

INSIGHT ENTERPRISES INC

Form 10-Q

July 26, 2007

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

(Mark One)

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

For the quarterly period ended: March 31, 2007

OR

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

For the transition period from _____ to _____

Commission File Number: 0-25092

INSIGHT ENTERPRISES, INC.

(Exact name of registrant as specified in its charter)

Delaware

(State or other jurisdiction of incorporation or organization)

86-0766246

(I.R.S. Employer Identification Number)

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 No

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

Large accelerated filer Accelerated filer Non-accelerated filer

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

Yes No

The number of shares outstanding of the issuer's common stock as of June 29, 2007 of 49,100,749.



INSIGHT ENTERPRISES, INC.
FORM 10-Q QUARTERLY REPORT
Three Months Ended March 31, 2007
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**INSIGHT ENTERPRISES, INC.
EXPLANATORY NOTE REGARDING RESTATEMENT OF OUR
CONSOLIDATED FINANCIAL STATEMENTS**

In this Quarterly Report on Form 10-Q, we have restated our consolidated statements of earnings and of cash flows for the three months ended March 31, 2006.

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

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

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

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INSIGHT ENTERPRISES, INC.

Analysis of Financial Condition and Results of Operations in Item 2 and Note 2 of our Notes to the Consolidated Financial Statements in Item 1 of this Quarterly Report.

In addition to the restatements for stock-based compensation, we recorded a pre-tax adjustment for \$1.0 million to record a legal settlement expense that was recorded in the first quarter of 2006, which should have been recorded in the fourth quarter of 2005. The tax effect of this adjustment was \$0.4 million.

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

Management had determined that we had a material weakness in our internal control over financial reporting relating to the implementation and administration of our equity compensation programs and the accounting for awards thereunder as of December 31, 2006. As described in more detail in Item 4 of this Quarterly Report, although the Company made its last stock option grant on November 30, 2005, based on the findings of the Options Subcommittee, the problems uncovered during the review have caused the Company to undertake remedial measures to ensure that similar problems cannot occur in connection with its grants of restricted stock. We have identified and are implementing measures designed to remedy this material weakness.

FORWARD-LOOKING 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 or net earnings; effects of acquisitions; projections of capital expenditures and growth; hiring plans; plans for future operations; the availability of financing and our needs or plans relating thereto; plans relating to our products and services; the effect of new accounting principles or changes in accounting policies; the effect of guaranty and indemnification obligations; statements of belief; and statements of assumptions underlying any of the foregoing. Forward-looking statements are identified by such words as believe, anticipate, expect, estimate, intend, plan, project, will, may and variations of such words expressions, and are inherently subject to risks and uncertainties, some of which cannot be predicted or quantified. Future events and actual results could differ materially from those set forth in, contemplated by, or underlying the forward-looking statements. Some of the important factors that could cause our actual results to differ materially from those projected in any forward-looking statements, include but are not limited to, the following, which are discussed in Risk Factors in Part I, Item 1A of our Annual Report on Form 10-K 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 of products we sell;

the informal inquiry from the SEC and the fact that we could be subject to stockholder litigation related to the investigation by the Options Subcommittee of our Board of Directors into our historical stock option granting practices and the related restatement of our consolidated financial statements;

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INSIGHT ENTERPRISES, INC.

the recently enacted changes in securities laws and regulations, including potential risk resulting from our evaluation of internal controls under the Sarbanes-Oxley Act of 2002;

the risks associated with international operations;

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

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

increased exposure to currency exchange risks;

our dependence on key personnel;

risk that purchased goodwill or amortizable intangible assets become impaired;

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

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

rapid changes in product standards; and

intellectual property infringement claims.

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

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

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

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

	March 31, 2007	December 31, 2006
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 32,160	\$ 54,697
Accounts receivable, net of allowances for doubtful accounts of \$23,287 and \$23,211, respectively	798,779	994,892
Inventories	96,439	97,751
Inventories not available for sale	28,132	31,112
Deferred income taxes	15,908	15,583
Other current assets	30,261	32,359
Total current assets	1,001,679	1,226,394
Property and equipment, net of accumulated depreciation of \$91,757 and \$89,968, respectively		
	132,830	129,256
Buildings held for lease, net of accumulated depreciation of \$4,739 and \$4,543, respectively	16,326	16,522
Goodwill	297,906	296,781
Intangible assets, net of accumulated amortization of \$7,022 and \$3,796, respectively	84,354	86,929
Deferred income taxes	2,789	
Other long-term assets	19,079	18,269
	\$ 1,554,963	\$ 1,774,151
LIABILITIES AND STOCKHOLDERS EQUITY		
Current liabilities:		
Accounts payable	\$ 456,249	\$ 611,367
Accrued expenses and other current liabilities	108,503	136,401
Current portion of long-term debt	15,000	15,000
Deferred revenue	27,688	40,728
Line of credit	8,000	15,000
Total current liabilities	615,440	818,496
Long-term debt	178,500	224,250
Long-term deferred income taxes	20,448	19,403
Other long-term liabilities	21,913	21,652
Commitments and contingencies (Note 10)		

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; 49,096 shares at

March 31, 2007 and 48,868 shares at December 31, 2006 issued and

outstanding	491	489
Additional paid-in capital	367,914	363,308
Retained earnings	314,932	297,664
Accumulated other comprehensive income - foreign currency translation adjustment	35,325	28,889
Total stockholders' equity	718,662	690,350
	\$ 1,554,963	\$ 1,774,151

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	
	March 31,	
	2007	2006
		As Restated
		(1)
Net sales	\$ 1,123,975	\$ 732,824
Costs of goods sold	970,800	635,718
Gross profit	153,175	97,106
Selling and administrative expenses	129,758	76,105
Earnings from operations	23,417	21,001
Non-operating (income) expense:		
Interest income	(2,112)	(922)
Interest expense	5,759	797
Net foreign currency exchange (gain) loss	(654)	31
Other expense, net	217	162
Earnings from continuing operations before income taxes	20,207	20,933
Income tax expense	7,911	7,491
Net earnings from continuing operations	12,296	13,442
Earnings from discontinued operations, net of taxes of \$111 and \$865, respectively	171	1,382
Gain on sale of discontinued operation, net of taxes of \$3,135 in 2007	4,801	
Net earnings from discontinued operations	4,972	1,382
Net earnings	\$ 17,268	\$ 14,824
Net earnings per share Basic:		
Net earnings from continuing operations	\$ 0.25	\$ 0.28
Net earnings from discontinued operations	0.10	0.03
Net earnings per share	\$ 0.35	\$ 0.31
Net earnings per share Diluted:		
Net earnings from continuing operations	\$ 0.25	\$ 0.28
Net earnings from discontinued operations	0.10	0.03
Net earnings per share	\$ 0.35	\$ 0.31

Shares used in per share calculations:

Basic	49,010	48,002
Diluted	49,291	48,116

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

See accompanying notes to consolidated financial statements.

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

	Three Months Ended March 31, 2007	2006 As Restated (1)
Cash flows from operating activities:		
Net earnings from continuing operations	\$ 12,296	\$ 13,442
Plus: net earnings from discontinued operations	4,972	1,382
Net earnings	17,268	14,824
Adjustments to reconcile net earnings to net cash provided by operating activities:		
Depreciation and amortization	8,913	4,605
Provision for losses on accounts receivable	884	863
Write-downs of inventories	1,654	2,041
Non-cash stock-based compensation	2,265	3,172
Gain on sale of discontinued operation	(7,937)	
Excess tax benefit from employee gains on stock-based compensation	(41)	(2,662)
Deferred income taxes	(2,676)	(39)
Changes in assets and liabilities:		
Decrease in accounts receivable	182,155	62,973
(Increase) decrease in inventories	(3,989)	35,765
Decrease (increase) in other current assets	2,360	(835)
(Increase) decrease in other assets	(5,993)	258
Decrease in accounts payable	(117,725)	(6,934)
Decrease in inventories financing facility		(4,281)
Decrease in deferred revenue	(12,768)	(1,121)
(Decrease) increase in accrued expenses and other liabilities	(24,991)	4,975
Net cash provided by operating activities	39,379	113,604
Cash flows from investing activities:		
Proceeds from sale of discontinued operation	28,694	
Purchases of property and equipment	(8,376)	(9,655)
Net cash provided by (used in) investing activities	20,318	(9,655)
Cash flows from financing activities:		
Repayments on short-term financing facility		(45,000)
Borrowings on long-term financing facility	121,000	
Repayments on long-term financing facility	(163,000)	
Decrease in book overdrafts	(31,456)	
Repayments on term loan	(3,750)	
Net repayments on line of credit	(7,000)	(21,309)
Proceeds from sales of common stock under employee stock plans	2,363	6,840

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Excess tax benefit from employee gains on stock-based compensation	41	2,662
Net cash used in financing activities	(81,802)	(56,807)
Cash flows from discontinued operations:		
Net cash used in operating activities		(322)
Net cash used in investing activities		(1,070)
Net cash used in financing activities		
Net cash used in discontinued operations		(1,392)
Foreign currency exchange effect on cash flow	(432)	1,942
(Decrease) increase in cash and cash equivalents	(22,537)	47,692
Cash and cash equivalents at beginning of period	54,697	35,145
Cash and cash equivalents at end of period	\$ 32,160	\$ 82,837

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

See accompanying notes to consolidated financial statements

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

1. Basis of Presentation and Recently Issued Accounting Pronouncements

We are a leading provider of 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.

On March 1, 2007, we completed the sale of PC Wholesale, a division of our North America operating segment. The transaction generated net cash proceeds of \$28.7 million for net assets sold, which are subject to certain post-closing adjustments. Accordingly, PC Wholesale s results of operations for all periods presented are classified as a discontinued operation. See further information in Note 11.

The accompanying unaudited consolidated financial statements contain all adjustments necessary to present fairly our financial position as of March 31, 2007 and our results of operations and cash flows for the three months ended March 31, 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 SEC and consequently do not include all of the disclosures normally required by United States generally accepted accounting principles (GAAP).

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

Recently Issued Accounting Pronouncements

In September 2006, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards No. 157, *Fair Value Measurements* (SFAS No. 157), which provides guidance for using fair value to measure assets and liabilities. The standard also responds to investors requests for more information about (1) the extent to which companies measure assets and liabilities at fair value, (2) the information used to measure fair value, and (3) the effect that fair-value measurements have on earnings. SFAS No. 157 will apply whenever another standard requires (or permits) assets or liabilities to be measured at fair value. The standard does not expand the use of fair value to any new circumstances. SFAS No. 157 is effective for financial statements issued for fiscal years beginning after November 15, 2007, and interim periods within those fiscal years. We are in the process of determining the effect that the adoption of SFAS No. 157 will have on our consolidated financial statements and disclosures.

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

In July 2006, the FASB issued FASB Interpretation No. 48, *Accounting for Uncertainty in Income Taxes an interpretation of FASB Statement No. 109* (FIN 48), which clarifies the accounting for uncertainty in tax positions. FIN 48 applies to all entities subject to income taxes and covers all tax positions accounted for in accordance with FASB Statement No. 109, *Accounting for Income Taxes*. This interpretation requires that we recognize the effect of a tax position in our 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. The provisions of FIN 48 are effective January 1, 2007, with the cumulative effect of the change in accounting principle recorded as an adjustment to beginning retained earnings. We did not record an adjustment to beginning retained earnings as a result of the implementation of FIN 48. See further discussion regarding our implementation of FIN 48 in Note 6.

On May 2, 2007, the FASB issued FASB Staff Position No. FIN 48-1, *Definition of Settlement in FASB Interpretation No. 48*, or FSP FIN 48-1, which amends FIN 48, to provide guidance about how an enterprise should determine whether a tax position is effectively settled for the purpose of recognizing previously unrecognized tax benefits. Under FSP FIN 48-1, a tax position is considered to be effectively settled if the taxing authority completed its examination, the company does not plan to appeal, and it is remote that the taxing authority would reexamine the tax position in the future.

2. Restatement of Consolidated Financial Statements

Background

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

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

Based upon the investigation and determinations made by the Options Subcommittee of the Board of Directors and management's undertaking of a review of historical stock option activity, the Company identified errors in its accounting related to stock option compensation expense for each of the fiscal years ended 1995 through 2005 and for the first quarter of the year ended December 31, 2006. In a Form 8-K filed on April 5, 2007, we reported that based on the findings of the Options Subcommittee and the conclusions reached to date by management in its analysis, our previously issued financial statements would require restatement and should no longer be relied upon.

We determined, based upon the Options Subcommittee's review and the Company's analysis, that for accounting purposes, the dates initially used to measure compensation expense for various stock option grants to employees, executive officers and outside non-employee directors during the period could not be relied upon. The revised measurement dates identified for accounting purposes differed from the originally selected measurement dates due primarily to: (i) insufficient or incomplete approvals; (ii) inadequate or incomplete establishment of the terms of the

grants, including the list of individual recipients; and (iii) the use of hindsight to select exercise prices. These restated consolidated financial statements reflect the corrections resulting from our determination.

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

Restatement Adjustments

Our restated consolidated financial statements contained in this Form 10-Q incorporate stock-based compensation expense, including the income tax impacts related to the restatement adjustments. The restatement adjustments result in a \$30.9 million reduction of retained earnings as of December 31, 2005. The total restatement impact for the years ended December 31, 1995 through December 31, 2005, of \$30.9 million, net of related tax benefits of \$16.5 million, has been reflected as a prior period adjustment to beginning retained earnings as of January 1, 2006.

In addition to the restatements for stock-based compensation, we recorded a pre-tax adjustment for \$1.0 million to record a legal settlement expense that was recorded in the first quarter of 2006, which should have been recorded in the fourth quarter of 2005. The tax effect of this adjustment was \$0.4 million.

The following table summarizes the effect of the restatement adjustments on beginning retained earnings as of January 1, 2006, ending retained earnings as of March 31, 2006, and net earnings for the three months ended March 31, 2006 (in thousands):

	Net Earnings Three Months Ended March 31, 2006	Retained Earnings March 31, 2006	Retained Earnings January 1, 2006
As previously reported	\$ 14,214	\$ 266,533	\$ 252,318
Adjustments:			
Stock option compensation expense		(47,399)	(47,399)
Other miscellaneous accounting adjustments	1,000		(1,000)
Income tax benefit	(390)	16,537	16,927
Total adjustments	610	(30,862)	(31,472)
As restated	\$ 14,824	\$ 235,671	\$ 220,846

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

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

	Three Months Ended March 31, 2006	Year Ended					
	2005	2004	2003	2002	2001	2000	
Stock option compensation from continuing operations:							
Discretionary Grants	\$	\$ 42	\$ 196	\$ 3,510	\$ 11,716	\$ 4,190	\$ 5,830
Anniversary Grants			13	127	929	1,591	1,432
Promotion Grants		2	5	24	105	186	111
New Hire Grants		7	19	(15)	39	14	48
Program Grants			1	8	28	89	23
Total stock compensation expense from continuing operations		51	234	3,654	12,817	6,070	7,444
Other miscellaneous accounting adjustments:							
Adjustment to record legal settlement in appropriate period	(1,000)	1,000					
Total other miscellaneous accounting adjustments	(1,000)	1,000					
Total adjustments to earnings from continuing operations before income taxes	(1,000)	1,051	234	3,654	12,817	6,070	7,444
Income tax (expense) benefit	(390)	392	196	1,579	4,331	2,009	2,620
Total adjustments to earnings from continuing operations	(610)	659	38	2,075	8,486	4,061	4,824
Total stock option compensation expense from discontinued operations		41	56	880	4,834	2,951	2,344
Income tax benefit		16	23	326	1,652	980	790
Total adjustments to net earnings from discontinued operations, net of taxes		25	33	554	3,182	1,971	1,554
Total adjustments to net earnings before cumulative effect of change	(610)	684	71	2,629	11,668	6,032	6,378

in accounting principle

Total adjustments to cumulative
effect of change in accounting
principle

Total decrease (increase) in net
earnings

\$	(610)	\$	684	\$	71	\$	2,629	\$	11,668	\$	6,032	\$	6,378
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INSIGHT ENTERPRISES, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)
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	Year Ended					
	1999	1998	1997	1996	1995	Total
Stock option compensation from continuing operations:						
Discretionary Grants	\$ 1,341	\$ 1,654	\$ 528	\$ 18	\$ 1	\$ 29,026
Anniversary Grants	243	11		1		4,347
Promotion Grants	97	21				551
New Hire Grants	350	108	31	15	1	617
Program Grants	71	188	69			477
 Total stock compensation expense from continuing operations	 2,102	 1,982	 628	 34	 2	 35,018
 Other miscellaneous accounting adjustments:						
Adjustment to record legal settlement in appropriate period						
 Total other miscellaneous accounting adjustments						
 Total adjustments to earnings from continuing operations before income taxes	 2,102	 1,982	 628	 34	 2	 35,018
Income tax benefit	702	657	210	13	1	12,320
 Total adjustments to earnings from continuing operations	 1,400	 1,325	 418	 21	 1	 22,698
 Total stock option compensation expense from discontinued operations	 704	 433	 123	 13	 2	 12,381
Income tax benefit	215	162	47	5	1	4,217
 Total adjustments to net earnings from discontinued operations	 489	 271	 76	 8	 1	 8,164
 Total adjustments to net earnings before cumulative effect of change in accounting principle	 1,889	 1,596	 494	 29	 2	 30,862
Total adjustments to cumulative effect of change in accounting principle						
 Total decrease (increase) in net earnings	 \$ 1,889	 \$ 1,596	 \$ 494	 \$ 29	 \$ 2	 \$ 30,862

Stock Option Compensation These adjustments are from our determination, based upon the Options Subcommittee's review and the Company's analysis, that for accounting purposes, the dates initially used to measure compensation

expense for numerous option grants to employees, executive officers and outside non-employee directors during the period could not be relied upon for various categories of option grants including: (i) discretionary grants of various types; (ii) anniversary grants; (iii) promotion grants; (iv) new hire grants; and (v) program grants. The revised measurement dates identified for accounting purposes differed from the originally selected measurement dates due primarily to: (i) insufficient or incomplete approvals; (ii) inadequate or incomplete establishment of the terms of the grants, including the list of individual recipients; and (iii) the use of hindsight to select exercise prices.

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

Stock option grants with insufficient or incomplete approvals. The Company determined that the original recorded grant date could not be relied on because there was correspondence or other evidence that indicated that not all required approvals had been obtained, including for certain grants, Compensation Committee approval.

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The Company remeasured these option grants with a revised measurement date supported by the required level of approval, as described below, and accounted for these grants as fixed awards under Accounting Principles Board Opinion No. 25, *Accounting for Stock Issued to Employees* (APB No. 25).

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

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

Income Tax Benefit The Company recorded a net income tax benefit of approximately \$16.5 million in connection with the stock-based compensation related expense during the period from fiscal year 1995 to December 31, 2005, net of estimated limitations under Internal Revenue Code Section 162(m). This tax benefit resulted in an increase of the Company's deferred tax assets for most U.S. affected stock options prior to the exercise or forfeiture of the related options. With the exception of UK employees exercising options after 2002, the Company recorded no tax benefit or deferred tax asset for affected stock options granted to non-U.S. employees because the Company determined that it could not receive tax benefits for these options. Further, the Company limited the deferred tax assets recorded for affected stock options granted to certain highly paid officers to reflect estimated limitations on tax deductibility under Internal Revenue Code Section 162(m). Upon exercise or forfeiture of the underlying options, the excess or deficiency in deferred tax assets are written-off to paid-in capital in the period of exercise or forfeiture.

Accounting Considerations - Stock-Based Compensation

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

As a result of the findings of the Options Subcommittee, and our own further review of our stock option granting practices, we determined that the measurement dates for certain stock option grants differed from the recorded grant dates for such grants. Based on the analysis described below, the Company concluded that it was appropriate to revise the measurement dates for these grants based upon its findings. The Company calculated stock-based compensation expense under APB No. 25 based upon the intrinsic value as of the adjusted measurement dates of stock option awards determined to be fixed under APB No. 25 and the vesting provisions of the underlying options. The Company calculated the intrinsic value on the adjusted measurement date as the closing price of its common stock on such date as reported on the NASDAQ National Market, now the NASDAQ Global Select Market, less the exercise price per share of common stock as stated in the underlying stock option agreement, multiplied by the number of shares subject to such stock option award. The Company recognizes these

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amounts as compensation expense over the vesting period of the underlying options in accordance with the provisions of FASB Interpretation No. 28, *Accounting for Stock Appreciation Rights and Other Variable Stock Option or Award Plans*. We also determined that variable accounting treatment was appropriate under APB No. 25 for certain stock option grants for which evidence was obtained that the terms of the options may have been communicated to those recipients and that those terms were subsequently modified (stock option grants cancelled and repriced). When variable accounting is applied to stock option grants, we remeasure, and report in our consolidated statements of earnings, the intrinsic value of the options at the end of each reporting period until the options are exercised, cancelled or expire unexercised.

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

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

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

During the Relevant Period, the Company followed a practice of requiring Compensation Committee approval of the stock option awards to the three highest ranking executives of the Company. For some grants, the Compensation Committee minutes do not indicate approval of an award. In other instances, the Company either did not locate minutes or the evidence was inconclusive concerning when a specific meeting occurred. The Company determined that certain grants to these individuals require alternative measurement dates. For example, due to inconclusive evidence regarding the date of Compensation Committee approval, because the Board had approved the Proxy Statement in which the award was specifically listed, the Proxy Statement filing date was selected as the best evidence of a measurement date for the award. The Company recorded a pre-tax adjustment to compensation expense totaling \$13.3 million for all grants to the three highest ranking executives of the Company during the Relevant Period.

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

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

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

Anniversary Grants. Throughout the Relevant Period, the Company followed an informal policy of awarding options to individual employees in recognition of the anniversary of their employment with the Company or in conjunction with employee promotions. The number of these options was determined by the employee's level within the Company, or, in the case of promotion grants, the level to which the employee was promoted. The majority of these grants were modest in size, generally 500 options or less. In the case of senior management, anniversary or promotion grants could be much larger, at 5,000 or 7,500 options. Occasionally, very senior executives, other than the top three executives, received larger grants for anniversaries or promotions, but these were relatively few and were generally done on a case-by-case basis.

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

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

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

New Hire Grants. Throughout the Relevant Period, the Company issued an option grant to each new employee on the employee's start date. The Company had a uniform practice of granting a specific number of options depending on the incoming employee's level within the Company. For example, the lowest level

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

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

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

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INSIGHT ENTERPRISES, INC.
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(unaudited)

Effect of the Restatement Adjustments on our Consolidated Financial Statements

The following table presents the effect of the financial statement restatement adjustments on the Company's previously reported consolidated statements of earnings for the three months ended March 31, 2006 (in thousands):

	Three Months Ended March 31, 2006			
	As Reported	Discontinued		As Restated
		Operations^(B)	Adjustments	
Net sales	\$ 806,038	\$ (73,214)	\$	\$ 732,824
Costs of goods sold	703,745	(68,027)		635,718
Gross profit	102,293	(5,187)		97,106
Operating expenses:				
Selling and administrative expenses	80,045	(2,940)	(1,000) ^(A)	76,105
Earnings from operations	22,248	(2,247)	(1,000)	21,001
Non-operating (income) expense:				
Interest income	(922)			(922)
Interest expense	797			797
Net foreign currency exchange loss	31			31
Other expense, net	163	(1)		162
Earnings from continuing operations before income taxes	22,179	(2,246)	1,000	20,933
Income tax expense	7,965	(864)	390	7,491
Net earnings from continuing operations	14,214	(1,382)	610	13,442
Net earnings from discontinued operation		1,382		1,382
Net earnings	\$ 14,214	\$	\$ 610	\$ 14,824
Net earnings per share Basic:				
Net earnings from continuing operations	\$ 0.30	\$ (0.03)	\$ 0.01	\$ 0.28
Net earnings from discontinued operation		0.03		0.03
Net earnings per share	\$ 0.30	\$	\$ 0.01	\$ 0.31
Net earnings per share Diluted:				
Net earnings from continuing operations	\$ 0.29	\$ (0.03)	\$ 0.01	\$ 0.28
Net earnings from discontinued operation		0.03		0.03
Net earnings per share	\$ 0.29	\$	\$ 0.01	\$ 0.31

Shares used in per share calculations:			
Basic	48,002		48,002
Diluted	48,685	(569)	48,116

(A) Adjustment to record a legal settlement expense that was recorded in the first quarter of 2006, which should have been recorded in the fourth quarter of 2005.

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

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INSIGHT ENTERPRISES, INC.
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(unaudited)

The following table presents the effect of the restatement adjustments on the Company's previously reported cash flow amounts for the three months ended March 31, 2006 (in thousands):

	Three Months Ended March 31, 2006			
	As Reported	Discontinued Operations^(C)	Adjustments	As Restated
Cash flows from operating activities				
Net earnings from continuing operations	\$ 14,214	\$ (1,382)	\$ 610 ^(A)	\$ 13,442
Plus: net earnings from discontinued operation		1,382		1,382
Net earnings	14,214		610	14,824
Adjustments to reconcile net earnings to net cash provided by operating activities:				
Depreciation and amortization	5,480	(875)		4,605
Provisions for losses on accounts receivable	863			863
Write-downs of inventories	2,041			2,041
Non-cash stock-based compensation expense	3,475	(303)		3,172
Deferred income taxes	(38)	(1)		(39)
Excess tax benefit from employee gains on stock-based compensation	(1,755)		907 ^(B)	(848)
Change in assets and liabilities:				
Decrease in accounts receivable	61,990	983		62,973
Decrease in inventories	35,769	(4)		35,765
Increase in other current assets	(950)	115		(835)
Decrease in other assets	258			258
Decrease in accounts payable	(7,625)	691		(6,934)
Decrease in inventories financing facility	(4,281)			(4,281)
Decrease in deferred revenue	(1,018)	(103)		(1,121)
Increase in accrued expenses and other liabilities	5,766	(181)	(610) ^(A)	4,975
Net cash provided by operating activities	114,189	322	907	115,418
Cash flows from investing activities				
Purchases of property and equipment	(10,725)	1,070		(9,655)
Net cash used in investing activities	(10,725)	1,070		(9,655)
Cash flows from financing activities				
Repayments on short-term financing facility	(45,000)			(45,000)
Net borrowings on line of credit	(21,309)			(21,309)

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Proceeds from sales of common stock under employee stock plans	6,840		6,840
Excess tax benefit from employee gains on stock-based compensation	1,755	(907) ^(B)	848
Net cash used in financing activities	(57,714)	(907)	(58,621)

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

	Three Months Ended March 31, 2006			
	As	Discontinued		As
	Reported	Operations^(C)	Adjustments	Restated
Cash flows from discontinued operation				
Net cash used in operating activities		(322)		(322)
Net cash used in investing activities		(1,070)		(1,070)
Net cash used in financing activities				
Net cash used in discontinued operation		(1,392)		(1,392)
Foreign currency exchange effect on cash flow	1,942			1,942
Increase in cash and cash equivalents	47,692			47,692
Cash and cash equivalents at the beginning of the year	35,145			35,145
Cash and cash equivalents at the end of the year	\$ 82,837	\$	\$	\$ 82,837

(A) Adjustment to record a legal settlement expense that was recorded in the first quarter of 2006, which should have been recorded in the fourth quarter of 2005.

(B) Adjustment to correct presentation of the excess tax benefit from employee gains on stock based compensation.

(C) Adjustment to reclassify the operations of

Direct Alliance
and PC
Wholesale to
discontinued
operations as
described in
Note 11.

Related Proceedings

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 cannot predict the outcome of this investigation.

3. 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 March 31, 2007	2006 As Restated (1)
Numerator:		
Net earnings from continuing operations	\$ 12,296	\$ 13,442
Denominator:		
Weighted-average shares used to compute basic EPS	49,010	48,002
Dilutive potential common shares due to dilutive options and restricted stock	281	114
Weighted-average shares used to compute diluted EPS	49,291	48,116
Net earnings from continuing operations per share:		
Basic	\$ 0.25	\$ 0.28
Diluted	\$ 0.25	\$ 0.28

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

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INSIGHT ENTERPRISES, INC.
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The following weighted-average outstanding stock options during the three months ended March 31, 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	
	March 31,	
	2007	2006
Weighted-average outstanding stock options excluded from the diluted EPS calculation	3,076	2,280

4. Goodwill

The changes in the carrying amount of goodwill for quarter ended March 31, 2007 are as follows (in thousands):

	North America	EMEA	APAC	Consolidated
Balance at December 31, 2006	\$ 217,469	\$ 62,714	\$ 16,598	\$ 296,781
Foreign currency translation adjustments	68	783	274	1,125
Balance at March 31, 2007	\$ 217,537	\$ 63,497	\$ 16,872	\$ 297,906

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.

5. Debt

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

	March 31,	December
	2007	31,
		2006
Term loan	\$ 67,500	\$ 71,250
Accounts receivable securitization financing facility	126,000	168,000
Total	193,500	239,250
Less: current portion of term loan	(15,000)	(15,000)
Long-term debt	\$ 178,500	\$ 224,250

On September 7, 2006, we entered into a credit agreement with various financial institutions that provides new credit facilities of up to \$150,000,000 to finance, in part, the acquisition of Software Spectrum and for general corporate purposes. The credit facilities are composed of a five-year revolving credit facility in the amount of \$75,000,000 and a five-year term loan facility in the amount of \$75,000,000. Additionally, we amended our accounts receivable securitization financing facility to increase the maximum funding under the facility from \$200,000,000 to \$225,000,000 and extend its maturity through September 7, 2009. The \$67,500,000 outstanding under the five-year term loan facility is payable in quarterly installments through September 2011. Amounts outstanding under the term loan bear interest at a floating rate equal to the London Interbank Offered Rate (LIBOR) plus a spread of 0.625% to 1.375% (6.45% at March 31, 2007). Deferred financing fees of \$1,552,000 were capitalized in conjunction with the

amendment to the credit facility to finance the acquisition. Such fees are being amortized to interest expense over the five-year term of the term loan facility using the effective interest method.

At March 31, 2007, \$8,000,000 was outstanding under our \$75,000,000 revolving line of credit. Amounts outstanding under the revolving line of credit bear interest, payable quarterly, at a floating rate equal to

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INSIGHT ENTERPRISES, INC.
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the prime rate or, at our option, a LIBOR rate plus a pre-determined spread of 0.625% to 1.375% (8.25 and 6.44 per annum, respectively, at March 31, 2007). In addition, we pay a commitment fee of 0.225% on the unused portion of the line. The credit facility expires on September 7, 2009. Because we generally use this line for short-term borrowing needs, our borrowings are generally at the prime rate and amounts outstanding are recorded as current liabilities. The revolving line of credit also has a feature which allows us to increase the availability on the line of credit by \$37,500,000, upon request. We do not pay any fees on the increased availability under the line until we activate the additional credit. At March 31, 2007, \$104,500,000 was available under the line of credit.

We have an agreement to sell receivables periodically to a special purpose accounts receivable and financing entity (the SPE), which is exclusively engaged in purchasing receivables from us. The SPE is a wholly-owned, bankruptcy-remote entity that we have included in our consolidated financial statements. The SPE funds its purchases by selling undivided interests in up to \$225,000,000 of eligible trade accounts receivable to a multi-seller conduit administered by an independent financial institution. The sales to the conduit do not qualify for sale treatment under SFAS No. 140, *Accounting for Transfers and Servicing of Financial Assets and Extinguishment of Liabilities*, as we maintain effective control over the receivables that are sold. Accordingly, the receivables remain recorded on our consolidated balance sheets. At March 31, 2007, the SPE owned \$361,466,000 of receivables recorded at fair value and included in our consolidated balance sheet, of which \$179,684,000 was eligible for funding. The financing facility expires September 7, 2009. Interest is payable monthly, and the interest rate at March 31, 2007 on borrowed funds was 5.98% per annum, including the 0.65% commitment fee on the total \$225,000,000 facility. We also pay a 0.25% usage fee on the unused balance. During the three months ended March 31, 2007 and 2006, our weighted average interest rate per annum and weighted average borrowings under the facility were 6.3% and \$163,710,000 and 4.5% and \$38,778,000, respectively. At March 31, 2007, \$126,000,000 was outstanding and \$53,684,000 was available under the facility.

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 the requirement that we provide annual and quarterly financial information which is reported on by our independent registered public accounting firm to the lenders within a certain time period after the annual or quarterly period ends. If we fail to comply with these covenants, the lenders would be able to demand payment within a specified period of time. Because we were not current with our reporting obligations under the Securities Exchange Act of 1934 beginning on September 30, 2006 and ending on July 25, 2007, we would have been in violation of our financial reporting covenants had we not obtained agreements with our lenders regarding the delivery of substitute financial information to them. The agreements with our lenders waived our obligation to provide the filed reports and waived any events of default occurring under the facility as a result of our failure to comply with the financial reporting covenants. We intend to provide all late reports and current financial statements to our lenders upon becoming current in our filings.

6. Income Taxes

Our effective tax rates from continuing operations for the three months ended March 31, 2007 and 2006 were 39.1% and 35.8%, respectively. For the three months ended March 31, 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 and an increase in tax reserves in the three months ended March 31, 2007. For the three months ended March 31, 2006, our effective tax rate differed from the United States federal statutory rate of 35.0% due primarily to state income taxes, net of federal tax, offset partially by lower tax rates on earnings in the United Kingdom and Canada. In addition, for the three months ended March 31, 2006, our rate increases were offset by a benefit from the release of a reserve due to the closing of an audit.

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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.

As of January 1, 2007 (the date we adopted FIN 48) and March 31, 2007 the Company had approximately \$10,300,000 and \$10,800,000, respectively, of unrecognized tax benefits. Of these amounts, approximately \$1,500,000 and \$1,700,000, respectively, relates 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 are currently under audit for the 2002 through 2005 tax years. It is reasonably possible that the examination phase of these audits may conclude in the next twelve months, and the related unrecognized tax benefits for certain tax positions will significantly decrease. However, based on the status of the examination, 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 2003 through 2006 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 ten years.

7. Restructuring and Acquisition Integration Activities

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

We recorded \$11,414,000 of employee termination benefits and facility based costs in connection with the integration of Software Spectrum. 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 cost to acquire Software Spectrum.

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

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

The following table details the changes in these liabilities during the three months ended March 31, 2007 (in thousands):

	North America	EMEA	Consolidated
Balance at December 31, 2006	\$ 997	\$ 9,528	\$ 10,525
Foreign currency translation adjustments		110	110
Cash payments		(998)	(998)
Balance at March 31, 2007	\$ 997	\$ 8,640	\$ 9,637

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 three months ended March 31, 2007, adjustments of \$85,000 and \$15,000 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 \$164,000 were made during the three months ended March 31, 2007, resulting in an accrual balance of \$6,404,000 at March 31, 2007. In the accompanying consolidated balance sheet at March 31, 2007, approximately \$5,554,000 is expected to be paid in 2007 and is therefore included in accrued expenses and other current liabilities, and \$850,000 is expected to be paid through 2008 and is therefore included in long-term liabilities.

8. 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 March 31,	
	2007	2006
North America	\$ 1,886	\$ 2,887
EMEA	\$ 365	\$ 285
APAC	\$ 14	\$

Total Continuing Operations	\$ 2,265	\$ 3,172
Discontinued Operations	\$	\$ 303

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INSIGHT ENTERPRISES, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)
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Accounting for Stock Options After SFAS No. 123R Implementation

There were no stock options granted during the quarters ended March 31, 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 months ended March 31, 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 March 31, 2007 and 2006, we recorded in continuing operations stock-based compensation expense related to stock options, net of forfeitures, of \$1,267,000 and \$2,504,000, respectively. As of March 31, 2007, total compensation cost related to nonvested stock options not yet recognized is \$2,877,000, which is expected to be recognized over the next 0.65 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 March 31, 2007:

	Number	Weighted Average Exercise Price	Aggregate Intrinsic Value (in-the-money options)	Weighted Average Remaining Contractual Life (in years)
Outstanding at the beginning of period	5,283,463	\$ 19.41		
Granted		\$		
Exercised	(61,580)	\$ 14.45	\$ 257,404	
Expired	(125,794)	\$ 22.51		
Forfeited	(19,698)	\$ 19.81		
Outstanding at the end of period	5,076,391	\$ 19.39	\$ 3,299,059	2.50
Exercisable at the end of period	3,748,799	\$ 19.52	\$ 2,939,452	2.41
Vested and expected to vest	5,005,042	\$ 19.40	\$ 3,283,393	0.16

The aggregate intrinsic value in the preceding table represents the total pre-tax intrinsic value, based on our closing stock price of \$17.98 as of March 31, 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 March 31, 2007:

Range of Exercise	Number of Options	Options Outstanding		Options Exercisable	
		Weighted Average Remaining Contractual	Weighted Average Exercise Price Per	Number of Options	Weighted Average Exercise Price Per

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Prices		Outstanding	Life (in years)	Share	Exercisable	Share
\$5.14	18.35	1,109,225	2.73	\$ 15.03	948,713	\$ 14.90
18.36	19.24	1,033,169	2.94	\$ 18.60	499,934	\$ 18.65
19.25	19.93	1,030,925	2.58	\$ 19.75	655,458	\$ 19.74
20.00	21.25	1,124,251	1.84	\$ 21.01	865,873	\$ 21.03
21.30	41.00	778,821	2.47	\$ 23.87	778,821	\$ 23.87
		5,076,391	2.50	\$ 19.39	3,748,799	\$ 19.52

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INSIGHT ENTERPRISES, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)
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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 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 will be reduced for our estimate of forfeitures.

For the three months ended March 31, 2007 and 2006, we recorded in continuing operations stock-based compensation expense, net of forfeitures, related to restricted stock shares and RSUs of \$998,000 and \$668,000, respectively. As of March 31, 2007, total compensation cost related to nonvested restricted stock shares and RSUs was \$20,924,000, which is expected to be recognized over the next 1.6 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 March 31, 2007:

	Number	Weighted Average Grant Date Fair Value	Fair Value
Nonvested at the beginning of period	760,531	\$ 20.50	
Granted	649,186	\$ 20.58	
Vested	(190,952)	\$ 20.98	\$ 3,831,824 ^(a)
Forfeited	(17,060)	\$ 19.41	
Nonvested at the end of period	1,201,705	\$ 20.12	\$ 21,606,655 ^(b)
Expected to vest	1,003,698		\$ 18,046,490 ^(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 \$17.98 as of March 31, 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.

9. Share Repurchase Program

In January 2006, our Board of Directors authorized the repurchase of up to \$50,000,000 of our common stock. As of March 31, 2007, we have not purchased any shares under this authorization.

10. Commitments and Contingencies

There have been no significant changes from our description of commitments and contingencies in Note 14 to our Consolidated Financial Statements in Part II, Item 8 of our Annual Report on Form 10-K for the year ended December 31, 2006.

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

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.

11. 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 August 2007. Any post-closing adjustments will adjust the 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 million and \$6 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 represent PC Wholesale's results of operations for the three months ended March 31, 2007 and 2006, respectively. The following amounts have been segregated from continuing operations and reflected in discontinued operations (in thousands):

	Three Months Ended March	
	2007	2006
Net sales	\$ 30,142	\$ 56,079
Costs of goods sold	29,092	54,132
Gross profit	1,050	1,947
Selling and administrative expenses	768	1,385
Earnings from operations before income taxes	282	562
Income tax expense	111	221
Net earnings from discontinued operations	\$ 171	\$ 341

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

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 ending December 31, 2006 (Earn Out). Additionally, the buyer is entitled to a claw 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. As of July 25, 2007, the company is in the process of negotiating the final resolution of the Earn Out and the claw back. Additionally, we paid \$2,696,000 to the holders of 1,997,500 exercised Direct Alliance stock options. This amount will be further adjusted for the above described working capital adjustment, Earn Out and claw back. Adjustments for the above described working capital adjustment, Earn Out, claw back and payments to holders of exercised Direct Alliance stock options will also adjust the gain recorded on the sale.

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.

The following amounts represent Direct Alliance's results of operations for the three months ended March 31, 2006. The following amounts have been segregated from continuing operations and reflected in discontinued operations (in thousands):

	Three Months Ended March 31, 2006
Net sales	\$ 17,135
Costs of goods sold	13,895
Gross profit	3,240
Selling and administrative expenses	1,555
Earnings from operations before income taxes	1,685
Income tax expense	644
Net earnings from discontinued operations	\$ 1,041

On June 30, 2006, in connection with the sale of Direct Alliance, we entered into a lease agreement with Direct Alliance pursuant to which Direct Alliance will lease from us the facilities it used prior to the sale. The initial lease term is for eighteen months starting July 1, 2006. Accordingly, we have separately presented the value of the land and buildings as buildings held for lease on the consolidated balance sheet at March 31, 2007. Lease income related to these buildings was \$435,000 for the three months ended March 31, 2007 and is classified as net sales. For the three months ended March 31, 2007, depreciation expense related to the buildings is \$187,000 and is classified as costs of goods sold.

12. 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

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

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 quarter ended March 31, 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 efficiently use resources. 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. Corporate charges of \$185,000 for the quarter ended March 31, 2006, previously allocated to our discontinued operation, Direct Alliance, have been reallocated to our North America segment.

The tables below present information about our reportable operating segments as of and for the three months ended March 31, 2007 and 2006 (in thousands):

	Three Months Ended March 31, 2007			
	North America	EMEA	APAC	Consolidated
Net sales	\$ 777,201	\$ 327,376	\$ 19,398	\$ 1,123,975
Costs of goods sold	665,285	288,905	16,610	970,800
Gross profit	111,916	38,471	2,788	153,175
Selling and administrative expenses	94,770	32,011	2,977	129,758
Earnings (loss) from operations	\$ 17,146	\$ 6,460	\$ (189)	23,417
Non-operating expense, net				3,210
Earnings from continuing operations before income taxes				20,207
Income tax expense				7,911
Net earnings from continuing operations				12,296
Net earnings from discontinued operations				4,972
Net earnings				\$ 17,268
Total assets	\$ 1,974,243	\$ 420,658	\$ 32,201	\$ 1,554,963 ^a

^a

Consolidated
total assets are
shown net of
intercompany
eliminations and
include
corporate assets
and assets of
discontinued
operations of
\$872,139 at
March 31, 2007.

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

	Three Months Ended March 31, 2006			
	As Restated (1)			As Restated (1)
	North America	EMEA	APAC ^b	Consolidated
Net sales	\$ 612,879	\$ 119,945	\$	\$ 732,824
Costs of goods sold	533,371	102,347		635,718
Gross profit	79,508	17,598		97,106
Selling and administrative expenses	62,055	14,050		76,105
Earnings from operations	\$ 17,453	\$ 3,548	\$	21,001
Non-operating expense, net				68
Earnings from continuing operations before income taxes				20,933
Income tax expense				7,491
Net earnings from continuing operations				13,442
Net earnings from discontinued operations				1,382
Net earnings				\$ 14,824
Total assets	As Restated (1)	\$ 1,085,253	\$ 163,299	\$ 877,345 ^a

(1) See Note 2
Restatement of
Consolidated
Financial
Statements and
Note 11
Discontinued
Operations .

^a Consolidated
total assets are
shown net of
intercompany
eliminations and
include
corporate assets

and assets of discontinued operations of \$ \$371,207 at March 31, 2006.

- b Our APAC segment was added as a result of the acquisition of Software Spectrum on September 7, 2006.

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

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

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

Restatement of Consolidated Financial Statements

Background

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

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

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

We determined, based upon the Options Subcommittee's review and the Company's analysis, that for accounting purposes, the dates initially used to measure compensation expense for various stock option grants to employees, executive officers and outside non-employee directors during the period could not be relied upon. The revised measurement dates identified for accounting purposes differed from the originally selected measurement dates due primarily to (i) insufficient or incomplete approvals, (ii) inadequate or incomplete establishment of the terms of the grants, including the list of individual recipients, and (iii) the use of hindsight to select exercise prices. The restated consolidated financial statements included in our Annual Report on Form 10-K for the year ended December 31, 2006 and in this Quarterly Report on Form 10-Q reflect the corrections resulting from our determination.

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

In addition to the restatements for stock-based compensation, we recorded a pre-tax adjustment for \$1.0 million to record a legal settlement expense that was recorded in the first quarter of 2006, which should have been recorded in the fourth quarter of 2005. The tax effect of this adjustment was \$0.4 million.

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

Restatement Adjustments

Our restated consolidated financial statements contained in this Form 10-Q incorporate stock-based compensation expense, including the income tax impacts related to the restatement adjustments. The restatement adjustments result in a \$30.9 million reduction of retained earnings as of December 31, 2005. The total restatement impact for the years ended December 31, 1995 through December 31, 2005, of \$30.9 million, net of related tax benefits of \$16.5 million, has been reflected as a prior period adjustment to beginning retained earnings as of January 1, 2006.

In addition to the restatements for stock-based compensation, we recorded a pre-tax adjustment for \$1.0 million to record a legal settlement expense that was recorded in the first quarter of 2006, which should have been recorded in the fourth quarter of 2005. The tax effect of this adjustment was \$0.4 million.

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

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

	Three Months Ended March 31, 2006	Year Ended					
	2005	2004	2003	2002	2001	2000	
Stock option compensation from continuing operations:							
Discretionary Grants	\$	\$ 42	\$ 196	\$ 3,510	\$ 11,716	\$ 4,190	\$ 5,830
Anniversary Grants			13	127	929	1,591	1,432
Promotion Grants		2	5	24	105	186	111
New Hire Grants		7	19	(15)	39	14	48
Program Grants			1	8	28	89	23
Total stock compensation expense from continuing operations		51	234	3,654	12,817	6,070	7,444
Other miscellaneous accounting adjustments:							
Adjustment to record legal settlement in appropriate period	(1,000)	1,000					
Total other miscellaneous accounting adjustments	(1,000)	1,000					
Total adjustments to earnings from continuing operations before income taxes	(1,000)	1,051	234	3,654	12,817	6,070	7,444
Income tax (expense) benefit	(390)	392	196	1,579	4,331	2,009	2,620
Total adjustments to earnings from continuing operations	(610)	659	38	2,075	8,486	4,061	4,824
Total stock option compensation expense from discontinued operations		41	56	880	4,834	2,951	2,344
Income tax benefit		16	23	326	1,652	980	790
Total adjustments to net earnings from discontinued operations, net of taxes		25	33	554	3,182	1,971	1,554
Total adjustments to net earnings before cumulative effect of change	(610)	684	71	2,629	11,668	6,032	6,378

in accounting principle

Total adjustments to cumulative
effect of change in accounting
principle

Total decrease (increase) in net
earnings

\$	(610)	\$	684	\$	71	\$	2,629	\$	11,668	\$	6,032	\$	6,378
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INSIGHT ENTERPRISES, INC.
MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION
AND RESULTS OF OPERATIONS (continued)

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

Stock Option Compensation These adjustments are from our determination, based upon the Options Subcommittee's review and the Company's analysis, that, for accounting purposes, the dates initially used to measure compensation

expense for numerous option grants to employees, executive officers and outside non-employee directors during the period could not be relied upon for various categories of option grants including: (i) discretionary grants of various types; (ii) anniversary grants; (iii) promotion grants; (iv) new hire grants; and (v) program grants. The revised measurement dates identified for accounting purposes differed from the originally selected measurement dates due primarily to: (i) insufficient or incomplete approvals; (ii) inadequate or incomplete establishment of the terms of the grants, including the list of individual recipients; and (iii) the use of hindsight to select exercise prices.

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

Stock option grants with insufficient or incomplete approvals. The Company determined that the original recorded grant date could not be relied on because there was correspondence or other evidence that indicated that not all required approvals had been obtained, including for certain grants, Compensation Committee approval. The Company remeasured these option grants with a revised measurement date supported by the required level of

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

approval, as described below, and accounted for these grants as fixed awards under Accounting Principles Board Opinion (APB) No. 25, *Accounting for Stock Issued to Employees*.

Inadequate or incomplete establishment of the terms of the grants. The Company determined that for certain stock option grants, the number of shares and the exercise price were not known with finality at the original measurement date. The Company determined that the original recorded grant date could not be relied on because there was correspondence or other evidence that indicated that the Company had not finalized the number of stock options allocated to each individual recipient and the related exercise price. Based on available supporting documentation, the Company determined the date by which the number of stock options to be awarded to each recipient was finalized and the other terms of the award were established and accounted for these grants as fixed awards under APB 25.

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

Other Miscellaneous Accounting Adjustments In addition to the restatements for stock-based compensation, we recorded a pre-tax adjustment for \$1.0 million to record a legal settlement expense that was recorded in the first quarter of 2006, which should have been recorded in the fourth quarter of 2005. The tax effect of this adjustment was \$0.4 million.

Income Tax Benefit We recorded a net income tax benefit of approximately \$16.5 million in connection with the stock option-related compensation charges during the period from fiscal year 1995 to December 31, 2005. This tax benefit has resulted in an increase of our deferred tax assets for most U.S. affected stock options prior to the exercise or forfeiture of the related options. With the exception of UK employees exercising options after 2002, the Company recorded no tax benefit or deferred tax asset for affected stock options granted to non-U.S. employees because we determined that we could not receive tax benefits for these options. Further, we limited the deferred tax assets recorded for affected stock options granted to certain highly paid officers to reflect estimated limitations on tax deductibility under Internal Revenue Code Section 162(m). Upon exercise or forfeiture of the underlying options, the excess or deficiency in deferred tax assets is written-off to paid-in capital in the period of exercise or forfeiture.

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

Accounting Considerations - Stock-Based Compensation

We originally accounted for all employee, officer and director stock option grants as fixed grants under APB 25, using a measurement date of the recorded grant date. We issued all grants with an exercise price equal to

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the fair market value of our common stock on the recorded grant date, and therefore originally recorded no stock-based compensation expense.

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

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

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

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

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

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

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

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

Anniversary Grants. Throughout the Relevant Period, the Company followed an informal policy of awarding options to individual employees in recognition of the anniversary of their employment with the Company or in conjunction with employee promotions. The number of these options was determined by the employee's level within the Company, or, in the case of promotion grants, the level to which the employee was promoted. The majority of these grants were modest in size, generally 500 options or less. In the case of senior management, anniversary or promotion grants could be much larger, at 5,000 or 7,500 options. Occasionally, very senior executives, other than the top three executives, received larger grants for anniversaries or promotions, but these were relatively few and were generally done on a case-by-case basis.

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

The Company used email correspondence or other documentation maintained in the Stock Plan Administration files and information obtained from the Company's human resources system and payroll records to determine each employee's anniversary date based on the employee's hire (and corresponding anniversary) date. The general granting practice for anniversary awards in place at the relevant point in time was used to determine the appropriate measurement date for each employee's anniversary award. For a limited number of grants, absent evidence of the employee's hire date, the date the employee record of the stock options was added to

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the Company's stock plan administration database application was used as the measurement date for the awards identified as anniversary grants. For periods where the Company issued anniversary grants using quarterly or monthly lows, or other low prices, alternate measurement dates were required. The Company recorded a pre-tax compensation expense adjustment totaling \$6.6 million for anniversary grants during the Relevant Period.

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

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

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

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

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Related Proceedings

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

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.

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 that are subject to certain post-closing adjustments. The sale 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.

Net sales for the three months ended March 31, 2007 increased 53% to \$1,124.0 million from \$733.0 million for the three months ended March 31, 2006. Net earnings for the three months ended March 31, 2007 increased 17% to \$17.3 million from \$14.8 million for the three months ended March 31, 2006. Net earnings for the three months ended March 31, 2007 include the gain on sale of PC Wholesale of \$7.9 million, \$4.8 million net of tax, and expenses of \$5.7 million, \$3.5 million net of tax, for legal and professional fees associated with the ongoing stock option review.

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 12 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 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 27% from \$777.2 million in the three months ended March 31, 2007 from \$612.9 million in the three months ended March 31, 2006, due primarily to the acquisition of Software Spectrum. Within North America, the highlight of the quarter was a strong gross profit performance, evidenced by growth of 41% over the prior year, driven by contributions from hardware, software, and services. We were particularly pleased to see our services business continue to post strong growth, increasing net sales by 72% for the three months ended March 31, 2007 compared to the three months ended March 31, 2006. This growth was driven primarily by strong sales of field services and third party warranties but was also due to the acquisition of Software Spectrum. Also included in our North America segment results was \$5.2 million of legal and professional fees associated with the ongoing stock option review. Overall North America earnings from operations decreased 2% from \$17.5 million for the three months ended March 31, 2006 to \$17.1 million for the three months ended March 31, 2007.

Our EMEA operations, which included only the United Kingdom in the three months ended March 31, 2006, recognized net sales that were up 173% from \$119.9 million in three months ended March 31, 2006 to

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\$327.4 million in the three months ended March 31, 2007 due primarily to the acquisition of Software Spectrum. Within EMEA, our software category performed well across all regions, and within the UK our hardware and services categories performed very well, and we believe grew faster than the market for the three months ended March 31, 2007. Also included in our EMEA segment results was \$455,000 of legal and professional fees associated with the ongoing stock option review. Overall EMEA earnings from operations increased 82% from \$3.5 million for the three months ended March 31, 2006 to \$6.5 million for the three months ended March 31, 2007.

Our APAC segment continues to perform very well as we believe it grew faster than the market and contributed net sales of \$19.4 million and gross profit of \$2.8 million for the three months ended March 31, 2007. Although this operating segment represents a small percentage of our consolidated results, we are excited about the growth opportunities this region brings.

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 that we disclosed as our critical accounting estimates in Management's Discussion and Analysis of Financial Condition and Results of Operations in our Annual Report on Form 10-K for the year ended December 31, 2006, we adopted FIN 48 on January 1, 2007. FIN 48 clarifies the accounting and reporting for uncertainties in income tax 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.

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RESULTS OF OPERATIONS

The following table sets forth for the periods presented certain financial data as a percentage of net sales for the three months ended March 31, 2007 and 2006:

	Three Months Ended	
	March 31	
	2007	2006
		As Restated
		(1)
Net sales	100.0%	100.0%
Costs of goods sold	86.4	86.7
Gross profit	13.6	13.3
Selling and administrative expenses	11.5	10.4
Earnings from operations	2.1	2.9
Non-operating (income) expense:		
Interest income	(0.2)	(0.1)
Interest expense	0.5	0.1
Other income, net		
Earnings from continuing operations before income taxes	1.8	2.9
Income tax expense	0.7	1.0
Net earnings from continuing operations	1.1	1.9
Earnings from discontinued operation, net of taxes	0.0	0.1
Gain on sale of discontinued operation, net of taxes	0.4	
Net earnings from discontinued operation	0.4	0.1
Net earnings	1.5%	2.0%

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

Net Sales. Net sales for the three months ended March 31, 2007 increased 53% to \$1.12 billion from \$732.8 million for the three months ended March 31, 2006. The increase in sales is mainly due to the acquisition of Software Spectrum on September 7, 2006. Our net sales by operating segment for the three months ended March 31, 2007 and 2006 were as follows (in thousands):

**Three Months Ended March
31,**

	2007	2006	% Change
North America	\$ 777,201	\$ 612,879	27%
EMEA	327,376	119,945	173%
APAC	19,398		100%
Consolidated	\$ 1,123,975	\$ 732,824	53%

North America's net sales for the three months ended March 31, 2007 increased 27% to \$777.2 million from \$612.9 million for the three months ended March 31, 2006, due primarily to the acquisition of Software Spectrum. North America had 1,274 account executives at March 31, 2007, an increase from 1,053 at March 31, 2006 due primarily to the acquisition of Software Spectrum. Net sales per account executive in North America increased 7% to \$614,000 for the three months ended March 31, 2007 from \$576,000 for the three months ended March 31, 2006. The average tenure of our account executives in North America has increased from 3.9 years at March 31, 2006 to 4.4 years at March 31, 2007. The increase is due primarily the addition of more tenured account executives with the acquisition of Software Spectrum.

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EMEA's net sales for the three months ended March 31, 2007 increased 173% to \$327.4 million from \$119.9 million for the three months ended March 31, 2006. Overall, our growth in EMEA was due to the acquisition of Software Spectrum, however, the EMEA segment performed well across all regions. Within the United Kingdom, our hardware and software categories performed well and we believe grew faster than the market. EMEA had 478 account executives at March 31, 2007, an increase from 251 at March 31, 2006 due primarily to the acquisition of Software Spectrum. Net sales per account executives in EMEA increased 48% to \$686,000 for the three months ended March 31, 2007 compared to \$464,000 for the three months ended March 31, 2006. The average tenure of our account executives in EMEA has increased from 2.4 years at March 31, 2006 to 2.9 years at March 31, 2007. The increase is due primarily to a decrease in account executive turnover and to the addition of more tenured account executives with the acquisition of Software Spectrum.

APAC's net sales for the three months ended March 31, 2007 were \$19.4 million. We were pleased with the results of our APAC segment as we believe that we grew faster than the market, and we continue to be encouraged by the growth opportunities in this region.

Percentage of net sales by category for North America, EMEA and APAC were as follows for the three months ended March 31, 2007 and 2006:

	North America		EMEA		APAC	
	Three Months Ended		Three Months Ended		Three Months Ended	
	March 31,		March 31,		March 31,	
Sales Mix	2007	2006	2007	2006	2007	2006
Notebooks and PDAs	11%	13%	8%	17%	0%	NA
Desktops and Servers	13%	16%	8%	15%	0%	NA
Network and Connectivity	11%	14%	4%	9%	0%	NA
Storage Devices	6%	8%	5%	8%	0%	NA
Supplies and Accessories	6%	7%	4%	8%	0%	NA
Monitors and Video	5%	7%	4%	9%	0%	NA
Printers	5%	8%	3%	8%	0%	NA
Memory and Processors	4%	5%	2%	4%	0%	NA
Miscellaneous	6%	8%	2%	6%	3%	NA
Hardware	67%	86%	40%	84%	3%	NA
Software	30%	12%	59%	15%	96%	NA
Services	3%	2%	<1%	<1%	<1%	NA
	100%	100%	100%	100%	100%	NA

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.

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 58% to \$153.2 million for the three months ended March 31, 2007 from

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\$97.1 million for the three months ended March 31, 2006, due primarily to the acquisition of Software Spectrum. As a percentage of net sales, gross profit increased to 13.6% for the three months ended March 31, 2007 from 13.3% for the three months ended March 31, 2006. Our gross profit and gross profit as a percent of net sales by operating segment for the three months ended March 31, 2007 and 2006 were as follows (in thousands):

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