

INSIGHT ENTERPRISES INC

Form 10-Q

August 09, 2007

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**UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
WASHINGTON, D.C. 20549  
FORM 10-Q**

(Mark One)

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

**For the quarterly period ended: June 30, 2007**

OR

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

**For the transition period from \_\_\_ to \_\_\_**

Commission File Number: 0-25092

**INSIGHT ENTERPRISES, INC.**

(Exact name of registrant as specified in its charter)

**Delaware**

(State or other jurisdiction of  
incorporation or organization)

**86-0766246**

(I.R.S. Employer Identification Number)

**1305 West Auto Drive, Tempe, Arizona 85284**

(Address of principal executive offices) (Zip Code)

**(480) 902-1001**

(Registrant's telephone number, including area code)

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 is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of "accelerated filer and large accelerated filer" in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer

Accelerated filer

Non-accelerated filer

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

Yes  No

The number of shares outstanding of the issuer's common stock as of August 2, 2007 was 49,100,749.

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**INSIGHT ENTERPRISES, INC.  
QUARTERLY REPORT ON FORM 10-Q  
Three Months Ended June 30, 2007  
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**INSIGHT ENTERPRISES, INC.  
FORWARD-LOOKING INFORMATION**

Certain statements in this Quarterly Report on Form 10-Q, including statements in Management's Discussion and Analysis of Financial Condition and Results of Operations in Part I, Item 2 of this report, are forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. These forward-looking statements may include: projections of matters that affect net sales, gross profit, operating expenses, earnings from continuing operations, non-operating income and expenses, earnings from discontinued operations or net earnings; effects of acquisitions or dispositions; projections of capital expenditures and growth; hiring plans; plans for future operations; the availability of financing and our needs or plans relating thereto; plans relating to our products and services; the effect of new accounting principles or changes in accounting policies; the effect of guaranty and indemnification obligations; statements of belief; and statements of assumptions underlying any of the foregoing. Forward-looking statements are identified by such words as believe, anticipate, expect, estimate, intend, plan, will, may and variations of such words and similar expressions, and are inherently subject to risks and uncertainties, some of which cannot be predicted or quantified. Future events and actual results could differ materially from those set forth in, contemplated by, or underlying the forward-looking statements. Some of the important factors that could cause our actual results to differ materially from those projected in any forward-looking statements include, but are not limited to, the following, which are discussed in Risk Factors in Part I, Item 1A of our Annual Report on Form 10-K for the year ended December 31, 2006:

changes in the information technology industry and/or the economic environment;

our reliance on suppliers for product availability, marketing funds, purchasing incentives and competitive products to sell;

disruptions in our information technology and voice and data networks, including migration of Software Spectrum to our information technology and voice and data networks;

the integration and operation of Software Spectrum, including our ability to achieve the expected benefits of the acquisition;

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

the informal inquiry from the Securities and Exchange Commission ( SEC ) and the fact that we could be subject to stockholder litigation related to the investigation by the Options Subcommittee of our Board of Directors into our historical stock option granting practices and the related restatement of our consolidated financial statements;

the recently enacted changes in securities laws and regulations, including potential risk resulting from our evaluation of internal controls under the Sarbanes-Oxley Act of 2002;

the risks associated with international operations;

sales of software licenses are subject to seasonal changes in demand;

increased debt and interest expense and lower availability on our financing facilities;

increased exposure to currency exchange risks;

our dependence on key personnel;

risk that purchased goodwill or amortizable intangible assets become impaired;  
our failure to comply with the terms and conditions of our public sector contracts;  
risks associated with our very limited experience in outsourcing business functions to India;  
rapid changes in product standards; and

intellectual property infringement claims.

Additionally, there may be other risks that are otherwise described from time to time in the reports that we file with the SEC.

In addition, these forward-looking statements include statements regarding the informal inquiry commenced by the SEC and a stockholder's demand to inspect our books and records pursuant to Section 220 of the Delaware General Corporation Law. There can be no assurances that forward-looking statements will be achieved, and actual results could differ materially from those suggested by the forward-looking statements.

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**INSIGHT ENTERPRISES, INC.**

Important factors that could cause actual results to differ materially include: adjustments to the consolidated financial statements that may be required related to the SEC informal inquiry; and risks of litigation and governmental or other regulatory inquiries or proceedings arising out of or related to the Company's historical stock option granting practices. Therefore, any forward-looking statements in this report should be considered in light of various important factors, including the risks and uncertainties listed above, as well as others.

We assume no obligation to update, and do not intend to update, any forward-looking statements. We do not endorse any projections regarding future performance that may be made by third parties.

**Table of Contents****PART I FINANCIAL INFORMATION****Item 1. Financial Statements.**

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

	<b>June 30, 2007</b>	<b>December 31, 2006</b>
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$ 46,144	\$ 54,697
Accounts receivable, net of allowances for doubtful accounts of \$23,450 and \$23,211, respectively	1,029,215	994,892
Inventories	98,419	97,751
Inventories not available for sale	20,040	31,112
Deferred income taxes	13,812	15,583
Other current assets	20,923	32,359
<b>Total current assets</b>	<b>1,228,553</b>	<b>1,226,394</b>
Property and equipment, net of accumulated depreciation of \$92,000 and \$87,046, respectively		
	137,546	129,256
Buildings held for lease, net of accumulated depreciation of \$4,926 and \$4,543, respectively	16,139	16,522
Goodwill	300,133	296,781
Intangible assets, net of accumulated amortization of \$9,309 and \$3,976, respectively	82,834	86,929
Deferred income taxes	2,908	
Other long-term assets	18,618	18,269
	<b>\$ 1,786,731</b>	<b>\$ 1,774,151</b>
<b>LIABILITIES AND STOCKHOLDERS EQUITY</b>		
Current liabilities:		
Accounts payable	\$ 708,542	\$ 611,367
Accrued expenses and other current liabilities	116,797	136,401
Current portion of long-term debt	15,000	15,000
Deferred revenue	27,618	40,728
Line of credit	42,000	15,000
<b>Total current liabilities</b>	<b>909,957</b>	<b>818,496</b>
Long-term debt	84,500	224,250
Long-term deferred income taxes	17,787	19,403
Other long-term liabilities	25,574	21,652

	1,037,818	1,083,801
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## Commitments and contingencies (Note 10)

## 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; 49,101 shares at

June 30, 2007 and 48,868 shares at December 31, 2006 issued and outstanding

Additional paid-in capital

Retained earnings

Accumulated other comprehensive income - foreign currency translation

adjustment

Total stockholders' equity

491	489
371,424	363,308
341,741	297,664
35,257	28,889
748,913	690,350
\$ 1,786,731	\$ 1,774,151

See accompanying notes to consolidated financial statements.



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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2007	2006	2007	2006 As Restated (1)
Net sales	\$ 1,283,449	\$ 780,346	\$ 2,407,424	\$ 1,513,170
Costs of goods sold	1,098,636	678,200	2,069,436	1,313,918
Gross profit	184,813	102,146	337,988	199,252
Selling and administrative expenses	138,323	79,534	268,081	155,639
Severance and restructuring expenses	2,841		2,841	
Earnings from operations	43,649	22,612	67,066	43,613
Non-operating (income) expense:				
Interest income	(2,182)	(1,086)	(4,294)	(2,008)
Interest expense	4,767	272	10,526	1,069
Net foreign currency exchange (gain) loss	(3,002)	(7)	(3,656)	24
Other expense, net	496	158	713	320
Earnings from continuing operations before income taxes	43,570	23,275	63,777	44,208
Income tax expense	16,761	8,106	24,672	15,597
Net earnings from continuing operations	26,809	15,169	39,105	28,611
Earnings from discontinued operations, net of taxes of \$0, \$1,005, \$111 and \$1,870, respectively		1,574	171	2,956
Gain on sale of discontinued operations, net of taxes of \$0, \$5,978, \$3,135 and \$5,978, respectively		9,144	4,801	9,144
Net earnings from discontinued operations		10,718	4,972	12,100
Net earnings	\$ 26,809	\$ 25,887	\$ 44,077	\$ 40,711
Net earnings per share Basic:				
Net earnings from continuing operations	\$ 0.55	\$ 0.32	\$ 0.80	\$ 0.60
Net earnings from discontinued operations		0.22	0.10	0.25
Net earnings per share	\$ 0.55	\$ 0.54	\$ 0.90	\$ 0.85

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Net earnings per share Diluted:				
Net earnings from continuing operations	\$ 0.54	\$ 0.31	\$ 0.79	\$ 0.59
Net earnings from discontinued operations		0.22	0.10	0.25
Net earnings per share	\$ 0.54	\$ 0.53	\$ 0.89	\$ 0.84
Shares used in per share calculations:				
Basic	49,099	48,277	49,054	48,140
Diluted	49,402	48,352	49,346	48,234

(1) See Note 2  
 Restatement of  
 Consolidated  
 Financial  
 Statements.

See accompanying notes to consolidated financial statements.

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

	<b>Six Months Ended June 30,</b>		<b>2006</b>
	<b>2007</b>		<b>As Restated</b>
			<b>(1)</b>
Cash flows from operating activities:			
Net earnings from continuing operations	\$ 39,105	\$	28,611
Plus: net earnings from discontinued operations	4,972		12,100
Net earnings	44,077		40,711
Adjustments to reconcile net earnings to net cash provided by operating activities:			
Depreciation and amortization	17,641		9,086
Provision for losses on accounts receivable	1,459		1,483
Write-downs of inventories	2,841		4,748
Non-cash stock-based compensation	5,663		6,254
Gain on sale of discontinued operation	(7,937)		(15,122)
Excess tax benefit from employee gains on stock-based compensation	(45)		(895)
Deferred income taxes	(2,753)		(6,724)
Changes in assets and liabilities:			
(Increase) decrease in accounts receivable	(42,488)		20,048
Decrease in inventories	484		39,379
Decrease (increase) in other current assets	11,759		(2,120)
Increase in other assets	(2,221)		(14,625)
Increase in accounts payable	105,175		55,459
Decrease in inventories financing facility			(4,281)
Decrease in deferred revenue	(12,937)		(6,521)
Decrease in accrued expenses and other liabilities	(17,172)		(95)
Net cash provided by operating activities	103,546		126,785
Cash flows from investing activities:			
Proceeds from sale of discontinued operation	28,631		46,500
Purchases of property and equipment	(18,867)		(17,187)
Net cash provided by investing activities	9,764		29,313
Cash flows from financing activities:			
Repayments on short-term financing facility			(45,000)
Borrowings on long-term financing facility	262,000		
Repayments on long-term financing facility	(398,000)		
Repayments on term loan	(3,750)		
Net repayments on line of credit	27,000		(21,309)
Proceeds from sales of common stock under employee stock plans	2,475		7,391
Excess tax benefit from employee gains on stock-based compensation	45		895

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Decrease in book overdrafts	(15,606)	
Net cash used in financing activities	(125,836)	(58,023)
Cash flows from discontinued operation:		
Net cash used in operating activities		(8,885)
Net cash provided by investing activities		11,710
Net cash used in financing activities		(2,696)
Net cash provided by discontinued operation		129
Foreign currency exchange effect on cash flow	3,973	4,903
(Decrease) increase in cash and cash equivalents	(8,553)	103,107
Cash and cash equivalents at beginning of period	54,697	35,145
Cash and cash equivalents at end of period	\$ 46,144	\$ 138,252

(1) See Note 2  
Restatement of  
Consolidated  
Financial  
Statements.

See accompanying notes to consolidated financial statements

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

**1. Basis of Presentation and Recently Issued Accounting Pronouncements**

We are a leading provider of brand-name information technology ( IT ) hardware, software and services to large enterprises, small- to medium-sized businesses and public sector institutions in North America, Europe, the Middle East, Africa and Asia-Pacific. We operate in three reportable geographic operating segments: North America; EMEA (Europe, the Middle East and Africa); and APAC (Asia-Pacific). Currently, our offerings in North America and the United Kingdom include brand-name IT hardware, software and services. Our offerings in the remainder of our EMEA segment and in APAC currently only include software and select software-related services.

The accompanying unaudited consolidated financial statements contain all adjustments necessary to present fairly our financial position as of June 30, 2007, our results of operations for the three and six months ended June 30, 2007 and 2006 and our cash flows for the six months ended June 30, 2007 and 2006. The consolidated balance sheet as of December 31, 2006 was derived from the audited consolidated balance sheet at such date. The accompanying unaudited consolidated financial statements and notes have been prepared in accordance with the rules and regulations promulgated by the Securities and Exchange Commission ( SEC ) and consequently do not include all of the disclosures normally required by United States generally accepted accounting principles ( GAAP ).

The results of operations for such interim periods are not necessarily indicative of results for the full year, due in part to the seasonal nature of the business. These unaudited consolidated financial statements should be read in conjunction with the audited consolidated financial statements, including the related notes thereto, in our Annual Report on Form 10-K for the year ended December 31, 2006.

The preparation of consolidated financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements. Additionally, these estimates and assumptions affect the reported amounts of net sales and expenses during the reported period. Actual results could differ from those estimates.

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. References to the Company, we, us, our and other similar words refer to Insight Enterprises, Inc. and its consolidated subsidiaries unless the context suggests otherwise.

*Recently Issued Accounting Pronouncements*

There have been no material changes or additions to the recently issued accounting pronouncements as previously reported in Note 1 to our Consolidated Financial Statements in Part II, Item 8 of our Annual Report on Form 10-K for the year ended December 31, 2006 which effect the Company s financial statements.

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

**2. Restatement of Consolidated Financial Statements**

The following table presents the effect of the financial statement restatement adjustments on the Company's previously reported consolidated statements of earnings for the six months ended June 30, 2006 (in thousands):

	<b>Six Months Ended June 30, 2006</b>			
	<b>As Reported</b>	<b>Discontinued Operation<sup>(B)</sup></b>	<b>Adjustments</b>	<b>As Restated</b>
Net sales	\$ 1,626,007	\$ (112,837)	\$	\$ 1,513,170
Costs of goods sold	1,422,702	(108,784)		1,313,918
Gross profit	203,305	(4,053)		199,252
Operating expenses:				
Selling and administrative expenses	159,263	(2,624)	(1,000) <sup>(A)</sup>	155,639
Earnings from operations	44,042	(1,429)	1,000	43,613
Non-operating (income) expense:				
Interest income	(2,008)			(2,008)
Interest expense	1,069			1,069
Net foreign currency exchange loss	24			24
Other expense, net	320			320
Earnings from continuing operations before income taxes	44,637	(1,429)	1,000	44,208
Income tax expense	15,773	(566)	390 <sup>(A)</sup>	15,597
Net earnings from continuing operations	28,864	(863)	610	28,611
Net earnings from discontinued operation	11,237	863		12,100
Net earnings	\$ 40,101	\$	\$ 610	\$ 40,711
Net earnings per share Basic:				
Net earnings from continuing operations	\$ 0.60	\$ (0.02)	\$ 0.02	\$ 0.60
Net earnings from discontinued operation	0.23	0.02		0.25
Net earnings per share	\$ 0.83	\$	\$ 0.02	\$ 0.85
Net earnings per share Diluted:				
Net earnings from continuing operations	\$ 0.59	\$ (0.02)	\$ 0.02	\$ 0.59
Net earnings from discontinued operation	0.23	0.02		0.25
Net earnings per share	\$ 0.82	\$	\$ 0.02	\$ 0.84

Shares used in per share calculations:			
Basic	48,140		48,140
Diluted	48,710	(476) <sup>(C)</sup>	48,234

(A) Adjustment to record a legal settlement expense that was recorded in the first quarter of 2006, which should have been recorded in the fourth quarter of 2005, as described in Note 2 to our Consolidated Financial Statements in Part II, Item 8 of our Annual Report on Form 10-K for the year ended December 31, 2006.

(B) Adjustment to reclassify the operations of PC Wholesale to discontinued operations as described in Note 11.

(C) Effect of adjustment for stock-based compensation expense pursuant to APB No. 25 and the associated income tax benefit, as described in Note 2 to our Consolidated

Financial  
Statements in  
Part II, Item 8 of  
our Annual  
Report on Form  
10-K for the  
year ended  
December 31,  
2006.



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

The following table presents the effect of the restatement adjustments on the Company's previously reported cash flow amounts for the six months ended June 30, 2006 (in thousands):

	<b>Six Months Ended June 30, 2006</b>			<b>As Restated</b>
	<b>As Reported</b>	<b>Discontinued Operation<sup>(B)</sup></b>	<b>Adjustments</b>	
Cash flows from operating activities:				
Net earnings from continuing operations	\$ 28,864	\$ (863)	\$ 610 <sup>(A)</sup>	\$ 28,611
Plus: net earnings from discontinued operations	11,237	863		12,100
Net earnings	40,101		610	40,711
Adjustments to reconcile net earnings to net cash provided by operating activities:				
Depreciation and amortization	9,086			9,086
Provisions for losses on accounts receivable	1,483			1,483
Write-downs of inventories	4,748			4,748
Non-cash stock-based compensation expense	6,254			6,254
Gain on sale of discontinued operation	(15,122)			(15,122)
Deferred income taxes	(6,724)			(6,724)
Excess tax benefit from employee gains on stock-based compensation	(2,232)		1,337 <sup>(C)</sup>	(895)
Change in assets and liabilities:				
Decrease in accounts receivable	20,048			20,048
Decrease in inventories	39,379			39,379
Increase in other current assets	(2,120)			(2,120)
Increase in other assets	(14,625)			(14,625)
Increase in accounts payable	55,459			55,459
Decrease in inventories financing facility	(4,281)			(4,281)
Decrease in deferred revenue	(6,521)			(6,521)
Increase (decrease) in accrued expenses and other liabilities	515		(610) <sup>(A)</sup>	(95)
Net cash provided by operating activities	125,448		1,337	126,785
Cash flows from investing activities:				
Proceeds from sale of discontinued operation	46,500			46,500
Purchases of property and equipment	(17,187)			(17,187)
Net cash provided by investing activities	29,313			29,313
Cash flows from financing activities:				

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Repayments on short-term financing facility	(45,000)		(45,000)
Net repayments on line of credit	(21,309)		(21,309)
Proceeds from sales of common stock under employee stock plans	7,391		7,391
Excess tax benefit from employee gains on stock-based compensation	2,232	(1,337) <sup>(C)</sup>	895
Net cash used in financing activities	(56,686)	(1,337)	(58,023)

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

	<b>Six Months Ended June 30, 2006</b>			
	<b>As</b>	<b>Discontinued</b>		<b>As</b>
	<b>Reported</b>	<b>Operation<sup>(B)</sup></b>	<b>Adjustments</b>	<b>Restated</b>
Cash flows from discontinued operation:				
Net cash used in operating activities	(8,885)			(8,885)
Net cash provided by investing activities	11,710			11,710
Net cash used in financing activities	(2,696)			(2,696)
Net cash provided by discontinued operation	129			129
Foreign currency exchange effect on cash flow	4,903			4,903
Increase in cash and cash equivalents	103,107			103,107
Cash and cash equivalents at beginning of period	35,145			35,145
Cash and cash equivalents at end of period	\$ 138,252	\$	\$	\$ 138,252

(A) Adjustment to record a legal settlement expense that was recorded in the first quarter of 2006, which should have been recorded in the fourth quarter of 2005, as described in Note 2 to our Consolidated Financial Statements in Part II, Item 8 of our Annual Report on Form 10-K for the year ended December 31, 2006.

(B) Adjustment to reclassify the

operations of  
PC Wholesale  
to discontinued  
operations as  
described in  
Note 11.

- (C) Adjustment to  
correct  
presentation of  
the excess tax  
benefit from  
employee gains  
on stock-based  
compensation.

### 3. Earnings Per Share ( EPS )

Basic EPS is computed by dividing net earnings from continuing operations available to common stockholders by the weighted-average number of common shares outstanding during each quarter. Diluted EPS includes the effect of stock options assumed to be exercised and restricted stock using the treasury stock method. A reconciliation of the denominators of the basic and diluted EPS calculations is as follows (in thousands, except per share data):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2007	2006	2007	2006 As Restated (1)
Numerator:				
Net earnings from continuing operations	\$ 26,809	\$ 15,169	\$ 39,105	\$ 28,611
Denominator:				
Weighted-average shares used to compute basic EPS	49,099	48,277	49,054	48,140
Dilutive potential common shares due to dilutive options and restricted stock, net of tax effect	303	75	292	94
Weighted-average shares used to compute diluted EPS	49,402	48,352	49,346	48,234
Net earnings from continuing operations per share:				
Basic	\$ 0.55	\$ 0.32	\$ 0.80	\$ 0.60
Diluted	\$ 0.54	\$ 0.31	\$ 0.79	\$ 0.59

- (1) See Note 2  
Restatement of  
Consolidated  
Financial  
Statements.

The following weighted-average outstanding stock options during the three and six months ended June 30, 2007 and 2006 were not included in the diluted EPS calculations because the exercise prices of these options were greater

than the average market price of our common stock during the respective periods (in thousands):

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

	<b>Three Months Ended</b>		<b>Six Months Ended</b>	
	<b>June 30,</b>		<b>June 30,</b>	
	<b>2007</b>	<b>2006</b>	<b>2007</b>	<b>2006</b>
Weighted-average outstanding stock options excluded from the diluted EPS calculation	1,480	3,491	2,456	2,836

**4. Goodwill**

The changes in the carrying amount of goodwill for the six months ended June 30, 2007 are as follows (in thousands):

	North America	EMEA	APAC	Consolidated
Balance at December 31, 2006	\$ 217,469	\$ 62,714	\$ 16,598	\$ 296,781
Foreign currency translation adjustments	990	1,432	930	3,352
Balance at June 30, 2007	\$ 218,459	\$ 64,146	\$ 17,528	\$ 300,133

Goodwill represents the excess of the purchase price over the estimated fair values assigned to tangible and identifiable intangible assets acquired and liabilities assumed from previous acquisitions. In accordance with current accounting standards, goodwill is not amortized and will be tested for impairment annually in the fourth quarter of our fiscal year, or more frequently if indicators of potential impairment exist.

**5. Debt**

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

	<b>June 30,</b>	<b>December</b>
	<b>2007</b>	<b>31,</b>
		<b>2006</b>
Term loan	\$ 67,500	\$ 71,250
Accounts receivable securitization financing facility	32,000	168,000
Total	99,500	239,250
Less: current portion of term loan	(15,000)	(15,000)
Long-term debt	\$ 84,500	\$ 224,250

Our financing facilities contain various covenants, including the requirement that we comply with leverage and minimum fixed charge ratio requirements. If we fail to comply with these covenants, the lenders would be able to demand payment within a specified period of time. Because we were not current with our reporting obligations under the Securities Exchange Act of 1934 beginning on September 30, 2006 and ending on July 26, 2007, we would have been in violation of our financial reporting covenants had we not obtained agreements with our lenders regarding the delivery of substitute financial information to them. The agreements with our lenders waived our obligation to provide the filed reports and waived any events of default occurring under the facility as a result of our failure to comply with the financial reporting covenants. We have since provided all late reports filed with the SEC to our lenders and are in compliance with this reporting covenant at July 26, 2007 and all other covenants at June 30, 2007.

**6. Income Taxes**

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Our effective tax rates from continuing operations for the three months ended June 30, 2007 and 2006 were 38.5% and 34.8%, respectively. For the three months ended June 30, 2007, our effective tax rate was higher than the United States federal statutory rate of 35.0% due primarily to state income taxes, net of federal tax, as well as non-deductible expenses related to executive compensation. For the three months ended June 30, 2006, the effective tax rate approximated the United States federal statutory rate because increases due primarily to state

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

income taxes, net of federal tax, were offset by internal initiatives implemented during the three months ended June 30, 2006 that reduced certain state income taxes.

Our effective tax rates from continuing operations for the six months ended June 30, 2007 and 2006 were 38.7% and 35.3%, respectively. For the six months ended June 30, 2007, our effective tax rate was higher than the United States federal statutory rate of 35.0% due primarily to state income taxes, net of federal tax, as well as non-deductible expenses related to executive compensation and an increase in tax reserves in the first quarter of 2007. For the six months ended June 30, 2006, our effective tax rate increased over the United States federal statutory rate of 35.0% due primarily to state income taxes, net of federal tax, offset partially by a decrease in tax reserves in the first quarter of 2006 due to the closing of an audit and a tax benefit recorded in the second quarter of 2006 for internal initiatives that reduced certain state income taxes.

FIN 48 requires that companies recognize the effect of a tax position in their consolidated financial statements if there is a greater likelihood than not of the position being sustained upon audit based on the technical merits of the position. We adopted the provisions of FIN 48 effective January 1, 2007. The adoption of FIN 48 resulted in no cumulative effect adjustment to our retained earnings. However, in order to conform to the balance sheet presentation requirements of FIN 48, we reclassified certain unrecognized tax benefits on our balance sheet from current assets to non-current assets.

As of January 1, 2007 (the date we adopted FIN 48) and June 30, 2007 the Company had approximately \$10,300,000 and \$12,000,000, respectively, of unrecognized tax benefits. Of these amounts, approximately \$1,500,000 and \$2,000,000, respectively, relate to accrued interest.

Our policy to classify interest and penalties relating to uncertain tax positions as a component of income tax expense in our consolidated statement of earnings did not change as a result of implementing the provisions of FIN 48.

As of January 1, 2007, if recognized, \$1,100,000 of the liability associated with uncertain tax positions would affect the Company's effective tax rate. The remaining \$9,200,000 balance arose from business combinations that, if recognized, ultimately would be recorded as an adjustment to goodwill or a receivable with no effect on the Company's effective tax rate.

Several of our subsidiaries are currently under audit for the 2002 through 2005 tax years. It is reasonably possible that the examination phase of these audits may conclude in the next twelve months, and the related unrecognized tax benefits for certain tax positions will significantly decrease. However, based on the status of the examination, an estimate of the range of reasonably possible outcomes cannot be made at this time.

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 2003 through 2006 remain open to examination. For U.S. state and local as well as non-U.S. jurisdictions, the statute of limitations generally varies between three and ten years.

## **7. Restructuring and Acquisition Integration Activities**

### *Acquisition-Related Cost Capitalized in 2006 as a Cost of Acquisition of Software Spectrum*

We recorded \$11,414,000 of employee termination benefits and facility based costs in connection with the integration of Software Spectrum. These costs were accounted for under EITF Issue No. 95-3, *Recognition of Liabilities in Connection with Purchase Business Combinations*, and were based on the integration plans that have been committed to by management. Accordingly, these costs were recognized as a liability assumed in the purchase business combination and included in the allocation of the cost to acquire Software Spectrum.



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The employee termination benefits relate to severance payments for Software Spectrum teammates in North America and EMEA who have been or will be terminated in connection with integration plans. The facilities based costs relate to future lease payments or lease termination costs associated with vacating Software Spectrum facilities.

The following table details the changes in these liabilities during the six months ended June 30, 2007 (in thousands):

	<b>North America</b>	<b>EMEA</b>	<b>Consolidated</b>
Balance at December 31, 2006	\$ 997	\$ 9,528	\$ 10,525
Foreign currency translation adjustments		201	201
Cash payments	(24)	(1,134)	(1,158)
Balance at June 30, 2007	\$ 973	\$ 8,595	\$ 9,568

*Severance and restructuring activities expensed in 2005*

During the year ended December 31, 2005, our EMEA operations moved into a new facility in the United Kingdom and recorded restructuring costs of \$7,458,000, of which \$6,447,000 represented the present value of the remaining lease obligations on the previous lease and \$1,011,000 represented duplicate rent expense for the new facility for the last half of 2005. At December 31, 2006, the balance of these restructuring accruals was \$6,468,000. During the six months ended June 30, 2007, adjustments of \$115,000 and \$117,000 were recorded to reflect the accretion of interest for the present value of the remaining lease obligations and fluctuations in the British pound sterling exchange rates, respectively. Cash payments of \$3,365,000 were made during the six months ended June 30, 2007, resulting in an accrual balance of \$3,335,000 at June 30, 2007. In the accompanying consolidated balance sheet at June 30, 2007, all amounts are expected to be paid within the next year and included in accrued expenses and other current liabilities.

**8. Stock-Based Compensation**

On January 1, 2006, we adopted Statement of Financial Accounting Standards No. 123 (revised 2004), *Share Based Payment* ( SFAS No. 123R ), which requires stock-based compensation to be measured based on the fair value of the award on the date of grant and the corresponding expense to be recognized over the period during which an employee is required to provide service in exchange for the award. In March 2005, the SEC issued Staff Accounting Bulletin No. 107, *Share-Based Payment* ( SAB No. 107 ), relating to SFAS No. 123R. We have applied the provisions of SAB No. 107 in our adoption of SFAS No. 123R. Prior to January 1, 2006, we issued stock options and restricted stock shares. After January 1, 2006, we have elected to issue service-based and performance-based restricted stock units ( RSUs ) instead of stock options and restricted stock shares.

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

	<b>Three Months Ended June 30,</b>		<b>Six Months Ended June 30,</b>	
	<b>2007</b>	<b>2006</b>	<b>2007</b>	<b>2006</b>
North America	\$ 2,979	\$ 2,799	\$ 4,865	\$ 5,686
EMEA	479	283	844	568
APAC	24		38	
Total Continuing Operations	\$ 3,482	\$ 3,082	\$ 5,747	\$ 6,254

Discontinued Operations	\$	\$ 714	\$	\$ 1,017
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**Accounting for Stock Options After SFAS No. 123R Implementation**

There were no stock options granted during the three months ended June 30, 2007 or 2006, and we do not currently plan to grant any stock options in 2007. The current expense for all outstanding stock options granted prior to January 1, 2006, net of estimated forfeitures, has been recognized in our consolidated statements of earnings for the three and six months ended June 30, 2007 and 2006. Forfeitures were estimated and will be revised, if necessary, in subsequent periods if actual forfeitures differ from those estimates.

For the three months ended June 30, 2007 and 2006, we recorded in continuing operations stock-based compensation expense related to stock options, net of forfeitures, of \$856,000 and \$ 2,124,000, respectively. For the six months ended June 30, 2007 and 2006, we recorded in continuing operations stock-based compensation expense related to stock options, net of forfeitures, of \$2,123,000 and \$4,627,000, respectively. As of June 30, 2007, total compensation cost related to nonvested stock options not yet recognized is \$1,896,000, which is expected to be recognized over the next 0.60 years on a weighted-average basis.

We used the criteria in SFAS No. 123R to calculate and establish the beginning balance of the additional paid-in capital pool ( APIC pool ) related to the tax effects of employee stock-based compensation and to determine the subsequent effect on the APIC pool and consolidated statements of cash flows of the tax effects of employee stock-based compensation awards that were outstanding upon adoption of SFAS No. 123R.

The following table summarizes our stock option activity during the three months ended June 30, 2007:

	Number	Weighted Average Exercise Price	Aggregate Intrinsic Value (in-the-money options)	Weighted Average Remaining Contractual Life (in years)
Outstanding at the beginning of period	5,076,391	\$ 19.39		
Granted		\$		
Exercised	(325)	\$ 8.81	\$ 3,278	
Expired	(260,273)	\$ 23.29		
Forfeited	(1,466)	\$ 19.60		
Outstanding at the end of period	4,814,327	\$ 19.18	\$ 16,931,582	2.38
Exercisable at the end of period	3,818,754	\$ 19.20	\$ 13,483,238	2.37
Vested and expected to vest	4,766,148	\$ 19.18	\$ 16,766,414	0.11

The aggregate intrinsic value in the preceding table represents the total pre-tax intrinsic value, based on our closing stock price of \$22.57 as of June 30, 2007, which would have been received by the option holders had all option holders exercised options and sold the underlying shares on that date.

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The following table summarizes the status of outstanding stock options as of June 30, 2007:

Range of Exercise Prices	Number of Options Outstanding	Options Outstanding		Options Exercisable	
		Weighted Average Remaining Contractual Life (in years)	Weighted Average Exercise Price Per Share	Number of Options Exercisable	Weighted Average Exercise Price Per Share
\$5.88 - 17.94	1,003,406	2.47	\$ 14.71	882,399	\$ 14.67
17.98 - 18.64	1,004,246	2.71	\$ 18.49	700,468	\$ 18.47
18.67 - 19.90	1,086,219	2.36	\$ 19.66	783,335	\$ 19.64
19.92 - 21.25	1,046,398	1.87	\$ 20.93	778,494	\$ 20.94
21.30 - 41.00	674,058	2.58	\$ 23.39	674,058	\$ 23.39
	4,814,327	2.38	\$ 19.18	3,818,754	\$ 19.20

**Accounting for Restricted Stock**

We have issued shares of restricted common stock and RSUs as incentives to certain officers and teammates and plan to do so in the future. We recognize compensation expense associated with the issuance of such shares and RSUs over the vesting period for each respective share and RSU. The total compensation expense associated with restricted stock represents the value based upon the number of shares or RSUs awarded multiplied by the closing price on the date of grant. Recipients of restricted stock shares are entitled to receive any dividends declared on our common stock and have voting rights, regardless of whether such shares have vested. Recipients of RSUs do not have voting or dividend rights until the vesting conditions are satisfied and shares are released.

Starting in 2006, we have elected to issue service-based and performance-based RSUs instead of stock options and restricted stock shares. The number of RSUs ultimately awarded under the performance-based RSUs will vary based on whether we achieve certain financial results. We will 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. Additionally, the compensation expense will be reduced for our estimate of forfeitures.

For the three months ended June 30, 2007 and 2006, we recorded in continuing operations stock-based compensation expense, net of forfeitures, related to restricted stock shares and RSUs of \$2,626,000 and \$958,000, respectively. For the six months ended June 30, 2007 and 2006, we recorded in continuing operations stock-based compensation expense, net of forfeitures, related to restricted stock shares and RSUs of \$3,624,000 and \$1,627,000, respectively. As of June 30, 2007, total compensation cost related to nonvested restricted stock shares and RSUs was \$15,650,000, which is expected to be recognized over the next 1.4 years on a weighted-average basis.

The following table summarizes our restricted stock activity, including restricted stock shares and RSUs, during the three months ended June 30, 2007:

	Number	Weighted Average Grant Date Fair Value	Fair Value
Nonvested at the beginning of period	1,344,186	\$ 20.11	
Granted	100	\$ 18.65	
Vested	(16,506)	\$ 19.56	\$ 329,039 <sup>(a)</sup>

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Forfeited	(19,989)	\$	18.57	
Nonvested at the end of period	1,307,791	\$	20.14	\$ 28,689,336 <sup>(b)</sup>
Expected to vest	1,126,750			\$ 25,430,754 <sup>(b)</sup>

<sup>(a)</sup> The fair value of vested restricted stock shares and RSUs represents the total pre-tax fair value, based on the closing

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stock price on the day of vesting, which would have been received by holders of restricted stock shares and RSUs had all such holders sold their underlying shares on that date.

- (b) The aggregate fair value of the nonvested restricted stock shares and the RSUs expected to vest represents the total pre-tax fair value, based on our closing stock price of \$22.57 as of June 30, 2007, which would have been received by holders of restricted stock shares and RSUs had all such holders sold their underlying shares on that date.

**9. Share Repurchase Program**

In January 2006, our Board of Directors authorized the repurchase of up to \$50,000,000 of our common stock. As of June 30, 2007, we have not purchased any shares under this authorization.

**10. Commitments and Contingencies**

*Contractual*

We have entered into a sponsorship agreement through 2013 with the Valley of the Sun Bowl Foundation, d/b/a Insight Bowl, which is the not-for-profit entity that conducts the Insight Bowl post-season intercollegiate football game. We have committed to pay an aggregate amount of approximately \$9,650,000 over the next eight years for sponsorship arrangements, ticket purchases and miscellaneous expenses.

We have committed to pay the Arizona Cardinals an aggregate of approximately \$9,900,000 over the next ten years for advertising and marketing events at the University of Phoenix stadium, the home of the Arizona Cardinals.

We have entered into a transition services agreement with Level 3 Communications, Inc. ( Level 3 ) related to our acquisition of Software Spectrum. We have committed to pay an aggregate amount of approximately \$1,000,000 during 2007 as part of the physical separation of Software Spectrum's IT environment from Level 3.

In July 2007, we signed a Statement of Work with Wipro Limited to assist us in integrating our hardware, services and software distribution operations in US, Canada, EMEA and APAC on mySAP. We have committed to pay Wipro an aggregate amount of approximately \$17,350,000 against milestones in 2007 through 2009, as set forth in the Statement of Work.

#### *Employment Contracts*

We have employment contracts with certain officers and management teammates under which severance payments would become payable and accelerated vesting of stock-based compensation would occur in the event of specified terminations without cause or terminations under certain circumstances after a change in control. If such persons were terminated without cause or under certain circumstances after a change of control, and the severance payments under the current employment agreements were to become payable, the severance payments would generally be equal to either one or two times the teammates' annual salary and bonus. Additionally, we would record additional compensation expense for the acceleration of the vesting of any stock-based compensation.

On May 2, 2007, we announced the retirement of Stanley Laybourne, the Company's chief financial officer, secretary and treasurer and a member of our Board of Directors. In connection with his retirement, we have agreed to provide him payments and benefits consistent with those required for termination without cause under his existing employment agreement, which has been previously filed with the SEC. Accordingly, we expect to pay him a lump sum severance payment equal to two times his base salary plus two times his 2006 bonus. The total severance amount related to this retirement is estimated to be approximately \$2,842,000, including non-cash stock-based compensation expense for a ninety day extension of the post termination exercise

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period for stock options, which was recorded as severances expenses during the three months ended June 30, 2007.

*Guaranties*

In the ordinary course of business, we may guarantee the indebtedness of our subsidiaries to vendors and clients. We have not recorded specific liabilities for these guaranties in the consolidated financial statements because we have recorded the underlying liabilities associated with the guaranties. In the event we are required to perform under the related contracts, we believe the cost of such performance would not have a material adverse effect on our consolidated financial position or results of operations.

*Indemnifications*

In the ordinary course of business, we enter into contractual arrangements under which we may agree to indemnify either our client or a third-party service provider in the arrangement from any losses incurred relating to services performed on our behalf or for losses arising from certain defined events, which may include litigation or claims relating to past performance. These arrangements include, but are not limited to, our indemnification of our officers and directors to the maximum extent under the laws of the State of Delaware, the indemnification of our lessors for certain claims arising from our use of leased facilities, and the indemnification of the lenders that provide our credit facilities for certain claims arising from their extension of credit to us. Such indemnification obligations may not be subject to maximum loss clauses. Management believes that payments, if any, related to these indemnifications are not probable at June 30, 2007 and, if incurred, would be immaterial. Accordingly, we have not accrued any liabilities related to such indemnifications in our consolidated interim financial statements.

In connection with our sale of Direct Alliance in June 2006, the sale agreement contains certain indemnification provisions pursuant to which we are required to indemnify the buyer for a limited period of time for liabilities, losses or expenses arising out of breaches of covenants and certain breaches of representations and warranties relating to the condition of the business prior to and at the time of sale. Management believes that payments related to these indemnifications, if any, are not probable at June 30, 2007 and, if incurred, would be immaterial.

In connection with our sale of PC Wholesale in March 2007, the sale agreement contains certain indemnification provisions pursuant to which we are required to indemnify the buyer for a limited period of time for liabilities, losses or expenses arising out of breaches of covenants and certain breaches of representations and warranties relating to the condition of the business prior to and at the time of sale. Management believes that payments related to these indemnifications, if any, are not probable at June 30, 2007 and, if incurred, would not have a material adverse effect on our results of operations.

*Legal Proceedings*

We are party to various legal proceedings arising in the ordinary course of business, including asserted preference payment claims in client bankruptcy proceedings, claims of alleged infringement of patents, trademarks, copyrights and other intellectual property rights and claims of alleged non-compliance with contract provisions.

In accordance with SFAS No. 5, Accounting for Contingencies ( SFAS No. 5 ), we make a provision for a liability when it is both probable that a liability has been incurred and the amount of the loss can be reasonably estimated. These provisions are reviewed at least quarterly and are adjusted to reflect the effects of negotiations, settlements, rulings, advice of legal counsel and other information and events pertaining to a particular claim. Although litigation is inherently unpredictable, we believe that we have adequate provisions for any probable and estimable losses. It is possible, nevertheless, that the results of our operations or cash flows could be materially and adversely affected in any particular period by the resolution of a legal proceeding. Legal



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expenses related to defense, negotiations, settlements, rulings and advice of outside legal counsel are expensed as incurred.

In June 2006, our subsidiary, Software Spectrum, Inc. was named as a defendant in a civil lawsuit, *Allocco v. Gardner* (Superior Court, County of San Diego), regarding certain software resale transactions with Peregrine Systems, Inc. The subsidiary was named as successor to Corporate Software & Technology, Inc. ( CS&T ) and alleges that during October 2000 CS&T participated in or aided and abetted a fraudulent scheme by Peregrine to inflate Peregrine's stock price. Pursuant to the terms of the agreement by which we acquired Software Spectrum, Inc. from Level 3 (the former corporate parent of Software Spectrum, Inc.), Level 3 has agreed to indemnify, defend and hold us harmless for this matter. The discovery process is on-going, and we strongly dispute any allegations of participation in fraudulent behavior. On our behalf Level 3 is vigorously defending this matter.

In October 2006, we received a letter of informal inquiry from the SEC requesting certain documents relating to our stock option grants and practices. We have cooperated with the SEC and will continue to do so. We cannot predict the outcome of this investigation.

Software Spectrum, as successor to CS&T, is party to litigation brought in the Belgian courts regarding a dispute over the terms of a tender awarded by the Belgian Ministry of Defence ( MOD ) in November 2000. In February 2001, CS&T brought a breach of contract suit against MOD in the Court of First Instance in Brussels and claimed breach of contract damages in the amount of approximately \$150,000. MOD counterclaimed against CS&T for cost to cover in the amount of approximately \$2,700,000, and, in July 2002, CS&T added a Belgian subsidiary of Microsoft as a defendant. We believe that MOD's counterclaims are unfounded, and we are vigorously defending the claim.

*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 vendor audits. We continually assess whether or not such claims have merit and warrant accrual under the probable and estimable criteria of SFAS No. 5. Where appropriate, we accrue estimates of anticipated liabilities in the consolidated financial statements. Such estimates are subject to change and may affect our results of operations and our cash flows.

**11. Discontinued Operations**

*PC Wholesale*

On March 1, 2007, we completed the sale of PC Wholesale, a division of our North America operating segment that sells to other resellers. The transaction generated proceeds of \$28.7 million, including net assets sold that are subject to certain post-closing adjustments. We expect to have resolution of the post-closing adjustments by the end of August 2007, which may result in additional gain recorded on the sale. The sale of PC Wholesale is consistent with our strategic plan as we concluded that selling IT products to other resellers is not a core element of our growth strategy.

In accordance with SFAS No. 144, *Accounting for the Impairment or Disposal of Long-Lived Assets* ( SFAS No. 144 ), we have accounted for PC Wholesale as a discontinued operation, and we have reported the results of operations of PC Wholesale as a discontinued operation in the consolidated statements of earnings for all periods presented. We did not allocate interest, general corporate overhead expense or non-specific vendor funding to the discontinued operation. PC Wholesale's accounts receivable and inventory was approximately \$15 million and \$6 million, respectively, at December 31, 2006. Other assets and liabilities of PC Wholesale included in the consolidated balance sheets as of December 31, 2006 were not material.

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The following amounts for the three and six months ended June 30, 2007 and 2006, respectively, represent PC Wholesale's results of operations. The following amounts have been segregated from continuing operations and reflected as a discontinued operation (in thousands):

	<b>Three Months</b>		<b>Six Months Ended</b>	
	<b>Ended</b>		<b>June 30,</b>	
	<b>2007</b>	<b>2006</b>	<b>2007</b>	<b>2006</b>
Net sales	\$	\$ 56,758	\$ 30,142	\$ 112,837
Costs of goods sold		54,652	29,092	108,784
Gross profit		2,106	1,050	4,053
Selling and administrative expenses		1,239	768	2,624
Earnings from discontinued operation before income taxes		867	282	1,429
Income tax expense		345	111	566
Net earnings from discontinued operation	\$	\$ 522	\$ 171	\$ 863

*Direct Alliance*

On June 30, 2006, we completed the sale of 100% of the outstanding stock of Direct Alliance for a purchase price of \$46,500,000, subject to a working capital adjustment. The purchase price did not include real estate and intercompany receivables, which had an estimated fair value of \$49,400,000 (book value of \$43,237,000) and were distributed to us immediately prior to closing. In addition to payment of the purchase price, the buyer is obligated to make a one-time bonus payment to us if Direct Alliance achieves certain gross profit levels for the year ended December 31, 2006 (Earn Out). Additionally, the buyer is entitled to a claw back of the purchase price of up to \$5,000,000 if certain Direct Alliance client contracts are not renewed on terms prescribed in the sale agreement. The Company is in the process of negotiating the final resolution of the Earn Out and the claw back, which may result in additional gain recorded on the sale. Additionally, on June 30, 2006, we paid \$2,696,000 to the holders of 1,997,500 exercised Direct Alliance stock options. If additional gain is recorded on the sale as a result of final resolution of the Earn Out and clawback, additional amounts will also be paid to the holders of 1,997,500 exercised Direct Alliance stock options.

In accordance with SFAS No. 144, we have reported the results of operations of Direct Alliance as a discontinued operation in the consolidated statements of earnings for all periods presented. We did not allocate interest or general corporate overhead expense to the discontinued operation.

On June 30, 2006, in connection with the sale of Direct Alliance, we entered into a lease agreement with Direct Alliance pursuant to which Direct Alliance will lease from us the facilities it used prior to the sale. The initial lease term is for eighteen months starting July 1, 2006. Accordingly, we have separately presented the value of the land and buildings as buildings held for lease on the consolidated balance sheet at June 30, 2007. Lease income related to these buildings was \$272,000 and \$524,000 for the three and six months ended June 30, 2007, respectively, and is classified as net sales. Depreciation expense related to these buildings was \$183,000 and \$366,000 for the three and six months ended June 30, 2007, respectively, and is classified as costs of goods sold.

**12. Segment Information**

We operate in three reportable geographic operating segments: North America; EMEA; and APAC. Currently, our offerings in North America and the United Kingdom include brand-name IT hardware, software and services. Our

offerings in the remainder of our EMEA segment and in APAC currently only include software and select software-related services.

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Statement of Financial Accounting Standards No. 131, *Disclosure About Segments of an Enterprise and Related Information*, ( SFAS No. 131 ) requires disclosures of certain information regarding operating segments, products and services, geographic areas of operation and major clients. The method for determining what information to report under SFAS No. 131 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 intercompany transactions are eliminated upon consolidation, and there are no differences between the accounting policies used to measure profit and loss for our segments and on a consolidated basis. Net sales are defined as net sales to external clients. None of our clients exceeded ten percent of consolidated net sales for the three and six months ended June 30, 2007.

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 efficiently use resources. These expenses, collectively identified as corporate charges, include senior management expenses, 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 as of and for the three and six months ended June 30, 2007 and 2006 (in thousands):

	<b>Three Months Ended June 30, 2007</b>			
	<b>North America</b>	<b>EMEA</b>	<b>APAC</b>	<b>Consolidated</b>
Net sales	\$ 923,899	\$ 331,903	\$ 27,647	\$ 1,283,449
Costs of goods sold	789,710	286,863	22,063	1,098,636
Gross profit	134,189	45,040	5,584	184,813
Operating expenses:				
Selling and administrative expenses	101,092	33,470	3,761	138,323
Severance and restructuring expenses	2,841			2,841
Earnings from operations	\$ 30,256	\$ 11,570	\$ 1,823	\$ 43,649
Non-operating income, net				79
Earnings from continuing operations before income taxes				43,570
Income tax expense				16,761
Net earnings from continuing operations				26,809
Net earnings from discontinued operation				
Net earnings				\$ 26,809
Total assets	\$ 2,168,691	\$ 485,673	\$ 42,112	\$ 1,786,731*

\* Consolidated  
total assets  
include  
corporate assets  
and  
intercompany  
eliminations for  
a net reduction  
of \$909,745.

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**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)**  
**(unaudited)**

**Three Months Ended June 30, 2006**

	<b>North America</b>	<b>EMEA</b>	<b>APAC</b>	<b>Consolidated</b>
Net sales	\$ 665,023	\$ 115,323	\$	\$ 780,346
Costs of goods sold	580,300	97,900		678,200
Gross profit	84,723	17,423		102,146
Operating expenses:				
Selling and administrative expenses	65,027	14,507		79,534
Earnings from operations	\$ 19,696	\$ 2,916	\$	22,612
Non-operating income, net				(663)
Earnings from continuing operations before income taxes				23,275
Income tax expense				8,106
Net earnings from continuing operations				15,169
Net earnings from discontinued operation				10,718
Net earnings				\$ 25,887
Total assets	\$ 1,184,765	\$ 123,913	\$	\$ 930,077*

\* Consolidated total assets include corporate assets and intercompany eliminations for a net reduction of \$378,601.

**Six Months Ended June 30, 2007**

	<b>North America</b>	<b>EMEA</b>	<b>APAC</b>	<b>Consolidated</b>
Net sales	\$ 1,701,100	\$ 659,279	\$ 47,045	\$ 2,407,424
Costs of goods sold	1,454,995	575,768	38,673	2,069,436
Gross profit	246,105	83,511	8,372	337,988
Operating expenses:				

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Selling and administrative expenses	195,862	65,481	6,738	268,081
Severance and restructuring expenses	2,841			2,841
Earnings from operations	\$ 47,402	\$ 18,030	\$ 1,634	67,066
Non-operating income, net				3,289
Earnings from continuing operations before income taxes				63,777
Income tax expense				24,672
Net earnings from continuing operations				39,105
Net earnings from discontinued operation				4,972
Net earnings				\$ 44,077
Total assets	\$ 2,168,691	\$ 485,673	\$ 42,112	\$ 1,786,731*

\* Consolidated total assets include corporate assets and intercompany eliminations for a net reduction of \$909,745.

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

	<b>Six Months Ended June 30, 2006</b>			
	<b>North America As Restated (1)</b>	<b>EMEA</b>	<b>APAC</b>	<b>Consolidated As Restated (1)</b>
Net sales	\$ 1,277,902	\$ 235,268	\$	\$ 1,513,170
Costs of goods sold	1,113,671	200,247		1,313,918
Gross profit	164,231	35,021		199,252
Operating expenses:				
Selling and administrative expenses	127,082	28,557		155,639
Earnings from operations	\$ 37,149	\$ 6,464	\$	43,613
Non-operating income, net				(595)
Earnings from continuing operations before income taxes				44,208
Income tax expense				15,597
Net earnings from continuing operations				28,611
Net earnings from discontinued operation				12,100
Net earnings				\$ 40,711
Total assets	\$ 1,184,765	\$ 123,913	\$	\$ 930,077*

(1) See Note 2  
Restatement of  
Consolidated  
Financial  
Statements.

\* Consolidated  
total assets  
include  
corporate assets  
and  
intercompany  
eliminations for  
a net reduction  
of \$378,601.





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

**Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations.**

*The following discussion should be read in conjunction with the consolidated financial statements and the related notes that appear elsewhere in this Quarterly Report on Form 10-Q.*

**Quarterly Overview**

We are a leading provider of brand-name information technology ( IT ) hardware, software and services to large enterprises, small to medium-sized businesses ( SMB ) and public sector institutions in North America, EMEA (Europe, the Middle East and Africa) and APAC (Asia-Pacific).

Currently, our offerings in North America and the United Kingdom include brand-name IT hardware, software and services. Our offerings in the remainder of our EMEA segment and in APAC currently only include software and select software-related services.

Net sales for the three months ended June 30, 2007 increased 64% to \$1.28 billion from \$780.3 million for the three months ended June 30, 2006. Net earnings for the three months ended June 30, 2007 increased 4% to \$26.8 million from \$25.9 million for the three months ended June 30, 2006 and diluted earnings per share increased to \$0.54 for the three months ended June 30, 2007 from \$0.53 for the three months ended June 30, 2006. Net earnings and diluted earnings per share for the three months ended June 30, 2007 include the following items:

expenses of \$4.3 million, \$2.6 million net of tax, for professional fees associated with our stock option review (see Note 2 to our Consolidated Financial Statements in Part II, Item 8 of our Annual Report on Form 10-K for the year ended December 31, 2006); and

\$2.8 million, \$1.7 million net of tax, for severance expense.

Net earnings and diluted earnings per share for the three months ended June 30, 2006 include the gain on the sale of a discontinued operation of \$15.1 million, \$9.1 million net of taxes.

Net sales for the six months ended June 30, 2007 increased 59% to \$2.4 billion from \$1.5 billion for the six months ended June 30, 2006. Net earnings for the six months ended June 30, 2007 increased 8% to \$44.1 million from \$40.7 million for the six months ended June 30, 2006 and diluted earnings per share increased to \$0.89 for the six months ended June 30, 2007 from \$0.84 for the six months ended June 30, 2006. Net earnings and diluted earnings per share for the six months ended June 30, 2007 include the following items:

gain on sale of a discontinued operation of \$7.9 million, \$4.8 million net of tax;

expenses of \$10.0 million, \$6.1 million net of tax, for professional fees associated with our stock option review; and

\$2.8 million, \$1.7 million net of tax, for severance expense.

Net earnings and diluted earnings per share for the six months ended June 30, 2006 include the gain on the sale of a discontinued operation of \$15.1 million, \$9.1 million net of taxes.

Overviews of each of our operating segments are discussed below and reconciliations of segment results of operations to consolidated results of operations can be found in Note 12 to our Consolidated Financial Statements provided in Item 1 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, 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.

Our North America net sales increased 39% from \$665.0 million in the three months ended June 30, 2006 to \$923.9 million in the three months ended June 30, 2007, due primarily to an increase in software sales

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**INSIGHT ENTERPRISES, INC.**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION**  
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attributable to the acquisition of Software Spectrum. Our North America segment achieved very strong results, including gross profit growth of 58%, in what is typically our strongest quarter of the year for sales of software. Within North America, our software category grew 315%, hardware declined 1%, and our services grew 26%. We were pleased with the sales results in all categories, including hardware, which had a difficult year-over-year performance comparison due to a large one-time Cisco rollout to one of our largest clients in the second quarter of 2006. Excluding this large sale from the second quarter last year, North America hardware sales growth exceeded 8%, which we believe was faster than the overall IT hardware market. Also included in our North America segment results was \$4.1 million of professional fees associated with our stock option review and \$2.8 million of severance expense. Overall North America earnings from operations increased 54% from \$19.7 million for the three months ended June 30, 2006 to \$30.3 million for the three months ended June 30, 2007.

Our EMEA operations, which included only the United Kingdom in the three months ended June 30, 2006, recognized net sales that were up from \$115.3 million in three months ended June 30, 2006 to \$331.9 million in the three months ended June 30, 2007, due primarily to the acquisition of Software Spectrum. Our EMEA segment capitalized on the strongest quarter for software sales and achieved strong results across all geographic regions. Additionally, our United Kingdom operations continue to benefit from a combined solution offering and posted strong results across the hardware, software and services categories. Within EMEA, our software category grew 1,045%, hardware grew 18%, and our services grew 220%. Also included in our EMEA segment results was \$228,000 of professional fees associated with our stock option review. Overall EMEA earnings from operations increased 297% from \$2.9 million for the three months ended June 30, 2006 to \$11.6 million for the three months ended June 30, 2007.

Our APAC segment continues to perform very well and contributed net sales of \$27.6 million, gross profit of \$5.6 million and earnings from operations of \$1.8 million for the three months ended June 30, 2007. Although this operating segment represents a small percentage of our consolidated results, we continue to be excited about the growth opportunities this region brings.

**Critical Accounting Estimates**

**General**

Our consolidated financial statements have been prepared in accordance with United States generally accepted accounting principles ( GAAP ). The preparation of these consolidated financial statements requires us to make estimates and assumptions that affect the reported amounts of assets, liabilities, net sales, costs of goods sold 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. Members of our senior management have discussed the development, selection and disclosure of these estimates with the Audit Committee of our Board of Directors. Actual results, however, may differ from estimates we have made.

In addition to the items disclosed as critical accounting estimates in 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 year ended December 31, 2006, we adopted FIN 48 on January 1, 2007. FIN 48 clarifies the accounting and reporting for uncertainties in income tax law. This interpretation prescribes a comprehensive model for the financial statement recognition, measurement, presentation and disclosure of uncertain tax positions taken or expected to be taken in income tax returns.

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**INSIGHT ENTERPRISES, INC.**  
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**AND RESULTS OF OPERATIONS (continued)**  
**RESULTS OF OPERATIONS**

The following table sets forth for the periods presented certain financial data as a percentage of net sales for the three and six months ended June 30, 2007 and 2006:

	Three Months		Six Months Ended	
	Ended June 30,		June 30,	
	2007	2006	2007	2006 Restated (1)
Net sales	100.0%	100.0%	100.0%	100.0%
Costs of goods sold	85.6	86.9	86.0	86.8
Gross profit	14.4	13.1	14.0	13.2
Operating expenses:				
Selling and administrative expenses	10.8	10.2	11.1	10.3
Severance and restructuring expenses	0.2		0.1	
Earnings from operations	3.4	2.9	2.8	2.9
Non-operating (income) expense:				
Interest income	(0.2)	(0.1)	(0.2)	(0.1)
Interest expense	0.4		0.4	0.1
Net foreign currency exchange gain	(0.2)		(0.1)	
Other income, net			0.1	
Earnings from continuing operations before income taxes	3.4	3.0	2.6	2.9
Income tax expense	1.3	1.0	1.0	1.0
Net earnings from continuing operations	2.1	2.0	1.6	1.9
Net earnings from discontinued operation		1.3	0.2	0.8
Net earnings	2.1%	3.3%	1.8%	2.7

(1) See Note 2  
Restatement of  
Consolidated  
Financial  
Statements.

**Net Sales.** Net sales for the three months ended June 30, 2007 increased 64% to \$1.28 billion from \$780.3 million for the three months ended June 30, 2006. The increase in sales is due primarily to an increase in software sales attributable to the acquisition of Software Spectrum on September 7, 2006. Our net sales by operating segment were as follows (in thousands):

**Three Months Ended****Six Months Ended**

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	<b>June 30,</b>		<b>%</b>	<b>June 30,</b>		<b>%</b>
	<b>2007</b>	<b>2006</b>	<b>Change</b>	<b>2007</b>	<b>2006</b>	<b>Change</b>
Insight North America	\$ 923,899	\$ 665,023	39%	\$ 1,701,100	\$ 1,277,902	33%
EMEA	331,903	115,323	188%	659,279	235,268	180%
APAC	27,647			47,045		
Consolidated	\$ 1,283,449	\$ 780,346	64%	\$ 2,407,424	\$ 1,513,170	59%

The increase in North America net sales for the three and six months ended June 30, 2007 compared to the same periods in 2006 is due primarily to an increase in software sales attributable to the acquisition of Software Spectrum. The second quarter is also seasonally the strongest quarter of the year for software sales. During the three months ended June 30, 2007 compared to the three months ended June 30, 2006, our North America software category grew 315%, hardware declined 1%, and our services grew 26%. We were pleased with the sales results in all categories, including hardware, which had a difficult year-over-year performance comparison due to a large one-time Cisco rollout to one of our largest clients in the second quarter of 2006. Excluding this large sale from the second quarter last year, North America hardware sales growth exceeded 8%, which we believe was faster than the overall IT hardware market. North America had 1,336 account executives at June 30, 2007, an increase from 1,034 at June 30, 2006 due primarily to the acquisition of Software Spectrum. Net sales per account executive in North America increased 11% to \$708,000 for the three months ended June 30,

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**INSIGHT ENTERPRISES, INC.**  
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2007 from \$637,000 for the three months ended June 30, 2006. The average tenure of our account executives in North America has increased from 4.1 years at June 30, 2006 to 4.3 years at June 30, 2007. The increase is due primarily to the addition of more tenured account executives with the acquisition of Software Spectrum.

The increase in EMEA net sales for the three and six months ended June 30, 2007 compared to the same periods in 2006 is due primarily to an increase in software sales attributable to the acquisition of Software Spectrum. Our EMEA segment capitalized on the strongest quarter for software sales and achieved strong results across all geographic regions. Additionally, our United Kingdom operations continue to benefit from a combined solution offering and posted strong results across the hardware, software and services categories. During the three months ended June 30, 2007 compared to the three months ended June 30, 2006, our EMEA software category grew 1,045%, hardware grew 18%, and our services grew 220%. EMEA had 495 account executives at June 30, 2007, an increase from 276 at June 30, 2006 due primarily to the acquisition of Software Spectrum. Net sales per account executive in EMEA increased 56% to \$682,000 for the three months ended June 30, 2007 from \$438,000 for the three months ended June 30, 2006. The average tenure of our account executives in EMEA has increased from 2.3 years at June 30, 2006 to 2.9 years at June 30, 2007. The increase is due primarily to a decrease in account executive turnover and the addition of more tenured account executives with the acquisition of Software Spectrum.

APAC's net sales for the three months ended June 30, 2007 were \$27.6 million. We were pleased with the results of our APAC segment and we continue to be encouraged by the growth opportunities in this region.

Percentage of net sales by category for North America, EMEA and APAC were as follows for the three months ended June 30, 2007 and 2006:

	North America		EMEA		APAC	
	Three Months Ended		Three Months Ended		Three Months	
	June 30,		June 30,		Ended	
Sales Mix	2007	2006	2007	2006	2007	2006
Notebooks and PDAs	11%	13%	8%	17%	0%	NA
Desktops and Servers	12%	15%	6%	14%	0%	NA
Network and Connectivity	10%	18%	4%	9%	0%	NA
Storage Devices	5%	7%	3%	8%	0%	NA
Supplies and Accessories	5%	7%	3%	8%	0%	NA
Monitors and Video	4%	6%	2%	8%	0%	NA
Printers	4%	7%	3%	8%	0%	NA
Memory and Processors	4%	5%	2%	4%	0%	NA
Miscellaneous	6%	8%	2%	6%	1%	NA
Hardware	61%	86%	33%	82%	1%	NA
Software	37%	12%	66%	17%	98%	NA
Services	2%	2%	<1%	<1%	<1%	NA
	100%	100%	100%	100%	100%	NA

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**INSIGHT ENTERPRISES, INC.**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION**  
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Percentage of net sales by category for North America, EMEA and APAC were as follows for the six months ended June 30, 2007 and 2006:

Sales Mix	North America		EMEA		APAC	
	Six Months Ended		Six Months Ended		Six Months Ended	
	June 30,		June 30,		June 30,	
	2007	2006	2007	2006	2007	2006
Notebooks and PDAs	11%	13%	8%	17%	0%	NA
Desktops and Servers	12%	15%	7%	14%	0%	NA
Network and Connectivity	10%	16%	4%	9%	0%	NA
Storage Devices	6%	8%	4%	8%	0%	NA
Supplies and Accessories	5%	7%	3%	8%	0%	NA
Monitors and Video	4%	6%	3%	9%	0%	NA
Printers	5%	7%	3%	8%	0%	NA
Memory and Processors	4%	5%	2%	4%	0%	NA
Miscellaneous	6%	8%	3%	6%	1%	NA
Hardware	63%	85%	37%	83%	1%	NA
Software	34%	12%	62%	16%	98%	NA
Services	3%	3%	<1%	<1%	<1%	NA
	100%	100%	100%	100%	100%	NA

In general, we continue to experience declines in average selling prices for most of our hardware product categories, which requires us to sell more units in order to maintain or increase the level of sales. With the acquisition of Software Spectrum, our product mix changed significantly as noted above, with software representing a much greater percentage of our net sales. Currently, our offerings in North America and the United Kingdom include brand-name IT hardware, software and services. Our offerings in the remainder of our EMEA segment and in APAC currently only include software and select software-related services.

**Gross Profit.** The increase in sales of software licenses for which we receive only an agency fee, as well as sales of software maintenance contracts and third-party warranties for which only the gross profit is recorded as net sales, makes period-to-period comparability of net sales and costs of goods sold more difficult. As a result, we believe that gross profit is a more reliable measure of business performance and is more useful in comparing period-to-period trends than net sales. Gross profit increased 81% to \$184.8 million for the three months ended June 30, 2007 from \$102.1 million for the three months ended June 30, 2006, due primarily to the acquisition of Software Spectrum. As a percentage of net sales, gross profit increased to 14.4% for the three months ended June 30, 2007 from 13.1% for the three months ended June 30, 2006. Gross profit increased 70% to \$338.0 million for the six months ended June 30, 2007 from \$199.3 million for the six months ended June 30, 2006, due primarily to the acquisition of Software Spectrum. As a percentage of net sales, gross profit increased to 14.0% for the six months ended June 30, 2007 from 13.2% for the six months ended June 30, 2006.

Our gross profit and gross profit as a percentage of net sales by operating segment for the three and six months ended June 30, 2007 and 2006 were as follows (in thousands):

Three Months Ended June 30,				Six Months Ended June 30,			
2007		2006		2007		2006	
% of	% of	% of	% of	% of	% of	% of	% of

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		<b>Net Sales</b>		<b>Net Sales</b>		<b>Net Sales</b>		<b>Net Sales</b>
North America	\$ 134,189	14.5%	\$ 84,723	12.7%	\$ 246,105	14.5%	\$ 164,231	12.9%
EMEA	45,040	13.6%	17,423	15.1%	83,511	12.7%	35,021	14.9%
APAC	5,584	20.2%			8,372	17.8%		
Consolidated	\$ 184,813	14.4%	\$ 102,146	13.1%	\$ 337,988	14.0%	\$ 199,252	13.2%

North America's gross profit increased for the three months ended June 30, 2007 by 58% to \$134.2 million from \$84.7 million for the three months ended June 30, 2006. Gross profit per account executive

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

increased 27% from \$81,000 for the three months ended June 30, 2006 to \$103,000 for the three months ended June 30, 2007. As a percentage of net sales, gross profit increased to 14.5% for the three months ended June 30, 2007 from 12.7% for the three months ended June 30, 2006 due primarily to increases in agency fees for Microsoft enterprise software agreement renewals, decreases in inventory write-downs due to improvements in the aging of inventories and increases in the sales of services. These increases were offset partially by decreases in product margin, which includes vendor funding. North America's gross profit increased for the six months ended June 30, 2007 by 50% to \$246.1 million from \$164.2 million for the six months ended June 30, 2006. As a percentage of net sales, gross profit increased to 14.5% for the six months ended June 30, 2007 from 12.9% for the six months ended June 30, 2006 due primarily to increases in agency fees for Microsoft enterprise software agreement renewals, decreases in inventory write-downs due to improvements in the aging of inventories and increases in the sales of services. These increases were offset partially by decreases in product margin, which includes vendor funding, and decreases in freight.

EMEA's gross profit increased for the three months ended June 30, 2007 by 159% to \$45.0 million from \$17.4 million for the three months ended June 30, 2006. Gross profit per account executive increased 41% from \$66,000 for the three months ended June 30, 2006 to \$93,000 for the three months ended June 30, 2007. As a percentage of net sales, gross profit decreased to 13.6% for the three months ended June 30, 2007 from 15.1% for the three months ended June 30, 2006 due primarily to decreases in product margin, which includes vendor funding, and decreases in supplier discounts. These decreases in gross margin were offset partially by increases in agency fees for Microsoft enterprise software agreement renewals and decreases in inventory write-downs due to improvements in the aging of inventories. EMEA's gross profit increased for the six months ended June 30, 2007 by 138% to \$83.5 million from \$35.0 million for the six months ended June 30, 2006. As a percentage of net sales, gross profit decreased to 12.7% for the six months ended June 30, 2007 from 14.9% for the six months ended June 30, 2006 due primarily to decreases in product margin, which includes vendor funding, and decreases in supplier discounts. These decreases in gross margin were offset partially by increases in agency fees for Microsoft enterprise software agreement renewals and decreases in inventory write-downs due to improvements in the aging of inventories.

APAC reported gross profit of \$5.6 million and \$8.4 million for the three and six months ended June 30, 2007, respectively. As a percentage of net sales, gross profit was 20.2% and 17.8% for the three and six months ended June 30, 2007, respectively.

**Operating Expenses.**

**Selling and Administrative Expenses.** Selling and administrative expenses increased in the 2007 periods compared to the 2006 periods due primarily to the acquisition of Software Spectrum. Selling and administrative expenses by operating segment for the three and six months ended June 30, 2007 and 2006 were as follows (in thousands):

	Three Months Ended June 30,				Six Months Ended June 30,			
	2007	% of Net Sales	2006	% of Net Sales	2007	% of Net Sales	2006	% of Net Sales
North America	\$ 101,092	10.9%	\$ 65,027	9.8%	\$ 195,862	11.5%	\$ 127,082	9.9%
EMEA	33,470	10.1%	14,507	12.6%	65,481	9.9%	28,557	12.1%
APAC	3,761	13.6%			6,738	14.3%		
Consolidated	\$ 138,323	10.8%	\$ 79,534	10.2%	\$ 268,081	11.1%	\$ 155,639	10.3%

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

North America selling and administrative expenses as a percentage of sales for the three months ended June 30, 2007 has increased over the three months ended June 30, 2006 due primarily to:

\$4.1 million in other professional fees associated with our stock option review;

increases in salaries and wages of approximately \$22.7 million due mainly to the acquisition of Software Spectrum, increases in sales incentive programs and increases in bonus expenses due to increased overall financial performance; and

amortization of intangible assets acquired with the acquisition of Software Spectrum of \$1.3 million.

North America selling and administrative expenses as a percentage of sales for the six months ended June 30, 2007 has increased over the six months ended June 30, 2006 due primarily to:

\$10.0 million in professional fees associated with our stock option review;

increases in salaries and wages of approximately \$41.3 million due mainly to the acquisition of Software Spectrum, increases in sales incentive programs and increases in bonus expenses due to increased overall financial performance;

amortization of intangible assets acquired with the acquisition of Software Spectrum of \$3.2 million; and

other integration-related expenses, such as travel and professional fees.

EMEA selling and administrative expenses decreased as a percentage of net sales for the three months ended June 30, 2007 compared to the three months ended June 30, 2006 due primarily to increases in net sales partially offset by:

increases in salaries and wages of approximately \$12.4 million due mainly to the acquisition of Software Spectrum, increases in sales incentive plans and bonus expenses due to increased overall financial performance;

amortization of intangible assets acquired with the acquisition of Software Spectrum of \$780,000; and

\$228,000 in professional fees associated with our stock option review.

EMEA selling and administrative expenses decreased as a percentage of net sales for the six months ended June 30, 2007 compared to the six months ended June 30, 2006 due primarily to increases in net sales partially offset by:

increases in salaries and wages of approximately \$24.8 million due mainly to the acquisition of Software Spectrum, increases in sales incentive plans and bonus expenses due to increased overall financial performance;

amortization of intangible assets acquired with the acquisition of Software Spectrum of \$1.8 million;

other integration-related expenses, such as travel and professional fees; and

\$683,000 in professional fees associated with our stock option review.

APAC's selling and administrative expenses were \$3.8 million and \$6.7 million, respectively, for the three and six months ended June 30, 2007. As a percentage of net sales, selling and administrative expenses were 13.6% and 14.3%, respectively, for the three and six months ended June 30, 2007.

**Severance and Restructuring Expenses.** During the three months ended June 30, 2007, severance expense of \$2.8 million was recorded in our North America operating segment for the pending retirement of our Chief Financial Officer.

**Interest Income.** Interest income of \$2.2 million and \$1.1 million for the three months ended June 30, 2007 and 2006, respectively, and \$4.3 million and \$2.0 million for the six months ended June 30, 2007 and 2006, respectively, was generated through short-term investments. The increase in interest income is due to a generally

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

higher level of cash available to be invested in short-term investments and increases in short-term interest rates earned on those investments during the three and six months ended June 30, 2007.

**Interest Expense.** Interest expense of \$4.8 million and \$272,000 for the three months ended June 30, 2007 and 2006, respectively, and \$10.5 million and \$1.1 million for the six months ended June 30, 2007 and 2006, respectively, primarily relates to borrowings under our financing facilities. The increase in interest expense is due to increased borrowings outstanding in the three and six months ended June 30, 2007 resulting from the acquisition of Software Spectrum in September 2006 and increases in interest rates.

**Net Foreign Currency Exchange Gain.** Net foreign currency exchange gain was \$3.0 million for the three months ended June 30, 2007 compared to \$7,000 for the three months ended June 30, 2006. Net foreign currency exchange gain was \$3.7 million for the six months ended June 30, 2007 compared to a net foreign currency exchange loss of \$24,000 for the six months ended June 30, 2006. The net gains consist primarily of foreign currency transaction gains or losses, including those for intercompany balances that are not considered long-term in nature. The increase in the net foreign currency exchange gain is due primarily to increases in business transacted outside of the U.S. as a result of the acquisition of Software Spectrum and the continued decline in the value of the U.S. dollar against currencies we transact business in, specifically the Canadian dollar, the Euro and the British Pound Sterling.

**Other Expense, Net.** Other expense, net, was \$496,000 and \$158,000 for the three months ended June 30, 2007 and 2006, respectively, and \$713,000 and \$320,000 for the six months ended June 30, 2007 and 2006, respectively. These amounts consist primarily of bank fees associated with our financing facilities and cash management.

**Income Tax Expense.** Our effective tax rate from continuing operations for the three months ended June 30, 2007 was 38.5% compared to 34.8% for the three months ended June 30, 2006. The increase in the effective tax rate from continuing operations was due primarily to a tax benefit recorded in the three months ended June 30, 2006 for internal initiatives that reduced certain state income taxes. Additionally, the effective tax rate is higher in three months ended June 30, 2007 due to an increase in non-deductible expenses related to executive compensation. Our effective tax rate from continuing operations for the six months ended June 30, 2007 was 38.7% compared to 35.3% for the six months ended June 30, 2006. The increase in the effective tax rate from continuing operations was due primarily to a decrease in tax reserves in the first quarter of 2006 due to the closing of an audit, a tax benefit recorded in the second quarter of 2006 for an internal initiative that reduced certain state taxes, and an increase in non-deductible expenses related to executive compensation recorded during the first and second quarters of 2007.

**Earnings from Discontinued Operations.** On March 1, 2007, we completed the sale of PC Wholesale and on June 30, 2006, we completed the sale of Direct Alliance. Accordingly, the results of operations attributable to PC Wholesale and Direct Alliance for all periods presented have been classified as discontinued operations. See Note 11 to the Consolidated Financial Statements in Item 1 of this report for further discussion.

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

**Liquidity and Capital Resources**

The following table sets forth certain consolidated cash flow information for the six months ended June 30, 2006 and 2005 (in thousands):

	<b>Six Months Ended</b>	
	<b>June 30,</b>	
	<b>2007</b>	<b>2006</b>
		<b>As Restated</b>
		<b>(1)</b>
Net cash provided by operating activities	\$ 103,546	\$ 126,785
Net cash provided by investing activities	9,764	29,313
Net cash used in financing activities	(125,836)	(58,023)
Net cash provided by discontinued operation		129
Foreign currency exchange effect on cash flow	3,973	4,903
(Decrease) increase in cash and cash equivalents	(8,553)	103,107
Cash and cash equivalents at beginning of period	54,697	35,145
Cash and cash equivalents at end of period	\$ 46,144	\$ 138,252

(1) See Note 2  
Restatement of  
Consolidated  
Financial  
Statements.

**Cash and Cash Flow**

Our primary uses of cash in the past few years have been to fund our working capital requirements, capital expenditures, repurchases of our common stock and repayments of debt incurred to fund acquisitions.

**Net cash provided by operating activities.** Cash flows from operations for the six months ended June 30, 2007 resulted primarily from net earnings from continuing operations before depreciation, amortization and stock-based compensation expense as well as increases in accounts payable. These increases in operating cash flows were partially offset by increases in accounts receivable. The increased accounts receivable and accounts payable can be primarily attributed to the seasonal increase in net sales. Cash flows from operations for the six months ended June 30, 2006 resulted primarily from net earnings before depreciation and stock-based compensation, decreases in accounts receivable and inventory. Accounts receivable decreased due to a decrease in net sales. Inventories decreased due primarily to improvements in our supply chain activities and fewer opportunistic purchases during the quarter ended June 30, 2006.

Our consolidated cash flow operating metrics for the six months ended June 30, 2007 and 2006 are as follows:

	<b>Six Months Ended</b>	
	<b>June 30,</b>	
	<b>2007</b>	<b>2006</b>
Days sales outstanding in ending accounts receivable ( DSOs )	56	48
Annualized inventory turns, excluding inventories not available for sale	47	31
Days purchases outstanding in ending accounts payable ( DPOs )	45	25

The increase in DSOs is due primarily to an increase in sales of software maintenance contracts and third-party warranties where we bill the client the entire sales price but only record the gross profit on the transaction in net sales. Additionally, we have seen an increase in net sales with terms longer than 30 days, primarily related to our large enterprise and public sector clients. The increase in inventory turns is primarily due to the decrease in inventories primarily related to the increase in software sales, which do not require us to hold physical inventory, our operational improvements and decreases in opportunistic purchases. The \$20.0 million of inventories not available for sale at June 30, 2007 represents inventories segregated pursuant to binding client contracts, which will be recorded as net sales when the criteria for sales recognition are met. We anticipate that our DSOs will continue to increase due to the purchase of Software Spectrum which sells a large percentage to larger enterprise clients who generally have longer payment terms. The increase in DPOs is due primarily to the timing of

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

payments at period end and our continued focus on improving our cash conversion cycle in order to pay down outstanding debt and increase our return on invested capital.

Assuming net sales continue to increase in the future, we expect that cash flow from operations will be used, at least partially, to fund working capital as we typically pay our suppliers on average terms that are shorter than the average terms granted to our clients in order to take advantage of supplier discounts.

**Net cash provided by (used in) investing activities.** Cash flows provided by investing activities for the six months ended June 30, 2007 was \$9.8 million, which consisted of net proceeds of \$28.6 million from the sale of a discontinued operation, offset partially by capital expenditures of \$18.9 million. Capital expenditures for the three months ended June 30, 2007 primarily related to investments to upgrade our IT systems to mySAP, including capitalized costs of software developed for internal use, IT equipment and software licenses. Cash flows used in investing activities for the six months ended June 30, 2006 was \$29.3 million due primarily to \$46.5 million of proceeds from the sale of a discontinued operation, offset partially by capital expenditures, which consisted primarily of capitalized costs of computer software developed for internal use and IT equipment. We expect total capital expenditures in 2007 to be between \$30 million and \$35 million, primarily related to IT investments, including the continued deployment of the mySAP upgrade.

**Net cash used in financing activities.** Cash flows used in financing activities for the six months ended June 30, 2007 and 2006 were \$125.8 million and \$58.0 million, respectively. During the six months ended June 30, 2007, cash used in financing activities was primarily for net repayments of outstanding debt of \$112.8 million and decreases in book overdrafts of \$15.6 million. During the six months ended June 30, 2007 and 2006, cash of \$2.5 million and \$7.4 million, respectively, was provided by cash received from common stock issuances as a result of stock option exercises.

In January 2006, our Board of Directors approved a stock repurchase program that allows us to purchase up to an additional \$50.0 million of our common stock; however, no repurchases have been made under this program since its inception.

We anticipate that cash flows from operations, together with the funds available under our financing facilities, will be adequate to support our presently anticipated cash and working capital requirements for operations over the next twelve months. Additionally, we expect to use any excess cash primarily to reduce outstanding debt incurred in connection with the acquisition of Software Spectrum.

Cash and cash equivalents held by foreign subsidiaries are generally subject to U.S. income taxation upon repatriation to the United States. For foreign entities not treated as branches for U.S. tax purposes, we do not provide for U.S. income taxes on the undistributed earnings of these subsidiaries as earnings are reinvested and, in the opinion of management, will continue to be reinvested indefinitely outside of the U.S.

As part of our long-term growth strategy, we intend to consider additional acquisition opportunities from time to time, which may require additional debt or equity financing.

See Note 7 to our Consolidated Financial Statements in Part II, Item 8 of our Annual Report on Form 10-K for the year ended December 31, 2006 for a description of our financing facilities, including terms, amounts outstanding, amounts available and weighted average borrowings and interest rates during the year ended December 31, 2006. As of June 30, 2007, we had \$160.1 million and \$33.0 million available under our accounts receivable securitization facility and line of credit, respectively. Additionally, our line of credit has a feature that allows us to increase availability under our line of credit by \$37.5 million, upon request. Our financing facilities contain various covenants, including the requirement that we comply with leverage and minimum fixed charge ratio requirements. In addition, our credit facilities prohibit the payment of cash dividends without the lenders' consent and the requirement that we provide annual and quarterly financial information. If we fail to comply with these covenants, the lenders would be able to demand payment within a specified period of time. Because we

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**INSIGHT ENTERPRISES, INC.**

were not current with our reporting obligations under the SEC Exchange Act of 1934 beginning on September 30, 2006 and ending on July 26, 2007, we were in violation of our financial reporting covenant. We were able to obtain a waiver letter from the lender which waived our obligation to provide the affected report from our independent registered public accounting firm and waived any events of default occurring under the facility as a result of our failure to comply with the covenant. We have since provided all late reports filed with the SEC to our lenders and are in compliance with this reporting covenant at July 26, 2007 and all other covenants at June 30, 2007.

**Off Balance Sheet Arrangements**

We have entered into off-balance sheet arrangements, which include guaranties and indemnifications, as defined by the SEC's Final Rule 67, *Disclosure in Management's Discussion and Analysis about Off-Balance Sheet Arrangements and Aggregate Contractual Obligations*. The guaranties and indemnifications are discussed in Note 14 to our Consolidated Financial Statements in Part II, Item 8 of our Annual Report on Form 10-K for the year ended December 31, 2006. We believe that none of our off-balance sheet arrangements have, or is reasonably likely to have, a material current or future effect on our financial condition, results of operations, liquidity, capital expenditures or capital resources.

**Recently Issued Accounting Pronouncements**

See Note 1 to our Consolidated Financial Statements in Part II, Item 8 of our Annual Report on Form 10-K for the year ended December 31, 2006 for a description of recently issued accounting pronouncements.

**Item 3. Quantitative and Qualitative Disclosures About Market Risk.**

There have been no material changes in our reported market risks, as described in *Quantitative and Qualitative Disclosures About Market Risk* in Part II, Item 7A of our Annual Report on Form 10-K for the year ended December 31, 2006.

**Item 4. Controls and Procedures.**

**(a) Evaluation of Disclosure Controls and Procedures**

Our management, with the participation of our Chief Executive Officer and Chief Financial Officer, as of the end of the period of this report, evaluated the effectiveness of our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Exchange Act) and determined that, as a result of the material weakness in internal control over financial reporting described below, as of June 30, 2007 our disclosure controls and procedures were not 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 SEC rules and forms.

The Public Company Accounting Oversight Board's Auditing Standard No. 2 defines a material weakness as a significant deficiency, or a combination of significant deficiencies, that results in there being a more than remote likelihood that a material misstatement of the annual or interim financial statements will not be prevented or detected. The Company identified a material weakness in its internal control over financial reporting as of December 31, 2006, arising from the combined effect of the following control deficiencies in Company's accounting for equity based awards:

Inadequate policies and procedures to determine the grant date and exercise price of equity awards;

Inadequate supervision and training for personnel involved in the stock option granting process; and



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**INSIGHT ENTERPRISES, INC.**

Inadequate documentation and monitoring of the application of accounting policies and procedures regarding equity awards.

As a result of financial statement errors attributable to the material weakness described above, we have filed a comprehensive Form 10-K for the fiscal year ended December 31, 2006 in which we restated our consolidated statements of earnings, of stockholders' equity and comprehensive income and of cash flows for the years ended December 31, 2005 and 2004, our consolidated balance sheet as of December 31, 2005 and selected consolidated financial data for the years ended December 31, 2005, 2004, 2003 and 2002, and for each of the quarters in the year ended December 31, 2005 and the quarters ended March 31, and June 30, 2006.

Subsequent to December 31, 2006, we have begun taking several steps to remediate the material weakness described above. We have implemented or are in the process of implementing internal control improvements in the following areas:

implementing new policies and procedures to ensure compliance with accounting principles applicable to equity compensation, including restricted stock grants, and through training and additions to the staff;

developing an equity compensation training program for all teammates involved in the award of and accounting for equity compensation;

restructuring reporting responsibility for the administration of our equity compensation programs; and

adopting a written policy governing the award of equity compensation, including standardizing documentation of approvals of all relevant terms of equity compensation awards.

The Compensation Committee of our Board of Directors, which was newly constituted in May 2007, has already revised some of its policies and will now only approve equity compensation grants at meetings and not by written consent. The Compensation Committee also has improved the process for documenting its actions and ensuring the timely reporting of its actions to the Board of Directors.

***(b) Changes in Internal Control Over Financial Reporting***

Other than the steps being taken to remediate the material weakness described above, 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 June 30, 2007 that has materially affected, or is reasonably likely to materially affect, the Company's internal control over financial reporting.

***(c) 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.

**Part II OTHER INFORMATION**

**Item 1. Legal Proceedings.**

We are party to various legal proceedings arising in the ordinary course of business, including asserted preference payment claims in client bankruptcy proceedings, claims of alleged infringement of patents, trademarks, copyrights and other intellectual property rights and claims of alleged non-compliance with contract provisions.

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**INSIGHT ENTERPRISES, INC.**

In accordance with SFAS No. 5, *Accounting for Contingencies* ( SFAS No. 5 ), we make a provision for a liability when it is both probable that a liability has been incurred and the amount of the loss can be reasonably estimated. These provisions are reviewed at least quarterly and are adjusted to reflect the effects of negotiations, settlements, rulings, advice of legal counsel and other information and events pertaining to a particular claim. Although litigation is inherently unpredictable, we believe that we have adequate provisions for any probable and estimable losses. It is possible, nevertheless, that the results of our operations or cash flows could be materially and adversely affected in any particular period by the resolution of a legal proceeding. Legal expenses related to defense, negotiations, settlements, rulings and advice of outside legal counsel are expensed as incurred.

In June 2006, our subsidiary, Software Spectrum, Inc. was named as a defendant in a civil lawsuit, *Allocco v. Gardner* (Superior Court, County of San Diego), regarding certain software resale transactions with Peregrine Systems, Inc. The subsidiary was named as successor to Corporate Software & Technology, Inc. ( CS&T ) and alleges that during October 2000 CS&T participated in or aided and abetted a fraudulent scheme by Peregrine to inflate Peregrine s stock price. Pursuant to the terms of the agreement by which we acquired Software Spectrum, Inc. from Level 3 Communications, Inc. ( Level 3 , the former corporate parent of Software Spectrum, Inc.), Level 3 has agreed to indemnify, defend and hold us harmless for this matter. The discovery process is on-going, and we strongly dispute any allegations of participation in fraudulent behavior. On our behalf Level 3 is vigorously defending this matter.

In October 2006, we received a letter of informal inquiry from the SEC requesting certain documents relating to our stock option grants and practices. We have cooperated with the SEC and will continue to do so. We cannot predict the outcome of this investigation.

Software Spectrum, as successor to CS&T, is party to litigation brought in the Belgian courts regarding a dispute over the terms of a tender awarded by the Belgian Ministry of Defence ( MOD ) in November 2000. In February 2001, CS&T brought a breach of contract suit against MOD in the Court of First Instance in Brussels and claimed breach of contract damages in the amount of approximately \$150,000. MOD counterclaimed against CS&T for cost to cover in the amount of approximately \$2,700,000, and, in July 2002, CS&T added a Belgian subsidiary of Microsoft as a defendant. We believe that MOD s counterclaims are unfounded, and we are vigorously defending the claim.

**Item 1A. Risk Factors.**

In addition to the other information set forth in this report, you should carefully consider the factors discussed in Part I, Item 1A, Risk Factors , in our Annual Report on Form 10-K for the year ended December 31, 2006, which could materially affect our business, financial condition or future results. The risks described in our Annual Report on Form 10-K are not the only risks facing our company. Additional risks and uncertainty not currently known to us or that we currently deem to be immaterial may also materially adversely affect our business, financial condition or operating results.

**Item 2. Unregistered Sales of Equity Securities and Use of Proceeds.**

There were no unregistered sales of equity securities during the three months ended June 30, 2007.

We have never paid a cash dividend on our common stock, and our financing facilities prohibit the payment of cash dividends without the lenders consent.

**Table of Contents****INSIGHT ENTERPRISES, INC.*****Issuer Purchases of Equity Securities***

Period	(a) Total Number of Shares Purchased	(b) Average Price Paid per Share \$	(c) Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	(d) Approximate Dollar Value of Shares That May Yet be Purchased Under the Plans or Programs <sup>1</sup>
April 1, 2007 through April 30, 2007				\$ 50,000,000
May 1, 2007 through May 31, 2007				50,000,000
June 1, 2007 through June 30, 2007				50,000,000
Total				

<sup>1</sup> On January 26, 2006, we announced that our Board of Directors had authorized the repurchase of up to \$50,000,000 of our common stock. We made no repurchases under this program during the three months ended June 30, 2007.

**Item 3. Defaults Upon Senior Securities.**

None.

**Item 4. Submission of Matters to a Vote of Security Holders.**

None.

**Item 5. Other Information.**

None.

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**INSIGHT ENTERPRISES, INC.**

**Item 6. Exhibits.**

(a) Exhibits (unless otherwise noted, exhibits are filed herewith).

**Exhibit No. Description**

- 3.1 Composite Certificate of Incorporation of Insight Enterprises, Inc. (incorporated by reference to Exhibit 3.1 of our Annual Report on Form 10-K for the year ended December 31, 2005 filed on February 17, 2006, File No. 0-25092).
- 3.2 Certificate of Amendment to the Amended and Restated Certificate of Incorporation of Insight Enterprises, Inc. (incorporated by reference to Exhibit 3.2 of our Quarterly Report on Form 10-Q for the quarter ended September 30, 2005, filed on August 5, 2005, File No. 0-25092).
- 3.3 Amended and Restated Bylaws of the Insight Enterprises, Inc. (incorporated by reference to Exhibit 99.1 of our Current Report on Form 8-K filed on May 7, 2007, File No. 0-25092).
- 4.1 Specimen Common Stock Certificate (incorporated by reference to Exhibit 4.1 of our Registration Statement on Form S-1 (No. 33-86142) declared effective January 24, 1995).
- 4.2 Rights Agreement (incorporated by reference to Exhibit 4.1 of our Current Report on Form 8-K filed on March 17, 1999, File No. 0-25092).
- 31.1 Rule 13a-14(a)/15d-14(a) Certification of Chief Executive Officer.
- 31.2 Rule 13a-14(a)/15d-14(a) Certification of Chief Financial Officer.
- 32.1 Section 1350 Certification of Chief Executive Officer and Chief Financial Officer.

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**INSIGHT ENTERPRISES, INC.**

**SIGNATURES**

Pursuant to the requirements 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.

**Date: August 9, 2007**

**INSIGHT ENTERPRISES, INC.**

**By: /s/ Richard A. Fennessy**

**Richard A. Fennessy  
President and Chief Executive Officer**

**By: /s/ Stanley Laybourne**

**Stanley Laybourne  
Chief Financial Officer, Secretary and Treasurer  
(Principal Financial Officer)**

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