BRIGHTPOINT INC
Form 10-Q
May 09, 2006

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UNITED STATES SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
Form 10-Q

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

For the quarterly period ended March 31, 2006

0-23494
(Commission File no.)

Brightpoint, Inc.
(Exact name of registrant as specified in its charter)

Indiana	35-1778566
State or other jurisdiction of incorporation or organization	(I.R.S. Employer Identification No.)
501 Airtech Parkway, Plainfield, Indiana	46168
(Address of principal executive offices)	(Zip Code)

(317) 707-2355
(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.
þ Yes o No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer or a non-accelerated filer. See definition of accelerated filer and large accelerated filer in Rule 12b-2 of the Act. (Check one):
Large accelerated filer o Accelerated filer þ Non-accelerated filer o

Indicate by checkmark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act)
Yes o No þ

The number of shares of Common Stock outstanding as of May 5, 2006: 41,899,058

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PART 1 FINANCIAL INFORMATION

Item 1. Financial Statements
Brightpoint, Inc.
Consolidated Statements of Operations
(Amounts in thousands, except per share data)
(Unaudited)

	Three Months Ended March 31, 2006	Three Months Ended March 31, 2005
Revenue		
Distribution revenue	**$483,472**	$401,388
Logistic services revenue	**81,083**	63,686
Total revenue	**564,555**	465,074
Cost of revenue		
Cost of distribution revenue	**463,900**	385,029
Cost of logistic services revenue	**64,343**	52,840
Total cost of revenue	**528,243**	437,869
Gross profit	**36,312**	27,205
Selling, general and administrative expenses	**23,752**	18,207
Facility consolidation charge (benefit)	**(9)**	1,203
Operating income from continuing operations	**12,569**	7,795
Interest, net	**77**	81
Other (income) expenses	**(10)**	144
Income from continuing operations before income taxes	**12,502**	7,570
Income tax expense	**3,501**	2,429
Income from continuing operations	**9,001**	5,141
Discontinued operations, net of income taxes:		
Loss from discontinued operations	**(139)**	(2,605)
Gain on disposal of discontinued operations	**6**	337
Total discontinued operations, net of income taxes	**(133)**	(2,268)
Net income	**$ 8,868**	$ 2,873

Earnings per share basic:		
Income from continuing operations	**$ 0.22**	$ 0.13
Discontinued operations, net of income taxes		(0.06)
Net income	**$ 0.22**	$ 0.07
Earnings per share diluted:		
Income from continuing operations	**$ 0.21**	$ 0.12
Discontinued operations, net of income taxes		(0.05)
Net income	**$ 0.21**	$ 0.07
Weighted average common shares outstanding:		
Basic	**40,673**	39,842
Diluted	**42,258**	41,339

See accompanying notes

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Brightpoint, Inc.
Consolidated Balance Sheets
(Amounts in thousands, except per share data)

	March 31, 2006 (Unaudited)	December 31, 2005
ASSETS		
Current assets:		
Cash and cash equivalents	**$ 65,966**	$ 106,053
Pledged cash	**196**	168
Accounts receivable (less allowance for doubtful accounts of $3,630 in 2006 and $3,621 in 2005)	**150,937**	168,004
Inventories	**120,321**	124,864
Contract financing receivable	**32,505**	28,749
Other current assets	**26,533**	22,623
Total current assets	**396,458**	450,461
Property and equipment, net	**30,222**	27,989
Goodwill and other intangibles, net	**7,177**	6,707
Other assets	**2,805**	2,667
Total assets	**$436,662**	$ 487,824
LIABILITIES AND SHAREHOLDERS EQUITY		
Current liabilities:		
Accounts payable	**$196,431**	$ 232,258
Accrued expenses	**56,320**	64,494
Unfunded portion of contract financing receivable	**24,935**	32,373
Total current liabilities	**277,686**	329,125
Total long-term liabilities	**10,015**	9,657
Total liabilities	**287,701**	338,782
COMMITMENTS AND CONTINGENCIES		
Shareholders equity:		
Preferred stock, $0.01 par value: 1,000 shares authorized; no shares issued or outstanding		
Common stock, $0.01 par value: 100,000 shares authorized; 47,382 issued in 2006 and 46,563 issued in 2005	**474**	466
Additional paid-in capital	**255,782**	258,536
Treasury stock, at cost, 5,723 shares in 2006 and 5,094 shares in 2005	**(57,810)**	(39,928)

Unearned compensation		(12,125)
Retained deficit	**(44,660)**	(53,528)
Accumulated other comprehensive income (loss)	**(4,825)**	(4,379)
Total shareholders equity	**148,961**	149,042
Total liabilities and shareholders equity	**$436,662**	$ 487,824

See accompanying notes

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Brightpoint, Inc.
Consolidated Statements of Cash Flows
(Amounts in thousands)
(Unaudited)

	Three Months Ended March 31,	
	2006	2005
Operating activities		
Net income	**$ 8,868**	$ 2,873
Adjustments to reconcile net income to net cash provided (used) by operating activities:		
Depreciation and amortization	**3,011**	2,689
Discontinued operations	**133**	2,268
Net operating cash flows used in discontinued operations		(7,740)
Pledged cash requirements	**(10)**	1,044
Non-cash compensation	**1,431**	
Facility consolidation charge (benefit)	**(9)**	1,203
Change in deferred taxes	**467**	(495)
Income tax benefits from exercise of stock options		208
Other non-cash	**324**	
Excess income tax benefits from stock based compensation	**(4,524)**	
	9,691	2,050
Changes in operating assets and liabilities, net of effects from acquisitions and divestitures:		
Accounts receivable	**15,767**	15,414
Inventories	**4,023**	12,762
Other operating assets	**(4,980)**	(2,937)
Accounts payable and accrued expenses	**(38,202)**	(19,576)
Net cash provided (used) by operating activities	**(13,701)**	7,713
Investing activities		
Capital expenditures	**(4,744)**	(1,991)
Acquisitions, net of cash acquired	**(560)**	(284)
Net investing cash flow from discontinued operations		(190)
Net cash used in contract financing arrangements	**(11,039)**	(1,754)
Increase in other assets	**(67)**	(55)
Net cash used by investing activities	**(16,410)**	(4,274)
Financing activities		
Net proceeds from credit facilities		165
Purchase of treasury stock	**(17,882)**	(4,399)
Net financing cash flow from discontinued operations		4,502
Excess income tax benefits from stock based compensation	**4,524**	

Proceeds from common stock issuances under employee stock option and purchase plans	**3,424**	316
Net cash provided (used) by financing activities	**(9,934)**	584
Effect of exchange rate changes on cash and cash equivalents	**(42)**	(4,945)
Net decrease in cash and cash equivalents	**(40,087)**	(922)
Cash and cash equivalents at beginning of period	**106,053**	72,120
Cash and cash equivalents at end of period	**$ 65,966**	$ 71,198

See accompanying notes

Brightpoint, Inc.
Notes to Consolidated Financial Statements
(Unaudited)

1. Basis of Presentation

General

The accompanying unaudited Consolidated Financial Statements have been prepared in accordance with accounting principles generally accepted in the United States for interim financial information and with the instructions to Form 10-Q and Article 10 of Regulation S-X of the Securities Exchange Act of 1934. Accordingly, they do not include all of the information and footnotes necessary for fair presentation of financial position, results of operations and cash flows in conformity with accounting principles generally accepted in the United States. Operating results from interim periods are not necessarily indicative of results that may be expected for the fiscal year as a whole. The Company is subject to seasonal patterns that generally affect the wireless device industry. The preparation of financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates, but management does not believe such differences will materially affect Brightpoint, Inc. s financial position or results of operations. The Consolidated Financial Statements reflect all adjustments considered, in the opinion of management, necessary to fairly present the results for the periods. Such adjustments are of a normal recurring nature.

For further information, including the Company s significant accounting policies, refer to the audited Consolidated Financial Statements and the notes thereto included in the Company s Annual Report on Form 10-K for the year ended December 31, 2005. As used herein, the terms Brightpoint , Company , we , our and us mean Brightpoint, Inc. and consolidated subsidiaries.

Certain reclassifications have been made to prior year amounts to conform to current year presentation (see Note 3).

Earnings Per Share

Basic earnings per share is based on the weighted average number of common shares outstanding during each period, and diluted earnings per share is based on the weighted average number of common shares and dilutive common share equivalents outstanding during each period. Per share amounts for all periods presented in this report have been adjusted to reflect the 3 for 2 common stock splits effected on September 30, 2005 and December 30, 2005. The following is a reconciliation of the numerators and denominators of the basic and diluted earnings per share computations (in thousands, except per share data):

	Three Months Ended March 31,	
	2006	2005
Income from continuing operations	**$ 9,001**	$ 5,141
Discontinued operations, net of income taxes	**(133)**	(2,268)
Net income	**$ 8,868**	$ 2,873
Earnings per share basic:		
Income from continuing operations	**$ 0.22**	$ 0.13
Discontinued operations, net of income taxes		(0.06)
Net income	**$ 0.22**	$ 0.07
Earnings per share diluted:		

Income from continuing operations	**$ 0.21**	$ 0.12
Discontinued operations, net of income taxes		(0.05)
Net income	**$ 0.21**	$ 0.07
Weighted average shares outstanding for basic earnings per share	**40,673**	39,842
Net effect of dilutive stock options, restricted stock units and restricted stock based on the treasury stock method using average market price	**1,585**	1,497
Weighted average shares outstanding for diluted earnings per share	**42,258**	41,339

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Brightpoint, Inc.
Notes to Consolidated Financial Statements

Stock Based Compensation

On January 1, 2006, the Company adopted the fair value provisions of Statement of Financial Accounting Standards (SFAS) 123(R), *Share-Based Payment*, using the modified prospective transition method. Prior to January 1, 2006, the Company used the intrinsic value method provisions of Accounting Principles Board (ABP) Opinion No. 25, *Accounting for Stock Issued to Employees* and related Interpretations to account for stock based compensation. Under the modified prospective transition method, compensation cost recognized for stock based compensation beginning January 1, 2006 includes (a) compensation cost for all equity awards granted prior to, but not yet vested as of January 1, 2006, based on the grant-date fair value estimated in accordance with the original provision of SFAS 123, and (b) compensation cost for all equity awards granted subsequent to January 1, 2006, based on the grant-date fair value estimated in accordance with the provisions of SFAS 123(R). Results for prior periods have not been restated. As a result of adopting SFAS 123(R) on January 1, 2006, the Company s income from continuing operations before income taxes and net income for the three months ended March 31, 2006 are $0.5 million and $0.4 million lower than if it had continued to account for stock based compensation under APB 25. Total stock based compensation expense for the three months ended March 31, 2006 was $1.0 million (net of related tax effects), compared to $0.6 million that would have been included in the determination of net income had the Company continued to account for stock based compensation under ABP 25. Basic and diluted earnings per share for the three months ended March 31, 2006 would have been $0.23 and $0.22 if the Company had not adopted SFAS 123(R), compared to reported basic and diluted earnings per share of $0.22 and $0.21. In addition, SFAS 123(R) requires the cash flows resulting from the tax benefits from tax deduction in excess of the compensation costs recognized for those awards (excess tax benefits) to be classified as financing cash flows; whereas, previously, the Company reported all tax benefits of deductions resulting from the exercise of stock options as operating cash flows. As a result, the $4.5 million excess tax benefit classified as a financing cash inflow for the three months ended March 31, 2006 would have been classified as an operating cash inflow if the Company had not adopted SFAS 123(R). Furthermore, under APB 25, grants of restricted shares were recorded in additional paid-in capital (APIC) with an offsetting amount to unearned compensation (contra equity), which was amortized to expense over the vesting period. However, under SFAS 123(R), amounts should not be recognized in equity until compensation cost is recognized over the requisite service period. Therefore, the $12.1 million unearned compensation balance at December 31, 2005 was netted against APIC. The following table provides a comparison of the amounts that would have been reported if the Company had continued to account for stock based compensation under APB 25 to the amounts actually reported in the Consolidated Statement Operations and Consolidated Statement of Cash Flows under the fair value provisions of SFAS 123(R) for the three months ended March 31, 2006 (in thousands, except per share data):

	As Reported (Fair Value)	Pro Forma (Intrinsic Value Method)
Income from continuing operations before income tax	$ 12,502	$ 12,997
Net Income	8,868	9,223
Net cash used by operating activities	(13,701)	(9,177)
Net cash used by financing activities	(9,934)	(14,458)
Earnings per share-basic	$ 0.22	$ 0.23
Earnings per share-diluted	$ 0.21	$ 0.22

The Company typically grants equity awards during the first quarter of the fiscal year based primarily on Company and individual performance. During the first quarter of 2006, the Company granted 231,819 restricted stock units and 146,000 shares of restricted stock with a weighted average grant date fair market value of $23.86 per restricted stock unit and $25.73 per share of restricted stock. A portion of the restricted stock units granted are subject to forfeiture if certain performance goals are not achieved. Those restricted stock units no longer subject to forfeiture vest in three equal annual installments beginning with the first anniversary of the grant. No stock options were granted during the quarter ended March 31, 2006.

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Brightpoint, Inc.
Notes to Consolidated Financial Statements

The following table illustrates the effect on net income and earnings per share if the Company had applied the fair value recognition provision of SFAS 123 for the three months ended March 31, 2005 (in thousands, except per share data):

	Three Months Ended March 31, 2005	
Net income as reported	**$**	**2,873**
Stock-based employee compensation cost, net of related tax effects, that would have been included in the determination of net income if the fair value method had been applied		**(732)**
Pro forma net income	**$**	**2,141**
Earnings per share basic:		
Net income as reported	**$**	**0.07**
Stock-based employee compensation cost, net of related tax effects, that would have been included in the determination of net income if the fair value method had been applied		**(0.02)**
Pro forma net income	**$**	**0.05**
Earnings per share diluted:		
Net income as reported	**$**	**0.07**
Stock-based employee compensation cost, net of related tax effects, that would have been included in the determination of net income if the fair value method had been applied		**(0.02)**
Pro forma net income	**$**	**0.05**

Recently Issued Accounting Pronouncements

In September 2005, the Emerging Issues Task Force (EITF) ratified EITF Issue No. 04-13, *Accounting for Purchases and Sales of Inventory with the Same Counterparty*. Beginning April 1, 2006, EITF 04-13 requires arrangements whereby purchase and sales transactions with the same counterparty that are entered into in contemplation of one another to be combined (net basis). The Company has had such arrangements whereby it purchases wireless devices or prepaid airtime from certain counterparties and sells similar items to the same counterparties. These arrangements are accounted for on a net basis within logistic services. Therefore, the effect of adopting EITF 04-13 will have no impact on the Company s results of operations.

Other Comprehensive Income

Comprehensive income is comprised of net income and gains or losses resulting from currency translations of foreign investments. The details of comprehensive income for the three months ended March 31, 2006, are as follows (in thousands):

	Three Months Ended March 31, 2006	2005
Net income	**$8,868**	$ 2,873

Foreign currency translation losses	**(446)**	(1,824)
Comprehensive income	**$8,422**	$ 1,049

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Brightpoint, Inc.
Notes to Consolidated Financial Statements

2. Acquisitions

On February 23, 2006, the Company s wholly-owned subsidiary, Brightpoint Holdings B.V. (Brightpoint Holdings), acquired all of the outstanding shares of Persequor Limited (Persequor) effective as of January 1, 2006 for approximately $0.6 million (net of cash acquired), which included Persequor s 15% minority interest in Brightpoint India Private Limited (Brightpoint India) valued at approximately $0.2 million. Previously, Persequor provided management services to Brightpoint Asia Limited and Brightpoint India and held a 15% minority interest in Brightpoint India. In connection with the acquisition, the management services agreements with Persequor have been terminated and Brightpoint Holdings obtained ownership of Persequor s 15% interest in Brightpoint India. As a result of the acquisition of Persequor and the termination of the management services agreements, the sales and marketing efforts for Brightpoint Asia and Brightpoint India, which were previously outsourced to Persequor, will now be handled internally. The shareholders agreement among Brightpoint India, Brightpoint Holdings and Persequor dated November 1, 2003 was also terminated in connection with the acquisition by Brightpoint Holdings of Persequor. The operating results of Persequor are included in the Company s Consolidated Statement of Operations from the effective date of the acquisition. The impact of the acquisition was not material in relation to the Company s consolidated results of operations. Consequently, pro forma information is not presented.

3. Discontinued Operations

Details of discontinued operations are as follows (in thousands):

	Three Months Ended March 31,	
	2006	**2005**
Revenue	**$**	$20,540
Loss from discontinued operations	**(139)**	(2,605)
Gain on disposal of discontinued operations	**6**	337
Total discontinued operations	**$(133)**	$ (2,268)

The loss from discontinued operations for the three months ended March 31, 2005 relates primarily to losses incurred in Brightpoint France, which was sold during the fourth quarter of 2005. The loss from discontinued operations for the three months ended March 31, 2006 relates primarily to tax expense and payments of legal fees in connection with operations that have previously been disposed.

4. Lines of Credit

There were no outstanding balances on lines of credit at March 31, 2006 and 2005. However, the timing of payments to suppliers and collections from customers causes the Company s cash balances and borrowings to fluctuate throughout the year; and during the three months ended March 31, 2006, the largest outstanding borrowings on a given day were approximately $35.7 million with an average outstanding balance of approximately $21.9 million.

At March 31, 2006, the Company and its subsidiaries were in compliance with the covenants in each of its credit agreements. Interest expense includes fees paid for unused capacity on credit lines and amortization of deferred financing fees.

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Brightpoint, Inc.
Notes to Consolidated Financial Statements

The table below summarizes lines of credit that were available to the Company as of March 31, 2006 (in thousands):

	Commitment	Gross Availability	Outstanding	Letters of Credit & Guarantees	Net Availability
North America	$ 70,000	$ 63,000	$	$ 22,500	$40,500
Australia	35,820	34,619		10,495	24,124
New Zealand	7,388	6,247		18	6,229
Sweden	1,924	1,924			1,924
Slovakia	1,940	1,940			1,940
Philippines	1,959	1,959			1,959
Total	$119,031	$ 109,689	$	$ 33,013	$76,676

5. Guarantees

In 2002, the FASB issued Interpretation No. (FIN) 45, *Guarantor s Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others*. FIN 45 requires guarantees to be recorded at fair value and requires a guarantor to make significant new disclosure, even when the likelihood of making any payments under the guarantee is remote.

The Company has issued certain guarantees on behalf of its subsidiaries with regard to lines of credit. Although the guarantees relating to lines of credit are excluded from the scope of FIN 45, the nature of these guarantees and the amounts outstanding are described in the Company s Annual Report on Form 10-K for the year ended December 31, 2005.

In some circumstances, the Company purchases inventory with payment terms requiring letters of credit. As of March 31, 2006, the Company has issued $33.0 million in standby letters of credit. These standby letters of credit are generally issued for a one-year term and are supported by availability under the Company s credit facilities. The underlying obligations for which these letters of credit have been issued are recorded in the financial statements at their full value. Should the Company fail to pay its obligation to one or all of these suppliers, the suppliers may draw on the standby letter of credit issued for them. The maximum future payments under these letters of credit are $33.0 million.

The Company has entered into indemnification agreements with its officers and directors, to the extent permitted by law, pursuant to which the Company has agreed to reimburse its officers and directors for legal expenses in the event of litigation and regulatory matters. The terms of these indemnification agreements provide for no limitation to the maximum potential future payments. The Company has a directors and officers insurance policy that may, in certain instances, mitigate the potential liability and payments.

Late in 2004, the Company entered into a non-exclusive agreement to distribute wireless devices in Europe for a certain supplier. Subject to this agreement, the Company will provide warranty repair services on devices it distributes for this supplier. The warranty period for these devices is generally 15 months, and the Company is liable for providing warranty repair services unless failure rates exceed certain thresholds. The Company records estimated expenses related to future warranty repair at the time the devices are sold. Estimates for warranty costs are calculated primarily based on management s assumptions related to cost of repairs and anticipated failure rates. A summary of the changes in the product warranty activity is as follows (in thousands):

	Three Months Ended March 31,

	2006	2005
January 1	$2,117	$369
Provision for product warranties	1,775	560
Settlements during the period	(868)	(63)
March 31	$3,024	$866

Brightpoint, Inc.
Notes to Consolidated Financial Statements

6. Operating Segments

The Company s operations are divided into three geographic operating segments. These operating segments represent its three divisions: The Americas, Asia-Pacific and Europe. These divisions all derive revenues from sales of wireless devices, accessories, prepaid cards and fees from the provision of logistic services.

Company has previously discontinued several operating entities, which materially affected certain operating segments. The operating results for all periods presented below have been reclassified to reflect the reclassification of discontinued operating entities to discontinued operations. A summary of the Company s operations by segment is presented below (in thousands) for the three months ended March 31, 2006 and 2005:

	Product Distribution Revenue from External Customers	Logistic Services Revenue from External Customers	Total Revenue from External Customers	Operating Income from Continuing Operations(1)
Three Months Ended March 31, 2006:				
Americas	**$148,657**	**$ 53,067**	**$201,724**	**$ 9,830**
Asia-Pacific	**259,947**	**7,317**	**267,264**	**2,344**
Europe	**74,868**	**20,699**	**95,567**	**395**
	$483,472	**$ 81,083**	**$564,555**	**$ 12,569**
Three Months Ended March 31, 2005:				
Americas	$ 99,074	$ 33,953	$133,027	$ 5,535
Asia-Pacific	245,615	7,304	252,919	1,135
Europe	56,699	22,429	79,128	1,125
	$401,388	$ 63,686	$465,074	$ 7,795

(1) Certain corporate expenses are allocated to the segments based on total revenue.

Additional segment information is as follows (in thousands):

	March 31, 2006	December 31, 2005
Total segment assets:		
Americas(1)	**$190,982**	$211,608
Asia-Pacific	**147,736**	172,414
Europe	**97,944**	103,802

	$436,662	$487,824

(1) Includes corporate assets.

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Brightpoint, Inc.
Notes to Consolidated Financial Statements

7. Contingencies

The Company is from time to time involved in certain legal proceedings in the ordinary course of conducting its business. While the ultimate liability pursuant to these actions cannot currently be determined, the Company believes these legal proceedings will not have a material adverse effect on its financial position or results of operations.

A Complaint was filed on January 4, 2005 against the Company in the Circuit Court for Baltimore County, Maryland, Case No. 03-C-05-000067 CN, entitled Iridium Satellite, LLC, Plaintiff v. Brightpoint, Inc., Defendant. The matter was removed to the United States District Court, District of Maryland, Baltimore Division. In the Complaint, the Plaintiff alleges claims of trover and conversion, fraudulent misrepresentation and breach of contract. All claims relate to the ownership and disposition of 1,500 Series 9500 satellite telephones. In the fourth quarter of 2005, a preliminary settlement was reached pursuant to which the lawsuit was dismissed without prejudice subject to reinstatement by a party only in the event a settlement is not consummated.

The Company s subsidiary in Sweden, Brightpoint Sweden Ab, (BP Sweden) has received an assessment from the Swedish Tax Agency (STA) regarding value-added taxes the STA claims are due, relating to certain transactions entered into by BP Sweden during 2004. BP Sweden has filed an appeal against the decision. Although the Company s liability pursuant to this assessment by the STA, if any, cannot currently be determined, the Company believes the range of the potential liability is between $0 and $1.4 million (at current exchange rates) including penalties and interest. The Company continues to dispute this claim and intends to defend this matter vigorously.

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