

INSIGHT ENTERPRISES INC

Form 10-Q

August 11, 2008

Table of Contents

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

(Mark One)

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

For the quarterly period ended: June 30, 2008

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, a non-accelerated filer, or a smaller reporting company. See definitions of "large accelerated filer", "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer

Accelerated filer

Non-accelerated filer

Smaller reporting company

(Do not check if a smaller reporting company)

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

Yes No

The number of shares outstanding of the issuer's common stock as of August 6, 2008 was 45,556,370.

INSIGHT ENTERPRISES, INC.
QUARTERLY REPORT ON FORM 10-Q
Three Months Ended June 30, 2008
TABLE OF CONTENTS

	Page
<u>PART I Financial Information</u>	
<u>Item 1 Financial Statements:</u>	
<u>Consolidated Balance Sheets (unaudited) - June 30, 2008 and December 31, 2007</u>	1
<u>Consolidated Statements of Operations (unaudited) - Three and Six Months Ended June 30, 2008 and 2007</u>	2
<u>Consolidated Statements of Cash Flows (unaudited) - Six Months Ended June 30, 2008 and 2007</u>	3
<u>Notes to Consolidated Financial Statements (unaudited)</u>	4
<u>Item 2 Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	22
<u>Item 3 Quantitative and Qualitative Disclosures About Market Risk</u>	34
<u>Item 4 Controls and Procedures</u>	34
<u>PART II Other Information</u>	
<u>Item 1 Legal Proceedings</u>	34
<u>Item 1A Risk Factors</u>	35
<u>Item 2 Unregistered Sales of Equity Securities and Use of Proceeds</u>	35
<u>Item 3 Defaults Upon Senior Securities</u>	36
<u>Item 4 Submission of Matters to a Vote of Security Holders</u>	36
<u>Item 5 Other Information</u>	37
<u>Item 6 Exhibits</u>	38
<u>Signatures</u>	39
<u>Exhibit 10.1</u>	
<u>Exhibit 10.2</u>	
<u>Exhibit 10.3</u>	

Exhibit 10.4

Exhibit 31.1

Exhibit 31.2

Exhibit 32.1

Table of Contents

**INSIGHT ENTERPRISES, INC.
FORWARD-LOOKING INFORMATION**

Certain statements in this Quarterly Report on Form 10-Q, including statements in Management's Discussion and Analysis of Financial Condition and Results of Operations in Part I, Item 2 of this report, are forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. These forward-looking statements may include: projections of matters that affect net sales, gross profit, operating expenses, earnings or losses from continuing operations, non-operating income and expenses, net earnings or losses or cash flows, the recoverability of deferred tax assets, the payment of accrued expenses and liabilities and costs or gains that may result from post-closing adjustments pertaining to business acquisitions or dispositions; effects of acquisitions or dispositions and our intentions about additional acquisitions; projections of capital expenditures; our effective tax rate and earnings or losses per share in 2008; 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 and off balance sheet arrangements; the outcome of ongoing tax audits; statements related to accounting estimates, including estimated stock option and other equity award forfeitures, and deferred compensation cost amortization periods; statements of belief; and statements of assumptions underlying any of the foregoing. Forward-looking statements are identified by such words as believe, anticipate, expect, estimate, intend, plan, project, will, may and variations of similar expressions, and are inherently subject to risks and uncertainties, some of which cannot be predicted or quantified. Future events and actual results could differ materially from those set forth in, contemplated by, or underlying the forward-looking statements. There can be no assurances that the events discussed in the forward-looking statements will occur, and actual results could differ materially from those suggested by 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:

changes in the information technology industry and/or the economic environment;

our reliance on partners for product availability, marketing funds, purchasing incentives and competitive products to sell;

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

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

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

the informal inquiry from the Securities and Exchange Commission (SEC) and stockholder litigation related to our historical stock option granting practices and the related restatement of our consolidated financial statements;

the risks associated with international operations;

seasonal changes in demand for sales of software licenses;

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

exposure to currency exchange risks and volatility in the U.S. dollar exchange rate;

our dependence on key personnel;

risk that purchased goodwill or intangible assets become impaired;

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

rapid changes in product standards; and

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

Additionally, there may be other risks that are otherwise described from time to time in the reports that we file with the SEC. Any forward-looking statements in this report should be considered in light of various important factors, including the risks and uncertainties listed above, as well as others. We assume no obligation to update, and do not intend to update, any forward-looking statements. We do not endorse any projections regarding future performance that may be made by third parties.

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

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

	June 30, 2008	December 31, 2007
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 109,563	\$ 56,718
Accounts receivable, net of allowances for doubtful accounts of \$22,701 and \$22,831, respectively	1,222,860	1,072,612
Inventories	98,924	98,863
Inventories not available for sale	31,379	21,450
Deferred income taxes	21,905	22,020
Other current assets	33,499	38,916
Total current assets	1,518,130	1,310,579
Property and equipment, net of accumulated depreciation of \$121,944 and \$107,577, respectively	166,864	158,467
Goodwill	91,640	306,742
Intangible assets, net of accumulated amortization of \$19,013 and \$12,262, respectively	104,750	80,922
Deferred income taxes	111,319	392
Other assets	19,344	10,076
	\$ 2,012,047	\$ 1,867,178
LIABILITIES AND STOCKHOLDERS EQUITY		
Current liabilities:		
Accounts payable	\$ 873,551	\$ 685,578
Accrued expenses and other current liabilities	114,660	113,891
Current portion of long-term debt		15,000
Deferred revenue	54,376	42,885
Total current liabilities	1,042,587	857,354
Long-term debt	339,000	187,250
Deferred income taxes	28,455	27,305
Other liabilities	24,259	20,075
	1,434,301	1,091,984

Commitments and contingencies (Note 11)

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Stockholders' equity:

Preferred stock, \$0.01 par value, 3,000 shares authorized; no shares issued

Common stock, \$0.01 par value, 100,000 shares authorized; 45,554 shares at

June 30, 2008 and 48,458 shares at December 31, 2007 issued and

outstanding,

Additional paid-in capital

Retained earnings

Accumulated other comprehensive income - foreign currency translation

adjustments

Total stockholders' equity

456	485
366,663	386,139
154,788	340,641
55,839	47,929
577,746	775,194
\$ 2,012,047	\$ 1,867,178

See accompanying notes to consolidated financial statements.

Table of Contents

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

	Three Months Ended		Six Months Ended	
	June 30,		June 30,	
	2008	2007	2008	2007
Net sales	\$ 1,397,722	\$ 1,283,449	\$ 2,505,511	\$ 2,407,424
Costs of goods sold	1,195,980	1,098,636	2,150,614	2,069,436
Gross profit	201,742	184,813	354,897	337,988
Selling and administrative expenses	151,909	138,323	284,863	268,081
Goodwill impairment	313,949		313,949	
Severance and restructuring expenses	3,508	2,841	5,408	2,841
(Loss) earnings from operations	(267,624)	43,649	(249,323)	67,066
Non-operating (income) expense:				
Interest income	(700)	(396)	(1,301)	(1,054)
Interest expense	3,948	2,981	6,664	7,286
Net foreign currency exchange loss (gain)	1,055	(3,002)	118	(3,656)
Other expense, net	171	496	490	713
(Loss) earnings from continuing operations before income taxes	(272,098)	43,570	(255,294)	63,777
Income tax (benefit) expense	(97,821)	16,761	(91,537)	24,672
Net (loss) earnings from continuing operations	(174,277)	26,809	(163,757)	39,105
Net earnings from a discontinued operation				4,972
Net (loss) earnings	\$ (174,277)	\$ 26,809	\$ (163,757)	\$ 44,077
Net (loss) earnings per share Basic:				
Net (loss) earnings from continuing operations	\$ (3.74)	\$ 0.55	\$ (3.44)	\$ 0.80
Net earnings from a discontinued operation				0.10
Net (loss) earnings per share	\$ (3.74)	\$ 0.55	\$ (3.44)	\$ 0.90
Net (loss) earnings per share Diluted:				
Net (loss) earnings from continuing operations	\$ (3.74)	\$ 0.54	\$ (3.44)	\$ 0.79
Net earnings from a discontinued operation				0.10
Net (loss) earnings per share	\$ (3.74)	\$ 0.54	\$ (3.44)	\$ 0.89

Shares used in per share calculations:

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Basic	46,594	49,099	47,567	49,054
Diluted	46,594	49,402	47,567	49,346

See accompanying notes to consolidated financial statements.

Table of Contents

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

	Six Months Ended June 30,	
	2008	2007
Cash flows from operating activities:		
Net (loss) earnings from continuing operations	\$ (163,757)	\$ 39,105
Plus: net earnings from a discontinued operation		4,972
Net (loss) earnings	(163,757)	44,077
Adjustments to reconcile net (loss) earnings to net cash provided by operating activities:		
Goodwill impairment	313,949	
Depreciation and amortization	19,408	17,641
Provision for losses on accounts receivable	1,529	1,459
Write-downs of inventories	4,275	2,841
Non-cash stock-based compensation	5,638	5,663
Gain on sale of a discontinued operation		(7,937)
Excess tax benefit from employee gains on stock-based compensation	(108)	(45)
Deferred income taxes	(110,270)	(2,753)
Changes in assets and liabilities:		
Increase in accounts receivable	(90,819)	(42,488)
(Increase) decrease in inventories	(14,217)	484
Decrease in other current assets	14,505	11,759
Decrease (increase) in other assets	2,406	(2,221)
Increase in accounts payable	141,297	105,175
Increase (decrease) in deferred revenue	8,289	(12,937)
Decrease in accrued expenses and other liabilities	(13,084)	(17,172)
Net cash provided by operating activities	119,041	103,546
Cash flows from investing activities:		
Acquisition of Calence, net of cash acquired	(124,671)	
Proceeds from sale of a discontinued operation, net of direct expenses	(900)	28,631
Purchases of property and equipment	(15,617)	(18,867)
Net cash (used in) provided by investing activities	(141,188)	9,764
Cash flows from financing activities:		
Borrowings on senior revolving credit facility	372,770	
Repayments on senior revolving credit facility	(176,770)	
Borrowings on long-term financing facility	181,500	262,000
Repayments on long-term financing facility	(184,500)	(398,000)
Repayments on term loan	(56,250)	(3,750)
Net borrowings on short-term line of credit		27,000
Repayments on assumed debt	(7,083)	
Deferred financing fees	(3,300)	

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Proceeds from sales of common stock under employee stock plans	3,078	2,475
Excess tax benefit from employee gains on stock-based compensation	108	45
Payment of payroll taxes on stock-based compensation through shares withheld	(1,983)	
Repurchases of common stock	(50,000)	
Decrease in book overdrafts	(3,893)	(15,606)
Net cash provided by (used in) financing activities	73,677	(125,836)
Foreign currency exchange effect on cash flows	1,315	3,973
Increase (decrease) in cash and cash equivalents	52,845	(8,553)
Cash and cash equivalents at beginning of period	56,718	54,697
Cash and cash equivalents at end of period	\$ 109,563	\$ 46,144

See accompanying notes to consolidated financial statements.

Table of Contents

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 (SMB) and public sector institutions in North America, Europe, the Middle East, Africa and Asia-Pacific. The Company is organized in the following three operating segments, which are primarily defined by their related geographies:

Operating Segment	Geography
North America	United States and Canada
EMEA	Europe, Middle East and Africa
APAC	Asia-Pacific

Currently, our offerings in North America and the United Kingdom include 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 April 1, 2008, we completed the acquisition of Calence, LLC (Calence) for a cash purchase price of \$125,000,000 plus a preliminary working capital adjustment of \$4,032,000, offset by a final post-closing working capital adjustment of \$383,000. Up to an additional \$35,000,000 of purchase price consideration may be due if Calence achieves certain performance targets over the next four years. During the three months ended June 30, 2008, we accrued an additional \$716,000 of purchase price consideration as a result of Calence achieving certain performance targets during the quarter. Such amount was recorded as additional goodwill (see Note 3). We also assumed Calence's existing debt totaling approximately \$7,400,000, of which \$7,100,000 was repaid by us at closing. In addition, on April 1, 2008, we entered into a new five-year \$300,000,000 senior revolving credit facility, which replaced our existing \$75,000,000 revolving credit facility and our term loan facility (see Note 4). The Calence acquisition was funded, in part, using borrowings under the new facility.

In the opinion of management, the accompanying unaudited consolidated financial statements contain all adjustments necessary to present fairly our financial position as of June 30, 2008, our results of operations for the three and six months ended June 30, 2008 and 2007 and our cash flows for the six months ended June 30, 2008 and 2007. The consolidated balance sheet as of December 31, 2007 was derived from the audited consolidated balance sheet at such date. The accompanying unaudited consolidated financial statements and notes have been prepared in accordance with the rules and regulations promulgated by the Securities and Exchange Commission (SEC) and consequently do not include all of the disclosures normally required by United States generally accepted accounting principles (GAAP). The results of operations for such interim periods are not necessarily indicative of results for the full year, due in part to the seasonal nature of the business. These unaudited consolidated financial statements should be read in conjunction with the audited consolidated financial statements, including the related notes thereto, in our Annual Report on Form 10-K for the year ended December 31, 2007.

The preparation of consolidated financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements. Additionally, these estimates and assumptions affect the reported amounts of net sales and expenses during the reported period. Actual results could differ from those estimates. On an on-going basis, we evaluate our estimates, including those related to allowances for doubtful accounts, write-downs of inventories, litigation-related obligations, valuation allowances for deferred tax assets and impairment of goodwill, intangible assets and other long-lived assets if indicators of potential impairment exist.

Table of Contents

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

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

Other than the partial adoption of Statement of Financial Accounting Standard No. 157 *Fair Value Measurements* (SFAS No. 157) effective January 1, 2008, as discussed in Note 8, there have been no material changes or additions to the recently issued accounting pronouncements as previously reported in Note 1 to our Consolidated Financial Statements in Part II, Item 8 of our Annual Report on Form 10-K for the year ended December 31, 2007 which affect or may affect our financial statements.

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

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

	Three Months Ended		Six Months Ended	
	June 30,		June 30,	
	2008	2007	2008	2007
Numerator:				
Net (loss) earnings from continuing operations	\$ (174,277)	\$ 26,809	\$ (163,757)	\$ 39,105
Denominator:				
Weighted-average shares used to compute basic EPS	46,594	49,099	47,567	49,054
Dilutive potential common shares due to dilutive options and restricted stock, net of tax effect		303		292
Weighted-average shares used to compute diluted EPS	46,594	49,402	47,567	49,346
Net (loss) earnings from continuing operations per share:				
Basic	\$ (3.74)	\$ 0.55	\$ (3.44)	\$ 0.80
Diluted	\$ (3.74)	\$ 0.54	\$ (3.44)	\$ 0.79

No potential common shares were included in the diluted EPS computation for the three and six months ended June 30, 2008 because of the net loss from continuing operations in those periods, which would result in an antidilutive per share amount. During the three and six months ended June 30, 2007, 1,480,000 and 2,456,000 weighted-average outstanding stock options, respectively, 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.

Table of Contents

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

3. Impairment*Goodwill*

SFAS No. 142, *Goodwill and Other Intangible Assets*, requires that goodwill be tested for impairment at the reporting unit level on an annual basis and between annual tests if an event occurs or circumstances change that would more likely than not reduce the fair value of the reporting unit below its carrying value. Multiple valuation techniques can be used to assess the fair value of the reporting unit. All of these techniques include the use of estimates and assumptions that are inherently uncertain. Changes in these estimates and assumptions could materially affect the determination of fair value or goodwill impairment, or both. The Company has three reporting units which are the same as our operating segments. At December 31, 2007, our goodwill balance was \$306,742,000 allocated among all three of our operating segments, which represented the purchase price in excess of the net amount assigned to assets acquired and liabilities assumed by Insight in connection with previous acquisitions, adjusted for changes in foreign currency exchange rates. We tested goodwill for impairment during the fourth quarter of 2007. At that time, we concluded that the fair value of each of our reporting units was in excess of the carrying value.

On April 1, 2008, we acquired Calence, which has been integrated into our North America business. Under the purchase method of accounting, the purchase price of \$139,639,000 was allocated to the tangible and identifiable intangible assets acquired and liabilities assumed based on their estimated fair values. The excess purchase price over fair value of net assets acquired of \$93,709,000 was recorded as goodwill (see Note 13). The primary driver of the acquisition was to enhance our technical capabilities around networking, advanced communications and managed services and to help accelerate our transformation to a broad-based technology solutions advisor and provider. During the three months ended June 30, 2008, we accrued an additional \$716,000 of purchase price consideration (the *earnout*) as a result of Calence achieving certain performance targets during the quarter. Such amount was recorded as additional goodwill. The Calence acquisition and resulting additional goodwill of \$94,425,000 was recorded as part of the North America reporting unit.

In consideration of the current market conditions in which we operate and the decline in our overall market capitalization resulting from decreases in the market price of Insight's publicly traded common stock, we evaluated whether an event (a *triggering event*) had occurred during the second quarter that would require us to perform an interim period goodwill impairment test in accordance with SFAS No. 142. Subsequent to the first quarter of 2008, the Company experienced a relatively consistent decline in market capitalization due to deteriorating market conditions and a significant decline subsequent to our announcement of preliminary first quarter 2008 results on April 23, 2008. During the first quarter of 2008, the market price of Insight's publicly traded common stock ranged from a high of \$19.00 to a low of \$15.49, ending the quarter at \$17.50 on March 31, 2008. During the second quarter of 2008, the market price of Insight's publicly traded common stock ranged from a high of \$18.20 to a low of \$11.00 on April 24, 2008, when the price dropped by 22.5% and did not return to levels above that single day drop through the end of the quarter. Based on the sustained significant decline in the market price of our common stock during the second quarter of 2008, we concluded that a triggering event had occurred subsequent to March 31, 2008, which would more likely than not reduce the fair value of one or more of our reporting units below its respective carrying value.

As a result, we performed the first step of the two-step goodwill impairment test in the second quarter of 2008 in accordance with SFAS No. 142 and compared the fair values of our reporting units to their carrying values. The fair values of our reporting units were determined using established valuation techniques, specifically the market and income approaches. We determined that the fair value of the North America reporting unit was less than the carrying value of the net assets of the reporting unit, and thus, we performed step two of the impairment test for the North America reporting unit. The results of the first step of the two-step goodwill impairment test indicated that the fair value of each of our EMEA and APAC reporting units was in excess of the carrying value, and thus, step two of the impairment test for EMEA and APAC was not performed.

Table of Contents

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

In step two of the impairment test, we determined the implied fair value of the goodwill in our North America reporting unit and compared it to the carrying value of the goodwill. We allocated the fair value of the North America reporting unit to all of its assets and liabilities as if the reporting unit had been acquired in a business combination and the fair value of the North America reporting unit was the price paid to acquire the reporting unit. The excess of the fair value of the reporting unit over the amounts assigned to its assets and liabilities is the implied fair value of goodwill. Our step two analysis resulted in no implied fair value of goodwill for the North America reporting unit, and therefore, we recognized a non-cash goodwill impairment charge of \$313,949,000, \$201,167,000 net of taxes, which represented the entire goodwill balance recorded in our North America operating segment as of June 30, 2008, including the entire amount of the goodwill recorded in connection with the Calence acquisition, including the earnout. The charge is included in (loss) earnings from continuing operations for the three and six months ended June 30, 2008. This non-cash charge will not impact our debt covenant compliance, cash flows or ongoing results of operations.

The changes in the carrying amount of goodwill for the six months ended June 30, 2008 are as follows (in thousands):

	North America	EMEA	APAC	Consolidated
Balance at December 31, 2007	\$ 219,909	\$ 68,725	\$ 18,108	\$ 306,742
Goodwill recorded in connection with the acquisition of Calence	94,425			94,425
Impairment charge	(313,949)			(313,949)
Other adjustments	(385)	3,322	1,485	4,422
Balance at June 30, 2008	\$	\$ 72,047	\$ 19,593	\$ 91,640

The other adjustments to goodwill primarily consist of foreign currency translation adjustments. During the six months ended June 30, 2008, foreign currency translation adjustments in EMEA of \$5,401,000 were offset by the reversal of a valuation allowance of \$2,079,000 against our United Kingdom net operating loss carryforward deferred tax asset (see Note 5).

Intangible Assets

Our other intangible assets of \$104,750,000 at June 30, 2008 consist principally of customer relationships acquired in the September 2006 acquisition of Software Spectrum and identifiable intangible assets acquired in the acquisition of Calence of \$29,190,000 (see Note 13). All of our intangible assets are subject to amortization. We considered the potential impairment of these other intangibles assets in accordance with SFAS No. 142 and SFAS No. 144,

Accounting for the Impairment or Disposal of Long-Lived Assets, as applicable. In accordance with SFAS No. 144, we determined that the carrying amount of our intangible assets was recoverable as the carrying amount of the assets was greater than the sum of the undiscounted cash flows expected from the use and disposition of these assets. We concluded that no impairment was indicated.

Other Assets

In connection with completing our goodwill impairment analysis, we also assessed the current fair values of our other significant assets primarily property and equipment, including capitalized costs of software developed for internal use, IT equipment and software licenses. In accordance with SFAS No. 144, we determined that the carrying amount of our other long-lived assets was recoverable as the carrying amount of the assets was greater than the sum of the undiscounted cash flows expected from the use and disposition of these assets. We concluded that no impairment was indicated.

Table of Contents

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

4. Debt

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

	June 30, 2008	December 31, 2007
Senior revolving credit facility	\$ 196,000	\$
Term loan		56,250
Accounts receivable securitization financing facility	143,000	146,000
Total	339,000	202,250
Less: current portion of term loan		(15,000)
Long-term debt	\$ 339,000	\$ 187,250

On April 1, 2008, we entered into a new five-year \$300,000,000 senior revolving credit facility, which replaced our existing revolving credit facility and our term loan facility. The Calence acquisition was funded, in part, using borrowings under the new facility. Amounts outstanding under the new senior revolving credit facility bear interest, payable quarterly, at a floating rate equal to the prime rate or, at our option, a LIBOR rate plus a pre-determined spread of 0.75% to 1.75%. The weighted average interest rate on amounts outstanding under our senior revolving credit facility was 4.03% during the three months ended June 30, 2008. In addition, we pay a commitment fee on the unused portion of the facility of 0.175% to 0.35%. We have an outstanding letter of credit that reduces the availability on the senior revolving credit facility by \$25,000,000. As of June 30, 2008, \$79,000,000 was available under the senior revolving credit facility. In conjunction with this refinancing, we did not amend our accounts receivable securitization facility which expires September 7, 2009, under which we had \$10,035,000 available at June 30, 2008. The weighted average interest rate on amounts outstanding under our accounts receivable securitization facility was 3.30% during the three months ended June 30, 2008.

Our financing facilities contain various covenants. If we fail to comply with these covenants, the lenders would be able to demand payment within a specified period of time. At June 30, 2008, we were in compliance with all such covenants.

5. Income Taxes

Our effective tax rate for the three months ended June 30, 2008 was 36.0% on a \$272,098,000 loss from continuing operations. Our effective tax rate for the six months ended June 30, 2008 was 35.9% on a \$255,294,000 loss from continuing operations. The effective tax rate for both periods differed from the United States federal statutory rate of 35.0% due primarily to state income taxes, net of federal tax, and lower taxes on income earned in foreign jurisdictions, offset by the non-deductible portion of the goodwill impairment charge.

Our effective tax rate from continuing operations for the three and six months ended June 30, 2007 were 38.5% and 38.7%, respectively. For the three months ended June 30, 2007, our effective tax rate was higher than the United States federal statutory rate of 35.0% due primarily to state income taxes, net of federal tax, as well as non-deductible expenses related to executive compensation. For the six months ended June 30, 2007, our effective tax rate was higher than the United States federal statutory rate of 35.0% due primarily to state income taxes, net of federal tax, as well as non-deductible expenses related to executive compensation and an increase in tax reserves in the first quarter of 2007. We believe it is more likely than not that forecasted income, including income that may be generated as a result of prudent and feasible tax planning strategies, together with the tax effects of deferred tax liabilities, will be sufficient to fully recover our remaining deferred tax assets. In the future, if we determine that realization of the remaining deferred tax asset is not more likely than not, we will need to increase our valuation allowance and record additional income tax expense. As a result of income generated through June 30, 2008 and near-term income forecasts, we determined

that we had sufficient positive evidence to recognize our deferred tax asset related to our United Kingdom net operating loss (NOL) carryforward. Therefore, the valuation allowance of \$2,079,000 against our United Kingdom NOL deferred tax asset was released. Since the NOL related to activity prior to the acquisition of Software Spectrum, the reversal was recorded as a reduction of goodwill (see Note 3) and had no effect on income tax expense during the three and six months ended June 30, 2008.

Table of Contents

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

We adopted the provisions of Financial Accounting Standards Board (FASB) Interpretation No. 48, *Accounting for Uncertainty in Income Taxes – an interpretation of FASB Statement No. 109* (FIN 48), on January 1, 2007. The adoption of FIN 48 resulted in no cumulative effect adjustment to our retained earnings. As of June 30, 2008 and December 31, 2007, we had approximately \$3,700,000 and \$13,500,000, respectively, of unrecognized tax benefits. Of these amounts, approximately \$600,000 and \$2,600,000, respectively, relate to accrued interest. During the three months ended June 30, 2008, we reversed approximately \$9,700,000 of unrecognized tax benefits upon settlement of an audit. The balance arose from a business combination and upon reversal was recorded as an adjustment to a receivable with no effect on our effective tax rate.

As of June 30, 2008, if recognized, \$2,200,000 of the liability associated with uncertain tax positions would affect our effective tax rate. The remaining \$1,500,000 balance arose from business combinations that, if recognized during 2008, would be recorded as an adjustment to goodwill or a receivable with no effect on our effective tax rate. Upon our expected January 1, 2009 adoption of SFAS No. 141R, *Business Combinations* (SFAS No. 141R), changes in deferred tax asset valuation allowances and income tax uncertainties after the acquisition date generally will affect income tax expense, including those associated with acquisitions that closed prior to the effective date of SFAS No. 141R.

Several of our subsidiaries are currently under audit for the 2002 through 2006 tax years. It is reasonably possible that the examination phase of these audits may conclude in the next twelve months, and the related unrecognized tax benefits for uncertain tax positions will significantly decrease. However, based on the status of the examinations, an estimate of the range of reasonably possible outcomes cannot be made at this time.

We, including our subsidiaries, file income tax returns in the U.S. federal jurisdiction, and many state and local and non-U.S. jurisdictions. In the U.S., federal income tax returns for 2004 through 2007 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.

6. Severance, Restructuring and Acquisition Integration Activities

Severance Costs Expensed in 2008

During the three months ended June 30, 2008, North America, EMEA and APAC recorded severance expense totaling \$1,281,000, \$2,210,000 and \$17,000, respectively, and during the six months ended June 30, 2008, North America, EMEA and APAC recorded severance expense totaling \$2,290,000, \$3,079,000 and \$39,000, respectively, related to on-going restructuring efforts to reduce operating expenses related to support and management functions. The following table details the changes in these liabilities during the six months ended June 30, 2008 (in thousands):

	North America	EMEA	APAC	Consolidated
Severance costs	\$ 2,290	\$ 3,079	\$ 39	\$ 5,408
Cash payments	(1,205)	(512)	(22)	(1,739)
Balance at June 30, 2008	\$ 1,085	\$ 2,567	\$ 17	\$ 3,669

All remaining outstanding obligations are expected to be paid during the year ending December 31, 2008 and are therefore included in accrued expenses and other current liabilities.

Table of Contents

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

Severance Costs Expensed in 2007

During the year ended December 31, 2007, North America, EMEA and APAC recorded severance expense of \$2,960,000, \$177,000 and \$64,000, respectively, primarily associated with the retirement of our former chief financial officer. Of the severance amounts expensed in 2007, EMEA paid \$177,000 during 2007. The following table details the changes in these liabilities during the six months ended June 30, 2008 (in thousands):

	North America	APAC	Consolidated
Balance at December 31, 2007	\$ 2,960	\$ 64	\$ 3,024
Cash payments	(118)	(64)	(182)
Balance at June 30, 2008	\$ 2,842	\$	\$ 2,842

Amounts payable at June 30, 2008 relate to payments due to our former chief financial officer that were paid in July 2008 and are therefore included in accrued expenses and other current liabilities.

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

In 2006, we recorded \$9,738,000 of employee termination benefits and \$1,676,000 of facility based costs in connection with the integration of Software Spectrum. These costs were 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 were 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 terminated in connection with integration plans. The facilities based costs relate to future lease payments or lease termination costs associated with vacating certain Software Spectrum facilities in EMEA.

The following table details the changes in these liabilities during the six months ended June 30, 2008 (in thousands):

	North America	EMEA	Consolidated
Balance at December 31, 2007	\$ 543	\$ 4,395	\$ 4,938
Foreign currency translation adjustments		224	224
Cash payments	(202)	(171)	(373)
Balance at June 30, 2008	\$ 341	\$ 4,448	\$ 4,789

In the accompanying consolidated balance sheet at June 30, 2008, \$2,277,000 is expected to be paid in 2008 and is therefore included in accrued expenses and other current liabilities, and \$2,512,000 is expected to be paid after 2008 and is therefore included in other liabilities (long-term).

Restructuring Costs Expensed in 2005

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

Table of Contents

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

The following table details the changes in this liability during the six months ended June 30, 2008 (in thousands):

	EMEA
Balance at December 31, 2007	\$ 2,425
Adjustments	50
Cash payments	(816)
Balance at June 30, 2008	\$ 1,659

The remaining accrual of \$1,659,000 is expected to be paid in 2008 and is therefore included in accrued expenses and other current liabilities in the accompanying consolidated balance sheet at June 30, 2008.

7. Stock-Based Compensation

We recorded the following pre-tax amounts, by operating segment, for stock-based compensation related to stock options and restricted stock, as detailed below, in the accompanying consolidated financial statements (in thousands):

	Three Months Ended		Six Months Ended	
	June 30,		June 30,	
	2008	2007	2008	2007
North America	\$ 2,314	\$ 2,979	\$ 3,966	\$ 4,865
EMEA	806	479	1,541	844
APAC	79	24	131	38
Total Continuing Operations	\$ 3,199	\$ 3,482	\$ 5,638	\$ 5,747

Stock Options

For the three months ended June 30, 2008, we recorded a benefit of \$261,000 in continuing operations related to the reversal of previously recognized expense as the result of actual forfeited awards being in excess of estimated forfeitures. For the three months ended June 30, 2007, we recorded stock-based compensation expense related to stock options, net of an estimate of forfeitures, of \$856,000 in continuing operations. For the six months ended June 30, 2008 and 2007, we recorded stock-based compensation expense related to stock options, net of an estimate of forfeitures, of \$277,000 and \$2,123,000, respectively, in continuing operations. As of June 30, 2008, total compensation cost related to nonvested stock options not yet recognized is \$951,000, which is expected to be recognized over the next 1.31 years on a weighted-average basis. The following table summarizes our stock option activity during the six months ended June 30, 2008:

	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	3,621,130	\$ 19.33		
Granted				
Exercised	(344,681)	14.57	\$ 1,074,491	

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Expired	(570,896)	21.58			
Forfeited	(31,577)	19.03			
Outstanding at the end of period	2,673,976	19.46	\$	902	1.62
Exercisable at the end of period	2,434,935	19.62	\$	902	1.39
Vested and expected to vest	2,645,248	19.48	\$	902	1.63

Table of Contents

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

The aggregate intrinsic value at the end of period in the preceding table represents the total pre-tax intrinsic value, based on our closing stock price of \$11.73 as of June 30, 2008, which would have been received by the option holders had all option holders exercised in-the-money options and sold the underlying shares on that date.

The following table summarizes the status of outstanding stock options as of June 30, 2008:

Range of Exercise Prices	Number of Options Outstanding	Options Outstanding		Options Exercisable	
		Weighted Average Remaining Contractual Life (in years)	Weighted Average Exercise Price Per Share	Number of Options Exercisable	Weighted Average Exercise Price Per Share
\$8.89 - 18.53	785,085	2.33	\$ 17.59	572,711	\$ 17.54
18.54 - 19.72	679,924	1.51	19.19	653,257	19.21
19.79 - 20.36	770,110	1.42	20.05	770,110	20.05
20.56 - 40.29	438,782	0.88	22.17	438,782	22.17
41.00	75	1.99	41.00	75	41.00
	2,673,976	1.62	19.46	2,434,935	19.62

Restricted Stock

For the three months ended June 30, 2008 and 2007, we recorded stock-based compensation expense, net of estimated forfeitures, related to restricted stock shares and RSUs of \$3,460,000 and \$2,626,000, respectively, in continuing operations. For the six months ended June 30, 2008 and 2007, we recorded stock-based compensation expense, net of estimated forfeitures, related to restricted stock shares and RSUs of \$5,361,000 and \$3,624,000, respectively, in continuing operations. As of June 30, 2008, total compensation cost related to nonvested restricted stock shares and RSUs not yet recognized is \$29,329,000, which is expected to be recognized over the next 1.34 years on a weighted-average basis.

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

Richard A. Fennessy, President and Chief Executive Officer 300,000 RSUs;

Mark T. McGrath, President, North America/APAC 150,000 RSUs; and

Stuart A. Fenton, President, EMEA 100,000 RSUs.

The plan provides for the award of RSUs that will be issued based upon achievement of specific stock price hurdles within specific timeframes (the 20-day average closing price of Insight stock must be at or above a stock price hurdle and within the defined timeframes for any tranche to be awarded):

20% awarded if stock price hurdle of \$25.00 is achieved by February 15, 2009;

30% awarded if stock price hurdle of \$30.00 is achieved between February 16, 2009 and February 15, 2010; and

50% awarded if stock price hurdle of \$35.00 is achieved between February 16, 2010 and February 15, 2011.

Table of Contents

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

If all or some hurdles are not achieved, 33% of the remaining award (i.e., any shares not issued for achievement of the stock price hurdles set forth above) will be made on February 15, 2013, assuming continued employment. Vesting of the RSUs awarded will occur 50% at the time of the award and 50% on the first anniversary of the award date. If a change in control as defined in the 2007 Omnibus Plan occurs, all units that have been issued by achievement of stock price hurdles will automatically vest, and units that have not been issued will be forfeited. For the three and six months ended June 30, 2008, we recorded stock-based compensation expense related to these RSUs of \$254,000 and \$447,000, respectively, which is included in the stock-based compensation expense amounts discussed above. As of June 30, 2008, total compensation cost not yet recognized related to these RSUs was \$5,992,000 of the \$29,329,000 total discussed above. Such compensation expense is being recognized over the period January 2008 through February 2014.

The following table summarizes our restricted stock activity, including restricted stock shares and RSUs, during the six months ended June 30, 2008:

	Number	Weighted Average Grant Date Fair Value	Fair Value
Nonvested at the beginning of period	1,108,857	\$ 20.29	
Granted	1,232,946	14.98	
Vested, including shares withheld to cover taxes	(396,565)	20.41	\$ 7,127,853 ^(a)
Forfeited	(106,528)	19.50	
Nonvested at the end of period	1,838,710	16.75	\$ 21,568,068 ^(b)
Expected to vest	1,678,367		\$ 19,687,245 ^(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 \$11.73 as of June 30, 2008, which would have been received by holders of restricted stock shares and RSUs had all such holders sold their underlying shares on that date.

During the six months ended June 30, 2008, the restricted stock shares and RSUs that vested for teammates in the United States were net-share settled such that we withheld shares with value equivalent to the teammates' minimum statutory United States tax obligation for the applicable income and other employment taxes and remitted the cash to the appropriate taxing authorities. The total shares withheld during the six months ended June 30, 2008 of 109,901 was based on the value of the restricted stock shares or RSUs on their vesting date as determined by our closing stock price on such date. For the six months ended June 30, 2008, total payments for the employees' tax obligations to the taxing authorities were \$1,983,000 and are reflected as a financing activity within the Consolidated Statements of Cash Flows. These net-share settlements had the effect of repurchases of common stock as they reduced and retired the number of shares that would have otherwise been issued as a result of the vesting and did not represent an expense to us.

8. Fair Value Measurements

In September 2006, FASB issued SFAS No. 157, which provides guidance for determining fair value to measure assets and liabilities. 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. On February 12, 2008, the FASB issued FASB Staff Position (FSP) FAS 157-2, which delays the effective date of SFAS No. 157 for all nonfinancial assets and nonfinancial liabilities, except those that are recognized or disclosed at fair value in the financial statements on a recurring basis (at least annually), until fiscal years beginning after November 15, 2008 and interim periods within those fiscal years for items within the scope of the FSP. As such, we did not apply the fair value measurement requirements of SFAS No. 157 for nonfinancial assets and liabilities when performing our goodwill and other asset impairment tests as discussed in Note 3.

Table of Contents

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

Our partial adoption of SFAS No. 157 on January 1, 2008, for financial assets and liabilities and for nonfinancial assets or liabilities that are measured on a recurring basis, did not have any effect on our consolidated financial statements. As of June 30, 2008, we have no nonfinancial assets or liabilities that are measured on a recurring basis and our financial assets or liabilities generally consist of cash and cash equivalents, accounts receivable, accounts payable and accrued expenses and other current liabilities. The estimated fair values of our cash and cash equivalents is determined based on quoted prices in active markets for identical assets. The fair value of the other financial assets and liabilities is based on the value that would be received or paid in an orderly transaction between market participants and approximates the carrying value due to their nature and short duration.

9. Comprehensive Income

Comprehensive (loss) income for the three and six months ended June 30, 2008 and 2007 includes the following component (in thousands):

	Three Months Ended		Six Months Ended	
	June 30,		June 30,	
	2008	2007	2008	2007
Net (loss) earnings	\$ (174,277)	\$ 26,809	\$ (163,757)	\$ 44,077
Other comprehensive income (loss), net of tax:				
Foreign currency translation adjustments	1,512	(68)	7,910	6,368
Total comprehensive (loss) income	\$ (172,765)	\$ 26,741	\$ (155,847)	\$ 50,445

10. Share Repurchase Program

On November 14, 2007, we announced that our Board of Directors had authorized the purchase of up to \$50,000,000 of our common stock through September 30, 2008. During the six months ended June 30, 2008, we purchased in open market transactions 3,493,500 shares of our common stock at a total cost of approximately \$50,000,000 (an average price of \$14.31 per share), which completes the program. All shares repurchased have been retired as of June 30, 2008.

11. Commitments and Contingencies*Contractual*

In July 2007, we signed a statement of work with a third party that was engaged to assist us in integrating into our IT system our hardware, services and software distribution operations in the U.S., Canada, EMEA and APAC. During the quarter ended March 31, 2008, we renegotiated the contract to include a new scope of work, whereby we agreed to engage the third party on current and future IT related projects. As a result of this renegotiation, previously reported commitments as of December 31, 2007 totaling \$14,400,000 over the next two years were settled with a \$3,100,000 payment made in April 2008, which had been fully accrued as of March 31, 2008. The new commitments approximate \$4,000,000 over 18 to 24 months.

In the ordinary course of business, we issue performance bonds to secure our performance under certain contracts or state tax requirements. As of June 30, 2008 and December 31, 2007, we had approximately \$20,226,000 and \$794,000, respectively, of performance bonds outstanding. These bonds are issued on our behalf by a surety company on an unsecured basis; however, if the surety company is ever required to pay out under the bonds, we have contractually agreed to reimburse the surety company.

Table of Contents

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

Employment Contracts

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

Guaranties

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

Indemnifications

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

In connection with our sale of Direct Alliance in June 2006 and PC Wholesale in March 2007, the sale agreements contain certain indemnification provisions pursuant to which we are required to indemnify the respective buyer for a limited period of time for liabilities, losses or expenses arising out of breaches of covenants and certain breaches of representations and warranties relating to the condition of the respective business prior to and at the time of sale. Management believes that payments, if any, related to these indemnifications are not probable at June 30, 2008 and, if incurred, would not be material. Accordingly, we have not accrued any liabilities related to such indemnifications in our consolidated financial statements.

Legal Proceedings

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

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 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.

Table of Contents

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

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

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

On March 10, 2008, TeleTech Holdings, Inc. (Teletech) sent us a demand for arbitration pursuant to the Stock Purchase Agreement (SPA) entered into between the parties, whereby TeleTech acquired Direct Alliance Corporation (DAC), a former subsidiary of Insight, effective June 30, 2006. TeleTech claims that it is entitled to a \$5,000,000 clawback under the SPA relating to the non-renewal of an agreement between DAC and one of its clients. We dispute Teletech s allegations and intend to vigorously defend this matter. In recording the disposition of DAC on June 30, 2006, we deferred \$5,000,000 as a contingent gain on sale related to this clawback. As such, amounts paid to Teletech under the clawback provision, if any, would not have any effect on our results of operations.

On April 1, 2008, we completed the acquisition of Calence pursuant to an agreement and plan of merger (the Merger Agreement), a related support agreement (the Support Agreement) and other ancillary agreements. In April 2008, in connection with an investigation being conducted by the United States Department of Justice (the DOJ), Calence received a subpoena from the Office of the Inspector General of the Federal Communications Commission (the FCC) requesting documents related to the award, by the Universal Service Administration Company (USAC), of funds under the E-Rate program to a participating school district. The E-Rate program provides schools and libraries with discounts to obtain affordable telecommunications and internet access. No allegations have been made against Calence, and we are cooperating with the FCC, USAC and the DOJ and are in the process of responding to the subpoena. Pursuant to the Merger Agreement and the Support Agreement, the former owners of Calence have agreed to indemnify us for certain damages that may arise out of or result from this matter, including our fees and expenses for responding to the subpoena.

Contingencies Related to Third-Party Review

From time to time, we are subject to potential claims and assessments from third parties. We are also subject to various governmental, client and vendor audits. We continually assess whether or not such claims have merit and warrant accrual under the probable and estimable criteria of SFAS No. 5. Where appropriate, we accrue estimates of anticipated liabilities in the consolidated financial statements. Such estimates are subject to change and may affect our results of operations and our cash flows.

12. Discontinued Operation

On March 1, 2007, we completed the sale of PC Wholesale, a division of our North America operating segment. The net assets sold generated net cash proceeds of \$27,731,000. For the six months ended June 30, 2007, the gain on sale of PC Wholesale of \$7,937,000, \$4,801,000 net of taxes, and PC Wholesale s earnings during the period of \$282,000, \$171,000 net of taxes, are classified as net earnings from a discontinued operation. In the fourth quarter of 2007, we resolved certain post-closing contingencies and recognized an additional gain on the sale of PC Wholesale of \$350,000, \$264,000 net of taxes. This resolution required a cash payment of \$900,000 during the first quarter of 2008.

Table of Contents

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

In accordance with SFAS No. 144, *Accounting for the Impairment or Disposal of Long-Lived Assets* (SFAS No. 144), we have reported the results of operations of PC Wholesale as a discontinued operation in the consolidated statements of operations for all periods presented. We did not allocate interest or general corporate overhead expense to the discontinued operation.

13. Acquisition

On April 1, 2008, we completed our acquisition of Calence for a cash purchase price of \$125,000,000 plus a preliminary working capital adjustment of \$4,032,000, offset by a final post-closing working capital adjustment of \$383,000. Up to an additional \$35,000,000 of purchase price consideration may be due if Calence achieves certain performance targets over the next four years. Founded in 1993 and headquartered in Tempe, Arizona, Calence is a leading provider of Cisco networking solutions in the United States, with strong regional presence in the Southwest, Northwest and Midwest, as well as New York, North Carolina and Texas. We believe this acquisition significantly enhances Insight's technical capabilities around networking and communications, as well as managed services and security, accelerating Insight's transformation to a broad-based technology solutions advisor and provider. The following table summarizes the purchase price and the estimated fair value of the assets acquired and liabilities assumed at the date of acquisition (in thousands):

Purchase price paid as:		
Cash and borrowings on senior revolving credit facility		\$ 128,649
Assumed debt		7,311
Acquisition costs		3,679
		139,639
Total purchase price		
Fair value of net assets acquired:		
Current assets	\$ 64,815	
Identifiable intangible assets – see description below	29,190	
Property and equipment	6,192	
Other assets	946	
Current liabilities	(54,499)	
Other liabilities	(714)	
		45,930
		\$ 93,709
Excess purchase price over fair value of net assets acquired (goodwill)		

Under the purchase method of accounting, the purchase price as shown in the table above is allocated to the tangible and identifiable intangible assets acquired and liabilities assumed based on their estimated fair values. The excess purchase price over fair value of net assets acquired was recorded as goodwill. The purchase price was allocated using the information currently available, and we may adjust the purchase price allocation after obtaining more information regarding, among other things, asset valuations, liabilities assumed, restructuring activities and revisions of preliminary estimates. We expect the purchase price allocation to be finalized within twelve months of the acquisition date. We may accrue additional charges in connection with the acquisition of Calence, but the amounts cannot be reasonably estimated at present. During the three months ended June 30, 2008, we accrued an additional \$716,000 of purchase price consideration as a result of Calence achieving certain performance targets during the quarter. Such amount was recorded as additional goodwill (see Note 3).

Table of Contents

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

The estimated values of current assets and liabilities were based upon their historical costs on the date of acquisition due to their short-term nature. Property and equipment were also estimated based upon unamortized costs as they most closely approximated fair value. The estimated value of deferred revenue, of which \$3,359,000 is included in current liabilities and \$652,000 is included in other liabilities in the table above, was based upon the guidance in EITF 01-03, "Accounting in a Business Combination for Deferred Revenue of an Acquiree," and was calculated as the estimated cost to fulfill the contractual obligations acquired under various customer contracts plus a fair value profit margin. Identified intangible assets acquired in the acquisition of Calence totaled \$29,190,000 and consist of the following (in thousands):

Customer relationships	\$ 21,800
Backlog Managed services	4,500
Backlog Consulting	2,600
Trade name	150
Non-compete agreements	140
	29,190
Accumulated amortization	(1,586)
Intangible assets, net at June 30, 2008	\$ 27,604

Amortization is provided using the straight-line method over the following estimated economic lives of the intangible assets:

	Estimated Economic Life
Customer relationships	10.75 Years
Backlog Managed services	4.75 Years
Backlog Consulting	10 Months
Trade name	10 Months
Non-compete agreements	2 Years

Amortization expense recognized for the period from the acquisition date through June 30, 2008 was \$1,586,000. Amortization expense is estimated to be as follows (in thousands):

Years Ending December 31,	
2008	\$ 4,759
2009	3,320
2010	2,993
2011	2,975
2012	2,975
2013	2,028
Thereafter	10,140
Total estimated amortization expense	\$ 29,190

Goodwill of \$93,709,000 represents the excess of the purchase price over the estimated fair value assigned to tangible and identifiable intangible assets acquired and liabilities assumed from Calence. During the three months ended

June 30, 2008, we accrued an additional \$716,000 of purchase price consideration as a result of Calence achieving certain performance targets during the quarter. Such amount was recorded as additional goodwill. As discussed in Note 3, we recorded a non-cash goodwill impairment charge during the three months ended June 30, 2008 which represented the entire goodwill balance recorded in our North America operating segment, including the entire amount of the goodwill recorded in connection with the Calence acquisition.

Table of Contents

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

We have consolidated the results of operations for Calence since its acquisition on April 1, 2008. The following table reports pro forma information as if the acquisition of Calence had been completed at the beginning of each period presented (in thousands, except per share amounts):

		Three Months Ended		Six Months Ended	
		June 30,		June 30,	
		2008	2007	2008	2007
Net sales	As reported	\$ 1,397,722	\$ 1,283,449	\$ 2,505,511	\$ 2,407,424
	Pro forma	\$ 1,397,722	\$ 1,367,224	\$ 2,577,536	\$ 2,572,532
Net (loss) earnings from continuing operations	As reported	\$ (174,277)	\$ 26,809	\$ (163,757)	\$ 39,105
	Pro forma	\$ (174,277)	\$ 26,921	\$ (163,550)	\$ 35,741
Net (loss) earnings	As reported	\$ (174,277)	\$ 26,809	\$ (163,757)	\$ 44,077
	Pro forma	\$ (174,277)	\$ 26,921	\$ (163,550)	\$ 40,713
Diluted net (loss) earnings per share					