

Wright Express CORP
Form 10-Q
May 05, 2011

Table of Contents

**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549
FORM 10-Q**

(Mark One)

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

For the quarterly period ended March 31, 2011
OR

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

For the transition period from _____ to _____

Commission file number: **001-32426**

WRIGHT EXPRESS CORPORATION

(Exact name of registrant as specified in its charter)

Delaware

*(State or other jurisdiction of
incorporation or organization)*

01-0526993

*(I.R.S. Employer
Identification No.)*

97 Darling Avenue, South Portland, Maine

(Address of principal executive offices)

04106

(Zip Code)

(207) 773-8171

(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 has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).

Yes No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See definitions of large accelerated filer, accelerated filer, and smaller reporting company in Rule 12b-2 of the Exchange Act.

Large accelerated filer

Accelerated filer

Non-accelerated filer *(Do not check if a smaller reporting company)*

Smaller reporting company

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

Yes No

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Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date.

Class	Outstanding at April 27, 2011
Common Stock, \$0.01 par value per share	38,621,360 shares

TABLE OF CONTENTS

	Page
<u>PART I-FINANCIAL INFORMATION</u>	
<u>Item 1.</u> <u>Unaudited Condensed Consolidated Financial Statements.</u>	- 3 -
<u>Item 2.</u> <u>Management's Discussion and Analysis of Financial Condition and Results of Operations.</u>	- 19 -
<u>Item 3.</u> <u>Quantitative and Qualitative Disclosures About Market Risk.</u>	- 28 -
<u>Item 4.</u> <u>Controls and Procedures.</u>	- 28 -
<u>PART II-OTHER INFORMATION</u>	
<u>Item 1.</u> <u>Legal Proceedings.</u>	- 29 -
<u>Item 1A.</u> <u>Risk Factors.</u>	- 29 -
<u>Item 6.</u> <u>Exhibits.</u>	- 30 -
<u>SIGNATURE</u>	
<u>EX-10.1</u>	- 31 -
<u>EX-10.2</u>	
<u>EX-10.3</u>	
<u>EX-10.4</u>	
<u>EX-31.1</u>	
<u>EX-31.2</u>	
<u>EX-32.1</u>	
<u>EX-32.2</u>	
<u>EX-101 INSTANCE DOCUMENT</u>	
<u>EX-101 SCHEMA DOCUMENT</u>	
<u>EX-101 CALCULATION LINKBASE DOCUMENT</u>	
<u>EX-101 LABELS LINKBASE DOCUMENT</u>	
<u>EX-101 PRESENTATION LINKBASE DOCUMENT</u>	

FORWARD-LOOKING STATEMENTS

The Private Securities Litigation Reform Act of 1995 provides a safe harbor for statements that are forward-looking and are not statements of historical facts. This Quarterly Report contains forward-looking statements. Any statements that are not statements of historical facts may be deemed to be forward-looking statements. When used in this Quarterly Report, the words may, will, could, anticipate, plan, continue, project, intend, estimate, similar expressions are intended to identify forward-looking statements, although not all forward-looking statements contain such words. Forward-looking statements relate to our future plans, objectives, expectations and intentions and are not historical facts and accordingly involve known and unknown risks and uncertainties and other factors that may cause the actual results or performance to be materially different from future results or performance expressed or implied by these forward-looking statements. The following factors, among others, could cause actual results to differ materially from those contained in forward-looking statements made in this Quarterly Report, in press releases and in oral statements made by our authorized officers: fuel price volatility; the Company's failure to maintain or renew key agreements; failure to expand the Company's technological capabilities and service offerings as rapidly as

the Company's competitors; the actions of regulatory bodies, including bank regulators, or possible changes in banking regulations impacting the Company's industrial loan bank and the Company as the corporate parent; the uncertainties of litigation; the impact of foreign currency exchange rates on the Company's operations; the effects of general economic conditions on fueling patterns and the commercial activity of fleets; the effects of the Company's international business expansion efforts; the impact and range of second quarter and full year credit losses; the amount of interest rates; financial loss if the Company determines it necessary to unwind its derivative instrument position prior to the expiration of the contract; the failure to successfully expand business internationally; the failure to successfully integrate the businesses the Company has acquired; as well as other risks and uncertainties identified in Item 1A of our Annual Report for the year ended December 31, 2010, filed on Form 10-K with the Securities and Exchange Commission on February 28, 2011. Our forward-looking statements and these factors do not reflect the potential future impact of any alliance, merger, acquisition or disposition. The forward-looking statements speak only as of the date of the initial filing of this Quarterly Report and undue reliance should not be placed on these statements. We disclaim any obligation to update any forward-looking statements as a result of new information, future events or otherwise.

- 2 -

Table of Contents**PART I****Item 1. Financial Statements.**

WRIGHT EXPRESS CORPORATION
CONDENSED CONSOLIDATED BALANCE SHEETS
(in thousands, except per share data)
(unaudited)

	March 31, 2011	December 31, 2010
Assets		
Cash and cash equivalents	\$ 35,862	\$ 18,045
Accounts receivable (less reserve for credit losses of \$9,276 in 2011 and \$10,237 in 2010)	1,418,623	1,160,482
Available-for-sale securities	10,712	9,202
Property, equipment and capitalized software (net of accumulated depreciation of \$93,741 in 2011 and \$88,970 in 2010)	61,230	60,785
Deferred income taxes, net	163,562	161,156
Goodwill	554,162	537,055
Other intangible assets, net	124,096	124,727
Other assets	28,879	26,499
Total assets	\$ 2,397,126	\$ 2,097,951
Liabilities and Stockholders Equity		
Accounts payable	\$ 552,869	\$ 379,855
Accrued expenses	44,639	41,133
Income taxes payable	5,393	3,638
Deposits	657,823	529,800
Borrowed federal funds		59,484
Fuel price derivatives, at fair value	31,695	10,877
Revolving line-of-credit facilities and term loan	413,100	407,300
Other liabilities	6,568	6,712
Amounts due under tax receivable agreement	100,145	100,145
Total liabilities	1,812,232	1,538,944
Commitments and contingencies (Note 9)		
Stockholders Equity		
Common stock \$0.01 par value; 175,000 shares authorized, 42,180 in 2011 and 41,924 in 2010 shares issued; 38,693 in 2011 and 38,437 in 2010 shares outstanding	422	419
Additional paid-in capital	138,611	132,583

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Retained earnings	511,882	499,767
Other comprehensive income (loss), net of tax:		
Net unrealized gain on available-for-sale securities	80	92
Net unrealized loss on interest rate swaps	(298)	(368)
Net foreign currency translation adjustment	35,564	27,881
Accumulated other comprehensive income	35,346	27,605
Less treasury stock at cost, 3,566 shares in 2011 and 2010	(101,367)	(101,367)
Total stockholders' equity	584,894	559,007
Total liabilities and stockholders' equity	\$ 2,397,126	\$ 2,097,951

See notes to condensed consolidated financial statements.

- 3 -

Table of Contents

WRIGHT EXPRESS CORPORATION
CONDENSED CONSOLIDATED STATEMENTS OF INCOME
(in thousands, except per share data)
(unaudited)

	Three months ended	
	March 31,	
	2011	2010
Revenues		
Fleet payment solutions	\$ 98,534	\$ 73,410
Other payment solutions	21,556	10,436
Total revenues	120,090	83,846
Expenses		
Salary and other personnel	25,694	19,620
Service fees	13,010	7,594
Provision for credit losses	5,659	5,911
Technology leasing and support	3,934	2,824
Occupancy and equipment	3,265	2,044
Depreciation and amortization	10,969	5,873
Operating interest expense	1,278	1,442
Cost of hardware and equipment sold	1,051	543
Other	9,058	5,802
Total operating expenses	73,918	51,653
Operating income	46,172	32,193
Financing interest expense	(2,439)	(726)
Gain on foreign currency transactions	488	
Net realized and unrealized losses on fuel price derivatives	(25,175)	(1,780)
Income before income taxes	19,046	29,687
Provision for income taxes	6,931	11,133
Net income	12,115	18,554
Changes in available-for-sale securities, net of tax effect of \$(7) in 2011 and \$18 in 2010	(12)	34

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Changes in interest rate swaps, net of tax effect of \$41 in 2011 and \$(69) in 2010	70	(117)
Foreign currency translation, net of tax effect of \$37 in 2011 and \$0 in 2010	7,683	(198)
Comprehensive income	\$ 19,856	\$ 18,273
Earnings per share:		
Basic	\$ 0.31	\$ 0.48
Diluted	\$ 0.31	\$ 0.48
Weighted average common shares outstanding:		
Basic	38,516	38,334
Diluted	38,872	39,122

See notes to condensed consolidated financial statements.

- 4 -

Table of Contents

WRIGHT EXPRESS CORPORATION
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(in thousands)
(unaudited)

	Three months ended	
	March 31,	
	2011	2010
Cash flows from operating activities		
Net income	\$ 12,115	\$ 18,554
Adjustments to reconcile net income to net cash (used for) provided by operating activities:		
Fair value change of fuel price derivatives	20,818	6,820
Stock-based compensation	2,260	1,545
Depreciation and amortization	12,203	6,030
Deferred taxes	507	7,073
Provision for credit losses	5,659	5,911
Changes in operating assets and liabilities, net of effects of acquisition:		
Accounts receivable	(262,024)	(110,802)
Other assets	(2,899)	2,497
Accounts payable	171,689	74,950
Accrued expenses	(6,424)	(6,021)
Income taxes	1,744	(424)
Other liabilities	(176)	187
Net cash (used for) provided by operating activities	(44,528)	6,320
Cash flows from investing activities		
Purchases of property and equipment	(6,423)	(6,663)
Purchases of available-for-sale securities	(1,761)	(39)
Maturities of available-for-sale securities	233	613
Acquisition of ReD - adjustment, net of cash acquired	429	
Acquisition of rapid!, net of earn out	(8,081)	
Net cash used for investing activities	(15,603)	(6,089)
Cash flows from financing activities		
Excess tax benefits from equity instrument share-based payment arrangements	3,008	582
Repurchase of share-based awards to satisfy tax withholdings	(1,540)	(955)
Proceeds from stock option exercises	2,300	1,017
Net change in deposits	128,018	(17,054)
Net change in borrowed federal funds	(59,484)	4,880
Net change in revolving line-of-credit facility	5,800	(15,600)

Net cash provided by (used for) financing activities	78,102	(27,130)
Effect of exchange rate changes on cash and cash equivalents	(154)	(30)
Net increase (decrease) in cash and cash equivalents	17,817	(26,929)
Cash and cash equivalents, beginning of period	18,045	39,304
Cash and cash equivalents, end of period	\$ 35,862	\$ 12,375
Supplemental cash flow information		
Interest paid	\$ 3,281	\$ 1,317
Income taxes paid	\$ 1,656	\$ 3,904
Conversion of preferred stock shares and accrued preferred dividends to common stock shares	\$	\$ 10,004
Significant non-cash transaction		
Acquisition of rapid! estimated earn out	\$ 10,000	\$

See notes to condensed consolidated financial statements.

Table of Contents

WRIGHT EXPRESS CORPORATION
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)
(in thousands, except per share data)
(unaudited)

1. Basis of Presentation

The accompanying unaudited condensed 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 Rule 10-01 of Regulation S-X. They do not include all information and notes required by generally accepted accounting principles (GAAP) for complete financial statements. However, except as disclosed herein, there has been no material changes in the information disclosed in the notes to consolidated financial statements included in the Annual Report on Form 10-K of Wright Express Corporation for the year ended December 31, 2010. These condensed consolidated financial statements should be read in conjunction with the financial statements that are included in the Company s Annual Report filed on Form 10-K for the year ended December 31, 2010, filed with the Securities and Exchange Commission (SEC) on February 28, 2011. When used in these notes, the term Company means Wright Express Corporation and all entities included in the consolidated financial statements. In the opinion of management, all adjustments (including normal recurring accruals) considered necessary for a fair presentation have been included. Operating results for the three-months ended March 31, 2011, are not necessarily indicative of the results that may be expected for any future quarter(s) or the year ending December 31, 2011.

In the first quarter of 2011, consolidated stockholders' equity changed because of (i) changes in other comprehensive income reflected in comprehensive income; (ii) changes in common stock and additional paid in capital reflected in the consolidated statements of cash flows (including stock-based compensation, proceeds from stock option exercises and tax activities around share-based awards); and (iii) net income.

- 6 -

Table of Contents

WRIGHT EXPRESS CORPORATION
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)
(in thousands, except per share data)
(unaudited)

2. Business Acquisitions*Acquisition of RD Card Holdings Australia Pty Ltd.*

On September 14, 2010, the Company, through its wholly-owned subsidiary, Wright Express Australia Holdings Pty Ltd, completed its acquisition of all of the outstanding shares of RD Card Holdings Australia Pty Ltd. from RD Card Holdings Limited and an intra-group note receivable from RD Card Holdings Limited (the ReD Transaction). This acquisition extends the Company's international presence and provides global revenue diversification. Consideration paid for the transaction was \$362,500 Australian Dollars (AUD) (which was equivalent to approximately \$339,600 U.S. dollars at the time of closing). This consideration included \$10,500 AUD the Company paid pursuant to the finalized working capital adjustments. The purchase price and related allocations for the ReD Transaction were revised during the first quarter of 2011 as the Company finalized its working capital adjustments as part of the consideration for the acquisition. The final purchase price and related allocations for the ReD Transaction have not been finalized as the Company is currently in the process of completing its valuation of acquired intangibles as well as certain liabilities assumed as part of the acquisition.

The following is a summary of the preliminary allocation of the purchase price to the assets and liabilities acquired:

	Preliminary Purchase Price Allocation	
	March 31, 2011	December 31, 2010
\$ USD		
Consideration paid (net of cash acquired)	\$ 339,565	\$ 339,994
Less:		
Accounts receivable	91,487	91,638
Accounts payable	(50,534)	(50,534)
Other tangible assets, net	2,203	1,970
Software	10,986	10,986
Patent	2,869	2,869
Customer relationships	73,939	73,939
Brand name	5,374	5,374
Recorded goodwill	\$ 203,241	\$ 203,752

Table of Contents

WRIGHT EXPRESS CORPORATION
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)
(in thousands, except per share data)
(unaudited)

The following represents unaudited pro forma operational results as if Wright Express Australia had been included in the Company's condensed consolidated statements of operations as of the beginning of the fiscal years:

\$ USD	Three months ended March 31, 2010
Net revenue	\$ 97,992
Net income	\$ 18,014
Pro forma net income per common share:	
Net income per share basic	\$ 0.47
Net income per share diluted	\$ 0.46

The pro forma financial information assumes the companies were combined as of January 1, 2010, and includes business combination accounting effects from the acquisition including amortization charges from acquired intangible assets, interest expense for debt incurred in the acquisition and net income tax effects. The pro forma results of operations do not include any cost savings or other synergies that may result from the acquisition or any estimated costs that have been or will be incurred by the Company to integrate Wright Express Australia. The pro forma information as presented above is for informational purposes only and is not indicative of the results of operations that would have been achieved if the acquisition had taken place at the beginning of fiscal 2010.

Acquisition of rapid! Financial Services LLC.

On March 31, 2011, the Company acquired certain assets of rapid! Financial Services LLC (rapid!) for approximately \$18,000 including an estimate of consideration for future performance milestones of \$10,000. rapid! is a provider of payroll debit cards, e-paystubs and e-W-2s, and is focused on small and medium sized businesses. The operations of rapid! will be included in the Other Payment Solutions segment. The Company has allocated the purchase price of the acquisition based upon the preliminary fair values of the assets acquired and liabilities assumed. In connection with the fair valuing of the assets acquired and liabilities assumed, management is in the process of performing assessments of intangible assets using customary valuation procedures and techniques. The purchase price and related allocations for the rapid! acquisition have not been finalized.

The following is a summary of the preliminary allocation of the purchase price to the assets and liabilities acquired:

Consideration paid (including estimated \$10,000 earn out)	\$ 18,081
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Less:	
Accounts receivable	75
Accounts payable	(85)
Other tangible assets, net	105
Customer relationships ^(a)	3,597
Recorded goodwill	\$ 14,389

^(a) The weighted average life has not been determined at this time.

No pro forma information for 2010 has been included in these financial statements as the operations of rapid! for the period that they were not part of the Company, are immaterial to the Company's revenues, net income and earnings per share.

Table of Contents

WRIGHT EXPRESS CORPORATION
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)
(in thousands, except per share data)
(unaudited)

3. Goodwill and Other Intangible Assets*Goodwill*

The changes in goodwill during the first three months of 2011 were as follows:

	Fleet Payment Solutions Segment	Other Payment Solutions Segment	Total
Balance at December 31, 2010	\$ 510,396	\$ 26,659	\$ 537,055
Impact of foreign currency translation	2,983	247	3,230
ReD purchase price adjustment	(639)	127	(512)
Acquisition of rapid!		14,389	14,389
 Balance at March 31, 2011	 \$ 512,740	 \$ 41,422	 \$ 554,162

Other Intangible Assets

The changes in other intangible assets during the first three months of 2011 were as follows:

	Net Carrying Amount, December 31, 2010	Acquisition	Amortization	Impact of foreign currency translation	Net Carrying Amount, March 31, 2011
Definite-lived intangible assets					
Acquired software	\$ 22,640	\$	\$ (1,029)	\$ 149	\$ 21,760
Customer relationships	88,788	3,597	(4,425)	1,062	89,022
Trade name					
Patent	2,982		(111)	41	2,912
Indefinite-lived intangible assets					
Trademarks and trade names	10,317			85	10,402
Total	\$ 124,727	\$ 3,597	\$ (5,565)	\$ 1,337	\$ 124,096

The Company expects amortization expense related to the definite-lived intangible assets above to be as follows: \$17,145 for April 1, 2011 through December 31, 2011; \$17,821 for 2012; \$15,570 for 2013; \$12,844 for 2014; \$10,501 for 2015 and \$8,766 for 2016.

- 9 -

Table of Contents

WRIGHT EXPRESS CORPORATION
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)
(in thousands, except per share data)
(unaudited)

Other intangible assets consist of the following:

March 31, 2011			December 31, 2010		
Gross		Net	Gross		Net
Carrying	Accumulated	Carrying	Carrying	Accumulated	Carrying
Amount	Amortization	Amount	Amount	Amortization	Amount

Definite-lived intangible assets

Acquired software