

INSIGHT ENTERPRISES INC

Form 10-K

July 26, 2007

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**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
FORM 10-K**

(Mark One)

**Annual Report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934
For the fiscal year ended December 31, 2006**

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
(IRS Employer
Identification No.)

1305 West Auto Drive, Tempe, Arizona 85284
(Address of principal executive offices, Zip Code)

Registrant's telephone number, including area code: **(480) 902-1001**
Securities registered pursuant to Section 12(b) of the Act:

Title Of Each Class

Name Of Each Exchange On Which Registered

Common stock, par value \$0.01
(Title of Class)

NASDAQ

Indicate by check mark whether the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.

Yes No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act.

Yes No

Indicate by check mark whether the Registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the Registrant was required to file such report(s)), and (2) has been subject to such filing requirements for the past 90 days.

Yes No

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of Registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

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

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The aggregate market value of the voting and non-voting common equity held by non-affiliates of the Registrant, based upon the closing price of the Registrant's common stock as reported on The Nasdaq Global Select Market on June 29, 2007, the last business day of the Registrant's most recently completed second fiscal quarter, was \$1,090,737,456.

The number of issued and outstanding shares of the Registrant's common stock on June 29, 2007 was 49,100,749.

**INSIGHT ENTERPRISES, INC.
ANNUAL REPORT ON FORM 10-K
Year Ended December 31, 2006
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**INSIGHT ENTERPRISES, INC.
EXPLANATORY NOTE REGARDING RESTATEMENT OF OUR
CONSOLIDATED FINANCIAL STATEMENTS**

This Annual Report on Form 10-K contains the restatement of 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.

Based on information provided by an independent committee of the Board of Directors (the Options Subcommittee) resulting from its review of the Company's historical stock option granting practices, we identified errors in the Company's accounting related to stock option compensation expenses in prior periods. The Options Subcommittee's review encompassed all options on Company securities granted to directors, officers, or employees from the Company's initial public offering in January 1995 through November 30, 2005 (the Relevant Period). During this period, the Company made more than 28,000 individual option grants, involving options on more than 28 million (split-adjusted) shares, on 957 separate grant dates. Additionally, the Company undertook an analysis of the results of the Options Subcommittee's review as well as all stock option activity during the Relevant Period. We determined that corrections to our consolidated financial statements were required to reflect additional material charges for stock-based compensation expenses and related income tax effects.

Our consolidated retained earnings as of December 31, 2005 incorporates an aggregate of approximately \$30.9 million in incremental stock option-related compensation charges relating to the period from January 24, 1995 through December 31, 2005. This charge is net of a \$16.5 million tax benefit related to the restatement adjustments. This additional compensation expense results from our determination, based upon the Options Subcommittee's review and the Company's analysis, that for accounting purposes, the dates initially used to measure compensation expense for many stock option grants to employees, executive officers and outside non-employee directors during the period could not be relied upon. In particular, the Options Subcommittee identified various categories of grants that had been made by the Company during the period under review including: (a) discretionary grants of various types; (b) anniversary grants; (c) promotion grants; (d) new hire grants; and (e) program grants. In general, the Options Subcommittee found: (x) a lack of significant issues with respect to new hire grants; (y) that during a portion of the period under review, the Company retrospectively selected dates for anniversary grants and promotion grants based on the lowest price in a particular period; and (z) inadequate documentation surrounding certain discretionary grants, including grants to officers that required approval by the Compensation Committee. We determined that the revised measurement dates for accounting purposes differed from the originally selected measurement dates due primarily to: (i) insufficient or incomplete approvals; (ii) inadequate or incomplete establishment of the terms of the grants, including the list of individual recipients; and (iii) the use of hindsight to select exercise prices.

In those cases in which the Company had previously used a measurement date that we determined could no longer be relied upon, we undertook to identify the most supportable measurement date from the available evidence. For the grant dates specifically reviewed by the Options Subcommittee, management analyzed the documents identified during the review performed by the Options Subcommittee, the information contained in the Company's stock plan administration database application (Equity Edge), minute books, personnel files, payroll records, Securities and Exchange Commission (SEC) filings, electronic files on the Company's computer network and human resources systems to determine the appropriate measurement dates. We considered the information available for each recipient included in each of the grant dates to determine the most supportable measurement date for each individual grant within the grant date. For the remaining grants not specifically reviewed by the Options Subcommittee, management reviewed each grant date and all available support contained in the Stock Plan Administration hard copy files, human resources system data and Equity Edge information for each recipient included in each of the individual grant dates to determine the type of grant and most supportable measurement date for each individual grant within the grant date. The Company used the information contained in Equity Edge to categorize the grants, if possible, into the various categories discussed above. Individual grants categorized in Equity Edge as new hire or anniversary grants were separately accumulated and analyzed. For more information on our restatement, see Management's Discussion and Analysis of Financial Condition and Results of Operations in Item 7 and Note 2 of our Notes to the Consolidated

Financial Statements in Item 8 of this Annual Report.

In addition to the restatements for stock-based compensation, we recorded an adjustment for \$1.0 million 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. The tax effect of this adjustment was \$0.4 million.

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INSIGHT ENTERPRISES, INC.

All financial information contained in this Annual Report on Form 10-K gives effect to the restatements of our consolidated financial statements as described above. We have not amended, and we do not intend to amend, our previously filed Annual Reports on Form 10-K or Quarterly Reports on Form 10-Q for each of the fiscal years and fiscal quarters of 1995 through 2005, and for the first six months of the fiscal year ended December 31, 2006. Financial information included in reports previously filed or furnished by Insight Enterprises, Inc. for the periods from January 1, 1995 through June 30, 2006 should not be relied upon and are superseded by the information in this Annual Report on Form 10-K.

Management has determined that we have a material weakness in our internal control over financial reporting relating to the implementation and administration of our equity compensation programs and the accounting for awards thereunder as of December 31, 2006. As described in more detail in Item 9A of this Annual Report, although the Company made its last stock option grant on November 30, 2005, based on the findings of the Options Subcommittee, the problems uncovered during the review have caused the Company to undertake remedial measures to ensure that similar problems cannot occur in connection with its grants of restricted stock. We have identified and are implementing measures designed to remedy this material weakness.

FORWARD-LOOKING STATEMENTS

Certain statements in this Annual Report on Form 10-K, including statements in Management's Discussion and Analysis of Financial Condition and Results of Operations in Part II, Item 7 of this report, are forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. These forward-looking statements may include: projections of matters that affect net sales, gross profit, operating expenses, earnings from continuing operations, non-operating income and expenses or net earnings; effects of acquisitions; 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, project, will, may and variations of such words 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:

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

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

disruptions in our information technology and voice and data networks, including the upgrade to mySAP and the 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/publishers of products we sell;

the informal inquiry from the 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.

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INSIGHT ENTERPRISES, INC.

Additionally, there may be other risks that are otherwise described from time to time in the reports that we file with the Securities and Exchange Commission (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. 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 inquiry or proceedings arising out of or related to the Company's historical stock option granting practices. Therefore, any forward-looking statements in this release 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.

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INSIGHT ENTERPRISES, INC.
PART I

Item 1. Business

Insight Enterprises, Inc. (Insight or the Company) is 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, Europe, the Middle East, Africa and Asia-Pacific. The Company is organized in the following three operating segments, which are primarily defined by their related geographies:

Operating Segment*	Geography	% of 2006 Consolidated Net Sales	% of 2006 Consolidated Earnings from Operations
North America	United States (U.S.) and Canada	80%	82%
EMEA	Europe, Middle East and Africa	19%	17%
APAC	Asia-Pacific	1%	1%

* Additional detailed segment and geographic information can be found in Management's Discussion and Analysis of Financial Condition and Results of Operations in Part II, Item 7 and in Note 16 to the Consolidated Financial Statements in Part II, Item 8 of this report.

Prior to the acquisition of Software Spectrum, Inc. (Software Spectrum) on September 7, 2006 and the divestiture of Direct Alliance Corporation (Direct Alliance) on June 30, 2006, we were organized in three operating segments, two of which were the geographic operating segments that provided IT products and services, Insight North America and Insight UK, and the third of which was our discontinued operation that provided business process outsourcing, Direct Alliance.

Beginning with the fourth quarter of 2006, as a result of the Software Spectrum acquisition, we operate in three geographic operating segments: North America; EMEA; and APAC. To the extent applicable, prior period information disclosed in this report by operating segment has been reclassified to conform to the current period presentation.

Our strategic plan over the past few years has been to transform Insight from an IT products provider to an IT solutions provider through a combination of organic growth, driven by continuous improvement initiatives, and targeted acquisitions. Consistent with our strategy, our acquisition of Software Spectrum enhanced our customer (referred to within the company and this document as clients) value proposition in many ways, such as:

augmenting our solution capabilities, particularly relative to software lifecycle management;

expanding our penetration within profitable categories, most notably software and services; and

increasing our global presence through expansion in EMEA and APAC.

With the acquisition of Software Spectrum, our product mix changed significantly. Prior to the acquisition of Software Spectrum, software sales represented approximately 12% of net sales. After the acquisition of Software Spectrum, software sales represent approximately 35% to 40% of annual net sales.

As a result of these changes, we have become a leading provider of a broad range of top brand-name IT hardware, software and services, helping companies around the world design, enable, manage and secure their IT environment. Insight services clients in more than 170 countries and has the process knowledge, technical expertise and management tools necessary to ease the burden of designing and deploying IT solutions while streamlining IT management and costs. Our clients include large enterprises, SMB and public sector institutions. 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.

We were incorporated in Delaware in 1991 as the successor to an Arizona corporation that commenced operations in 1988. We began operations in the U.S., expanded into Canada in 1997 and into the United Kingdom in 1998. In September 2006, through our acquisition of Software Spectrum, we penetrated deeper into global markets in EMEA and APAC, where Software Spectrum already had an established footprint and strategic relationships. Our corporate headquarters are located in Tempe, Arizona.

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**INSIGHT ENTERPRISES, INC.
Acquisitions/Dispositions History**

Over the past few years, we have completed acquisitions and dispositions in each of our operating segments.

In 2004, we sold our 95% ownership interest in Plus Net plc (PlusNet), an Internet service provider in the United Kingdom. As a result, PlusNet is disclosed as a discontinued operation for the year ended December 31, 2004 and all prior periods presented.

On June 30, 2006, we completed the sale of 100% of the outstanding stock of Direct Alliance, a business process outsourcing provider in the U.S. As a result of the disposition, Direct Alliance is disclosed as a discontinued operation for the year ended December 31, 2006 and all prior periods presented.

Consistent with our strategic plan for growth through targeted acquisitions, on September 7, 2006 we completed our acquisition of Software Spectrum, a global technology solutions provider with particular expertise in the selection, purchase and management of software. The purchase price was \$287.0 million plus working capital of \$64.4 million, which included cash acquired of \$30.3 million. The purchase price was allocated to the tangible and identifiable intangible assets acquired and liabilities assumed based on their estimated fair values, and the excess purchase price over fair value of net assets acquired was recorded as goodwill. Goodwill related to the Software Spectrum acquisition was \$209.7 million at December 31, 2006. Software Spectrum's results of operations have been included in our consolidated results of operations subsequent to the acquisition date.

On March 1, 2007, we completed the sale of PC Wholesale, a division of our North America operating segment. As a result of the disposition, PC Wholesale will be disclosed as a discontinued operation beginning in the three months ended March 31, 2007.

Operating Segments

The following discussion of our operating segments should be read in conjunction with the operating segment disclosures and information regarding geographic operations found in Note 16 to the Consolidated Financial Statements in Part II, Item 8 of this report. A discussion of factors potentially affecting our operations is discussed in Risk Factors in Part I, Item 1A of this report.

North America, EMEA and APAC

North America, EMEA and APAC are reported as separate operating segments. However, they all operate with similarly structured business models and in strategic positions as leading providers of IT solutions. 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. We co-branded as Insight and Software Spectrum subsequent to the acquisition date, primarily to allow time for an orderly transition to a common brand. We completed the conversion to the Insight brand in all segments in the second quarter of 2007.

North America, with operations in the U.S. and Canada, is our largest operating segment, representing 80% and 82% of consolidated net sales and earnings from operations, respectively, in 2006. This segment is the combination of Insight North America and the former Software Spectrum North American operations acquired in September 2006. EMEA, which has operations in fourteen countries in Europe and strategic relationships serving our clients in the Middle East and Africa, represented 19% and 17% of consolidated net sales and earnings from operations, respectively, in 2006. EMEA is the combination of Insight UK and the former Software Spectrum EMEA operations acquired in September 2006. APAC, with operations in Australia, China, Hong Kong, New Zealand and Singapore, represented 1% of both consolidated net sales and earnings from operations in 2006. APAC is the former Software Spectrum APAC operations acquired in September 2006 and the China office we opened in October 2006.

Business Overview

Insight is a leading provider of brand-name IT hardware, software and services to large enterprises, SMB and public sector institutions in North America, EMEA and APAC. Over the past few years, we have been evolving our business model and branding efforts to emphasize Insight's ability to provide total technology solutions to meet our clients' business-driven needs. Our value proposition to our clients is that we serve as a trusted advisor, helping our clients enhance their business performance through innovative technology solutions. Historically, we had primarily been engaged in our clients' acquisition cycle once they had substantially determined their IT needs. Our role has

shifted to one of a trusted advisor, where we are involved earlier in the acquisition cycle, assisting our clients as they make technology decisions. We believe this creates stronger relationships with our clients, allowing us to add greater value to

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INSIGHT ENTERPRISES, INC.

our clients' business, to expand the range of products and services we sell to each of our current clients and to attract new clients. We are focused on bringing more value to our clients, employees (referred to within the Company and this document as "teammates") and suppliers (referred to within the Company and this document as "partners") through the evolution of Insight's value proposition. We have transitioned from a focus on the base competencies of product selection, price and availability to a focus on value differentiators, such as software licensing, advanced configuration services, tailored solutions, technical expertise and e-enablement. We believe a solution is defined not by what you sell, but how you sell it. The solution to a client's business needs may include IT hardware, software, services or any combination of these offerings. The key to creating an effective solution is to understand the client's business needs and assist in determining the right IT solution to address those needs and enhance business performance. Although we have initiatives to increase solution selling in our large enterprise client base, we also see a significant opportunity to sell solutions to meet the needs of our current and prospective SMB clients. IT products and services are currently sold to the SMB market in the U.S. by a variety of national product resellers, but we believe that no national providers of IT products and services are effectively serving this market as a true IT solutions provider. We also believe that our expanded business model, knowledgeable sales force, targeted marketing strategies, streamlined distribution, advanced services capabilities and commitment to total IT solutions further differentiate us from our competitors serving the SMB market.

In 2005, we developed a five-year strategic plan and presented it to our Board of Directors and our teammates. In 2006, we made significant progress in executing that plan. Namely, we sold our business processing outsourcing business to focus on our core business of providing IT solutions. We completed the acquisition of Software Spectrum, one of the world's leading providers of business-to-business IT solutions and services with particular expertise in the selection, purchase and management of business software. The acquisition accelerated the expansion of our technology solutions capabilities and our global presence. We believe that the combination of the software expertise of Software Spectrum and Insight's expertise in hardware and services solidifies our value proposition as a trusted advisor of business solutions to our clients. With this more robust offering, we are executing Insight's global vision by penetrating deeper into global markets where Software Spectrum already had an established footprint. Immediately upon closing the acquisition, we began integrating the two organizations into one team and announced our leadership team for the new organization. Since the acquisition, we have finalized our plan for integrating the individual functions within the organization, such as Marketing, People and Development, IT and Finance. Our integration, with the exception of IT systems, is now substantially complete, and we are functioning as one team with a united vision. This acquisition was an integral part of our ability to increase market share during 2006.

We have also continued our focus on driving improvements in our relationships with our clients, teammates and partners. We made strong progress in improving each of these key relationships.

Client satisfaction and loyalty, as measured in our monthly client satisfaction surveys, increased dramatically in 2006. Further, in October 2006, H.R. Chally Group, a third-party market research firm, awarded our North American sales force a "World Class" rating after interviewing clients and prospects of IT resellers and asking them to rate their IT providers. Insight was the only company in its industry to be rated "World Class."

Teammate satisfaction, as measured in our annual teammate satisfaction survey, strengthened across the world. Additionally, in December 2006, Insight was named one of the "25 Best Service Companies to Sell For" in *Selling Power* magazine, which ranks the largest sales forces in America. Insight moved up from a ranking of 23rd in 2005 to 12th in 2006.

Lastly, partner satisfaction strengthened. We completed our annual partner satisfaction survey in early January 2007, and overall satisfaction within North America improved compared to 2005 results.

We attribute the improvements noted above to our strengthening of the foundation of our business through:
a new vision and values;

a clear strategy; and

a stronger team.

Operating Strategy

The key elements of our operating strategy are:

Solutions-oriented business model;

Integrated sales and marketing;

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INSIGHT ENTERPRISES, INC.

Broad selection of brand-name IT hardware and software;

Strong tools and expertise on software asset management;

Services offerings; and

Efficient technology-based operations.

Solutions-Oriented Business Model. This model offers our business clients the benefits of complete IT solutions that take advantage of our multiple vendor product choices, competitive pricing, fast and efficient delivery and a vast array of customized services. We have transitioned our business model beyond product fulfillment to include the capability to advise our clients on business issues and develop technology solutions to address their business issues. We believe this transition was essential to respond to changes in the way businesses plan for, implement, leverage and manage technology. We can offer advice to help our clients find the right solution to uniquely address their business needs due to our expertise across a broad, multi-vendor line offering. We offer service capabilities designed to complete our solutions offerings and improve our clients' business results. We have the ability to serve as the central project manager for many combinations of services a client may require, from the most basic, such as warranties and financing options, to the very complex, such as custom configuration, large technology deployments, centralized management of mobile technology, software license planning, network design and implementation, asset tagging and asset disposal. We have what we consider to be one of the most robust services organizations in the industry and are focused on all aspects of technology lifecycle management. As a result, we are able to provide expert resources to design, deploy and manage today's complex technology environments. With our acquisition of Software Spectrum, we have a significantly enhanced portfolio of services around software solutions. We augment our sales teams with service sales resources and technical pre-sale subject matter experts, believing that this enables our sales team to be positioned as a trusted advisor to our clients. As a result, we can be a one stop source for all of our clients' IT needs. We deliver strategic business value to our clients by ensuring that technology solutions drive business results and by streamlining IT management, reporting and costs. In North America, our largest area of operation, we believe we have a strong competitive advantage in the degree to which we can provide these products and services across all targeted client groups.

Integrated Sales and Marketing. We market and sell IT solutions through a variety of integrated direct sales and marketing techniques including:

a staff of client-dedicated account executives utilizing proactive outbound telephone-based sales;

a client-focused, face-to-face field sales force;

a nationally deployed dedicated service sales organization in the U.S.;

a team of software sales specialists;

a small group of knowledgeable account executives dedicated to taking inbound calls;

electronic commerce (primarily the Internet and electronic data interchange (EDI));

targeted marketing (including print and electronic marketing and communications, advertising, client events and specialty marketing programs);

comprehensive product and services catalogs; and

pre-sale technical sales support teams.

We align our technical sales support resources and tailor our marketing model to each client market. Our marketing programs emphasize our solutions offerings, service capabilities, competitive pricing, efficient procurement and financing options. A large portion of our marketing will continue to focus on increasing awareness of our service capabilities and the value of our solutions-oriented business model, as well as driving increased demand for our IT hardware, software and services offerings.

Components of our sales and marketing strategy include:

Focus on Large Enterprises, SMB and Public Sector Institutions. We target businesses as well as government and educational entities. Our target client employs over 100 people who regularly use business technology in the performance of their jobs. We believe this is the most valuable portion of the IT hardware, software and services market because these entities demand high-performance technology solutions, appreciate well-trained account executives, purchase frequently, are value conscious and are knowledgeable buyers who require less technical support than the average individual consumer. Our operating model, which allows us to tailor our offerings to the size and complexity of our client, positions us to serve this portion of the market effectively by combining highly qualified field and telesales account executives, advanced service capabilities, focus on client service, competitive pricing and cost-effective distribution systems. During 2006, virtually all of our net sales were to large enterprise, SMB and public sector institutions, and no single client accounted for more than 3% of our consolidated net sales.

Net sales to U.S. public sector clients include federal, state and local governmental entities, educational institutions

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and non-profit organizations. Net sales from these clients are derived from: open market sales to federal, state and local government agencies; sales made to federal agencies and departments under the Multiple Award Schedule contract with the U.S. General Services Administration and blanket purchase agreements from various government departments; sales made to various state and local government agencies; and sales made to educational institutions and non-profit organizations. Net sales to public sector clients in our EMEA segment include central and local government entities, educational institutions, non-profit organizations and national healthcare service organizations. Net sales from our EMEA public sector clients are derived primarily in the United Kingdom from open market sales to individual entities and to consortium buyers and from contracts, such as the Catalist contract, which represents a restricted procurement channel whereby only approved vendors are permitted to bid on available opportunities. For a discussion of risks associated with public sector contracts, see **Risk Factors** The failure to comply with the terms and conditions of our public sector contracts could result in, among other things, fines or other liabilities, in Part I, Item 1A of this report.

Recruit, Train and Retain a Quality Sales Force. The majority of our SMB account executives focus on outbound telesales by contacting existing clients on a systematic basis to generate additional sales. In addition, these account executives utilize various prospecting techniques in order to increase our client base. To support the account executives, we maintain an extensive database of clients and potential clients. We have established dedicated outbound sales divisions focusing on large enterprises (generally at least 2,500 PCs), SMB (generally less than 2,500 PCs), and the public sector entities (government, educational and not for profit institutions). Account executives in these sales divisions interact with sophisticated IT decision makers and procurement executives as well as various other executives of organizations to establish mutually beneficial relationships. Once established, the one-on-one relationships between our clients and their account executives are maintained and enhanced primarily through frequent communications by telephone and face-to-face meetings, supplemented by marketing communications and programs. We also enhance our telesales operations by maintaining a group of face-to-face field account executives and service sales professionals in a number of cities throughout North America, EMEA and APAC. These face-to-face field account executives and service sales professionals typically service larger enterprise accounts, government accounts or SMB accounts that have advanced system and service needs. Starting in 2006, we geographically aligned clients in the U.S. assigned to our SMB account executives. We believe this enables us to utilize our face-to-face field account executives to help strengthen relationships with SMB clients, as well as partner representatives, in their geographical areas by assisting as needed the SMB account executives. Additionally, we have a small group of knowledgeable account executives dedicated to taking inbound calls generated by our direct marketing activities.

We believe our ability to establish and maintain long-term relationships and to encourage repeat purchases is dependent, in part, on the quality of our account executives. Because our clients' primary contact with us is through our account executives, we focus on recruiting, training and retaining qualified and knowledgeable sales staff. During 2006, we expanded our training programs for new account executives. We launched improved new hire training, the Trusted Advisor Program (TAP), in July 2005 to give our new account executives the training, development and support they need to be successful in our competitive market. The ten-month program covers sales, systems and solutions with the objective of preparing account executives for their role as a trusted advisor. Through the program, teammates undergo classroom learning, call lab work and time on a TAP sales team prior to graduating to the sales floor full time. Additionally, the TAP program offers teammates several certifications in partner training, ranging from solutions to in-depth product training. Since the introduction of the TAP program, we have reduced attrition and have improved the productivity of our account executives. We continuously improve our sales training programs to focus on enhancing existing skills or developing new skills for varying aspects of the sales process.

With the assistance of our marketing department, each account executive is responsible for building a client base and proactively servicing the needs of established clients. Our IT systems allow online retrieval of relevant client information, including the client's profile, history and product information, such as price, cost and availability, as well as up-selling and cross-selling opportunities. This capability helps our account executives to have the type of conversations that help to deepen client relationships, identify client needs and build our share-of-wallet with our client base. Additionally, as part of the new mySAP Business Suite (mySAP) IT system upgrade to be completed in

mid 2007 for our U.S. hardware and services operations, we are increasing our use of customer relationship management (CRM) tools and analytics to target the right solution or offer to clients with the greatest propensities to have an interest in certain products. Account executives are empowered to negotiate sales prices within established ranges, and a large part of their compensation is based upon gross profit dollars from sales they generate. As the account executive gains experience, we give them greater latitude to make decisions, and with greater experience, the percentage of total compensation based on gross profit dollars generated also increases. Compensation programs are designed to promote and reward top performers in the organization.

With the acquisition of Software Spectrum in September 2006, we added approximately 400 software sales account executives to our sales force. Supporting our software sales efforts, our technology assessment services engineers assist our clients in selecting the appropriate software solutions. These engineers are trained on multiple, complex technologies and hold several certifications for a particular software solution or category. Our software sales force and

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technology assessment services engineers help our clients acquire and manage software in a more cost-effective way with the partner licensing programs, reporting services and software asset management tools that we offer. These software account executives are resident in the countries in which we operate and are better situated to understand the needs of, and to communicate with, our clients in our sales offices located in Australia, Belgium, Canada, China, Denmark, Finland, France, Germany, Hong Kong, Italy, the Netherlands, Norway, Singapore, Spain, Sweden, Switzerland, the United Kingdom and the U.S. Additionally, although we do not have physical offices located in Austria, Ireland, New Zealand and Russia, we do have software account executives resident in these countries providing us with a local sales presence. In those regions in which we do not have a physical presence, such as Africa and India, we serve our clients through strategic relationships.

Information regarding the number and tenure of account executives in North America, EMEA and APAC, including former Software Spectrum account executives at December 31, 2006, with a comparison to legacy Insight-only account executives at December 31, 2005, follows:

	North America		EMEA		APAC
	12/31/06	12/31/05	12/31/06	12/31/05	12/31/06
Number of account executives	1,294	1,074	476	266	54
Experience:					
Less than one year	22%	25%	37%	40%	31%
One to two years	15%	14%	21%	26%	30%
Two to three years	11%	10%	13%	14%	13%
More than three years	52%	51%	29%	20%	26%
	100%	100%	100%	100%	100%
Average tenure	4.4 years	3.9 years	2.7 years	2.3 years	2.5 years

Increase in tenure is important to our business as our statistics show that account executive productivity increases with experience. The increase in average tenure for North America is due primarily to increased retention efforts, including performance-based incentives and enhanced training programs, and headcount reductions based on performance, which largely resulted in the elimination of less experienced account executives. Average tenure for EMEA has increased primarily to increased retention efforts partially offset by the loss of some of our tenured account executives in 2005 resulting from targeted recruiting efforts by our competition.

For a discussion of risks associated with our dependence on key personnel, including sales personnel, see Risk Factors We depend on key personnel, in Part I, Item 1A of this report.

Focus on Client Service. We strive to create strong, long-term relationships with our clients, which we believe promotes client satisfaction and ultimately increases the percentage of IT spending awarded to us. We believe that a key to building client loyalty is to provide clients with a knowledgeable account executive backed by a strong support staff that can help clients find the right IT solutions to solve business needs. Most business clients are assigned a trained account executive that understands the client's business needs and proactively identifies and provisions technology solutions that meet those needs. In addition to our account executives, we also have technical specialists who support our sales force, creating a team approach to addressing clients' various needs within a total solutions framework. Although additional support personnel may interact with the client, such as our solutions center or third-party service providers, the client's dedicated account executive remains the primary contact with Insight. We believe that solving clients' unique business and technology challenges through strong one-to-one sales and project management relationships will improve the likelihood that clients will look to us for future product and service purchases.

We realize that fast delivery and efficient fulfillment are also important to our clients. Client hardware orders are sent to one of our distribution centers or to one of our direct ship partners for processing immediately after the order is released. We have integrated labeling and tracking systems with major freight carriers into our IT system to ensure prompt and traceable delivery. Additionally, we have integrated our IT system with our direct ship partners making shipments from these partners virtually transparent to our clients. We ship almost all of our orders on the day the orders are released for shipment.

We believe that effective client service is an important factor in client retention and overall satisfaction. We will implement additional automation of our business processes as we complete our upgrade to mySAP and believe these improvements will further increase client satisfaction and retention.

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Promote Use of E-Commerce. We believe that providing the client with a seamless e-commerce system, supported by well-trained account executives results in a highly efficient business model that delivers high client satisfaction. Account executives encourage clients to place on-line orders via our Web site, www.insight.com, and we offer selected businesses their own customized landing pages, which are designed by our electronic marketing team. These pages allow businesses to customize views based on their needs and procurement guidelines and to purchase IT hardware, software and certain services from us at pre-negotiated, volume-based pricing. In addition, we implement automated approval routing to help clients ensure compliance with their company policies. We also create awareness of our products and services to clients and prospects through graphically rich electronic newsletters, electronic postcards and other branded sales messages transmitted via e-mail. Through the promotion of e-commerce, including EDI and our Web site, we hope to increase sales, facilitate our clients ease of doing business with us, drive enhanced client satisfaction and decrease administrative costs. As part of our integration of Software Spectrum, www.softwarespectrum.com was re-branded to www.insight.com during the first quarter of 2007.

Selectively Employ Advertising, Specialty Marketing and Catalogs. We advertise in technology publications targeting business decision makers in North America. These advertisements focus on the communication of our trusted advisor value proposition and are designed to create a strong brand image for our target audience.

We continue to increase our national exposure, promote local interest and encourage visits to our Web site through title sponsorship of the Insight Bowl, a post-season intercollegiate football game, now in its tenth year. During the 2006 Insight Bowl, telecast live by NFL Network on December 29, 2006, we aired television commercials highlighting our solutions capabilities as well as commercials showcasing partners products offered by us. These 30-second spots encouraged business decision makers in the U.S. to call us or visit our Web site. Additionally, 2006 marked Insight's first year as the title sponsor of the Insight Fiesta Bowl Block Party in Tempe, Arizona.

We also leverage more traditional merchandising vehicles targeted to specific target clients, such as catalogs and direct mail pieces. These merchandising pieces emphasize our solutions offerings, encourage clients and prospects to contact us for more information, and may also provide detailed product descriptions, manufacturers specifications and pricing information. Additionally, the Insight logo and telephone number are included from time to time in promotions by selected manufacturers/publishers.

During 2006, we continued to expand our catalog distribution to include catalogs aimed at specific vertical markets or industries, such as healthcare, legal and financial services. These vertically focused catalogs provide specific vertical market solutions.

Broad Selection of Brand-Name IT Hardware and Software. We provide added convenience by offering our clients a comprehensive selection of brand-name IT hardware products (in North America and the United Kingdom only) and software titles. We offer products from hundreds of manufacturers and publishers, including Hewlett-Packard (HP), Microsoft, Cisco, Lenovo, IBM, Symantec, Adobe, Toshiba, Sony and American Power Conversion Corporation (APC). Our scale and purchasing power combined with our efficient, high-volume and cost effective direct sales and marketing, allow us to offer competitive prices. We believe that offering multiple vendor choices enables us to better serve clients needs by providing a variety of product solutions to best address their specific business needs, based on particular client preferences or other criteria, such as real-time best pricing and availability, or compatibility with existing technology. We have developed direct-ship programs with many of our partners through the use of EDI and extensible markup language (XML) links allowing us to expand our product offerings without further increasing inventory, handling costs or inventory risk exposure. Thus, we are able to offer a vast product offering with billions of dollars in virtual inventory. Convenience and product options among multiple brands are key competitive advantages against manufacturers/publishers direct selling programs, which are generally limited to their own brands and may not be able to offer clients a complete or best solution across all product categories.

We select our products based on existing and proven technology and anticipated client needs. Our product managers and buyers evaluate the effectiveness of new and existing products and select those products for inclusion in our offerings based on the fit in strategic solutions, market demand, product features, quality, reliability, sales trends, price, margins and warranties.

The manufacturer warrants most of the products we market, and it is our policy to request that clients return their defective products directly to the manufacturer for warranty service. On selected products, and for selected client service reasons, we may accept returns directly from the client and then either credit the client or ship a replacement product. We generally offer a limited 15- to 30-day return policy for unopened products and certain opened products, which are consistent with manufacturers' terms; however, for some products we may charge restocking fees. Products returned opened are quickly processed and returned to the manufacturer or partner for repair, replacement or credit to us. We resell most unopened products returned to us. Products that cannot be returned to the manufacturer for warranty

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processing, but are in working condition, are promptly sold to inventory liquidators, to end users as previously sold or used products or through other channels to limit our losses from returned products.

For a discussion of risks associated with our reliance on partners, see Risk Factors We rely on our partners for product availability, marketing funds, purchasing incentives and competitive products to sell, in Part I, Item 1A of this report.

Strong Tools and Expertise on Software Asset Management. As a one-stop, global IT solutions provider, we are also able to present our clients strong tools and expertise in software asset management. Our tools and expertise include:

Advice, Information and Education. We advise, inform and educate our clients regarding the wide range of procurement and licensing choices available to them. We publish newsletters, service and product brochures and product catalogs and also provide other timely information coincident with major product releases. We author and provide white papers and consulting advice to our clients to allow them to realize the potential benefits associated with licensing programs. We provide our clients with a methodology for evaluating their individual software management process and analyzing issues in selecting and implementing the licensing programs offered by various publishers. Our advice is designed to assist clients in selecting a software management plan, including internal distribution services, communicating with end users, reporting and complying with licensing agreements.

As part of our integration of Software Spectrum, we re-branded www.softwarespectrum.com to www.insight.com during the first quarter of 2007. Our Web site contains company news and information designed to educate clients about our services, our software titles (including third-party reviews), the publishers we represent and the latest trends in the industry. We conduct on-line seminars, or webinars, to train our clients on our on-line services and host partner webinars. Additionally, we convene a global client roundtable twice a year and schedule other roundtables as part of our publisher marketing.

Licensing Services. Our clients can acquire software applications either through licensing agreements or by purchasing boxed products. The majority of our clients purchase their software applications through licensing agreements, which we believe is a result of the ease of administration they provide and their cost-effective nature. Licensing agreements, or right-to-copy agreements, allow a client to either purchase a license for each of its users in a single transaction or periodically report its software usage, paying a license fee for each user. For clients, the overall cost of using one of these methods of acquiring software may be substantially less than purchasing boxed products.

As software publishers choose different procedures for implementing licensing agreements, businesses are faced with a significant challenge to evaluate all the alternatives and procedures to ensure that they select the appropriate agreements, comply with the publishers' licensing terms and properly report and pay for their software licenses. A large, multinational corporation may have over 100,000 users, increasing the complexity associated with purchasing and managing their software assets. We work closely, either locally or globally, with our clients to understand their requirements and educate them regarding the options available under partner licensing agreements.

Many of our clients who have elected to purchase software licenses through licensing agreements have also purchased software maintenance, which allows clients to receive new versions, upgrades or updates of software products released during the maintenance period in exchange for a specified annual fee. These fees may be paid in monthly, quarterly or annual installments. Upgrades and updates are revisions to previously published software that improve or enhance certain features of the software and/or correct errors found in previous versions. We assist our partner publishers and clients in tracking and renewing these agreements.

Our proprietary systems support the requirements necessary to service licensing agreements for our clients. Our systems provide individualized client contract management data, assist clients in complying with licensing agreements and provide clients with necessary reporting information.

In connection with certain enterprise-wide licensing agreements, publishers may choose to bill and collect from clients directly. In these cases, we earn a referral fee directly from the publisher.

Insight:LicenseAdvisor . Our Insight LicenseAdvisor product is a proprietary integrated software asset management platform that is designed to enable organizations to gain better control of their software assets, thereby saving money and helping to ensure software license compliance. In spite of investing in software asset management

tools, clients have noted that they may still make unnecessary purchases, fall out of compliance with software licenses, are slow to distribute software to their employees, and do not feel that they are in control of their software asset lifecycle. Our software solution is designed to help companies close compliance gaps and manage complex licenses by

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determining who is entitled to purchase or use a software license, the right media for a license entitlement, how to access the software, how to entitle users, groups and the enterprise to receive the software, and how to manage entitlements going forward. The software is designed to integrate with a company's internal processes and other asset management technology to allow the company to purchase, deploy and manage their software assets more efficiently.

Services Offerings. Although sales of services in 2006 represented a small percentage of our net sales (approximately 2%) and gross profit (approximately 5%), we believe our services offerings differentiate us from our competitors. We believe these services offerings help to establish strong, deep-rooted relationships with clients as they look to us for more than just product fulfillment and view us as partners in creating integrated product and service solutions for their IT needs. As sales of services increase, we expect services will likely become a greater percentage of gross profit because sales of services are generally at a higher gross margin than product sales. Currently, many of these service capabilities are more widely available to clients in North America than in any other geography. Our investment in our services capabilities in North America during 2006 resulted in year over year growth in net sales of 27% compared to 2005. We provide our clients a wide variety of services that focus on the following areas:

Custom Configuration At our ISO 9001:2000 certified customer configuration lab in the U.S., we custom configure servers, desktops, laptops and peripherals, including services such as:

asset tagging;

basic testing;

hardware and software configuration; and

software imaging and installation.

Advanced Integration Our ISO 9001: 2000 certified advanced integration lab in the U.S. provides technical operations, resources and expertise to manage and implement large-scale network rollouts, including:

workstations, servers and connectivity equipment;

individual user customization of file servers, switches, routers and racks;

pre-built networks, including IP addressing;

live network testing and turnkey deployment; and

wireless activations and configurations.

National Repair Center Our ISO 9001:2000 certified national repair center in the U.S. is dedicated to maintaining our clients' equipment and ensuring optimal performance levels through a variety of services including:

break fix services;

hot swap/spare program;

asset retrieval, refurbishment or redeployment; and

end of lease processing.

Enterprise Consulting We evaluate, design, implement and manage business technology projects for our clients. Our enterprise consulting competencies include:

infrastructure assessment and design;

wireless LAN design and implementation;

Microsoft assessment, design and implementation;

IP voice and telephony solutions; and

network security.

Resource Management We offer highly skilled technical staff to augment our clients' existing IT staff in areas such as:

desk side support;

help desk support;

installs, moves, adds and changes;

LAN administration; and

critical server restoration.

Project Management We provide clients with experienced project managers who coordinate the planning, design, deployment, and support of their IT projects and ongoing service programs. This service is performed via our Project Management Office which provides standard methodology and quality assurance.

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National Implementation Programs Together with selected highly qualified service partners, we provide comprehensive, customized implementation services, including:

national implementation and deployment projects and

national service maintenance programs.

A significant amount of services provided in North America are delivered through extensive in-house capabilities, including services performed in our ISO 9001:2000 certified custom configuration and advanced integration labs and our ISO 9001:2000 national repair center. On certain service offerings or in certain geographies, we manage delivery of services by contracting with highly qualified service partners. We believe this combination is a key differentiator from direct competitors in North America. Our EMEA and APAC operating segments manage delivery of services using in-house teammates and by contracting with highly qualified service partners. Regardless of delivery methods or geography, the client's dedicated account executive remains the primary contact throughout the entire implementation process, and we offer to act as the central project manager to assure consistent quality of service across the project. This commitment to project management is central to our value proposition for delivering total technology solutions, and we believe it enhances the development of strong, long-term relationships with clients.

Our account executives are supported by teams of qualified experts that specialize in specific emerging and/or complex technologies. In North America, we currently have technical sales support teams focused on the following product and service categories:

Advance Network Solutions;

Enterprise Solutions;

Lifecycle Management;

Mobility;

Project Management;

Security;

Software License Management;

Storage/High Performance Systems;

Third-party Extended Warranties;

Financial Services/Leasing; and

Technology Disposal.

In EMEA, we currently have teams of qualified experts focused on:

Connectivity (United Kingdom only);

Helpdesk (France and United Kingdom only);

Networking (France, Germany and United Kingdom only);

Virtualization (France and Germany only);

Servers (United Kingdom only);

Storage and High Performance Systems, (UK only);

Software Asset Management;

Software Deployment Services;

Software Licensing/Planning;

Warranties and Configuration (United Kingdom only); and

Wireless (United Kingdom only).

In APAC, we currently have teams of qualified experts focused on Software Licensing/Planning.

Historically in the industry, advanced services were available nationally to larger enterprise clients. However, we have the ability to provide certain of those services to our SMB clients and view this as an opportunity for growth. Determining which services are best suited to the SMB clients, expanding our services capabilities, creating awareness of our capabilities and increasing sales to this client group will be a significant focus in the future. For 2006, our service offerings to SMB clients continued to focus primarily on integration, third-party extended warranties and leasing. However, in 2007, we plan to expand our services offerings to SMB clients to include image loads, wireless deployment, asset disposal and managed services.

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We believe that there is no other global reseller able to offer the same breadth and depth of IT solutions that we offer across all target client groups in North America, EMEA and APAC.

Efficient Technology-Based Operations. We believe our implementation of advanced technological systems provides a competitive advantage by increasing the productivity of our account executives, delivering more efficient client service and reducing order processing and inventory costs. Our technology-based operations center around our IT systems, our distribution centers, electronic procurement and voice and data networks.

IT Systems. We are in the process of upgrading from SAP version 4.6 to mySAP. We have reengineered our processes to prepare for the upgrade rollout and believe that the benefits will include:

increased sales executive and client support productivity;

automated service tracking and billing;

enhanced CRM capabilities;

streamlined opportunity management;

improved ability to provide sales with qualified leads;

improved service contract management and reporting;

further automation of manual and inefficient processes;

reduced custom programming and maintenance; and

adoption of best practices around business processes.

We currently plan to deploy our IT system in the U.S., including the upgrade to mySAP, to our legacy Software Spectrum operations in the U.S. in mid 2008 and to our operations outside of the U.S. over the next two years.

Although mySAP has enhanced functionality, our current IT systems in all geographies allow our account executives to obtain a wide range of information, including:

client information;

product information;

product pricing, gross profit and availability;

product compatibility and alternative product offerings and accessories; and

order status.

We believe the information available to our account executives enables them to make better decisions regarding solution, product and services recommendations, provide superior client service and increase overall profitability. We also believe that our investment in IT will continue to improve the efficiency of our operations.

Distribution Centers. Our U.S. distribution operations are conducted within a 440,000 square foot distribution facility in Hanover Park, Illinois. Activities performed in our Illinois distribution center include receipt and shipping of inventory and returned product processing. Additionally, this distribution center houses our national repair center and our advanced integration and custom configuration labs. We also have a small distribution facility in Canada, small software-only distribution facilities in Germany and France and a 53,000 square foot distribution facility in the United Kingdom. All of our IT systems have capabilities that interface our sales, distribution, inventory and accounting functions. Through our IT systems, we send orders electronically to one of our distribution centers or to a

direct ship partner for processing immediately upon order release, and the distribution center or partner automatically prints a packing slip for order fulfillment. Products received in our distribution centers are assigned a unique bar code and placed in designated bin locations. We use systematic checks to ensure accurate fulfillment and to provide real-time reduction in inventories. We have implemented a re-ordering system that calculates lead times, accepts price quotes from competing partners and, in some instances, automatically orders from the partner with the most competitive price and availability. We have integrated our order processing, labeling and tracking systems with major freight carriers to ensure prompt and traceable delivery. We utilize a combined physical and virtual distribution model, utilizing just-in-time inventory management and direct ship relationships with partners to reduce inventory costs and increase client satisfaction. We also purchase and hold inventory for our integration labs related to upcoming projects with large enterprise and public sector clients. We promote the use of EDI or XML links with our partners, which we believe helps to reduce overhead, simplify the order fulfillment cycle and reduce the use of paper in the ordering process. Our physical distribution capabilities allow us to inventory product as needed to take advantage of product allocations, make opportunistic purchases or meet the service requirements of our clients. Our inventory management techniques, utilizing

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our system capabilities, allow us to offer a greater range of products without increased inventory requirements, and to reduce inventory exposure and shorten order fulfillment time.

Electronic Procurement. We participate in the electronic procurement arena in order to help clients control costs, streamline the procurement process and improve operational efficiencies. We do this primarily through our Web site and our Electronic Business-to-Business Partner Program (e-B2B Partner Program):

Our Web Site. Our Web site, via customized landing pages, provides tools which allow clients to restrict purchasing only to pre-approved products or allow an administrator at a client location to give users within that organization access to the client's on-line account, but restrict the level of their activity and the features and options available to them. Through our Web site, we make available open-order status and purchase activity reports formatted to meet each client's specifications. We also maintain a suite of Internet-based tools that enable clients to manage their software procurement. For most of our larger clients, we create customized electronic product catalogs containing product information and pricing. These electronic catalogs are accessed through search engine functionality, which enables clients to quickly locate and compare products they need.

Our e-B2B Partner Program. Under our e-B2B Partner Program, we have established relationships with e-procurement providers, such as Ariba, Oracle, Perfect Commerce and SAP to support clients' implementations of the various e-procurement platforms in an effort to streamline procurement processes and improve operational efficiencies.

Voice and Data Networks. Our voice and data networks are an important part of our technology-based operations as the majority of our sales, marketing and client service efforts are conducted either via the telephone or over the Web. Our telephone system is programmed to route inbound calls automatically, depending on their originating data, to specific sales groups, or to specific account executives. Our telephone system also uses menu functions that permit the clients to route themselves to the appropriate sales, service or support area or to their assigned account executives. In general, our technology infrastructure and our data connectivity, in particular, are important links in our efforts to increase the ease of transacting business with us.

For a discussion of risks associated with our IT systems and voice and data networks, see **Risk Factors** **Disruptions** in our IT systems and voice and data networks, including the migration of Software Spectrum to our IT voice and data networks, could affect our ability to service our clients and cause us to incur additional expenses, in Part I, Item 1A of this report.

Growth Strategy

Our financial goals are focused on growing market share and net earnings at a rate that outpaces the market. To achieve our goals, we are focused on the following areas:

selling additional products and services to our existing client base;

expanding our client base;

capitalizing on our international presence;

increasing our gross profit;

lowering our selling and administrative expenses as a percentage of net sales; and

making opportunistic strategic acquisitions.

Selling Additional Products and Services to Our Existing Client Base. Although expanding our client base is part of our growth strategy, we believe there is an even greater opportunity to increase sales within our existing client base by:

driving incremental business by leveraging the combined strengths of our legacy Insight and legacy Software Spectrum teammates in products, software and services and cross-selling software offerings to legacy Insight clients and products and service offerings to legacy Software Spectrum clients;

increasing solution sales to drive increased share of wallet with existing clients;

leveraging our services capabilities to enhance profitability;

driving improvements in account executive productivity;

aligning sales and marketing strategies; and

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leveraging e-commerce capabilities.

Our marketing initiatives focus on demand generation, communication of our solutions capabilities and growth of Insight brand awareness. We believe, particularly in the U.S., that the full breadth of our solution-focused offerings is an important differentiating factor from our competitors. Specific solutions have been and will continue to be brought to market through our portfolio selling approach and will be supported by:

sales training and education;

assessment and selling tools;

awareness building;

client events;

demand generation;

product management;

procurement;

services development;

Web merchandising; and

sales incentives.

We believe this integrated, targeted approach will allow us to communicate our value proposition to our clients, partners and account executives more effectively.

Expanding Our Client Base. We intend to increase our direct sales and targeted marketing efforts in each of our client segments. We seek to acquire new account relationships through proactive outbound telesales, face-to-face field sales, electronic commerce, targeted direct marketing and increased advertising focused on Insight brand awareness and the differentiating factors of our business model.

Capitalizing on Our International Presence. We seek to capitalize on our international presence in an effort to achieve our long-term goal of becoming a global leader for IT solutions. To that end, we plan to exploit our global footprint which was significantly expanded with the acquisition of Software Spectrum in September 2006. A value driver in our integration planning and execution is our plan to eventually build IT hardware and services capability in select countries in EMEA and APAC to enhance our existing software expertise. Our expanded global presence provides us with an increased client base, expanded product offerings and the ability to leverage our existing infrastructure and partner relationships. We believe that our ability to service clients globally very much differentiates us in the market. We also believe that APAC, in particular, offers strong opportunities for growth with some of the fastest growing global economies in the world. For a discussion of risks associated with international operations, see

Risk Factors There are risks associated with international operations that are different than those inherent in the U.S. and our exposure to the risks of a global market could hinder our ability to maintain and expand international operations, in Part I, Item 1A of this report.

Increasing Our Gross Profit. We believe that in order to meet our net earnings targets, we need to increase our gross profit. We are focused on the following initiatives that we believe will contribute to gross profit growth:

increasing attach rates for warranties, integration, leasing, accessories and services;

accelerating growth rates in net sales to SMB clients, which are generally conducted at higher gross margins;

actively managing freight margin;

leveraging and expanding our use of automated pricing tools; and

driving growth of higher margin categories.

Lowering Our Selling and Administrative Expenses as a Percentage of Net Sales. In addition to increasing gross profit, we are focused on reducing our selling and administrative expenses as a percentage of net sales. We believe the following initiatives will help lower selling and administrative expenses as a percentage of net sales:

continuing to tighten our management system and focus on expense management throughout the organization;

leveraging mySAP functionality to automate manual processes and adopt best practices;

improving sales-to-support ratios;

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enhancing our alignment with our key partners to fully leverage our partners' investments in their Insight relationship; and

achieving cost synergies from the acquisition of Software Spectrum.

As noted in the above initiatives, key to our success is the integration of Software Spectrum into our operations and the realization of the strategic and financial synergies we expect from the combined business. We took a comprehensive approach to ensure the effectiveness of our integration, which included utilization of an outside integration consultant and the development of a disciplined project management approach. Our integration planning and execution were focused on new sources of value including:

aligning sales to capture client synergies—selling IT hardware and services to the legacy Software Spectrum client base and selling software into the legacy Insight client base to create incremental net new sales;

retaining top talent/skills—keeping and motivating key teammates from both companies;

leveraging our expertise in selling to SMB clients—creating new markets for software sales by exploiting expertise and existing relationships;

capitalizing on our global footprint—eventually building IT hardware and services capabilities in select countries in EMEA and APAC;

identifying synergies to reduce operating expenses—making smart decisions that optimize efficiency and operating margin;

growing our services business—expanding our breadth of offerings and target service market; and

leveraging scale in procurement and product management—using our increased buying power to improve our cost equation.

Additionally, we anticipate that we will complete the upgrade of our SAP, version 4.6, system to mySAP in our U.S. hardware and services business in mid 2007. We believe the mySAP upgrade, targeted to streamline workflow within the organization, will provide us with enhanced IT tools that will assist us in achieving our financial and operating goals.

Making Opportunistic Strategic Acquisitions. In September 2006, our strategic acquisition of Software Spectrum broadened our client base, expanded our geographic reach, complemented our existing operating structure, deepened our software capabilities and enhanced our product and service offerings. It is part of our growth strategy to continue to evaluate and consider strategic acquisition opportunities if and when they become available. For a discussion of risks associated with strategic acquisitions, see **Risk Factors**. The integration and operation of Software Spectrum may disrupt our business and create additional expenses, and we may not achieve the anticipated benefits of the acquisition, in Part I, Item 1A of this report.

Industry

Prior to late 2000, the industry experienced strong growth rates amidst a healthy economic environment. Sales of IT products in the following years decreased worldwide due to sluggish economic growth and a lengthening of IT replacement cycles. This slowdown in spending was evident beginning in late 2000, and signs of an anticipated recovery were only first seen through slightly increased activity in the latter half of 2003, which continued in 2004 through 2006. We remain optimistic that IT spending will continue to increase in 2007 at a similar rate as that in 2006, although we believe the motivation and demand for purchases has changed from that of the pre-2000 era, and we have repositioned ourselves to respond to these changes so that we may increase our market share. Technology purchases are being made to address business-driven needs, and financial officers and other senior executives are increasingly playing greater roles in the final purchasing decisions. We believe that demand is no longer driven, for example, only

by increased speed and functionality of basic desktop computers, but by the total cost of ownership and return on investment of IT expenditures. Therefore, direct marketers are increasing efforts to include services among their offerings, and outbound telesales organizations are being complemented by face-to-face field sales. We have been at the forefront of this trend since acquiring extensive advanced service capabilities in early 2002 and enhanced software lifecycle management capabilities with Software Spectrum in September of 2006. Other direct marketers have recently made efforts to include varying levels of services among their offerings. We believe that we are better positioned to take advantage of this shift in client purchasing as we began migrating from pure product fulfillment-driven direct marketing strategies to our solutions-oriented model of providing IT hardware, software and services much earlier than other direct marketers. We believe that in addition to the changing motivation for purchases, the industry is evolving in other ways, too. The market for IT hardware, software and services is served through a variety of distribution channels, and intense competition for market share has forced manufacturers/publishers to re-examine the psychology behind clients purchasing behaviors and to seek the most cost effective and efficient channels to distribute their products. Clients are changing the way they plan

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for, purchase and implement technology purchases, and participants in the supply chain, including us, continue to change to keep pace with or be in front of these changes. We believe the following trends have emerged:

Manufacturers and publishers are continuing their use of the direct channel, through direct marketers and through their own internal resources, to market and sell products directly to clients in order to grow sales and lower overall selling costs. However, manufacturers and publishers are expecting their direct marketing partners to provide more than just sales and products fulfillment. Manufacturers and publishers desire partners that are knowledgeable about the differentiators of their products and can help deploy the products in the client's IT environment.

Consolidation has occurred over the past few years among direct marketers and service providers, and as larger direct marketers continue to broaden their client reach and increase the depth and breadth of product and service offerings, we believe that larger direct marketers will continue to take market share away from smaller resellers.

Microsoft and other publishers have initiated sales agency licensing programs under which resellers recognize the sales agency fee received directly from the software publisher as net sales and not the entire sales price of the software. Additionally, software maintenance contracts are recorded under net revenue recognition, and therefore, only the gross profit on the transaction is recorded as net sales. The increase in sales of licenses under sales agency licensing programs as well as sales of software maintenance contracts makes period-to-period comparability of sales and costs of goods sold more difficult. As a result, we believe the focus should be on gross profit as the key measure of business performance and period-to-period trends.

Additionally, with increased competition and an overall improved industry-wide supply chain, IT hardware products experience continual declines in average selling prices. Therefore, in order to increase net sales, unit sales must grow at a rate faster than the decline in average selling prices.

We believe that we will continue to benefit from industry changes as a cost-effective provider of a full range of IT hardware, software and services. While purchasing decisions will continue to be influenced by product selection and availability, price and convenience, we believe that solution offerings, knowledge of account executives and client service will become the differentiators businesses will look for when procuring solutions that minimize their total cost of ownership. We believe that Insight delivers strategic business value by streamlining IT management and costs. By combining technology hardware, software and services, Insight creates custom-tailored solutions designed to meet clients' unique requirements and changing IT goals. For a discussion of risks associated with uncertain economic conditions and actions of competitors, see Risk Factors Changes in the IT industry and/or the economic environment may reduce demand for the products, software and services we sell, and Risk Factors The IT hardware, software and services industry is intensely competitive, and actions of our competitors, including manufacturers and publishers of products we sell, can negatively affect our business, in Part I, Item 1A of this report.

Competition

The IT hardware, software and services industry is highly competitive. We compete with a large number and wide variety of marketers and resellers of IT hardware, software and services, including:

product manufacturers, such as Dell, HP, IBM and Lenovo;

direct marketers, such as CDW Corporation (North America) and PC World Business (United Kingdom);

software resellers, such as ASAP Software, SoftChoice and Softwarehouse International

systems integrators, such as Compucom Systems, Inc.;

national and regional resellers, including value-added resellers and specialty retailers, aggregators, distributors, national computer retailers, computer superstores, Internet-only computer providers, consumer

electronics and office supply superstores and mass merchandisers; and

national and global service providers, such as IBM Global Services, HP and EDS.

Product manufacturers continue to sell directly to business clients, particularly larger enterprise clients. Manufacturers, however, typically do not offer the breadth of multi-branded product offerings that direct marketers such as us offer, nor do they have sufficient scale to penetrate the SMB space cost-effectively. Additionally, most manufacturers, as well as other direct marketers, do not provide the advanced level of services that we offer our clients. We believe that we offer enhanced solutions capabilities, broader product selection and availability, competitive prices, and greater purchasing convenience than traditional retail stores or value-added resellers, and that our dedicated account executives offer the necessary support functions (e.g., knowledge of technology solutions, credit terms and efficient return processes) which Internet-only sellers usually do not provide.

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We are not aware of any competitors with both the breadth and depth of solution offerings we have in the U.S. or the ability to service software clients on a global level. This allows us to differentiate ourselves with a client service strategy that spans the continuum from fast delivery of competitively priced products, to licensing expertise and knowledgeable, industry experienced teammates to advanced IT solutions, and a selling approach that permits us to grow with clients and solidify those relationships.

Software publishers may intensify their efforts to sell their products directly to end users to the exclusion of the indirect sales channel. Over the past few years, some publishers have instituted programs for the direct sale of large order quantities of software to major corporate accounts with only a referral fee paid to the reseller. We anticipate that these types of transactions will continue to be used by various publishers in the future. We believe that the total combined range of services and software titles we provide to our clients cannot be easily substituted by individual software publishers, particularly because individual publishers do not offer the scope of services or range of software titles required by most of our clients.

Although the barriers to entry into the industry for an Internet-only reseller are relatively low, we believe that new entrants into the direct marketing channel must overcome a number of significant barriers to entry including:

- the time and resources required to build a client base of sufficient size and a well-trained account executive sales base;

- the significant investment required to develop an IT and operating infrastructure;

- the advantages enjoyed by established larger competitors with purchasing and operating efficiencies;

- the reluctance of manufacturers and distributors to allocate product and supplier reimbursements and establish electronic transactional relationships with additional participants; and

- the difficulty of identifying and recruiting qualified management personnel and a sufficient number of account executives to sell technically advanced products.

Some of our competitors have longer operating histories and greater financial, technical, marketing and other resources than us. In addition, some of these competitors may be able to respond more quickly to new or changing opportunities, technologies and client requirements. Many current and potential competitors also have greater name recognition and engage in more extensive promotional marketing and advertising activities, offer more attractive terms to clients and adopt more aggressive pricing policies than we do.

For a discussion of risks associated with the actions of our competitors, see **Risk Factors** The IT hardware, software and services industry is intensely competitive, and actions of our competitors, including manufacturers and publishers of products we sell, can negatively affect our business, in Part I, Item 1A of this report.

Partners

During 2006, we purchased products and software from approximately 3,700 partners. Approximately 54% (based on dollar volume) of these purchases from partners were from distributors, with the balance purchased directly from manufacturers or software publishers. Purchases from HP, a manufacturer, Ingram Micro and Tech Data, both of which are distributors, accounted for approximately 15%, 15%, and 13%, respectively, of our aggregate purchases in 2006. No other partner accounted for more than 10% of purchases in 2006. Our top five partners as a group for 2006 were HP, Ingram Micro, Tech Data, Microsoft and SYNEX. Approximately 58% of our total purchases during 2006 came from this group of partners. These percentages only included Software Spectrum purchases since September 2006, accordingly, we anticipate that our purchases from Microsoft will increase substantially during 2007. Although brand names and individual products are important to our business, we believe that competitive sources of supply are available in substantially all of our product categories and many of our software offerings such that, with the exception of Microsoft, we are not dependent on any single partner for sourcing products or software.

We obtain supplier reimbursements from certain product manufacturers and software publishers based typically upon the volume of sales or purchases of the manufacturers' products or publishers' software. In other cases, such

reimbursements may be in the form of participation in our partner programs, discounts, advertising allowances, price protection or rebates. Manufacturers and publishers may also provide mailing lists, contacts or leads to us. We believe that supplier reimbursements allow us to increase our marketing reach and strengthen our relationships with leading manufacturers and publishers. These reimbursements are important to us, and any elimination or substantial reduction would increase our costs of goods sold or marketing expenses and decrease our earnings from operations and net earnings. During 2006, sales of HP products and Microsoft products accounted for approximately 26% and 15%, respectively, of our consolidated net sales. No other manufacturer's products accounted for more than 10% of our consolidated net sales in 2006. Sales of product from our top five manufacturers/publishers as a group (HP, Microsoft,

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Cisco, Lenovo and IBM) accounted for approximately 61% of Insight's consolidated net sales during 2006. We believe that the majority of IT purchases by our clients are made based on the ability of our total product and service offering to meet their IT needs more than on specific brands.

Given the significant increase in software as a percentage of our net sales due to the acquisition of Software Spectrum in September 2006, our reliance on Microsoft in 2007 and beyond for both sales and vendor funding will increase. For a discussion of risks associated with our reliance on partners, see Risk Factors. We rely on our partners for product availability, marketing funds, purchasing incentives and competitive products to sell, in Part I, Item 1A of this report.

Teammates

We believe our teammate relations are good. Our teammates are not represented by any labor union, and we have not experienced any work stoppages. Certain of our teammates in various countries outside of the U.S. are subject to laws providing representation rights to teammates on workers councils. At December 31, 2006, we had 4,568 teammates as follows:

	North America	EMEA	APAC	Consolidated
Management, support services and administration	1,896	592	70	2,558
Sales account executives	1,294	476	54	1,824
Distribution	131	55		186
Total	3,321	1,123	124	4,568

We have invested in our teammates' future and our future through an ongoing program of internal and external training. Training programs include new hire orientation, sales training, general industry and computer education, technical training, specific product training and on-going teammate and management development programs. We emphasize on-the-job training and provide our teammates and managers with development opportunities through on-line and classroom training relevant to their needs.

Seasonality

General economic conditions have an effect on our business and results of operations. We also experience some seasonal trends in our sales of IT hardware, software and services. For example:

software sales are seasonally significantly higher in our second and fourth quarter;

business clients, particularly larger enterprise businesses in the U.S., tend to spend more in our fourth quarter as they utilize their remaining capital budget authorizations, and less in the first quarter; and

sales to the federal government in the U.S. are often stronger in our third quarter.

These trends create overall seasonality in our consolidated results such that sales and profitability are expected to be higher in the second and fourth quarters of the year. We expect between 25% and 30% of our 2007 net sales and gross profit, as well as between 30% and 35% of our 2007 earnings from operations, to occur in each of the second and fourth quarters.

Backlog

Virtually all of our backlog historically has been and continues to be open cancelable purchase orders, and we do not believe that backlog as of any particular date is indicative of future results.

Intellectual Property

We do not maintain a traditional research and development group, but we do develop and seek to protect a range of intellectual property, including trademarks, service marks, copyrights, domain name rights, trade dress, trade secrets and similar intellectual property. We rely on applicable statutes and common law rights, trade-secret protection and confidentiality and license agreements, as applicable, with teammates, clients, vendors and others to protect our

intellectual property rights. We have registered a number of domain names, and our principal trademark is a registered mark. We have also applied for registration of other marks, in the U.S. and in select international jurisdictions, and from time to time, file patent applications. We may, in the future, license certain of our proprietary intellectual property rights to third parties. It is important for us to work closely with computer product manufacturers and other technology developers to stay current on the latest developments in technology in order to improve our internal operations and for

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the benefit of our clients. We believe our trademarks and service marks, in particular, have significant value and we continue to invest in the promotion of our trademarks and service marks and in our protection of them.

Available Information

Our annual report on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K and amendments to reports filed pursuant to Sections 13(a) and 15(d) of the Securities Exchange Act of 1934, as amended (the Exchange Act), and the reports of beneficial ownership filed pursuant to Section 16(a) of the Exchange Act are available free of charge on our Web site at www.insight.com, as soon as reasonably practicable after we electronically file with, or furnish to, the Securities and Exchange Commission (SEC). Additionally, the public may read and copy any materials that we file with the SEC at the SEC's Public Reference Room at 100 F Street, N.E., Washington, DC 20549. Information on the operation of the SEC's Public Reference Room is available by calling the SEC at 1-800-SEC-0330. The SEC also maintains a Web site at www.sec.gov that contains all of information we file with, or furnish to, the SEC. Please see Explanatory Note Regarding Restatement of Our Consolidated Financial Statements above regarding our previous reports not being amended for the restatement of our financial statements, and that the financial information included in reports previously filed or furnished by Insight Enterprises, Inc. for prior periods should not be relied upon, and are superseded by the information in this Annual Report on Form 10-K.

Item 1A. Risk Factors

Changes in the IT industry and/or the economic environment may reduce demand for the IT hardware, software and services we sell. Our results of operations are influenced by a variety of factors, including the condition of the IT industry, general economic conditions, shifts in demand for, or availability of, IT hardware, software, peripherals and services and industry introductions of new products, upgrades or methods of distribution. Net sales can be dependent on demand for specific product categories, and any change in demand for or supply of such products could have a material adverse effect on our net sales, and/or cause us to record write-downs of obsolete inventory, if we fail to react in a timely manner to such changes. Our operating results are also highly dependent upon our level of gross profit as a percentage of net sales, which fluctuates due to numerous factors, including changes in prices from partners, changes in the amount and timing of supplier reimbursements and marketing funds that are made available, volumes of purchases, changes in client mix, the relative mix of products sold during the period, general competitive conditions, the availability of opportunistic purchases and opportunities to increase market share. In addition, our expense levels, including integration related costs and the costs and salaries incurred in connection with the hiring of account executives, are based, in part, on anticipated net sales and the anticipated amount and timing of vendor funding. Therefore, we may not be able to reduce spending in a timely manner to compensate for any unexpected net sales shortfall and any such inability could have a material adverse effect on our business, results of operations and financial condition.

We rely on our partners for product availability, marketing funds, purchasing incentives and competitive products to sell. We acquire products for resale both directly from manufacturers/publishers and indirectly through distributors. The loss of a partner could cause a disruption in the availability of products. Additionally, there is no assurance that as manufacturers/publishers continue to sell directly to end users and through the distribution channel, they will not limit or curtail the availability of their product to resellers like us. From time to time, products we offer may become subject to manufacturer allocation, which limits the number of units available to us. Our inability to obtain a sufficient quantity of product, or an allocation of products from a manufacturer in a way that favors one of our competitors relative to us, could cause us to be unable to fill clients' orders in a timely manner, or at all, which could have a material adverse effect on our business, results of operations and financial condition. In addition, a reduction in the amount of credit granted to us by our partners could increase our cost of working capital and have a material adverse effect on our business, results of operations and financial condition.

Certain manufacturers/publishers and distributors provide us with substantial incentives in the form of rebates, supplier reimbursements and marketing funds, early payment discounts, referral fees and price protections. Vendor funding is used to offset, among other things, inventory, costs of goods sold, marketing costs and other operating expenses. Certain of these funds are based on our volume of net sales or purchases, growth rate of net sales or purchases and marketing programs. If we do not grow our net sales over prior periods or if we are not in compliance

with the terms of these programs, there could be a material negative effect on the amount of incentives offered or paid to us by manufacturers/publishers. Additionally, partners routinely change the requirements for, and the amount of, funds available. No assurance can be given that we will continue to receive such incentives or that we will be able to collect outstanding amounts relating to these incentives in a timely manner, or at all. A reduction in, the discontinuance of, a significant delay in receiving or the inability to collect such incentives, particularly related to programs with our largest vendors, HP and Microsoft, could have a material adverse effect on our business, results of operations and financial condition.

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Although product is generally available from multiple sources via the distribution channel as well as directly from manufacturers/publishers, we rely on the manufacturers/publishers of products we offer not only for product availability and vendor funding, but also for development and marketing of products that compete effectively with products of manufacturers/publishers we do not currently offer, particularly Dell. We do have the ability to sell, and from time to time do sell, Dell product if it is specifically requested by our clients and approved by Dell, although we do not currently proactively advertise or offer Dell products.

Disruptions in our IT systems and voice and data networks, including the upgrade to my SAP and the migration of Software Spectrum to our IT systems and voice and data networks, could affect our ability to service our clients and cause us to incur additional expenses. We believe that our success to date has been, and future results of operations will be, dependent in large part upon our ability to provide prompt and efficient service to our clients. Our ability to provide that level of service is largely dependent on the accuracy, quality and utilization of the information generated by our IT systems, which affect our ability to manage our sales, client service, distribution, inventories and accounting systems and the reliability of our voice and data networks. In January 2004, we completed the IT system conversion to SAP, version 4.6, across all of Insight's operations serving U.S. clients. We have been making and will continue to make enhancements and upgrades to the system, including our current upgrade to mySAP. We currently plan to deploy our IT system in the U.S., including the upgrade to mySAP, to our legacy Software Spectrum operations in the U.S. in mid 2008 and to our operations outside of the U.S. over the next two years. Additionally, certain assumed expense synergies are dependent on migrating Software Spectrum to our IT systems. There can be no assurances that these enhancements or conversions will not cause disruptions in our business, and any such disruption could have a material adverse effect on our results of operations and financial condition. The conversion of EMEA to this software platform will enable us to sell hardware and services to clients in that region and therefore any delay would have an effect on future sales growth. Further, any delay in the timing could decrease and/or delay our expense savings and any such disruption could have a material adverse effect on our results of operations and financial condition. Additionally, if we complete conversions that shorten the life of existing technology or render it impaired, we could incur additional depreciation expense and/or impairment charges. Although we have built redundancy into most of our IT systems, have documented system outage policies and procedures and have comprehensive data backup, we do not have a formal disaster recovery or business continuity plan. Substantial interruption in our IT systems or in our telephone communication systems would have a material adverse effect on our business, results of operations and financial condition.

The integration and operation of Software Spectrum may disrupt our business and create additional expenses, and we may not achieve the anticipated benefits of the acquisition. Integration of an acquisition involves numerous risks, including difficulties in the conversion of IT systems and assimilation of operations of the acquired company, the diversion of management's attention from other business concerns, risks of entering markets in which we have had no or only limited direct experience, assumption of unknown liabilities, the potential loss of key teammates and/or clients, difficulties in completing strategic initiatives already underway in the acquired and acquiring companies, and unfamiliarity with partners of the acquired company, each of which could have a material adverse effect on our business, results of operations and financial condition. The success of our integration of Software Spectrum assumes certain synergies and other benefits. We cannot assure that these risks or other unforeseen factors will not offset the intended benefits of the acquisition, in whole or in part.

The IT hardware, software and services industry is intensely competitive, and actions of our competitors, including manufacturers and publishers of products we sell, can negatively affect our business. Competition has been based primarily on price, product availability, speed of delivery, credit availability and quality and breadth of product lines and, increasingly, is also based on the ability to tailor specific solutions to client needs. We compete with manufacturers/publishers, including manufacturers/publishers of products we sell, as well as a large number and wide variety of marketers and resellers of IT hardware, software and services. Product manufacturers/publishers have programs to sell directly to business clients, particularly larger corporate clients, and are thus a competitive threat to us. In addition, the manner in which software products are distributed and sold and the manner in which publishers compensate channel partners like us are continually changing. Software publishers may intensify their efforts to sell

their products directly to end-users, including our current and potential clients, and may reduce the compensation to resellers or change the requirements for earning these amounts. Other products and methodologies for distributing software may be introduced by publishers, present competitors or other third parties. An increase in the volume of products sold through any of these competitive programs or distributed directly electronically to end-users or a decrease in the amount of referral fees paid to us, or increased competition for providing services to these clients, could have a material adverse effect on our business, results of operations and financial condition.

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Additionally, we believe our industry will see further consolidation as product resellers and direct marketers combine operations or acquire or merge with other resellers, service providers and direct marketers to increase efficiency, service capabilities and market share. Moreover, current and potential competitors have established or may establish cooperative relationships among themselves or with third parties to enhance their product and service offerings. Accordingly, it is possible that new competitors or alliances among competitors may emerge and acquire significant market share. Generally, pricing is very aggressive in the industry, and we expect pricing pressures to continue. There can be no assurance that we will be able to negotiate prices as favorable as those negotiated by our competitors or that we will be able to offset the effects of price reductions with an increase in the number of clients, higher net sales, cost reductions, greater sales of services, which are typically at higher gross margins, or otherwise. Price reductions by our competitors that we either cannot or choose not to match could result in an erosion of our market share and/or reduced sales or, to the extent we match such reductions, could result in reduced operating margins, any of which could have a material adverse effect on our business, results of operations and financial condition.

Certain of our competitors in each of our operating segments have longer operating histories and greater financial, technical, marketing and other resources than we do. In addition, some of these competitors may be able to respond more quickly to new or changing opportunities, technologies and client requirements. Many current and potential competitors also have greater name recognition and engage in more extensive promotional activities, offer more attractive terms to clients and adopt more aggressive pricing policies than we do. Additionally, some of our competitors have higher margins and/or lower operating cost structures, allowing them to price more aggressively. There can be no assurance that we will be able to compete effectively with current or future competitors or that the competitive pressures we face will not have a material adverse effect on our business, results of operations and financial condition.

We have received an informal inquiry from the SEC and could be subject to stockholder litigation and other regulatory proceedings related to the Options Subcommittee's investigation of our historical stock option granting practices and the related restatement of our consolidated financial statements. As described in the Explanatory Note immediately preceding Part I, Item 1 of this report, Note 2 Restatement of Consolidated Financial Statements to consolidated financial statements and in Restatement of Consolidated Financial Statements in Management's Discussion and Analysis of Financial Condition and Results of Operations, in Part II, Item 7 of this report, we identified errors in the Company's accounting related to stock option compensation expenses in prior periods and determined that corrections to our consolidated financial statements were required to reflect additional material charges for stock-based compensation expenses and related income tax effects.

There is a pending informal inquiry from the SEC regarding our historical option granting practices, and we cannot make any assurances regarding the results of that inquiry. One purported derivative lawsuit was filed and subsequently dismissed without prejudice at the request of the plaintiff. The Options Subcommittee's investigation, our internal review and related activities have already required the Company to incur substantial expenses for legal, accounting, tax and other professional services and any future related investigations or litigation could require further expenditures and harm our business, financial condition, results of operations and cash flows. Further, if the Company is subject to adverse findings in litigation, regulatory proceedings or government enforcement actions, the Company could be required to pay damages or penalties or have other remedies imposed, which could harm its business, financial condition, results of operations and cash flows.

While the Company believes it has made appropriate judgments in determining the correct measurement dates for its stock option grants, the SEC may disagree with the manner in which the Company has accounted for and reported, or not reported, the financial effect. Accordingly, there is a risk the Company may have to further restate its prior financial statements, amend prior filings with the SEC, or take other actions not currently contemplated.

The Company has received three Nasdaq Staff Determination letters stating that, as a result of the delayed filings, the Company was not in compliance with the filing requirements for continued listing as set forth in Marketplace Rule 4310(c)(14) and was therefore subject to delisting from the Nasdaq Global Select Market. To date, the Nasdaq Listing Qualifications Panel and the Nasdaq Listing Council have granted requests for continued listing, subject to the

Company filing delinquent reports by the dates specified by Nasdaq. With the filing of this report and the filing of our Annual Report on Form 10-K for the year ended December 31, 2006 and our Quarterly Report on Form 10-Q for the quarter ended March 31, 2007, the Company believes that it has remedied its non-compliance with Marketplace Rule 4310(c)(14). However, if the SEC disagrees with the manner in which the Company has accounted for and reported, or not reported, the financial effect of past stock option grants, there could be further delays in filing subsequent SEC reports that might result in delisting of the Company's common stock from the Nasdaq Global Select Market.

Evaluation of internal control over financial reporting under the Sarbanes-Oxley Act of 2002 will continue to affect our results. Complying with the requirements of the Sarbanes-Oxley Act of 2002, and Nasdaq's conditions for

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continued listing have imposed significant legal and financial compliance costs, and are expected to continue to impose significant costs and management burden on us.

Additionally, we cannot be sure that we will be able to successfully remediate the currently reported material weakness in our system of internal control over financial reporting. Our efforts to comply with Section 404 of the Sarbanes-Oxley Act and the related regulations regarding our required assessment of our internal control over financial reporting and our external auditors' audit of the assessment of our internal control over financial reporting continues to require the commitment of significant financial and managerial resources.

There are risks associated with international operations that are different than those inherent in the U.S. and our exposure to the risks of a global market could hinder our ability to maintain and expand international operations. We have operation centers in Australia, Canada, Germany, France, the U.S., and the United Kingdom, as well as sales offices in Australia, Belgium, Canada, China, Denmark, Finland, France, Germany, Hong Kong, Italy, the Netherlands, Norway, Singapore, Spain, Sweden, Switzerland, the United Kingdom and the U.S., and sales presence in Austria, Ireland, New Zealand and Russia. In the regions in which we do not currently have a physical presence, such as Africa, Japan and India, we serve our clients through strategic relationships. In implementing our international strategy, we may face barriers to entry and competition from local companies and other companies that already have established global businesses, as well as the risks generally associated with conducting business internationally. The success and profitability of international operations are subject to numerous risks and uncertainties, many of which are outside of our control, such as:

political or economic instability;

changes in governmental regulation;

changes in import/export duties;

trade restrictions;

difficulties and costs of staffing and managing operations in certain foreign countries;

work stoppages or other changes in labor conditions;

taxes and other restrictions on repatriating foreign profits back to the U.S.;

payment terms; and

seasonal reductions in business activity in some parts of the world.

In addition, until a payment history is established with clients in a new region, the likelihood of collecting receivables generated by such operations, on a timely basis or at all, could be less than expected. As a result, there is a greater risk that reserves established with respect to the collection of such receivables may be inadequate. Furthermore, changes in policies and/or laws of the U.S. or foreign governments resulting in, among other things, higher taxation, currency conversion limitations or the expropriation of private enterprises could reduce the anticipated benefits of their international operations. Any actions by countries in which we conduct business to reverse policies that encourage foreign trade could have a material adverse effect on our results of operations and financial condition.

The acquisition of Software Spectrum utilized the majority of our cash balances, increased our outstanding debt and interest expense and lowered the availability on our financing facilities, all of which could have a material adverse effect on our results of operations and financial condition. Our financing facilities include a \$225.0 million accounts receivable securitization financing facility, a \$75.0 million revolving line of credit and a \$75.0 million five-year term loan. As of December 31, 2006, we had \$254.3 million outstanding under these facilities and

approximately \$144.8 million, including \$37.5 million of increased availability upon our request, was available. The availability under the accounts receivable securitization facility is subject to formulas based on our eligible trade accounts receivable. The accounts receivable securitization financing facility expires in September 2009, and the revolving credit facility expires in September 2011. Additionally, most of our financing facilities have variable interest rates, which increases our exposure to interest rate fluctuations and may result in greater interest expense than we have forecasted.

International operations expose us to currency exchange risk and we cannot predict the effect of future exchange rate fluctuations on our business and operating results. International operations are sensitive to currency exchange risks. We have currency exposure arising from both sales and purchases denominated in foreign currencies. Changes in exchange rates between foreign currencies and the U.S. dollar may adversely affect our operating margins. For example, if these foreign currencies appreciate against the U.S. dollar, it will become more expensive in U.S. dollars to pay expenses with foreign currencies. In addition, currency devaluation against the U.S. dollar can result in a loss to us if we hold deposits of that currency. We currently do not conduct any hedging activities, and, to the extent that we continue not to do so in the future, we may be vulnerable to the effects of currency exchange-rate fluctuations. In addition, some currencies are subject to limitations on conversion into other currencies, which can limit the ability to

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otherwise react to rapid foreign currency devaluations. We cannot predict the effect of future exchange-rate fluctuations on business and operating results and significant rate fluctuations could have a material adverse effect on results of operations and financial condition.

International operations also expose us to currency fluctuations as we translate the financial statements of our foreign operations to U. S. dollars. Although the effect of currency fluctuations on our financial statements has not generally been material in the past, there can be no guarantee that the effect of currency fluctuations will not be material in the future.

Sales of software licenses are subject to seasonal changes in demand and resulting sales activities. With the acquisition of Software Spectrum, our product mix changed significantly. Prior to the acquisition of Software Spectrum, software sales represented approximately 12% of net sales. After the acquisition of Software Spectrum, software sales represent approximately 35% to 40% of annual net sales. Our software business is subject to seasonal change. In particular, software sales are seasonally much higher in our second and fourth quarter. As a result, our quarterly results will be materially affected by lower demand in the first and third quarter. A majority of our costs are not variable and therefore a substantial reduction in sales during a quarter could have a negative effect on operating results. In addition, periods of higher sales activities during certain quarters may require a greater use of working capital to fund the business. During these periods, these increased working capital requirements could temporarily increase our leverage and liquidity needs and expose us to greater financial risk during those periods. Due to these seasonal changes, the operating results for any three-month period will not necessarily be indicative of the results that may be achieved for any subsequent fiscal quarter or for a full fiscal year.

We depend on certain key personnel. Our future success will be largely dependent on the efforts of key management personnel. The loss of one or more of these new leaders could have a material adverse effect on our business, results of operations and financial condition. We cannot offer assurance that we will be able to continue to attract or retain highly qualified executive personnel or that any such executive personnel will be able to increase stockholder value. We also believe that our future success will be largely dependent on our continued ability to attract and retain highly qualified management, sales, service and technical personnel. We cannot offer assurance that we will be able to attract and retain such personnel. Further, we make a significant investment in the training of our sales account executives. Our inability to retain such personnel or to train them either rapidly enough to meet our expanding needs or in an effective manner for quickly changing market conditions could cause a decrease in the overall quality and efficiency of our sales staff, which could have a material adverse effect on our business, results of operations and financial condition.

If purchased goodwill or amortizable intangible assets become impaired, we may be required to record a significant charge to earnings. The purchase price allocation for the acquisition of Software Spectrum resulted in a material amount allocated to goodwill and amortizable intangible assets. In accordance with GAAP, we review our amortizable intangible assets for impairment when events or changes in circumstances indicate the carrying value may not be recoverable. Goodwill is required to be tested for impairment at least annually. Factors that may be considered a change in circumstances indicating that the carrying value of our goodwill or amortizable intangible assets may not be recoverable include a decline in stock price and market capitalization, reduced future cash flow estimates, and slower growth rates in our industry. We may be required to record a significant non-cash charge to earnings in our consolidated financial statements during the period in which any impairment of our goodwill or amortizable intangible assets is determined, resulting in a negative effect on our results of operations.

The failure to comply with the terms and conditions of our public sector contracts could result in, among other things, fines or other liabilities. Net sales to public sector clients are derived from sales to federal, state and local governmental departments and agencies, as well as to educational institutions, through open market sales and various contracts. Government contracting is a highly regulated area. Noncompliance with government procurement regulations or contract provisions could result in civil, criminal, and administrative liability, including substantial monetary fines or damages, termination of government contracts, and suspension, debarment or ineligibility from doing business with the government. In addition, substantially all of our contracts in the public sector are terminable at any time for convenience of the contracting agency or upon default. The effect of any of these possible actions by any

governmental department or agency or the adoption of new or modified procurement regulations or practices could materially adversely affect our business, financial position and results of operations.

We have very limited experience in outsourcing business functions to India. Early in 2006, Software Spectrum entered into a business solutions partner agreement to outsource certain business processes, such as credit and collections, accounts payable and other administrative and back-office positions, to a third-party provider with operations in India. If we continue or expand this outsourcing of certain business functions to India, we could be required to change

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our existing operations and to adopt new policies and procedures for managing the third-party provider. We have very limited experience in outsourcing business functions to India, and there is no assurance that we will be successful in achieving meaningful cost reductions or greater resource efficiency from utilizing this third-party provider. The outsourcing of business functions to India may also cause disruption in our business that could have a material adverse effect on our results of operations and financial condition.

Rapid changes in product standards may result in substantial inventory obsolescence. The IT industry is characterized by rapid technological change and the frequent introduction of new products and product enhancements, both of which can decrease demand for current products or render them obsolete. In addition, in order to satisfy client demand, protect ourselves against product shortages, obtain greater purchasing discounts and react to changes in original equipment manufacturers' terms and conditions, we may decide to carry relatively high inventory levels of certain products that may have limited or no return privileges. There can be no assurance that we will be able to avoid losses related to inventory obsolescence on these products.

We may not be able to protect out intellectual property adequately, and we may be subject to intellectual property infringement claims. To protect our intellectual property, we rely on copyright and trademark laws, unpatented proprietary know-how, and trade secrets and patents, as well as confidentiality, invention assignment, non-competition and non-solicitation agreements. There can be no assurance that these measures will afford us sufficient protection of our intellectual property, and it is possible that third parties may copy or otherwise obtain and use our proprietary information without authorization or otherwise infringe on our intellectual property rights. The disclosure of our trade secrets could impair our competitive position and could have a material adverse effect on our business relationships, results of operations, financial condition and future growth prospects. Likewise, many businesses are actively investing in, developing and seeking protection for intellectual property in the areas of search, indexing, e-commerce and other Web-related technologies, as well as a variety of on-line business models and methods, all of which are in addition to traditional research and development efforts for IT products and application software. As a result, disputes regarding the ownership of these technologies are likely to arise in the future, and, from time to time, parties do assert various infringement claims against us in the form of cease-and-desist letters, lawsuits and other communications. If there is a determination that we have infringed the proprietary rights of others, we could incur substantial monetary liability, be forced to stop selling infringing products or providing infringing services, be required to enter into costly royalty or licensing agreements, if available, or be prevented from using the rights, which could force us to change our business practices in the future. As a result, these types of claims could have a material adverse effect on our business, results of operations and financial condition.

We issue equity-based awards, such as restricted stock units, under our long-term incentive plans, and these issuances dilute the interests of stockholders. We have reserved shares of our common stock for issuance under our 1998 Long-Term Incentive Plan (the "1998 LTIP") and our 1999 Broad Based Employee Stock Option Plan (the "1999 Broad Based Plan"). As approved by our stockholders, our 1998 LTIP provides that additional shares of common stock may be reserved for issuance based on a formula contained in that plan. The formula provides that the total number of shares of common stock remaining for grant under the 1998 LTIP and any of our other option plans, plus the number of shares subject to unexercised options and unvested grants of restricted stock granted under any plan, shall not exceed 20% of the outstanding shares of our common stock at the time of calculation of the additional shares. Therefore, we reserve additional shares on an ongoing basis for issuance under this plan. At December 31, 2006, we had options outstanding to acquire 5,283,463 shares of common stock and there were 73,332 shares of restricted common stock and 687,199 restricted common stock units unreleased. Based on the 1998 LTIP formula, we had 3,729,617 shares of common stock available for grant at December 31, 2006.

When stock options with an exercise price lower than the current market price are exercised, the risk increases that our stockholders will experience dilution of earnings per share due to the increased number of shares outstanding. Also, the terms upon which we will be able to obtain equity capital may be affected, because the holders of outstanding options can be expected to exercise them at a time when we would, in all likelihood, be able to obtain needed capital on terms more favorable to us than those provided in outstanding options.

Some anti-takeover provisions contained in our certificate of incorporation, bylaws and stockholders rights agreement, as well as provisions of Delaware law and executive employment contracts, could impair a takeover attempt. We have provisions in our certificate of incorporation and bylaws which could have the effect (separately, or in combination) of rendering more difficult or discouraging an acquisition deemed undesirable by our Board of Directors. These include provisions:

authorizing blank check preferred stock, which could be issued with voting, liquidation, dividend and other rights superior to our common stock;

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limiting the liability of, and providing indemnification to, directors and officers;

limiting the ability of our stockholders to call special meetings;

requiring advance notice of stockholder proposals for business to be conducted at meetings of our stockholders and for nominations of candidates for election to our Board of Directors;

controlling the procedures for conduct of Board and stockholder meetings and election and removal of directors; and

specifying that stockholders may take action only at a duly called annual or special meeting of stockholders.

These provisions, alone or together, could deter or delay hostile takeovers, proxy contests and changes in control or management. As a Delaware corporation, we are also subject to provisions of Delaware law, including Section 203 of the Delaware General Corporation Law, which prevents some stockholders from engaging in certain business combinations without approval of the holders of substantially all of our outstanding common stock.

On December 14, 1998, each stockholder of record received one Preferred Share Purchase Right (Right) for each outstanding share of common stock owned. Each Right entitles stockholders to buy .00148 of a share of our Series A Preferred Stock at an exercise price of \$88.88. The Rights will be exercisable if a person or group acquires 15% or more of our common stock or announces a tender offer for 15% or more of the common stock. However, should this occur, the Right will entitle its holder to purchase, at the Right s exercise price, a number of shares of common stock having a market value at the time of twice the Right s exercise price. Rights held by the 15% holder will become void and will not be exercisable to purchase shares at the bargain purchase price. If we are acquired in a merger or other business combination transaction after a person acquires 15% or more of the our common stock, each Right will entitle its holder to purchase at the Right s then current exercise price a number of the acquiring company s common shares having a market value at the time of twice the Right s exercise price.

Additionally, we have employment agreements with certain officers and management teammates under which severance payments would become payable in the event of specified terminations without cause or terminations under certain circumstances after a change in control. 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 persons annual salary and bonus.

Any provision of our certificate of incorporation, bylaws or employment agreements, or Delaware law that has the effect of delaying or deterring a change in control could limit the opportunity for our stockholders to receive a premium for their shares of our common stock and also could affect the price that some investors are willing to pay for our common stock.

Sales of additional common stock and securities convertible into our common stock may dilute the voting power of current holders. We may issue equity securities in the future whose terms and rights are superior to those of our common stock. Our certificate of incorporation authorizes the issuance of up to 3,000,000 shares of preferred stock. These are blank check preferred shares, meaning our Board of Directors is authorized, from time to time, to issue the shares and designate their voting, conversion and other rights, including rights superior, or preferential, to rights of already outstanding shares, all without stockholder consent. No preferred shares are outstanding, and we currently do not intend to issue any shares of preferred stock. Any shares of preferred stock that may be issued in the future could be given voting and conversion rights that could dilute the voting power and equity of existing holders of shares of common stock and have preferences over shares of common stock with respect to dividends and liquidation rights.

Item 1B.