BRIGHTPOINT INC
Form 10-Q
November 08, 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 September 30, 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.)
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. 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 Exchange 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 November 2, 2006: 50,577,197

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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 September 30,		Nine Months Ended September 30,	
	2006	2005	**2006**	2005
Revenue				
Distribution revenue	**$552,402**	$470,961	**$1,502,888**	$1,303,900
Logistic services revenue	**81,337**	74,014	**245,264**	205,643
Total revenue	**633,739**	544,975	**1,748,152**	1,509,543
Cost of revenue				
Cost of distribution revenue	**529,784**	453,956	**1,441,026**	1,255,743
Cost of logistic services revenue	**66,953**	59,341	**198,068**	165,403
Total cost of revenue	**596,737**	513,297	**1,639,094**	1,421,146
Gross profit	**37,002**	31,678	**109,058**	88,397
Selling, general and administrative expenses	**24,528**	20,657	**72,698**	59,325
Facility consolidation charge (benefit)		(270)	**(9)**	933
Operating income from continuing operations	**12,474**	11,291	**36,369**	28,139
Interest, net	**226**	140	**423**	156
Other expenses	**275**	129	**213**	531
Income from continuing operations before income taxes	**11,973**	11,022	**35,733**	27,452
Income tax expense	**3,029**	2,749	**9,576**	7,366
Income from continuing operations	**8,944**	8,273	**26,157**	20,086
Discontinued operations, net of income taxes:				
Loss from discontinued operations	**(183)**	(15,452)	**(358)**	(19,827)
Gain on disposal of discontinued operations	**3**	997	**74**	1,331
	(180)	(14,455)	**(284)**	(18,496)

Total loss from discontinued operations, net of income taxes								
Net income (loss)	**$**	**8,764**	$	(6,182)	$	**25,873**	$	1,590
Earnings (loss) per share basic:								
Income from continuing operations	**$**	**0.18**	$	0.17	**$**	**0.53**	$	0.42
Discontinued operations, net of income taxes				(0.30)				(0.39)
Net income (loss)	**$**	**0.18**	$	(0.13)	**$**	**0.53**	$	0.03
Earnings (loss) per share diluted:								
Income from continuing operations	**$**	**0.18**	$	0.17	**$**	**0.52**	$	0.41
Discontinued operations, net of income taxes		**(0.01)**		(0.29)		**(0.01)**		(0.38)
Net income (loss)	**$**	**0.17**	$	(0.12)	**$**	**0.51**	$	0.03
Weighted average common shares outstanding:								
Basic		**49,243**		47,844		**49,026**		47,781
Diluted		**50,403**		49,596		**50,581**		49,357

See accompanying notes

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

	September 30, 2006 (Unaudited)	December 31, 2005
ASSETS		
Current Assets:		
Cash and cash equivalents	**$103,593**	$106,053
Pledged cash	**197**	168
Accounts receivable (less allowance for doubtful accounts of $4,308 in 2006 and $3,621 in 2005)	**179,069**	168,004
Inventories	**286,164**	124,864
Contract financing receivable	**49,735**	28,749
Other current assets	**23,318**	22,623
Total current assets	**642,076**	450,461
Property and equipment, net	**33,774**	27,989
Goodwill and other intangibles, net	**7,529**	6,707
Other assets	**2,799**	2,667
Total assets	**$686,178**	$487,824
LIABILITIES AND SHAREHOLDERS EQUITY		
Current liabilities:		
Accounts payable	**$369,267**	$232,258
Accrued expenses	**56,884**	64,494
Unfunded portion of contract financing receivable	**71,606**	32,373
Total current liabilities	**497,757**	329,125
Total long-term liabilities	**11,602**	9,657
Total liabilities	**509,359**	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; 57,440 issued in 2006 and 55,875 issued in 2005	**574**	559
Additional paid-in-capital	**264,558**	258,443
Treasury stock, at cost, 6,890 shares in 2006 and 6,113 shares in 2005	**(58,288)**	(39,928)

Unearned compensation		(12,125)
Retained deficit	**(27,655)**	(53,528)
Accumulated other comprehensive income (loss)	**(2,370)**	(4,379)
Total shareholders equity	**176,819**	149,042
Total liabilities and shareholders equity	**$686,178**	$487,824

See accompanying notes

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

	Nine Months Ended September 30, 2006	2005
Operating activities		
Net income	$ 25,873	$ 1,590
Adjustments to reconcile net income to net cash provided by (used in) operating activities:		
Depreciation and amortization	9,139	7,935
Discontinued operations	284	18,496
Net operating cash flows used in discontinued operations		(1,484)
Pledged cash requirements	(13)	13,664
Non-cash compensation	4,120	1,608
Facility consolidation charge (benefit)	(9)	933
Change in deferred taxes	(483)	(863)
Income tax benefits from exercise of stock options		2,236
Other non-cash	1,368	
	40,279	44,115
Changes in operating assets and liabilities, net of effects from acquisitions and divestitures:		
Accounts receivable	(9,097)	(10,411)
Inventories	(158,892)	3,645
Other operating assets	(1,546)	(13,343)
Accounts payable and accrued expenses	127,970	30,772
Net cash provided by (used in) operating activities	(1,286)	54,778
Investing activities		
Capital expenditures	(14,122)	(7,932)
Acquisitions, net of cash acquired	(801)	(357)
Net investing cash flow from discontinued operations		(1,036)
Net cash provided by contract financing arrangements	18,405	3,445
Decrease (increase) in other assets	(18)	2,720
Net cash provided by (used in) investing activities	3,464	(3,160)
Financing Activities		
Purchase of treasury stock	(18,360)	(9,004)
Net financing cash used in discontinued operations		
Excess tax benefit from equity based compensation	8,443	
Proceeds from common stock issuances under employee stock option plans	5,693	3,253
Net cash used in financing activities	(4,224)	(5,751)

Effect of exchange rate changes on cash and cash equivalents	(414)	(5,168)
Net increase (decrease) in cash and cash equivalents	(2,460)	40,699
Cash and cash equivalents at beginning of period	106,053	72,120
Cash and cash equivalents at end of period	$ 103,593	$ 112,819

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 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 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 (Loss) Per Share

Basic earnings (loss) 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 6 for 5 common stock split effected in the form of a stock dividend paid on May 31, 2006 and the 3 for 2 common stock splits effected in the form of stock dividends paid 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 September 30,		Nine Months Ended September 30,	
	2006	2005	**2006**	2005
Income from continuing operations	**$ 8,944**	$ 8,273	**$26,157**	$ 20,086
Discontinued operations, net of income taxes	**(180)**	(14,455)	**(284)**	(18,496)
Net income (loss)	**$ 8,764**	$ (6,182)	**$25,873**	$ 1,590
Earnings (loss) per share basic:				
Income from continuing operations	**$ 0.18**	$ 0.17	**$ 0.53**	$ 0.42
Discontinued operations, net of income taxes		(0.30)		(0.39)
Net income (loss)	**$ 0.18**	$ (0.13)	**$ 0.53**	$ 0.03

Earnings (loss) per share diluted:				
Income from continuing operations	**$ 0.18**	$ 0.17	**$ 0.52**	$ 0.41
Discontinued operations, net of income taxes	**(0.01)**	(0.29)	**(0.01)**	(0.38)
Net income (loss)	**$ 0.17**	$ (0.12)	**$ 0.51**	$ 0.03
Weighted average shares outstanding for basic earnings (loss) per share	**49,243**	47,844	**49,026**	47,781
Net effect of dilutive stock options, restricted stock units and restricted stock based on the treasury stock method using average market price	**1,160**	1,752	**1,555**	1,576
Weighted average shares outstanding for diluted earnings (loss) per share	**50,403**	49,596	**50,581**	49,357

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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 (APB) 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 provisions 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 nine months ended September 30, 2006 are $1.9 million and $1.5 million lower than if it had continued to account for stock based compensation under APB 25. Total stock based compensation expense for the nine months ended September 30, 2006 was $2.9 million (net of related tax effects), compared to $1.4 million that would have been included in the determination of net income had the Company continued to account for stock based compensation under APB 25. Basic and diluted earnings per share for the nine months ended September 30, 2006 are $0.03 lower than if the Company had not adopted SFAS 123(R). In addition, SFAS 123(R) requires cash flows resulting from tax deductions of stock based compensation 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 stock based compensation as operating cash flows. As a result, the $8.4 million of excess tax benefits classified as a financing cash inflow for the nine months ended September 30, 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 during the first quarter of 2006.

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 278,177 restricted stock units and 175,200 shares of restricted stock with a weighted average grant date fair market value of $19.89 per restricted stock unit and $21.44 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 nine months ended September 30, 2006.

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Brightpoint, Inc.
Notes to Consolidated Financial Statements

The following table illustrates the effect on net income (loss) and earnings (loss) per share if the Company had applied the fair value recognition provision of SFAS 123 for the three and nine months ended September 30, 2005 (in thousands, except per share data):

	Three Months Ended September 30, 2005	Nine Months Ended September 30, 2005
Net income (loss) as reported	$(6,182)	$ 1,590
Add back; stock compensation included in net income (loss)	329	1,006
Stock-based employee compensation cost, net of related tax effects, that would have been included in the determination of net income (loss) if the fair value method had been applied	(620)	(2,282)
Pro forma net income (loss)	$(6,473)	$ 314
Earnings (loss) per share basic:		
Net income (loss) as reported	$ (0.13)	$ 0.03
Add back; stock compensation included in net income (loss)		0.02
Stock-based employee compensation cost, net of related tax effects, that would have been included in the determination of net income (loss) if the fair value method had been applied	(0.01)	(0.04)
Pro forma net income (loss)	$ (0.14)	$ 0.01
Earnings (loss) per share diluted:		
Net income (loss) as reported	$ (0.12)	$ 0.03
Add back; stock compensation included in net income (loss)		0.02
Stock-based employee compensation cost, net of related tax effects, that would have been included in the determination of net income (loss) if the fair value method had been applied	(0.01)	(0.04)
Pro forma net income (loss)	$ (0.13)	$ 0.01

Recently Issued Accounting Pronouncements

In July 2006, the Financial Accounting Standards Board (FASB) issued FASB Interpretation 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. 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 provisions of FIN 48 are effective for the Company on January 1, 2007, with the cumulative effect of the change in accounting principle recorded as an adjustment to opening retained earnings. The Company is currently evaluating the impact of adopting FIN 48 on its financial statements.

In September 2006, the FASB issued SFAS 157, *Fair Value Measurements*. This Statement defines fair value and provides guidance for how to measure fair value. SFAS 157 applies to assets and liabilities required or permitted to be measured at fair value under other accounting pronouncements; however, this Statement does not provide guidance whether assets and liabilities are required or permitted to be measured at fair value. The provisions of SFAS 157 are effective for the Company on January 1, 2008. The Company does not expect the adoption of SFAS 157 to have material impact on its financial statements.

In September 2006, the FASB issued SFAS 158, *Employers Accounting for Defined Benefit Pension and Other Postretirement Plans An Amendment of FASB Statements No. 87, 88, 106 and 132(R)*. This Statement requires the recognition of a liability for the unfunded status of a plan or an asset for a plan s overfunded status in the balance sheet. The statement also requires the recognition of changes in the funded status through comprehensive income during the year in which that change occurred. The provisions of SFAS 158 are effective for the Company on December 31, 2006. The Company is currently evaluating the impact of adopting SFAS 158, but it does not expect the adoption of this statement to have a material impact on its financial statements.

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Brightpoint, Inc.
Notes to Consolidated Financial Statements

Other Comprehensive Income (Loss)

Comprehensive income (loss) is comprised of net income and gains or losses resulting from currency translations of foreign investments. The details of comprehensive income (loss) for the three and nine months ended September 30, 2006 and 2005 are as follows (in thousands):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2006	2005	**2006**	2005
Net income (loss)	**$8,764**	$(6,182)	**$25,873**	$ 1,590
Foreign currency translation	**774**	(3,217)	**2,009**	(7,629)
Comprehensive income (loss)	**$9,538**	$(9,399)	**$27,882**	$(6,039)

T-Mobile Agreement

In August 2006, the Company entered into a Master Service Agreement (the Agreement) with T-Mobile in the United States to provide a full range of integrated forward logistic services enabling T-Mobile to deliver its wireless devices to its direct and indirect distribution channels, as well as directly to T-Mobile s subscribers from a dedicated facility leased by the Company in Louisville, Kentucky. This Agreement has multiple service deliverables that do not qualify for a separate unit of accounting under Emerging Issues Task Force (EITF) Issue No. 00-21, *Revenue Arrangements with Multiple Deliverables*. Accordingly, revenue and direct costs associated with the initial facility preparation phase of this Agreement have been deferred and will be realized on a straight-line basis over the term of the Agreement beginning in 2007, once the facility becomes operational. At September 30, 2006, approximately $0.8 million of revenue has been deferred and approximately $0.2 million of direct facility preparation costs have been deferred. Deferred revenue is included as a component of Accrued expenses and deferred costs are included as a component of Other current assets in the Company s Consolidated Balance Sheet. If direct facility preparation costs exceed the amount of revenue deferred during the start-up phase, these excess costs will be expensed in the period in which they are incurred.

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, are now 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.

During October 2006, the Company announced that a subsidiary of its Americas division, Wireless Fulfillment Services LLC, completed its acquisition of all of the outstanding shares of Trio Industries, Inc. (d/b/a/ Trio Teknologies) (TrioTek). TrioTek is a leading provider of bundled wireless products and solutions to Value Added

Resellers (VARs), system integrators, and other customers focused on providing wireless data services. TrioTek is an authorized master agent for Sprint Nextel, Cingular Wireless and Verizon Wireless and distributes a wide variety of wireless data products from several original equipment manufacturers. The initial purchase price, including direct acquisition costs is approximately $0.7 million. Furthermore, up to $4.3 million in additional contingent consideration could be paid through 2008, depending on when and if certain performance-related milestones are

Brightpoint, Inc.
Notes to Consolidated Financial Statements

reached provided the total purchase price does not exceed $5.0 million. The acquisition of TrioTek was part of the Company s continued investment in Advanced Wireless Services (AWS) in the Americas.

3. Discontinued Operations

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2006	2005	**2006**	2005
Revenue	**$**	$ 30,136	**$**	$ 75,122
Loss from discontinued operations	**$(183)**	$(15,452)	**$(358)**	$(19,827)
Gain on disposal of discontinued operations	**3**	997	**74**	1,331
Total loss from discontinued operations	**$(180)**	$(14,455)	**$(284)**	$(18,496)

The loss from discontinued operations for the three and nine months ended September 30, 2005 relates primarily to losses incurred in Brightpoint France, which was sold during the fourth quarter of 2005.

4. Lines of Credit

There were no outstanding balances on lines of credit at September 30, 2006 and December 31, 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. In addition, in certain subsidiaries, our local lenders restrict the amount of funds that can be transferred offshore to affiliates and the parent company, or our local lenders restrict the use of intercompany funds that can be used to pay down lines of credit. During the three-month and nine-month periods ended September 30, 2006, the largest outstanding borrowings on a given day were approximately $34.4 million and $35.7 million, and average outstanding balances were approximately $16.2 million and $17.7 million for the same respective periods.

At September 30, 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.

The table below summarizes lines of credit that were available to the Company as of September 30, 2006 (in thousands):

	Commitment	Gross Availability	Outstanding	Letters of Credit & Guarantees	Net Availability
North America	$70,000	$ 63,000	$	$ 20,000	$43,000
Australia	37,295	36,717		11,043	25,674
New Zealand	7,836	6,626			6,626
Sweden	2,045	2,045			2,045
Slovakia					

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(2) The Company may, by resolution of the Board of Directors or by resolution of a committee as authorized by the Board of Directors, suspend the entry of a change as to the matters contained in the Register of Shareholders for a specified period of time or set a record date when deemed necessary and for the purpose of convening an Extraordinary General Meeting of Shareholders; provided, however, that the period of suspension shall not exceed three (3) months and two (2) weeks prior notice of suspension or fixing of a record date has been given to the shareholders. The Board of Directors or such authorized committee may, when deemed necessary, both suspend the entry of a change in the Register of Shareholders and set a record date.	(2) The record date of the Register of Shareholders shall be December 31 of each year, and such shareholders listed on the Register of Shareholders as of the record date shall be entitled to exercise their rights thereof at the General Meetings of Shareholders. (3) The Company may, by resolution of the Board of Directors or by resolution of a committee as authorized by the Board of Directors, suspend the entry of a change as to the matters contained in the Register of Shareholders for a specified period of time or set a record date when deemed necessary and for the	Record Date of the Register of Shareholders

purpose of convening an Extraordinary General Meeting of Shareholders; provided, however, that the period of suspension shall not exceed three (3) months and two (2) weeks prior notice of suspension or fixing of a record date has been given to the shareholders. The Board of Directors or such authorized committee may, when deemed necessary, both suspend the entry of a change in the Register of Shareholders and set a record date.

ADDENDA (February 25, 2011) The amended Articles of Incorporation shall be effective from the date on which they are approved by the resolution at the

Ordinary General Meeting of Shareholders for the 43rd fiscal year.

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Agenda 3: Election of the Directors

3-1 : Election of Outside Directors

[Description of the Proposal]

Pursuant to Article 382 of the Korean Commercial Act and Article 28 of the Company s Articles of Incorporation, we request that the Ordinary General Meeting of Shareholders appoint Outside Directors of the Company.

¨ Number of Outside Directors to be Elected : 3 Directors

¨ Candidates

Name	Date of Birth Recommended By	Major Experience	Transactions with POSCO over the last three years	Relationships with largest shareholders	Term
Nam, Yong	Mar. 16, 1948 Director Candidate Recommendation Committee	Vice Chairman & CEO, LG Electronics (Present) President of Strategic Business Initiatives, LG Corp. President & CEO, LG Telecom, Ltd	None	None	2yr
Byun, Dae-Gyu	Mar. 8, 1960 Director Candidate Recommendation Committee	Chairman & CEO, Humax Co., Ltd (Present) Member of National Science & Technology Council Full member of the Nat l Academy of Engineering of Korea	None	None	2yr
Park, Sang-Kil	Nov. 10, 1953 Director Candidate Recommendation Committee	Lawyer, Kim & Chang (Present) Prosecuter General, Daejeon High Prosecutor s Office Prosecuter General, Busan High Prosecutor s Office	None	None	2yr

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3-2 : Election of Audit Committee Members

[Description of the Proposal]

Pursuant to Article 415-2, 542-11 and 542-12 of the Korean Commercial Act and Article 48 of the Company s Articles of Incorporation, we request that the Ordinary General Meeting of Shareholders appoint Audit Committee members of the Company.

o Number of Audit Committee Members to be Elected : 2 Members

o Candidates

Name	Date of Birth Recommended By	Major Experience	Transactions with POSCO over the last three years	Relationships with largest shareholders	Term
Kim, Byung-Ki	Jun. 26, 1950 Director Candidate Recommendation Committee	Visiting Professor, Technology Management Economics and Policy Graduate Program, Seoul Nat l University (Present) President, Samsung Economic Research Institute Deputy Minister, Planning and Management Office, Ministry of Finance and Economy	None	None	1yr
Park, Sang-Kil	Nov. 10, 1953 Director Candidate Recommendation Committee	Lawyer, Kim & Chang (Present) Prosecuter General, Daejeon High Prosecutor s Office Prosecuter General, Busan High Prosecutor s Office	None	None	2yr

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3-3 : Election of Inside Director

[Description of the Proposal]

Pursuant to Article 382 of the Korean Commercial Act and Article 28 of the Company s Articles of Incorporation, we request that the Ordinary General Meeting of Shareholders appoint Inside Director of the Company.

o Number of Inside Director to be Elected: 1 Director

o Candidates

Name	Date of Birth Recommended By	Major Experience	Transactions with POSCO over the last three years	Relationships with largest shareholders	Term
Choi, Jong-Tae	Sep. 20, 1949 Board of Directors	President and Representative Director, POSCO (Present) Senior Executive Vice President, POSCO Executive Vice President, POSCO	None	None	1yr

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Agenda 4: Approval of Limits of Total Remuneration for Directors

[Description of the Proposal]

Pursuant to Article 388 of the Korean Commercial Act and Article 36 of the Company s Articles of Incorporation, we request that the Ordinary General Meeting of Shareholders approve Limits of the Total Remuneration for Directors in the 43rd fiscal year.

o The Limit (to be approved) of the Total Remuneration in the 44th fiscal year:
KRW 7.0 billion

o The Limit (approved) of the Total Remuneration in the 43rd fiscal year:
KRW 7.0 billion

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SIGNATURES

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

POSCO
(Registrant)

Date : February 1, 2011

By /s/ Choi, Jong-Tae

(Signature)*
Name: Choi, Jong-Tae
Title: President

* Print the name and title under the signature of the signing officer.