INSIGHT ENTERPRISES INC
Form 10-K/A
October 09, 2007

Table of Contents

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

**(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** (Title of Class) | **NASDAQ** |

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

Yes 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**
**Year Ended December 31, 2006**
**TABLE OF CONTENTS**

Table of Contents

## EXPLANATORY NOTE REGARDING THIS AMENDMENT

Insight Enterprises, Inc. is filing this Form 10-K/A ( Amended Filing ) in order to amend our annual report on Form 10-K for the year ended December 31, 2006, originally filed on July 26, 2007 ( Original Filing ), to expand or correct disclosures in the Original Filing as discussed below. In this filing, we refer to the Original Filing as amended by this Amended Filing as this Form 10-K or this Annual Report on Form 10-K. The expanded or corrected disclosures are based on a comment letter dated August 23, 2007 from the staff of the Division of Corporation Finance of the Securities and Exchange Commission ( SEC ) in conjunction with the SEC s review of our Original Filing. As disclosed in Part I, Item 1B of this Amended Filing, none of the staff's comments remain unresolved as of the date of this filing.

The following items were amended:

We removed the reference to third-party valuations from our disclosure of critical accounting estimates related to valuation of long-lived assets including purchased intangible assets and goodwill on page 47.

We deleted the references to salaries and wages, employee-related expenses and contract labor expenses excluding stock-based compensation as a percentage of net sales from our discussion of results of operations, specifically selling and administrative expenses, on pages 50 and 51. The disclosure of these non-GAAP financial measures in our Original Filing was inadvertent.

We modified the disclosure on page 56 of days sales outstanding in ending accounts receivable, inventory turns and days purchases outstanding in ending accounts payable to only disclose amounts calculable from the face of the financial statements and have disclosed the manner in which such amounts are calculated. We also expanded the discussion of our consolidated cash flow operating metrics to describe the impact of the acquisition of Software Spectrum on the interrelationships between accounts receivable and net sales, inventories and cost of sales and accounts payable and purchases.

We added disclosure to Note 9 to our consolidated financial statements to indicate the amount of employee termination benefits and facility based costs incurred in the total liability recognized with the acquisition of Software Spectrum that was disclosed in our Original Filing. We also corrected the amounts in the table detailing changes in these liabilities during the year because the amounts in the table in our Original Filing inadvertently only detailed changes in the liabilities during the quarter ended December 31, 2006 instead of the activity from acquisition date through December 31, 2006, as stated in the description of the contents of the table.

We corrected the tax benefit amounts related to the exercise of employee stock options and other employee stock programs applied to stockholders equity disclosed in Note 11 to our consolidated financial statements to agree with the amounts that were correctly disclosed in our consolidated statements of stockholders equity in our Original Filing.

We added disclosure to Note 16 to our consolidated financial statement to disclose that we have not provided net sales amounts by product or service type for the years ended December 31, 2006, 2005 and 2004, as it is impracticable for us to do so.

We expanded Note 18 to our consolidated financial statement to include disclosure of the primary reasons for the acquisition of Software Spectrum and the factors that contributed to the recognition of goodwill, disclosure of the amount assigned to each major intangible asset class and disclosure of the gross carrying amount and accumulated amortization, in total by major intangible asset class for each period presented.

The staff s letter did not include any comments relating to our restatement of our consolidated financial statements as disclosed in the Original Filing, and the Amended Filing does not reflect any changes to the disclosures related to that restatement.

There were no changes to our consolidated statements of earnings, of stockholders equity and comprehensive income and of cash flows for the years ended December 31, 2006, 2005 and 2004, or our consolidated balance sheets as of

December 31, 2006 and 2005 in this Amended Filing as compared to our consolidated financial statements included in the Original Filing.

As part of the Amended Filing, Exhibits 31.1, 31.2 and 32.1, containing the certifications of our Chief Executive Officer and Chief Financial Officer, as well as Exhibit 23.1, containing the consent of our independent register public accounting firm, that were filed as exhibits to the Original Filing have been re-executed and re-filed as of the date of this Amended Filing.

Table of Contents

# 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.

## INSIGHT ENTERPRISES, INC.

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

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

## FORWARD-LOOKING STATEMENTS

Certain statements in this Annual Report on Form 10-K, including statements in Management s Discussion and Analysis of Financial Condition and Results of Operations in Part II, Item 7 of this report, are forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. These forward-looking statements may include: projections of matters that affect net sales, gross profit, operating expenses, earnings from continuing operations, non-operating income and expenses or net earnings; effects of acquisitions; projections of capital expenditures and growth; hiring plans; plans for future operations; the availability of financing and our needs or plans relating thereto; plans relating to our products and services; the effect of new accounting principles or changes in accounting policies; the effect of guaranty and indemnification obligations; statements of belief; and statements of assumptions underlying any of the foregoing. Forward-looking statements are identified by such words as believe, anticipate, expect, estimate, intend, plan, project, will, may and variations of such words expressions, and are inherently subject to risks and uncertainties, some of which cannot be predicted or quantified. Future events and actual results could differ materially from those set forth in, contemplated by, or underlying the forward-looking statements. Some of the important factors that could cause our actual results to differ materially from those projected in any forward-looking statements, include but are not limited to:

- changes in the information technology industry and/or the economic environment;
- our reliance on partners for product availability, marketing funds, purchasing incentives and competitive products to sell;
- disruptions in our information technology and voice and data networks, including the upgrade to mySAP and the migration of Software Spectrum to our information technology and voice and data networks;
- the integration and operation of Software Spectrum, including our ability to achieve the expected benefits of the acquisition;
- actions of our competitors, including manufacturers/publishers of products we sell;
- the informal inquiry from the SEC and the fact that we could be subject to stockholder litigation related to the investigation by the Options Subcommittee of our Board of Directors into our historical stock option granting practices and the related restatement of our consolidated financial statements;
- the recently enacted changes in securities laws and regulations, including potential risk resulting from our evaluation of internal controls under the Sarbanes-Oxley Act of 2002;

the risks associated with international operations;

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

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

increased exposure to currency exchange risks;

our dependence on key personnel;

risk that purchased goodwill or amortizable intangible assets become impaired;

our failure to comply with the terms and conditions of our public sector contracts;

risks associated with our very limited experience in outsourcing business functions to India;

rapid changes in product standards; and

intellectual property infringement claims.

Table of Contents

**INSIGHT ENTERPRISES, INC.**

Additionally, there may be other risks that are otherwise described from time to time in the reports that we file with the Securities and Exchange Commission ( SEC ).

In addition, these forward-looking statements include statements regarding the informal inquiry commenced by the SEC and a stockholder s demand to inspect our books and records pursuant to Section 220 of the Delaware General Corporation Law. There can be no assurances that forward-looking statements will be achieved, and actual results could differ materially from those suggested by the forward-looking statements. Important factors that could cause actual results to differ materially include: adjustments to the consolidated financial statements that may be required related to the SEC informal inquiry; and risks of litigation and governmental or other regulatory inquiry or proceedings arising out of or related to the Company s historical stock option granting practices. Therefore, any forward-looking statements in this release should be considered in light of various important factors, including the risks and uncertainties listed above, as well as others.

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

Table of Contents

**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.

Table of Contents

## INSIGHT ENTERPRISES, INC.

### Acquisitions/Dispositions History

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

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

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

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

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

### Operating Segments

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

#### *North America, EMEA and APAC*

North America, EMEA and APAC are reported as separate operating segments. However, they all operate with similarly structured business models and in strategic positions as leading providers of IT solutions. Currently, our offerings in North America and the United Kingdom include brand-name IT hardware, software and services. Our offerings in the remainder of our EMEA segment and in APAC currently only include software and select software-related services. We co-branded as Insight and Software Spectrum subsequent to the acquisition date, primarily to allow time for an orderly transition to a common brand. We completed the conversion to the Insight brand in all segments in the second quarter of 2007.

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

### Business Overview

Insight is a leading provider of brand-name IT hardware, software and services to large enterprises, SMB and public sector institutions in North America, EMEA and APAC. Over the past few years, we have been evolving our business model and branding efforts to emphasize Insight s ability to provide total technology solutions to meet our clients business-driven needs. Our value proposition to our clients is that we serve as a trusted advisor, helping our clients enhance their business performance through innovative technology solutions. Historically, we had primarily been engaged in our clients acquisition cycle once they had substantially determined their IT needs. Our role has shifted to one of a trusted advisor, where we are involved earlier in the acquisition cycle, assisting our clients as they make technology decisions. We believe this creates stronger relationships with our clients, allowing us to add greater value to

**INSIGHT ENTERPRISES, INC.**

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

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

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

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

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

**INSIGHT ENTERPRISES, INC.**

- Broad selection of brand-name IT hardware and software;
- Strong tools and expertise on software asset management;
- Services offerings; and
- Efficient technology-based operations.

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

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

- a staff of client-dedicated account executives utilizing proactive outbound telephone-based sales;
- a client-focused, face-to-face field sales force;
- a nationally deployed dedicated service sales organization in the U.S.;
- a team of software sales specialists;
- a small group of knowledgeable account executives dedicated to taking inbound calls;
- electronic commerce (primarily the Internet and electronic data interchange ( EDI ));
- targeted marketing (including print and electronic marketing and communications, advertising, client events and specialty marketing programs);
- comprehensive product and services catalogs; and
- pre-sale technical sales support teams.

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

Components of our sales and marketing strategy include:

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

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

**INSIGHT ENTERPRISES, INC.**

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.

**INSIGHT ENTERPRISES, INC.**

*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

**INSIGHT ENTERPRISES, INC.**

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.