INSIGHT ENTERPRISES INC
Form 10-Q
November 09, 2007

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

(Mark One)

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

For the quarterly period ended: September 30, 2007

OR

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

For the transition period from __________ to __________

Commission File Number: 0-25092

INSIGHT ENTERPRISES, INC.

(Exact name of registrant as specified in its charter)

Delaware	**86-0766246**
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification Number)

1305 West Auto Drive, Tempe, Arizona 85284

(Address of principal executive offices) (Zip Code)

(480) 902-1001

(Registrant s telephone number, including area code)

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

Yes þ No o

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

Large accelerated filer þ Accelerated filer o Non-accelerated filer o

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

Yes o No þ

The number of shares outstanding of the issuer s common stock as of November 2, 2007 was 48,435,172.

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

Certain statements in this Quarterly Report on Form 10-Q, including statements in Management s Discussion and Analysis of Financial Condition and Results of Operations in Part I, Item 2 of this report, are forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. These forward-looking statements may include: projections of matters that affect net sales, gross profit, operating expenses, earnings from continuing operations, non-operating income and expenses, earnings from discontinued operations, net earnings or cash flows, the payment of accrued expenses and liabilities and costs or gains that may result from post-closing adjustments pertaining to business acquisitions; effects of acquisitions or dispositions; projections of capital expenditures and growth; hiring plans; plans for future operations; the availability of financing and our needs or plans relating thereto; plans relating to our products and services; the effect of new accounting principles or changes in accounting policies; the effect of guaranty and indemnification obligations; projections about the outcome of ongoing tax audits; statements related to accounting estimates, including estimated stock option and other equity award forfeitures, and deferred compensation cost amortization periods; 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 and similar expressions, and inherently subject to risks and uncertainties, some of which cannot be predicted or quantified. Future events and actual results could differ materially from those set forth in, contemplated by, or underlying the forward-looking statements. Some of the important factors that could cause our actual results to differ materially from those projected in any forward-looking statements include, but are not limited to, the following, which are discussed in Risk Factors in Part I, Item 1A of our Annual Report on Form 10-K/A for the year ended December 31, 2006:

- changes in the information technology industry and/or the economic environment;
- our reliance on suppliers for product availability, marketing funds, purchasing incentives and competitive products to sell;
- disruptions in our information technology and voice and data networks, including migration of Software Spectrum to our information technology and voice and data networks;
- the integration and operation of Software Spectrum, including our ability to achieve the expected benefits of the acquisition;
- actions of our competitors, including manufacturers and publishers of products we sell;
- the informal inquiry from the Securities and Exchange Commission (SEC) and the fact that we could be subject to stockholder litigation related to our historical stock option granting practices and the related restatement of our consolidated financial statements;
- securities laws and regulations, including potential risk resulting from our evaluation of internal controls under the Sarbanes-Oxley Act of 2002;
- the risks associated with international operations;
- sales of software licenses are subject to seasonal changes in demand;
- increased debt and interest expense and lower availability on our financing facilities;
- increased exposure to currency exchange risks;

our dependence on key personnel;

risk that purchased goodwill or amortizable intangible assets become impaired;

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

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

rapid changes in product standards; and

intellectual property infringement claims.

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

In addition, these forward-looking statements include statements regarding the informal inquiry commenced by the SEC and a stockholder s demand to inspect our books and records pursuant to Section 220 of

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

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

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PART I FINANCIAL INFORMATION
Item 1. Financial Statements.

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

	September 30, 2007	December 31, 2006
ASSETS		
Current assets:		
Cash and cash equivalents	$ 53,086	$ 54,697
Accounts receivable, net of allowances for doubtful accounts of $22,884 and $23,211, respectively	814,444	994,892
Inventories	102,232	97,751
Inventories not available for sale	17,414	31,112
Deferred income taxes	19,550	20,770
Other current assets	20,508	32,359
Total current assets	1,027,234	1,231,581
Property and equipment, net of accumulated depreciation of $102,786 and $91,589, respectively	156,893	145,778
Goodwill	305,006	296,781
Intangible assets, net of accumulated amortization of $11,757 and $3,811, respectively	82,276	86,929
Deferred income taxes	396	927
Other long-term assets	18,832	18,269
	$ 1,590,637	$ 1,780,265
LIABILITIES AND STOCKHOLDERS EQUITY		
Current liabilities:		
Accounts payable	$ 477,322	$ 611,367
Accrued expenses and other current liabilities	93,385	136,401
Current portion of long-term debt	15,000	15,000
Deferred revenue	25,697	40,728
Line of credit		15,000
Total current liabilities	611,404	818,496
Long-term debt	152,000	224,250
Long-term deferred income taxes	26,121	25,517
Other long-term liabilities	28,911	21,652
	818,436	1,089,915

Commitments and contingencies (Note 9)		
Stockholders equity:		
Preferred stock, $0.01 par value, 3,000 shares authorized; no shares issued		
Common stock, $0.01 par value, 100,000 shares authorized; 49,503 shares at September 30, 2007 and 48,868 shares at December 31, 2006 issued and outstanding	495	489
Additional paid-in capital	391,571	363,308
Retained earnings	335,219	297,664
Accumulated other comprehensive income foreign currency translation adjustment	44,916	28,889
Total stockholders equity	772,201	690,350
	$ 1,590,637	$ 1,780,265

See accompanying notes to consolidated financial statements.

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2007	**2006**	**2007**	**2006**
Net sales	$ 1,109,705	$ 857,919	$ 3,517,129	$ 2,371,089
Costs of goods sold	959,859	744,590	3,029,295	2,058,508
Gross profit	149,846	113,329	487,834	312,581
Selling and administrative expenses	130,820	88,211	398,902	243,850
Severance and restructuring expenses		729	2,841	729
Earnings from operations	19,026	24,389	86,091	68,002
Non-operating (income) expense:				
Interest income	(1,509)	(1,650)	(5,803)	(3,658)
Interest expense	3,937	1,264	14,463	2,333
Net foreign currency exchange loss (gain)	849	(214)	(2,807)	(190)
Other expense, net	428	422	1,141	742
Earnings from continuing operations before income taxes	15,321	24,567	79,097	68,775
Income tax expense	6,225	7,857	30,896	23,454
Net earnings from continuing operations	9,096	16,710	48,201	45,321
Net earnings from discontinued operations, net of taxes of $0, $350, $111 and $2,174		530	171	3,486
Gain on sale of discontinued operations, net of taxes of $0, $0, $3,135 and $5,978			4,801	9,144
Net earnings from discontinued operations		530	4,972	12,630
Net earnings	$ 9,096	$ 17,240	$ 53,173	$ 57,951
Net earnings per share Basic:				
Net earnings from continuing operations	$ 0.18	$ 0.35	$ 0.98	$ 0.94
Net earnings from discontinued operations		0.01	0.10	0.26
Net earnings per share	$ 0.18	$ 0.36	$ 1.08	$ 1.20
Net earnings per share Diluted:				
Net earnings from continuing operations	$ 0.18	$ 0.34	$ 0.97	$ 0.94
Net earnings from discontinued operations		0.01	0.10	0.26

Net earnings per share	$ 0.18	$ 0.35	$ 1.07	$ 1.20
Shares used in per share calculations:				
Basic	49,530	48,411	49,213	48,230
Diluted	50,711	48,658	49,801	48,375

See accompanying notes to consolidated financial statements.

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

	Nine Months Ended September 30,	
	2007	**2006**
Cash flows from operating activities:		
Net earnings from continuing operations	$ 48,201	$ 45,321
Plus: net earnings from discontinued operations	4,972	12,630
Net earnings	53,173	57,951
Adjustments to reconcile net earnings to net cash provided by operating activities:		
Depreciation and amortization	25,960	14,819
Provision for losses on accounts receivable	1,725	2,101
Write-downs of inventories	5,744	6,892
Non-cash stock-based compensation	8,927	10,101
Gain on sale of discontinued operations	(7,937)	(15,122)
Excess tax benefit from employee gains on stock-based compensation	(445)	(1,035)
Deferred income taxes	2,355	22,035
Changes in assets and liabilities:		
Decrease (increase) in accounts receivable	186,033	(10,538)
(Increase) decrease in inventories	(2,509)	25,399
Decrease (increase) in other current assets	12,704	(16,627)
Increase in other assets	(1,944)	(20,953)
(Decrease) increase in accounts payable	(142,794)	20,885
Decrease in inventories financing facility		(11,819)
Decrease in deferred revenue	(15,175)	(3,193)
(Decrease) increase in accrued expenses and other liabilities	(26,788)	24,762
Net cash provided by operating activities	99,029	105,658
Cash flows from investing activities:		
Proceeds from sale of discontinued operations	28,631	46,500
Acquisition of Software Spectrum, net of cash acquired		(323,009)
Purchases of property and equipment	(27,611)	(26,383)
Net cash provided by (used in) investing activities	1,020	(302,892)
Cash flows from financing activities:		
Repayments on short-term financing facility		(45,000)
Borrowings on long-term financing facility	540,000	202,000
Repayments on long-term financing facility	(601,000)	(20,000)
Borrowings on term loan		75,000
Repayments on term loan	(11,250)	
Net (repayments) borrowings on line of credit	(15,000)	691
Excess tax benefit from employee gains on stock-based compensation	445	1,035

Proceeds from sales of common stock under employee stock plans	24,342	14,140
Repurchase of common stock	(22,336)	
Decrease in book overdrafts	(23,856)	
Net cash (used in) provided by financing activities	(108,655)	227,866
Cash flows from discontinued operations:		
Net cash used in operating activities		(8,885)
Net cash provided by investing activities		11,710
Net cash used in financing activities		(2,696)
Net cash provided by discontinued operations		129
Foreign currency exchange effect on cash flow	6,995	5,165
(Decrease) increase in cash and cash equivalents	(1,611)	35,926
Cash and cash equivalents at beginning of period	54,697	35,145
Cash and cash equivalents at end of period	$ 53,086	$ 71,071

See accompanying notes to consolidated financial statements.

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

1. Basis of Presentation and Recently Issued Accounting Pronouncements

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

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

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

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

The consolidated financial statements include the accounts of Insight Enterprises, Inc. and its wholly-owned subsidiaries. All significant intercompany balances and transactions have been eliminated in consolidation. References to the Company, we, us, our and other similar words refer to Insight Enterprises, Inc. and its consolidated subsidiar 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/A for the year ended December 31, 2006 which affect the Company s financial statements.

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

2. Earnings Per Share (EPS)

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2007	**2006**	**2007**	**2006**
Numerator:				
Net earnings from continuing operations	$ 9,096	$ 16,710	$ 48,201	$ 45,321
Denominator:				
Weighted-average shares used to compute basic EPS	49,530	48,411	49,213	48,230
Dilutive potential common shares due to dilutive options and restricted stock, net of tax effect	1,181	247	588	145
Weighted-average shares used to compute diluted EPS	50,711	48,658	49,801	48,375
Net earnings from continuing operations per share:				
Basic	$ 0.18	$ 0.35	$ 0.98	$ 0.94
Diluted	$ 0.18	$ 0.34	$ 0.97	$ 0.94

The following weighted-average outstanding stock options during the three and nine months ended September 30, 2007 and 2006 were not included in the diluted EPS calculations because the exercise prices of these options were greater than the average market price of our common stock during the respective periods (in thousands):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2007	**2006**	**2007**	**2006**
Weighted-average outstanding stock options excluded from the diluted EPS calculation	82	4,794	1,365	4,345

3. Goodwill

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

	North America	EMEA	APAC	Consolidated
Balance at December 31, 2006	$ 217,469	$ 62,714	$ 16,598	$ 296,781
Adjustments	2,298	4,392	1,535	8,225
Balance at September 30, 2007	$ 219,767	$ 67,106	$ 18,133	$ 305,006

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

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

4. Debt

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

	September 30, 2007	December 31, 2006
Term loan	$ 60,000	$ 71,250
Accounts receivable securitization financing facility	107,000	168,000
Total	167,000	239,250
Less: current portion of term loan	(15,000)	(15,000)
Long-term debt	$ 152,000	$ 224,250

Our financing facilities contain various covenants, including the requirement that we comply with leverage and minimum fixed charge ratios. If we fail to comply with these covenants, the lenders would be able to demand payment within a specified period of time. We are in compliance with all of our covenants at September 30, 2007.

5. Income Taxes

Our effective tax rates from continuing operations for the three months ended September 30, 2007 and 2006 were 40.6% and 32.0%, respectively. For the three months ended September 30, 2007, our effective tax rate was higher than the United States federal statutory rate of 35.0% due primarily to state income taxes, net of federal tax, as well as non-deductible expenses related to executive compensation. For the three months ended September 30, 2006, the effective tax rate was less than the United States federal statutory rate because increases due primarily to state income taxes, net of federal tax, were more than offset by the reversal of accrued income taxes resulting from the determination that a reserve previously recorded for potential tax exposures was no longer necessary.

Our effective tax rates from continuing operations for the nine months ended September 30, 2007 and 2006 were 39.1% and 34.1%, respectively. For the nine months ended September 30, 2007, our effective tax rate was higher than the United States federal statutory rate of 35.0% due primarily to state income taxes, net of federal tax, as well as non-deductible expenses related to executive compensation. For the nine months ended September 30, 2006, our effective tax rate was lower than the United States federal statutory rate of 35.0% due primarily to state income taxes, net of federal tax, which was more than offset by a decrease in tax reserves in the first quarter of 2006 due to the closing of an audit, a tax benefit recorded in the second quarter of 2006 for internal initiatives that reduced certain state income taxes, and the reversal of accrued income taxes in the third quarter of 2006 resulting from the determination that a reserve previously recorded for potential tax exposures was no longer necessary.

Current deferred income tax assets, long-term deferred income tax assets and long-term deferred income tax liabilities as of December 31, 2006 were increased by $5.2 million, $0.9 million and $6.1 million, respectively, as compared to amounts reported in our audited consolidated balance sheet as of December 31, 2006. Such reclassification of deferred tax assets has no effect on previously reported income tax expense amounts.

Financial Accounting Standards Board (FASB) Interpretation No. 48, *Accounting for Uncertainty in Income Taxes an interpretation of FASB Statement No. 109* (FIN 48) requires that companies recognize the effect of a tax position in their consolidated financial statements if there is a greater likelihood than not of the position being sustained upon audit based on the technical merits of the position. We adopted the provisions of FIN 48 effective January 1, 2007. The adoption of FIN 48 resulted in no cumulative effect adjustment to our retained earnings. However, in order to conform to the balance sheet presentation requirements of FIN 48, we reclassified certain unrecognized tax benefits on our balance sheet from current assets to non-current assets.

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

As of January 1, 2007 (the date we adopted FIN 48) and September 30, 2007, the Company had approximately $10,300,000 and $13,300,000, respectively, of unrecognized tax benefits. Of these amounts, approximately $1,500,000 and $2,400,000, respectively, relate to accrued interest.

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

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

Several of our subsidiaries, including most U.S. subsidiaries, are currently under audit for various tax years between 2002 and 2005. It is reasonably possible that the examination phase of some of these audits may conclude in the next 12 months and that the related unrecognized tax benefits for certain tax positions will significantly decrease. However, based on the status of the examinations, an estimate of the range of reasonably possible outcomes cannot be made at this time.

We, including our subsidiaries, file income tax returns in the U.S. federal jurisdiction and many state and local and non-U.S. jurisdictions. In the U.S., federal income tax returns for 2004 and 2005 are currently under examination. Any subsequent years remain open to examination. For U.S. state and local as well as non-U.S. jurisdictions, the statute of limitations generally varies between three and 10 years.

6. Restructuring and Acquisition Integration Activities

Acquisition-Related Cost Capitalized as a Cost of Acquisition of Software Spectrum

During the year ended December 31, 2006, we recorded $9,738,000 of employee termination costs and $1,676,000 of facility based costs in connection with our integration of Software Spectrum, of which $10,525,000 was still accrued at December 31, 2006. These costs were accounted for under EITF Issue No. 95-3, *Recognition of Liabilities in Connection with Purchase Business Combinations*, and were based on the integration plans that have been committed to by management. Accordingly, these costs were recognized as a liability assumed in the purchase business combination and included in the allocation of the purchase price to acquire Software Spectrum.

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

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

	North America	EMEA	Consolidated
Balance at December 31, 2006	$ 997	$ 9,528	$ 10,525
Foreign currency translation adjustments		506	506
Cash payments	(394)	(4,760)	(5,154)
Balance at September 30, 2007	$ 603	$ 5,274	$ 5,877

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

Severance and restructuring activities expensed in 2005

During the year ended December 31, 2005, our EMEA operations moved into a new facility in the United Kingdom and recorded restructuring costs of $7,458,000, of which $6,447,000 represented the present value of the remaining lease obligations on the previous lease and $1,011,000 represented duplicate rent expense for the new facility for the last half of 2005. At December 31, 2006, the balance of these restructuring accruals was $6,468,000. During the nine months ended September 30, 2007, adjustments of $157,000 and $158,000 were recorded to reflect the accretion of interest for the present value of the remaining lease obligations and fluctuations in the British pound sterling exchange rates, respectively. Cash payments of $3,543,000 were made during the nine months ended September 30, 2007, resulting in an accrual balance of $3,240,000 at September 30, 2007. In the accompanying consolidated balance sheet at September 30, 2007, all amounts are expected to be paid within the next year and are included in accrued expenses and other current liabilities.

7. Stock-Based Compensation

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

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2007	**2006**	**2007**	**2006**
North America	$ 2,889	$ 2,567	$ 7,754	$ 8,253
EMEA	612	263	1,456	831
APAC	45		83	
Total Continuing Operations	$ 3,546	$ 2,830	$ 9,293	$ 9,084
Discontinued Operations	$	$	$	$ 1,017

Accounting for Stock Options After SFAS No. 123R Implementation

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

For the three months ended September 30, 2007 and 2006, we recorded in continuing operations stock-based compensation expense related to stock options, net of forfeitures, of $1,024,000 and $1,867,000, respectively. For the nine months ended September 30, 2007 and 2006, we recorded in continuing operations stock-based compensation expense related to stock options, net of forfeitures, of $3,065,000 and $6,494,000, respectively. Included in these amounts for the three and nine months ended September 30, 2007 is $281,000 and $366,000, respectively, of cash payments made in May through August 2007 to teammates whose stock options expired during the period that registration statements for our stock plans were suspended. As of September 30, 2007, total

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

compensation cost related to nonvested stock options not yet recognized is $1,098,000, which is expected to be recognized over the next 0.37 years on a weighted-average basis.

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

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

	Number Outstanding	Weighted Average Exercise Price	Aggregate Intrinsic Value (in-the-money options)	Weighted Average Remaining Contractual Life (in years)
Outstanding at the beginning of period	4,814,327	$ 19.18		
Granted		$		
Exercised	(1,245,782)	$ 18.82	$ 6,063,187	
Expired	(33,992)	$ 13.18		
Forfeited	(8,665)	$ 19.88		
Outstanding at the end of period	3,525,888	$ 19.37	$ 22,995,110	2.14
Exercisable at the end of period	2,617,956	$ 19.38	$ 17,121,804	2.12
Vested and expected to vest	3,497,853	$ 19.37	$ 22,806,761	0.09

The aggregate intrinsic value in the preceding table represents the total pre-tax intrinsic value, based on our closing stock price of $25.81 as of September 30, 2007, which would have been received by the option holders had all option holders exercised options and sold the underlying shares on that date.

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

	Options Outstanding			Options Exercisable	
Range of Exercise Prices	Number of Options Outstanding	Weighted Average Remaining Contractual Life (in years)	Weighted Average Exercise Price Per Share	Number of Options Exercisable	Weighted Average Exercise Price Per Share
$6.95 18.35	707,023	2.21	$ 15.20	635,870	$ 15.22
18.36 19.35	890,834	2.29	$ 18.73	551,578	$ 18.76
19.50 19.90	733,355	2.27	$ 19.84	499,023	$ 19.84
19.92 21.25	743,863	1.67	$ 20.92	480,672	$ 20.92
21.30 41.00	450,813	2.34	$ 23.83	450,813	$ 23.83

3,525,888	2.14	$ 19.37	2,617,956	$ 19.38

Accounting for Restricted Stock

We have issued shares of restricted common stock and RSUs as incentives to certain officers and teammates and plan to do so in the future. We recognize compensation expense associated with the issuance of such shares and RSUs over the vesting period for each respective share and RSU. The total compensation expense associated with restricted stock represents the value based upon the number of shares or RSUs awarded multiplied by the closing price on the date of grant. Recipients of restricted stock shares are entitled to receive any dividends declared on our common stock and have voting rights, regardless of whether such shares have

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

vested. Recipients of RSUs do not have voting or dividend rights until the vesting conditions are satisfied and shares are released.

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

For the three months ended September 30, 2007 and 2006, we recorded in continuing operations stock-based compensation expense, net of forfeitures, related to restricted stock shares and RSUs of $2,522,000 and $963,000, respectively. For the nine months ended September 30, 2007 and 2006, we recorded in continuing operations stock-based compensation expense, net of forfeitures, related to restricted stock shares and RSUs of $6,228,000 and $2,590,000, respectively. As of September 30, 2007, total compensation cost related to nonvested restricted stock shares and RSUs not yet recognized is $8,354,000, which is expected to be recognized over the next 0.83 years on a weighted-average basis.

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

	Number	Weighted Average Grant Date Fair Value	Fair Value
Nonvested at the beginning of period	1,353,770	$ 20.72	
Granted		$	
Vested	(43,199)	$ 20.69	$ 1,029,864(a)
Forfeited	(37,987)	$ 20.73	
Nonvested at the end of period	1,272,584	$ 20.72	$ 32,845,393(b)
Expected to vest	1,150,113		$ 29,684,416(b)

(a) The fair value of vested restricted stock shares and 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 restricted stock shares and RSUs had all such holders sold their underlying shares on that date.

(b) The aggregate fair value of the nonvested restricted stock shares and the RSUs expected to vest represents the total pre-tax fair value, based on our closing stock price of $25.81 as of September 30, 2007, which would have been received by holders of restricted stock shares and RSUs had all such holders sold their underlying shares on that date.

8. Share Repurchase Program

On January 26, 2006, we announced that our Board of Directors had authorized the purchase of up to $50,000,000 of our common stock. During the three months ended September 30, 2007, we purchased in open market transactions 887,000 shares of our common stock at a total cost of $22,336,026 (an average price of $25.18 per share). All shares repurchased as of September 30, 2007 have been retired. Subsequent to September 30, 2007, we repurchased the remainder of the $50.0 million of common stock authorized under the program. The total repurchase represented approximately 1.96 million shares at an average price of $25.57 per share.

9. Commitments and Contingencies

Contractual

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

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

We have committed to pay the Arizona Cardinals an aggregate amount of approximately $9,900,000 through February 2014 for advertising and marketing events at the University of Phoenix stadium, the home of the Arizona Cardinals.

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

Employment Contracts

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

On May 2, 2007, we announced the retirement of Stanley Laybourne, the Company s chief financial officer, secretary and treasurer and a member of our Board of Directors. In connection with his retirement, we have agreed to provide him payments and benefits consistent with those required for termination without cause under his existing employment agreement. Accordingly, we expect to pay him a lump sum severance payment equal to two times his base salary plus two times his 2006 bonus. The total severance amount related to this retirement is estimated to be approximately $2,842,000, including non-cash stock-based compensation expense for a 90-day extension of the post termination exercise period for stock options, all of which was recorded as severance expense during the nine months ended September 30, 2007.

Guaranties

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

Indemnifications

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

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

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

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

Legal Proceedings

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

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

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

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

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

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 under the probable and estimable criteria of SFAS No. 5. Where appropriate, we accrue estimates of anticipated liabilities in the consolidated financial statements. Such estimates are subject to change and may affect our results of operations and our cash flows.

10. Discontinued Operations

PC Wholesale

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

In accordance with SFAS No. 144, *Accounting for the Impairment or Disposal of Long-Lived Assets* (SFAS No. 144), we have accounted for PC Wholesale as a discontinued operation, and we have reported the results of operations of PC Wholesale as a discontinued operation in the consolidated statements of earnings for all periods presented. We did not allocate interest, general corporate overhead expense or non-specific vendor funding to the discontinued operation. PC Wholesale s accounts receivable and inventory was approximately $15.0 million and $6.0 million, respectively, at December 31, 2006. Other assets and liabilities of PC Wholesale included in the consolidated balance sheets as of December 31, 2006 were not material.

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2007	2006	2007	2006
Net sales	$	$ 60,673	$ 30,142	$ 173,510
Costs of goods sold		58,451	29,092	167,235
Gross profit		2,222	1,050	6,275
Selling and administrative expenses		1,342	768	3,966
Earnings from discontinued operation before income taxes		880	282	2,309
Income tax expense		350	111	916
Net earnings from discontinued operation	$	$ 530	$ 171	$ 1,393

Direct Alliance

On June 30, 2006, we completed the sale of 100% of the outstanding stock of Direct Alliance for a purchase price of $46,500,000, subject to a working capital adjustment. The purchase price did not include real estate and intercompany receivables, which had an estimated fair value of $49,400,000 (book value of $43,237,000) and were distributed to us immediately prior to closing. In addition to payment of the purchase price, the buyer is obligated to make a one-time bonus payment to us if Direct Alliance achieves certain gross profit levels for the year ended

December 31, 2006 (Earn Out). Additionally, the buyer is entitled to a claw

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

back of the purchase price of up to $5,000,000 if certain Direct Alliance client contracts are not renewed on terms prescribed in the sale agreement. The Company is in the process of negotiating the final resolution of the Earn Out and the claw back, which may result in additional gain recorded on the sale. Additionally, on June 30, 2006, we paid $2,696,000 to the holders of 1,997,500 exercised Direct Alliance stock options. If additional gain is recorded on the sale as a result of final resolution of the Earn Out and clawback, additional amounts will also be paid to the holders of 1,997,500 exercised Direct Alliance stock options.

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

11. Segment Information

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

Statement of Financial Accounting Standards No. 131, *Disclosure About Segments of an Enterprise and Related Information,* (SFAS No. 131) requires disclosures of certain information regarding operating segments, products and services, geographic areas of operation and major clients. The method for determining what information to report under SFAS No. 131 is based upon the management approach, or the way that management organizes the operating segments within a company, for which separate financial information is evaluated regularly by the Chief Operating Decision Maker (CODM) in deciding how to allocate resources. Our CODM is our Chief Executive Officer.

All intercompany transactions are eliminated upon consolidation, and there are no differences between the accounting policies used to measure profit and loss for our segments and on a consolidated basis. Net sales are defined as net sales to external clients. None of our clients exceeded ten percent of consolidated net sales for the three and nine months ended September 30, 2007.

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

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

The tables below present information about our reportable operating segments as of and for the three and nine months ended September 30, 2007 and 2006 (in thousands):

	Three Months Ended September 30, 2007			
	North America	EMEA	APAC	Consolidated
Net sales	$ 817,747	$ 264,679	$ 27,279	$ 1,109,705
Costs of goods sold	708,729	228,965	22,165	959,859
Gross profit	109,018	35,714	5,114	149,846
Operating expenses:				
Selling and administrative expenses	93,742	33,165	3,913	130,820
Earnings from operations	$ 15,276	$ 2,549	$ 1,201	$ 19,026
Non-operating expense, net				3,705
Earnings from continuing operations before income taxes				15,321
Income tax expense				6,225
Net earnings from continuing operations				9,096
Net earnings from discontinued operations				
Net earnings				$ 9,096
Total assets	$ 2,198,755	$ 393,211	$ 39,393	$ 1,590,637*

* Consolidated total assets include corporate assets and intercompany eliminations for a net reduction of $1,040,722.

	Three Months Ended September 30, 2006			
	North America	EMEA	APAC	Consolidated
Net sales	$ 694,284	$ 157,115	$ 6,520	$ 857,919
Costs of goods sold	603,360	135,702	5,528	744,590

Gross profit	90,924	21,413	992	113,329
Operating expenses:				
Selling and administrative expenses	70,023	17,481	707	88,211
Severance and restructuring expenses	508	221		729
Earnings from operations	$ 20,393	$ 3,711	$ 285	24,389
Non-operating income, net				(178)
Earnings from continuing operations before income taxes				24,567
Income tax expense				7,857
Net earnings from continuing operations				16,710
Net earnings from discontinued operations				530
Net earnings				$ 17,240
Total assets	$ 1,909,860	$ 327,299	$ 32,466	$ 1,536,585*

* Consolidated total assets include corporate assets and intercompany eliminations for a net reduction of $733,040.

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

	Nine Months Ended September 30, 2007			
	North America	EMEA	APAC	Consolidated
Net sales	$ 2,518,847	$ 923,958	$ 74,324	$ 3,517,129
Costs of goods sold	2,163,724	804,733	60,838	3,029,295
Gross profit	355,123	119,225	13,486	487,834
Operating expenses:				
Selling and administrative expenses	289,605	98,646	10,651	398,902
Severance and restructuring expenses	2,841			2,841
Earnings from operations	$ 62,677	$ 20,579	$ 2,835	86,091
Non-operating expense, net				6,994
Earnings from continuing operations before income taxes				79,097
Income tax expense				30,896
Net earnings from continuing operations				48,201
Net earnings from discontinued operations				4,972
Net earnings				$ 53,173
Total assets	$ 2,198,755	$ 393,211	$ 39,393	$ 1,590,637*

* Consolidated total assets include corporate assets and intercompany eliminations for a net reduction of $1,040,722.

	Nine Months Ended September 30, 2006			
	North America	EMEA	APAC	Consolidated
Net sales	$ 1,972,186	$ 392,383	$ 6,520	$ 2,371,089
Costs of goods sold	1,717,031	335,949	5,528	2,058,508
Gross profit	255,155	56,434	992	312,581

Operating expenses:				
Selling and administrative expenses	197,105	46,038	707	243,850
Severance and restructuring expenses	508	221		729
Earnings from operations	$ 57,542	$ 10,175	$ 285	68,002
Non-operating income, net				(773)
Earnings from continuing operations before income taxes				68,775
Income tax expense				23,454
Net earnings from continuing operations				45,321
Net earnings from discontinued operations				12,630
Net earnings				$ 57,951
Total assets	$ 1,909,860	$ 327,299	$ 32,466	$ 1,536,585*

* Consolidated total assets include corporate assets and intercompany eliminations for a net reduction of $733,040.

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

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

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

Quarterly Overview

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

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

Net sales for the three months ended September 30, 2007 increased 29% to $1.11 billion from $857.9 million for the three months ended September 30, 2006, due primarily to an increase in software sales attributable to the acquisition of Software Spectrum. Net earnings for the three months ended September 30, 2007 decreased 47% to $9.1 million from $17.2 million for the three months ended September 30, 2006, and diluted earnings per share decreased to $0.18 for the three months ended September 30, 2007 from $0.35 for the three months ended September 30, 2006. Net earnings and diluted earnings per share for the three months ended September 30, 2007 include expenses of $2.5 million, $1.5 million net of tax, for professional fees associated with our stock option review (for further discussion see Note 2 to our Consolidated Financial Statements in Part II, Item 8 of our Annual Report on Form 10-K/A for the year ended December 31, 2006). Net earnings and diluted earnings per share for the three months ended September 30, 2006 include severance and restructuring expenses of $729,000, $454,000 net of tax, associated with the elimination of Insight positions as part of our integration and expense reduction plans.

Net sales for the nine months ended September 30, 2007 increased 48% to $3.52 billion from $2.37 billion for the nine months ended September 30, 2006, due primarily to an increase in software sales attributable to the acquisition of Software Spectrum. Net earnings for the nine months ended September 30, 2007 decreased 8% to $53.2 million from $58.0 million for the nine months ended September 30, 2006 and diluted earnings per share decreased to $1.07 for the nine months ended September 30, 2007 from $1.20 for the nine months ended September 30, 2006. Net earnings and diluted earnings per share for the nine months ended September 30, 2007 include the following items:

- gain on sale of a discontinued operation of $7.9 million, $4.8 million net of tax;
- expenses of $12.5 million, $7.6 million net of tax, for professional fees associated with our stock option review; and
- $2.8 million, $1.7 million net of tax, for severance expense.

Net earnings and diluted earnings per share for the nine months ended September 30, 2006 include the gain on the sale of a discontinued operation of $15.1 million, $9.1 million net of tax, and severance and restructuring expenses of $729,000, $454,000 net of tax, associated with the elimination of Insight positions as part of our integration and expense reduction plans.

Overviews of each of our operating segments are discussed below and reconciliations of segment results of operations to consolidated results of operations can be found in Note 11 to our Consolidated Financial Statements provided in Item 1 of this report.

Our discussion and analysis of financial condition and results of operations is intended to assist in the understanding of our consolidated financial statements, the changes in certain key items in those consolidated

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

financial statements from year to year and the primary factors that contributed to those changes, as well as how certain critical accounting estimates affect our consolidated financial statements.

Our North America net sales increased 18% from $694.3 million in the three months ended September 30, 2006 to $817.7 million in the three months ended September 30, 2007, due primarily to an increase in software sales attributable to the acquisition of Software Spectrum. We experienced a significant, but seasonal, decline in our software sales during the three months ended September 30, 2007 as compared to the three months ended June 30, 2007. Year-over-year software growth was 64%, due primarily to the acquisition of Software Spectrum, and we grew hardware sales by 5% and services sales by 42% over the prior year. Also included in our North America segment results was $2.5 million, $1.5 million net of tax, of professional fees associated with our stock option review. Overall, North America earnings from operations decreased 25% from $20.4 million for the three months ended September 30, 2006 to $15.3 million for the three months ended September 30, 2007.

Our EMEA operations recognized net sales that were up from $157.1 million in the three months ended September 30, 2006 to $264.7 million in the three months ended September 30, 2007, due primarily to the acquisition of Software Spectrum. EMEA was also affected by the significant, but seasonal, decline in software sales during the three months ended September 30, 2007 as compared to the three months ended June 30, 2007 but posted strong results across the hardware and services categories. Within EMEA, during the three months ended September 30, 2007, our software category grew 183%, due primarily to the acquisition of Software Spectrum, hardware sales grew 16%, and services grew 226% over the prior year. Overall EMEA earnings from operations decreased 31% from $3.7 million for the three months ended September 30, 2006 to $2.5 million for the three months ended September 30, 2007.

Our APAC segment continues to perform very well and contributed net sales of $27.3 million, gross profit of $5.1 million and earnings from operations of $1.2 million for the three months ended September 30, 2007. Although this operating segment, which was added as a result of the acquisition of Software Spectrum in September 2006, represents a small percentage of our consolidated results, we continue to be excited about the growth opportunities this region brings.

Software Spectrum s results of operations are included in our consolidated results of operations after the close of the acquisition on September 7, 2006. In the last 23 days of September 2006, Software Spectrum contributed $97.7 million in net sales and $2.4 million in earnings from operations to our consolidated results.

Critical Accounting Estimates

General

Our consolidated financial statements have been prepared in accordance with United States generally accepted accounting principles (GAAP). The preparation of these consolidated financial statements requires us to make estimates and assumptions that affect the reported amounts of assets, liabilities, net sales, costs of goods sold and expenses. We base our estimates on historical experience and on various other assumptions that we believe to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Members of our senior management have discussed the development, selection and disclosure of these estimates with the Audit Committee of our Board of Directors. Actual results, however, may differ from estimates we have made.

In addition to the items disclosed as critical accounting estimates in Management s Discussion and Analysis of Financial Condition and Results of Operations in Part II, Item 7 of our Annual Report on Form 10-K/A for the year ended December 31, 2006, we adopted Financial Accounting Standards Board (FASB) Interpretation No. 48, *Accounting for Uncertainty in Income Taxes an interpretation of FASB Statement No. 109* (FIN 48) on January 1, 2007. FIN 48 clarifies the accounting and reporting for uncertainties in income tax

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

law. This interpretation prescribes a comprehensive model for the financial statement recognition, measurement, presentation and disclosure of uncertain tax positions taken or expected to be taken in income tax returns.

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 nine months ended September 30, 2007 and 2006:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2007	2006	2007	2006
Net sales	100.0%	100.0%	100.0%	100.0%
Costs of goods sold	86.5	86.8	86.1	86.8
Gross profit	13.5	13.2	13.9	13.2
Selling and administrative expenses	11.8	10.3	11.3	10.3
Severance and restructuring expenses		0.1	0.1	
Earnings from operations	1.7	2.8	2.5	2.9
Non-operating (income) expense:				
Interest income	(0.1)	(0.2)	(0.2)	(0.1)
Interest expense	0.3	0.1	0.4	0.1
Net foreign currency exchange loss (gain)	0.1		(0.1)	
Other expense, net			0.1	
Earnings from continuing operations before income taxes	1.4	2.9	2.3	2.9
Income tax expense	0.6	1.0	0.9	1.0
Net earnings from continuing operations	0.8	1.9	1.4	1.9
Net earnings from discontinued operations		0.1	0.1	0.5
Net earnings	0.8%	2.0%	1.5%	2.4%

Net Sales. Net sales for the three months ended September 30, 2007 increased 29% to $1.11 billion from $857.9 million for the three months ended September 30, 2006. The increase in sales is due primarily to an increase in software sales following the acquisition of Software Spectrum on September 7, 2006. Our net sales by operating segment were as follows (dollars in thousands):

	Three Months Ended September 30,		%	Nine Months Ended September 30,		%
	2007	2006	Change	2007	2006	Change
North America	$ 817,747	$ 694,284	18%	$ 2,518,847	$ 1,972,186	28%
EMEA	264,679	157,115	69%	923,958	392,383	135%
APAC	27,279	6,520	318%	74,324	6,520	1,040%
Consolidated	$ 1,109,705	$ 857,919	29%	$ 3,517,129	$ 2,371,089	48%

The increase in North America net sales for the three and nine months ended September 30, 2007 compared to the same periods in 2006 is due primarily to an increase in software sales attributable to the acquisition of Software Spectrum, which was only included for 23 calendar days in the three and nine months ended September 30, 2006. We experienced a significant, but seasonal, decline in our software sales during the three months ended September 30, 2007 as compared to the three months ended June 30, 2007. Year-over-year software growth was 64%, due primarily to the acquisition of Software Spectrum, and we grew hardware sales by 5% and services sales by 42% over the prior year. North America had 1,362 account executives at September 30, 2007, an increase from 1,033 at September 30, 2006 due primarily to the acquisition of Software Spectrum. Net sales per account executive in North America decreased to $606,000 for the three months ended September 30,

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2007 from $613,000 for the three months ended September 30, 2006, excluding the 23 calendar days of Software Spectrum s results during the three months ended September 30, 2006.

The increase in EMEA net sales for the three and nine months ended September 30, 2007 compared to the same periods in 2006 is due primarily to an increase in software sales attributable to the September 2006 acquisition of Software Spectrum, which was only included for 23 calendar days in the three and nine months ended September 30, 2006. EMEA was also affected by the significant, but seasonal, decline in software sales during the three months ended September 30, 2007 as compared to the three months ended June 30, 2007 but posted strong results across the hardware and services categories. Within EMEA, for the three months ended September 30, 2007, our software category grew 183%, due primarily to the acquisition of Software Spectrum, hardware sales grew 16%, and services grew 226% over the prior year. EMEA had 530 account executives at September 30, 2007, an increase from 291 at September 30, 2006 due primarily to the acquisition of Software Spectrum. Net sales per account executive in EMEA increased 16% to $517,000 for the three months ended September 30, 2007 from $446,000 for the three months ended September 30, 2006, excluding the 23 calendar days of Software Spectrum s results during the three months ended September 30, 2006.

APAC s net sales for the three months ended September 30, 2007 were $27.3 million. We were pleased with the results of our APAC segment which continues to overachieve against internal expectations.

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

	North America Three Months Ended September 30,		EMEA Three Months Ended September 30,		APAC Three Months Ended September 30,	
Sales Mix	**2007**	**2006**	**2007**	**2006**	**2007**	**2006**
Notebooks and PDAs	12%	13%	11%	15%		
Desktops and Servers	12%	14%	9%	12%		
Network and Connectivity	12%	13%	5%	7%		
Storage Devices	6%	8%	4%	7%		
Printers	6%	7%	4%	6%		
Memory and Processors	4%	5%	2%	3%		
Supplies and Accessories	4%	6%	4%	6%		
Monitors and Video	5%	5%	5%	7%		
Miscellaneous	7%	7%	3%	5%		
Hardware	68%	78%	47%	68%		
Software	29%	20%	52%	31%	100%	100%
Services	3%	2%	1%	1%		
	100%	100%	100%	100%	100%	100%

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AND RESULTS OF OPERATIONS (continued)

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

	North America Nine Months Ended September 30,		EMEA Nine Months Ended September 30,		APAC Nine Months Ended September 30,	
Sales Mix	**2007**	**2006**	**2007**	**2006**	**2007**	**2006**
Notebooks and PDAs	11%	13%	9%	16%		
Desktops and Servers	12%	15%	7%	13%		
Network and Connectivity	11%	15%	4%	8%		
Storage Devices	6%	8%	4%	7%		
Printers	5%	7%	4%	8%		
Memory and Processors	4%	5%	2%	4%		
Supplies and Accessories	5%	7%	4%	7%		
Monitors and Video	5%	6%	4%	8%		
Miscellaneous	6%	6%	2%	6%		
Hardware	65%	82%	40%	77%		
Software	32%	15%	60%	22%	100%	100%
Services	3%	3%	<1%	1%		
	100%	100%	100%	100%	100%	100%

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

Gross Profit. The increase in sales of software licenses for which we receive only an agency fee, as well as sales of software maintenance contracts and third-party warranties for which only the gross profit is recorded as net sales, makes period-to-period comparability of net sales and costs of goods sold more difficult. As a result, we believe that gross profit is a more reliable measure of business performance and is more useful in comparing period-to-period trends than net sales. Gross profit increased 32% to $149.8 million for the three months ended September 30, 2007 from $113.3 million for the three months ended September 30, 2006, due primarily to the acquisition of Software Spectrum. As a percentage of net sales, gross profit increased to 13.5% for the three months ended September 30, 2007 from 13.2% for the three months ended September 30, 2006. Gross profit increased 56% to $487.8 million for the nine months ended September 30, 2007 from $312.6 million for the nine months ended September 30, 2006, due primarily to the acquisition of Software Spectrum. As a percentage of net sales, gross profit increased to 13.9% for the nine months ended September 30, 2007 from 13.2% for the nine months ended September 30, 2006.

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	% of Net	% of Net	% of Net	% of Net

	2007	Sales	2006	Sales	2007	Sales	2006	Sales
North America	$ 109,018	13.3%	$ 90,924	13.1%	$ 355,123	14.1%	$ 255,155	12.9%
EMEA	35,714	13.5%	21,413	13.6%	119,225	12.9%	56,434	14.4%
APAC	5,114	18.7%	992	15.2%	13,486	18.1%	992	15.2%
Consolidated	$ 149,846	13.5%	$ 113,329	13.2%	$ 487,834	13.9%	$ 312,581	13.2%

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North America s gross profit increased for the three months ended September 30, 2007 by 20% to $109.0 million from $90.9 million for the three months ended September 30, 2006. Gross profit per account executive decreased 1% from $82,000 for the three months ended September 30, 2006, excluding the 23 calendar days of Software Spectrum s results, to $81,000 for the three months ended September 30, 2007. As a percentage of net sales, gross profit increased to 13.3% for the three months ended September 30, 2007 from 13.1% for the three months ended September 30, 2006 due primarily to increases in agency fees for Microsoft enterprise software agreement renewals offset partially by decreases in product margin, which includes vendor funding, and decreases in freight margin. North America s gross profit increased for the nine months ended September 30, 2007 by 39% to $355.1 million from $255.2 million for the nine months ended September 30, 2006. As a percentage of net sales, gross profit increased to 14.1% for the nine months ended September 30, 2007 from 12.9% for the nine months ended September 30, 2006 due primarily to increases in agency fees for Microsoft enterprise software agreement renewals, decreases in inventory write-downs and increases in the sales of services. These increases were offset partially by decreases in product margin, which includes vendor funding, decreases in freight margin and decreases in supplier discounts.

EMEA s gross profit increased for the three months ended September 30, 2007 by 67% to $35.7 million from $21.4 million for the three months ended September 30, 2006. Gross profit per account executive increased 9% from $64,000 for the three months ended September 30, 2006, excluding the 23 calendar days of Software Spectrum s results, to $70,000 for the three months ended September 30, 2007. As a percentage of net sales, gross profit decreased to 13.5% for the three months ended September 30, 2007 from 13.6% for the three months ended September 30, 2006 due primarily to decreases in product margin, which includes vendor funding, and decreases in freight margin. These decreases in gross margin were offset partially by increases in agency fees for Microsoft enterprise software agreement renewals. EMEA s gross profit increased for the nine months ended September 30, 2007 by 111% to $119.2 million from $56.4 million for the nine months ended September 30, 2006. As a percentage of net sales, gross profit decreased to 12.9% for the nine months ended September 30, 2007 from 14.4% for the nine months ended September 30, 2006 due primarily to decreases in product margin, which includes vendor funding, decreases in supplier discounts and decreases in freight margin. These decreases in gross margin were offset partially by increases in agency fees for Microsoft enterprise software agreement renewals.

APAC reported gross profit of $5.1 million and $13.5 million for the three and nine months ended September 30, 2007, respectively. As a percentage of net sales, gross profit was 18.7% and 18.1% for the three and nine months ended September 30, 2007, respectively.

Operating Expenses.

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

	Three Months Ended September 30,				Nine Months Ended September 30,			
	2007	% of Net Sales	2006	% of Net Sales	2007	% of Net Sales	2006	% of Net Sales
North America	$ 93,742	11.5%	$ 70,023	10.1%	$ 289,605	11.5%	$ 197,105	10.0%
EMEA	33,165	12.5%	17,481	11.1%	98,646	10.7%	46,038	11.7%
APAC	3,913	14.3%	707	10.8%	10,651	14.3%	707	10.8%
Consolidated	$ 130,820	11.8%	$ 88,211	10.3%	$ 398,902	11.3%	$ 243,850	10.3%

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North America selling and administrative expenses increased 34% to $93.7 million for the three months ended September 30, 2007 from $70.0 million for the three months ended September 30, 2006 due primarily to:

- increases in salaries and wages of approximately $15.2 million due mainly to the acquisition of Software Spectrum;
- $2.5 million in professional fees associated with our stock option review; and
- amortization of intangible assets acquired with the acquisition of Software Spectrum of $1.3 million.

North America selling and administrative expenses increased 47% to $289.6 million for the nine months ended September 30, 2007 from $197.1 million for the nine months ended September 30, 2006 due primarily to:

- increases in salaries and wages of approximately $56.5 million due mainly to the acquisition of Software Spectrum, increases in sales incentive programs and increases in bonus expenses due to increased overall financial performance;
- $12.5 million in professional fees associated with our stock option review;
- amortization of intangible assets acquired with the acquisition of Software Spectrum of $4.5 million; and
- other integration-related expenses, such as travel and professional fees.

North America s selling and administrative expenses as a percentage of net sales increased for the three and nine months ended September 30, 2007 due primarily to Software Spectrum s results being included for only part of September of 2006, the highest volume month of the quarter for the software business given the higher concentration of sales in the last month of each quarter. As such, the relationships between selling and administrative expenses to net sales in the 2006 periods were skewed.

EMEA selling and administrative expenses increased 90% to $33.2 million for the three months ended September 30, 2007 from $17.5 million for the three months ended September 30, 2006 due primarily to:

- increases in salaries and wages of $9.9 million, primarily resulting from the acquisition of Software Spectrum, increases in sales incentive plans and bonus expenses due to increased overall financial performance;
- increases in expenses of $2.5 million related to additional facilities resulting from the acquisition of Software Spectrum;
- amortization of intangible assets acquired with the acquisition of Software Spectrum of $782,000; and
- costs of $425,000 associated with the initial stages of our mySAP upgrade in EMEA that were not capitalizable.

EMEA selling and administrative expenses increased 114% to $98.6 million for the nine months ended September 30, 2007 from $46.0 million for the nine months ended September 30, 2006 due primarily to:

- increases in salaries and wages of approximately $34.7 million due mainly to the acquisition of Software Spectrum, increases in sales incentive plans and bonus expenses due to increased overall financial performance;
- increases in expenses of $6.1 million related to additional facilities resulting from the acquisition of Software Spectrum;
- amortization of intangible assets acquired with the acquisition of Software Spectrum of $1.8 million;

$638,000 in professional fees associated with our stock option review;

costs of $494,000 associated with the initial stages of our mySAP upgrade in EMEA that were not capitalizable; and

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

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EMEA s selling and administrative expenses as a percentage of net sales increased for the three months ended September 30, 2007 due primarily to Software Spectrum s results being included for only part of September of 2006, the highest volume month of the quarter for the software business given the higher concentration of sales in the last month of each quarter. As such, the relationship between selling and administrative expenses to net sales in the three months ended September 30, 2006 period was skewed. EMEA s selling and administrative expenses as a percentage of net sales decreased for the nine months ended September 30, 2007 due primarily to the significant increase in net sales.

APAC s selling and administrative expenses were $3.9 million and $10.7 million, respectively, for the three and nine months ended September 30, 2007. As a percentage of net sales, selling and administrative expenses were 14.3% for both the three and nine months ended September 30, 2007.

Severance and restructuring expenses. During the nine months ended September 30, 2007, severance expense of $2.8 million was recorded in our North America operating segment in connection with the retirement of our chief financial officer. During the three and nine months ended September 30, 2006, North America and EMEA recorded severance expense of $508,000 and $221,000, respectively, associated with the elimination of Insight positions as part of our integration and expense reduction plans.

Interest Income. Interest income of $1.5 million and $1.7 million for the three months ended September 30, 2007 and 2006, respectively, and $5.8 million and $3.7 million for the nine months ended September 30, 2007 and 2006, respectively, was generated through short-term investments. The increase in interest income is due to a generally higher level of cash available to be invested in short-term investments and increases in short-term interest rates earned on those investments during the three and nine months ended September 30, 2007.

Interest Expense. Interest expense of $3.9 million and $1.3 million for the three months ended September 30, 2007 and 2006, respectively, and $14.5 million and $2.3 million for the nine months ended September 30, 2007 and 2006, respectively, primarily relates to borrowings under our financing facilities. The increase in interest expense is due to increased borrowings outstanding in the three and nine months ended September 30, 2007 to fund the acquisition of Software Spectrum in September 2006 and increases in interest rates.

Net Foreign Currency Exchange Loss (Gain). Net foreign currency exchange loss was $849,000 for the three months ended September 30, 2007 compared to a net foreign currency exchange gain of $214,000 for the three months ended September 30, 2006. Net foreign currency exchange gain was $2.8 million for the nine months ended September 30, 2007 compared to $190,000 for the nine months ended September 30, 2006. These net gains and losses result from fluctuations in foreign currency exchange rates for transactions denominated in currencies other than the functional currency of the Insight business unit that is party to the transaction. Such transactions consist primarily of trade receivables and payables in the normal course of business, including intercompany balances that are not considered long-term in nature. The net foreign currency exchange loss in the three months ended September 30, 2007 is due to foreign currency transaction losses incurred in our APAC segment primarily resulting from the effect of the weakening U.S. Dollar to the Australian Dollar on the U.S. Dollar denominated receivables for our Australian operations. As compared to the three months ended June 30, 2007, there was a significant decrease in inter-currency transactions in EMEA and Canada, which had driven the prior quarter gain.

Other Expense, Net. Other expense, net, was $428,000 and $422,000 for the three months ended September 30, 2007 and 2006, respectively, and $1.1 million and $742,000 for the nine months ended September 30, 2007 and 2006, respectively. These amounts consist primarily of bank fees associated with our financing facilities and cash management.

Income Tax Expense. Our effective tax rate from continuing operations for the three months ended September 30, 2007 was 40.6% compared to 32.0% for the three months ended September 30, 2006. The increase

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in the effective tax rate from continuing operations was due primarily to a tax benefit recorded in the three months ended September 30, 2006 related to the reversal of accrued income taxes resulting from the determination that a reserve previously recorded for potential tax exposures was no longer necessary. Additionally, the effective tax rate is higher in three months ended September 30, 2007 due to an increase in non-deductible expenses related to executive compensation. Our effective tax rate from continuing operations for the nine months ended September 30, 2007 was 39.1% compared to 34.1% for the nine months ended September 30, 2006. The increase in the effective tax rate from continuing operations was due primarily to a decrease in tax reserves in the first quarter of 2006 due to the closing of an audit, a tax benefit recorded in the second quarter of 2006 for an internal initiative that reduced certain state taxes, the reversal of accrued income taxes in the third quarter of 2006 resulting from the determination that a reserve previously recorded for potential tax exposures was no longer necessary and an increase in non-deductible expenses related to executive compensation in 2007.

Earnings from Discontinued Operations. On March 1, 2007, we completed the sale of PC Wholesale and on June 30, 2006, we completed the sale of Direct Alliance. Accordingly, the results of operations attributable to PC Wholesale and Direct Alliance for all periods presented have been classified as discontinued operations. See Note 10 to the Consolidated Financial Statements in Item 1 of this report for further discussion.

Liquidity and Capital Resources

The following table sets forth certain consolidated cash flow information for the nine months ended September 30, 2007 and 2006 (in thousands):

	Nine Months Ended September 30,	
	2007	**2006**
Net cash provided by operating activities	$ 99,029	$ 105,658
Net cash provided by (used in) investing activities	1,020	(302,892)
Net cash (used in) provided by financing activities	(108,655)	227,866
Net cash provided by discontinued operations		129
Foreign currency exchange effect on cash flow	6,995	5,165
(Decrease) increase in cash and cash equivalents	(1,611)	35,926
Cash and cash equivalents at beginning of period	54,697	35,145
Cash and cash equivalents at end of period	$ 53,086	$ 71,071

Cash and Cash Flow

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

Net cash provided by operating activities. Net cash provided by operations for the nine months ended September 30, 2007 resulted primarily from decreases in accounts receivable, net earnings from continuing operations before depreciation, amortization and non-cash stock-based compensation. These increases in operating cash flow were partially offset by decreases in accounts payable, accrued expenses and other liabilities. The decreased accounts receivable and accounts payable can be primarily attributed to the seasonal decrease in net sales. Cash flows from operations for the nine months ended September 30, 2006 resulted primarily from net earnings from continuing operations before depreciation and amortization, decreases in inventories and increases in accounts payable. Inventories decreased due primarily to decreases in inventories not available for sale, which represent inventories segregated pursuant to binding customer contracts, which will be recorded as net sales when the criteria for sales recognition are met. Accounts payable increased due to the timing of payments at period end.

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

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	Nine Months Ended September 30, 2007	2006
Days sales outstanding in ending accounts receivable (DSOs[a])	63	82
Annualized inventory turns, excluding inventories not available for sale [b]	40	23
Days purchases outstanding in ending accounts payable (DPOs[c])	43	51

(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 nine-month period divided by 270 days.

(b) Calculated as annualized costs of goods sold divided by average inventories. Average inventories is calculated as the sum of the balances of beginning inventories plus ending inventories divided by two.

(c) Calculated as the balances of accounts payable plus inventories financing facility 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 nine-month period divided by 270 days.

The decrease in DSOs and in DPOs from the nine months ended September 30, 2006 is due primarily to including Software Spectrum sales from only September 7, 2006, which negatively affected these metrics for the nine months ended September 30, 2006. The increase in inventory turns is primarily due to the fact that Software Spectrum operations require very little inventory. The $17.4 million of inventories not available for sale at September 30, 2007 represents inventories segregated pursuant to binding client contracts, which will be recorded as net sales when the criteria for sales recognition are met.

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

Net cash provided by (used in) investing activities. Net cash provided by investing activities for the nine months ended September 30, 2007 was $1.0 million, which consisted of net proceeds of $28.6 million from the sale of a discontinued operation, offset partially by capital expenditures of $27.6 million. Capital expenditures for the nine months ended September 30, 2007 primarily related to investments to upgrade our IT systems to mySAP, including capitalized costs of software developed for internal use, IT equipment and software licenses. Cash used in investing activities for the nine months ended September 30, 2006 was $302.9 million, primarily for the purchase of Software Spectrum and capital expenditures, which consisted primarily of capitalized costs of computer software developed for internal use and IT equipment. These uses of cash were offset by $46.5 million of proceeds from the sale of a discontinued operation. We expect total capital expenditures in 2007 to be between $30 million and $35 million, primarily related to IT investments, including the continued deployment of the mySAP upgrade.

Net cash (used in) provided by financing activities. Net cash used in financing activities for the nine months ended September 30, 2007 was $108.7 million. During the nine months ended September 30, 2007, cash used in financing activities was primarily for net repayments of outstanding debt of $87.3 million and decreases in book overdrafts of $23.9 million. Cash provided by financing activities for the nine months ended September 30, 2006 was $227.9 million, primarily from the financing obtained for the acquisition of Software Spectrum, which was partially financed by new term loan borrowings of $75.0 million under our amended and restated credit facility and $173.0 million under our amended accounts receivable securitization financing facility. During the nine months ended September 30, 2006, cash was primarily used to make repayments on our financing facilities and line of credit, offset partially by cash received from proceeds of sales of common stock under employee stock plans and excess tax benefit from employee gains on stock-based compensation. During the nine months ended September 30, 2007 and 2006, cash of $24.3 million and $14.1 million, respectively, was provided by common stock issuances as a result of stock option exercises.

On January 26, 2006, we announced that our Board of Directors had authorized the purchase of up to $50,000,000 of our common stock. During the three months ended September 30, 2007, we purchased in open market transactions 887,000 shares of our common stock at a total cost of $22,336,026 (an average price of

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$25.18 per share). All shares repurchased have been retired. Subsequent to September 30, 2007, we repurchased the remainder of the $50.0 million of common stock authorized for repurchase. The total repurchase represented approximately 1.96 million shares at an average price of $25.57 per share.

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

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

See Note 7 to our Consolidated Financial Statements in Part II, Item 8 of our Annual Report on Form 10-K/A for the year ended December 31, 2006 for a description of our financing facilities, including terms, amounts outstanding, amounts available and weighted average borrowings and interest rates during the year ended December 31, 2006. As of September 30, 2007, we had $77.2 million and $75.0 million available under our accounts receivable securitization facility and line of credit, respectively. Additionally, our line of credit has a feature that allows us to increase availability under our line of credit by an additional $37.5 million, upon request. Our financing facilities contain various covenants, including the requirement that we comply with leverage and minimum fixed charge ratio requirements. In addition, our credit facilities prohibit the payment of cash dividends without the lenders consent and require that we provide annual and quarterly financial information. If we fail to comply with these covenants, the lenders would be able to demand payment within a specified period of time. We are in compliance with all of our covenants at September 30, 2007.

Off Balance Sheet Arrangements

We have entered into off-balance sheet arrangements, which include guaranties and indemnifications, as defined by the SEC s Final Rule 67, *Disclosure in Management s Discussion and Analysis About Off-Balance Sheet Arrangements and Aggregate Contractual Obligations.* The guaranties and indemnifications are discussed in Note 14 to our Consolidated Financial Statements in Part II, Item 8 of our Annual Report on Form 10-K/A for the year ended December 31, 2006. 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

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/A for the year ended December 31, 2006 which effect the Company s financial statements.

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Item 3. Quantitative and Qualitative Disclosures About Market Risk.

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

Item 4. Controls and Procedures.

(a) Evaluation of Disclosure Controls and Procedures

Our management, with the participation of our Chief Executive Officer and Chief Financial Officer, as of the end of the period of this report, evaluated the effectiveness of our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Exchange Act) and determined that, as a result of the material weakness in internal control over financial reporting described below, as of September 30, 2007 our disclosure controls and procedures were not effective to ensure that information required to be disclosed by us in reports that we file or submit under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in SEC rules and forms.

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

- Inadequate policies and procedures to determine the grant date and exercise price of equity awards;
- Inadequate supervision and training for personnel involved in the stock option granting process; and
- Inadequate documentation and monitoring of the application of accounting policies and procedures regarding equity awards.

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

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

- implementing new policies and procedures to ensure compliance with accounting principles applicable to equity compensation, including restricted stock grants, and through training and additions to the staff;
- developing an equity compensation training program for all teammates involved in the award of and accounting for equity compensation;
- restructuring reporting responsibility for the administration of our equity compensation programs; and
- adopting a written policy governing the award of equity compensation, including standardizing documentation of approvals of all relevant terms of equity compensation awards.

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

(b) Changes in Internal Control Over Financial Reporting

Other than the steps being taken to remediate the material weakness described above, there was no change in our internal control over financial reporting (as such term is defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act) during the quarter ended September 30, 2007 that has materially affected, or is reasonably likely to materially affect, the Company s internal control over financial reporting.

(c) Inherent Limitations of Disclosure Controls and Internal Control Over Financial Reporting

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

Part II OTHER INFORMATION

Item 1. Legal Proceedings.

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

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

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

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

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

Item 1A. Risk Factors.

In addition to the other information set forth in this report, you should carefully consider the factors discussed in Part I, Item 1A, Risk Factors , in our Annual Report on Form 10-K/A for the year ended December 31, 2006, which could materially affect our business, financial condition or future results. The risks described in our Annual Report on Form 10-K/A 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 September 30, 2007.

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

Issuer Purchases of Equity Securities

Period	(a) Total Number of Shares Purchased	(b) Average Price Paid per Share	(c) Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	(d) Approximate Dollar Value of Shares That May Yet be Purchased Under the Plans or Programs
July 1, 2007 through July 31, 2007		$		$ 50,000,000
August 1, 2007 through August 31, 2007				50,000,000
September 1, 2007 through September 30, 2007	887,000	25.18	887,000	$ 27,663,974
Total	887,000	$ 25.18	887,000	

On January 26, 2006, we announced that our Board of Directors had authorized the purchase of up to $50,000,000 of our common stock. During the three months ended September 30, 2007, we purchased in open market transactions 887,000 shares of our common stock at a total cost of $22,336,026 (an average price of $25.18 per share). All shares repurchased have been retired. Subsequent to September 30, 2007, we repurchased the remainder of the $50.0 million of common stock authorized under the program. The total repurchase represented approximately 1.96 million shares at an average price of $25.57 per share.

Item 3. Defaults Upon Senior Securities.

None.

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

None.

INSIGHT ENTERPRISES, INC.

Item 5. Other Information.

Our 2007 annual meeting of stockholders will be held on November 12, 2007. Our 2008 annual meeting of stockholders will be held on May 6, 2008. Any stockholder wishing to present a proposal, including the nomination of a director candidate, to be included in the proxy statement for the 2008 annual meeting of stockholders may submit such proposal in writing to our Corporate Secretary at 1305 West Auto Drive, Tempe, Arizona 85284. Such proposals must be received no later than January 15, 2008. Submitting a stockholder proposal or director candidate nomination does not guarantee that we will include it in our proxy statement.

If any stockholder intends to present a proposal at the 2008 annual meeting of stockholders without inclusion of such proposal in our proxy materials, we must receive notice of such proposal no earlier than February 6, 2008 and no later than March 8, 2008. Any notice received prior to February 6, 2008 or later than March 8, 2008, is untimely. We reserve the right to reject, rule out of order, or take other appropriate action with respect to any proposal that does not comply with these and other applicable requirements. Proposals should be addressed to our Corporate Secretary at 1305 West Auto Drive, Tempe, Arizona 85284.

The record date for the determination of stockholders entitled to vote at the annual meeting and the matters to be discussed at the annual meeting will be described in detail in a proxy statement that we anticipate mailing to stockholders in March or April 2008.

Item 6. Exhibits.

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

Exhibit No.	Description
3.1	Composite Certificate of Incorporation of Insight Enterprises, Inc. (incorporated by reference to Exhibit 3.1 of our Annual Report on Form 10-K for the year ended December 31, 2005 filed on February 17, 2006, File No. 0-25092).
3.2	Amended and Restated Bylaws of the Insight Enterprises, Inc. (incorporated by reference to Exhibit 99.1 of our Current Report on Form 8-K filed on May 7, 2007, File No. 0-25092).
4.1	Specimen Common Stock Certificate (incorporated by reference to Exhibit 4.1 of our Registration Statement on Form S-1 (No. 33-86142) declared effective January 24, 1995).
4.2	Rights Agreement (incorporated by reference to Exhibit 4.1 of our Current Report on Form 8-K filed on March 17, 1999, File No. 0-25092).
10.1	Employment Agreement between Insight Enterprises, Inc. and Steven R. Andrews dated September 12, 2007.
31.1	Rule 13a-14(a)/15d-14(a) Certification of Chief Executive Officer.
31.2	Rule 13a-14(a)/15d-14(a) Certification of Chief Financial Officer.
32.1	Section 1350 Certification of Chief Executive Officer and Chief Financial Officer.

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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: November 9, 2007	**INSIGHT ENTERPRISES, INC.**
	By: /s/ Richard A. Fennessy **Richard A. Fennessy** **President and Chief Executive Officer**
	By: /s/ Stanley Laybourne **Stanley Laybourne** **Chief Financial Officer, Secretary and Treasurer** **(Principal Financial Officer)**