

INSIGHT ENTERPRISES INC
Form 10-Q
August 01, 2014
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, 2014

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)
6820 South Harl Avenue, Tempe, Arizona 85283
(Address of principal executive offices) (Zip Code)
(480) 333-3000
(Registrant's telephone number, including area code)
(Former name, former address and former fiscal year, if changed since last report)

86-0766246
(I.R.S. Employer

Identification Number)

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 July 25, 2014 was 40,970,164.

Table of Contents

INSIGHT ENTERPRISES, INC.
QUARTERLY REPORT ON FORM 10-Q
Three Months Ended June 30, 2014
TABLE OF CONTENTS

	Page
<u>PART I - Financial Information</u>	
Item 1 <u>Financial Statements:</u>	
<u>Consolidated Balance Sheets (unaudited) - June 30, 2014 and December 31, 2013</u>	1
<u>Consolidated Statements of Operations (unaudited) - Three and Six Months Ended June 30, 2014 and 2013</u>	2
<u>Consolidated Statements of Comprehensive Income (unaudited) - Three and Six Months Ended June 30, 2014 and 2013</u>	3
<u>Consolidated Statements of Cash Flows (unaudited) - Six Months Ended June 30, 2014 and 2013</u>	4
<u>Notes to Consolidated Financial Statements (unaudited)</u>	5
Item 2 <u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	18
Item 3 <u>Quantitative and Qualitative Disclosures About Market Risk</u>	29
Item 4 <u>Controls and Procedures</u>	29
<u>PART II - Other Information</u>	
Item 1 <u>Legal Proceedings</u>	29
Item 1A <u>Risk Factors</u>	29
Item 2 <u>Unregistered Sales of Equity Securities and Use of Proceeds</u>	30
Item 3 <u>Defaults Upon Senior Securities</u>	30
Item 4 <u>Mine Safety Disclosures</u>	30
Item 5 <u>Other Information</u>	30
Item 6 <u>Exhibits</u>	31
<u>Signatures</u>	32

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 from operations, non-operating income and expenses, net earnings or cash flows; the effect of changes being implemented by our largest software partner to elements of its channel incentive program; our working capital needs; the expected effects of seasonality on our business; our intentions concerning the payment of dividends; projections of capital expenditures in 2014; the sufficiency of our capital resources and the availability of financing and our needs or plans relating thereto; the effect of new accounting principles or changes in accounting policies; our compliance with financial debt covenants; the effect of indemnification obligations; statements related to accounting estimates; our positions and strategies with respect to ongoing and threatened litigation; our intention not to repatriate certain foreign undistributed earnings where management considers those earnings to be reinvested indefinitely and plans for the use of such cash; our plans to use cash flow from operations for working capital, to pay down debt, make capital expenditures, repurchase shares of our common stock, and fund acquisitions; our exposure to off-balance sheet arrangements; 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, variations of such words and 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 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:

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;

changes in the IT industry and/or rapid changes in technology;

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

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

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

the security of our electronic and other confidential information;

general economic conditions;

our dependence on certain personnel;

the variability of our net sales and gross profit;

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

the risks associated with our international operations;

exposure to changes in, interpretations of, or enforcement trends related to tax rules and regulations; 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, except as may be required by law, 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, 2014	December 31, 2013
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 149,927	\$ 126,817
Accounts receivable, net of allowance for doubtful accounts of \$19,628 and \$19,908, respectively	1,325,866	1,257,910
Inventories	126,703	97,268
Inventories not available for sale	43,683	38,705
Deferred income taxes	16,945	16,436
Other current assets	68,119	57,528
Total current assets	1,731,243	1,594,664
Property and equipment, net of accumulated depreciation of \$262,201 and \$250,412, respectively	117,386	132,820
Goodwill	26,257	26,257
Intangible assets, net of accumulated amortization of \$84,314 and \$78,430, respectively	30,123	35,765
Deferred income taxes	58,880	58,651
Other assets	12,686	19,561
	\$ 1,976,575	\$ 1,867,718
LIABILITIES AND STOCKHOLDERS EQUITY		
Current liabilities:		
Accounts payable	\$ 984,939	\$ 850,951
Accrued expenses and other current liabilities	151,181	156,491
Current portion of long-term debt	369	217
Deferred revenue	55,390	44,146
Total current liabilities	1,191,879	1,051,805
Long-term debt	27,191	66,949
Deferred income taxes	726	443
Other liabilities	23,765	31,603

	1,243,561	1,150,800
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; 40,969 shares at June 30, 2014 and 42,023 shares at December 31, 2013 issued and outstanding		
	410	420
Additional paid-in capital	340,618	348,703
Retained earnings	373,568	353,854
Accumulated other comprehensive income - foreign currency translation adjustments	18,418	13,941
Total stockholders' equity	733,014	716,918
	\$ 1,976,575	\$ 1,867,718

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,	
	2014	2013	2014	2013
Net sales	\$ 1,417,897	\$ 1,416,547	\$ 2,632,427	\$ 2,598,169
Costs of goods sold	1,223,298	1,225,620	2,274,083	2,249,105
Gross profit	194,599	190,927	358,344	349,064
Operating expenses:				
Selling and administrative expenses	147,810	143,158	290,239	284,146
Severance and restructuring expenses	310	3,171	647	5,903
Earnings from operations	46,479	44,598	67,458	59,015
Non-operating (income) expense:				
Interest income	(333)	(337)	(582)	(649)
Interest expense	1,501	1,556	2,959	3,174
Net foreign currency exchange loss (gain)	461	(886)	957	(725)
Other expense, net	443	342	692	716
Earnings before income taxes	44,407	43,923	63,432	56,499
Income tax expense	17,158	17,410	24,633	20,910
Net earnings	\$ 27,249	\$ 26,513	\$ 38,799	\$ 35,589
Net earnings per share:				
Basic	\$ 0.67	\$ 0.62	\$ 0.94	\$ 0.81
Diluted	\$ 0.66	\$ 0.62	\$ 0.93	\$ 0.81
Shares used in per share calculations:				
Basic	40,951	42,862	41,292	43,766
Diluted	41,228	43,024	41,573	44,044

See accompanying notes to consolidated financial statements.

Table of Contents**INSIGHT ENTERPRISES, INC.****CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME****(in thousands)****(unaudited)**

	Three Months Ended June 30,		Six Months Ended June 30,	
	2014	2013	2014	2013
Net earnings	\$ 27,249	\$ 26,513	\$ 38,799	\$ 35,589
Other comprehensive income (loss), net of tax:				
Foreign currency translation adjustments	4,548	(5,710)	4,477	(14,022)
Total comprehensive income	\$ 31,797	\$ 20,803	\$ 43,276	\$ 21,567

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,	
	2014	2013
Cash flows from operating activities:		
Net earnings	\$ 38,799	\$ 35,589
Adjustments to reconcile net earnings to net cash provided by operating activities:		
Depreciation and amortization	20,781	20,870
Non-cash real estate impairment	4,558	
Provision for losses on accounts receivable	2,344	2,489
Write-downs of inventories	845	2,502
Write-off of property and equipment	487	51
Non-cash stock-based compensation	3,684	3,595
Excess tax benefit from employee gains on stock-based compensation	(423)	(757)
Deferred income taxes	(422)	2,995
Changes in assets and liabilities:		
(Increase) decrease in accounts receivable	(61,142)	25,499
Increase in inventories	(34,696)	(22,913)
Increase in other current assets	(7,884)	(21,607)
Decrease (increase) in other assets	6,987	(4,469)
Increase in accounts payable	133,294	52,458
Increase (decrease) in deferred revenue	9,883	(8,387)
Decrease in accrued expenses and other liabilities	(13,380)	(165)
Net cash provided by operating activities	103,715	87,750
Cash flows from investing activities:		
Purchases of property and equipment	(5,342)	(10,529)
Net cash used in investing activities	(5,342)	(10,529)
Cash flows from financing activities:		
Borrowings on senior revolving credit facility	218,492	541,035
Repayments on senior revolving credit facility	(234,992)	(571,035)
Borrowings on accounts receivable securitization financing facility	392,000	434,000
Repayments on accounts receivable securitization financing facility	(417,000)	(431,000)
Borrowings under other financing agreements	2,002	
Payments on capital lease obligation	(108)	(516)
Net (repayments) borrowings under inventory financing facility	(6,557)	362
Payment of deferred financing fees	(200)	

Edgar Filing: INSIGHT ENTERPRISES INC - Form 10-Q

Excess tax benefit from employee gains on stock-based compensation	423	757
Payment of payroll taxes on stock-based compensation through shares withheld	(1,624)	(2,729)
Repurchases of common stock	(29,652)	(50,000)
Net cash used in financing activities	(77,216)	(79,126)
Foreign currency exchange effect on cash balances	1,953	(8,049)
Increase (decrease) in cash and cash equivalents	23,110	(9,954)
Cash and cash equivalents at beginning of period	126,817	152,119
Cash and cash equivalents at end of period	\$ 149,927	\$ 142,165

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 worldwide information technology (IT) provider of hardware, software and services solutions to businesses and public sector clients 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: