INSIGHT ENTERPRISES INC
Form 10-K
May 12, 2009

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

**(Mark One)**

þ **Annual Report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934**
**For the fiscal year ended December 31, 2008**

**or**

o **Transition report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934**
**For the transition period from __________ to __________.**

**Commission File Number: 0-25092**
**INSIGHT ENTERPRISES, INC.**
(Exact name of registrant as specified in its charter)

| | |
|---|---|
| **Delaware** | **86-0766246** |
| (State or other jurisdiction of incorporation or organization) | (IRS Employer Identification No.) |

**6820 South Harl Avenue, Tempe, Arizona 85283**
(Address of principal executive offices, Zip Code)
Registrant s telephone number, including area code: **(480) 902-1001**
Securities registered pursuant to Section 12(b) of the Act:

| Title of each class | Name of each exchange on which registered |
|---|---|
| **Common stock, par value $0.01** | **NASDAQ** |

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes o No þ

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes o No þ

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes þ No o

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes o No o

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant s knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. o

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

| | | | |
|---|---|---|---|
| Large accelerated filer þ | Accelerated filer o | Non-accelerated filer o | Smaller reporting company o |

(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 Act). Yes o No þ
The aggregate market value of the voting and non-voting common equity held by non-affiliates of the registrant, based upon the closing price of the registrant s common stock as reported on The Nasdaq Global Select Market on June 30, 2008, the last business day of the registrant s most recently completed second fiscal quarter, was $527,456,717.
The number of shares outstanding of the registrant s common stock on April 30, 2009 was 45,846,171.

**INSIGHT ENTERPRISES, INC.**
**ANNUAL REPORT ON FORM 10-K**
**Year Ended December 31, 2008**
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## INSIGHT ENTERPRISES, INC.
## EXPLANATORY NOTE REGARDING RESTATEMENT OF OUR CONSOLIDATED FINANCIAL STATEMENTS

This Annual Report on Form 10-K contains the restatement of our consolidated statements of operations, of stockholders equity and comprehensive income (loss) and of cash flows for the years ended December 31, 2007 and 2006, our consolidated balance sheet as of December 31, 2007 as presented in Financial Statements and Supplementary Data in Item 8 of this report, our selected consolidated statements of operations data for the years ended December 31, 2007, 2006, 2005 and 2004, and our selected consolidated balance sheet data as of December 31, 2007, 2006, 2005 and 2004 as presented in Selected Financial Data in Item 6 of this report and our selected quarterly financial information for each of the quarters in the year ended December 31, 2007 and the quarters ended March 31, June 30, and September 30, 2008 as presented in Note 21 of our Notes to Consolidated Financial Statements in Item 8 of this report.

In a Form 8-K filed on February 10, 2009, we reported that the Company s financial statements, assessment of the effectiveness of internal control over financial reporting and related audit reports thereon in our most recently filed Annual Report on Form 10-K, for the year ended December 31, 2007, and the interim financial statements in our Quarterly Reports on Form 10-Q for the first three quarters of 2008, and all earnings press releases and similar communications issued by the Company relating to such financial statements, should no longer be relied upon. Following an internal review, we identified errors in the Company s accounting for trade credits in prior periods dating back to December 1996. The internal review encompassed aged trade credits, including both aged accounts receivable credits and aged accounts payable credits, arising in the ordinary course of business that were recognized in the Company s statements of operations prior to the legal discharge of the underlying liabilities under applicable domestic and foreign laws. The cumulative restatement charge covering the period from December 1, 1996 through September 30, 2008 related to this trade credit issue is $61.2 million, or $37.7 million after taxes. These aged trade credit liabilities totaled $59.4 million as of December 31, 2008. We expect that the final settlement of these liabilities with our clients and our partners and ultimately with state and/or foreign regulatory bodies may take multiple years and may be settled for less than the estimated liability. However, we cannot provide any assurances that the final settlement will be materially lower.

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

We recorded an aggregate gross charge of approximately $21.2 million to our consolidated retained earnings as of December 31, 2003 and established a related current liability. This amount represented approximately $19.0 million of costs of goods sold and $2.2 million of selling and administrative expenses relating to the period from December 1, 1996 through December 31, 2003. The aggregate tax benefit related to these trade credit restatement adjustments is $8.4 million, which benefit reduced the charge to retained earnings as of December 31, 2003 and established a related deferred tax asset. In addition, our statements of operations for the years ended December 31, 2006 and 2007, and the quarters ended March 31, June 30, and September 30, 2008 contained in this Annual Report have been restated to reflect an aggregate of approximately $9.5 million, $10.2 million, $2.8 million, $2.2 million and $1.3 million, respectively, of increases in costs of goods sold and to establish a related current liability relating to aged trade credits. Our selected consolidated statements of operations data for the years ended December 31, 2004 through 2007 have also been restated. The years ended December 31, 2004 and 2005 reflect an aggregate of approximately $4.8 million and $9.1 million, respectively, of increases in costs of goods sold for the respective periods relating to aged trade credits. The reinstated liabilities are recorded in accrued expenses and other current liabilities. These increases in costs of goods sold and selling and administrative expenses result from our determination, based upon the results of our internal review and analysis and the internal investigation, that the periods in which certain aged trade credits in accounts receivable and accounts payable were previously recorded as a reduction of costs of goods sold preceded the periods in which the Company was legally discharged of the underlying liabilities under applicable domestic and foreign laws.

In addition to the restatements for aged trade credits, we also corrected previously reported financial statements and selected financial data for the following other miscellaneous accounting adjustments as a result of a review of our critical accounting policies:

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**INSIGHT ENTERPRISES, INC.**

An adjustment of $2.7 million to allocate a portion of our North America goodwill not previously allocated to the carrying amount of a division of our North America operating segment that we sold on March 1, 2007 in determining the gain on sale. This adjustment reduced the gain on sale of the discontinued operation recorded in the three months ended March 31, 2007, which gain is included in earnings from discontinued operations. The tax effect of this adjustment was $1.1 million.

Adjustments to hardware net sales and costs of goods sold recognized in prior periods to recognize sales based on a de facto passage of title at the time of delivery. Although our usual sales terms are F.O.B. shipping point or equivalent, at which time title and risk of loss have passed to the client, we have a general practice of covering customer losses while products are in transit despite our stated shipping terms, and as a result delivery is not deemed to have occurred until the product is received by the client. The net increase (decrease) in gross profit resulting from these adjustments was $1.0 million, ($135,000), $20,000, $440,000 and ($522,000) for the years ended December 31, 2004, 2005, 2006 and 2007 and the nine months ended September 30, 2008, respectively. Adjustments related to periods prior to 2004 resulted in a $1.4 million reduction of retained earnings as of December 31, 2003.

Adjustments to recognize stock based compensation expense related to performance-based restricted stock units ( RSUs ) on a straight-line basis over the requisite service period for each separately vesting portion of the award as if the award was, in substance, multiple awards (i.e., a graded vesting basis) instead of on a straight-line basis over the requisite service period for the entire award. The net increase (decrease) in operating expenses was $2.4 million, $2.5 million and ($1.2 million) for the years ended December 31, 2006 and 2007 and the nine months ended September 30, 2008, respectively.

Adjustments to capitalize interest on internal-use software development projects in prior periods and record the related amortization expense thereon. The net increase (decrease) in pretax earnings resulting from these adjustments was $21,000, $61,000, $805,000, $386,000 and ($4,000) for the years ended December 31, 2004, 2005, 2006 and 2007 and the nine months ended September 30, 2008, respectively.

Revisions in the classification of consideration that exceeded the specific, incremental identifiable costs of shared marketing expense programs of $925,000, $2.8 million, $5.0 million, $7.3 million and $4.6 million for the years ended December 31, 2004, 2005, 2006 and 2007 and the nine months ended September 30, 2008, respectively, to reflect such excess consideration as a reduction of costs of goods sold instead of a reduction of the related selling administration expenses. These revisions in classification related to our EMEA operating segment and had no effect on reported net earnings in any period.

All financial information contained in this Annual Report on Form 10-K gives effect to the restatement 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 1996 through 2007, or for the first nine months of the fiscal year ended December 31, 2008. Financial information included in reports previously filed or furnished by Insight Enterprises, Inc. for the periods from January 1, 1996 through September 30, 2008 should not be relied upon and are superseded by the information in this Annual Report on Form 10-K.

For more information on the matters that have caused us to restate our financial statements and data previously reported, see Management s Discussion and Analysis of Financial Condition and Results of Operations in Item 7 and Note 2 of our Notes to Consolidated Financial Statements in Item 8 of this Annual Report on Form 10-K. We identified a material weakness in our internal control over financial reporting. As a result, management has concluded that the Company s internal control over financial reporting was not effective as of December 31, 2008. A description of that material weakness, as well as management s plan to remediate that material weakness, is more fully discussed in Part II, Item 9A, Controls and Procedures.

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## INSIGHT ENTERPRISES, INC.
## FORWARD-LOOKING STATEMENTS

Certain statements in this Annual Report on Form 10-K, including statements in Management s Discussion and Analysis of Financial Condition and Results of Operations in Part II, Item 7 of this report, are forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. These forward-looking statements may include: projections of matters that affect net sales, gross profit, operating expenses, earnings from continuing operations, non-operating income and expenses, earnings from discontinued operations, net earnings or cash flows, cash needs and the sufficiency of our capital resources, 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; projections of capital expenditures, our business outlook and earnings per share expectations in 2009; plans for future operations; the availability of financing and our needs or plans relating thereto; plans relating to our products and services; the effect of new accounting principles or changes in accounting policies; the effect of guaranty and indemnification obligations; projections about the outcome of ongoing tax audits; statements related to accounting estimates, including estimated stock option and other equity award forfeitures, and deferred compensation cost amortization periods; our positions and strategies with respect to ongoing and threatened litigation, including those matters identified in Legal Proceedings in Part I, Item 3 of this report; 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 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 results described in forward-looking statements will be achieved, 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:

- general economic conditions, including concerns regarding a global recession and credit constraints;
- changes in the information technology industry and/or the economic environment;
- our reliance on partners for product availability, marketing funds, purchasing incentives and competitive products to sell;
- the informal inquiry from the Division of Enforcement of the SEC and stockholder litigation related to the restatement of our consolidated financial statements;
- our ability to maintain compliance with Nasdaq s requirements for continued listing;
- our ability to collect our accounts receivable;
- increased debt and interest expense and lower availability on our financing facilities and changes in the overall capital markets that could increase our borrowing costs or reduce future availability of financing;
- disruptions in our information technology systems and voice and data networks, including our system upgrade and the migration of acquired businesses to our information technology systems and voice and data networks;
- actions of our competitors, including manufacturers and publishers of products we sell;
- the integration and operation of acquired businesses, including our ability to achieve expected benefits of the acquisitions;
- seasonal changes in demand for sales of software licenses;
- the risks associated with international operations;
- exposure to changes in, or interpretations of, tax rules and regulations;
- exposure to currency exchange risks and volatility in the U.S. dollar, Canadian dollar, the Euro and the British Pound Sterling exchange rates;
- our dependence on key personnel;
- failure to comply with the terms and conditions of our public sector contracts;
- rapid changes in product standards; and
- intellectual property infringement claims and challenges to our registered trademarks and trade names.

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

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**INSIGHT ENTERPRISES, INC.**
**PART I**

**Item 1.** ***Business***

**General**

Insight Enterprises, Inc. ( Insight or the Company ) is a leading provider of brand-name information technology ( IT ) hardware, software and services to small, medium and large businesses and public sector institutions in North America, Europe, the Middle East, Africa and Asia-Pacific. The Company is organized in the following three operating segments, which are primarily defined by their related geographies:

| Operating Segment* | Geography | % of 2008 Consolidated Net Sales |
|---|---|---|
| North America | United States and Canada | 70% |
| EMEA | Europe, Middle East and Africa | 27% |
| APAC | Asia-Pacific | 3% |

* Additional detailed segment and geographic information can be found in Management s Discussion and Analysis of Financial Condition and Results of Operations in Part II, Item 7 and in Note 18 to the Consolidated Financial Statements in Part II, Item 8 of this report.

We are a global provider of technology solutions, helping companies around the world design, enable, manage and secure their IT environment with our process knowledge, technical expertise and product fulfillment and logistics capabilities. Our management tools and capabilities make designing and deploying IT solutions easier, and we help our clients streamline IT management and control IT costs. Insight is located in 22 countries, and we support clients in 170 countries, transacting business in 17 languages and 13 currencies. Currently, our offerings in North America and the United Kingdom include IT hardware, software and services. Our offerings in the remainder of our EMEA segment and in APAC currently only include software and select software-related services. On a consolidated basis, hardware, software and services represented 54%, 42% and 4%, respectively, of our net sales in 2008, compared to 56%, 42% and 2%, respectively, in 2007.

We were incorporated in Delaware in 1991 as the successor to an Arizona corporation that commenced operations in 1988. We began operations in the U.S., expanded into Canada in 1997 and into the United Kingdom in 1998. In 2006, through our acquisition of Software Spectrum, Inc. ( Software Spectrum ), we penetrated deeper into global markets in EMEA and APAC, where Software Spectrum already had an established footprint and strategic relationships. In 2008, through our acquisitions of Calence, LLC ( Calence ) in North America and of MINX Limited ( MINX ) in the United Kingdom, we enhanced our global technical expertise around higher-end networking and communications technologies, as well as managed services and security. As part of our focus on core elements of our growth strategy, we sold PC Wholesale, a seller of IT products to other resellers in the U.S., in 2007 and Direct Alliance Corporation ( Direct Alliance ), a business process outsourcing provider in the U.S., in 2006. Our corporate headquarters are located in Tempe, Arizona.

**Business Strategy**

Our strategic vision is to be the trusted advisor to our clients, helping them enhance their business performance through innovative technology solutions. Our strategy is to grow profitable market share through the continued transformation of Insight into a complete IT solutions company and to establish Insight as a Global Value-Added Reseller ( G-VAR ), differentiating us in the marketplace and giving us a competitive advantage. We are one of the largest direct marketers providing broad product selection, competitive prices and an efficient supply chain. We have successfully expanded on this value proposition and increasingly, our role has shifted to one of a trusted advisor, where we are involved earlier in our clients IT planning cycles, assisting our clients as they make technology decisions. We believe this creates stronger relationships with our clients, allowing us to help accelerate attainment of our clients business objectives, expand the range of products and services we sell to our current clients, and attract new clients. We are focused on bringing more value to our clients, teammates (we refer to our employees as teammates ) and partners (we refer to our suppliers as partners ) through the evolution of Insight s value proposition.

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**INSIGHT ENTERPRISES, INC.**

To enable our strategic vision, Insight is focused on seven strategic initiatives:

- Continue to build VAR-like solutions capabilities;
- Leverage existing client relationships;
- Extend our reach into new client segments;
- Expand our global capabilities;
- Align tactics to ensure we deliver value to partners;
- Drive operational efficiency and improve our return on invested capital ( ROIC ); and
- Continue to strengthen the teammate experience.

*Continue to build VAR-like solutions capabilities*. The Value-Added Resellers ( VARs ) that have historically serviced the solutions needs of business end-users are typically smaller companies with technical expertise in fewer product and service specialties and in more limited geographic areas than Insight. Unlike typical VARs, Insight has broader capabilities with expanding service capabilities, a wider product offering with an efficient supply chain, and the ability to service clients across multiple industries and geographies.

In addition to our standard IT lifecycle services offerings, our strategy is to focus on expanding our technical expertise in three high-growth advanced IT solution areas:

- Networking and Communication;
- High Performance Systems and Storage; and
- Enterprise Software.

By maintaining the strength of our base value proposition and continuing to develop these differentiators, Insight seeks to be a single source for our clients technology needs from standard hardware and software offerings to advanced technologies, and from standard IT lifecycle services to advanced IT solutions.

*Leverage existing client relationships*. Our relationships with our clients and their loyalty to Insight are based on the trust they have in our organization, their interactions with our teammates, and their confidence that Insight will provide the right solutions to address their needs. By fostering these relationships and providing an exceptional experience for our clients, we believe that we will increase our value to our clients and create stronger and deeper relationships with them.

We are focused on increasing our share of wallet with our existing client base through expansion of our product and services portfolio. Our strategy is not only to increase the assortment of products and services a client purchases from us, but also to diversify from PCs into higher-end technologies, directing clients to advanced technologies in order to enhance their businesses.

An important differentiator for Insight is our multi-faceted selling approach, which makes it easier for clients to do business with us. Based on their preferences, clients can interact with us face-to-face, via the Web or over the phone, selecting the type of interaction method that best meets their needs and preferences at any given point in time. Although we are focused on leveraging existing client relationships, no single client accounted for more than 3% of our consolidated net sales in 2008.

*Extend our reach into new client segments*. Our clients include businesses as well as governmental and educational entities. We believe that clients with over 500 technology users who regularly use business technology in the performance of their jobs are a valuable portion of the IT hardware, software and services market because they demand high-performance technology solutions, appreciate well-trained account executives, purchase frequently, are value conscious and are knowledgeable buyers who require less technical support than the average individual consumer. Although we believe there is substantial opportunity to grow our market share in this client segment, part of our strategy to extend our reach into new client segments is to expand our target base to include clients with 50 500 technology users. We believe this market segment provides incremental opportunity for Insight, specifically in the U.S., and that this portion of the market is underserved and typically contributes higher gross margins. Our operating model, which allows us to tailor our offerings to the size and complexity of our client, positions us to serve our target markets effectively by combining highly qualified field and telesales account executives, advanced service capabilities, focused client service, competitive pricing and cost-effective distribution systems.

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**INSIGHT ENTERPRISES, INC.**

*Expand our global capabilities*. We believe that our global delivery capabilities differentiate us with our clients and partners. Insight has a larger geographic footprint than many of our competitors, particularly when compared to U.S.-based hardware resellers. We also offer the benefit of independent support and advice compared to manufacturers/publishers. Strategic imperatives for our global expansion include diversifying from the U.S. market by seizing opportunities in new markets, such as our recent expansion into Russia, and serving our existing client base in a greater number of locations around the world. While current economic conditions make it more difficult to expand into new markets, we continue to look for appropriate opportunities.

Our global expansion plans are focused on two distinct activities:

- Geographic expansion Focused on increasing our penetration in EMEA and APAC in growing markets where we see the greatest growth and return on investment opportunity.
- Portfolio expansion Focused on broadening our offering in established markets by adding hardware and services and expanding our client base in certain existing markets, specifically in EMEA and APAC, where we currently only offer software and software related services.

For a discussion of risks associated with international operations, see Risk Factors There are risks associated with our international operations that are different than the risks associated with our operations in the U.S., and our exposure to the risks of a global market could hinder our ability to maintain and expand international operations, in Part I, Item 1A of this report.

*Align tactics to ensure we deliver value to partners*. We are focused on understanding our partners objectives and developing plans and programs to grow our mutual businesses. Our strategy is focused on: increasing partner alignment by increasing skills and marketing alignment with key partners; building enhanced capabilities to deliver, monitor, analyze and report return on marketing investment for our partners; and building strong relationships with our key partners field sales organizations.

We measure partner satisfaction annually through a partner satisfaction survey in North America and EMEA and through similar means in APAC. We hold quarterly business reviews with our largest partners to review business results from the prior quarter, discuss plans for the future and obtain feedback. Additionally, we host an annual partner conference in North America and EMEA where we articulate our strategy and facilitate various strategic and tactical discussions with our partners.

For a discussion of risks associated with our reliance on partners, see Risk Factors We rely on our partners for product availability, marketing funds, purchasing incentives and competitive products to sell, in Part I, Item 1A of this report.

*Drive operational efficiency and improve our return on invested capital ( ROIC )*. Our goal is to decrease selling, general and administrative expenses as a percentage of net sales. In the short term, to address market weakness and the deterioration in our operational performance, we took significant restructuring actions in 2008 to reduce fixed costs and discretionary spending. In 2009, we plan to continue to take actions to decrease discretionary spending, such as eliminating merit increases, reducing equity incentive programs, foregoing employee recognition events, minimizing non-client travel, and continuing to evaluate all aspects of our cost structure given the current economic environment. We also plan to leverage the functionality of our IT systems to automate manual processes and improve efficiencies throughout the organization. We have implemented a ROIC focus into our core management systems and have introduced appropriate metrics and rewards to reinforce the importance of this key measure. We also maintain a close focus on cash flow and liquidity and have initiatives underway to improve working capital metrics, such as days sales outstanding and days purchases outstanding, and to continue to focus on strong inventory management through balancing warehousing versus direct shipments to our clients.

*Continue to strengthen the teammate experience*. We believe our teammates are the foundation of the Insight experience. Therefore, we focus on teammate development to promote teammate satisfaction, build teammates skill sets and motivate teammates to ensure client satisfaction. We use a multi-faceted approach to assess and improve teammate satisfaction, including confidential surveys, teammate interviews, focus groups and a variety of other methods. In addition, we monitor key teammate metrics each month, such as turnover and attrition rates, as well as measures against development, diversity and training goals.

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**INSIGHT ENTERPRISES, INC.**

**Hardware, Software and Services Offerings**

***Hardware Offerings.*** We currently offer our clients in North America and the United Kingdom a comprehensive selection of IT hardware products. We offer products from hundreds of manufacturers, including such leading manufacturers as Hewlett-Packard ( HP ), Cisco, Lenovo, IBM, Panasonic and American Power Conversion Corporation ( APC ). Our scale and purchasing power, combined with our efficient, high-volume and cost effective direct sales and marketing forces, allow us to offer competitive prices. We believe that offering multiple vendor choices enables us to better serve our clients by providing a variety of product solutions to best address their specific business needs. These needs may be based on particular client preferences or other criteria, such as real-time best pricing and availability, or compatibility with existing technology. In addition to our distribution facilities, we have direct-ship programs with many of our partners, including manufacturers and distributors, through the use of EDI and XML links allowing us to expand our product offerings without further increasing inventory, handling costs or inventory risk exposure. As a result, we are able to provide a vast product offering with billions of dollars of products in virtual inventory. Convenience and product options among multiple brands are key competitive advantages against manufacturers direct selling programs, which are generally limited to their own brands and may not offer clients a complete or best solution across all product categories.

***Software Offerings***. Our clients acquire software applications from us in the form of licensing agreements with software publishers, boxed products, or through a growing delivery model, Software as a Service ( SaaS ). Under SaaS, clients subscribe to software that is hosted by the software publisher on the internet. The majority of our clients obtain their software applications through licensing agreements, which we believe is a result of their ease of administration and cost-effectiveness. Licensing agreements, or right-to-copy agreements, allow a client to either purchase a license for each of its users in a single transaction or periodically report its software usage, paying a license fee for each user. For most clients, the overall cost of acquiring software through a licensing arrangement is substantially less than purchasing boxed products.

As software publishers choose different procedures for implementing licensing agreements, businesses must evaluate the alternatives to ensure that they select the appropriate agreements and comply with the publishers licensing terms when purchasing and managing their software licenses. We work closely, either locally or globally, with our clients to understand their licensing requirements and to educate them regarding the options available under publisher licensing agreements. Many of our clients who have elected to purchase software licenses through licensing agreements have also entered into software maintenance agreements, which allow clients to receive new versions, upgrades or updates of software products released during the maintenance period, in exchange for a specified annual fee. We assist our clients and partner publishers in tracking and renewing these agreements. In connection with certain enterprise-wide licensing agreements, publishers may choose to bill and collect from clients directly. In these cases, we earn a referral fee directly from the publisher.

***Services Offerings.*** We currently offer a suite of professional services in the U.S. and the United Kingdom via our own field service personnel, augmented by services partners to fill gaps in our geographic coverage or capabilities. We also utilize partners to deliver these services in Canada. Developing these capabilities internally or through targeted acquisitions over time in other geographies is an essential element of a technology solution and, we believe, will be a key differentiator for us.

The breadth and quality of our technical and service capabilities are key points of differentiation for us. We have, and continue to develop, an array of technical expertise and service capabilities to help identify, acquire, implement and manage technology solutions to allow our clients to address their business needs. We believe that none of our competition is able to offer the same breadth and depth of IT solutions that we offer across our target client groups in North America and EMEA.

In the Company today, we have the following four technology practice groups that focus on key emerging technologies and the best practice standards that are required to build, upgrade and/or optimize agile and cost-effective IT infrastructures:

- Networking and Communications;
- High Performance Systems and Storage;

- Enterprise Software; and
- IT Lifecycle Services.

These technology practice groups are responsible for understanding client needs and, together with our technology partners, customizing total solutions that address those needs. These technology practice groups are made up of industry- and product-certified engineers, consultants and specialists who are up-to-date on best practices and the latest developments in their respective practice areas.

**INSIGHT ENTERPRISES, INC.**

*Networking and Communications.* Advanced networking technologies that merge voice, data and video applications are becoming a critical component of an enterprise s strategic IT infrastructure and the backbone of an organization s unified communications strategy. We are a Cisco Gold Certified partner in the United States and the United Kingdom and have Master Certifications in unified communications and security in the U.S. Our networking and communications solutions provide clients secure voice and data communications within and across organizations and are marketed and delivered in four areas:

- Network strategy and infrastructure;
- Unified communications;
- Security; and
- Managed services.

We offer design, implementation and support of a wide range of networking and communications solutions including IP-based telephony, unified communications, wireless LAN, network security, network management and network infrastructure, and mobility solutions. We have the scale, skill and technology investments required to execute a spectrum of management services. Operating 24 hours a day, 7 days a week, 365 days a year, through our network operations center, we serve as an extension of our clients teams, dedicating resources that keep their networks operating at optimal capacity. We expect to leverage our 2008 acquisitions of Calence and MINX to continue expanding our global capabilities around networking and communications.

*High-Performance Systems and Storage.* Using technology from HP, IBM, EMC, AMD and VMware, we provide high-end servers, data disk arrays, hard drives, tape libraries, blades, and virtualization software to help clients build and maintain responsive IT infrastructures that allow them to quickly adapt to changes in business priorities. We also provide IT professional services for designing, implementing and managing adaptive server and storage environments for our clients ensuring a resilient and cost-effective data center while reducing maintenance and management costs.

*Enterprise Software Solutions.* As one of the leading resellers of Microsoft business software, we provide desktop deployment, migration, communication and collaboration solutions for clients. We assess, implement and manage a clients software environment through our portfolio of service offerings including configuration and integration services. These services remove time-consuming steps and costs from our client s deployment process.

*IT Lifecycle Services.* We offer clients a suite of services designed to streamline the deployment cycle of IT assets, as well as minimize the complexity and cost of managing those assets throughout their life. We:

- provide advice on hardware, software licensing and financing programs;
- streamline procurement;
- plan and manage the rollout;
- assist with developing standards and implementing best practices;
- pre-configure systems, load custom software images and tag assets;
- provide logistics planning and drop-ship to locations;
- provide on-site implementation;
- offer help desk support for users; and
- provide IT maintenance services and disposal of equipment at end-of-life.

These services are available primarily in the U.S., Canada and the United Kingdom at present.

In addition, we offer clients a portfolio of Software Asset Management ( SAM ) services, including SAM consultation, assessment of ISO standard attainment, license reconciliations, and our proprietary Insight:LicenseAdvisor SAM solution platform. Our SAM services are provided to clients throughout North America, EMEA and APAC.

**Information Technology Systems**

We have committed significant resources to the IT systems we use to manage our business. We believe that our success is dependent upon our ability to provide prompt and efficient service to our clients based on the accuracy, quality and utilization of the information generated by our IT systems. These systems affect our ability to manage our sales, client service, distribution, inventories and accounting systems and the reliability of our voice and data networks. Our U.S. and foreign locations are not on a single IT system platform.

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**INSIGHT ENTERPRISES, INC.**

To support our business more efficiently and effectively, we recently completed an IT systems upgrade project in the U.S. hardware and services portion of our North America operations. We are focused on driving improvements in sales productivity through this upgraded IT system to support higher levels of client satisfaction and new client acquisition as well as garnering efficiencies in this portion of our business as more processes become automated. We are also in the process of the conversion of our EMEA operations to a new IT system platform intended to enable us to sell hardware and services to clients in that region to promote future sales growth. We believe that in order to remain competitive, we will need to continue to make enhancements and upgrades to our IT systems.

For a discussion of risks associated with our IT systems, see Risk Factors Disruptions in our IT systems and voice and data networks, including our systems upgrades and the migration of acquired businesses to our IT systems and voice and data networks, could affect our ability to service our clients and cause us to incur additional expenses, in Part I, Item 1A of this report.

**Competition**

The IT hardware, software and services industry is very fragmented and highly competitive. We compete with a large number and wide variety of marketers and resellers of IT hardware, software and services, including:

- product manufacturers, such as Dell, HP, IBM and Lenovo;
- software publishers, such as IBM and Microsoft;
- direct marketers, such as CDW Corporation (North America) and Systemax (Europe);
- software resellers, such as SoftChoice, PC Ware and Software House International;
- systems integrators, such as Compucom Systems, Inc.;
- national and regional resellers, including VARs, specialty retailers, aggregators, distributors, and to a lesser extent, national computer retailers, computer superstores, Internet-only computer providers, consumer electronics and office supply superstores and mass merchandisers;
- national and global service providers, such as IBM Global Services and HP/EDS; and
- e-tailers, such as Amazon, Buy.com and e-Buyer (United Kingdom).

The competitive landscape in the industry is changing as various competitors expand their product and service offerings. In addition, emerging models such as Software as a Service (SaaS) are creating new competitors and opportunities.

We believe that we have three advantages over our competitors:

- *Global Reach* We have one of the broadest footprints in the IT industry, with physical presence in 22 countries and the ability to service clients in 170 countries, either internally or through partner relationships. Our ability to conduct business with clients in their language and currency is a key differentiator.
- *Client Penetration and Retention* We have deep penetration in small, medium and large businesses and public sector institutions. Most competitors focus on one or two of these sectors. This enables us to reach a broad range of clients on behalf of our partners. In addition, we have very strong client retention and loyalty that can be leveraged as we build our trusted advisor capabilities.
- *Technical Expertise and Service Offerings* We have broad technical expertise when compared to the competition as evidenced by our long list of certifications, licensing capability and technology practices. In addition, we offer a broad array of technology-related services to our clients.

We have two primary weaknesses:

- *Brand Awareness* The Insight brand is less known than those of our primary competitors, and we believe our advertising expenditures are significantly lower than many of our competitors.
- *Inconsistent Geographic Delivery Capabilities* While we have deeper capabilities than many of our competitors, our ability to deliver across all geographies varies considerably. Our most developed capabilities (hardware, software and services) are found in the U.S. and the United Kingdom. Our capabilities in Canada are deep in software and hardware and are developing in services. The balance of our footprint currently delivers only software and software-related services.

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INSIGHT ENTERPRISES, INC.

For a discussion of risks associated with the actions of our competitors, see Risk Factors The IT hardware, software and services industry is intensely competitive, and actions of our competitors, including manufacturers and publishers of products we sell, can negatively affect our business, in Part I, Item 1A of this report.

**Partners**

During 2008, we purchased products and software from approximately 5,160 partners. Approximately 58% (based on dollar volume) of these purchases from partners were directly from manufacturers or software publishers, with the balance purchased through distributors. Purchases from Microsoft, a software publisher, Ingram Micro, a distributor, and HP, a manufacturer, accounted for approximately 22%, 11%, and 11%, respectively, of our aggregate purchases in 2008. No other partner accounted for more than 10% of purchases in 2008. Our top five partners as a group for 2008 were Microsoft, Ingram Micro, HP, Tech Data (a distributor) and Cisco (a manufacturer). Approximately 60% of our total purchases during 2008 came from this group of partners. Although brand names and individual products are important to our business, we believe that competitive sources of supply are available in substantially all of our product categories such that, with the exception of Microsoft, we are not dependent on any single partner for sourcing products.

We obtain supplier reimbursements from certain product manufacturers, software publishers and distribution partners based typically upon the volume of sales or purchases of their products and services. In other cases, such reimbursements may be in the form of participation in our partner programs, which may require specific services or activities with our clients, discounts, marketing funds, price protection or rebates. Manufacturers and publishers may also provide mailing lists, contacts or leads to us. We believe that supplier reimbursements allow us to increase our marketing reach and strengthen our relationships with leading manufacturers and publishers. These reimbursements are important to us, and any elimination or substantial reduction would increase our costs of goods sold or marketing expenses, resulting in a corresponding decrease in our earnings from operations and net earnings. During 2008, sales of Microsoft products and HP products accounted for approximately 26% and 17%, respectively, of our consolidated net sales. No other manufacturer s products accounted for more than 10% of our consolidated net sales in 2008. Sales of product from our top five manufacturers/publishers as a group (Microsoft, HP, Cisco, Lenovo and IBM) accounted for approximately 60% of Insight s consolidated net sales during 2008. We believe that the majority of IT purchases by our clients, with the exception of Microsoft, are made based on the ability of our total product and service offering to meet their IT needs, more than on the offering or availability of specific brands.

As we move into new service areas, consistent with our strategy to expand our technical expertise, we may become more reliant on certain partner relationships. For a discussion of risks associated with our reliance on partners, see Risk Factors We rely on our partners for product availability, marketing funds, purchasing incentives and competitive products to sell, in Part I, Item 1A of this report.

**Teammates**

We believe our teammate relations are good. Our teammates are not represented by any labor union, and we have not experienced any work stoppages. Certain teammates in various countries outside of the U.S. are subject to laws providing representation rights to teammates on work councils. At December 31, 2008, we had 4,581 teammates as follows:

| | North America | EMEA | APAC | Consolidated |
|---|---|---|---|---|
| Management, support services and administration | 1,705 | 573 | 69 | 2,347 |
| Sales account executives | 1,285 | 680 | 96 | 2,061 |
| Distribution | 129 | 44 | | 173 |
| Total | 3,119 | 1,297 | 165 | 4,581 |

We have invested in our teammates futures and our future through an ongoing program of internal and external training. Training programs include new hire orientation, sales training, general industry and computer education, technical training, specific product training and on-going teammate and management development programs. We emphasize on-the-job training and provide our teammates and managers with development opportunities through online and classroom training relevant to their needs.

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**INSIGHT ENTERPRISES, INC.**

Information regarding the number and tenure of account executives in North America, EMEA and APAC at December 31, 2008 and 2007 follows:

| | North America | | EMEA | | APAC | |
|---|---|---|---|---|---|---|
| | **12/31/08** | **12/31/07** | **12/31/08** | **12/31/07** | **12/31/08** | **12/31/07** |
| Number of account executives | 1,285 | 1,349 | 680 | 571 | 96 | 58 |
| Tenure: | | | | | | |
| Less than one year | 23% | 27% | 30% | 31% | 34% | 35% |
| One to two years | 15% | 11% | 21% | 19% | 19% | 21% |
| Two to three years | 8% | 11% | 14% | 16% | 17% | 22% |
| More than three years | 54% | 51% | 35% | 34% | 30% | 22% |
| | 100% | 100% | 100% | 100% | 100% | 100% |