

BRIGHTPOINT INC
Form 10-Q
November 08, 2007

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

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

For the quarterly period ended September 30, 2007

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.)

2601 Metropolis Parkway, Suite 210, 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.

Yes 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 Exchange Act. (Check one):

Large accelerated filer Accelerated filer Non-accelerated filer

Indicate by checkmark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act)

Yes No

The number of shares of Common Stock outstanding as of November 2, 2007: 81,331,714

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(Amounts in thousands, except per share data)

(Unaudited)

	Three Months Ended		Nine Months Ended	
	September 30,		September 30,	
	2007	2006	2007	2006
Revenue				
Distribution revenue	\$ 1,085,094	\$ 552,402	\$ 2,419,114	\$ 1,502,888
Logistic services revenue	92,892	81,337	251,496	245,264
Total revenue	1,177,986	633,739	2,670,610	1,748,152
Cost of revenue				
Cost of distribution revenue	1,035,410	529,784	2,329,690	1,441,026
Cost of logistic services revenue	64,535	66,953	188,581	198,068
Total cost of revenue	1,099,945	596,737	2,518,271	1,639,094
Gross profit	78,041	37,002	152,339	109,058
Selling, general and administrative expenses	51,368	24,421	112,349	72,415
Amortization	3,892	107	4,636	283
Facility consolidation expense (benefit)	166		166	(9)
Operating income from continuing operations	22,615	12,474	35,188	36,369
Interest, net	5,877	226	9,317	423
Other expenses	551	275	838	213
Income from continuing operations before income taxes	16,187	11,973	25,033	35,733
Income tax (benefit) expense	2,996	3,029	(7,721)	9,576
Income from continuing operations before minority interest	13,191	8,944	32,754	26,157
Minority interest, net of income taxes	207		207	
Income from continuing operations	12,984	8,944	32,547	26,157

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Discontinued operations, net of income taxes:

Loss from discontinued operations	(22)	(183)	(59)	(358)
Gain on disposal of discontinued operations		3	12	74
Total discontinued operations, net of income taxes	(22)	(180)	(47)	(284)

Net income	\$ 12,962	\$ 8,764	\$ 32,500	\$ 25,873
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Earnings per share basic:

Income from continuing operations	\$ 0.18	\$ 0.18	\$ 0.58	\$ 0.53
Discontinued operations, net of income taxes				

Net income	\$ 0.18	\$ 0.18	\$ 0.58	\$ 0.53
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Earnings per share diluted:

Income from continuing operations	\$ 0.18	\$ 0.18	\$ 0.57	\$ 0.52
Discontinued operations, net of income taxes		(0.01)		(0.01)

Net income	\$ 0.18	\$ 0.17	\$ 0.57	\$ 0.51
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Weighted average common shares outstanding:

Basic	70,076	49,243	56,488	49,026
Diluted	71,125	50,403	57,551	50,581

See accompanying notes

Table of Contents**Brightpoint, Inc.****Consolidated Balance Sheets**

(Amounts in thousands, except per share data)

	September 30, 2007	December 31, 2006
	(Unaudited)	
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 62,476	\$ 54,130
Prepaid cash	3,275	201
Accounts receivable (less allowance for doubtful accounts of \$16,587 in 2007 and \$4,926 in 2006)	617,489	228,186
Inventories	419,355	391,657
Contract financing receivable	3,579	20,161
Contract financing inventory		7,293
Other current assets	55,050	25,870
Total current assets	1,161,224	727,498
Property and equipment, net	72,120	37,904
Goodwill	354,302	6,976
Other intangibles, net	136,981	1,243
Other assets	28,288	4,732
Total assets	\$ 1,752,915	\$ 778,353
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	\$ 560,609	\$ 454,552
Accrued expenses	164,946	68,320
Contract financing payable	1,962	30,991
Current portion of long-term debt	14,137	
Lines of credit and other short-term borrowings	82,748	13,875
Total current liabilities	824,402	567,738
Long-term liabilities:		
Lines of credit, long-term	42,467	3,750
Long-term debt	237,937	
Other long-term liabilities	47,557	12,037
Total long-term liabilities	327,961	15,787
Total liabilities	1,152,363	583,525
COMMITMENTS AND CONTINGENCIES		

Minority interest		672	
Shareholders equity:			
Preferred stock, \$0.01 par value: 1,000 shares authorized; no shares issued or outstanding		881	573
Common stock, \$0.01 par value: 100,000 shares authorized; 88,063 issued in 2007 and 57,536 issued in 2006		613,935	266,750
Additional paid-in-capital		(58,695)	(58,295)
Treasury stock, at cost, 6,928 shares in 2007 and 6,891 shares in 2006		14,574	(17,918)
Retained earnings (deficit)		29,185	3,710
Accumulated other comprehensive income			
Total shareholders equity		599,880	194,820
Total liabilities and shareholders equity		\$ 1,752,915	\$ 778,350

See accompanying notes

Table of Contents**Brightpoint, Inc.****Consolidated Statements of Cash Flows**

(Amounts in thousands)

(Unaudited)

	Nine Months Ended September 30,	
	2007	2006
Operating activities		
Net income	\$ 32,500	\$ 25,873
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	14,658	9,139
Discontinued operations	(47)	284
Pledged cash requirements	(2,991)	(13)
Non-cash compensation	4,485	4,120
Facility consolidation charge (benefit)	166	(9)
Change in deferred taxes	(18,132)	(483)
Other non-cash	2,352	1,368
	32,991	40,279
Changes in operating assets and liabilities, net of effects from acquisitions and divestitures:		
Accounts receivable	(10,841)	(27,323)
Inventories	203,537	(158,598)
Other operating assets	(4,312)	(1,546)
Accounts payable and accrued expenses	(124,864)	154,720
Net cash provided by operating activities	96,511	7,532
Investing activities		
Capital expenditures	(16,172)	(14,122)
Acquisitions, net of cash acquired	(69,141)	(801)
Net cash provided by (used in) contract financing arrangements	(5,022)	9,587
Increase in other assets	(403)	(18)
Net cash used in investing activities	(90,738)	(5,354)
Financing activities		
Net proceeds from credit facilities	37,832	
Repayments on debt assumed from Dangaard Telecom	(284,557)	
Borrowings of long-term debt	250,000	
Repayments of long-term debt	(1,415)	
Deferred financing costs paid	(4,433)	
Purchase of treasury stock	(400)	(18,360)
Excess tax benefit from equity based compensation	774	8,443
Proceeds from common stock issuances under employee stock option plans	1,903	5,693

Net cash used in financing activities	(296)	(4,224)
Effect of exchange rate changes on cash and cash equivalents	2,869	(414)
Net increase (decrease) in cash and cash equivalents	8,346	(2,460)
Cash and cash equivalents at beginning of period	54,130	106,053
Cash and cash equivalents at end of period	\$ 62,476	\$ 103,593

See accompanying notes

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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 U.S. generally accepted accounting principles. 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 U.S. generally accepted accounting principles 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, results of operations or cash flows. 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, 2006. As used herein, the terms Brightpoint, Company, we, our and us mean Brightpoint, Inc. and consolidated subsidiaries.

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. 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		Nine Months Ended	
	September 30,		September 30,	
	2007	2006	2007	2006
Income from continuing operations	\$ 12,984	\$ 8,944	\$ 32,547	\$ 26,157
Discontinued operations, net of income taxes	(22)	(180)	(47)	(284)
Net Income	\$ 12,962	\$ 8,764	\$ 32,500	\$ 25,873
Earnings per share - basic:				
Income from continuing operations	\$ 0.18	\$ 0.18	\$ 0.58	\$ 0.53
Discontinued operations, net of income taxes				
Net income	\$ 0.18	\$ 0.18	\$ 0.58	\$ 0.53
Earnings per share - diluted:				
Income from continuing operations	\$ 0.18	\$ 0.18	\$ 0.57	\$ 0.52
Discontinued operations, net of income taxes		(0.01)		(0.01)
Net income	\$ 0.18	\$ 0.17	\$ 0.57	\$ 0.51

Weighted average shares outstanding for basic earnings per share	70,076	49,243	56,488	49,026
Net effect of dilutive stock options, restricted stock units and restricted stock based on the treasury stock method using average market price	1,049	1,160	1,063	1,555
Weighted average shares outstanding for diluted earnings per share	71,125	50,403	57,551	50,581

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Brightpoint, Inc.
Notes to Consolidated Financial Statements

Other Comprehensive Income

Comprehensive income is comprised of net income, unrealized gains and losses from marketable securities, and gains or losses resulting from currency translations of foreign investments. The details of comprehensive income for the three and nine months ended September 30, 2007 and 2006 are as follows (in thousands):

	Three Months Ended		Nine Months Ended	
	September 30,		September 30,	
	2007	2006	2007	2006
Net Income	\$ 12,962	\$ 8,764	\$ 32,500	\$ 25,873
Unrealized gain on marketable securities	149		149	
Foreign Currency Translation	18,673	774	25,326	2,008
Comprehensive Income	\$ 31,784	\$ 9,538	\$ 57,975	\$ 27,881

2. Acquisitions

On March 30, 2007, the Company completed its acquisition of certain assets and the assumption of certain liabilities related to the U.S. operations and the Miami-based Latin America business of CellStar Corporation for \$68.9 million (including direct acquisition costs). The purchase price is subject to further adjustment as issues concerning net asset adjustments and other matters set forth in the Purchase Agreement are resolved. Results of operations related to this acquisition have been included in the Company's Consolidated Statement of Operations beginning in the second quarter of 2007.

On July 31, 2007, the Company completed its acquisition of all of the issued and outstanding capital stock of Dangaard Telecom A/S, a Danish company (Dangaard Telecom) from Dangaard Holding A/S (Dangaard Holding), a Danish company for a purchase price of (i) \$100,000 in cash and (ii) 30,000,000 shares of the Company's unregistered Common Stock, \$0.01 par value. In addition, the Company assumed approximately \$348.7 million of Dangaard Telecom's indebtedness. The acquisition of Dangaard Telecom expands the Company's existing European operations as Dangaard Telecom is the leading distributor of wireless devices and accessories in Europe.

The purchase price for the Dangaard Telecom acquisition was \$344.9 million (including direct acquisition costs). The fair value of Brightpoint's common stock was measured in accordance with EITF 99-12, *Determination of the Measurement Date for the Market Price of Acquirer Securities Issued in a Purchase Business Combination*. Total equity consideration was estimated using a Brightpoint stock price of \$11.25 per share, which represents the average Brightpoint closing stock price beginning two trading days before and ending two trading days after February 20, 2007, the date of the public announcement of the definitive purchase agreement. The allocation of the purchase price is based upon preliminary estimates of the fair value of assets acquired and liabilities assumed. The Company is in the process of finalizing its valuation of certain assets and liabilities primarily related to the determination of amounts that will be paid in connection with consolidating certain facilities. The Company will finalize the purchase price allocation once it has finished its assessment but generally no later than one year from the acquisition date. The preparation of the valuation of intangible assets required the use of significant assumptions and estimates. Critical estimates included, but were not limited to future expected cash flows and the applicable discount rates as of the date of the acquisition. These estimates were based on assumptions that the Company believed to be reasonable as of the date of acquisition; however, actual results may differ from these estimates. Results of operations related to this acquisition are included in the Company's Consolidated Statement of Operations beginning on August 1, 2007.

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The following table summarizes the estimated fair values of the assets acquired and liabilities assumed related to the Dangaard Telecom acquisition at the closing date (in thousands):

	July 31, 2007 (Unaudited)
Current assets:	
Cash	\$ 7,104
Accounts receivable	288,439
Inventories	181,680
Other current assets	20,686
Total current assets	497,909
Property and equipment	25,224
Goodwill	285,238
Intangible assets	123,148
Other assets	9,247
Total assets acquired	940,766
Liabilities:	
Accounts payable	142,409
Accrued expenses	65,027
Debt	348,736
Deferred taxes	38,156
Other	1,161
Minority interest	427
Total liabilities assumed	595,916
Net assets acquired	\$ 344,850

The assets acquired included \$123.1 million of finite-lived intangible assets assigned to the customer relationships. The acquired intangible assets have a useful life of approximately fifteen years and are being amortized over the period that the assets are expected to contribute to the future cash flows of the Company. The intangible assets are being amortized on an accelerated method based on the projected cash flows used for valuation purposes. The Company believes that these cash flows are most reflective of the pattern in which the economic benefit of the intangible assets will be consumed. For the three and nine months ended September 30, 2007 approximately \$3.2 million of amortization expense related to the acquired intangible assets was included in the Company's Consolidated Statement of Operations.

The deferred tax liabilities relate to the tax impact of future amortization associated with the identified intangible assets acquired which are not deductible for tax purposes.

The following sets forth unaudited pro forma financial information in accordance with accounting principles generally accepted in the United States assuming each of the acquisitions discussed above took place at the beginning of each period presented. The unaudited pro forma results include certain adjustments as described in the notes below (in

thousands, except per share data):

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Brightpoint, Inc.
Notes to Consolidated Financial Statements

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2007	2006	2007	2006
Revenue	\$1,348,123	\$1,273,800	\$3,910,967	\$3,606,007
Income from continuing operations	6,124	12,461	17,154	34,266
Net income	6,102	12,281	17,107	33,982
Earnings per share diluted	\$ 0.08	\$ 0.15	\$ 0.21	\$ 0.42

Three months ended :
(amounts in 000s)

September 30, 2007	Dangaard						Consolidated	
	CellStar	Note	Telecom	Note	Brightpoint	Adjustments		Note
Revenue	\$	(1)	\$196,530		\$1,177,986	\$(26,393)	(3)	\$1,348,123
Income from continuing operations		(1)	(7,170)	(2)	12,984	310	(4)	6,124
Net income		(1)	(7,170)		12,962	310		6,102
Weighted average shares outstanding diluted					71,125	9,783	(5)	80,908
Earnings per share diluted					\$ 0.18			\$ 0.08
September 30, 2006								
Revenue	\$150,441		\$523,831		\$ 633,739	\$(34,211)	(3)	\$1,273,800
Income from continuing operations	569		7,115		8,944	(4,051)	(4)	12,577
Net income	569		7,115		8,764	(4,051)		12,397
Weighted average shares outstanding diluted					50,403	30,000	(5)	80,403
Earnings per share diluted					\$ 0.18			\$ 0.15

Nine months ended:
(amounts in 000s)

September 30, 2007	Dangaard						Consolidated	
	CellStar	Note	Telecom	Note	Brightpoint	Adjustments		Note
Revenue	\$126,991	(1)	\$1,268,373		\$2,670,610	\$(155,007)	(3)	\$3,910,967
Income from continuing operations	(73)	(1)	(8,722)	(2)	32,547	(6,597)	(4)	17,154
Net income	(73)	(1)	(8,722)		32,500	(6,597)		17,107
Weighted average shares outstanding diluted					57,551	23,187	(5)	80,738
Earnings per share diluted					\$ 0.57			\$ 0.21
September 30, 2006								
Revenue	\$455,358		\$1,544,443		\$1,748,152	\$(141,946)	(3)	\$3,606,007
Income from continuing operations	4,428		16,192		26,157	(15,288)	(4)	31,489
Net income	4,428		16,192		25,873	(15,288)		31,205

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Weighted average shares outstanding	diluted	50,581	30,000	(5)	80,581
Earnings per share	diluted	\$ 0.52		\$	0.39

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Brightpoint, Inc.
Notes to Consolidated Financial Statements

Pro-forma adjustments

- (1) Results for CellStar are included in the financial results of Brightpoint for the period April 1, 2007 September 30, 2007.
- (2) Results for Dangaard Telecom are included in the financial results of Brightpoint for the period August 1, 2007 September 30, 2007. Dangaard Telecom results for the one month ended July 31, 2007 include a charge of \$2.1 million to write-off unamortized deferred financing costs and \$1.0 million of integration costs. In addition, results for the nine months ended September 30, 2007 included charges of approximately \$11.0 million to \$13.0 million of adjustments related to obsolescence, warranty and other reserves.
- (3) To reclassify the cost of revenue that was historically presented on a gross basis to a net basis to conform with EITF 99-19, *Reporting Revenue Gross as a Principal versus Net as an Agent* and Brightpoint accounting policy.
- (4) To record the following:
 - amortization of the intangible assets recorded as a result of the acquisitions of CellStar and Dangaard Telecom,
 - reversal of the write-off of unamortized deferred financing costs recorded in July 2007,
 - interest expense on borrowings used to finance the CellStar acquisition, and
 - income tax provision for the effect of the pro forma adjustments above based on statutory tax rates.
- (5) To adjust the weighted average number of shares outstanding used to determine diluted pro forma earnings per share assuming the 30,000,000 shares of the Company's unregistered Common Stock used to acquire Dangaard Telecom were issued at the beginning of the period presented.

3. Income Tax

In July 2006, the Financial Accounting Standards Board (FASB) issued FASB Interpretations No. (FIN) 48, *Accounting for Uncertainty in Income Taxes – an interpretation of FASB Statement No. 109*, which clarifies the accounting for uncertainty in tax positions. The provisions of FIN 48 became effective for the Company on January 1, 2007. This Interpretation requires the recognition of a tax position when it is more likely than not that the tax position will be sustained upon examination by relevant taxing authorities, based on the technical merits of the position. The amount recognized is measured as the largest amount of benefit that is greater than 50 percent likely of being realized upon ultimate settlement. The adoption of FIN 48 was not material. As of the date of adoption, the Company's unrecognized tax benefits totaled \$2.2 million (\$0.1 million in interest and \$2.1 million of tax positions), which if recognized, would favorably affect the effective tax rate. Interest costs and penalties related to income taxes are classified as tax expense.

The Company and its subsidiaries file income tax returns in the U.S. Federal, various states and various foreign jurisdictions. The Company remains subject to examination by U.S. Federal and major state jurisdictions for years 2004-2006 and by major foreign tax jurisdictions for years 2001-2006.

The Company does not anticipate that total unrecognized tax benefits will significantly change due to the settlement of audits or the expiration of statute of limitations prior to September 30, 2008.

Income tax expense for the third quarter of 2007 was \$3.0 million, net of a \$2.1 million benefit tax resulting from a reduction in the statutory tax rate in Germany. Excluding the effect of this \$2.1 million benefit, the effective tax rate

for the third quarter of 2007 would have been 31.8% compared to an effective tax rate of 25.3% for the third quarter of 2006. The increase in the effective income tax rate was the result of a shift in mix of income between jurisdictions.

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Brightpoint, Inc.
Notes to Consolidated Financial Statements

4. Borrowings

At September 30, 2007, the Company and its subsidiaries were in compliance with the covenants in each of its material credit agreements. Interest expense includes interest on outstanding debt, fees paid for unused capacity on credit lines and amortization of deferred financing fees.

The table below summarizes borrowings that were available to the Company as of September 30, 2007 (in thousands):

	Gross Availability	Outstanding	Letters of Credit & Guarantees	Net Availability
Global Term Loan	\$ 252,074	\$ 252,074	\$	\$
Global Revolving Line of Credit	300,000	42,202	23,296	234,502
Accounts Receivable Factoring	58,814	58,814		
Other	43,357	24,199	3,523	15,635
Total	\$ 654,245	\$ 377,289	\$ 26,819	\$ 250,137

On February 16, 2007, the Company entered into a global credit agreement, referred to as the Credit Agreement, by and among the Company (and certain of its subsidiaries identified therein), Banc of America Securities LLC, as sole lead arranger and book manager, General Electric Capital Corporation, as syndication agent, ABN AMRO Bank N.V., as documentation agent, Wells Fargo Bank, N.A., as documentation agent, Bank of America, N.A., as administration agent and the other lenders party thereto. The Credit Agreement established a five year senior secured revolving credit facility with a line of credit in the initial amount of \$165.0 million. The line of credit contained an uncommitted accordion facility pursuant to which the Company was able to increase the total commitment under the revolving credit facility up to \$240.0 million. On March 30, 2007, the Company and certain of its subsidiaries entered into a Commitment Increase Agreement with the Guarantors, the Administrative Agent and the Lenders to increase the total commitment under the revolving credit facility to \$240.0 million. The Credit Agreement is subject to certain financial covenants and is secured by a lien on certain of the Company's property and a pledge of the voting stock issued by certain of its subsidiaries. The Credit Agreement replaced the Company's \$70.0 million North American asset based credit facility under the Amended and Restated Credit Agreement dated as of March 18, 2004, as amended, and the \$50.0 million Australian Dollar (approximately \$39.0 million U.S. Dollars) asset based credit facility in Australia under the Credit Agreement dated December 24, 2002, as amended. The Company incurred a \$0.3 million non-cash charge to write-off unamortized deferred financing costs related to the replacement of these credit facilities. This charge is included as a component of Interest, net in the Company's Consolidated Statement of Operations for the nine month period ended September 30, 2007.

On July 31, 2007, the parties to the Credit Agreement entered into the First Amendment to the Credit Agreement (the First Amendment), which, among other things, resulted in: (i) an increase in the amount available under the secured revolving credit facility from \$240.0 million to \$300.0 million, (ii) the extension to the domestic borrowers of a term loan in an original principal amount equivalent to \$125.0 million, (iii) the extension to the foreign borrowers, including two of the Dangaard companies, of a term loan in an original principal amount denominated in Euros equivalent to \$125.0 million, (iv) the addition to the Credit Agreement of two Dangaard companies as foreign borrowers and five other Dangaard companies as foreign guarantors, and (v) increased commitments, in certain cases, from existing members of the bank group, and new commitments from other lenders who became new members of the bank group upon the closing of the First Amendment. The amendment was co-arranged by Banc of America Securities LLC, and ABN Amro N.V. with participation in the facility by Nordea Bank Danmark A/S, Citibank, N.A., The Royal Bank of Scotland PLC, Bank DnB NOR AS, Fifth Third Bank, Inc., General Electric Capital Corporation, Wells Fargo Bank, N.A., Deutsche Bank AG, National City Bank, Bank of Tokyo-Mitsubishi Trust Company, Nykredit Bank A/S, HSH Nordbank AG, and BMO Capital Markets Financing, Inc.

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Brightpoint, Inc.
Notes to Consolidated Financial Statements

5. Guarantees

In accordance with FIN 45, *Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others*, guarantees are recorded at fair value and disclosed, even when the likelihood of making any payments under such guarantees is remote.

In some circumstances, the Company purchases inventory with payment terms requiring letters of credit. As of September 30, 2007, the Company has issued \$23.3 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. As of September 30, 2007, the maximum future payments under these letters of credit are \$23.3 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 provides warranty repair services on certain devices it distributes for this supplier. The warranty period for these devices ranges from 12 to 24 months, and the Company is liable for providing warranty repair services unless failure rates exceed a certain threshold. 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. During 2006, this supplier re-branded its devices and provides aftermarket support services including warranty repairs. The Company does not provide warranty repair services on the re-branded devices on behalf of the supplier, but the Company does provide aftermarket support services including warranty repairs for wireless for devices sold by one of the Company's European operations to one customer. Sales of devices for which the Company provides warranty repair services have decreased significantly since this supplier re-branded its devices. Warranty accruals are adjusted from time to time when the Company's actual warranty claim experience differs from its estimates. The change in estimate for the nine months ended September 30, 2007 was a result of higher failure rates and higher cost of repairs than previously experienced. The obligation assumed through the acquisition of Dangaard Telecom is related to a similar program. A summary of the changes in the product warranty accrual is as follows (in thousands):

	Nine Months Ended	
	September 30,	
	2007	2006
January 1	\$ 3,063	\$ 2,117
Warranty liability assumed from Dangaard	3,308	
Provision for product warranties	1,815	4,026
Change in estimate	1,516	(461)
Settlements during the period	(5,514)	(2,459)
September 30	\$ 4,188	\$ 3,223

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6. Operating Segments

The Company has operations centers and/or sales offices in various countries including Australia, Austria, Belgium, Colombia, Denmark, Finland, France, Germany, India, Italy, the Netherlands, New Zealand, Norway, the Philippines, Poland, Portugal, Russia, Singapore, Slovakia, Spain, Sweden, Switzerland, United Arab Emirates, United Kingdom and the United States. All of the Company's operating entities generate revenue from the distribution of wireless devices and accessories and/or the provision of logistic services. During the third quarter of 2007, the Company reclassified its operating entities in India and the United Arab Emirates into the Emerging Markets reporting segment from the Asia-Pacific reporting segment. Segment information as of and for the three and nine months ended September 30, 2006 has been reclassified to conform to the 2007 presentation. The Company identifies its reportable segments based on management responsibility of its four divisions: the Americas, Asia-Pacific, Emerging Markets, and Europe. The Company's operating segments have been aggregated into these four reporting segments.

The Company evaluates the performance of and allocates resources to these segments based on operating income from continuing operations (excluding corporate selling, general and administrative expenses and other unallocated expenses). As further discussed in Note 1 of our Annual Report on Form 10-K for the year ended December 31, 2006, we changed our measure of segment profit to exclude allocated corporate selling, general and administrative expenses. Segment information as of and for three and nine months ended September 30, 2006 has been reclassified to conform to the 2007 presentation.

A summary of the Company's operations by segment is presented below (in thousands) for the three-month and nine month periods ended September 30, 2007 and 2006:

	Americas	Asia-Pacific	Emerging Markets	Europe	Corporate and Reconciling Items	Total
Three Months Ended September 30, 2007:						
Distribution revenue	\$ 256,013	\$ 352,114	\$ 37,803	\$ 439,164	\$	\$ 1,085,094
Logistic services revenue	51,083	5,196	4,065	32,548		92,892
Total revenue from external customers	\$ 307,096	\$ 357,310	\$ 41,868	\$ 471,712	\$	\$ 1,177,986
Operating income (loss) from continuing operations	\$ 13,036	\$ 7,771	\$ 558	\$ 8,605	\$ (7,355)	\$ 22,615
Depreciation and amortization	2,552	342	340	4,052	128	7,414
Capital expenditures	(1,026)	(76)	(178)	(5,478)	(98)	(6,856)
Three Months Ended September 30, 2006:						
Distribution revenue	\$ 158,278	\$ 245,489	\$ 39,070	\$ 109,565	\$	\$ 552,402
Logistic services revenue	48,567	4,147	1,519	27,104		81,337
Total revenue from external customers	\$ 206,845	\$ 249,636	\$ 40,589	\$ 136,669	\$	\$ 633,739
Operating income (loss) from continuing operations	\$ 8,604	\$ 5,530	\$ (1,432)	\$ 4,103	\$ (4,331)	\$ 12,474
Depreciation and amortization	2,135	247	392	217	90	3,082
Capital expenditures	(3,562)	(234)	(357)	(198)	(127)	(4,477)
Nine Months Ended September 30, 2007:						
Distribution revenue	\$ 662,882	\$ 971,862	\$ 115,498	\$ 668,872	\$	\$ 2,419,114
Logistic services revenue	142,636	14,142	10,738	83,980		251,496

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Total revenue from external customers	\$ 805,518	\$ 986,004	\$ 126,236	\$ 752,852	\$	\$ 2,670,610
Operating income (loss) from continuing operations	\$ 26,882	\$ 17,350	\$ (489)	\$ 10,369	\$ (19,024)	\$ 35,188
Depreciation and amortization	7,684	950	1,108	4,553	363	14,658
Capital expenditures	(8,814)	(1,541)	(385)	(5,076)	(356)	(16,172)
Nine Months Ended September 30, 2006:						
Distribution revenue	\$ 445,102	\$ 679,839	\$ 100,162	\$ 277,785	\$	\$ 1,502,888
Logistic services revenue	154,827	13,731	5,140	71,566		245,264
Total revenue from external customers	\$ 599,929	\$ 693,570	\$ 105,302	\$ 349,351	\$	\$ 1,748,152
Operating income (loss) from continuing operations	\$ 30,317	\$ 13,475	\$ (1,790)	\$ 9,374	\$ (15,007)	\$ 36,369
Depreciation and amortization	6,444	649	1,209	626	210	9,139
Capital expenditures	(11,248)	(813)	(824)	(419)	(818)	(14,122)

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Additional segment information is as follows (in thousands):

	September 30, 2007	December 31, 2006
Total segment assets:		
Americas	\$ 329,699	\$ 226,634
Asia-Pacific	171,948	338,836
Emerging Markets	44,128	40,293
Europe	1,178,046	162,598
Corporate	29,094	9,992
	\$ 1,752,915	\$ 778,353

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.

On July 31, 2007, we acquired Dangaard Telecom which had the following material claims and/or disputes:

German value-added tax authorities

There are two disputes pending with Finanzamt Flensburg, the German value-added tax, or VAT, authorities (the Finanzamt):

In the first dispute, Dangaard Telecom's subsidiary, Dangaard Telecom Denmark A/S, received an assessment from the Finanzamt claiming that local German VAT should be applied on sales made by Dangaard Telecom Denmark A/S to two specific German customers in 1997 and 1998. Finanzamt claimed approximately \$2.9 million. The case is currently in abeyance waiting for a principal decision or settlement involving similar cases pending in Germany.

Dangaard Telecom Denmark A/S continues to dispute this claim and intends to defend this matter vigorously. The former shareholders of Dangaard Telecom agreed to indemnify Dangaard Holding with respect to this dispute when Dangaard Holding acquired Dangaard Telecom, and Dangaard Holding has agreed in the purchase agreement to transfer and assign these indemnification rights to us (or enforce them on our behalf if such transfer or assignment is not permitted).

In the second dispute, Dangaard Telecom's subsidiary, Dangaard Telecom Denmark A/S, received a notice from the Finanzamt claiming that local German VAT should be applied on all sales made by Dangaard Telecom Denmark A/S to German customers during the years 1999 to 2004. Finanzamt claimed approximately \$8.1 million. The case is currently in abeyance waiting for a principal decision or settlement involving similar cases pending in Germany.

Dangaard Telecom Denmark A/S continues to dispute this claim and intends to defend this matter vigorously. The former shareholders of Dangaard Telecom agreed to indemnify Dangaard Holding with respect to 80% of this claim when Dangaard Holding acquired Dangaard Telecom, and Dangaard Holding has agreed in the purchase agreement to transfer and assign these indemnification rights to us (or enforce them on our behalf if such transfer or assignment is not permitted).

Fleggaard group of companies

The former headquarters of Dangaard Telecom was in premises rented from a member of the Fleggaard group of companies, which was a former shareholder of Dangaard Telecom. A fire in March 2006 caused by another tenant in the building destroyed the headquarters and Dangaard Telecom had to leave the building while awaiting renovation of its space. Because of Fleggaard's failure to renovate the space, Dangaard Telecom terminated the lease. Fleggaard has disputed the lease termination and has claimed \$1.4 million in damages. Dangaard Telecom continues to dispute this claim and intends to defend this matter vigorously.

Norwegian tax authorities

Dangaard Telecom's subsidiary, Dangaard Telecom Norway AS Group, received notice from the Norwegian tax authorities regarding tax claims in connection with certain capital gains. The Norwegian tax authorities have claimed \$2.7 million. Dangaard Telecom Norway AS Group continues to dispute this claim and intends to defend this matter

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Brightpoint, Inc.

Notes to Consolidated Financial Statements

vigorously. The former shareholders of Dangaard Telecom agreed to indemnify Dangaard Holding with respect to 80% of this claim when Dangaard Holding acquired Dangaard Telecom, and Dangaard Holding has agreed in the purchase agreement to transfer and assign these indemnification rights to us (or enforce them on our behalf if such transfer or assignment is not permitted).

German tax authorities Dangaard Telecom's subsidiary, Dangaard Telecom Germany Holding GmbH, received notice from the German tax authorities regarding tax claims in connection with the deductibility of certain stock adjustments and various fees during the period 1998 to 2002. Dangaard Telecom Germany Holding GmbH agreed to pay part of the claim, and the current amount in dispute is \$1.8 million. Dangaard Telecom Germany Holding GmbH continues to dispute this claim and intends to defend this matter vigorously. The former shareholders of Dangaard Telecom are obliged to indemnify Dangaard Holding with respect to any such tax claims. Due to the claim's limited size, however, it will be below an agreed upon threshold, therefore the indemnification would not be activated by this claim if no other claims for indemnification have been or are asserted.

Table of Contents**Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations.
OVERVIEW AND RECENT DEVELOPMENTS**

This discussion and analysis should be read in conjunction with the accompanying Consolidated Financial Statements and related notes. Our discussion and analysis of the financial condition and results of operations is based upon our consolidated financial statements, which have been prepared in accordance with accounting principles generally accepted in the United States. The preparation of financial statements in conformity with accounting principles generally accepted in the United States requires us to make estimates and assumptions that affect the reported amounts of assets and liabilities, disclosure of any contingent assets and liabilities at the financial statement date and reported amounts of revenue and expenses during the reporting period. On an on-going basis we review our estimates and assumptions. Our estimates were based on our historical experience and various other assumptions that we believe to be reasonable under the circumstances. Actual results could differ from those estimates but we do not believe such differences will materially affect our financial position or results of operations. Our critical accounting policies and estimates, the policies we believe are most important to the presentation of our financial statements and require the most difficult, subjective and complex judgments are outlined in our Annual Report on Form 10-K, for the year ended December 31, 2006, and have not changed significantly. Certain statements made in this report may contain forward-looking statements. For a description of risks and uncertainties relating to such forward-looking statements, see the cautionary statements contained in Exhibit 99.1 to this report and our Annual Report on Form 10-K for the year ended December 31, 2006.

Brightpoint, Inc. is a global leader in the distribution of wireless devices and accessories and provision of customized logistic services to the wireless industry including wireless network operators (also referred to as mobile operators), Mobile Virtual Network Operators (MVNOs) and manufacturers with operations centers and/or sales offices in various countries including Australia, Colombia, Finland, Germany, India, New Zealand, Norway, the Philippines, Portugal, Russia, Singapore, Slovakia, Sweden, the United Arab Emirates, the United Kingdom and the United States. On July 31, 2007 we acquired Dangaard Telecom A/S (Dangaard Telecom), which expanded our operations to include Austria, Belgium, Denmark, France, Italy, the Netherlands, Poland, Spain, and Switzerland. We provide integrated logistic services including procurement, inventory management, software loading, kitting and customized packaging, fulfillment, credit services and receivables management, call center and activation services, website hosting, e-fulfillment solutions and other services within the global wireless industry. Our customers include mobile operators, MVNOs, resellers, retailers and wireless equipment manufacturers. We provide distribution and logistic services for wireless products manufactured by companies such as High Tech Computer Corp., Kyocera, LG Electronics, Motorola, Nokia, Samsung, Siemens, Sony Ericsson and UTStarcom.

On July 31, 2007, we completed our acquisition of all of the issued and outstanding capital stock of Dangaard Telecom A/S, a Danish company from Dangaard Holding A/S, a Danish company for a purchase price of (i) \$100,000 in cash and (ii) 30,000,000 shares of the Company's unregistered Common Stock, \$0.01 par value. In addition, the Company assumed approximately \$348.7 million of Dangaard Telecom's indebtedness. The acquisition of Dangaard expands the Company's existing European operations. Dangaard Telecom is the leading distributor of wireless devices and accessories in Europe. Results of operations for Dangaard Telecom are included in our consolidated results of operations beginning on August 1, 2007.

On June 29, 2007 AT&T Inc. announced that it will acquire Dobson Communications Corporation (Dobson). Dobson is a significant product distribution and logistic services customer of our North America operations. This acquisition is expected to be completed by the end of 2007. On July 30, 2007, Verizon Wireless announced that it will acquire Rural Cellular Corporation (RCC). RCC is a distribution customer of our North America operations. This acquisition is expected to be completed in the first half of 2008. On September 17, 2007, T-Mobile USA, Inc. announced that it will acquire SunCom Wireless Holdings, Inc. (SunCom). Suncom is a significant product distribution and logistic services customer of our North America operations. This acquisition is expected to close in the first half of 2008. These customers are also customers of the operations acquired from CellStar. Should any or all of these acquisitions be completed, our operating results may be negatively impacted. Brightpoint North America is undertaking significant cost cutting efforts including consolidating the CellStar operations previously performed in the Coppell, Texas facility into our other North America operations. Savings associated with this facility consolidation and other cost cutting

efforts are expected to lower our overall spending. While these cost cutting

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efforts may help mitigate some of the negative impact from AT&T's acquisition of Dobson, Verizon's acquisition of RCC and T-Mobile's acquisition of SunCom, there can be no assurances that we will be successful in these efforts.

RESULTS OF OPERATIONS**Revenue and Wireless Devices Handled**

	Three Months Ended September 30,		2006	% of Total	% of Total	Change
	2007	% of Total				
(Amounts in 000s)						
REVENUE BY DIVISION:						
Americas	\$ 307,096	26%	\$206,845	33%		48%
Asia-Pacific	357,310	30%	249,636	39%		43%
Emerging Markets	41,868	4%	40,589	6%		3%
Europe	471,712	40%	136,669	22%		245%
Total	\$1,177,986	100%	\$633,739	100%		86%
REVENUE BY SERVICE LINE:						
Distribution	\$1,085,094	92%	\$552,402	87%		96%
Logistic services	92,892	8%	81,337	13%		14%
Total	\$1,177,986	100%	\$633,739	100%		86%
WIRELESS DEVICES HANDLED BY DIVISION:						
Americas	15,276	69%	9,722	77%		57%
Asia-Pacific	3,742	17%	1,961	15%		91%
Emerging Markets	357	2%	453	4%		(21)%
Europe	2,653	12%	480	4%		453%
Total	22,028	100%	12,616	100%		75%
WIRELESS DEVICES HANDLED BY SERVICE LINE:						
Distribution	7,418	34%	3,417	27%		117%
Logistic services	14,610	66%	9,199	73%		59%
Total	22,028	100%	12,616	100%		75%

Total worldwide revenue was \$1.2 billion for the three months ended September 30, 2007, which represents growth of 86% compared to the same period in the prior year. Worldwide distribution revenue increased 96% to \$1.1 billion for the three months ended September 30, 2007 compared to \$552.4 million for the same period in the prior year. The two months of incremental revenue resulting from the acquisition of Dangaard Telecom positively impacted distribution revenue by approximately 58% for the three months ended September 30, 2007. Excluding the impact of the Dangaard Telecom acquisition, distribution revenue increased 38%, which was driven by growth in wireless devices sold through distribution, partially offset by a lower average selling price. Fluctuations in foreign currencies positively impacted worldwide distribution revenue by approximately 4% for the three months ended September 30, 2007.

Worldwide logistic services revenue increased 14% to \$92.9 million for the three months ended September 30, 2007 compared to \$81.3 million for the same period in the prior year. The acquisition of Dangaard Telecom positively impacted logistic services revenue by 9%. Excluding the impact of the Dangaard Telecom acquisition, an increase in wireless devices handled positively impacted logistic services revenue by 13%, and fluctuations in foreign currencies positively impacted worldwide logistic services revenue by approximately 6%. These increases in worldwide logistic services revenue were partially offset by a decline in non-handset based services and a decline in average fulfillment fee per unit, which negatively impacted logistic services revenue by approximately 6% and 7% respectively. In addition, a decline in freight revenue negatively impacted worldwide logistic services revenue by 1%. The decrease in non-handset based revenue was primarily due to a shift in mix to fee based prepaid airtime

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fulfillment (net method) from prepaid airtime transactions recorded using the gross method in our Americas division. The decrease in average fulfillment fee per unit was primarily due to a reduced fee structure associated with the modification and extension of a logistic services agreement with a significant customer in our North America business.

	2007	Nine Months Ended September 30, % of Total (Amounts in 000s)	2006	% of Total	Change
REVENUE BY DIVISION:					
Americas	\$ 805,518	30%	\$ 599,929	34%	34%
Asia-Pacific	986,004	37%	693,570	40%	42%
Emerging Markets	126,236	5%	105,302	6%	20%
Europe	752,852	28%	349,351	20%	116%
Total	\$2,670,610	100%	\$1,748,152	100%	53%
REVENUE BY SERVICE LINE:					
Distribution	\$2,419,114	91%	\$1,502,888	86%	61%
Logistic services	251,496	9%	245,264	14%	3%
Total	\$2,670,610	100%	\$1,748,152	100%	53%
WIRELESS DEVICES HANDLED BY DIVISION:					
Americas	41,752	75%	30,851	80%	35