

INSIGHT ENTERPRISES INC

Form 10-Q

August 06, 2009

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

(Mark One)

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

**For the quarterly period ended: June 30, 2009**

**OR**

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

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

**Commission File Number: 0-25092**

**INSIGHT ENTERPRISES, INC.**

(Exact name of registrant as specified in its charter)

**Delaware**

(State or other jurisdiction of  
incorporation or organization)

**86-0766246**

(I.R.S. Employer Identification Number)

**6820 South Harl Avenue, Tempe, Arizona 85283**

(Address of principal executive offices) (Zip Code)

**(480) 902-1001**

(Registrant's telephone number, including area code)

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

Yes  No

Indicate by a checkmark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§ 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).

Yes  No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See definitions of "large accelerated filer", "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer  Accelerated filer  Non-accelerated filer  Smaller reporting company

(Do not check if a smaller  
reporting company)

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

Yes  No

The number of shares outstanding of the issuer's common stock as of July 31, 2009 was 45,864,209.



**INSIGHT ENTERPRISES, INC.**  
**QUARTERLY REPORT ON FORM 10-Q**  
**Three Months Ended June 30, 2009**  
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**INSIGHT ENTERPRISES, INC.  
FORWARD-LOOKING INFORMATION**

Certain statements in this Quarterly Report on Form 10-Q, including statements in Management's Discussion and Analysis of Financial Condition and Results of Operations in Part I, Item 2 of this report, are forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. These forward-looking statements may include: projections of matters that affect the amount and timing of net sales, gross profit, operating expenses, earnings from continuing operations, non-operating income and expenses, net earnings or cash flows, the payment of accrued expenses and liabilities (including assumptions about currency fluctuations underlying such statements); effects of acquisitions or dispositions; projections of capital expenditures and uses of our working capital resources; our projections about our outlook for 2009, including projected diluted earnings per share (excluding the impact of certain expenses and charges), fluctuations in our borrowing levels during the remainder of 2009, and the benefits of cost reduction actions we have taken or may take; hiring plans; plans for future operations; the sufficiency of our liquidity and capital resources; 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; projections about the outcome of ongoing tax audits and unrecognized tax benefits for uncertain tax positions; statements related to accounting estimates, including estimated stock option and other equity award forfeitures, and deferred compensation cost amortization periods; the timing of payments relating to previously accrued restructuring charges; projections about the outcome and effect of pending legal proceedings and the sufficiency of our provisions for estimated losses relating thereto; 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. There can be no assurances that the events discussed in the forward-looking statements will be achieved, and actual results could differ materially from results described by forward-looking statements. Some of the important factors that could cause our actual results to differ materially from those projected in any forward-looking statements include, but are not limited to, the following:

general economic conditions, including concerns regarding a global recession and credit constraints;

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;

stockholder litigation related to the restatement of our consolidated financial statements;

our ability to collect our accounts receivable;

increased debt and interest expense and lower availability on our financing facilities and changes in the overall capital markets that could increase our borrowing costs or reduce future availability of financing;

disruptions in our information technology systems and voice and data networks, including our system upgrade and the migration of acquired businesses to our information technology systems and voice and data networks;

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

the integration and operation of acquired businesses, including our ability to achieve expected benefits of the acquisitions;

seasonal changes in demand for sales of software licenses;

the risks associated with international operations;

exposure to changes in, or interpretations of, tax rules and regulations;

exposure to currency exchange risks and volatility in the U.S. dollar, Canadian dollar, the Euro and the British Pound Sterling exchange rates;

our dependence on key personnel;

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

rapid changes in product standards; and

intellectual property infringement claims and challenges to our registered trademarks and trade names.

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. Any forward-looking statements in this report should be considered in light of various important factors, including the risks and uncertainties listed above, as well as others. We assume no obligation to update, and do not intend to update, any forward-looking statements. We do not endorse any projections regarding future performance that may be made by third parties.

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

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

|   | <b>June 30,<br/>2009</b> | <b>December 31,<br/>2008</b> |
|---|--------------------------|------------------------------|
| <b>ASSETS</b>   |                          |                              |
| Current assets:   |                          |                              |
| Cash and cash equivalents   | \$ 119,820               | \$ 49,175                    |
| Accounts receivable, net of allowances for doubtful accounts of \$15,856 and \$20,156, respectively | 879,770                  | 990,026                      |
| Inventories   | 83,335                   | 103,130                      |
| Inventories not available for sale  | 24,446                   | 30,507                       |
| Deferred income taxes   | 38,776                   | 40,075                       |
| Other current assets  | 45,427                   | 37,495                       |
| Total current assets  | 1,191,574                | 1,250,408                    |
| Property and equipment, net of accumulated depreciation of \$146,072 and \$131,633, respectively    | 155,702                  | 157,334                      |
| Goodwill  | 5,764                    |                              |
| Intangible assets, net of accumulated amortization of \$33,766 and \$25,663, respectively           | 88,152                   | 93,400                       |
| Deferred income taxes   | 86,251                   | 89,757                       |
| Other assets  | 16,552                   | 16,741                       |
|   | \$ 1,543,995             | \$ 1,607,640                 |
| <b>LIABILITIES AND STOCKHOLDERS EQUITY</b>  |                          |                              |
| Current liabilities:  |                          |                              |
| Accounts payable  | \$ 732,710               | \$ 720,833                   |
| Accrued expenses and other current liabilities  | 193,620                  | 175,769                      |
| Current portion of long-term debt   |                          |                              |
| Deferred revenue  | 34,101                   | 36,339                       |
| Total current liabilities   | 960,431                  | 932,941                      |
| Long-term debt  | 119,500                  | 228,000                      |
| Deferred income taxes   | 1,934                    | 2,291                        |
| Other liabilities   | 20,275                   | 22,440                       |
|   | 1,102,140                | 1,185,672                    |

Commitments and contingencies (Note 12)



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Stockholders' equity:

|   |              |              |
|---|--------------|--------------|
| Preferred stock, \$0.01 par value, 3,000 shares authorized; no shares issued  |              |              |
| Common stock, \$0.01 par value, 100,000 shares authorized; 46,864 shares at June 30, 2009 and 45,595 shares at December 31, 2008 issued and outstanding | 459          | 456          |
| Additional paid-in capital  | 374,013      | 371,664      |
| Retained earnings   | 49,187       | 40,290       |
| Accumulated other comprehensive income - foreign currency translation adjustments   | 18,196       | 9,558        |
| Total stockholders' equity  | 441,855      | 421,968      |
|   | \$ 1,543,995 | \$ 1,607,640 |

See accompanying notes to consolidated financial statements.

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

|  | <b>Three Months Ended</b> |                    | <b>Six Months Ended</b> |                    |
|--|---------------------------|--------------------|-------------------------|--------------------|
|  | <b>June 30,</b>           |                    | <b>June 30,</b>         |                    |
|  | <b>2009</b>               | <b>2008</b>        | <b>2009</b>             | <b>2008</b>        |
|  |                           | <b>As Restated</b> |                         | <b>As Restated</b> |
|  |                           | <b>(1)</b>         |                         | <b>(1)</b>         |
| Net sales  | \$ 1,037,162              | \$ 1,396,585       | \$ 1,988,322            | \$ 2,500,083       |
| Costs of goods sold  | 889,318                   | 1,195,643          | 1,708,706               | 2,147,519          |
| Gross profit   | 147,844                   | 200,942            | 279,616                 | 352,564            |
| Operating expenses:  |                           |                    |                         |                    |
| Selling and administrative expenses                            | 123,865                   | 152,878            | 257,208                 | 288,339            |
| Goodwill impairment  |                           | 313,776            |                         | 313,776            |
| Severance and restructuring expenses                           | 2,130                     | 3,508              | 8,477                   | 5,408              |
| Earnings (loss) from operations                                | 21,849                    | (269,220)          | 13,931                  | (254,959)          |
| Non-operating (income) expense:                                |                           |                    |                         |                    |
| Interest income  | (188)                     | (700)              | (288)                   | (1,301)            |
| Interest expense   | 1,988                     | 3,912              | 4,088                   | 6,578              |
| Net foreign currency exchange (gain) loss                      | (162)                     | 1,055              | (213)                   | 118                |
| Other expense, net   | 202                       | 171                | 481                     | 490                |
| Earnings (loss) from continuing operations before income taxes | 20,009                    | (273,658)          | 9,863                   | (260,844)          |
| Income tax expense (benefit)                                   | 7,116                     | (98,583)           | 3,767                   | (93,942)           |
| Net earnings (loss) from continuing operations                 | 12,893                    | (175,075)          | 6,096                   | (166,902)          |
| Net earnings from a discontinued operation                     | 2,801                     |                    | 2,801                   |                    |
| Net earnings (loss)  | \$ 15,694                 | \$ (175,075)       | \$ 8,897                | \$ (166,902)       |
| Net earnings (loss) per share Basic:                           |                           |                    |                         |                    |
| Net earnings (loss) from continuing operations                 | \$ 0.28                   | \$ (3.76)          | \$ 0.13                 | \$ (3.51)          |
| Net earnings from a discontinued operation                     | 0.06                      |                    | 0.06                    |                    |
| Net earnings (loss) per share                                  | \$ 0.34                   | \$ (3.76)          | \$ 0.19                 | \$ (3.51)          |
| Net earnings (loss) per share Diluted:                         |                           |                    |                         |                    |
| Net earnings (loss) from continuing operations                 | \$ 0.28                   | \$ (3.76)          | \$ 0.13                 | \$ (3.51)          |
| Net earnings from a discontinued operation                     | 0.06                      |                    | 0.06                    |                    |
| Net earnings (loss) per share                                  | \$ 0.34                   | \$ (3.76)          | \$ 0.19                 | \$ (3.51)          |

Shares used in per share calculations:

|         |        |        |        |        |
|---------|--------|--------|--------|--------|
| Basic   | 45,853 | 46,594 | 45,781 | 47,567 |
| Diluted | 46,336 | 46,594 | 46,023 | 47,567 |

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

See accompanying notes to consolidated financial statements.

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

|  | <b>Six Months Ended June 30,</b> |                    |
|--|----------------------------------|--------------------|
|  | <b>2009</b>                      | <b>2008</b>        |
|  |                                  | <b>As Restated</b> |
|  |                                  | <b>(1)</b>         |
| Cash flows from operating activities:  |                                  |                    |
| Net earnings (loss)  | \$ 8,897                         | \$ (166,902)       |
| Adjustments to reconcile net earnings (loss) to net cash provided by operating activities: |                                  |                    |
| Goodwill impairment  |                                  | 313,776            |
| Depreciation and amortization  | 19,277                           | 19,482             |
| Provision for losses on accounts receivable  | 1,328                            | 1,529              |
| Write-downs of inventories   | 3,882                            | 4,275              |
| Non-cash stock-based compensation  | 7,165                            | 5,889              |
| Non-cash gain from arbitrated claim, net of tax  | (2,801)                          |                    |
| Excess tax benefit from employee gains on stock-based compensation                         |                                  | (110)              |
| Deferred income taxes  | 211                              | (110,476)          |
| Changes in assets and liabilities:   |                                  |                    |
| Decrease (increase) in accounts receivable   | 145,031                          | (85,391)           |
| Decrease (increase) in inventories   | 23,315                           | (19,243)           |
| (Increase) decrease in other current assets  | (6,904)                          | 14,505             |
| (Increase) decrease in other assets  | (1,022)                          | 2,406              |
| (Decrease) increase in accounts payable  | (31,662)                         | 122,878            |
| Increase in deferred revenue   | 1,068                            | 8,289              |
| Increase (decrease) in accrued expenses and other liabilities                              | 24,840                           | (8,574)            |
| Net cash provided by operating activities  | 192,625                          | 102,333            |
| Cash flows from investing activities:  |                                  |                    |
| Acquisition of Calence, net of cash acquired   | (12,834)                         | (124,671)          |
| Purchases of property and equipment  | (8,345)                          | (15,703)           |
| Other  |                                  | (900)              |
| Net cash used in investing activities  | (21,179)                         | (141,274)          |
| Cash flows from financing activities:  |                                  |                    |
| Borrowings on senior revolving credit facility   | 529,873                          | 372,770            |
| Repayments on senior revolving credit facility   | (638,373)                        | (176,770)          |
| Borrowings on accounts receivable securitization financing facility                        | 145,000                          | 181,500            |
| Repayments on accounts receivable securitization financing facility                        | (145,000)                        | (184,500)          |
| Repayments on term loan  |                                  | (56,250)           |
| Net borrowings under inventory financing facility  | 1,210                            | 16,850             |
| Repayments on assumed debt   |                                  | (7,083)            |
| Payment of deferred financing fees   | (531)                            | (3,300)            |
| Proceeds from sales of common stock under employee stock plans                             |                                  | 3,078              |

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|  |            |            |
|--|------------|------------|
| Excess tax benefit from employee gains on stock-based compensation           |            | 110        |
| Payment of payroll taxes on stock-based compensation through shares withheld | (398)      | (1,983)    |
| Repurchases of common stock  |            | (50,000)   |
| Increase (decrease) in book overdrafts                                       | 6,126      | (3,893)    |
| Net cash (used in) provided by financing activities                          | (102,093)  | 90,529     |
| Foreign currency exchange effect on cash flows                               | 1,292      | 1,257      |
| Increase in cash and cash equivalents  | 70,645     | 52,845     |
| Cash and cash equivalents at beginning of period                             | 49,175     | 56,718     |
| Cash and cash equivalents at end of period                                   | \$ 119,820 | \$ 109,563 |

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

See accompanying notes to consolidated financial statements.

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

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

We are a leading provider of information technology ( IT ) hardware, software and services to small, medium and large businesses 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:

| <b>Operating Segment</b> | <b>Geography</b>               |
|--------------------------|--------------------------------|
| North America            | United States and Canada       |
| EMEA                     | Europe, Middle East and Africa |
| APAC                     | Asia-Pacific                   |

Currently, our offerings in North America and the United Kingdom include IT hardware, software and services. Our offerings in the remainder of our EMEA segment and in APAC are almost entirely software and select software-related services.

In the opinion of management, the accompanying unaudited consolidated financial statements contain all adjustments necessary to present fairly our financial position as of June 30, 2009, our results of operations for the three and six months ended June 30, 2009 and 2008 and our cash flows for the six months ended June 30, 2009 and 2008. The consolidated balance sheet as of December 31, 2008 was derived from the audited consolidated balance sheet at such date. The accompanying unaudited consolidated financial statements and notes have been prepared in accordance with the rules and regulations promulgated by the Securities and Exchange Commission ( SEC ) and consequently do not include all of the disclosures normally required by United States generally accepted accounting principles ( GAAP ). The results of operations for such interim periods are not necessarily indicative of results for the full year, due in part to the seasonal nature of the business. These unaudited consolidated financial statements should be read in conjunction with the audited consolidated financial statements, including the related notes thereto, in our Annual Report on Form 10-K for the year ended December 31, 2008.

The preparation of consolidated financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements. Additionally, these estimates and assumptions affect the reported amounts of net sales and expenses during the reported period. Actual results could differ from those estimates. On an ongoing basis, we evaluate our estimates, including those related to sales recognition, anticipated achievement levels under partner funding programs, assumptions related to stock-based compensation valuation, allowances for doubtful accounts, litigation-related obligations, valuation allowances for deferred tax assets and impairment of long-lived assets, including purchased intangibles and goodwill, if indicators of potential impairment exist.

The consolidated financial statements include the accounts of Insight Enterprises, Inc. and its wholly-owned subsidiaries. All intercompany balances and transactions have been eliminated in consolidation. References to the Company, we, us, our and other similar words refer to Insight Enterprises, Inc. and its consolidated subsidiaries, unless the context suggests otherwise.

*Recently Issued Accounting Pronouncements*

There have been no material changes or additions to the recently issued accounting pronouncements as previously reported in Note 1 to our Consolidated Financial Statements in Part II, Item 8 of our Annual Report on Form 10-K for the year ended December 31, 2008 which affect or may affect our financial statements.

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

Effective January 1, 2009, we adopted the provisions of Statement of Financial Accounting Standards ( SFAS ) No. 141 (revised 2007), *Business Combinations*, FSP No. FAS 142-3, *Determination of the Useful Life of Intangible Assets* and SFAS No. 161, *Disclosures about Derivative Instruments and Hedging Activities – an amendment of FASB Statement 133*. Other than the additional disclosures required by SFAS No. 161 (see Note 9), the adoption of these pronouncements had no effect on our financial statements.

Effective June 30, 2009, we adopted the provisions of SFAS No. 165 (revised 2007), *Subsequent Events*. Other than the additional disclosures required by SFAS No. 165 (see Note 14), the adoption of this pronouncement had no effect on our financial statements.

**2. Restatement of Consolidated Financial Statements**

As discussed in our Annual Report in Form 10-K for the year ended December 31, 2008, on February 9, 2009, following an internal review we issued a press release announcing that our management had identified errors in the Company's accounting for trade credits in prior periods dating back to December 1996. The internal review encompassed aged trade credits, including both aged accounts receivable credits and aged accounts payable credits, arising in the ordinary course of business that were recognized in the Company's statements of operations prior to the legal discharge of the underlying liabilities under applicable domestic and foreign laws. In a Form 8-K filed on February 10, 2009, we reported that the Company's financial statements, assessment of the effectiveness of internal control over financial reporting and related audit reports thereon in our Annual Report on Form 10-K for the year ended December 31, 2007, and the interim financial statements in our Quarterly Reports on Form 10-Q for the first three quarters of 2008, and all earnings press releases and similar communications issued by the Company relating to such financial statements, should no longer be relied upon.

We determined that corrections to our consolidated financial statements were required to reverse material prior period reductions of costs of goods sold and the related income tax effects as a result of these incorrect releases of aged trade credits. These trade credits arose from unclaimed credit memos, duplicate payments, payments for returned product or overpayments made to us by our clients, and, to a lesser extent, from goods received by us from suppliers for which we were never invoiced.

In addition to the restatements for aged trade credits, we also corrected previously reported financial statements for other miscellaneous accounting adjustments as a result of a detailed review of our critical accounting policies. These adjustments are detailed in Note 2 – Restatement of Consolidated Financial Statements – in Part II, Item 8 of our Annual Report on Form 10-K for the year ended December 31, 2008.

All prior period financial information contained in this Quarterly Report on Form 10-Q gives effect to the restatement of our consolidated financial statements as described above. Financial information included in reports previously filed or furnished by Insight Enterprises, Inc. for the periods from January 1, 1996 through September 30, 2008 should not be relied upon and are superseded by the information in our Annual Report on Form 10-K for the year ended December 31, 2008, our Quarterly Report on Form 10-Q for the quarter ended March 31, 2009 and in this Quarterly Report on Form 10-Q.

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

The following table presents the effect of the restatement adjustments on the Company's previously reported statement of operations amounts for the three and six months ended June 30, 2008 (in thousands):

|   | Three Months Ended June 30, 2008 |                    |                       | Six Months Ended June 30, 2008 |                    |                       |
|---|----------------------------------|--------------------|-----------------------|--------------------------------|--------------------|-----------------------|
|   | As                               |                    | As<br>Restated<br>(1) | As                             |                    | As<br>Restated<br>(1) |
|   | Reported                         | Adjustments<br>(1) |                       | Reported                       | Adjustments<br>(1) |                       |
| Net sales   | \$ 1,397,722                     | \$ (1,137)         | \$ 1,396,585          | \$ 2,505,511                   | \$ (5,428)         | \$ 2,500,083          |
| Costs of goods sold                                 | 1,195,980                        | (337)              | 1,195,643             | 2,150,614                      | (3,095)            | 2,147,519             |
| Gross profit  | 201,742                          | (800)              | 200,942               | 354,897                        | (2,333)            | 352,564               |
| Operating expenses:                                 |                                  |                    |                       |                                |                    |                       |
| Selling and administrative expenses                 | 151,909                          | 969                | 152,878               | 284,863                        | 3,476              | 288,339               |
| Goodwill impairment                                 | 313,949                          | (173)              | 313,776               | 313,949                        | (173)              | 313,776               |
| Severance and restructuring expenses                | 3,508                            |                    | 3,508                 | 5,408                          |                    | 5,408                 |
| Loss from operations                                | (267,624)                        | (1,596)            | (269,220)             | (249,323)                      | (5,636)            | (254,959)             |
| Non-operating (income) expense:                     |                                  |                    |                       |                                |                    |                       |
| Interest income                                     | (700)                            |                    | (700)                 | (1,301)                        |                    | (1,301)               |
| Interest expense                                    | 3,948                            | (36)               | 3,912                 | 6,664                          | (86)               | 6,578                 |
| Net foreign currency exchange loss                  | 1,055                            |                    | 1,055                 | 118                            |                    | 118                   |
| Other expense, net                                  | 171                              |                    | 171                   | 490                            |                    | 490                   |
| Loss from continuing operations before income taxes | (272,098)                        | (1,560)            | (273,658)             | (255,294)                      | (5,550)            | (260,844)             |
| Income tax benefit                                  | (97,821)                         | (762)              | (98,583)              | (91,537)                       | (2,405)            | (93,942)              |
| Net loss from continuing operations                 | (174,277)                        | (798)              | (175,075)             | (163,757)                      | (3,145)            | (166,902)             |
| Net earnings from a discontinued operation          |                                  |                    |                       |                                |                    |                       |
| Net loss  | \$ (174,277)                     | \$ (798)           | \$ (175,075)          | \$ (163,757)                   | \$ (3,145)         | \$ (166,902)          |
| Net loss per share - Basic:                         |                                  |                    |                       |                                |                    |                       |
| Net loss from continuing operations                 | \$ (3.74)                        | \$ (0.02)          | \$ (3.76)             | \$ (3.44)                      | \$ (0.07)          | \$ (3.51)             |
| Net earnings from a discontinued operation          |                                  |                    |                       |                                |                    |                       |



|   |    |        |    |        |    |        |    |        |    |        |    |        |
|---|----|--------|----|--------|----|--------|----|--------|----|--------|----|--------|
| Net loss per share                            | \$ | (3.74) | \$ | (0.02) | \$ | (3.76) | \$ | (3.44) | \$ | (0.07) | \$ | (3.51) |
| Net loss per share<br>Diluted:                |    |        |    |        |    |        |    |        |    |        |    |        |
| Net loss from continuing<br>operations        | \$ | (3.74) | \$ | (0.02) | \$ | (3.76) | \$ | (3.44) | \$ | (0.07) | \$ | (3.51) |
| Net earnings from a<br>discontinued operation |    |        |    |        |    |        |    |        |    |        |    |        |
| Net loss per share                            | \$ | (3.74) | \$ | (0.02) | \$ | (3.76) | \$ | (3.44) | \$ | (0.07) | \$ | (3.51) |

(1) See additional discussion in Note 2 Restatement of Consolidated Financial Statements in Part II, Item 8 of our Annual Report on Form 10-K for the year ended December 31, 2008.

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

The following table presents the effect of the restatement adjustments on the Company's previously reported cash flow amounts for the six months ended June 30, 2008 (in thousands):

|   | <b>Six Months Ended June 30, 2008</b> |                            |                            |
|---|---------------------------------------|----------------------------|----------------------------|
|   | <b>As<br/>Reported</b>                | <b>Adjustments<br/>(1)</b> | <b>As Restated<br/>(1)</b> |
| Cash flows from operating activities:   |                                       |                            |                            |
| Net loss  | \$ (163,757)                          | \$ (3,145)                 | \$ (166,902)               |
| Adjustments to reconcile net earnings to net cash provided by operating activities: |                                       |                            |                            |
| Goodwill impairment   | 313,949                               | (173)                      | 313,776                    |
| Depreciation and amortization   | 19,408                                | 74                         | 19,482                     |
| Provision for losses on accounts receivable   | 1,529                                 |                            | 1,529                      |
| Write-downs of inventories  | 4,275                                 |                            | 4,275                      |
| Non-cash stock-based compensation   | 5,638                                 | 251                        | 5,889                      |
| Excess tax benefit from employee gains on stock-based compensation                  | (108)                                 | (2)                        | (110)                      |
| Deferred income taxes   | (110,270)                             | (206)                      | (110,476)                  |
| Changes in assets and liabilities:  |                                       |                            |                            |
| Increase in accounts receivable   | (90,819)                              | 5,428                      | (85,391)                   |
| Increase in inventories   | (14,217)                              | (5,026)                    | (19,243)                   |
| Decrease in other current assets  | 14,505                                |                            | 14,505                     |
| Decrease in other assets  | 2,406                                 |                            | 2,406                      |
| Increase in accounts payable  | 141,297                               | (18,419) <sup>(2)</sup>    | 122,878                    |
| Increase in deferred revenue  | 8,289                                 |                            | 8,289                      |
| Decrease in accrued expenses and other liabilities                                  | (13,084)                              | 4,510                      | (8,574)                    |
| Net cash provided by operating activities   | 119,041                               | (16,708)                   | 102,333                    |
| Cash flows from investing activities:   |                                       |                            |                            |
| Acquisition of Calence, net of cash acquired  | (124,671)                             |                            | (124,671)                  |
| Purchases of property and equipment   | (15,617)                              | (86)                       | (15,703)                   |
| Other   | (900)                                 |                            | (900)                      |
| Net cash used in investing activities   | (141,188)                             | (86)                       | (141,274)                  |
| Cash flows from financing activities:   |                                       |                            |                            |
| Borrowings on senior revolving credit facility                                      | 372,770                               |                            | 372,770                    |
| Repayments on senior revolving credit facility                                      | (176,770)                             |                            | (176,770)                  |
| Borrowings on long-term financing facility  | 181,500                               |                            | 181,500                    |
| Repayments on long-term financing facility  | (184,500)                             |                            | (184,500)                  |
| Repayments on term loan   | (56,250)                              |                            | (56,250)                   |
| Net borrowings under inventory financing facility                                   |                                       | 16,850 <sup>(2)</sup>      | 16,850                     |
| Repayments on assumed debt  | (7,083)                               |                            | (7,083)                    |
| Deferred financing fees   | (3,300)                               |                            | (3,300)                    |

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|  |            |        |            |
|--|------------|--------|------------|
| Proceeds from sales of common stock under employee stock plans               | 3,078      |        | 3,078      |
| Excess tax benefit from employee gains on stock-based compensation           | 108        | 2      | 110        |
| Payment of payroll taxes on stock-based compensation through shares withheld | (1,983)    |        | (1,983)    |
| Repurchases of common stock  | (50,000)   |        | (50,000)   |
| Increase in book overdrafts  | (3,893)    |        | (3,893)    |
| Net cash used in financing activities  | 73,677     | 16,852 | 90,529     |
| Foreign currency exchange effect on cash flows                               | 1,315      | (58)   | 1,257      |
| Increase in cash and cash equivalents  | 52,845     |        | 52,845     |
| Cash and cash equivalents at beginning of period                             | 56,718     |        | 56,718     |
| Cash and cash equivalents at end of period                                   | \$ 109,563 | \$     | \$ 109,563 |

(1) See additional discussion in Note 2 Restatement of Consolidated Financial Statements in Part II, Item 8 of our Annual Report on Form 10-K for the year ended December 31, 2008.

(2) Adjustment to reclassify net borrowings under the inventory financing facility from the acquisition of Calence in April 1, 2008 to June 30, 2008 to conform to the presentation utilized for subsequent year to date periods.



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

**3. Net Earnings (Loss) from Continuing Operations Per Share ( EPS )**

Basic EPS is computed by dividing net earnings (loss) from continuing operations available to common stockholders by the weighted average number of common shares outstanding during each quarter. Diluted EPS is computed on the basis of the weighted average number of shares of common stock plus the effect of dilutive potential common shares outstanding during the period using the treasury stock method. Dilutive potential common shares include outstanding stock options and restricted stock units. A reconciliation of the denominators of the basic and diluted EPS calculations follows (in thousands, except per share data):

|  | <b>Three Months Ended</b> |                    | <b>Six Months Ended</b> |                    |
|--|---------------------------|--------------------|-------------------------|--------------------|
|  | <b>June 30,</b>           |                    | <b>June 30,</b>         |                    |
|  | <b>2009</b>               | <b>2008</b>        | <b>2009</b>             | <b>2008</b>        |
|  |                           | <b>As Restated</b> |                         | <b>As Restated</b> |
|  |                           | <b>(1)</b>         |                         | <b>(1)</b>         |
| Numerator:   |                           |                    |                         |                    |
| Net earnings (loss) from continuing operations   | \$ 12,893                 | \$ (175,075)       | \$ 6,096                | \$ (166,902)       |
| Denominator:   |                           |                    |                         |                    |
| Weighted average shares used to compute basic EPS  | 45,853                    | 46,594             | 45,781                  | 47,567             |
| Dilutive potential common shares due to dilutive options and restricted stock units, net of tax effect | 483                       |                    | 242                     |                    |
| Weighted average shares used to compute diluted EPS  | 46,336                    | 46,594             | 46,023                  | 47,567             |
| Net earnings (loss) from continuing operations:  |                           |                    |                         |                    |
| Basic  | \$ 0.28                   | \$ (3.76)          | \$ 0.13                 | \$ (3.51)          |
| Diluted  | \$ 0.28                   | \$ (3.76)          | \$ 0.13                 | \$ (3.51)          |

(1) See Note 2  
Restatement of  
Consolidated  
Financial  
Statements in  
Part II, Item 8 of  
our Annual  
Report on Form  
10-K for the  
year ended  
December 31,  
2008 and Note 2  
above.

During the three and six months ended June 30, 2009, 1,759,000 and 2,028,000 weighted average outstanding stock options, respectively, were not included in the diluted EPS calculation because the exercise prices of these options were greater than the average market price of our common stock during the period. No potential common shares were included in the diluted EPS computation for the three and six months ended June 30, 2008 because of the net loss in those periods, which would result in an antidilutive per share amount.

**4. Goodwill**

During the six months ended June 30, 2009, we accrued \$5,764,000 of additional purchase price consideration and the related accrued interest thereon as a result of Calence, LLC ( Calence ), acquired April 1, 2008, achieving certain performance targets during the respective periods. In April 2009, a cash payment of \$12,834,000 was made to the former owners of Calence related to this additional purchase price consideration and the related interest thereon accrued through March 31, 2009. Such amount is reflected as an investing activity within the Consolidated Statement of Cash Flows. Additional purchase price consideration and the related accrued interest thereon of \$3,292,000 that was accrued during the three months ended June 30, 2009 is included in accrued expenses and other current liabilities within the Consolidated Balance Sheet.

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

**5. Debt and Inventory Financing Facility***Debt*

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

|   | <b>June 30,<br/>2009</b> | <b>December 31,<br/>2008</b> |
|---|--------------------------|------------------------------|
| Senior revolving credit facility  | \$ 119,500               | \$ 228,000                   |
| Accounts receivable securitization financing facility (the ABS facility ) |                          |                              |
| Total   | 119,500                  | 228,000                      |
| Less: current portion of term loan  |                          |                              |
| Long-term debt  | \$ 119,500               | \$ 228,000                   |

Our senior revolving credit facility matures April 1, 2013. Our financing facilities contain various covenants. If we fail to comply with these covenants, the lenders would be able to demand payment within a specified period of time. At June 30, 2009, we were in compliance with all such covenants.

*Inventory Financing Facility*

As of June 30, 2009 and December 31, 2008, \$82,114,000 and \$80,904,000, respectively, was included in accounts payable within the Consolidated Balance Sheet related to our inventory financing facility.

**6. Income Taxes**

Our effective tax rate from continuing operations for the three and six months ended June 30, 2009 was 35.6% and 38.2%, respectively. For the three and six months ended June 30, 2009, our effective tax rate was higher than the United States federal statutory rate of 35.0% due primarily to state income taxes, net of federal tax, partially offset by lower taxes on income earned in foreign jurisdictions.

Our effective tax rate for the three months ended June 30, 2008 was 36.0% on a \$273,658,000 loss from continuing operations. Our effective tax rate for the six months ended June 30, 2008 was also 36.0% on a \$260,844,000 loss from continuing operations. The effective tax rate for both periods differed from the United States federal statutory rate of 35.0% due primarily to state income taxes, net of federal tax, and lower taxes on income earned in foreign jurisdictions, offset by the non-deductible portion of the goodwill impairment charge.

Several of our subsidiaries are currently under audit for the 2002 through 2006 tax years. It is reasonably possible that the examination phase of these audits may conclude in the next 12 months and that the related unrecognized tax benefits for uncertain tax positions may change, potentially having a material effect on our effective tax rate. However, based on the status of the various examinations in multiple jurisdictions, an estimate of the range of reasonably possible outcomes cannot be made at this time.

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

**7. Severance, Restructuring and Acquisition Integration Activities***Severance Costs Expensed in 2009*

During the three months ended June 30, 2009, EMEA and APAC recorded severance expense totaling \$1,900,000 and \$230,000, respectively, and during the six months ended June 30, 2009, North America, EMEA and APAC recorded severance expense totaling \$5,859,000, \$2,317,000 and \$301,000, respectively, related to on-going restructuring efforts to reduce operating expenses related to support functions. The following table details the changes in these liabilities during the six months ended June 30, 2009 (in thousands):

|  | <b>North<br/>America</b> | <b>EMEA</b> | <b>APAC</b> | <b>Consolidated</b> |
|--|--------------------------|-------------|-------------|---------------------|
| Severance costs                          | \$ 5,859                 | \$ 2,317    | \$ 301      | \$ 8,477            |
| Foreign currency translation adjustments |                          | 100         | (2)         | 98                  |
| Cash payments                            | (5,188)                  | (394)       | (81)        | (5,663)             |
| Balance at June 30, 2009                 | \$ 671                   | \$ 2,023    | \$ 218      | \$ 2,912            |

All remaining outstanding obligations are expected to be paid during the year ending December 31, 2009 and are therefore included in accrued expenses and other current liabilities.

*Severance Costs Expensed in 2008*

During the year ended December 31, 2008, North America, EMEA and APAC recorded severance expense related to on-going restructuring efforts to reduce operating expenses related to support functions. The following table details the changes in these liabilities during the six months ended June 30, 2009 (in thousands):

|  | <b>North<br/>America</b> | <b>EMEA</b> | <b>APAC</b> | <b>Consolidated</b> |
|--|--------------------------|-------------|-------------|---------------------|
| Balance at December 31, 2008             | \$ 775                   | \$ 1,939    | \$          | \$ 2,714            |
| Foreign currency translation adjustments |                          | 4           |             | 4                   |
| Cash payments                            | (557)                    | (1,759)     |             | (2,316)             |
| Balance at June 30, 2009                 | \$ 218                   | \$ 184      | \$          | \$ 402              |

All remaining outstanding obligations are expected to be paid during the year ending December 31, 2009 and are therefore included in accrued expenses and other current liabilities.

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

In 2006, we recorded \$9,738,000 of employee termination benefits and \$1,676,000 of facility based costs in connection with the integration of Software Spectrum. These costs were recognized as a liability assumed in the purchase business combination and included in the allocation of the cost to acquire Software Spectrum.

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



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

The following table details the changes in these liabilities during the six months ended June 30, 2009 (in thousands):

|  | <b>North<br/>America</b> | <b>EMEA</b> | <b>Consolidated</b> |
|--|--------------------------|-------------|---------------------|
| Balance at December 31, 2008             | \$ 341                   | \$ 2,806    | \$ 3,147            |
| Foreign currency translation adjustments |                          | 105         | 105                 |
| Adjustments                              |                          | (818)       | (818)               |
| Cash payments                            |                          | (305)       | (305)               |
| Balance at June 30, 2009                 | \$ 341                   | \$ 1,788    | \$ 2,129            |

In the accompanying consolidated balance sheet at June 30, 2009, \$1,920,000 is expected to be paid in 2009 and is therefore included in accrued expenses and other current liabilities, and \$209,000 is expected to be paid after 2009 and is therefore included in other liabilities (long-term). An adjustment of \$818,000 was recorded as a reduction of selling and administrative expenses recorded during the three and six months ended June 30, 2009 and the related severance accrual in EMEA due to a change in estimate of the costs of the integration plan.

*Restructuring Costs Expensed in 2005*

During the year ended December 31, 2005, Insight UK moved into a new facility and recorded facilities-based restructuring costs of \$7,458,000.

The following table details the changes in this liability during the six months ended June 30, 2009 (in thousands):

|  | <b>EMEA</b> |
|--|-------------|
| Balance at December 31, 2008             | \$ 1,050    |
| Foreign currency translation adjustments | 147         |
| Cash payments                            | (205)       |
| Balance at June 30, 2009                 | \$ 992      |

In the accompanying consolidated balance sheet at June 30, 2009, the remaining accrual of \$992,000 is expected to be paid in 2009, as the leases expire in December 2009, and is therefore included in accrued expenses and other current liabilities.

**8. Stock-Based Compensation**

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

|               | <b>Three Months Ended<br/>June 30,</b> |                                     | <b>Six Months Ended<br/>June 30,</b> |                                     |
|---------------|--|-------------------------------------|--------------------------------------|-------------------------------------|
|               | <b>2009</b>                            | <b>2008<br/>As Restated<br/>(1)</b> | <b>2009</b>                          | <b>2008<br/>As Restated<br/>(1)</b> |
| North America | \$ 865                                 | \$ 1,892                            | \$ 5,125                             | \$ 4,059                            |
| EMEA          | 179                                    | 728                                 | 1,932                                | 1,676                               |
| APAC          | 30                                     | 74                                  | 108                                  | 154                                 |
| Total         | \$ 1,074                               | \$ 2,694                            | \$ 7,165                             | \$ 5,889                            |

- (1) See Note 2  
Restatement of  
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Part II, Item 8 of  
our Annual  
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above.

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

*Stock Options*

For the three months ended June 30, 2009, we recorded stock-based compensation expense related to stock options, net of an estimate of forfeitures, of \$70,000 and for the three months ended June 30, 2008 we recorded a benefit of \$253,000 in continuing operations related to the reversal of previously recognized expense as the result of actual forfeited awards being in excess of estimated forfeitures. For the six months ended June 30, 2009 and 2008, we recorded stock-based compensation expense related to stock options, net of an estimate of forfeitures, of \$135,000 and \$293,000, respectively. As of June 30, 2009, total compensation cost not yet recognized related to nonvested stock options is \$540,000, which is expected to be recognized over the next .86 years on a weighted-average basis. The following table summarizes our stock option activity during the six months ended June 30, 2009:

|                                | Number    | Weighted<br>Average<br>Exercise<br>Price | Aggregate<br>Intrinsic<br>Value<br>(in-the-money<br>options) | Weighted<br>Average<br>Remaining<br>Contractual<br>Life (in<br>years) |
|--------------------------------|-----------|--|--|---|
| Outstanding at January 1, 2009 | 2,536,673 | \$ 19.47                                 |  |   |
| Granted                        |           |  |  |   |
| Exercised                      |           |  | \$   |   |
| Forfeited or expired           | (946,408) | 19.81                                    |  |   |
| Outstanding at June 30, 2009   | 1,590,265 | 19.27                                    | \$   | 0.94  |
| Exercisable at June 30, 2009   | 1,456,932 | 19.40                                    | \$   | 0.71  |
| Vested and expected to vest    | 1,574,492 | 19.28                                    | \$   | 0.92  |

There is no aggregate intrinsic value reflected in the preceding table because our closing stock price of \$9.66 as of June 30, 2009 was less than the exercise price of all outstanding options.

The following table summarizes the status of outstanding stock options as of June 30, 2009:

| Range of<br>Exercise<br>Prices | Number of<br>Options<br>Outstanding | Options Outstanding   |  | Options Exercisable                 |  |
|--------------------------------|-------------------------------------|---|--|-------------------------------------|--|
|                                |                                     | Weighted<br>Average<br>Remaining<br>Contractual<br>Life (in<br>years) | Weighted<br>Average<br>Exercise<br>Price<br>Per<br>Share | Number of<br>Options<br>Exercisable | Weighted<br>Average<br>Exercise<br>Price<br>Per<br>Share |
| \$13.94 - 17.77                | 339,106                             | 2.26  | \$ 16.96   | 205,773                             | \$ 16.43   |
| 17.79 - 18.65                  | 369,601                             | 0.79  | 18.54  | 369,601                             | 18.54  |
| 18.67 - 19.79                  | 59,124                              | 0.89  | 19.25  | 59,124                              | 19.25  |
| 19.90 - 19.90                  | 500,000                             | 0.38  | 19.90  | 500,000                             | 19.90  |

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|       |       |           |      |       |           |       |
|-------|-------|-----------|------|-------|-----------|-------|
| 20.00 | 41.00 | 322,434   | 0.60 | 21.55 | 322,434   | 21.55 |
|       |       | 1,590,265 | 0.94 | 19.27 | 1,456,932 | 19.40 |

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

*Restricted Stock*

For the three months ended June 30, 2009 and 2008, we recorded stock-based compensation expense, net of estimated forfeitures, related to restricted stock shares and RSUs of \$1,004,000 and \$2,947,000, respectively. For the six months ended June 30, 2009 and 2008, we recorded stock-based compensation expense, net of estimated forfeitures, related to RSUs of \$7,030,000 and \$5,596,000, respectively. The expense for the six months ended June 30, 2009 includes a non-cash charge of \$5,478,000 that was recognized as a result of the cancellation of certain long-term incentive awards discussed below. As of June 30, 2009, total compensation cost not yet recognized related to nonvested RSUs is \$7,112,000, which is expected to be recognized over the next 1.09 years on a weighted-average basis. The following table summarizes our RSU activity during the six months ended June 30, 2009:

|  | Number    | Weighted<br>Average<br>Grant Date Fair<br>Value | Fair Value                   |
|--|-----------|---|------------------------------|
| Nonvested at January 1, 2009                     | 1,520,156 | \$ 13.71  |                              |
| Granted  | 1,154,373 | 3.11  |                              |
| Vested, including shares withheld to cover taxes | (369,285) | 19.41   | \$ 1,454,133 <sup>(a)</sup>  |
| Forfeited  | (917,340) | 9.37  |                              |
| Nonvested at June 30, 2009                       | 1,387,904 | 6.24  | \$ 13,407,153 <sup>(b)</sup> |
| Expected to vest                                 | 1,152,383 |   | \$ 11,132,020 <sup>(b)</sup> |

(a) The fair value of vested RSUs represents the total pre-tax fair value, based on the closing stock price on the day of vesting, which would have been received by holders of RSUs had all such holders sold their underlying shares on that date.

(b) The aggregate fair value of the

nonvested RSUs expected to vest represents the total pre-tax fair value, based on our closing stock price of \$9.66 as of June 30, 2009, which would have been received by holders of RSUs had all such holders sold their underlying shares on that date.

During the six months ended June 30, 2009, the RSUs that vested for teammates in the United States were net-share settled such that we withheld shares with value equivalent to the teammates' minimum statutory United States tax obligation for the applicable income and other employment taxes and remitted the cash to the appropriate taxing authorities. The total shares withheld during the six months ended June 30, 2009 of 100,803 were based on the value of the RSUs on their vesting date as determined by our closing stock price on such date. For the six months ended June 30, 2009, total payments for the employees' tax obligations to the taxing authorities were \$398,000 and are reflected as a financing activity within the Consolidated Statements of Cash Flows. These net-share settlements had the economic effect of repurchases of common stock as they reduced the number of shares that would have otherwise been issued as a result of the vesting and did not represent a repurchase of shares or an expense to us.

On January 23, 2008, the Compensation Committee of our Board of Directors approved a special long-term incentive award for the Chief Executive Officer, the President of our North America/APAC operating segments and the President of our EMEA operating segment. The approved grant level targets were as follows:

Richard A. Fennessy, President and Chief Executive Officer 300,000 RSUs;  
Mark T. McGrath, President, North America/APAC 150,000 RSUs; and  
Stuart A. Fenton, President, EMEA 100,000 RSUs.

The plan provided for the award of RSUs that were to be issued based upon achievement of specific stock price hurdles within specific timeframes over a three-year period from 2009-2011. If all or some hurdles were not achieved, 33% of the remaining award (i.e., any shares not issued for achievement of the specific stock price hurdles in the specific timeframes) would have been made on February 15, 2013, assuming continued employment. However, due to the economic climate and the decrease in Insight's stock price, on February 19, 2009, Messrs. Fennessy, Fenton and McGrath agreed to forfeit the awards, resulting in the termination of the awards. Accordingly, no shares were, or will be, issued under these awards. A non-cash charge of \$5,478,000 was recognized as a result of the cancellation of these awards. Such amount is included in selling and administrative expenses in the Consolidated Statement of Operations for the six months ended June 30, 2009.

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

**9. Derivative Financial Instruments**

We use derivatives to partially offset our exposure to fluctuations in certain foreign currencies. We do not enter into derivatives for speculative or trading purposes. Derivatives are recorded at fair value on the balance sheet and gains or losses resulting from changes in fair value of the derivative are recorded currently in income. The Company does not designate its hedges for special hedge accounting.

*Non-Designated Hedges*

We use foreign exchange forward contracts to hedge certain non-functional currency assets and liabilities from changes in exchange rate movements. Our non-functional currency assets and liabilities are primarily related to foreign currency denominated payables, receivables, and cash balances. The foreign currency forward contracts, carried at fair value, typically have a maturity of one month or less. We currently enter into approximately four foreign exchange forward contracts per month with an average notional value of \$7,400,000 and an average maturity of approximately one week.

The counterparties associated with our foreign exchange forward contracts are large credit worthy commercial banks. The derivatives transacted with these institutions are short in duration and therefore we do not consider counterparty concentration and non-performance to be material risks.

The following table summarizes our derivative financial instruments as of June 30, 2009 (in thousands):

|   | <b>Asset Derivatives</b>      |                   | <b>Liability Derivatives</b>                   |                   |
|---|-------------------------------|-------------------|--|-------------------|
|   | <b>Balance Sheet Location</b> | <b>Fair Value</b> | <b>Balance Sheet Location</b>                  | <b>Fair Value</b> |
| Derivatives not designated as hedging instruments:      |                               |                   |  |                   |
| Foreign exchange forward contracts                      | Other current assets          | \$ 4              | Accrued expenses and other current liabilities | \$ (1)            |
| Total derivatives not designated as hedging instruments |                               | \$ 4              |  | \$ (1)            |

- (a) Additional information on our purpose for entering into derivatives is described in Quantitative and Qualitative Disclosures About Market Risk in Part II, Item 7A of our Annual Report on Form 10-K for the year ended

December 31,  
2008.

The following table summarizes the effect of our derivative financial instruments on our results of operations during the three and six months ended June 30, 2009 (in thousands):

| <b>Derivatives Not Designated as Hedging</b> | <b>Location of Loss Recognized in</b> | <b>Amount of Loss Recognized in Earnings on Derivative</b> |                                       |
|--|---------------------------------------|--|---------------------------------------|
|  |                                       | <b>Three Months Ended June 30, 2009</b>                    | <b>Six Months Ended June 30, 2009</b> |
| <b>Instruments</b>                           | <b>Earnings on Derivative</b>         |  |                                       |
| Foreign exchange contracts                   | Net foreign currency exchange loss    | \$ 682   | \$ 1,817                              |
| Total  |                                       | \$ 682   | \$ 1,817                              |

#### **10. Fair Value Measurements**

The following table summarizes the valuation of our financial instruments by the following three categories as of June 30, 2009 (in thousands):

Level 1: Quoted market prices in active markets for identical assets or liabilities.

Level 2: Observable market based inputs or unobservable inputs that are corroborated by market data.

Level 3: Unobservable inputs that are not corroborated by market data.



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

|                                 | Value as<br>of<br>June 30,<br>2009 | Quoted<br>Market<br>Prices<br>in Active<br>Markets<br>(Level 1) | Significant<br>Other<br>Observable<br>Inputs<br>(Level 2) | Significant<br>Unobservable<br>Inputs<br>(Level 3) | Balance Sheet<br>Classification                |
|---------------------------------|------------------------------------|---|---|--|--|
| Assets:                         |                                    |   |   |  |  |
| Foreign Exchange Derivatives    | \$ 4                               | \$  | \$ 4  | \$   | Other current assets                           |
| Total Assets at Fair Value      | \$ 4                               | \$  | \$ 4  | \$   |  |
| Liabilities:                    |                                    |   |   |  |  |
| Foreign Exchange Derivatives    | \$ 1                               | \$  | \$ 1  | \$   | Accrued expenses and other current liabilities |
| Total Liabilities at Fair Value | \$ 1                               | \$  | \$ 1  | \$   |  |

We have elected to use the income approach to value the foreign exchange derivatives, using observable Level 2 market expectations at the measurement date and standard valuation techniques to convert future amounts to a single present value amount assuming that participants are motivated, but not compelled, to transact. Level 2 inputs for the valuations are limited to quoted prices for similar assets or liabilities in active markets and inputs other than quoted prices that are observable for the asset or liability (specifically LIBOR rates, foreign exchange rates, and foreign exchange forward points). Mid-market pricing is used as a practical expedient for fair value measurements. The fair value measurement of an asset or liability must reflect the nonperformance risk of the entity and the counterparty. Therefore, the impact of the counterparty's creditworthiness when in an asset position and the Company's creditworthiness when in a liability position has also been factored into the fair value measurement of the derivative instruments and did not have a material impact on the fair value of these derivative instruments. Both the counterparty and the Company are expected to continue to perform under the contractual terms of the instruments.

As of June 30, 2009, we have no nonfinancial assets or liabilities that are measured on a recurring basis and our other financial assets or liabilities generally consist of cash and cash equivalents, accounts receivable, accounts payable and accrued expenses and other current liabilities. The estimated fair values of our cash equivalents is determined based on quoted prices in active markets for identical assets. The fair value of the other financial assets and liabilities is based on the value that would be received or paid in an orderly transaction between market participants and approximates the carrying value due to their nature and short duration.

**11. Comprehensive Income (Loss)**

Comprehensive income (loss) for the three and six months ended June 30, 2009 and 2008 includes the following component (in thousands):

|  | <b>Three Months Ended</b> |                    | <b>Six Months Ended</b> |                    |
|--|---------------------------|--------------------|-------------------------|--------------------|
|  | <b>June 30,</b>           |                    | <b>June 30,</b>         |                    |
|  | <b>2009</b>               | <b>2008</b>        | <b>2009</b>             | <b>2008</b>        |
|  |                           | <b>As Restated</b> |                         | <b>As Restated</b> |
|  |                           | <b>(1)</b>         |                         | <b>(1)</b>         |
| Net earnings (loss)                      | \$ 15,694                 | \$ (175,075)       | \$ 8,897                | \$ (166,902)       |
| Other comprehensive income, net of tax:  |                           |                    |                         |                    |
| Foreign currency translation adjustments | 14,172                    | 1,500              | 8,638                   | 7,852              |
| Total comprehensive income (loss)        | \$ 29,866                 | \$ (173,575)       | \$ 17,535               | \$ (159,050)       |

(1) See Note 2  
Restatement of  
Consolidated  
Financial  
Statements in  
Part II, Item 8 of  
our Annual  
Report on Form  
10-K for the  
year ended  
December 31,  
2008 and Note 2  
above.

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

**12. Commitments and Contingencies**

*Contractual*

In the ordinary course of business, we issue performance bonds to secure our performance under certain contracts or state tax requirements. As of June 30, 2009 and December 31, 2008, we had approximately \$28,972,000 and \$24,623,000, respectively, of performance bonds outstanding. These bonds are issued on our behalf by a surety company on an unsecured basis; however, if the surety company is ever required to pay out under the bonds, we have contractually agreed to reimburse them.

*Employment Contracts*

We have employment contracts with certain officers and management teammates under which severance payments would become payable and accelerated vesting of stock-based compensation would occur in the event of specified terminations without cause or terminations under certain circumstances after a change in control. If such persons were terminated without cause or under certain circumstances after a change of control, and the severance payments under the current employment agreements were to become payable, the severance payments would generally range from twelve to twenty-four months of the teammate's salary.

*Guaranties*

In the ordinary course of business, we may guarantee the indebtedness or performance obligations of our subsidiaries to vendors and clients. We have not recorded specific liabilities for these guaranties in the consolidated financial statements because, to the extent applicable, we have recorded the underlying liabilities associated with the guaranties. In the event we are required to perform under the related contracts, we believe the cost of such performance would not have a material adverse effect on our consolidated financial position or results of operations. Our financing agreements generally limit the amount of guarantees that may be outstanding at a point in time related to client or vendor contracts where such guarantees are considered indebtedness, as defined in the financing agreements.

*Indemnifications*

From time to time, in the ordinary course of business, we enter into contractual arrangements under which we agree to indemnify either our clients or third-party service providers from certain losses incurred relating to services performed on our behalf or for losses arising from defined events, which may include litigation or claims relating to past performance. These arrangements include, but are not limited to, the indemnification of our landlords for certain claims arising from our use of leased facilities and the indemnification of the lenders that provide our credit facilities for certain claims arising from their extension of credit to us. Such indemnification obligations may not be subject to maximum loss clauses.

In connection with our sale of Direct Alliance in June 2006, the sale agreement contains certain indemnification provisions pursuant to which we are required to indemnify the buyer for a limited period of time for liabilities, losses or expenses arising out of breaches of covenants and certain breaches of representations and warranties relating to the condition of the business prior to and at the time of sale.

Management believes that payments, if any, related to these indemnifications are not probable at June 30, 2009 and, if incurred, would not be material. Accordingly, we have not accrued any liabilities related to such indemnifications in our consolidated financial statements

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

*Contingencies Related to Third-Party Review*

From time to time, we are subject to potential claims and assessments from third parties. We are also subject to various governmental, client and vendor audits. We continually assess whether or not such claims have merit and warrant accrual. Where appropriate, we accrue estimates of anticipated liabilities in the consolidated financial statements. Such estimates are subject to change and may affect our results of operations and our cash flows.

*Legal Proceedings*

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

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. Beginning in March 2009, three purported class action lawsuits were filed in the U.S. District Court for the District of Arizona against us and certain of our current and former directors and officers on behalf of purchasers of our securities during the period April 22, 2004 to February 6, 2009. The plaintiffs in two of these lawsuits voluntarily dismissed their complaints in May and June 2009. The remaining complaint, which seeks unspecified damages, asserts claims under the federal securities laws relating to our February 9, 2009 announcement that we expected to restate our financial statements for the year ended December 31, 2007 and for the first three quarters of 2008 and that the restatement would include a material reduction of retained earnings. The complaint also alleges that we issued false and misleading financial statements and issued misleading public statements about our results of operations. The court appointed a lead plaintiff and lead counsel on June 24, 2009. None of the defendants have responded to the complaint at this time. In June 2009, we were notified that three shareholder derivative lawsuits had been filed, two in the Superior Court in Maricopa County, Arizona (the State derivative actions ) and one in the U.S. District Court for the District of Arizona (the Federal derivative action ), by persons identifying themselves as Insight shareholders and purporting to act on behalf of Insight, naming Insight as a nominal defendant and current and former officers and directors as defendants. The three complaints, like the purported class action complaint, arise out of our February 9, 2009 announcement. The State derivative actions allege breaches of fiduciary duties of loyalty and good faith, breach of fiduciary duties for insider selling and misappropriation of information, and unjust enrichment, and the Federal derivative action alleges breach of fiduciary duty, gross mismanagement and waste of corporate assets. The amount of damages sought by the plaintiffs is not specified in the complaints. On July 31, 2009, we received, from the plaintiff in the Federal derivative action, a demand to inspect books and records pursuant to Section 220 of the Delaware General Corporation Law, and we are evaluating this demand. Neither the Company nor the individual defendants have answered or moved to dismiss any of the derivative complaints at this time.

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

On March 19, 2009, we received a letter of informal inquiry from the SEC requesting certain documents and information relating to the Company's historical accounting treatment of aged trade credits. On August 3, 2009, the staff of the SEC notified the Company that its investigation into the Company's historical accounting treatment of aged trade credits has been completed and that the staff does not intend to recommend any enforcement action by the SEC against the Company.

Management does not believe that the ultimate outcome of these legal proceedings will have a material effect on our results of operations.

**13. Segment Information**

We operate in three reportable geographic operating segments: North America; EMEA; and APAC. Currently, our offerings in North America and the United Kingdom include IT hardware, software and services. Our offerings in the remainder of our EMEA segment and in APAC are almost entirely software and select software-related services. All intercompany transactions are eliminated upon consolidation, and there are no differences between the accounting policies used to measure profit and loss for our segments and on a consolidated basis. Net sales are defined as net sales to external clients. None of our clients exceeded ten percent of consolidated net sales for the three and six months ended June 30, 2009.

A portion of our operating segments' selling and administrative expenses arise from shared services and infrastructure that we have historically provided to them in order to realize economies of scale and to use resources efficiently. These expenses, collectively identified as corporate charges, include senior management expenses, internal audit, legal, tax, insurance services, treasury and other corporate infrastructure expenses. Charges are allocated to our operating segments, and the allocations have been determined on a basis that we considered to be a reasonable reflection of the utilization of services provided to or benefits received by the operating segments.

The tables below present information about our reportable operating segments as of and for the three months ended June 30, 2009 and 2008 (in thousands):

**Three Months Ended June 30, 2009**

|   | <b>North<br/>America</b> | <b>EMEA</b> | <b>APAC</b> | <b>Consolidated</b> |
|---|--------------------------|-------------|-------------|---------------------|
| Net sales   | \$ 713,531               | \$ 281,241  | \$ 42,390   | \$ 1,037,162        |
| Costs of goods sold                                     | 613,783                  | 239,468     | 36,067      | 889,318             |
| Gross profit  | 99,748                   | 41,773      | 6,323       | 147,844             |
| Operating expenses:                                     |                          |             |             |                     |
| Selling and administrative expenses                     | 85,980                   | 33,814      | 4,071       | 123,865             |
| Severance and restructuring expenses                    |                          | 1,900       | 230         | 2,130               |
| Earnings from operations                                | \$ 13,768                | \$ 6,059    | \$ 2,022    | 21,849              |
| Non-operating expense, net                              |                          |             |             | 1,840               |
| Earnings from continuing operations before income taxes |                          |             |             | 20,009              |
| Income tax expense                                      |                          |             |             | 7,116               |
| Net earnings from continuing operations                 |                          |             |             | 12,893              |
| Net earnings from a discontinued operation              |                          |             |             | 2,801               |

|                            |              |            |           |    |            |
|----------------------------|--------------|------------|-----------|----|------------|
| Net earnings               |              |            |           | \$ | 15,694     |
| Total assets at period end | \$ 1,324,915 | \$ 444,439 | \$ 55,496 | \$ | 1,543,995* |

\* Consolidated total assets include corporate assets and intercompany eliminations for a net reduction of \$280,855.

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

**Three Months Ended June 30, 2008**  
**As Restated (1)**

|   | <b>North<br/>America</b> | <b>EMEA</b> | <b>APAC</b> | <b>Consolidated</b> |
|---|--------------------------|-------------|-------------|---------------------|
| Net sales   | \$ 955,808               | \$ 382,271  | \$ 58,506   | \$ 1,396,585        |
| Costs of goods sold                                 | 821,028                  | 325,584     | 49,031      | 1,195,643           |
| Gross profit  | 134,780                  | 56,687      | 9,475       | 200,942             |
| Operating expenses:                                 |                          |             |             |                     |
| Selling and administrative expenses                 | 105,946                  | 41,409      | 5,523       | 152,878             |
| Goodwill impairment                                 | 313,776                  |             |             | 313,776             |
| Severance and restructuring expenses                | 1,281                    | 2,210       | 17          | 3,508               |
| (Loss) earnings from operations                     | \$ (286,223)             | \$ 13,068   | \$ 3,935    | (269,220)           |
| Non-operating expense, net                          |                          |             |             | 4,438               |
| Loss from continuing operations before income taxes |                          |             |             | (273,658)           |
| Income tax benefit                                  |                          |             |             | (98,583)            |
| Net loss from continuing operations                 |                          |             |             | (175,075)           |
| Net earnings from a discontinued operation          |                          |             |             |                     |
| Net loss  |                          |             |             | \$ (175,075)        |
| Total assets at period end                          | \$ 1,512,725             | \$ 586,473  | \$ 85,373   | \$ 2,032,987*       |

(1) See Note 2  
Restatement of  
Consolidated  
Financial  
Statements in  
Part II, Item 8 of  
our Annual  
Report on Form  
10-K for the  
year ended  
December 31,  
2008 and Note 2  
above.

\*

Consolidated  
total assets  
include  
corporate assets  
and  
intercompany  
eliminations for  
a net reduction  
of \$151,584.

The tables below present information about our reportable operating segments as of and for the six months ended June 30, 2009 and 2008 (in thousands):

|  | <b>Six Months Ended June 30, 2009</b> |             |             |                     |
|--|---------------------------------------|-------------|-------------|---------------------|
|  | <b>North<br/>America</b>              | <b>EMEA</b> | <b>APAC</b> | <b>Consolidated</b> |
| Net sales  | \$ 1,373,632                          | \$ 551,966  | \$ 62,724   | \$ 1,988,322        |
| Costs of goods sold  | 1,180,841                             | 474,289     | 53,576      | 1,708,706           |
| Gross profit   | 192,791                               | 77,677      | 9,148       | 279,616             |
| Operating expenses:  |                                       |             |             |                     |
| Selling and administrative expenses                        | 181,087                               | 68,720      | 7,401       | 257,208             |
| Severance and restructuring expenses                       | 5,859                                 | 2,317       | 301         | 8,477               |
| Earnings from operations                                   | \$ 5,845                              | \$ 6,640    | \$ 1,446    | 13,931              |
| Non-operating expense, net                                 |                                       |             |             | 4,068               |
| Earnings from continuing operations before<br>income taxes |                                       |             |             | 9,863               |
| Income tax expense   |                                       |             |             | 3,767               |
| Net earnings from continuing operations                    |                                       |             |             | 6,096               |
| Net earnings from a discontinued operation                 |                                       |             |             | 2,801               |
| Net earnings   |                                       |             |             | \$ 8,897            |
| Total assets at period end                                 | \$ 1,324,915                          | \$ 444,439  | \$ 55,496   | \$ 1,543,995*       |

\* Consolidated  
total assets  
include  
corporate assets  
and  
intercompany  
eliminations for  
a net reduction  
of \$280,855.





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

|   | <b>Six Months Ended June 30, 2008</b> |             |             |                     |
|---|---------------------------------------|-------------|-------------|---------------------|
|   | <b>As Restated (1)</b>                |             |             |                     |
|   | <b>North<br/>America</b>              | <b>EMEA</b> | <b>APAC</b> | <b>Consolidated</b> |
| Net sales   | \$ 1,717,942                          | \$ 700,492  | \$ 81,649   | \$ 2,500,083        |
| Costs of goods sold                                 | 1,481,954                             | 597,156     | 68,409      | 2,147,519           |
| Gross profit  | 235,988                               | 103,336     | 13,240      | 352,564             |
| Operating expenses:                                 |                                       |             |             |                     |
| Selling and administrative expenses                 | 197,717                               | 80,888      | 9,734       | 288,339             |
| Goodwill impairment                                 | 313,776                               |             |             | 313,776             |
| Severance and restructuring expenses                | 2,290                                 | 3,079       | 39          | 5,408               |
| (Loss) earnings from operations                     | \$ (277,795)                          | \$ 19,369   | \$ 3,467    | (254,959)           |
| Non-operating expense, net                          |                                       |             |             | 5,885               |
| Loss from continuing operations before income taxes |                                       |             |             | (260,844)           |
| Income tax benefit                                  |                                       |             |             | (93,942)            |
| Net loss from continuing operations                 |                                       |             |             | (166,902)           |
| Net earnings from a discontinued operation          |                                       |             |             |                     |
| Net loss  |                                       |             |             | \$ (166,902)        |
| <br>  |                                       |             |             |                     |
| Total assets at period end                          | \$ 1,512,725                          | \$ 586,473  | \$ 85,373   | \$ 2,032,987*       |

(1) See Note 2  
Restatement of  
Consolidated  
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Statements in  
Part II, Item 8 of  
our Annual  
Report on Form  
10-K for the  
year ended  
December 31,  
2008 and Note 2  
above.

\*

Consolidated  
total assets  
include  
corporate assets  
and  
intercompany  
eliminations for  
a net reduction  
of \$151,584.

#### **14. Subsequent Events**

We evaluated subsequent events for their effect on the accompanying unaudited consolidated financial statements and notes thereto through the date of the filing of our quarterly report on Form 10-Q for the quarterly period ended June 30, 2009 on or about August 5, 2009.

During the three months ended June 30, 2009, we recorded earnings from a discontinued operation of \$4,460,000 as a result of the favorable settlement on July 7, 2009 of an arbitrated claim related to the 2006 sale of a former subsidiary. The amount recognized was net of payments to holders of 1,997,500 exercised stock options of the former subsidiary and a broker success fee with respect to the settlement totaling \$540,000. Tax expense related to this matter was \$1,659,000.

On July 24, 2009, we amended our ABS facility, which was to have expired on September 17, 2009, to, among other things, (i) add software receivables from the legacy Software Spectrum business as eligible receivables under the facility, (ii) reduce our eligible receivables under the facility by \$52.3 million to reflect the trade credit liabilities that were recorded as part of our financial statement restatement described in Note 2 as well as certain other accounts receivable related to sales where recognition of the sale has been deferred (iii) establish a new 364-day term ending July 23, 2010 and (iv) increase the variable interest rate by approximately 75 basis points for funds provided under the ABS facility, calculated as the specified Pooled Commercial Paper Rate, as defined in the ABS facility, plus 2.25%. The \$150.0 million maximum borrowing capacity and the maximum leverage, minimum fixed charge and asset coverage ratio financial covenant requirements under the ABS facility were not modified as part of the amendment. The actual availability under the ABS facility is determined by the quantity and quality of the underlying accounts receivable. As of June 30, 2009, on a pro forma basis giving effect to the amendment, the availability under the ABS facility was \$114.8 million, up from the \$57.3 million available prior to the amendment.

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

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

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

**Quarterly Overview**

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

Currently, our offerings in North America and the United Kingdom include IT hardware, software and services. Our offerings in the remainder of our EMEA segment and in APAC are almost entirely software and select software-related services.

Consolidated net sales were \$1.04 billion in the second quarter of 2009, down 26% from the \$1.40 billion reported in the second quarter of 2008. Gross profit also declined 26% to \$147.8 million, while gross margin remained relatively constant, declining just 10 basis points to 14.3%.

We reported earnings from operations of \$21.8 million for the second quarter. Results of operations for the three months ended June 30, 2009 included the effects of the following items:

legal and other professional fees of \$2.6 million, \$1.6 million net of tax, associated with the trade credits investigation and restatement quantification; and

severance and restructuring expenses of \$2.1 million, \$1.5 million net of tax, related to additional resource actions taken in the second quarter in our EMEA and APAC segments. Comparatively, in the second quarter of 2008, we recorded \$3.5 million, \$2.3 million net of tax, in severance and restructuring charges.

The year-over-year comparison of earnings from operations and net earnings from continuing operations is significantly affected by the \$313.8 million, \$201.1 million net of tax, non-cash goodwill impairment charge recognized during the second quarter of the prior year in our North America segment.

On a consolidated basis, we reported net earnings from continuing operations of \$12.9 million and diluted earnings per share from continuing operations of \$0.28 for the second quarter.

Earnings from a discontinued operation were \$4.5 million, \$2.8 million net of tax, or \$0.06 per diluted share, bringing our consolidated diluted net earnings per share to \$0.34 for the second quarter. The net earnings from a discontinued operation result from the favorable settlement of an arbitrated claim related to the 2006 sale of a former subsidiary of Insight.

Our focus on cash flow initiatives continued to yield benefits in the second quarter and as a result, we ended the quarter with outstanding long-term debt of \$119.5 million, down \$108.5 million from December 31, 2008, including a \$51.5 million reduction during the second quarter.

Details about segment results of operations can be found in Note 13 to the Consolidated Financial Statements in Part I, Item 1 of this report.

Our discussion and analysis of financial condition and results of operations is intended to assist in the understanding of our consolidated financial statements, the changes in certain key items in those consolidated financial statements from period to period and the primary factors that contributed to those changes, as well as how certain critical accounting estimates affect our consolidated financial statements.

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

**Updated Guidance**

We continue to believe that, with demand levels where they are today and with the resource and other actions we have taken over the last several quarters, diluted earnings per share from continuing operations will be between \$0.80 and \$0.87 for the full year of 2009. However, given the typical seasonality of our business and our anticipation of continued softness in the EMEA market, we now believe that diluted earnings per share from continuing operations in the second half of the year may be lower than the first half of the year. This outlook does not include the effect of any severance and restructuring expenses, expenses associated with the restatement investigation and administration or related litigation, or other one-time charges.

**Critical Accounting Estimates**

**General**

Our consolidated financial statements have been prepared in accordance with U.S. generally accepted accounting principles ( GAAP ). For a summary of significant accounting policies, see Note 1 to the Consolidated Financial Statements in Part II, Item 8 of our Annual Report on Form 10-K for the year ended December 31, 2008. The preparation of these consolidated financial statements requires us to make estimates and assumptions that affect the reported amounts of assets, liabilities, net sales and expenses. We base our estimates on historical experience and on various other assumptions that we believe to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results, however, may differ from estimates we have made. Members of our senior management have discussed the critical accounting estimates and related disclosures with the Audit Committee of our Board of Directors.

There have been no changes to the items disclosed as critical accounting estimates in Management's Discussion and Analysis of Financial Condition and Results of Operations in Part II, Item 7 of our Annual Report on Form 10-K for the year ended December 31, 2008.

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

**Results of Operations**

The following table sets forth for the periods presented certain financial data as a percentage of net sales for the three and six months ended June 30, 2009 and 2008:

|  | <b>Three Months Ended</b> |                 | <b>Six Months Ended</b> |                 |
|--|---------------------------|-----------------|-------------------------|-----------------|
|  | <b>June 30,</b>           |                 | <b>June 30,</b>         |                 |
|  | <b>2009</b>               | <b>2008</b>     | <b>2009</b>             | <b>2008</b>     |
|  |                           | <b>As</b>       |                         | <b>As</b>       |
|  |                           | <b>Restated</b> |                         | <b>Restated</b> |
|  |                           | <b>(1)</b>      |                         | <b>(1)</b>      |
| Net sales  | 100.0%                    | 100.0%          | 100.0%                  | 100.0%          |
| Costs of goods sold  | 85.7                      | 85.6            | 85.9                    | 85.9            |
| Gross profit   | 14.3                      | 14.4            | 14.1                    | 14.1            |
| Selling and administrative expenses                            | 12.0                      | 10.9            | 13.0                    | 11.5            |
| Goodwill impairment  |                           | 22.5            |                         | 12.6            |
| Severance and restructuring expenses                           | 0.2                       | 0.3             | 0.4                     | 0.2             |
| Earnings (loss) from operations                                | 2.1                       | (19.3)          | 0.7                     | (10.2)          |
| Non-operating expense, net                                     | 0.2                       | 0.3             | 0.2                     | 0.2             |
| Earnings (loss) from continuing operations before income taxes | 1.9                       | (19.6)          | 0.5                     | (10.4)          |
| Income tax expense (benefit)                                   | 0.7                       | (7.1)           | 0.2                     | (3.7)           |
| Net earnings (loss) from continuing operations                 | 1.2                       | (12.5)          | 0.3                     | (6.7)           |
| Net earnings from a discontinued operation                     | 0.3                       |                 | 0.1                     |                 |
| Net earnings (loss)  | 1.5%                      | (12.5)%         | 0.4%                    | (6.7)%          |

(1) See Note 2  
Restatement of  
Consolidated  
Financial  
Statements in  
Part II, Item 8 of  
our Annual  
Report on Form  
10-K for the  
year ended  
December 31,  
2008.

**Net Sales.** Net sales for the three months ended June 30, 2009 decreased 26% compared to the three months ended June 30, 2008. Net sales for the six months ended June 30, 2009 decreased 20% compared to the six months ended June 30, 2008. Our net sales by operating segment were as follows (dollars in thousands):

|               | Three Months Ended |                            |             | Six Months Ended |                            |             |
|---------------|--------------------|----------------------------|-------------|------------------|----------------------------|-------------|
|               | June 30,<br>2009   | 2008<br>As Restated<br>(1) | %<br>Change | June 30,<br>2009 | 2008<br>As Restated<br>(1) | %<br>Change |
| North America | \$ 713,531         | \$ 955,808                 | (25%)       | \$ 1,373,632     | \$ 1,717,942               | (20%)       |
| EMEA          | 281,241            | 382,271                    | (26%)       | 551,966          | 700,492                    | (21%)       |
| APAC          | 42,390             | 58,506                     | (28%)       | 62,724           | 81,649                     | (23%)       |
| Consolidated  | \$ 1,037,162       | \$ 1,396,585               | (26%)       | \$ 1,988,322     | \$ 2,500,083               | (20%)       |

(1) See Note 2  
Restatement of  
Consolidated  
Financial  
Statements in  
Part II, Item 8 of  
our Annual  
Report on Form  
10-K for the  
year ended  
December 31,  
2008 and Note 2  
to our  
Consolidated  
Financial  
Statements in  
Part I, Item 1 of  
this report.

Net sales in North America decreased 25%, or \$242.3 million, for the three months ended June 30, 2009 compared to the three months ended June 30, 2008. Hardware and software sales declined 27% and 29%, respectively, while services revenue grew 24% year over year. The challenging demand environment for IT products resulted in year over year declines in our business. Additionally, the decline in software sales year over year also relates to the previously announced program changes with our largest software partner. We continue to increase the mix of services as a total of our net sales, and increases in sales of services during the second quarter of 2009 resulted from several unique services engagements during the quarter. North America had 1,210 account executives at June 30, 2009, a decrease from 1,455 at June 30, 2008. Net sales per average number of account executives in North America decreased 17% to approximately \$577,000 for the three months ended June 30, 2009 from approximately \$696,000 for the three months ended June 30, 2008.

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

Net sales in North America decreased 20%, or \$344.3 million for the six months ended June 30, 2009 compared to the six months ended June 30, 2008, again as a result of the challenging demand environment. The six month year over year comparison includes the effects of a sequential increase in net sales of 9% in the second quarter of 2009 compared to the first quarter of 2009.

Net sales in EMEA decreased 26%, or \$101.0 million, in U.S. dollars, for the three months ended June 30, 2009 compared to the three months ended June 30, 2008. Excluding the effects of foreign currency movements, net sales were down 12% compared to the second quarter of last year. In U.S. dollars, hardware and software sales declined 27% and 26%, respectively, while sales of services improved 11% year over year. The global IT demand environment continues to be challenging, with year over year decreases in hardware and software product categories. In addition, part of the decline in software sales year over year relates to the previously announced changes in programs with our largest software partner. The year over year improvement in sales of services primarily resulted from the contribution from our acquisition of MINX in July 2008. EMEA had 706 account executives at June 30, 2009, an increase from 646 at June 30, 2008. Net sales per average number of account executives in EMEA decreased 34% to approximately \$405,000 for the three months ended June 30, 2009 compared to approximately \$611,000 for the three months ended June 30, 2008.

Net sales in EMEA decreased 21%, or \$148.5 million, in U.S. dollars, for the six months ended June 30, 2009 compared to the six months ended June 30, 2008. Hardware and software sales declined 28% and 18%, respectively, while sales of services improved 33% year over year. The above factors also contributed to the six month year over year comparison in EMEA net sales.

Our APAC segment recognized net sales of \$42.4 million and \$62.7 million for the three and six months ended June 30, 2009, a decrease of 28% and 23%, respectively, year over year. Excluding the effects of foreign currency movements, net sales were down 15% compared to the second quarter of last year and down 8% compared to the six months ended June 30, 2008. The software demand environment continues to be challenging, compounded by the previously announced program changes with our largest software partner.

Percentage of net sales by category for North America, EMEA and APAC were as follows for the three months ended June 30, 2009 and 2008:

| Sales Mix | North America                  |      | EMEA                           |      | APAC                           |      |
|-----------|--------------------------------|------|--------------------------------|------|--------------------------------|------|
|           | Three Months Ended<br>June 30, |      | Three Months Ended<br>June 30, |      | Three Months Ended<br>June 30, |      |
|           | 2009                           | 2008 | 2009                           | 2008 | 2009                           | 2008 |
| Hardware  | 58%                            | 60%  | 31%                            | 31%  | 2%                             |      |
| Software  | 34%                            | 35%  | 68%                            | 68%  | 97%                            | 100% |
| Services  | 8%                             | 5%   | 1%                             | 1%   | 1%                             | <1%  |
|           | 100%                           | 100% | 100%                           | 100% | 100%                           | 100% |



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**INSIGHT ENTERPRISES, INC.**  
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Percentage of net sales by category for North America, EMEA and APAC were as follows for the six months ended June 30, 2009 and 2008:

| Sales Mix | North America    |      | EMEA             |      | APAC             |      |
|-----------|------------------|------|------------------|------|------------------|------|
|           | Six Months Ended |      | Six Months Ended |      | Six Months Ended |      |
|           | June 30,         |      | June 30,         |      | June 30,         |      |
|           | 2009             | 2008 | 2009             | 2008 | 2009             | 2008 |
| Hardware  | 57%              | 62%  | 33%              | 35%  | 1%               |      |
| Software  | 35%              | 33%  | 66%              | 64%  | 97%              | 100% |
| Services  | 8%               | 5%   | 1%               | 1%   | 2%               | <1%  |
|           | 100%             | 100% | 100%             | 100% | 100%             | 100% |

Currently, our offerings in North America and the United Kingdom include IT hardware, software and services. Our offerings in the remainder of our EMEA segment and in APAC are almost entirely software and select software-related services.

**Gross Profit.** Gross profit for the three months ended June 30, 2009 declined 26% compared to the three months ended June 30, 2008, with a 10 basis point decrease in gross margin. Gross profit for the six months ended June 30, 2009 declined 21% compared to the six months ended June 30, 2008, with gross margin remaining flat at 14.1%. Our gross profit and gross profit as a percentage of net sales by operating segment were as follows (dollars in thousands):

|               | Three Months Ended June 30, |          |            |          | Six Months Ended June 30, |       |            |       |
|---------------|-----------------------------|----------|------------|----------|---------------------------|-------|------------|-------|
|               | 2009                        | % of     | 2008       | % of     | 2009                      | % of  | 2008       | % of  |
|               |                             | Net      |            | Net      |                           | Net   |            | Net   |
|               | Sales                       | Sales    | Sales      | Sales    | Sales                     | Sales | Sales      |       |
|               |                             | As       |            | As       |                           |       |            |       |
|               |                             | Restated |            | Restated |                           |       |            |       |
|               |                             | (1)      |            | (1)      |                           |       |            |       |
| North America | \$ 99,748                   | 14.0%    | \$ 134,780 | 14.1%    | \$ 192,791                | 14.0% | \$ 235,988 | 13.7% |
| EMEA          | 41,773                      | 14.9%    | 56,687     | 14.8%    | 77,677                    | 14.1% | 103,336    | 14.8% |
| APAC          | 6,323                       | 14.9%    | 9,475      | 16.2%    | 9,148                     | 14.6% | 13,240     | 16.2% |
| Consolidated  | \$ 147,844                  | 14.3%    | \$ 200,942 | 14.4%    | \$ 279,616                | 14.1% | \$ 352,564 | 14.1% |

(2) See Note 2  
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North America's gross profit declined 26% compared to the three months ended June 30, 2008, but as a percentage of net sales, gross margin remained relatively consistent with the prior year at 14.0%, reflecting improved margins in the services category of approximately 120 basis points, partially offset by decreases in product margin, including vendor funding, of over 80 basis points and decreases in margin related to agency fees for enterprise software agreement renewals of over 50 basis points. Gross profit per average number of account executives decreased 17% to approximately \$81,000 for the three months ended June 30, 2009 from approximately \$98,000 for the three months ended June 30, 2008. For the six months ended June 30, 2009, gross profit declined 22% compared to the six months ended June 30, 2008, but as a percentage of net sales, gross margin improved 30 basis points reflecting increased sales of services, which are generally at higher margins.

EMEA's gross profit declined 26% for the three months ended June 30, 2009 compared to the three months ended June 30, 2008. Excluding the effects of foreign currency movements, gross profit was down 12% compared to the second quarter of last year. As a percentage of net sales, gross margin remained relatively consistent with the prior year at 14.9%, reflecting an increased percentage of gross margin contributed by agency fees for enterprise software agreement renewals of approximately 20 basis points and improved margins in the services business of over 10 basis points, offset by declines in margin due to an increase in client rebates, and a decrease in supplier discounts of approximately 30 basis points. Gross profit per average number of account executives decreased 34% to approximately \$60,000 for the three months ended June 30, 2009 compared to approximately \$91,000 for the three months ended June 30, 2008. For the six months ended June 30, 2009, gross profit declined 25% compared to the six months ended June 30, 2008. Excluding the effects of foreign currency movements, gross profit was down 8% compared to the six months ended June 30, 2008. As a percentage of net sales, gross margin declined 70 basis points, primarily due to decreases in product margin, including vendor funding.

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**INSIGHT ENTERPRISES, INC.**  
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APAC's gross profit decreased for the three months ended June 30, 2009 by 33% compared to the three months ended June 30, 2008. Excluding the effects of foreign currency movements, gross profit was down 20% compared to the second quarter of last year. As a percentage of net sales, gross margin declined by 130 basis points, primarily due to decreases in agency fees from enterprise software agreement renewals of 265 basis points offset by increases in software product margin, including vendor funding, of approximately 90 basis points and improved margins in the services category of approximately 60 basis points. For the six months ended June 30, 2009, gross profit declined 31% compared to the six months ended June 30, 2008. Excluding the effects of foreign currency movements, gross profit was down 16% compared to the six months ended June 30, 2008. As a percentage of net sales, gross margin declined 160 basis points, primarily due to decreases in agency fees from enterprise software agreement renewals offset by increases in software product margin, including vendor funding, and improved margins in the services category.

**Operating Expenses.**

**Selling and Administrative Expenses.** Selling and administrative expenses decreased \$29.0 million, or 19% for the three months ended June 30, 2009 compared to the three months ended June 30, 2008. Selling and administrative expenses decreased \$31.1 million, or 11% for the six months ended June 30, 2009 compared to the six months ended June 30, 2008. Selling and administrative expenses as a percent of net sales by operating segment for the three and six months ended June 30, 2009 and 2008 were as follows (dollars in thousands):

|               | Three Months Ended June 30, |                      |                               |                      | Six Months Ended June 30, |                      |                               |                      |
|---------------|-----------------------------|----------------------|-------------------------------|----------------------|---------------------------|----------------------|-------------------------------|----------------------|
|               | 2009                        | % of<br>Net<br>Sales | 2009<br>As<br>Restated<br>(1) | % of<br>Net<br>Sales | 2009                      | % of<br>Net<br>Sales | 2009<br>As<br>Restated<br>(1) | % of<br>Net<br>Sales |
| North America | \$ 85,980                   | 12.0%                | \$ 105,946                    | 11.1%                | \$ 181,087                | 13.2%                | \$ 197,717                    | 11.5%                |
| EMEA          | 33,814                      | 12.0%                | 41,409                        | 10.8%                | 68,720                    | 12.5%                | 80,888                        | 11.5%                |
| APAC          | 4,071                       | 9.6%                 | 5,523                         | 9.4%                 | 7,401                     | 11.8%                | 9,734                         | 11.9%                |
| Consolidated  | \$ 123,865                  | 12.0%                | \$ 152,878                    | 10.9%                | \$ 257,208                | 13.0%                | \$ 288,339                    | 11.5%                |

(1) See Note 2  
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this report.

North America's selling and administrative expenses decreased 19%, or \$20.0 million, for the three months ended June 30, 2009 compared to the three months ended June 30, 2008, with selling and administrative expenses increasing to 12.0% of net sales for the quarter. The decrease in selling and administrative expenses is primarily attributable to the realization of the effects of cost reduction initiatives we have implemented over the past several quarters and lower variable costs. Included in selling and administrative expenses in the three months ended June 30, 2009 are professional fees and costs of \$2.6 million associated with the trade credits restatement issues discussed in Note 2

Restatement of Consolidated Financial Statements in Part II, Item 8 of our Annual Report on Form 10-K for the year ended December 31, 2008 and Note 2 to our Consolidated Financial Statements in Part I, Item 1 of this report.

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The effect of the cost reduction initiatives on North America's selling and administrative expenses is not as pronounced in the comparison of the six months ended June 30, 2009 to the six months ended June 30, 2008, which declined \$16.6 million or 8% due to the following:

Approximately \$13.5 million of selling and administrative expenses associated with Calence, LLC are reflected in the three months ended March 31, 2009 with no comparable expenses in the three months ended March 31, 2008, as Calence was acquired on April 1, 2008;

Non-cash stock-based compensation expense of \$4.1 million recorded in the first quarter of 2009 associated with the termination of the long-term incentive award for the Chief Executive Officer and the President of our North America operating segment discussed in Note 8 to our Consolidated Financial Statements in Part I, Item 1 of this report; and

Professional fees and costs for the six months ended June 30, 2009 of \$6.7 million associated with the trade credits restatement issues.

EMEA's selling and administrative expenses decreased 18%, or \$7.6 million, for the three months ended June 30, 2009 compared to the three months ended June 30, 2008 and decreased 15%, or \$12.2 million, for the six months ended June 30, 2009 compared to the six months ended June 30, 2008. The decrease in selling and administrative expenses is primarily attributable to the effects of foreign currency translation. For the three month period, increased expenses connected with our system upgrade were offset in part by decreased salaries, sales incentives and benefits. For the six month period, non-cash stock-based compensation expense of \$1.4 million was recorded in the first quarter of 2009 associated with the termination of the long-term incentive award for the Chief Executive Officer and the President of our EMEA operating segment discussed in Note 8 to our Consolidated Financial Statements in Part I, Item 1 of this report.

APAC's selling and administrative expenses decreased 26% for the three months ended June 30, 2009 compared to the three months ended June 30, 2008 and decreased 24% for the six months ended June 30, 2009 compared to the six months ended June 30, 2008. The decrease is primarily attributable to the effects of foreign currency translation on selling and administrative expenses.

**Goodwill Impairment.** As discussed in Note 5 to our Consolidated Financial Statements in Part II, Item 8 of our Annual Report on Form 10-K for the year ended December 31, 2008, we recorded a non-cash goodwill impairment charge during the three months ended June 30, 2008 of \$313.8 million, which represented the entire goodwill balance recorded in our North America operating segment as of June 30, 2008.

**Severance and Restructuring Expenses.** During the six months ended June 30, 2009, North America, EMEA and APAC recorded severance expense of \$5.9 million, \$2.3 million, and \$301,000, respectively, related to ongoing restructuring efforts. During the six months ended June 30, 2008, North America, EMEA and APAC recorded severance expense of \$2.3 million, \$3.1 million, and \$39,000, respectively.

**Non-Operating (Income) Expense.**

**Interest Income.** Interest income for the three and six months ended June 30, 2009 and 2008 was generated through short-term investments. The decrease in interest income year over year is due to decreases in interest rates.

**Interest Expense.** Interest expense for the three and six months ended June 30, 2009 and 2008 primarily relates to borrowings under our financing facilities and imputed interest under our inventory financing facility. Imputed interest, which is a non-cash item, was \$388,000 and \$751,000 for the three and six months ended June 30, 2009, respectively. The decrease in interest expense for the three and six months ended June 30, 2009 compared to the three and six months ended June 30, 2008 is due primarily to lower interest rates and decreases in the weighted average borrowings outstanding as we have been successful in our cash management initiatives and have paid down our debt subsequent to the acquisition of Calence on April 1, 2008.



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**INSIGHT ENTERPRISES, INC.**  
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**Net Foreign Currency Exchange Gains/Losses.** These gains/losses result from foreign currency transactions, including intercompany balances that are not considered long-term in nature. The change from net foreign currency exchange losses in the prior year periods to modest gains in the current year periods is due primarily to less volatility in the applicable exchange rates and the effects of our recent use of foreign exchange forward contracts to hedge certain non-functional currency assets and liabilities from changes in exchange rate movements.

**Other Expense, Net.** Other expense, net, consists primarily of bank fees associated with our cash management activities.

**Income Tax Expense.** Our effective tax rate from continuing operations for the three months ended June 30, 2009 was an expense of 35.6% compared to a benefit of 36.0% for the three months ended June 30, 2008. Our effective tax rate from continuing operations for the six months ended June 30, 2009 was an expense of 38.2% compared to a benefit of 36.0% for the six months ended June 30, 2008. The changes were primarily due to the impairment charge related to non-deductible goodwill taken during the prior year periods.

**Liquidity and Capital Resources**

The following table sets forth certain consolidated cash flow information for the six months ended June 30, 2009 and 2008 (in thousands):

|   | <b>Six Months Ended</b> |                    |
|---|-------------------------|--------------------|
|   | <b>June 30,</b>         |                    |
|   | <b>2009</b>             | <b>2008</b>        |
|   |                         | <b>As Restated</b> |
|   |                         | <b>(1)</b>         |
| Net cash provided by operating activities           | \$ 192,625              | \$ 102,333         |
| Net cash used in investing activities               | (21,179)                | (141,274)          |
| Net cash (used in) provided by financing activities | (102,093)               | 90,529             |
| Foreign currency exchange effect on cash flow       | 1,292                   | 1,257              |
| Increase in cash and cash equivalents               | 70,645                  | 52,845             |
| Cash and cash equivalents at beginning of period    | 49,175                  | 56,718             |
| Cash and cash equivalents at end of period          | \$ 119,820              | \$ 109,563         |

(1) See Note 2  
Restatement of  
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**Cash and Cash Flow**

Our primary uses of cash during the six months ended June 30, 2009 were to fund working capital requirements and capital expenditures, to pay down debt and to fund the first payment due in April 2009 of additional purchase price consideration (the earnout) and accrued interest thereon as a result of Calence achieving certain performance targets subsequent to the acquisition. We generated very strong operating cash flows for the six months ended June 30, 2009. Operating activities provided \$192.6 million in cash, an 88% increase over the six months ended June 30, 2008. Our strong operating cash flows enabled us to reduce our long-term debt by \$108.5 million since December 31, 2008,

including \$51.5 million during the second quarter, and to increase our cash balance by \$70.6 million since December 31, 2008, including \$52.6 million during the second quarter. Capital expenditures were \$8.3 million for the six months ended June 30, 2009, a 47% decrease from the six months ended June 30, 2008. Capital expenditures during the second quarter were \$3.3 million and primarily related to expenditures to upgrade our IT systems. Both the six months ended June 30, 2009 and 2008 benefited from a \$1.3 million positive effect of foreign currency exchange rates on cash flow.



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We anticipate a use of cash flows from operating activities for the three months ending September 30, 2009 due to the seasonal spike in our working capital needs resulting from scheduled payments due to our largest supplier for purchases occurring primarily in May and June 2009. We also anticipate an increase in our debt balances in the third quarter to fund these seasonal working capital needs.

**Net cash provided by operating activities.** Cash flows from operations for the six months ended June 30, 2009 and 2008 reflect our net earnings (loss), adjusted for depreciation, amortization, goodwill impairment and non-cash stock-based compensation expense, as well as changes in accounts receivable and inventory levels and changes in accrued expenses and other liabilities. For the 2009 period, the decreases in accounts receivable and accounts payable are due primarily to a decrease in net sales compared to the prior year as well as our focus on cash management. The decrease in inventory levels in the 2009 period was a result of specific inventory management projects undertaken on our North America segment.

Our consolidated cash flow operating metrics for the quarter ended June 30, 2009 and 2008 are as follows:

|   | 2009 | 2008<br>As Restated<br>(1) |
|---|------|----------------------------|
| Days sales outstanding in ending accounts receivable ( DSOs <sup>(a)</sup> )  | 77   | 79                         |
| Days inventory outstanding ( DIOs <sup>(b)</sup> )                            | 9    | 8                          |
| Days purchases outstanding in ending accounts payable ( DPOs <sup>(c)</sup> ) | 75   | 67                         |

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(a) Calculated as  
the balance of  
accounts  
receivable, net  
at the end of the  
period divided  
by daily net

sales. Daily net sales is calculated as net sales for the quarter divided by 91 days.

- (b) Calculated as average inventories divided by daily costs of goods sold. Average inventories is calculated as the sum of the balances of inventories at the beginning of the quarter plus inventories at the end of the quarter divided by two. Daily costs of goods sold is calculated as costs of goods sold for the quarter divided by 91 days.

- (c) Calculated as the balances of accounts payable at the end of the period divided by daily costs of goods sold. Daily costs of goods sold is calculated as costs of goods sold for the quarter divided by 91 days.

The decrease in DSOs from the quarter ended June 30, 2008 is due primarily to our enhanced focus on improving our collections cycle in North America, partially offset by the increased mix of accounts receivable in our EMEA and APAC businesses which generally have longer payment terms and collections cycles. On lower net sales and related costs of goods sold during the quarter ended June 30, 2009 compared to the quarter ended June 30, 2008, DPOs

increased significantly reflecting the expanded use of our inventory financing facility in the 2009 quarter compared to the same quarter in 2008, the effect of the timing of certain scheduled payments to our largest supplier and enhanced management of working capital during the 2009 quarter.

We expect that cash flow from operations will be used, at least partially, to fund working capital as we typically pay our partners on average terms that are shorter than the average terms granted to our clients in order to take advantage of supplier discounts. We intend to use cash generated in 2009 in excess of working capital needs to pay down our outstanding debt balances and support our capital expenditures for the year.

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**INSIGHT ENTERPRISES, INC.**  
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**Net cash used in investing activities.** Capital expenditures of \$8.3 million and \$15.7 million for the six months ended June 30, 2009 and 2008, respectively, primarily related to investments to upgrade our IT systems. We expect total capital expenditures in 2009 to be between \$20.0 million and \$25.0 million. During the six months ended June 30, 2009, we made the first earnout payment of \$12.8 million to the former owners of Calence. During the six months ended June 30, 2008, we made a payment of \$900,000 to resolve certain post-closing contingencies related to the sale of PC Wholesale.

**Net cash (used in) provided by financing activities.** During the six months ended June 30, 2009, we made net repayments on our debt facilities that reduced our outstanding debt balances by \$108.5 million. These uses of cash were partially offset by a \$6.1 million increase in our book overdrafts. As of June 30, 2009, there was no current portion of our long-term debt. During the six months ended June 30, 2008, net borrowings under our financing facilities totaled \$136.8 million, primarily related to the acquisition of Calence on April 1, 2008. Funds provided by new borrowings were utilized, in part, to repay \$7.1 million of debt assumed from Calence at closing. During the six months ended June 30, 2008, we also funded \$50.0 million of repurchases of our common stock in open market transactions.

Our borrowing capacity under our senior revolving credit facility and our accounts receivable securitization financing facility is limited by certain financial covenants, particularly a maximum leverage ratio. The maximum leverage ratio is calculated as aggregate debt outstanding divided by the Company's trailing twelve months EBITDA, as defined in the agreements. The maximum leverage ratio permitted under the agreements is currently 3.0 times trailing twelve-month EBITDA and steps down to 2.75 times in October 2009. A significant drop in EBITDA would limit the amount of indebtedness that could be outstanding at the end of any fiscal quarter, to a level that would be below the Company's total debt capacity. As of June 30, 2009, of the \$450.0 million of total debt capacity available, the Company's borrowing capacity was limited to \$278.1 million based on trailing twelve-month EBITDA of \$92.7 million.

Our borrowing capacity under our ABS facility is limited by the value and quality of the accounts receivable under the facility. On July 24, 2009, we amended our ABS facility, which was to have expired on September 17, 2009, to, among other things, (i) add software receivables from the legacy Software Spectrum business as eligible receivables under the facility, (ii) reduce our eligible receivables under the facility by \$52.3 million to reflect the trade credit liabilities that were recorded as part of our financial statement restatement described in Note 2 as well as certain other accounts receivable related to sales where recognition of the sale has been deferred (iii) establish a new 364-day term ending July 23, 2010 and (iv) increase the variable interest rate by approximately 75 basis points for funds provided under the ABS facility, calculated as the specified Pooled Commercial Paper Rate, as defined in the ABS facility, plus 2.25%. The \$150.0 million maximum borrowing capacity and the maximum leverage, minimum fixed charge and asset coverage ratio financial covenant requirements under the ABS facility were not modified as part of the amendment. The actual availability under the facility is determined by the quantity and quality of the underlying accounts receivable. As of June 30, 2009, on a pro forma basis giving effect to the amendment, the availability under the ABS facility was \$114.8 million, up from the \$57.3 million available prior to the amendment.

We anticipate that cash flows from operations, together with the funds available under our financing facilities will be adequate to support our presently anticipated cash and working capital requirements for operations over the next 12 months.

Cash and cash equivalents held by foreign subsidiaries are generally subject to U.S. income taxation upon repatriation to the U.S. For foreign entities not treated as branches for U.S. tax purposes, we do not provide for U.S. income taxes on the undistributed earnings of these subsidiaries as earnings are reinvested and, in the opinion of management, will continue to be reinvested indefinitely outside of the U.S. As of June 30, 2009, due to the scheduled timing of certain key supplier payments, we had approximately \$114.0 million in cash and cash equivalents in our foreign subsidiaries. Subsequent to quarter end, a material portion of this cash balance was used to make the scheduled supplier payment.



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**INSIGHT ENTERPRISES, INC.**  
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**Off Balance Sheet Arrangements**

We have entered into off-balance sheet arrangements, which include guaranties and indemnifications, as defined by the SEC's Final Rule 67, *Disclosure in Management's Discussion and Analysis About Off-Balance Sheet Arrangements and Aggregate Contractual Obligations*. The guaranties and indemnifications are discussed in Note 12 to our Consolidated Financial Statements in Part I, Item 1 of this report. We believe that none of our off-balance sheet arrangements has, or is reasonably likely to have, a material current or future effect on our financial condition, results of operations, liquidity, capital expenditures or capital resources.

**Recently Issued Accounting Pronouncements**

See Note 1 to our Consolidated Financial Statements in Part I, Item 1 of this report for a discussion of recently issued accounting pronouncements which affect or may affect our financial statements.

**Contractual Obligations**

There have been no material changes in our reported contractual obligations, as described under Contractual Obligations for Continuing Operations in Liquidity and Capital Resources in Part II, Item 7 of our Annual Report on Form 10-K for the year ended December 31, 2008.

**Table of Contents****INSIGHT ENTERPRISES, INC.****Item 3. Quantitative and Qualitative Disclosures About Market Risk.**

Other than the change in our open foreign currency forward contracts provided below, there have been no material changes in our reported market risks, as described in Quantitative and Qualitative Disclosures About Market Risk in Part II, Item 7A of our Annual Report on Form 10-K for the year ended December 31, 2008.

The following table summarizes our open foreign currency forward contracts held at June 30, 2009. All U.S. dollar and foreign currency amounts are presented in thousands.

|                           | <b>Sell</b>       | <b>Buy</b> |
|---------------------------|-------------------|------------|
|                           | USD               | CHF        |
| Foreign Currency          |                   |            |
| Foreign Amount            | 2,000             | 500        |
| Exchange Rate             | 1.4058            | 1.5266     |
| USD Equivalent            | \$ 1,423          | \$ 328     |
| Weighted Average Maturity | Less than 1 month |            |

**Item 4. Controls and Procedures.*****Evaluation of Disclosure Controls and Procedures***

As reported in our Annual Report on Form 10-K for the year ended December 31, 2008, management identified a material weakness in our internal control over financial reporting related to the proper disposition, reconciliation, monitoring and consequent accounting of aged trade credits. Inadequate understanding of the Company's unclaimed property obligations and unsupported assumptions regarding trade credits resulted in the following control deficiencies which, when considered in the aggregate, resulted in a material weakness in our internal control over financial reporting:

Inadequate policies and procedures to timely determine the proper disposition of all overpayments and duplicate payments received from clients;

Inadequate policies and procedures to timely reconcile and determine the proper disposition of all credit memos issued to clients in exchange for returned products, billing errors and other customer service reasons;

Inadequate policies and procedures to timely determine the proper disposition of all goods received/accepted by the Company for which no invoice has been received;

Inadequate policies and procedures to timely reconcile and determine the proper disposition of all open purchase orders; and

Ineffective monitoring of the effectiveness of our policies and procedures relating to aged trade credits.

The material weakness resulted in errors in the accounting for certain aged trade credits and in the restatement of our historical consolidated financial statements. As a result of the material weakness described above, management concluded that the Company's disclosure controls and procedures were not effective as of December 31, 2008. We are in the process of implementing remedial measures to address the aforementioned material weakness, with the intent to fully remediate the material weakness in our internal control over financial reporting.

Our Chief Executive Officer and Chief Financial Officer, as of the end of the period covered by this report, evaluated the effectiveness of our disclosure controls and procedures (as such term is defined under Rules 13a-15(e) and 15d-15(e) of the Exchange Act). They determined that, as of June 30, 2009, as a result of the material weakness described above, our disclosure controls and procedures were not effective to ensure (i) that information required to be disclosed by us in reports that we file or submit under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms, and (ii) that such information is accumulated and communicated to our management, including our Chief Executive Officer and Chief Financial Officer, to allow timely decisions regarding required disclosure.

**Table of Contents****INSIGHT ENTERPRISES, INC.*****Changes in Internal Control over Financial Reporting***

The Company has completed its investigation into the trade credits issue and subsequent to December 31, 2008, we have begun taking steps to remediate the aforementioned material weakness. We have implemented or are in the process of implementing internal control improvements in several areas. Some of these improvements will require systems enhancements that will take some time to implement. In the interim, the Company is implementing improved manual controls to ensure that the aged trade credits are accounted for appropriately in compliance with all legal and accounting requirements. Thus, the Company has not completed all of the actions necessary to remediate the material weakness in internal control over financial reporting. The Company expects to implement the majority of its internal control improvements in the third quarter of 2009 and test the controls for effectiveness prior to December 31, 2009. There were no other changes in our internal control over financial reporting (as such term is defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act) during the quarter ended June 30, 2009 that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

***Inherent Limitations of Disclosure Controls and Internal Control Over Financial Reporting***

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Projections of any evaluation of effectiveness to future periods are subject to risks that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

**Part II OTHER INFORMATION****Item 1. Legal Proceedings.**

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

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. Beginning in March 2009, three purported class action lawsuits were filed in the U.S. District Court for the District of Arizona against us and certain of our current and former directors and officers on behalf of purchasers of our securities during the period April 22, 2004 to February 6, 2009. The plaintiffs in two of these lawsuits voluntarily dismissed their complaints in May and June 2009. The remaining complaint, which seeks unspecified damages, asserts claims under the federal securities laws relating to our February 9, 2009 announcement that we expected to restate our financial statements for the year ended December 31, 2007 and for the first three quarters of 2008 and that the restatement would include a material reduction of retained earnings. The complaint also alleges that we issued false and misleading financial statements and issued misleading public statements about our results of operations. The court appointed a lead plaintiff and lead counsel on June 24, 2009. None of the defendants have responded to the complaint at this time. In June 2009, we were notified that three shareholder derivative lawsuits had been filed, two in the Superior Court in Maricopa County, Arizona (the State derivative actions ) and one in the U.S. District Court for the District of Arizona (the Federal derivative action ), by persons identifying themselves as Insight shareholders and purporting to act on behalf of Insight, naming Insight as a nominal defendant and current and former officers and directors as defendants. The three complaints, like the purported class action complaint, arise out of our February 9, 2009 announcement. The State derivative actions allege breaches of fiduciary duties of loyalty and good faith, breach of fiduciary duties for insider selling and misappropriation of information, and unjust enrichment, and the Federal derivative action alleges breach of fiduciary duty, gross mismanagement and waste of corporate assets. The amount of damages sought by the plaintiffs is not specified in the complaints. On July 31, 2009, we received, from the plaintiff



in the Federal derivative action, a demand to inspect books and records pursuant to Section 220 of the Delaware General Corporation Law, and we are evaluating this demand. Neither the Company nor the individual defendants have answered or moved to dismiss any of the derivative complaints at this time.

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**INSIGHT ENTERPRISES, INC.**

On March 19, 2009, we received a letter of informal inquiry from the Securities and Exchange Commission (the SEC) requesting certain documents and information relating to the Company's historical accounting treatment of aged trade credits. On August 3, 2009, the staff of the SEC notified the Company that its investigation into the Company's historical accounting treatment of aged trade credits has been completed and that the staff does not intend to recommend any enforcement action by the SEC against the Company.

Management does not believe that the ultimate outcome of these legal proceedings will have a material effect on our results of operations.

**Item 1A. Risk Factors.**

In addition to the other information set forth in this report, you should carefully consider the factors discussed in Part I, Item 1A, Risk Factors, in our Annual Report on Form 10-K for the year ended December 31, 2008, which could materially affect our business, financial condition or future results. The risks described in our Annual Report on Form 10-K are not the only risks facing our company. Additional risks and uncertainties not currently known to us or that we currently deem to be immaterial may also materially adversely affect our business, financial condition or operating results.

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

There were no unregistered sales of equity securities during the three months ended June 30, 2009.

We have never paid a cash dividend on our common stock. We currently intend to reinvest all of our earnings into our business and do not intend to pay any cash dividends in the foreseeable future. Our senior revolving credit facility contains restrictions on the payment of cash dividends.

***Issuer Purchases of Equity Securities***

We did not repurchase any shares of our common stock during the three months ended June 30, 2009.

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

None.

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

Our 2009 Annual Meeting of Stockholders was held on June 23, 2009. At the 2009 Annual Meeting of Stockholders, the following proposals were considered:

- (1) The election of three Class III directors to serve until the 2012 annual meeting of stockholders or until their respective successors have been duly elected and qualified; and
- (2) The ratification of the appointment of KPMG LLP as our independent registered public accounting firm for the year ending December 31, 2009.

**Table of Contents****INSIGHT ENTERPRISES, INC.**

The proposals were approved by the following votes:

|                                 | <b>Votes For</b> | <b>Votes Against</b> | <b>Abstentions or Votes Withheld</b> |
|---------------------------------|------------------|----------------------|--------------------------------------|
| <b>Proposal 1</b>               |                  |                      |                                      |
| Election of Timothy A. Crown    | 42,906,353       | N/A                  | 912,299                              |
| Election of Anthony A. Ibarguen | 43,032,180       | N/A                  | 786,472                              |
| Election of Kathleen S. Pushor  | 40,923,085       | N/A                  | 2,895,567                            |

**Proposal 2**

Ratification of the appointment of KPMG LLP as our independent registered public accounting firm for the year ending December 31, 2009

|            |         |       |
|------------|---------|-------|
| 43,309,054 | 507,594 | 2,004 |
|------------|---------|-------|

In addition, Class I Directors (Bennett Dorrance, Michael M. Fisher and David J. Robino) and Class II Directors (Richard A. Fennessy, Larry A. Gunning and Robertson C. Jones) continued their respective terms of office following the 2009 Annual Meeting of Stockholders.

**Item 5. Other Information.**

None.

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**INSIGHT ENTERPRISES, INC.**

**Item 6. Exhibits.**

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

| <b>Exhibit No.</b> | <b>Description</b>   |
|--------------------|--|
| 3.1                | Composite Certificate of Incorporation of Insight Enterprises, Inc. (incorporated by reference to Exhibit 3.1 of our Annual Report on Form 10-K for the year ended December 31, 2005, File No. 0-25092). |
| 3.2                | Amended and Restated Bylaws of the Insight Enterprises, Inc. (incorporated by reference to Exhibit 3.1 of our current report on Form 8-K filed on January 14, 2008, File No. 0-25092).                   |
| 4.1                | Specimen Common Stock Certificate (incorporated by reference to Exhibit 4.1 of our Registration Statement on Form S-1 (No. 33-86142) declared effective January 24, 1995).                               |
| 10.1               | Amendment No. 11 and Joinder to Receivables Purchase Agreement among Insight Receivables, LLC, Insight Enterprises, Inc., JPMorgan Chase Bank, N.A., and JS Siloed Trust dated as of July 24, 2009.      |
| 31.1               | Certification of Chief Executive Officer Pursuant to Securities Exchange Act Rule 13a-14, as Adopted Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.  |
| 31.2               | Certification of Chief Financial Officer Pursuant to Securities Exchange Act Rule 13a-14, as Adopted Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.  |
| 32.1               | Certification of Chief Executive Officer and Chief Financial Officer Pursuant to 18 U.S.C. Section 1350, As Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.                           |

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**INSIGHT ENTERPRISES, INC.  
SIGNATURES**

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

**Date: August 5, 2009**

**INSIGHT ENTERPRISES, INC.**

**By: /s/ Richard A. Fennessy  
Richard A. Fennessy  
President and Chief Executive Officer  
(Duly Authorized Officer)**

**By: /s/ Glynis A. Bryan  
Glynis A. Bryan  
Chief Financial Officer  
(Principal Financial Officer)**

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**INSIGHT ENTERPRISES, INC.  
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