions or omissions shall be deemed a breach of this Agreement; or (b) will be construed to prohibit, limit or restrict any Stockholder from exercising such Stockholder's fiduciary duties as an officer or director to the Company or its stockholders.

1.9 Additional Subject Shares. Each Stockholder hereby agrees to promptly notify (and in any event within two (2) Business Days) the Parent and Merger Sub of the number of any additional Shares with respect to which record or beneficial ownership is acquired by such Stockholder, if any, after the date hereof.

1.10 Further Assurances. Each Stockholder shall execute and deliver, or cause to be executed and delivered, such further certificates, instruments and other documents as Parent or the Company may reasonably request for the purpose of effectively carrying out the transactions contemplated by this Agreement.

ARTICLE II

Representations and Warranties of the Stockholders

Each Stockholder hereby represents and warrants to the Company, Parent and Merger Sub as follows:

2.1 Organization; Authorization. Such Stockholder, if it is an entity, is duly organized, validly existing and in good standing (with respect to jurisdictions that recognize such concept or equivalent) under the Laws of the jurisdiction of its organization. Such Stockholder has all requisite individual, limited liability company, corporate or other similar, as applicable, capacity, power and authority to execute and deliver this Agreement and to perform, his, her or its obligations under this Agreement. With respect to a Stockholder that is an entity, the execution and delivery of this Agreement and such Stockholder's performance of its obligations under this Agreement have been duly authorized by all necessary corporate or other organizational action on the part of the Stockholder and no other corporate or other organizational action on the part of such Stockholder is necessary to authorize the execution and delivery of this Agreement or for such Stockholder to perform its obligations under this Agreement. No approval by any holder of such Stockholder's equity, membership or other interests is necessary to approve this Agreement. This Agreement has been duly executed and delivered by or on behalf of such Stockholder and constitutes a valid and binding agreement of such Stockholder, enforceable against such Stockholder in accordance with its terms, subject to the Bankruptcy and Equity Exception.

2.2 Governmental Filings; No Violations; Certain Contracts.

(a) The execution, delivery and performance by such Stockholder of this Agreement and the consummation by the Stockholder of the transactions contemplated by this Agreement require no authorization or other action by or in respect of, or filing with, any Governmental Authority other than (A) compliance with any applicable requirements of the Securities Exchange Act of 1934, as amended (the "Exchange Act"), the Securities Act and any

other applicable U.S. state or federal securities, takeover or “blue sky” Laws, (B) compliance with any applicable rules of NASDAQ.

(b) The execution and delivery and performance by such Stockholder of this Agreement and the consummation by such Stockholder of the transactions contemplated by this Agreement do not and will not conflict with, or result in any violation or breach of, or default (with or without notice or lapse of time, or both) under, or give rise to a right of, or result in, termination, cancellation, modification or acceleration of any obligation or to the loss of any benefit under, or result in the creation of any Lien in or upon any of the properties, assets or rights of the Stockholder under, or give rise to any increased, additional, accelerated or guaranteed rights or entitlements under, or require any consent, waiver or approval of any Person pursuant to, any provision of (A) if such Stockholder is an entity, the organizational documents of the Stockholder, (B) any Contract to which such Stockholder is a party or by which the Stockholder or any of its properties, rights or other assets are subject or (C) any applicable Law.

2.3 Litigation. There are no pending or, to the knowledge of such Stockholder, threatened Actions against such Stockholder that seek to enjoin, or are reasonably likely to have the effect of preventing, making illegal, or otherwise interfering with, any of the Stockholder’s obligations under this Agreement, except as would not, individually or in the aggregate, reasonably be expected to prevent or materially delay the ability of the Stockholder perform its obligations under this Agreement or to consummate the transactions contemplated hereby.

2.4 Ownership of Company Stock; Voting Power. The Stockholder’s signature page hereto correctly sets forth the number of Subject Shares held of record and beneficially by the Stockholder as of the date of this Agreement. The Stockholder is the record and sole beneficial holder of all of its Subject Shares and has full voting power and power of disposition with respect to all such Subject Shares free and clear of any liens, claims, proxies, voting trusts or agreements, options or any other encumbrances or restrictions on title, transfer or exercise of any rights of a stockholder in respect of such Subject Shares (collectively, “Encumbrances”), except for any such Encumbrance that may be imposed pursuant to (a) this Agreement, (b) any applicable restrictions on transfer under U.S. state or federal securities or “blue sky” Laws. Except pursuant to this Agreement or the Merger Agreement or as set forth in the Company’s Charter, no Person has any contractual or other right or obligation to purchase or otherwise acquire any of the Stockholder’s Subject Shares.

2.5 Additional Company Stock. The Stockholder hereby agrees to promptly notify (and in any event within two (2) business days) the Company and Parent of the number of any additional Shares with respect to which record or beneficial ownership is acquired by the Stockholder, if any, after the date hereof, by transfer or any other mechanism, except with respect to transfers solely among the Stockholder and its Affiliates. Any such Shares shall automatically become subject to the terms of this Agreement as though owned by the Stockholder as of the date hereof.

2.6 Reliance. The Stockholder understands and acknowledges that Parent and the Company are entering into the Merger Agreement in reliance upon the Stockholder’s execution, delivery and performance of this Agreement.

2.7 Finder's Fees. Other than B. Riley FBR, Inc., no agent, broker, investment banker, finder or other intermediary is or will be entitled to any fee or commission or reimbursement of expenses from Parent or the Company or any of their respective Affiliates in respect of this Agreement based upon any arrangement or agreement made by or on behalf of the Stockholder.

ARTICLE III

Representations and Warranties of the Company

The Company hereby represents and warrants to each Stockholder party hereto, Parent and Merger Sub as follows:

3.1 Organization, Good Standing. The Company is an entity duly organized, validly existing and in good standing (with respect to jurisdictions that recognize such concept or equivalent) under the Laws of the State of Delaware.

3.2 Corporate Authority. The Company has all requisite corporate power and authority to execute and deliver this Agreement and perform its obligations under this Agreement. The execution and delivery of this Agreement and the Company's performance of its obligations under this Agreement have been duly authorized by all necessary corporate action on the part of the Company and no other corporate action on the part of the Company is necessary to authorize the execution and delivery of this Agreement or for the Company to perform its obligations under this Agreement. This Agreement has been duly executed and delivered by the Company and constitutes a valid and binding agreement of the Company, enforceable against the Company in accordance with its terms subject to the Bankruptcy and Equity Exception.

ARTICLE IV

Representations and Warranties of Parent and Merger Sub

Each of Parent and Merger Sub hereby, severally, and not jointly, represent and warrant to each Stockholder party hereto and the Company as follows:

4.1 Organization, Good Standing. Each of Parent and Merger Sub is an entity duly organized, validly existing and in good standing (with respect to jurisdictions that recognize such concept or equivalent) under the Laws of the State of Delaware.

4.2 Corporate Authority. Each of Parent and Merger Sub has all requisite corporate power and authority to execute and deliver this Agreement and perform its obligations under this Agreement. The execution and delivery of this Agreement and such Person's performance of its obligations under this Agreement have been duly authorized by all necessary corporate action on the part of such Person and no other corporate action on the part of such Person are necessary to authorize the execution and delivery of this Agreement or for such Person to perform its obligations under this Agreement. This Agreement has been duly executed and delivered by such Person and constitutes a valid and binding agreement of such Person, enforceable against such Person in accordance with its terms subject to the Bankruptcy and Equity Exception.

ARTICLE V

General Provisions

5.1 Termination. This Agreement and all obligations, covenants and agreements contained herein, including the voting agreements contemplated hereby and the proxies granted hereunder, shall automatically terminate and cease to be effective at the earliest to occur of: (a) the Effective Time; (b) the termination of the Merger Agreement pursuant to Article VIII thereof; (c) the effective date of a written agreement duly executed and delivered by each of the parties hereto terminating this Agreement; and (d) the amendment of the Merger Agreement, without the prior written consent of the Stockholder, in a manner that affects the material terms of the Merger Agreement in a manner that is adverse to the Company or its stockholders (including with respect to the reduction of or to the imposition of any restriction on the Stockholder's right to receive the Per Share Merger Consideration, or any reduction in the amount or change in the form of the Per Share Merger Consideration); provided, however, that in the case of any termination pursuant to clause (a) of the previous sentence, Section 1.5 (Waiver of Appraisal Rights), Section 1.6 (Public Announcement) and Section 1.9 (Further Assurances) and this ARTICLE V shall survive such termination.

5.2 Modification or Amendment. This Agreement may be amended, modified or waived if, and only if, such amendment, modification or waiver is in writing and signed, in the case of an amendment or modification, by each of Parent, Merger Sub and each Stockholder with respect to whom such amendment or modification shall be effective and, in the case of a waiver, by the party against whom the waiver is to be effective.

5.3 Extension; Waiver. No failure or delay by any party in exercising any right, power or privilege hereunder shall operate as a waiver thereof nor shall any single or partial exercise thereof preclude any other or further exercise thereof or the exercise of any other right, power or privilege. The rights and remedies herein provided shall be cumulative and not exclusive of any rights or remedies provided by Law.

5.4 Notices. All notices, requests, instructions or other communications or documents to be given or made hereunder by any party to the other parties to this Agreement shall be in writing and (a) served by personal delivery upon the party for whom it is intended, (b) by an internationally recognized overnight courier service upon the party for whom it is intended, (c) delivered by registered or certified mail, return receipt requested or (d) sent by facsimile:

If to Parent or Merger Sub:

Insight Enterprises, Inc.
6820 South Harl Avenue
Tempe, AZ 85283
Attention: Samuel C. Crowley
Facsimile: (480) 760-7892

with copies to (which shall not constitute notice):

Sullivan & Cromwell LLP
125 Broad Street
New York, NY 10004
Attention: Stephen Kotran
Facsimile: (212) 291 9086

If to the Company:

PCM, Inc.
1940 East Mariposa Avenue
El Segundo, CA 90245
Attention: Robert I. Newton and Brandon H. LaVerne
E-Mail: rob.newton@pcm.com and brandon.laverne@pcm.com

with a copy to (which shall not constitute notice):

Sheppard Mullin Richter & Hampton LLP
650 Town Center Drive, Tenth Floor
Costa Mesa, CA 92626
Attention: Craig S. Mordock
Facsimile: (714) 513-5130

If to a Stockholder:

As set forth on the signature page of such Stockholder.

or to such other Person or addressees as has or have been designated in writing by the party to receive such notice provided above. Any notice, request, instruction or other communications or document given as provided above shall be deemed given to the receiving party (w) upon actual receipt, if delivered personally, (x) on the next Business Day after deposit with an overnight courier, if sent by an overnight courier, (y) three (3) Business Days after deposit in the mail, if sent by registered or certified mail or (z) upon confirmation of successful transmission if sent by facsimile and followed up within one Business Day by dispatch pursuant to one of the other methods described herein. Copies to outside counsel are for convenience only and failure to provide a copy to outside counsel does not alter the effectiveness of any notice, request, instruction or other communication otherwise given in accordance with this Section 5.4.

5.5 Counterparts. This Agreement may be executed in any number of counterparts, each such counterpart being deemed to be an original instrument, and all such counterparts shall together constitute the same agreement. Delivery of an executed counterpart of a signature page to this Agreement by facsimile transmission or by email of a .pdf attachment shall be effective as delivery of a manually executed counterpart of this Agreement.

5.6 Governing Law and Venue; Waiver of Jury Trial; Specific Performance.

(a) THIS AGREEMENT SHALL BE DEEMED TO BE MADE IN AND IN ALL RESPECTS SHALL BE INTERPRETED, CONSTRUED AND GOVERNED BY AND IN ACCORDANCE WITH THE LAW OF THE STATE OF DELAWARE WITHOUT REGARD TO THE CONFLICT OF LAW PRINCIPLES THEREOF TO THE EXTENT THAT SUCH PRINCIPLES WOULD DIRECT A MATTER TO ANOTHER JURISDICTION. Each of the parties to this Agreement hereby agrees that it shall bring any action or proceeding in respect of any claim arising under or relating to this Agreement or the transactions contemplated by this Agreement exclusively in the Court of Chancery of the State of Delaware or, if such court shall not have jurisdiction, another federal or state court located in the State of Delaware (the “**Chosen Courts**”) and, solely in connection with such claims, (i) irrevocably submits to the exclusive jurisdiction of the Chosen Courts, (ii) waives any objection to the laying of venue in any such action or proceeding in the Chosen Courts, (iii) waives any objection that the Chosen Courts are an inconvenient forum or do not have jurisdiction over any party to this Agreement and (iv) agrees that mailing of process or other papers in connection with any such action or proceeding in the manner provided in Section 5.4 or in such other manner as may be permitted by Law shall be valid and sufficient service thereof. EACH PARTY ACKNOWLEDGES AND AGREES THAT ANY CONTROVERSY WHICH MAY ARISE UNDER THIS AGREEMENT (INCLUDING ANY SUCH ACTION INVOLVING THE FINANCING RELATED PARTIES) IS LIKELY TO INVOLVE COMPLICATED AND DIFFICULT ISSUES, AND THEREFORE EACH SUCH PARTY HEREBY IRREVOCABLY AND UNCONDITIONALLY WAIVES ANY RIGHT SUCH PARTY MAY HAVE TO A TRIAL BY JURY IN RESPECT OF ANY LITIGATION DIRECTLY OR INDIRECTLY ARISING OUT OF OR RELATING TO THIS AGREEMENT OR THE TRANSACTIONS CONTEMPLATED BY THIS AGREEMENT. EACH PARTY HEREBY ACKNOWLEDGES AND CERTIFIES THAT (i) NO REPRESENTATIVE, AGENT OR ATTORNEY OF ANY OTHER PARTY HAS REPRESENTED, EXPRESSLY OR OTHERWISE, THAT SUCH OTHER PARTY WOULD NOT, IN THE EVENT OF LITIGATION, SEEK TO ENFORCE THE FOREGOING WAIVER, (ii) EACH PARTY UNDERSTANDS AND HAS CONSIDERED THE IMPLICATIONS OF THIS WAIVER, (iii) EACH PARTY MAKES THIS WAIVER VOLUNTARILY AND (iv) EACH PARTY HAS BEEN INDUCED TO ENTER INTO THIS AGREEMENT BY, AMONG OTHER THINGS, THE MUTUAL WAIVERS AND CERTIFICATIONS IN THIS SECTION 5.6.

(b) Specific Performance. Each of the parties to this Agreement acknowledges and agrees that the rights of each party to under this Agreement are special, unique and of extraordinary character and that if for any reason any of the provisions of this Agreement are not performed in accordance with their specific terms or are otherwise breached, immediate and irreparable harm or damage would be caused for which money damages would not be an adequate remedy. Accordingly, each party agrees that, in addition to any other available remedies a party may have at law or in equity, each party shall be entitled to enforce specifically the terms and

provisions of this Agreement and to obtain an injunction restraining any breach or violation or threatened breach or violation of the provisions of this Agreement without necessity of posting a bond or other form of security. In the event that any action or proceeding should be brought in equity to enforce the provisions of this Agreement, no party shall allege or assert, and each party hereby waives the defense, that there is an adequate remedy at law.

5.7 Other Remedies. Except as otherwise provided herein, any and all remedies herein expressly conferred upon a party will be deemed cumulative with and not exclusive of any other remedy conferred hereby, or by law or equity upon such party, and the exercise by a party of any one remedy will not preclude the exercise of any other remedy.

5.8 Entire Agreement. This Agreement and the documents and other agreements among the parties hereto as contemplated by or referred to herein, together with each other agreement entered into by or among any of Parent, Merger Sub and the Company as of the date of this Agreement that makes reference to this Section 5.8, constitute the entire agreement among the parties with respect to the subject matter hereof and supersede all other prior agreements, understandings, representations and warranties, both written and oral, among the parties with respect to the subject matter hereof, other than the Merger Agreement and the Confidentiality Agreement.

5.9 No Third Party Beneficiaries. The parties hereto agree that their respective representations, warranties, covenants and agreements set forth herein are solely for the benefit of the other parties hereto, in accordance with and subject to the terms of this Agreement, and this Agreement is not intended to, and does not, confer upon any Person other than the parties hereto any rights or remedies hereunder, including the right to rely upon the representations and warranties set forth herein.

5.10 Expenses. Except as otherwise set forth in this Agreement or in the Merger Agreement, whether or not the Merger is consummated, all fees and expenses incurred in connection with the preparation, negotiation, execution and performance of this Agreement and the transactions contemplated by this Agreement, including all fees and expenses of its Representatives, shall be paid by the party incurring such expense.

5.11 Severability. The provisions of this Agreement shall be deemed severable and the invalidity or unenforceability of any provision shall not affect the validity or enforceability of the other provisions hereof. If any provision of this Agreement, or the application of such provision to any Person or any circumstance, is invalid or unenforceable, (a) a suitable and equitable provision shall be substituted therefor in order to carry out, so far as may be valid and enforceable, the intent and purpose of such invalid or unenforceable provision and (b) the remainder of this Agreement and the application of such provision to other Persons or circumstances shall not be affected by such invalidity or unenforceability, nor shall such invalidity or unenforceability affect the validity or enforceability of such provision, or the application of such provision, in any other jurisdiction.

5.12 Successors and Assignment. This Agreement shall be binding upon and inure to the benefit of the parties and their respective successors, legal representatives and permitted assigns. No party to this Agreement may assign any of its rights or delegate any of its

obligations under this Agreement, by operation of Law or otherwise, without the prior written consent of the other parties, except that Merger Sub may assign any and all of its rights under this Agreement, by written notice to the Company, to another wholly-owned direct or indirect Subsidiary of Parent to be a Constituent Corporation in lieu of Merger Sub, in which event all references to Merger Sub in this Agreement shall be deemed references to such other Subsidiary, except that all representations and warranties made in this Agreement with respect to Merger Sub as of the date of this Agreement shall be deemed representations and warranties made with respect to such other Subsidiary as of the date of such designation; provided that no assignment shall relieve Parent of any of its obligations pursuant to this Agreement. Any purported assignment in violation of this Agreement is void.

5.13 Interpretation; Construction.

(a) Headings herein are for convenience of reference only, do not constitute part of this Agreement and shall not be deemed to limit or otherwise affect any of the provisions hereof. Where a reference in this Agreement is made to a Section, such reference shall be to a Section of this Agreement unless otherwise indicated.

(b) If a term is defined as one part of speech (such as a noun), it shall have a corresponding meaning when used as another part of speech (such as a verb). Unless the context of this Agreement clearly requires otherwise, words importing the masculine gender shall include the feminine and neutral genders and vice versa, and the definitions of terms contained in this Agreement are applicable to the singular as well as the plural forms of such terms. The words “includes” or “including” shall mean “including without limitation,” the words “hereof,” “hereby,” “herein,” “hereunder” and similar terms in this Agreement shall refer to this Agreement as a whole and not any particular section or article in which such words appear and any reference to a Law shall include any rules and regulations promulgated thereunder, and any reference to any Law in this Agreement shall mean such Law as from time to time amended, modified or supplemented. Currency amounts referenced herein are in U.S. Dollars. Each reference to a “wholly-owned Subsidiary” or “wholly-owned Subsidiaries” of a Person shall be deemed to include any Subsidiary of such Person where all of the equity interests of such Subsidiary are directly or indirectly owned by such Person (other than directors qualifying shares, nominee shares or other equity interests that are required by law or regulation to be held by a director or nominee).

[Signature Page Follows]

IN WITNESS WHEREOF, the parties hereto have caused this Agreement to be executed by their duly authorized respective officers as of the date first written above.

INSIGHT ENTERPRISES, INC.

By: _____
Name:
Title:

PCM, INC.

By: _____
Name:
Title:

TROJAN ACQUISITION CORP.

By: _____
Name:
Title:

IN WITNESS WHEREOF, the parties hereto have caused this Agreement to be executed by their duly authorized respective officers as of the date first written above.

STOCKHOLDER

Signature of Stockholder

Name of Person Signing for the Stockholder
(If signing in a representative capacity for a corporation, trust, partnership and other entity)

Printed Name of Stockholder

Title of Person Signing for the Stockholder (If signing in a representative capacity for a corporation, trust, partnership and other entity)

Signature of Stockholder's Spouse (if applicable)

Printed Name of Stockholder's Spouse (if applicable)

Total number of Shares held of record and beneficially by Stockholder as of the date of this Agreement (June 23, 2019):

_____ Shares

ANNEX A

FORM OF JOINDER

This Joinder Agreement (this “**Joinder Agreement**”) is made as of the date written below by the undersigned (the “**Joining Party**”) in accordance with the Voting Agreement dated as of June 23, 2019 (the “**Voting Agreement**”) by and among Insight Enterprises, Inc., Trojan Acquisition Corp., PCM, Inc. and the other signatories that are party thereto as the same may be amended from time to time. Capitalized terms used, but not defined, herein shall have the meaning ascribed to such terms in the Voting Agreement.

The Joining Party hereby acknowledges, agrees and confirms that, by its execution of this Joinder Agreement, the Joining Party shall be deemed to be a party to, and a “Stockholder” under, the Voting Agreement as of the date hereof and shall have all of the rights and obligations of a Stockholder as if it had executed the Voting Agreement. The Joining Party hereby ratifies, as of the date hereof, and agrees to be bound by, all of the terms, provisions and conditions contained in the Voting Agreement

IN WITNESS WHEREOF, the undersigned has executed this Joinder Agreement as of the date written below.

Date: _____

By: _____

Name:

Title:

Address for Notices:

With copies to:

EXHIBIT B

Form of Certificate of Incorporation of the Surviving Corporation

PRIVILEGED AND CONFIDENTIAL

**CERTIFICATE OF INCORPORATION
OF
PCM, INC.**

FIRST. The name of the corporation is PCM, Inc. (the “Corporation”).

SECOND. The address of the Corporation's registered office in the State of Delaware is Corporation Trust Center, 1209 Orange Street, Wilmington, County of New Castle, 19801. The name of its registered agent at such address is The Corporation Trust Company.

THIRD. The purpose of the Corporation is to engage in any lawful act or activity for which corporations may be organized under the General Corporation Law of Delaware (the “DGCL”).

FOURTH. The total number of shares which the Corporation shall have authority to issue is 1,000 shares of common stock (“Common Stock”), and the par value of each of such shares is \$0.01.

FIFTH. The board of directors of the Corporation is expressly authorized to adopt, amend or repeal by-laws of the Corporation.

SIXTH. Elections of directors need not be by written ballot except and to the extent provided in the by-laws of the Corporation.

SEVENTH. Any action required or permitted to be taken by the holders of Common Stock of the Corporation, including but not limited to the election of directors, may be taken by written consent or consents.

EIGHTH. A director of the Corporation shall not be liable to the Corporation or its stockholders for monetary damages for breach of fiduciary duty as a director, except to the extent that such exemption from liability or limitation thereof is not permitted under the DGCL as currently in effect or as the same may hereafter be amended. No amendment, modification or repeal of this Article EIGHTH shall adversely affect any right or protection of a director that exists at the time of such amendment, modification or repeal.

Appendix D

2019 Form 10-K filed with the United States Securities and Exchange Commission

UNITED STATES SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-K

(Mark One)

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

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

Commission File Number: 0-25092



INSIGHT ENTERPRISES, INC.

(Exact name of registrant as specified in its charter)

Delaware

(State or other jurisdiction of
incorporation or organization)

86-0766246

(IRS Employer
Identification No.)

6820 South Harl Avenue, Tempe, Arizona 85283

(Address of principal executive offices, Zip Code)

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

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

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

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

n/a

(Title of Class)

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

Yes No

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

Yes No

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes No

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

Yes No

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

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

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

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

Yes No

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

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

DOCUMENTS INCORPORATED BY REFERENCE

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

INSIGHT ENTERPRISES, INC.**ANNUAL REPORT ON FORM 10-K
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INSIGHT ENTERPRISES, INC.**FORWARD-LOOKING STATEMENTS**

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

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

INSIGHT ENTERPRISES, INC.

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

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

INSIGHT ENTERPRISES, INC.**PART I****Item 1. Business****Our Company**

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

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

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

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

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

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

Our acquisitions from 2015 through today were as follows:

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

INSIGHT ENTERPRISES, INC.

Our Purpose and Values

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

Our core values are:

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

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

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

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

Our Market

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

Our Value Proposition

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

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

Insight’s Strategic Assets are a Platform for Growth

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

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

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Our Business Strategy

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

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



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



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



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



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

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

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

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

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

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

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

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

Our Offerings

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

Services Solutions Offerings

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

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

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

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

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

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

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

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

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

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

Hardware Product Offerings

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

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

Software Product Offerings

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

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

Our Information Technology Systems

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

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

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

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Our Competition

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

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

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

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

Our Partners

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

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

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

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

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

Our Teammates

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

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

Our Seasonality

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

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

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

Our Backlog

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

Our Intellectual Property

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

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

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

Available Information

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

Item 1A. Risk Factors

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Item 1B. Unresolved Staff Comments

Not applicable.

INSIGHT ENTERPRISES, INC.**Item 2. Properties**

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

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

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

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

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Item 3. *Legal Proceedings*

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

Item 4. *Mine Safety Disclosures*

Not applicable.

PART II

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

Market Information

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

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

Issuer Purchases of Equity Securities

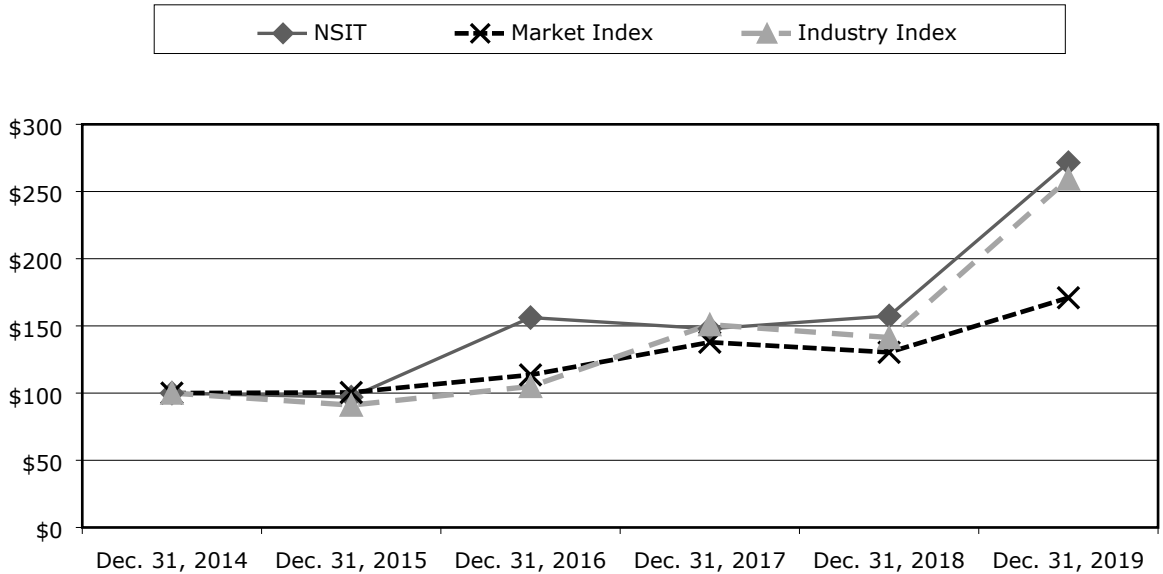
We did not repurchase shares of our common stock during the quarter ended December 31, 2019.

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

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Stock Price Performance Graph

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



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

INSIGHT ENTERPRISES, INC.**Item 6. Selected Financial Data**

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

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

INSIGHT ENTERPRISES, INC.

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

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

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

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

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

Overview

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

Full year 2019 financial and operational highlights included the following:

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

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

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

The results of operations for 2019 include the following items:

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

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

The results of operations for 2018 include the following items:

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

The results of operations for 2017 include the following items:

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

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

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

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

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

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

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

RESULTS OF OPERATIONS

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

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

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

2019 Compared to 2018

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Operating Expenses.

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

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

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

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

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

Non-Operating (Income) Expense.

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

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

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

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

2018 Compared to 2017

For a comparison of our results of operations for the fiscal years ended December 31, 2018 and 2017, see "Management's Discussion and Analysis of Financial Condition and Results of Operations" in Part II, Item 7 of our Annual Report on Form 10-K for the fiscal year ended December 31, 2018 filed with the SEC on February 22, 2019.

Liquidity and Capital Resources

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

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

Cash and Cash Flow

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

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

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

Net cash provided by (used in) operating activities.

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

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

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

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

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

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

Net cash used in investing activities.

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

Net cash provided by (used in) financing activities.

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

2018 Compared to 2017

For a comparison of our cash flows for the fiscal years ended December 31, 2018 and 2017, see "Management's Discussion and Analysis of Financial Condition and Results of Operations" in Part II, Item 7 of our Annual Report on Form 10-K for the fiscal year ended December 31, 2018 filed with the SEC on February 22, 2019.

Financing Facilities

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

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

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

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

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

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

Undistributed Foreign Earnings

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

Off-Balance Sheet Arrangements

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

Contractual Obligations

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

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

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

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

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

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

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

Acquisitions

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

Inflation

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

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

Critical Accounting Estimates

General

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

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

Sales Recognition

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

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

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

Partner Funding

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

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

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

Acquisition Accounting

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

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

Goodwill

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

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

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

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

Income Taxes

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

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

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

Recently Issued Accounting Standards

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

Item 7A. Quantitative and Qualitative Disclosures About Market Risk

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

INSIGHT ENTERPRISES, INC.
INDEX TO CONSOLIDATED FINANCIAL STATEMENTS

Item 8. *Financial Statements and Supplementary Data*

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

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

Opinion on the Consolidated Financial Statements

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

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

Change in Accounting Principle

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

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

Basis for Opinion

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

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

Critical Audit Matters

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

Evaluation of revenue recognition

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

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

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

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

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

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

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

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

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

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

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

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

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

/s/ KPMG LLP

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

Phoenix, Arizona
February 21, 2020

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

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

Opinion on Internal Control Over Financial Reporting

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

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

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

Basis for Opinion

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

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

Definition and Limitations of Internal Control Over Financial Reporting

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

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

/s/ KPMG LLP

Phoenix, Arizona
February 21, 2020

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

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

See accompanying notes to consolidated financial statements.

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

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

See accompanying notes to consolidated financial statements.

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

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

See accompanying notes to consolidated financial statements.

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

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

See accompanying notes to consolidated financial statements.

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

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

See accompanying notes to consolidated financial statements.

INSIGHT ENTERPRISES, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(1) Operations and Summary of Significant Accounting Policies

Description of Business

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

Operating Segment

North America
 EMEA
 APAC

Geography

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

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

Acquisitions

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

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

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

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

Principles of Consolidation and Presentation

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

Acquisition Accounting

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

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

Use of Estimates

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

Cash, Cash Equivalents and Restricted Cash

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

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

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

Allowance for Doubtful Accounts

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

Inventories

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

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

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

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

Property and Equipment

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

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

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

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

Goodwill

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

Intangible Assets

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

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

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

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

Leases

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

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

Self-Insurance

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

Treasury Stock

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

Sales Recognition

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

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

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

Nature of Goods and Services

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

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

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

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

Product Offerings

Hardware

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

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

Bill and Hold Transactions

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

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

Software

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

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

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

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

Services Offerings

Software Maintenance

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

Vendor Direct Support Services Contracts

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

Cloud / Software-as-a-Service Offerings

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

Insight Delivered Services

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

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

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

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

Time and Materials Services Contracts

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

Fixed Fee Services Contracts

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

OneCall Support Services Contracts

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

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

Third-party Provided Services

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

Costs of Goods Sold

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

Selling and Administrative Expenses

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

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

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

Partner Funding

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

Concentrations of Risk

Credit Risk

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

Partner Risk

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

Advertising Costs

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

Stock-Based Compensation

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

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

Foreign Currencies

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

Income Taxes

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

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

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

Contingencies

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

Net Earnings Per Share ("EPS")

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

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

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

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

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

Recently Issued Accounting Standards

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

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

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

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

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

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

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

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

(2) Sales Recognition

Disaggregation of Revenue

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

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

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

Contract Balances

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

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

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

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

Transaction price allocated to the remaining performance obligations

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

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

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

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

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

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

STATEMENT OF OPERATIONS FOR THE YEAR ENDED DECEMBER 31, 2018

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

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

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

(3) Assets Held for Sale

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

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

(4) Property and Equipment

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

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

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

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

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

(5) Goodwill

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

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

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

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

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

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

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

(6) Intangible Assets

Intangible assets consist of the following (in thousands):

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

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

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

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

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

(7) Accounts Payable - Inventory Financing Facilities

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

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

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

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

(8) Debt, Finance Leases and Other Financing Obligations

Debt

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

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

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

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

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

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

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

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

Convertible Senior Notes

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Convertible Note Hedge and Warrant Transaction

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

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

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

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

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

Finance Leases and Other Financing Obligations

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

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

(9) Leases

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Operating Leases pre-Topic 842 adoption:

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

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

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

(10) Stock-Based Compensation

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

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

Company Plan

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

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

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

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

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

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

Accounting for Restricted Stock Units

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

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

The following table summarizes our RSU activity during 2019:

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

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

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

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

(11) Income Taxes

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

(12) Market Risk Management

Interest Rate Risk

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

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

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

Foreign Currency Exchange Risk

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

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

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

(13) Fair Value Measurements

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

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

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

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

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

(14) Benefit Plans

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

(15) Share Repurchase Programs

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

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

All shares repurchased were retired.

(16) Commitments and Contingencies

Contractual

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

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

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

Employment Contracts and Severance Plans

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

Indemnifications

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

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

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

Contingencies Related to Third-Party Review

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

Legal Proceedings

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

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

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

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

(17) Supplemental Financial Information

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

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

(18) Cash Flows

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

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

(19) Segment and Geographic Information

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

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

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

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

	EMEA		
	Years Ended December 31,		
	2019	2018	2017
Sales Mix			
Hardware.....	\$ 622,949	\$ 653,499	\$ 536,500
Software.....	753,729	736,509	710,452
Services	149,966	140,233	108,464
	<u>\$ 1,526,644</u>	<u>\$ 1,530,241</u>	<u>\$ 1,355,416</u>
	APAC		
	Years Ended December 31,		
	2019	2018	2017
Sales Mix			
Hardware.....	\$ 34,965	\$ 29,496	\$ 27,907
Software.....	92,988	107,363	101,412
Services	52,288	50,055	37,154
	<u>\$ 180,241</u>	<u>\$ 186,914</u>	<u>\$ 166,473</u>

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

(20) Acquisitions

PCM

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Cardinal

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

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

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

Datalink

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

(21) Selected Quarterly Financial Information (unaudited)

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

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

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

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

INSIGHT ENTERPRISES, INC.

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

Not applicable.

Item 9A. Controls and Procedures

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

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

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

(b) Changes in Internal Control Over Financial Reporting

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

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

(c) Disclosure Controls and Procedures

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

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

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

Item 9B. Other Information

Not applicable.

INSIGHT ENTERPRISES, INC.

PART III

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

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

Item 11. *Executive Compensation*

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

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

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

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

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

Item 14. *Principal Accounting Fees and Services*

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

INSIGHT ENTERPRISES, INC.

PART IV

Item 15. *Exhibits, Financial Statement Schedules*

(a) Financial Statements and Schedules

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

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

(b) Exhibits

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

Item 16. *Form 10-K Summary*

None.

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

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

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

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

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

<u>Exhibit Number</u>	<u>Exhibit Description</u>	<u>Form</u>	<u>Incorporated by Reference</u>			<u>Filed/Furnished Herewith</u>
			<u>File No.</u>	<u>Exhibit Number</u>	<u>Filing Date</u>	
32.1	Certification of Chief Executive Office and Chief Financial Officer Pursuant to 18 U.S.C. Section 1350, As Adopted Pursuant To Section 906 of the Sarbanes-Oxley Act of 2002					X
101.INS	XBRL Instance Document - the instance document does not appear in the Interactive Data File because its XBRL tags are embedded within the Inline XBRL document					X
101.SCH	Inline XBRL Taxonomy Extension Schema Document					X
101.CAL	Inline XBRL Taxonomy Extension Calculation Linkbase Document					X
101.DEF	Inline XBRL Taxonomy Extension Definition Linkbase Document					X
101.LAB	Inline XBRL Taxonomy Extension Label Linkbase Document					X
101.PRE	Inline XBRL Taxonomy Extension Presentation Linkbase Document					X
104	Cover Page Interactive Data File (formatted as Inline XBRL with applicable taxonomy extension information contained in Exhibits 101)					X
	(1) Certain schedules and exhibits (or similar attachments) have been omitted pursuant to Item 601(b)(2) of Regulation S-K. The Company agrees to furnish copies of any such schedules and exhibits (or similar attachments) to the SEC upon request.					
	(2) We have entered into a separate indemnification agreement with each of the following directors and executive officers that differ only in names and dates: Richard E. Allen, Bruce W. Armstrong, Rachael A. Bertrand, Linda Breard, Glynis A. Bryan, Catherine Courage, Samuel C. Cowley, Timothy A. Crown, Steven W. Dodenhoff, Wolfgang Ebermann, Anthony A. Ibarguen, Helen K. Johnson, Kenneth T. Lamneck, Kathleen S. Pushor, Girish Rishi and Jeffery Shumway. Pursuant to the instructions accompanying Item 601 of Regulation S-K, the Registrant is filing the form of such indemnification agreement.					
	(3) Management contract or compensatory plan or arrangement.					
	(4) Certain schedules and exhibits (or similar attachments) have been omitted pursuant to Item 601(b)(10)(iv) of Regulation S-K. The Company agrees to furnish copies of any such schedules and exhibits (or similar attachments) to the SEC upon request.					
	(P) Paper exhibit.					

INSIGHT ENTERPRISES, INC.**SIGNATURES**

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

INSIGHT ENTERPRISES, INC.

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

Dated: February 21, 2020

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

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

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

CERTIFICATION

I, Kenneth T. Lamneck, certify that:

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

Date: February 21, 2020

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

CERTIFICATION

I, Glynis A. Bryan, certify that:

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

Date: February 21, 2020

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

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

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

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

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

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

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

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**City and County of San Francisco
Office of Contract Administration
Purchasing Division
City Hall, Room 430
1 Dr. Carlton B. Goodlett Place
San Francisco, California 94102-4685**

**First Amendment
To Agreement between the City and County of San Francisco and
Insight Public Sector, Inc.**

**Term Contract # 99400
Tier 1 Contractor of the Technology Marketplace 2.0
PeopleSoft Supplier Contract ID: 1000018903**

THIS AMENDMENT (this “Amendment”) is made as of October 15, 2020 in San Francisco, California, by and between **INSIGHT PUBLIC SECTOR INC** (“Contractor”), and the City and County of San Francisco, a municipal corporation (“City”), acting by and through its Director of the Office of Contract Administration.

Recitals

WHEREAS, City and Contractor have entered into the Agreement (as defined below); and

WHEREAS, City and Contractor desire to modify the Agreement on the terms and conditions set forth herein to increase the contract amount, and update standard contractual clauses; and

WHEREAS, the Agreement was competitively procured as required by San Francisco Administrative Code Chapter 21.1 through Request for Proposals #99400 “Tiers 1 and 2 of the Technology Marketplace 2.0,” a Request for Proposal (“RFP”) issued on June 20, 2018 and this modification is consistent therewith; and

WHEREAS, approval for this Amendment was obtained when the Civil Service Commission approved Contract number 44114-17/18 on July 10, 2018;

WHEREAS, the City’s Board of Supervisors approved the Agreement by Resolution No. 009-19 on January 15, 2019;

WHEREAS, the City’s Board of Supervisors approved the First Amendment by Resolution No. 441-20 on September 29, 2020 modifying the Agreement to increase the not-to-exceed amount from \$20,000,000 to \$28,000,000;

NOW, THEREFORE, Contractor and the City agree as follows:



Article 1 Definitions

The following definitions shall apply to this Amendment:

1.1 **Agreement.** The term “Agreement” shall mean the Agreement dated January 1, 2019 between Contractor and City.

1.2 **Other Terms.** Terms used and not defined in this Amendment shall have the meanings assigned to such terms in the Agreement.

Article 2 Modifications to the Agreement.

The Agreement is hereby modified as follows:

2.1 **Definitions.** *The following is hereby added to the Agreement as a Definition in Article 1:*

1.23 “Confidential Information” means confidential City information including, but not limited to, personally-identifiable information (“PII”), protected health information (“PHI”), or individual financial information (collectively, “Proprietary or Confidential Information”) that is subject to local, state or federal laws restricting the use and disclosure of such information, including, but not limited to, Article 1, Section 1 of the California Constitution; the California Information Practices Act (Civil Code § 1798 et seq.); the California Confidentiality of Medical Information Act (Civil Code § 56 et seq.); the federal Gramm-Leach-Bliley Act (15 U.S.C. §§ 6801(b) and 6805(b)(2)); the privacy and information security aspects of the Administrative Simplification provisions of the federal Health Insurance Portability and Accountability Act (45 CFR Part 160 and Subparts A, C, and E of part 164); and San Francisco Administrative Code Chapter 12M (Chapter 12M).

2.2 **Notification of Legal Requests and Management of City Data and Confidential Information** *The following sections are hereby added and incorporated in Articles 11 and 13 of the Agreement:*

11.14 **Notification of Legal Requests.** Contractor shall immediately notify City upon receipt of any subpoenas, service of process, litigation holds, discovery requests and other legal requests (“Legal Requests”) related to all data given to Contractor by City in the performance of this Agreement (“City Data” or “Data”), or which in any way might reasonably require access to City’s Data, and in no event later than 24 hours after it receives the request. Contractor shall not respond to Legal Requests related to City without first notifying City other than to notify the requestor that the information sought is potentially covered under a non-disclosure agreement. Contractor shall retain and preserve City Data in accordance with the City’s instruction and requests, including, without limitation, any retention schedules and/or litigation hold orders provided by the City to Contractor, independent of where the City Data is stored.

13.4 Management of City Data and Confidential Information



13.4.1 Access to City Data. City shall at all times have access to and control of all data given to Contractor by City in the performance of this Agreement (“City Data” or “Data”), and shall be able to retrieve it in a readable format, in electronic form and/or print, at any time, at no additional cost.

13.4.2 Use of City Data and Confidential Information. Contractor agrees to hold City's Confidential Information received from or created on behalf of the City in strictest confidence. Contractor shall not use or disclose City's Data or Confidential Information except as permitted or required by the Agreement or as otherwise authorized in writing by the City. Any work using, or sharing or storage of, City's Confidential Information outside the United States is subject to prior written authorization by the City. Access to City's Confidential Information must be strictly controlled and limited to Contractor’s staff assigned to this project on a need-to-know basis only. Contractor is provided a limited non-exclusive license to use the City Data or Confidential Information solely for performing its obligations under the Agreement and not for Contractor’s own purposes or later use. Nothing herein shall be construed to confer any license or right to the City Data or Confidential Information, by implication, estoppel or otherwise, under copyright or other intellectual property rights, to any third-party. Unauthorized use of City Data or Confidential Information by Contractor, subcontractors or other third-parties is prohibited. For purpose of this requirement, the phrase “unauthorized use” means the data mining or processing of data, stored or transmitted by the service, for commercial purposes, advertising or advertising-related purposes, or for any purpose other than security or service delivery analysis that is not explicitly authorized.

13.4.3 Disposition of Confidential Information. Upon termination of Agreement or request of City, Contractor shall within forty-eight (48) hours return all Confidential Information which includes all original media. Once Contractor has received written confirmation from City that Confidential Information has been successfully transferred to City, Contractor shall within ten (10) business days purge all Confidential Information from its servers, any hosted environment Contractor has used in performance of this Agreement, work stations that were used to process the data or for production of the data, and any other work files stored by Contractor in whatever medium. Contractor shall provide City with written certification that such purge occurred within five (5) business days of the purge.

2.3 Assignment. *The following is hereby added to Article 4 of the Agreement, replacing the previous Section 4.5 in its entirety:*

4.5 Assignment. The Services to be performed by Contractor are personal in character. Neither this Agreement, nor any duties or obligations hereunder, may be directly or indirectly assigned, novated, hypothecated, transferred, or delegated by Contractor, or, where the Contractor is a joint venture, a joint venture partner, (collectively referred to as an “Assignment”) unless first approved by City by written instrument executed and approved in the same manner as this Agreement in accordance with the Administrative Code. The City’s approval of any such Assignment is subject to the Contractor demonstrating to City’s reasonable satisfaction that the proposed transferee is: (i) reputable and capable, financially and otherwise, of performing each of Contractor’s obligations under this Agreement and any other documents to be assigned, (ii) not forbidden by applicable law from transacting business or entering into contracts with City; and (iii) subject to the jurisdiction of the courts of the State of California. A



change of ownership or control of Contractor or a sale or transfer of substantially all of the assets of Contractor shall be deemed an Assignment for purposes of this Agreement. Contractor shall immediately notify City about any Assignment. Any purported Assignment made in violation of this provision shall be null and void.

2.4 **Withholding.** *The following is hereby added to Article 7 of the Agreement:*

7.3 **Withholding.** Contractor agrees that it is obligated to pay all amounts due to the City under the San Francisco Business and Tax Regulations Code during the term of this Agreement. Pursuant to Section 6.10-2 of the San Francisco Business and Tax Regulations Code, Contractor further acknowledges and agrees that City may withhold any payments due to Contractor under this Agreement if Contractor is delinquent in the payment of any amount required to be paid to the City under the San Francisco Business and Tax Regulations Code. Any payments withheld under this paragraph shall be made to Contractor, without interest, upon Contractor coming back into compliance with its obligations.

2.5 **Limitations on Contributions.** *The following is hereby added to Article 10 of the Agreement, replacing the previous Section 10.11 in its entirety:*

10.11 **Limitations on Contributions.** By executing this Agreement, Contractor acknowledges its obligations under section 1.126 of the City's Campaign and Governmental Conduct Code, which prohibits any person who contracts with, or is seeking a contract with, any department of the City for the rendition of personal services, for the furnishing of any material, supplies or equipment, for the sale or lease of any land or building, for a grant, loan or loan guarantee, or for a development agreement, from making any campaign contribution to (i) a City elected official if the contract must be approved by that official, a board on which that official serves, or the board of a state agency on which an appointee of that official serves, (ii) a candidate for that City elective office, or (iii) a committee controlled by such elected official or a candidate for that office, at any time from the submission of a proposal for the contract until the later of either the termination of negotiations for such contract or twelve months after the date the City approves the contract. The prohibition on contributions applies to each prospective party to the contract; each member of Contractor's board of directors; Contractor's chairperson, chief executive officer, chief financial officer and chief operating officer; any person with an ownership interest of more than 10% in Contractor; any subcontractor listed in the bid or contract; and any committee that is sponsored or controlled by Contractor. Contractor certifies that it has informed each such person of the limitation on contributions imposed by Section 1.126 by the time it submitted a proposal for the contract, and has provided the names of the persons required to be informed to the City department with whom it is contracting.

2.6 **Payment.** *Section 3.3.1 "Payment" of the Agreement currently reads as follows:*

3.3.1 **Payment.** Contractor shall provide an invoice to the City on a monthly basis for Services completed in the immediate preceding month. Compensation shall be made for Services identified in the invoice that the Ordering Department's department head, in his or her sole discretion, concludes has been satisfactorily performed. Payment shall be made within 30



calendar days of receipt of the invoice, unless the City notifies the Contractor that a dispute as to the invoice exists. In no event shall the amount of this Agreement exceed Twenty Million dollars (\$20,000,000). In no event shall City be liable for interest or late charges for any late payments.

Such section is hereby amended in its entirety to read as follows:

3.3.1 Payment. Contractor shall provide an invoice to the City on a monthly basis for Services completed in the immediate preceding month. Compensation shall be made for Services identified in the invoice that the Ordering Department's department head, in his or her sole discretion, concludes has been satisfactorily performed. Payment shall be made within 30 calendar days of receipt of the invoice, unless the City notifies the Contractor that a dispute as to the invoice exists. In no event shall the amount of this Agreement exceed Twenty-Eight Million dollars (\$28,000,000). In no event shall City be liable for interest or late charges for any late payments.

Article 3 Effective Date

Each of the modifications set forth in Article 2 shall be effective on and after the date of this Amendment.

Article 4 Legal Effect

Except as expressly modified by this Amendment, all of the terms and conditions of the Agreement shall remain unchanged and in full force and effect.



IN WITNESS WHEREOF, the parties hereto have executed this Amendment on the day first mentioned above.

CITY

CONTRACTOR

Recommended by:

INSIGHT PUBLIC SECTOR INC

DocuSigned by:
Jonathan Jew
F6E2D9B200884C7...
Jonathan Jew
IT Purchasing Supervisor
Office of Contract Administration

DocuSigned by:
Lisanne Steinheiser
176A2A87EC1B437...
Signature of Authorized Representative for
Insight Public Sector, Inc.

Approved as to Form:

Lisanne Steinheiser
Name of Authorized Representative for Insight
Public Sector, Inc.

Dennis J. Herrera
City Attorney

Assistant Secretary

City vendor number: 0000040338

By: DocuSigned by:
Gustin R. Guibert
D39D934F443D4CB...
Gustin R. Guibert
Deputy City Attorney

Approved:

Sailaja Kurella
Acting Director of the Office of Contract
Administration, and Purchaser

By: DocuSigned by:
Moayed, Taraneh
9AEA44694D514E7...

**City and County of San Francisco
Office of Contract Administration
Purchasing Division
City Hall, Room 430
1 Dr. Carlton B. Goodlett Place
San Francisco, California 94102-4685**

**Second Amendment
To Agreement between the City and County of San Francisco and
Insight Public Sector, Inc.**

**Term Contract # 99400
Tier 1 Contractor of the Technology Marketplace 2.0
PeopleSoft Supplier Contract ID: 1000018903**

THIS AMENDMENT (this “Amendment”) is made as of September 15, 2021, in San Francisco, California, by and between **Insight Public Sector, Inc.** (“Contractor”), and the City and County of San Francisco, a municipal corporation (“City”), acting by and through its Director of the Office of Contract Administration.

Recitals

WHEREAS, City and Contractor have entered into the Agreement (as defined below); and

WHEREAS, City and Contractor desire to modify the Agreement on the terms and conditions set forth herein to extend the contract duration; and

WHEREAS, the Agreement was competitively procured as required by San Francisco Administrative Code Chapter 21.1 through Request for Proposals #99400 “Tiers 1 and 2 of the Technology Marketplace 2.0” a Request for Proposal (“RFP”) issued on June 20, 2018 and this modification is consistent therewith; and

WHEREAS, approval for this Agreement was obtained when the Civil Service Commission approved Contract number 44114-17/18 on July 10, 2018;

WHEREAS, the City’s Board of Supervisors approved the Agreement by Resolution No. 009-19 on January 15, 2019;

WHEREAS, the City’s Board of Supervisors approved the First Amendment by Resolution No. 441-20 on September 29, 2020 modifying the Agreement to increase the not-to-exceed amount from \$20,000,000 to \$28,000,000;

NOW, THEREFORE, Contractor and the City agree as follows:

Article 1 Definitions

The following definitions shall apply to this Amendment:

1.1 **Agreement.** The term “Agreement” shall mean the Agreement dated January 1, 2019 between Contractor and City, as amended by the First Amendment dated October 15, 2020.

1.2 **Other Terms.** Terms used and not defined in this Amendment shall have the meanings assigned to such terms in the Agreement.

Article 2 Modifications to the Agreement.

The Agreement is hereby modified as follows:

2.1 **Term of the Agreement.** *Section 2.1 of the Agreement currently reads as follows:*

2.1 **Term of the Agreement.** The term of this Agreement shall commence on the later of: (i) January 1, 2019; or (ii) the Effective Date and expire on December 31, 2021, unless earlier terminated as otherwise provided herein.

Such section is hereby amended in its entirety to read as follows:

2.1 **Term of the Agreement.** The term of this Agreement shall commence on the later of: (i) January 1, 2019; or (ii) the Effective Date and expire on December 31, 2023, unless earlier terminated as otherwise provided herein.

Article 3 Effective Date

Each of the modifications set forth in Section 2 shall be effective on and after the date of this Amendment.

Article 4 Legal Effect

Except as expressly modified by this Amendment, all of the terms and conditions of the Agreement shall remain unchanged and in full force and effect.

IN WITNESS WHEREOF, Contractor and City have executed this Amendment as of the date first referenced above.

CITY

Recommended by:

DocuSigned by:
Jonathan Jew
F6E2D9B200884C7...

Jonathan Jew
IT Purchasing Supervisor
Office of Contract Administration

Approved as to Form:

Dennis J. Herrera
City Attorney

DocuSigned by:
Gustin R. Guibert
D39D934F443D4CB...

By: _____
Gustin R. Guibert
Deputy City Attorney

Approved:

Sailaja Kurella
Acting Director of the Office of Contract
Administration, and Purchaser

DocuSigned by:
Sailaja Kurella
78EAEA4AB01C4E0...

By: _____
Sailaja Kurella

CONTRACTOR

Insight Public Sector, Inc.

DocuSigned by:
Scott Friedlander
CC82CEBD51B8452...

Signature of Authorized Representative

Scott Friedlander

Name of Authorized Representative

President

City Supplier number: 0000040338



DATE: February 14, 2022
TO: Angela Calvillo, Clerk of the Board
FROM: Sailaja Kurella, Director of Office of Contract Administration (OCA) and Purchaser ^{SK}
SUBJECT: Resolution to Approve Amendments to Term Contract #99400 – Technology Marketplace

Enclosed are the resolutions authorizing amendments to the following six (6) as-needed Technology Marketplace contracts:

- (1) Amendment 4 to Contract 1000012604 with CCT Technologies, Inc. dba Computerland of Silicon Valley for the purchase of technology products and specialized services on an as-needed basis. The proposed Amendment is to increase the contract not to exceed amount of \$44 million by \$18.9 million, for a total not-to-exceed (NTE) amount of \$62.9 million, for a total contract duration of five years starting January 1, 2019 and ending December 31, 2023;
- (2) Amendment 2 to Contract 1000012606 with Cornerstone Technology Partners II JV for the purchase of technology products and specialized services on an as-needed basis. The proposed Amendment is to increase the contract not to exceed amount of \$20 million by \$11.2 million for a total not-to-exceed (NTE) amount of \$31.2 million, for a total contract duration of five years starting January 1, 2019 and ending December 31, 2023;
- (3) Amendment 3 to Contract 1000018903 with Insight Public Sector Inc. for the purchase of technology products and specialized services on an as-needed basis. The proposed Amendment is to increase the contract not to exceed amount of \$28 million by \$11.7 million for a total not-to-exceed (NTE) amount of \$39.7 million, for a total contract duration of five years starting January 1, 2019 and ending December 31, 2023;
- (4) Amendment 3 to Contract 1000012610 with InterVision Systems, LLC for the purchase of technology products and specialized services on an as-needed basis. The proposed Amendment is to increase the contract not to exceed amount of \$31 million by \$13.4 million for a total not-to-exceed (NTE) amount of \$44.4 million, for a total contract duration of five years starting January 1, 2019 and ending December 31, 2023;
- (5) Amendment 4 to Contract 1000012618 with XTech JV for the purchase of technology products and specialized services on an as-needed basis. The proposed Amendment is to increase the contract not to exceed amount of \$80 million by \$35.7 million for a total not-to-exceed (NTE) amount of \$115.7 million, for a total contract duration of five years starting January 1, 2019 and ending December 31, 2023; and
- (6) Amendment 2 to Contract 1000012619 with Zones, LLC for the purchase of technology products and specialized services on an as-needed basis. The proposed Amendment is to increase the contract not to exceed amount of \$20 million by \$3.6 million for a total not-to-exceed (NTE) amount of \$23.6 million, for a total contract duration of five years starting January 1, 2019 and ending December 31, 2023.

Background

The City's Technology Marketplace (previously known at the "Computer Store") originated in the 1990's as an efficient purchasing model for the City's evolving technology needs. In fact, the Technology Marketplace contracts are used by the City's 60+ departments to purchase technology goods and services on an as-needed basis based on departments' business needs.

The Technology Marketplace consists of a prequalified pool of Suppliers selected through a rigorous solicitation process conducted by the Office of Contract Administration (OCA). The Suppliers are separated into three Tiers, as summarized in the table below.



	Tier 1	Tier 2	Tier 3 Micro LBE Set-Asides
Number of Suppliers	19 (consisting of 1 LBE JV)	10 (consisting of 4 LBE primes)	24 (All Micro-LBEs) Note: Each Micro LBE has multiple contracts ranging from 1-4 contracts each based on their LBE certifications.
Initial Contract Size	\$20M/Contract	\$3M/Contract	\$600K/Contract
Competitive Solicitation Thresholds	> \$25K: Bid required	> \$25K: Bid required	> \$129K: Bid required
LBE % Requirements	15% of awarded professional services	15% of awarded professional services	N/A, all suppliers are Micro-LBEs

The Technology Marketplace reduces the amount of time needed to complete a transaction from several months to 1-2 weeks. All transactions above established thresholds must be competitively solicited to the applicable Tier. OCA conducts solicitations for Commodities, while City departments are delegated with the responsibility of conducting solicitations for Professional Services. Below is a summary of awards made through solicitations for the six agreements OCA seeks to amend:

Firm	Contract ID	Total \$ Awarded through a Solicitation as a Percentage of Total \$ Awarded
CCT Technologies, Inc.	1000012604	\$30,423,198.18 (78.15%)
Cornerstone Technology Partners II JV	1000012606	\$18,766,398.59 (97.21%)
Insight Public Sector Inc.	1000018903	\$21,728,643.70 (87.19%)
InterVision Systems, LLC	1000012610	\$23,338,833.33 (94.79%)
X Tech JV	1000012618	\$56,782,524.80 (79.14%)
Zones, LLC	1000012619	\$14,122,484.49 (96.04%)

Since transitioning to PeopleSoft in July 2017, OCA has conducted all Technology Marketplace solicitations in PeopleSoft. Effective May 2021, OCA required all City departments to also use PeopleSoft to conduct their Technology Marketplace solicitations. The purpose of requiring all Technology Marketplace solicitations to be advertised in PeopleSoft is to ensure transparency and accurate documentation for all Technology Marketplace awards.



Contracts for which Amendments are Sought

The Request for Proposals (RFP) for the current Technology Marketplace was conducted in 2018. With regard to Tier 1, OCA received 21 proposals, of which 19 met the minimum requirements and the minimum score to participate in the Technology Marketplace. Each Tier 1 contract was awarded an initial term of three years, from January 2019 through December 2021, with the option to extend through December 2023. The initial not-to-exceed amount of each Tier 1 contract was \$20,000,000 and each contract was approved by the Board of Supervisors.

In September 2019, the Board of Supervisors approved amending the following contracts from the Tier 1 pool:

- (1) Amendment 1 to Contract 1000012604 with CCT Technologies, increasing the not-to-exceed amount from \$20,000,000 to \$23,000,000 (File 19-0877); and
- (2) Amendment 1 to Contract 1000012618 with XTech JV, increasing the not-to-exceed amount from \$20,000,000 to \$44,000,000 (File 19-0878);

In October 2020, the Board of Supervisors approved amending the following contracts from the Tier 1 pool:

- (1) Amendment 2 to Contract 1000012604 with CCT Technologies, increasing the not-to-exceed amount from \$23,000,000 to \$44,000,000 (File 20-0936);
- (2) Amendment 2 to Contract 1000012618 with XTech JV, increasing the not-to-exceed amount from \$44,000,000 to \$80,000,000 (File 20-0940);
- (3) Amendment 1 to Contract 1000018903 with Insight Public Sector Inc., increasing the not-to-exceed amount from \$20,000,000 to \$28,000,000 (File 20-0938); and
- (4) Amendment 1 to Contract 1000012610 with Intervision Systems, LLC, increasing the not-to-exceed amount from \$20,000,000 to \$31,000,000 (File 20-0939).

In September 2021, OCA amended all Tier 1, 2 and 3 Technology Marketplace contracts to December 31, 2023. The extensions in duration did not require approval by the Board of Supervisors.

At this time OCA seeks to approval for the following amendments:

- (1) Amendment 4 to Contract 1000012604 with CCT Technologies, Inc. dba Computerland of Silicon Valley to increase the contract not to exceed amount of \$44 million by \$18.9 million, for a total not-to-exceed (NTE) amount of \$62.9 million;
- (2) Amendment 2 to Contract 1000012606 with Cornerstone Technology Partners II JV to increase the contract not to exceed amount of \$20 million by \$11.2 million for a total not-to-exceed (NTE) amount of \$31.2 million;
- (3) Amendment 3 to Contract 1000018903 with Insight Public Sector Inc to increase the contract not to exceed amount of \$28 million by \$11.7 million for a total not-to-exceed (NTE) amount of \$39.7 million;
- (4) Amendment 3 to Contract 1000012610 with InterVision Systems, LLC to increase the contract not to exceed amount of \$31 million by \$13.4 million for a total not-to-exceed (NTE) amount of \$44.4 million;
- (5) Amendment 4 to Contract 1000012618 with XTech JV to increase the contract not to exceed amount of \$80 million by \$35.7 million for a total not-to-exceed (NTE) amount of \$115.7 million; and
- (6) Amendment 2 to Contract 1000012619 with Zones, LLC to increase the contract not to exceed amount \$20 million by \$3.6 million for a total not-to-exceed (NTE) amount of \$23.6 million.



Justification

To determine which Technology Marketplace contracts require additional funds, OCA multiplied the average monthly spend for each contract times the number of remaining months on each contract. Based on this analysis, OCA has determined the following 6 contracts require additional funds to ensure adequate capacity through December 31, 2023.

Firm	Contract ID	Current NTE	Spend through 1/31/22	Avg Monthly Spend (Spend to date / 37 months)	Est. Amt Needed for Remaining Contract Duration (Avg Monthly Spend * 23 Months)	Current Remaining Balance as of 1/31/22	Est. Amt Needed for Remaining Contract Duration Less Current Remaining Balance	Est. Amt Needed for Remaining Contract Duration Less Current Remaining Balance (Rounded to Nearest 100,000)
CCT Technologies, Inc.	1000012604	44,000,000	38,787,870	1,048,321	24,111,378	5,212,130	18,899,248	18,900,000
Cornerstone Technology Partners II JV	1000012606	20,000,000	19,230,841	519,752	11,954,306	769,159	11,185,147	11,200,000
Insight Public Sector Inc.	1000018903	28,000,000	24,466,199	661,249	15,208,718	3,533,801	11,674,917	11,700,000
InterVision Systems, LLC	1000012610	31,000,000	27,388,323	740,225	17,025,174	3,611,677	13,413,496	13,400,000
X Tech JV	1000012618	80,000,000	71,367,235	1,928,844	44,363,416	8,632,765	35,730,652	35,700,000
Zones, LLC	1000012619	20,000,000	14,546,538	393,150	9,042,443	5,453,462	3,588,981	3,600,000

The Technology Marketplace contracts are critical for satisfying City departments’ needs for technology goods and services. In fact, the Technology Marketplace reduces the amount of time needed to complete a transaction from several months to 1-2 weeks. Approval of these six Resolutions will allow City departments to continue procuring these items in a streamlined and cost-efficient manner without any lapse in services.

If you have any questions or require additional information, please contact Jonathan Jew on my team at 415-695-2193.

Enclosures:

- SFEC Form 126(f)4 - Contract 1000012604 (CCT Technologies, Inc. dba Computerland of Silicon Valley)
- Amendment [4] - Contract 1000012604 (CCT Technologies, Inc. dba Computerland of Silicon Valley)
- SFEC Form 126(f)4 - Contract 1000012606 (Cornerstone Technology Partners II JV)
- Amendment [2] - Contract 1000012606 (Cornerstone Technology Partners II JV)
- SFEC Form 126(f)4 - Contract 1000018903 (Insight Public Sector Inc)
- Amendment [3] - Contract 1000018903 (Insight Public Sector Inc)
- SFEC Form 126(f)4 - Contract 1000012610 (InterVision Systems, LLC)
- Amendment [3] - Contract 1000012610 (InterVision Systems, LLC)
- SFEC Form 126(f)4 - Contract 1000012618 (XTech JV)
- Amendment [4] - Contract 1000012618 (XTech JV)
- SFEC Form 126(f)4 - Contract 1000012619 (Zones, LLC)
- Amendment [2] - Contract 1000012619 (Zones, LLC)



San Francisco Ethics Commission

25 Van Ness Avenue, Suite 220, San Francisco, CA 94102

Phone: 415.252.3100 . Fax: 415.252.3112

ethics.commission@sfgov.org . www.sfethics.org

Received On:

File #: 220177

Bid/RFP #: SE 0979 / RFP 99400

Notification of Contract Approval

SFEC Form 126(f)4

(S.F. Campaign and Governmental Conduct Code § 1.126(f)4)

A Public Document

Each City elective officer who approves a contract that has a total anticipated or actual value of \$100,000 or more must file this form with the Ethics Commission within five business days of approval by: (a) the City elective officer, (b) any board on which the City elective officer serves, or (c) the board of any state agency on which an appointee of the City elective officer serves. For more information, see: <https://sfethics.org/compliance/city-officers/contract-approval-city-officers>

1. FILING INFORMATION

TYPE OF FILING	DATE OF ORIGINAL FILING (for amendment only)
Original	
AMENDMENT DESCRIPTION – Explain reason for amendment	

2. CITY ELECTIVE OFFICE OR BOARD

OFFICE OR BOARD	NAME OF CITY ELECTIVE OFFICER
Board of Supervisors	Members

3. FILER'S CONTACT

NAME OF FILER'S CONTACT	TELEPHONE NUMBER
Angela Calvillo	415-554-5184
FULL DEPARTMENT NAME	EMAIL
office of the clerk of the Board	Board.of.Supervisors@sfgov.org

4. CONTRACTING DEPARTMENT CONTACT

NAME OF DEPARTMENTAL CONTACT	DEPARTMENT CONTACT TELEPHONE NUMBER
Jonathan Jew	415-695-2193
FULL DEPARTMENT NAME	DEPARTMENT CONTACT EMAIL
OCA Office of Contract Administration	jonathan.jew@sfgov.org

5. CONTRACTOR	
NAME OF CONTRACTOR Insight Public Sector, Inc	TELEPHONE NUMBER 310-337-6127
STREET ADDRESS (including City, State and Zip Code) 13755 Sunrise Valley Dr., Suite 750 Herndon VA 20171	EMAIL Kathy.Perez@insight.com

6. CONTRACT		
DATE CONTRACT WAS APPROVED BY THE CITY ELECTIVE OFFICER(S)	ORIGINAL BID/RFP NUMBER SE 0979 / RFP 99400	FILE NUMBER (If applicable) 220177
DESCRIPTION OF AMOUNT OF CONTRACT \$39,700,000		
NATURE OF THE CONTRACT (Please describe) Original contract amount: \$20,000,000 Amendment #1 contract amount: \$28,000,000 Amendment #2: Extended contract end date by two (2) years, from December 31, 2021 to December 31, 2023. Proposed Amendment #3 contract amount: \$39,700,000 This contract is for City-wide procurement of IT products and services. Contract Amendment #3 is to increase the not-to-exceed contract amount from \$28,000,000 to \$39,700,000. This additional amount is expected to last until the end of the contract term December 31, 2023		

7. COMMENTS

8. CONTRACT APPROVAL	
This contract was approved by:	
<input type="checkbox"/>	THE CITY ELECTIVE OFFICER(S) IDENTIFIED ON THIS FORM
<input checked="" type="checkbox"/>	A BOARD ON WHICH THE CITY ELECTIVE OFFICER(S) SERVES Board of Supervisors
<input type="checkbox"/>	THE BOARD OF A STATE AGENCY ON WHICH AN APPOINTEE OF THE CITY ELECTIVE OFFICER(S) IDENTIFIED ON THIS FORM SITS

9. AFFILIATES AND SUBCONTRACTORS

List the names of (A) members of the contractor's board of directors; (B) the contractor's principal officers, including chief executive officer, chief financial officer, chief operating officer, or other persons with similar titles; (C) any individual or entity who has an ownership interest of 10 percent or more in the contractor; and (D) any subcontractor listed in the bid or contract.

#	LAST NAME/ENTITY/SUBCONTRACTOR	FIRST NAME	TYPE
1	Friedlander	Scott	CEO
2	Ennis	Sharon	Other Principal Officer
3	Steinheiser	Lisanne	Other Principal Officer
4	Adams	Virginia	Other Principal Officer
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9. AFFILIATES AND SUBCONTRACTORS

List the names of (A) members of the contractor’s board of directors; (B) the contractor’s principal officers, including chief executive officer, chief financial officer, chief operating officer, or other persons with similar titles; (C) any individual or entity who has an ownership interest of 10 percent or more in the contractor; and (D) any subcontractor listed in the bid or contract.

#	LAST NAME/ENTITY/SUBCONTRACTOR	FIRST NAME	TYPE
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9. AFFILIATES AND SUBCONTRACTORS

List the names of (A) members of the contractor’s board of directors; (B) the contractor’s principal officers, including chief executive officer, chief financial officer, chief operating officer, or other persons with similar titles; (C) any individual or entity who has an ownership interest of 10 percent or more in the contractor; and (D) any subcontractor listed in the bid or contract.

#	LAST NAME/ENTITY/SUBCONTRACTOR	FIRST NAME	TYPE
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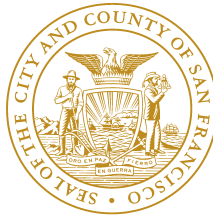
Check this box if you need to include additional names. Please submit a separate form with complete information. Select “Supplemental” for filing type.

10. VERIFICATION

I have used all reasonable diligence in preparing this statement. I have reviewed this statement and to the best of my knowledge the information I have provided here is true and complete.

I certify under penalty of perjury under the laws of the State of California that the foregoing is true and correct.

<p>SIGNATURE OF CITY ELECTIVE OFFICER OR BOARD SECRETARY OR CLERK</p> <p>BOS Clerk of the Board</p>	<p>DATE SIGNED</p>
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MEMORANDUM

To: Clerk of the Board of Supervisors

From: Vivian Po
Director of Communications, Office of the City Administrator

Re: Legislative Introduction

CC: Sailaja Kurella
Purchaser and Director, Office of Contract Administration

Date: February 14, 2022

Attached, please find the resolutions authorizing amendments to the following six (6) as-needed Technology Marketplace contracts:

- (1) Amendment 4 to Contract 1000012604 with CCT Technologies, Inc. dba Computerland of Silicon Valley for the purchase of technology products and specialized services on an as-needed basis. The proposed Amendment is to increase the contract not to exceed amount of \$44 million by \$18.9 million, for a total not-to-exceed (NTE) amount of \$62.9 million, for a total contract duration of five years starting January 1, 2019 and ending December 31, 2023;
- (2) Amendment 2 to Contract 1000012606 with Cornerstone Technology Partners II JV for the purchase of technology products and specialized services on an as-needed basis. The proposed Amendment is to increase the contract not to exceed amount of \$20 million by \$11.2 million for a total not-to-exceed (NTE) amount of \$31.2 million, for a total contract duration of five years starting January 1, 2019 and ending December 31, 2023;
- (3) (3) Amendment 3 to Contract 1000018903 with Insight Public Sector Inc. for the purchase of technology products and specialized services on an as-needed basis. The proposed Amendment is to increase the contract not to exceed amount of \$28 million by \$11.7 million for a total not-to-exceed (NTE) amount of \$39.7 million, for a total contract duration of five years starting January 1, 2019 and ending December 31, 2023;
- (4) Amendment 3 to Contract 1000012610 with InterVision Systems, LLC for the purchase of technology products and specialized services on an as-needed basis. The proposed Amendment is to increase the contract not to exceed amount of \$31 million by \$13.4 million for a total not-to-exceed (NTE) amount of \$44.4 million, for a total contract duration of five years starting January 1, 2019 and ending December 31, 2023;

- (5) Amendment 4 to Contract 1000012618 with XTech JV for the purchase of technology products and specialized services on an as-needed basis. The proposed Amendment is to increase the contract not to exceed amount of \$80 million by \$35.7 million for a total not-to-exceed (NTE) amount of \$115.7 million, for a total contract duration of five years starting January 1, 2019 and ending December 31, 2023; and
- (6) Amendment 2 to Contract 1000012619 with Zones, LLC for the purchase of technology products and specialized services on an as-needed basis. The proposed Amendment is to increase the contract not to exceed amount of \$20 million by \$3.6 million for a total not-to-exceed (NTE) amount of \$23.6 million, for a total contract duration of five years starting January 1, 2019 and ending December 31, 2023.

Please contact Sailaja Kurella, Purchaser and Director of the Office of Contract Administration at Sailaja.Kurella@sfgov.org or (415) 554-6701 with any questions.

We respectfully request that this matter be scheduled in the Budget and Finance Committee to ensure a contract is in place in a timely manner.