

INSIGHT ENTERPRISES INC

Form 8-K

July 07, 2006

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UNITED STATES SECURITIES AND EXCHANGE COMMISSION
Washington, DC 20549
FORM 8-K
CURRENT REPORT

Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934

Date of Report (Date of earliest event reported): June 30, 2006

INSIGHT ENTERPRISES, INC.

(Exact name of registrant as specified in its charter)

| | | |
|--|--|--|
| Delaware (State or other jurisdiction of incorporation) | 0-25092 (Commission File Number) | 86-0766246 (IRS Employer Identification No.) |
|--|--|--|

| | |
|--|---------------------|
| 1305 West Auto Drive, Tempe, Arizona (Address of principal executive offices) | 85284 (Zip Code) |
|--|---------------------|

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

Not applicable

(Former name or former address, if changed since last report)

Check the appropriate box below if the Form 8-K filing is intended to simultaneously satisfy the filing obligation of the registrant under any of the following provisions (see General Instruction A.2. below):

- Written communications pursuant to Rule 425 under the Securities Act (17 CFR 230.425)
 - Soliciting material pursuant to Rule 14a-12 under the Exchange Act (17 CFR 240.14a-12)
 - Pre-commencement communications pursuant to Rule 14d-2(b) under the Exchange Act (17 CFR 240.14d-2(b))
 - Pre-commencement communications pursuant to Rule 13e-4(c) under the Exchange Act (17 CFR 240.13e-4(c))
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ITEM 2.01. COMPLETION OF ACQUISITION OR DISPOSITION OF ASSETS

On June 30, 2006, Insight Enterprises, Inc., (the Company) completed the sale of 100% of the outstanding stock of the Company's wholly owned subsidiary, Direct Alliance Corporation (Direct Alliance) to TeleTech Holdings, Inc. (TeleTech) for a purchase price of \$46.5 million, subject to a working capital adjustment. The purchase price does not include real estate and intercompany receivables, which have an estimated fair value of \$49.4 million and were distributed to the Company immediately prior to closing. In addition to payment of the purchase price, TeleTech will be obligated under the agreement to make a one-time bonus payment to the Company if Direct Alliance achieves certain gross profit levels for the year ending December 31, 2006 (Earn Out). Additionally, TeleTech will be entitled to a claw back of the purchase price of up to \$5.0 million if certain Direct Alliance client contracts are not renewed on terms prescribed in the Agreement.

Also, the Company paid \$2.7 million to the holders of the 1,997,500 exercised Direct Alliance stock options, which may be further adjusted for the above described working capital adjustment, Earn Out and claw back.

The terms of the transaction are set forth in the Stock Purchase Agreement (the Agreement) among the Company, Direct Alliance and Teletech. The Company previously announced the execution of the Agreement on June 14, 2006. The description of the Agreement set forth above is qualified in its entirety by reference to the Agreement, which is filed as Exhibit 10.1 to the Company's Current Report on Form 8-K filed on June 15, 2006 and incorporated by reference herein.

ITEM 9.01. FINANCIAL STATEMENTS AND EXHIBITS

(b) Pro Forma Financial Information.

The following unaudited pro forma consolidated balance sheet as of March 31, 2006, the unaudited pro forma consolidated statement of earnings for the three months ended March 31, 2006, and the unaudited pro forma consolidated statement of earnings for the year ended December 31, 2005 are based on the Company's historical financial statements after giving effect to the Company's sale of Direct Alliance.

The unaudited pro forma consolidated balance sheet as of March 31, 2006 is presented as if the disposition occurred on March 31, 2006. The pro forma consolidated statements of earnings are presented as if the disposition had taken place on January 1, 2005.

The unaudited pro forma consolidated financial statements are presented for illustrative purposes only and, therefore, are not necessarily indicative of the operating results and financial position that might have been achieved had the transaction occurred as of an earlier date, nor are they necessarily indicative of operating results and financial position that may occur in the future. The unaudited pro forma consolidated financial statements do not reflect the use of the net cash proceeds in the Company's on-going operations or the effect on the Company's future financial position. Additionally, the effects of any working capital adjustment, Earn Out or claw back on the cash proceeds, as described in Item 2.01, are not contemplated in the pro forma consolidated financial statements.

The unaudited pro forma consolidated financial statements should be read in conjunction with the historical consolidated financial statements in the Quarterly Report on Form 10-Q for the three months ended March 31, 2006 and in the Annual Report on Form 10-K for the year ended December 31, 2005.

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INSIGHT ENTERPRISES, INC. AND SUBSIDIARIES
UNAUDITED PRO FORMA CONSOLIDATED BALANCE SHEET
AS OF MARCH 31, 2006
(in thousands)

| | As Reported | Remove Direct Alliance | Pro Forma Adjustments | Pro Forma |
|--|------------------------|---------------------------------------|----------------------------------|----------------------|
| ASSETS | | | | |
| Current assets: | | | | |
| Cash and cash equivalents | \$ 82,837 | \$ (139) | \$ 43,804 ^{(A)(F)} | \$ 126,780 |
| Accounts receivable, net | 419,431 | 14,951 | | 404,480 |
| Inventories | 93,836 | 11 | | 93,825 |
| Inventories not available for sale | 25,207 | | | 25,207 |
| Deferred income taxes and other current assets | 30,495 | 24,176 | 21,198 ^(B) | 27,517 |
| Total current assets | 651,806 | 38,999 | 65,002 | 677,809 |
| Property and equipment, net | 138,427 | 32,789 | | 105,638 |
| Assets held for lease, net | | | 19,336 ^(C) | 19,336 |
| Goodwill | 87,095 | | | 87,095 |
| Other assets | 17 | | | 17 |
| | \$ 877,345 | \$ 71,788 | \$ 84,338 | \$ 889,895 |
| LIABILITIES AND STOCKHOLDERS EQUITY | | | | |
| Current liabilities: | | | | |
| Accounts payable | \$ 171,211 | \$ 5,836 | \$ | \$ 165,375 |
| Accrued expenses and other current liabilities | 66,982 | 1,083 | 14,050 ^(D) | 79,949 |
| Client payments in advance of shipment | 23,741 | | | 23,741 |
| Total current liabilities | 261,934 | 6,919 | 14,050 | 269,065 |
| Deferred income taxes and other long-term liabilities | 20,571 | | | 20,571 |
| Stockholders' equity: | | | | |
| Preferred stock | | | | |
| Common stock | 483 | 13 | 13 ^(E) | 483 |
| Additional paid-in capital | 311,107 | | (2,696) ^(F) | 308,411 |
| Retained earnings | 266,533 | 64,856 | 72,971 ^{(E)(G)} | 274,648 |
| Accumulated other comprehensive income foreign currency translation adjustment | 16,717 | | | 16,717 |

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| | | | | |
|----------------------------|------------|-----------|-----------|------------|
| Total stockholders' equity | 594,840 | 64,869 | 70,288 | 600,259 |
| | \$ 877,345 | \$ 71,788 | \$ 84,338 | \$ 889,895 |

See accompanying notes to unaudited proforma consolidated financial statements.

Table of Contents**Item 9.01 Financial Statements and Exhibits (continued)**

INSIGHT ENTERPRISES, INC. AND SUBSIDIARIES
UNAUDITED PRO FORMA CONSOLIDATED STATEMENT OF EARNINGS
YEAR ENDED DECEMBER 31 2005
(in thousands, except per share data)

| | As Reported | Remove Direct Alliance | Pro Forma Adjustments | Pro Forma |
|---|------------------------|---------------------------------------|----------------------------------|------------------|
| Net sales | \$ 3,261,150 | \$ 77,443 | \$ 1,740 ^(H) | \$ 3,185,447 |
| Costs of goods sold | 2,869,239 | 60,072 | 730 ^(I) | 2,809,897 |
| Gross profit | 391,911 | 17,371 | 1,010 | 375,550 |
| Operating expenses: | | | | |
| Selling and administrative expenses | 289,250 | 6,313 | 694 ^(J) | 283,631 |
| Severance and restructuring expenses | 12,967 | 1,005 | | 11,962 |
| Reductions in liabilities assumed in a previous acquisition | (664) | | | (664) |
| Earnings from operations | 90,358 | 10,053 | 316 | 80,621 |
| Non-operating (income) expense: | | | | |
| Interest income | (3,394) | | | (3,394) |
| Interest expense | 1,914 | | | 1,914 |
| Other expense (income), net | 853 | (287) | (13,700) ^{(K)(L)(M)} | (12,560) |
| Earnings before income taxes | 90,985 | 10,340 | 14,016 | 94,661 |
| Income tax expense | 35,641 | 3,950 | 5,536 ^(N) | 37,227 |
| Net earnings before cumulative effect of change in accounting principle | 55,344 | 6,390 | 8,480 | 57,434 |
| Cumulative effect of change in accounting principle | (649) | | | (649) |
| Net earnings | \$ 54,695 | \$ 6,390 | \$ 8,480 | \$ 56,785 |
| Net earnings per share Basic: | | | | |
| Net earnings before cumulative effect of change in accounting principle | \$ 1.14 | \$ 0.13 | \$ 0.17 | \$ 1.18 |
| Cumulative effect of change in accounting principle | (0.01) | | | (0.01) |
| Net earnings per share | \$ 1.13 | \$ 0.13 | \$ 0.17 | \$ 1.17 |
| Net earnings per share Diluted: | | | | |
| Net earnings before cumulative effect of change in accounting principle | \$ 1.13 | \$ 0.13 | \$ 0.17 | \$ 1.17 |
| Cumulative effect of change in accounting principle | (0.01) | | | (0.01) |

Cumulative effect of change in
accounting principle

| | | | | | | | | |
|---------------------------------------|----|--------|----|--------|----|--------|----|--------|
| Net earnings per share | \$ | 1.12 | \$ | 0.13 | \$ | 0.17 | \$ | 1.16 |
| Shares used in per share calculation: | | | | | | | | |
| Basic | | 48,553 | | 48,553 | | 48,553 | | 48,553 |
| Diluted | | 49,042 | | 49,042 | | 49,042 | | 49,042 |

See accompanying notes to unaudited pro forma consolidated financial statements.

Table of Contents**Item 9.01 Financial Statements and Exhibits (continued)**

INSIGHT ENTERPRISES, INC. AND SUBSIDIARIES
UNAUDITED PRO FORMA CONSOLIDATED STATEMENT OF EARNINGS
THREE MONTHS ENDED MARCH 31, 2006
(in thousands, except per share data)

| | As Reported | Remove Direct Alliance | Pro Forma Adjustments | Pro Forma |
|---------------------------------------|------------------------|---------------------------------------|----------------------------------|----------------------|
| Net sales | \$ 806,038 | \$ 17,135 | \$ 435 ^(H) | \$ 789,338 |
| Costs of goods sold | 703,745 | 13,894 | 184 ^(I) | 690,035 |
| Gross profit | 102,293 | 3,241 | 251 | 99,303 |
| Operating expenses: | | | | |
| Selling and administrative expenses | 80,045 | 1,742 | 185 ^(J) | 78,488 |
| Earnings from operations | 22,248 | 1,499 | 66 | 20,815 |
| Non-operating (income) expense: | | | | |
| Interest income | (922) | | | (922) |
| Interest expense | 797 | | | 797 |
| Other expense (income), net | 194 | (83) | (13,496) ^{(K)(L)(M)} | (13,219) |
| Earnings before income taxes | 22,179 | 1,582 | 13,562 | 34,159 |
| Income tax expense | 7,965 | 604 | 5,357 ^(N) | 12,718 |
| Net earnings | \$ 14,214 | \$ 978 | \$ 8,205 | \$ 21,441 |
| Earnings per share: | | | | |
| Basic | \$ 0.30 | \$ 0.02 | \$ 0.17 | \$ 0.45 |
| Diluted | \$ 0.29 | \$ 0.02 | \$ 0.17 | \$ 0.44 |
| Shares used in per share calculation: | | | | |
| Basic | 48,002 | 48,002 | 48,002 | 48,002 |
| Diluted | 48,685 | 48,685 | 48,685 | 48,685 |

See accompanying notes to unaudited pro forma consolidated financial statements.

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Item 9.01 Financial Statements and Exhibits (continued)

INSIGHT ENTERPRISES, INC. AND SUBSIDIARIES

NOTES TO UNAUDITED PRO FORMA CONSOLIDATED FINANCIAL STATEMENTS

- A. To reflect cash proceeds of \$46.5 million from the sale of Direct Alliance.
 - B. To reflect the dividend to the Company of intercompany amounts due to Direct Alliance by the Company.
 - C. To reflect the dividend of Direct Alliance's buildings to the Company.
 - D. To reflect the following estimated amounts:
 - a. income taxes payable on the sale of Direct Alliance of \$6.5 million;
 - b. accrued transaction expenses, net of taxes, of \$1.9 million;
 - c. deferred gain related to clawback of \$5.0 million; and
 - d. deferred revenue of \$0.7 million related to below-market lease of buildings from the Company to Direct Alliance.
 - E. To properly reflect Direct Alliance's equity accounts.
 - F. To reflect the \$2.7 million cash settlement of exercised options in Direct Alliance.
 - G. To reflect the following estimated amounts:
 - a. gain on sale, net of tax, of \$10.0 million; and
 - b. transaction expenses, net of tax, of \$1.9 million.
 - H. To reflect rental income from the subsequent lease of the buildings from the Company to Direct Alliance.
 - I. To reflect depreciation expense on buildings dividend from Direct Alliance to the Company.
 - J. To reallocate corporate overhead expenses previously allocated to Direct Alliance.
 - K. To record estimated gain on sale of Direct Alliance of \$16.5 million.
 - L. To reallocate corporate interest income that was previously allocated to Direct Alliance.
 - M. To record estimated transaction expenses of \$3.1 million.
 - N. To reflect the income tax effect of pro forma adjustments using an estimated statutory tax rate of 39.5%.
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SIGNATURES

Pursuant to the requirements of the Securities and Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned hereunto duly authorized.

Insight Enterprises, Inc.

Date: July 7, 2006

By: /s/ Stanley Laybourne
Stanley Laybourne
Chief Financial Officer, Treasurer and
Secretary