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)

þ **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

o **Transition report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934**
For the transition period from __________ to __________.

Commission File Number: 0-25092
INSIGHT ENTERPRISES, INC.
(Exact name of registrant as specified in its charter)

Delaware	**86-0766246**
(State or other jurisdiction of incorporation or organization)	(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	**NASDAQ**
(Title of Class)	

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

Yes o No þ

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 o No þ

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 þ No o

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. o

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 þ Accelerated Filer o Non-accelerated Filer o

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

Yes o No þ

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
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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 Commissions (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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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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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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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 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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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 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 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 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 SYNNEX. 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 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 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 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 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 Ling-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;

INSIGHT ENTERPRISES, INC.

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. ***Unresolved Staff Comments***

None.

Item 2. ***Properties***

Our principal executive offices are located at 1305 West Auto Drive, Tempe, Arizona 85284. We conduct sales, distribution, services, and administrative activities in owned and leased facilities, and some of our face-to-face field account executives conduct business from home offices. We have renewal rights in most of our property leases, and we anticipate that we will be able to extend these leases on terms satisfactory to us or, if necessary, locate substitute facilities on acceptable terms. We believe that our facilities will be suitable and adequate for our present purposes, and that the capacity in the majority of our facilities is not fully utilized. In the future, we may need to purchase, build or lease additional facilities to meet the requirements projected in our long-term business plan. If we decide to exit the current leases, we may have to continue to make payments under the current leases or pay penalties to cancel the leases.

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INSIGHT ENTERPRISES, INC.

Information about significant sales, distribution, services and administration facilities in use as of December 31, 2006 is summarized in the following table:

Operating Segment	Location	Primary Activities	Own or Lease
Headquarters	Tempe, Arizona, USA	Executive Offices	Own
North America	Tempe, Arizona, USA	Sales and Administration	Own
	Tempe, Arizona, USA	Administration	Lease
	Bloomingdale, Illinois, USA	Sales and Administration	Own
	Hanover Park, Illinois, USA	Services and Distribution	Lease
	Plano, Texas, USA	Sales and Administration	Lease
	Liberty Lake, Washington, USA	Sales and Administration	Lease
	Winnipeg, Manitoba, Canada	Sales and Administration	Lease
	Montreal, Quebec, Canada	Sales and Administration	Own
	Mississauga, Ontario, Canada	Sales and Administration	Lease
	Montreal, Quebec, Canada	Distribution	Lease
EMEA	Sheffield, United Kingdom	Sales and Administration	Own
	Sheffield, United Kingdom	Distribution	Lease
	Uxbridge, United Kingdom	Sales and Administration	Lease
	Munich, Germany	Sales and Administration	Lease
	Paris, France	Sales and Administration	Lease
	Appledorn, Netherlands	Sales	Lease
	Milan, Italy	Sales	Lease
	Madrid, Spain	Sales	Lease
	Stockholm, Sweden	Sales	Lease
	Brussels, Belgium	Sales	Lease
	Zurich, Switzerland	Sales	Lease
APAC	Sydney, New South Wales, Australia	Sales and Administration	Lease
	Melbourne, Victoria, Australia	Sales	Lease
	Brisbane, Queensland, Australia	Sales	Lease
	Perth, Western Australia, Australia	Sales	Lease
	Pudong, Shanghai, China	Sales	Lease
	Wan Chai, Hong Kong	Sales	Lease
	Singapore	Sales	Lease

In addition to those listed above, North America has leased sales offices in various cities across the U.S., United Kingdom and Canada. For additional information on operating leases, see Note 8 to the Consolidated Financial Statements in Part II, Item 8 of this report. We own sales, administration and distribution facilities in Tempe, Arizona that we currently lease to Direct Alliance, our discontinued operation. These properties are not included in the table above. For additional information on our buildings held for lease, see Note 19 to the Consolidated Financial Statements in Part II, Item 8 of this report. We also have leased facilities in the United Kingdom that are no longer in use due to the integration of previous acquisitions. These properties are also not included in the table above.

Item 3. *Legal Proceedings*

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

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

INSIGHT ENTERPRISES, INC.

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

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

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

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

No matters were submitted to a vote of our security holders during our 2006 fourth quarter.

PART II

Item 5. ***Market for the Registrant s Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities***

Market Information

Our common stock trades under the symbol NSIT on the Nasdaq Global Select Market. The following table shows, for the calendar quarters indicated, the high and low closing price per share for our common stock as reported on the Nasdaq Global Select Market.

	Common Stock	
	High Price	**Low Price**
Year 2006		
Fourth Quarter	$22.69	$18.59
Third Quarter	20.96	16.22
Second Quarter	22.46	17.78
First Quarter	22.14	19.79
Year 2005		
Fourth Quarter	$21.60	$18.14
Third Quarter	21.19	18.20
Second Quarter	20.47	17.39
First Quarter	20.36	17.23

As of June 29, 2007, we had 49,100,749 shares of common stock outstanding held by approximately 109 stockholders of record. This figure does not include an estimate of the number of beneficial holders whose shares are held of record by brokerage firms and clearing agencies.

We have never paid a cash dividend on our common stock, and our financing facilities prohibit the payment of cash dividends without the lenders consent. We intend to retain all of our earnings for use in our business and currently do not intend to pay any cash dividends in the foreseeable future.

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INSIGHT ENTERPRISES, INC.
Securities Authorized For Issuance under Equity Compensation Plans

The following table gives information about our common stock that may be issued upon the exercise of options under all of our existing equity compensation plans of December 31, 2006:

Plan Category	Number of Securities to be Issued upon Exercise of Outstanding Options (a)	Weighted Average Exercise Price of Outstanding Options (b)	Number of Securities Remaining Available for Future Issuance under Equity Compensation Plans (Excluding Securities Reflected in Column (a)) (c)
Equity compensation plans approved by security holders	5,109,352	$19.33	3,729,617
Equity compensation plans not approved by security holders	174,111(1)	$21.77	
Total	5,283,463	$19.41	3,729,617
Restricted equity compensation plans not approved by security holders (2)			434,907

(1) Consists of options that are outstanding under our 1999 Broad Based Plan which was not approved by our stockholders. In September 1999, we established the 1999 Broad Based Plan for our employees. The total number

of stock options initially available for grant under the 1999 Broad Based Plan was 1,500,000; provided, however, that no more than 20% of the shares of stock available under the 1999 Broad Based Plan may be awarded to the Officers. Stock options available for grant under the 1999 Broad Based Plan are included in the total shares of common stock available to grant for awards under the 1998 Plan or 1999 Broad Based Plan discussed above. See further description of the plans in Note 3 to our Financial Statements in Part II, Item 8 of this report.

(2) Includes restricted shares available for grant under the 1998 Employee Restricted Stock Plan and the 1998 Officer Restricted Stock Plan. See further description of the plans in Note 3 to our Financial Statements in

Part II, Item 8 of this report.

Issuer Purchases of Equity Securities

Period	Total number of shares purchased	Average price paid per share	Total number of shares purchased as part of publicly announced plans or programs	Approximate dollar value of shares that may yet be purchased under the plans or programs (1)
October 1-31, 2006		$		$ 50,000,000
November 1-30, 2006				50,000,000
December 1-31, 2006				50,000,000
Total		$		

(1) On January 26, 2006, we announced that our Board of Directors had authorized the repurchase of up to $50,000,000 of our common stock. We have made no repurchases under this program since the inception of the program.

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INSIGHT ENTERPRISES, INC.
Stock Price Performance Graph

Set forth below is a graph comparing the percentage change in the cumulative total stockholder return on our common stock with the cumulative total return of the Nasdaq Stock Market U.S. Companies (Market Index), the Nasdaq Retail Trade Stocks for the period starting January 1, 2002 and ending December 31, 2006. The graph assumes that $100 was invested on January 1, 2002 in our common stock and in each of the two Nasdaq indices, and that, as to such indices, dividends were reinvested. We have not, since our inception, paid any cash dividends on our common stock. Historical stock price performance shown on the graph is not necessarily indicative of future price performance.

	Jan. 1, 2002	Dec. 31, 2002	Dec. 31, 2003	Dec. 31, 2004	Dec. 31, 2005	Dec. 31, 2006
Insight Enterprises, Inc. Common Stock (NSIT)	$100.00	34.17	77.30	84.38	80.63	77.59
Nasdaq Stock Market U.S. Companies (Market Index)	$100.00	68.12	101.85	110.84	113.20	124.37
Nasdaq Retail Trade Stocks (Peer Index)	$100.00	85.94	119.66	151.78	153.22	167.33

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INSIGHT ENTERPRISES, INC.

Item 6. ***Selected Financial Data***

The following selected consolidated financial data should be read in conjunction with our Consolidated Financial Statements and the Notes thereto in Part II, Item 8 and Management s Discussion and Analysis of Financial Condition and Results of Operations in Part II, Item 7 of this report. The information presented in following tables has been adjusted to reflect the restatement of our consolidated financial results which is more fully described in the Explanatory Note Regarding Restatement of our Consolidated Financial Statements immediately preceding Part I of this Form 10-K and in Note 2 Restatement of Consolidated Financial Statements in the notes to the consolidated financial statements. We derived the selected consolidated financial data as of December 31, 2006 and 2005 and for the years ended December 31, 2006, 2005 and 2004 from our audited consolidated financial statements, and accompanying notes, included in Part II, Item 8 of this report. The consolidated statements of operations data for the years ended December 31, 2005 and 2004 and the consolidated balance sheet data as of December 31, 2005 have been restated in connection with the restatements discussed in Note 2 of the notes to the consolidated financial statements. The consolidated statement of operations data for the years ended December 31, 2003 and 2002 and the consolidated balance sheet data as of December 31, 2004, 2003 and 2002 have been restated below as discussed in footnote 2.

We have not amended our previously filed Annual Reports on Form 10-K or Quarterly Reports on Form 10-Q for the periods affected by the restatement. The financial information that has been previously filed or otherwise reported for these periods is superseded by the information in this Annual Report on Form 10-K, and the financial statements and related financial information contained in those previously filed reports should no longer be relied upon.

	Years Ended December 31,				
	2006	**2005 As Restated (1)**	**2004 As Restated (1)**	**2003 As Restated (2)**	**2002 As Restated (2)**
	(in thousands, except per share data)				
Consolidated Statements of Operations Data (3)					
Net sales	$ 3,817,085	$ 3,183,707	$ 3,008,604	$ 2,809,790	$ 2,779,969
Costs of goods sold	3,338,022	2,809,167	2,657,406	2,491,673	2,472,733
Gross profit	479,063	374,540	351,198	318,117	307,236
Operating expenses:					
Selling and administrative expenses	374,523	284,682	280,290	278,282	259,283
Severance and restructuring expenses	729	11,962	2,435	3,465	1,500
Reductions in liabilities assumed in a previous acquisition		(664)	(3,617)	(2,504)	
Goodwill impairment(4)					91,587
Earnings (loss) from operations	103,811	78,560	72,090	38,874	(45,134)
Non-operating (income) expense:					
Interest income	(4,355)	(3,394)	(1,849)	(833)	(381)
Interest expense	6,793	1,914	2,011	2,608	3,569
Net foreign currency exchange (gain) loss	(1,135)	72	262	398	67
Other expense, net	901	782	1,190	1,680	1,099

Earnings (loss) from continuing operations before income taxes	101,607	79,186	70,476	35,021	(49,488)
Income tax expense	35,899	31,143	19,617	11,493	13,961
Earnings (loss) from continuing operations	65,708	48,043	50,859	23,528	(63,449)
Earnings from discontinued operations, net of taxes [5]	11,110	6,617	29,598	11,597	8,941
Net earnings before cumulative effect of change in accounting principle	76,818	54,660	80,457	35,125	(54,508)
Cumulative effect of change in accounting principle, net of taxes of $330 in 2005		(649)			
Net earnings (loss)	$ 76,818	$ 54,011	$ 80,457	$ 35,125	$ (54,508)

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INSIGHT ENTERPRISES, INC.

	Years Ended December 31, 2006	2005 As Restated (1)	2004 As Restated (1)	2003 As Restated (2)	2002 As Restated (2)
	(in thousands, except per share data)				
Net earnings (loss) per share Basic:					
Net earnings (loss) from continuing operations	$ 1.36	$ 0.99	$ 1.05	$ 0.51	$ (1.42)
Net earnings from discontinued operations	0.23	0.13	0.61	0.25	0.20
Cumulative effect of change in accounting principle		(0.01)			
Net earnings (loss) per share	$ 1.59	$ 1.11	$ 1.66	$ 0.76	$ (1.22)
Net earnings (loss) per share Diluted:					
Net earnings (loss) from continuing operations	$ 1.35	$ 0.98	$ 1.03	$ 0.50	$ (1.42)
Net earnings from discontinued operations	0.23	0.13	0.60	0.25	0.20
Cumulative effect of change in accounting principle		(0.01)			
Net earnings (loss) per share	$ 1.58	$ 1.10	$ 1.63	$ 0.75	$ (1.22)
Shares used in per share calculations:					
Basic	48,373	48,553	48,389	46,315	44,808
Diluted	48,564	49,057	49,220	46,581	44,808

	December 31, 2006	2005 As Restated (1)	2004 As Restated (2)	2003 As Restated (2)	2002 As Restated (2)
	(in thousands)				
Consolidated Balance Sheet Data					
Working capital	$ 407,898	$ 367,184	$ 370,873	$ 230,193	$ 181,331
Total assets	1,774,151	922,340	887,641	792,124	773,731
Short-term debt	30,000	66,309	25,000	65,004	94,592
Long-term debt portion	224,250				13,146

Stockholders equity	690,350	569,913	565,517	448,245	385,497
Cash dividends declared per common share					

(1) See the explanatory note in the front of this Form 10-K, Restatement of Consolidated Financial Statements in Part II, Item 7 and Note 2 to the Consolidated Financial Statements in Part II, Item 8 of this report.

(2) The selected consolidated financial data as of December 31, 2004, 2003 and 2002 and for the years ended December 31, 2003 and 2002 have been adjusted to reflect the restatements described in Note 2, Restatement of Consolidated Financial Statements, to the Consolidated Financial Statements in Part II, Item 8 of this report.

(3) Our consolidated statements of operations data

above include results of acquisitions from their respective acquisition dates. See further discussion in the Notes to the Consolidated Financial Statements in Part II, Item 8 of this report.

(4) *Goodwill Impairment.* Based on results of our 2002 annual goodwill impairment assessment, we recorded a non-cash goodwill impairment charge of $91.6 million, which represented the entire goodwill balance recorded at Insight UK.

(5) *Earnings from Discontinued Operations*. During the year ended December 31, 2006, we sold Direct Alliance, a business process outsourcing provider in the U.S. During the year ended December 31,

2004, we sold our 95% ownership in PlusNet, an Internet service provider in the United Kingdom. Accordingly, we have accounted for both entities as discontinued operations and have reported their results of operations as discontinued operations in the consolidated statements of earnings. Included in earnings from discontinued operations for the years ended December 31, 2006 and 2004 are the gain on the sale of Direct Alliance of $14.9 million, $9.0 million, net of taxes, and the gain on the sale of PlusNet of $23.7 million, $18.3 million net of taxes, respectively.

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INSIGHT ENTERPRISES, INC.

The tables below reflect the effect of the restatement adjustments on our 2003 and 2002 Statements of Earnings (in thousands, except per share data):

	Year Ended December 31, 2003			
	As Reported	Discontinued Operations(B)	Adjustments	As Restated
Net sales	$ 2,886,047	$ (76,257)	$	$ 2,809,790
Costs of goods sold	2,546,586	(54,913)		2,491,673
Gross profit	339,461	(21,344)		318,117
Operating expenses:				
Selling and administrative expenses	279,539	(4,911)	3,654(A)	278,282
Severance and restructuring expenses	3,465			3,465
Reductions in liabilities assumed in a previous acquisition	(2,504)			(2,504)
Earnings from operations	58,961	(16,433)	(3,654)	38,874
Non-operating (income) expense:				
Interest income	(833)			(833)
Interest expense	2,608			2,608
Net foreign currency exchange loss	398			398
Other expense, net	2,074	(394)		1,680
Earnings from continuing operations before income taxes	54,714		(3,654)	35,021
Income tax expense	18,952	(5,880)	(1,579)	11,493
Net earnings from continuing operations	35,762	(10,159)	(2,075)	23,528
Net earnings from discontinued operation	1,992	10,159	(554)	11,597
Net earnings	$ 37,754	$	$ (2,629)	$ 35,125
Net earnings per share Basic:				
Net earnings from continuing operations	$ 0.77	$ (0.22)	$ (0.04)	$ 0.51
Net earnings from discontinued operation	0.05	0.22	(0.02)	0.25
Net earnings per share	$ 0.82	$	$ (0.06)	$ 0.76
Net earnings per share Diluted:				
Net earnings from continuing operations	$ 0.76	$ (0.22)	$ (0.04)	$ 0.50
Net earnings from discontinued operation	0.05	0.22	(0.01)	0.25
Net earnings per share	$ 0.81	$	$ (0.06)	$ 0.75

Shares used in per share calculations:			
Basic	46,315		46,315
Diluted	46,885	(304)	46,581

(A) Adjustment for stock-based compensation expense pursuant to APB No. 25 and the associated income tax benefit.

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

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INSIGHT ENTERPRISES, INC.

	Year Ended December 31, 2002			
	As Reported	Discontinued Operations[(B)]	Adjustments	As Restated
Net sales	$ 2,875,895	$ (95,926)	$	$ 2,779,969
Costs of goods sold	2,547,486	(74,753)		2,472,733
Gross profit	328,409	(21,173)		307,236
Operating expenses:				
Selling and administrative expenses	250,394	(3,928)	12,817(A)	259,283
Severance and restructuring expenses	1,500			1,500
Goodwill impairment	91,587			91,587
Loss from operations	(15,072)	(17,245)	(12,817)	(45,134)
Non-operating (income) expense:				
Interest income	(381)			(381)
Interest expense	3,569			3,569
Net foreign currency exchange loss	67			67
Other expense, net	1,337	(238)		1,099
Loss from continuing operations before income taxes	(19,664)	(17,007)	(12,817)	(49,488)
Income tax expense	24,451	(6,159)	(4,331)	13,961
Net loss from continuing operations	(44,115)	(10,848)	(8,486)	(63,449)
Net earnings from discontinued operation	1,275	10,848	(3,182)	8,941
Net (loss) earnings	$ (42,840)	$	$ (11,668)	$ (54,508)
Net loss per share Basic:				
Net earnings from continuing operations	$ (0.98)	$ (0.24)	$ (0.19)	$ (1.42)
Net earnings from discontinued operation	0.02	0.24	(0.07)	0.20
Net earnings per share	$ (0.96)	$	$ (0.26)	$ (1.22)
Net loss per share Diluted:				
Net earnings from continuing operations	$ (0.98)	$ (0.24)	$ (0.19)	$ (1.42)
Net earnings from discontinued operation	0.02	0.24	(0.07)	0.20
Net earnings per share	$ (0.96)	$	$ (0.26)	$ (1.22)
Shares used in per share calculations:				
Basic	44,808			44,808

Diluted	44,808	44,808

(A) Adjustment for stock-based compensation expense pursuant to APB No. 25 and the associated income tax benefit.

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

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INSIGHT ENTERPRISES, INC.

The table below reflects the effect of the restatement adjustments on our 2004, 2003 and 2002 balance sheet data (in thousands):

	December 31, 2004			December 31, 2003		
	As Reported	Adjustments	As Restated	As Reported	Adjustments	As Restated
Consolidated Balance Sheet Data						
Working capital	$371,267	$ (394)(A)	$370,873	$230,294	$ (101)(A)	$230,193
Total assets	887,641		887,641	792,124		792,124
Short-term debt	25,000		25,000	65,004		65,004
Long-term debt						
Stockholders equity	559,559	5,958(A)	565,517	439,369	8,876(A)	448,245
Cash dividends declared per common share						

	December 31, 2002		
	As Reported	Adjustments	As Restated
Consolidated Balance Sheet Data			
Working capital	$181,331	$	$181,331
Total assets	773,731		773,731
Short-term debt	94,592		94,592
Long-term debt	13,146		13,146
Stockholders equity	375,291	10,206(A)	385,497
Cash dividends declared per common share			

(A) Adjustment for stock-based compensation expense pursuant to APB No. 25 and the associated income tax benefit.

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Item 7. ***Management s Discussion and Analysis of Financial Condition and Results of Operations***

The following discussion and analysis of our financial condition and results of our operations, which gives effect to the restatement discussed in Note 2 to the Consolidated Financial Statements, should be read in conjunction with the Consolidated Financial Statements and notes thereto included in Item 8 of this report. Our actual results could differ materially from those contained in these forward-looking statements due to a number of factors, including those discussed in Risk Factors in Part 1, Item 1A and elsewhere in this report.

Restatement of Consolidated Financial Statements

Background

We announced on October 19, 2006 that the Company s Board of Directors had appointed an Options Subcommittee, comprised of independent directors, to conduct a review of the Company s stock options. Certain present and former directors and executive officers of the Company were named as defendants in a derivative lawsuit related to stock option practices from 1997 to 2002, filed in Superior Court, County of Maricopa, Arizona on September 21, 2006. The Company had been named as a nominal defendant in that action. On December 22, 2006, we filed a motion to dismiss the complaint based on plaintiff s failure to make a pre-suit demand on the Company s Board of Directors. Before the opposition to the motion was due, the plaintiff voluntarily asked the Court to dismiss the lawsuit, and, on January 19, 2007, the Court granted the plaintiff s motion to voluntarily dismiss the lawsuit without prejudice. In addition, we announced on November 6, 2006 that on October 27, 2006, the Company received an informal inquiry from the SEC requesting certain documents and information relating to the Company s stock option granting practices from January 1, 1996 to the present.

The Options Subcommittee was assisted by independent legal counsel and independent forensic accounting consultants. At the conclusion of its review, the Options Subcommittee reported its findings to the Company s Board of Directors and to KPMG LLP, the Company s independent registered public accounting firm, on March 9, 2007 and March 13, 2007, respectively. Management, assisted by its own independent legal counsel and independent forensic consultants, then undertook an analysis of the results of the Options Subcommittee s review, as well as all stock option activity during the period after the Company s initial public offering on January 24, 1995 through November 30, 2005, the last date on which we granted stock options (the Relevant Period).

In a Form 8-K filed on April 5, 2007, we reported that based on the findings of the Options Subcommittee and the conclusions reached to date by management in its analysis, our previously issued financial statements would require restatement and should no longer be relied upon.

We determined, 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 various stock option grants to employees, executive officers and outside non-employee directors during the period could not be relied upon. The revised measurement dates identified 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. The restated consolidated financial statements included in this Annual Report on Form 10-K reflect the corrections resulting from our determination.

We have incurred substantial expenses related to the Options Subcommittee s review and the Company s analysis. We have incurred approximately $11.8 million in costs for legal fees, external audit firm fees and external consulting fees through June 30, 2007 and anticipate approximately $3 million in additional fees will be incurred through August 2007 in the completion of financial statement restatement and related matters.

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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Restatement Adjustments

Our restated consolidated financial statements contained in this Form 10-K incorporate stock-based compensation expense, including the income tax impacts related to the restatement adjustments. The restatement adjustments result in a $30.9 million reduction of retained earnings as of December 31, 2006. This amount includes reductions in our consolidated net earnings of approximately $0.1 million for each of the years ended December 31, 2005 and 2004. The total restatement impact for the years ended December 31, 1995 through December 31, 2001, of $16.4 million, net of related tax benefits of $8.4 million, has been reflected as a prior period adjustment to beginning retained earnings as of January 1, 2002.

The total unamortized pre-tax stock-based compensation was less than $0.1 million at December 31, 2006.

In addition to the restatements for stock-based compensation, we recorded a pre-tax 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.

The tables below present the decrease (increase) in net earnings resulting from the individual restatement adjustments for each respective period presented and are explained in further detail following the table (in thousands):

	Six Months Ended June 30, 2006	Year Ended 2005	2004	2003	2002	2001	2000
Stock option compensation from continuing operations:							
Discretionary Grants	$	$ 42	$ 196	$ 3,510	$ 11,716	$ 4,190	$ 5,830
Anniversary Grants			13	127	929	1,591	1,432
Promotion Grants		2	5	24	105	186	111
New Hire Grants		7	19	(15)	39	14	48
Program Grants			1	8	28	89	23
Total stock compensation expense from continuing operations		51	234	3,654	12,817	6,070	7,444
Other miscellaneous accounting adjustments:							
Adjustment to record legal settlement in appropriate period	(1,000)	1,000					
Total other miscellaneous accounting adjustments	(1,000)	1,000					
Total adjustments to earnings from continuing operations before income taxes	(1,000)	1,051	234	3,654	12,817	6,070	7,444
Income tax (expense) benefit	(390)	392	196	1,579	4,331	2,009	2,620
Total adjustments to earnings from continuing operations	(610)	659	38	2,075	8,486	4,061	4,824

Total stock option compensation expense from discontinued operations		41	56	880	4,834	2,951	2,344
Income tax benefit		16	23	326	1,652	980	790
Total adjustments to earnings from discontinued operations, net of taxes		25	33	554	3,182	1,971	1,554
Total adjustments to net earnings before cumulative effect of change in accounting principle	(610)	684	71	2,629	11,668	6,032	6,378
Total adjustments to cumulative effect of change in accounting principle							
Total decrease (increase) in net earnings	$ (610)	$ 684	$ 71	$ 2,629	$ 11,668	$ 6,032	$ 6,378

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	Year Ended					
	1999	1998	1997	1996	1995	Total
Stock option compensation from continuing operations:						
Discretionary Grants	$ 1,341	$ 1,654	$ 528	$ 18	$ 1	$ 29,026
Anniversary Grants	243	11		1		4,347
Promotion Grants	97	21				551
New Hire Grants	350	108	31	15	1	617
Program Grants	71	188	69			477
Total stock compensation expense from continuing operations	2,102	1,982	628	34	2	35,018
Other miscellaneous accounting adjustments:						
Adjustment to record legal settlement in appropriate period						
Total other miscellaneous accounting adjustments						
Total adjustments to earnings from continuing operations before income taxes	2,102	1,982	628	34	2	35,018
Income tax benefit	702	657	210	13	1	12,320
Total adjustments to earnings from continuing operations	1,400	1,325	418	21	1	22,698
Total stock option compensation expense from discontinued operations	704	433	123	13	2	12,381
Income tax benefit	215	162	47	5	1	4,217
Total adjustments to earnings from discontinued operations, net of taxes	489	271	76	8	1	8,164
Total adjustments to net earnings before cumulative effect of change in accounting principle	1,889	1,596	494	29	2	30,862
Total adjustments to cumulative effect of change in accounting principle						
Total decrease (increase) in net earnings	$ 1,889	$ 1,596	$ 494	$ 29	$ 2	$ 30,862

Stock Option Compensation These adjustments are 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 numerous option grants to employees, executive officers and outside non-employee directors during the period could not be relied upon for various categories of option grants including: (i) discretionary grants of various types; (ii) anniversary grants; (iii) promotion grants; (iv) new hire grants; and (v) program grants. The revised measurement dates identified 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.

Specifically, for each of the categories of option grants discussed in more detail under Accounting Considerations below, we noted the following:

Stock option grants with insufficient or incomplete approvals. The Company determined that the original recorded grant date could not be relied on because there was correspondence or other evidence that indicated that not all required approvals had been obtained, including for certain grants, Compensation Committee approval. The Company remeasured these option grants with a revised measurement date supported by the required level of approval, as described below, and accounted for these grants as fixed awards under Accounting Principles Board Opinion No. 25, Accounting for Stock Issued to Employees (APB No. 25).

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Inadequate or incomplete establishment of the terms of the grants. The Company determined that for certain stock option grants, the number of shares and the exercise price were not known with finality at the original measurement date. The Company determined that the original recorded grant date could not be relied on because there was correspondence or other evidence that indicated that the Company had not finalized the number of stock options allocated to each individual recipient and the related exercise price. Based on available supporting documentation, the Company determined the date by which the number of stock options to be awarded to each recipient was finalized and the other terms of the award were established and accounted for these grants as fixed awards under APB No. 25.

The use of hindsight to select exercise prices. As noted below, the Company followed an informal policy of awarding options to individual employees in recognition of the anniversary of their employment with the Company or in conjunction with employee promotions using hindsight to select the exercise price. In many instances, little or no documentation to support dates selected for option grants could be located by the Company. Further, instances of favorable, retrospective date selection of discretionary grants were identified. Also, as noted below, the investigation noted instances of inadequate documentation, or retrospective date selection, relating to the award of grants to the Company s top three executive officers, all of which required Compensation Committee approval. Based on available supporting documentation, the Company determined a revised measurement date and accounted for these grants as fixed awards under APB No. 25.

Other Miscellaneous Accounting Adjustments In addition to the restatements for stock-based compensation, we recorded a pre-tax 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.

Income Tax Benefit We recorded a net income tax benefit of approximately $16.5 million in connection with the stock option-related compensation charges during the period from fiscal year 1995 to December 31, 2006. This tax benefit has resulted in an increase of our deferred tax assets for most U.S. affected stock options prior to the exercise or forfeiture of the related options. With the exception of UK employees exercising options after 2002, the Company recorded no tax benefit or deferred tax asset for affected stock options granted to non-U.S. employees because we determined that we could not receive tax benefits for these options. Further, we limited the deferred tax assets recorded for affected stock options granted to certain highly paid officers to reflect estimated limitations on tax deductibility under Internal Revenue Code Section 162(m). Upon exercise or forfeiture of the underlying options, the excess or deficiency in deferred tax assets is written-off to paid-in capital in the period of exercise or forfeiture.

Payroll taxes, interest and penalties Management is considering possible ways to address the impact that Section 409A of the Internal Revenue Code may have as a result of the exercise price of stock options being less than the fair market value of our common stock on the revised measurement date. Section 409A imposes additional taxes to our employees on stock options granted with an exercise price lower than the fair market value on the date of grant that vest after December 31, 2004. The Internal Revenue Service has issued transition rules under Section 409A that allows for a correction, or cure, for options subject to Section 409A. We may offer the holders of outstanding options the opportunity to affect a cure of all affected stock options. In connection with this cure, we may make cash bonus payments in an aggregate amount of up to $200,000 in 2008 to our non-officer employees.

Accounting Considerations Stock-Based Compensation

We originally accounted for all employee, officer and director stock option grants as fixed grants under APB No. 25, using a measurement date of the recorded grant date. We issued all grants with an exercise price equal to the fair market value of our common stock on the recorded grant date, and therefore originally recorded no stock-based compensation expense.

As a result of the findings of the Options Subcommittee, and our own further review of our stock option granting practices, we determined that the measurement dates for certain stock option grants differed from the recorded grant dates for such grants. Based on the analysis described below, the Company concluded that it was appropriate to revise the measurement dates for these grants based upon its findings. The Company calculated stock-based compensation expense under APB No. 25 based upon the intrinsic value as of the adjusted measurement dates of stock option awards determined to be fixed under APB No. 25 and the vesting provisions of the underlying options. The Company calculated the intrinsic value on the adjusted measurement date as the closing price of its common stock on such date as reported on the NASDAQ National Market, now the NASDAQ Global Select Market, less the exercise price per share of common stock as stated in the underlying stock option agreement, multiplied by the number of shares subject to such stock option award. The Company recognizes these amounts as compensation expense over the vesting period of the underlying options in accordance with the provisions of FASB Interpretation No. 28, Accounting for Stock Appreciation Rights and Other Variable Stock Option or Award Plans. We also determined that variable accounting treatment was appropriate under APB No. 25 for certain stock option grants for which evidence was obtained that the terms of the options may have been communicated to those recipients and that those terms were subsequently modified (stock option grants cancelled and repriced). When variable accounting is applied to stock option grants, we remeasure, and report in our consolidated statements of earnings, the intrinsic value of the options at the end of each reporting period until the options are exercised, cancelled or expire unexercised.

The Company determined the most supportable measurement dates for each of the various categories of options grants as follows:

Discretionary Grants. Discretionary grants included grants to the Company s outside directors, the Chief Executive Officer (CEO), President and Chief Financial Officer (the three highest ranking executives of the Company), other Section 16 Officers, and all other Company employees.

The Company determined that it had granted stock options to its outside directors pursuant to the Company s stock plans or Board of Directors minutes in the majority of instances; however, in a few instances, certain grants to these individuals require alternative measurement dates based on the approval dates specified in plan documents or signed minutes. The Company recorded a pre-tax adjustment to compensation expense totaling less than $0.1 million associated with all grants to outside directors during the Relevant Period.

During the Relevant Period, the Company followed a practice of requiring Compensation Committee approval of the stock option awards to the three highest ranking executives of the Company. For some grants, the Compensation Committee minutes did not indicate approval of an award. In other instances, the Company either did not locate minutes or the evidence was inconclusive concerning when a specific meeting occurred. The Company determined that certain grants to these individuals require alternative measurement dates. For example, due to inconclusive evidence regarding the date of Compensation Committee approval, because the Board had approved the Proxy Statement in which the award was specifically listed, the Proxy Statement filing date was selected as the best evidence of a measurement date for the award. The Company recorded a pre-tax adjustment to compensation expense totaling $13.3 million for all grants to the three highest ranking executives of the Company during the Relevant Period. Alternatively, for those grants where the Proxy Statement filing date was selected, had we used the highest or lowest closing price of our common stock between the grant date and the Proxy Statement filing date as the revised measurement date (as a measurement date could have occurred on any date between those two dates), the pre-tax adjustment to compensation expense would have been $3.2 million higher using the highest price and $6.9 million lower using the lowest price.

Prior to May 16, 2003, the CEO approved stock option awards to Section 16 Officers. Evidence of CEO approval typically consisted of an email containing the grant terms. Effective with the May 16, 2003 Compensation Committee meeting, the Compensation Committee was required to approve grants to the Section 16 Officers. Evidence of Compensation Committee approval included Compensation Committee minutes or a signed Unanimous Written Consent (UWC). The Company determined that certain grants to these individuals require alternative measurement dates based on the date of approval identified in the supporting documentation. The Company recorded a pre-tax adjustment to compensation expense totaling $9.5 million in connection with discretionary grants to Section 16 Officers, in addition to the $13.3 million pre-tax adjustment for grants to the three highest ranking executives of the Company, during the Relevant Period.

Throughout most of the Relevant Period, the Company s option plans granted discretion to the CEO to award option grants to any Company employee, other than the top three executives. The CEO in turn authorized a defined number of options in connection with certain discretionary grants during the Relevant Period that were allocated by certain senior executives amongst employees within particular business units. In certain instances, the review revealed that lists of grantees within specified business units had not been finalized as of the grant date. Where required, the Company identified alternative measurement dates for these discretionary grants and recorded the required pre-tax adjustment to compensation expense totaling $7.9 million during the Relevant Period.

During the Relevant Period, the Company also granted annual performance-based options to employees at the discretion of certain executives and managers within each business unit. Based on the supporting documentation, the business units finalized the list of awards by person on different dates. The Company reconciled each list to the actual awards contained in the Company s stock plan administration database to determine the date by which each business unit s list was finalized. The Company recorded a pre-tax adjustment to compensation expense totaling $6.5 million for six grant dates during the Relevant Period that primarily related to annual performance reviews.

Anniversary Grants. Throughout the Relevant Period, the Company followed an informal policy of awarding options to individual employees in recognition of the anniversary of their employment with the Company or in conjunction with employee promotions. The number of these options was determined by the employee s level within the Company, or, in the case of promotion grants, the level to which the employee was promoted. The majority of these grants were modest in size, generally 500 options or less. In the case of senior management, anniversary or promotion grants could be much larger, at

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5,000 or 7,500 options. Occasionally, very senior executives, other than the top three executives, received larger grants for anniversaries or promotions, but these were relatively few and were generally done on a case-by-case basis.

The Options Subcommittee review indicated that the Company s anniversary related options were granted with measurement dates determined by three general methods, depending upon the time period in the Relevant Period. From the beginning of the Relevant Period through the end of 1998, anniversary grants were generally granted with a measurement date on an employee s actual anniversary date. For a period of time between 1999 and 2002, the grant dates generally were selected retrospectively based on either the low price of a month or the low price of the quarter. In the third quarter of 2002, the Company began a practice of awarding anniversary grants on the 15th day of each month for the balance of 2002, and in January 2003, the Company essentially ceased making anniversary grants, except for minimal contractual grants to certain United Kingdom employees which continued into 2005.

The Company used email correspondence or other documentation maintained in the Stock Plan Administration files and information obtained from the Company s human resources system and payroll records to determine each employee s anniversary date based on the employee s hire (and corresponding anniversary) date. The general granting practice for anniversary awards in place at the relevant point in time was used to determine the appropriate measurement date for each employee s anniversary award. For a limited number of grants, absent evidence of the employee s hire date, the date the employee record of the stock options was added to the Company s stock plan administration database application was used as the measurement date for the awards identified as anniversary grants. For periods where the Company issued anniversary grants using quarterly or monthly lows, or other low prices, alternate measurement dates were required. The Company recorded a pre-tax compensation expense adjustment totaling $6.6 million for anniversary grants during the Relevant Period.

Promotion Grants. Promotion grants were generally handled in the same manner as anniversary grants. In some instances, promotion grants were awarded on the promotion effective date and other times at the low price of the month or quarter. The Company s analysis revealed that the Company had a general practice of granting promotion options on the employees promotion effective dates from 1998 through 2000. The Company selected either the promotion effective date, if available, or the date the employee record of the stock options was added to the Company s stock plan administration database application, if the promotion effective date was not available, as the measurement date for the promotion grants issued from 1998 through 2000. For subsequent periods where the Company issued promotion grants using quarterly or monthly lows, or other low prices, alternate measurement dates were required. The Company recorded a pre-tax compensation expense adjustment totaling $2.2 million for promotion grants during the Relevant Period.

New Hire Grants. Throughout the Relevant Period, the Company issued an option grant to each new employee on the employee s start date. The Company had a uniform practice of granting a specific number of options depending on the incoming employee s level within the Company. For example, the lowest level employees would receive 50 options on their start date, while certain managers might receive 2,500 options. Senior executive officers would typically receive much larger grants upon joining the Company, and those grants were typically negotiated as part of a total compensation package that were reflected in an employment agreement or offer letter. In general, the Company found a lack of significant issues with respect to new hire grants. Compensation expense was required to be recorded for administrative and error corrections and in a small number of cases where it was determined that an employee received an award with an effective date earlier than their actual start date, or where the amount of the grant was negotiated or otherwise selected after the employee began working at the Company. Additionally, during certain limited periods, due to a limited number of options being available to grant, the Company issued certain new hire grants at a later date along with the period s anniversary grants at the low price of the month or quarter, in which case the Company determined that alternate measurement dates were required. The Company recorded a pre-tax compensation expense adjustment totaling $0.7 million for new hire grants during the Relevant Period.

Program Grants. The Company had numerous routine grant programs under which options were awarded to employees who participated on specific teams within the Company, completed certain training programs or achieved certain goals in their jobs. These options (generally 50 to 250 options) were typically only granted to individual employees below a certain level. Although these grants were routinely made on an annual or quarterly basis, no official written policies existed describing the exact criteria or timing for each grant program. Not all of the grants awarded pursuant to these programs could be identified due to incomplete or inconsistent documentation. The Company typically determined the most supportable measurement date based on communication of the list of recipients and the respective number of options to be granted to Stock Plan Administration. In those instances where the review failed to reveal a specific date when lists were received in Stock Plan Administration, the Company selected the date the employee record of the stock options was added to the Company s stock plan administration database application as the measurement date. The Company recorded a pre-tax adjustment to compensation expense totaling $0.6 million for these program grants during the Relevant Period.

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For some grants, the Company identified no supporting documentation to determine the timing of the approval of the terms of the grant. In these instances, the Company selected the date the employee record of the stock options was added to the Company s stock plan administration database application as the measurement date.

Related Proceedings