

INSIGHT ENTERPRISES INC

Form 10-Q

November 01, 2012

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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended: September 30, 2012

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)

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Delaware
(State or other jurisdiction of
incorporation or organization)

86-0766246
(I.R.S. Employer
Identification Number)

6820 South Harl Avenue, Tempe, Arizona 85283
(Address of principal executive offices) (Zip Code)

(480) 902-1001
(Registrant's telephone number, including area code)

(Former name, former address and former fiscal year, if changed since last report)

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 has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§ 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes No

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

Large accelerated filer Accelerated filer
Non-accelerated filer (Do not check if a smaller reporting company) 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 October 26, 2012 was 44,555,776.

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Three Months Ended September 30, 2012
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INSIGHT ENTERPRISES, INC.

FORWARD-LOOKING INFORMATION

Certain statements in this Quarterly Report on Form 10-Q, including statements in Management's Discussion and Analysis of Financial Condition and Results of Operations in Part I, Item 2 of this report, are forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. These forward-looking statements may include: projections of matters that affect net sales, gross profit, operating expenses, earnings from operations, non-operating income and expenses, net earnings or cash flows, working capital needs, sources and uses, cash needs and the sufficiency of our capital resources; details of our business strategy and our strategic initiatives, including the anticipated benefits of our acquisitions and IT systems upgrades; projections of capital expenditures; our intention not to pay dividends; projections of compliance with our debt covenants; the effect of new accounting principles or changes in accounting principles; the effect of indemnification obligations and other off-balance sheet arrangements; projections about the outcome of ongoing tax audits; statements related to accounting estimates, including estimated stock-based compensation award forfeitures and the realization of deferred tax assets and the amortization of acquired intangible assets; the timing of amortization of stock-based compensation expense and the payment of accrued severance and restructuring costs; our intention to use cash in excess of working capital needs to pay down debt and support capital expenditures; our intention to reinvest undistributed earnings of foreign subsidiaries outside the United States and the anticipated character of those investments; our expectations regarding seasonality; the sufficiency of our provisions for litigation losses and our strategies with respect to ongoing and threatened litigation, including those matters identified in Legal Proceedings in Part II, Item 1 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 words and similar expressions and are inherently subject to risk 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 results discussed in the 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:

our reliance on partners for product availability and competitive products to sell as well as our competition with our partners;

our reliance on partners for marketing funds and purchasing incentives;

disruptions in our information technology (IT) systems and voice and data networks, including risks and costs associated with the integration and upgrade of our IT systems;

general economic conditions;

the security of our electronic and other confidential information;

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;

changes in the IT industry and/or rapid changes in product standards;

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

the availability of future financing and our ability to access and/or refinance our credit facilities;

the variability of our net sales and gross profit;

the risks associated with our international operations;

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

our dependence on key personnel; and

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

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

Table of Contents**PART I - FINANCIAL INFORMATION****Item 1. Financial Statements.****INSIGHT ENTERPRISES, INC.****CONSOLIDATED BALANCE SHEETS****(in thousands, except per share data)****(unaudited)**

| | September 30, 2012 | December 31, 2011 |
|--|-------------------------------|------------------------------|
| ASSETS | | |
| Current assets: | | |
| Cash and cash equivalents | \$ 140,675 | \$ 128,336 |
| Accounts receivable, net of allowance for doubtful accounts of \$19,414 and \$18,803, respectively | 956,048 | 1,208,276 |
| Inventories | 103,893 | 114,763 |
| Inventories not available for sale | 33,774 | 43,816 |
| Deferred income taxes | 17,055 | 17,344 |
| Other current assets | 33,446 | 23,144 |
| Total current assets | 1,284,891 | 1,535,679 |
| Property and equipment, net of accumulated depreciation of \$223,290 and \$208,099, respectively | 143,710 | 140,705 |
| Goodwill | 26,257 | 26,257 |
| Intangible assets, net of accumulated amortization of \$68,044 and \$60,822, respectively | 50,388 | 59,021 |
| Deferred income taxes | 65,042 | 70,771 |
| Other assets | 21,559 | 25,178 |
| | \$ 1,591,847 | \$ 1,857,611 |
| LIABILITIES AND STOCKHOLDERS' EQUITY | | |
| Current liabilities: | | |
| Accounts payable | \$ 597,804 | \$ 882,384 |
| Accrued expenses and other current liabilities | 127,598 | 178,749 |
| Current portion of long-term debt | 858 | 1,017 |
| Deferred revenue | 36,854 | 47,012 |
| Total current liabilities | 763,114 | 1,109,162 |
| Long-term debt | 112,000 | 115,602 |
| Deferred income taxes | 658 | 1,186 |
| Other liabilities | 34,436 | 34,829 |
| | 910,208 | 1,260,779 |
| Commitments and contingencies | | |
| 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; 44,555 shares at September 30, 2012 and 43,919 shares at December 31, 2011 issued and outstanding | 446 | 439 |
| Additional paid-in capital | 367,547 | 360,370 |
| Retained earnings | 295,121 | 223,125 |

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| | | | |
|--|--|--------------|--------------|
| Accumulated other comprehensive income | foreign currency translation adjustments | 18,525 | 12,898 |
| Total stockholders' equity | | 681,639 | 596,832 |
| | | \$ 1,591,847 | \$ 1,857,611 |

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 | | Nine Months Ended | |
|---|---------------------------|--------------|--------------------------|--------------|
| | September 30, | | September 30, | |
| | 2012 | 2011 | 2012 | 2011 |
| Net sales | \$ 1,181,409 | \$ 1,238,019 | \$ 3,954,766 | \$ 3,926,875 |
| Costs of goods sold | 1,013,784 | 1,074,504 | 3,415,483 | 3,396,701 |
| Gross profit | 167,625 | 163,515 | 539,283 | 530,174 |
| Operating expenses: | | | | |
| Selling and administrative expenses | 136,259 | 135,071 | 423,254 | 420,558 |
| Severance and restructuring expenses | 705 | 529 | 4,456 | 4,458 |
| Earnings from operations | 30,661 | 27,915 | 111,573 | 105,158 |
| Non-operating (income) expense: | | | | |
| Interest income | (489) | (536) | (1,128) | (1,294) |
| Interest expense | 1,702 | 1,753 | 4,750 | 5,209 |
| Gain on bargain purchase | | | (2,022) | |
| Net foreign currency exchange (gain) loss | 426 | 633 | (872) | (531) |
| Other expense, net | 319 | 451 | 952 | 1,240 |
| Earnings before income taxes | 28,703 | 25,614 | 109,893 | 100,534 |
| Income tax expense | 9,349 | 8,448 | 37,897 | 34,953 |
| Net earnings | \$ 19,354 | \$ 17,166 | \$ 71,996 | \$ 65,581 |
| Net earnings per share: | | | | |
| Basic | \$ 0.43 | \$ 0.38 | \$ 1.62 | \$ 1.43 |
| Diluted | \$ 0.43 | \$ 0.38 | \$ 1.61 | \$ 1.41 |
| Shares used in per share calculations: | | | | |
| Basic | 44,510 | 44,886 | 44,360 | 46,001 |
| Diluted | 44,869 | 45,417 | 44,777 | 46,550 |

See accompanying notes to consolidated financial statements.

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INSIGHT ENTERPRISES, INC.

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(in thousands)

(unaudited)

| | Three Months Ended | | Nine Months Ended | |
|--|---------------------------|-------------|--------------------------|-------------|
| | September 30, | | September 30, | |
| | 2012 | 2011 | 2012 | 2011 |
| Net earnings | \$ 19,354 | \$ 17,166 | \$ 71,996 | \$ 65,581 |
| Other comprehensive income (loss), net of tax: | | | | |
| Foreign currency translation adjustments | 6,056 | (12,622) | 5,627 | (2,638) |
| Total comprehensive income | \$ 25,410 | \$ 4,544 | \$ 77,623 | \$ 62,943 |

See accompanying notes to consolidated financial statements.

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