

Wright Express CORP
Form 10-Q
July 27, 2010

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

(Mark One)

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

For the quarterly period ended June 30, 2010

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 Smaller reporting company
(Do not check if a 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

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 July 20, 2010
Common Stock, \$0.01 par value per share	38,262,848 shares

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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, estimate, believe, expect and 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 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 credit losses; the amount of full year interest rates; financial loss if we determine it necessary to unwind our derivative instrument position prior to the expiration of the contract; as well as other risks and uncertainties identified in Item 1A of our Annual Report for the year ended December 31, 2009, filed on Form 10-K with the Securities and Exchange Commission on February 26, 2010. 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 in this Quarterly Report 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.

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

	June 30, 2010	December 31, 2009
Assets		
Cash and cash equivalents	\$ 13,208	\$ 39,304
Accounts receivable (less reserve for credit losses of \$7,707 in 2010 and \$10,660 in 2009)	1,025,898	844,152
Income taxes receivable	529	
Available-for-sale securities	9,639	10,596
Fuel price derivatives, at fair value	5,865	6,152
Property, equipment and capitalized software, net	49,382	44,991
Deferred income taxes, net	168,166	183,602
Goodwill	315,071	315,227
Other intangible assets, net	31,923	34,815
Other assets	19,338	20,823
Total assets	\$1,639,019	\$1,499,662
Liabilities and Stockholders Equity		
Accounts payable	\$ 376,730	\$ 283,149
Accrued expenses	28,004	30,861
Income taxes payable		1,758
Deposits	519,565	423,287
Borrowed federal funds	24,818	71,723
Revolving line-of-credit facility	91,200	128,000
Other liabilities	1,767	1,815
Amounts due under tax receivable agreement	103,848	107,753
Preferred stock; 10,000 shares authorized: Series A non-voting convertible, redeemable preferred stock; 0.1 shares issued and outstanding		10,000
Total liabilities	\$1,145,932	\$1,058,346
Commitments and contingencies (Note 8)		
Stockholders Equity		
Common stock \$0.01 par value; 175,000 shares authorized, 41,839 in 2010 and 41,167 in 2009 shares issued; 38,605 in 2010 and 38,196 in 2009	418	412

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shares outstanding		
Additional paid-in capital	126,223	112,063
Retained earnings	460,728	412,138
Other comprehensive loss, net of tax:		
Net unrealized gain on available-for-sale securities	131	23
Net unrealized loss on interest rate swaps	(272)	(176)
Net foreign currency translation adjustment	(667)	(134)
Accumulated other comprehensive loss	(808)	(287)
Less treasury stock at cost, 3,305 shares in 2010 and 2,971 shares in 2009	(93,474)	(83,010)
Total stockholders' equity	493,087	441,316
Total liabilities and stockholders' equity	\$1,639,019	\$1,499,662

See notes to unaudited condensed consolidated financial statements.

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

	Three months ended		Six months ended	
	June 30,		June 30,	
	2010	2009	2010	2009
Service Revenues				
Payment processing revenue	\$65,604	\$ 53,043	\$123,368	\$ 97,357
Transaction processing revenue	4,242	4,363	8,401	8,661
Account servicing revenue	8,241	9,308	16,510	18,267
Finance fees	8,502	7,279	16,886	14,343
Other	4,119	2,938	8,683	5,737
Total service revenues	90,708	76,931	173,848	144,365
Product Revenues				
Hardware and equipment sales	727	944	1,433	2,008
Total revenues	91,435	77,875	175,281	146,373
Expenses				
Salary and other personnel	20,447	18,259	40,067	36,112
Service fees	9,468	5,974	17,062	12,156
Provision for credit losses	2,851	2,567	8,762	6,802
Technology leasing and support	3,261	2,237	6,085	4,397
Occupancy and equipment	2,043	1,969	4,087	4,357
Depreciation and amortization	5,737	5,338	11,610	10,583
Operating interest expense	1,429	2,563	2,871	6,701
Cost of hardware and equipment sold	655	763	1,198	1,756
Other	6,197	5,833	12,002	11,813
Total operating expenses	52,088	45,503	103,744	94,677
Operating income	39,347	32,372	71,537	51,696
Financing interest expense	(693)	(2,048)	(1,419)	(4,068)
Gain (loss) on foreign currency transactions	40	(12)	43	(12)
Gain on settlement of portion of amounts due under tax receivable agreement		136,485		136,485
Net realized and unrealized gain (loss) on fuel price derivatives	9,363	(18,110)	7,583	(17,457)

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Increase in amount due under tax receivable agreement				(570)
Income before income taxes	48,057	148,687	77,744	166,074
Income taxes	18,021	55,497	29,154	61,907
Net income	30,036	93,190	48,590	104,167
Changes in available-for-sale securities, net of tax effect of \$41 and \$59 in 2010 and \$(11) and \$21 in 2009	74	(20)	108	37
Changes in interest rate swaps, net of tax effect of \$13 and \$(56) in 2010 and \$410 and \$816 in 2009	21	708	(96)	1,408
Foreign currency translation	(335)	(150)	(533)	(174)
Comprehensive income	\$29,796	\$ 93,728	\$ 48,069	\$105,438
Earnings per share:				
Basic	\$.77	\$ 2.43	\$ 1.26	\$ 2.71
Diluted	\$.77	\$ 2.36	\$ 1.24	\$ 2.65
Weighted average common shares outstanding:				
Basic	38,830	38,418	38,582	38,378
Diluted	39,136	39,517	39,115	39,356

See notes to unaudited condensed consolidated financial statements.

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

	Six months ended June 30,	
	2010	2009
Cash flows from operating activities		
Net income	\$ 48,590	\$ 104,167
Adjustments to reconcile net income to net cash used for operating activities:		
Fair value change of fuel price derivatives	287	29,045
Stock-based compensation	2,976	2,862
Depreciation and amortization	12,067	10,897
Gain on settlement of portion of amounts due under tax receivable agreement		(136,485)
Deferred taxes	15,428	51,163
Provision for credit losses	8,762	6,802
Loss on disposal of property and equipment		31
Impairment of internal-use software		421
Changes in operating assets and liabilities:		
Accounts receivable	(190,626)	(207,724)
Other assets	1,171	(2,189)
Accounts payable	93,653	117,109
Accrued expenses	(2,975)	(8,154)
Income taxes	(2,283)	10,353
Other liabilities	(29)	(1,627)
Amounts due under tax receivable agreement	(3,905)	(60,527)
Net cash used for operating activities	(16,884)	(83,856)
Cash flows from investing activities		
Purchases of property and equipment	(13,455)	(8,904)
Reinvestment of dividends on available-for-sale securities	(77)	(81)
Maturities of available-for-sale securities	1,198	1,535
Net cash used for investing activities	(12,334)	(7,450)
Cash flows from financing activities		
Excess tax benefits from share-based payment arrangements	981	
Repurchase of share-based awards to satisfy tax withholdings	(1,762)	(899)
Proceeds from stock option exercises	1,970	47
Net increase (decrease) in deposits	96,278	(133,981)
Net (decrease) increase in borrowed federal funds	(46,905)	48,153
Net change in revolving line-of-credit facility	(36,800)	21,200
Purchase of shares of treasury stock	(10,464)	(2,018)

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Net cash provided by (used for) financing activities	3,298	(67,498)
Effect of exchange rate changes on cash and cash equivalents	(176)	5
Net change in cash and cash equivalents	(26,096)	(158,799)
Cash and cash equivalents, beginning of period	39,304	183,117
Cash and cash equivalents, end of period	\$ 13,208	\$ 24,318
Supplemental cash flow information		
Interest paid	\$ 1,317	\$ 19,755
Income taxes paid	\$ 15,031	\$ 390
Conversion of preferred stock shares and accrued preferred dividends to common stock shares	\$ 10,004	\$
<i>See notes to unaudited condensed consolidated financial statements.</i>		

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WRIGHT EXPRESS CORPORATION
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(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 change 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, 2009. 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, 2009, filed with the Securities and Exchange Commission (SEC) on February 26, 2010. 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-month and six-month periods ended June 30, 2010, are not necessarily indicative of the results that may be expected for any future quarter(s) or the year ending December 31, 2010.

The condensed consolidated statement of income for the three and six month periods ended June 30, 2009 have been corrected for an immaterial error related to the classification of customer discounts for electronic payments. For the three months ended June 30, 2009, payment processing revenue decreased from \$53.8 to \$53.0 and operating interest expense decreased from \$3.3 to \$2.5. For the six months ended June 30, 2009, payment processing revenue decreased from \$98.8 to \$97.4 and operating interest expense decreased from \$8.1 to \$6.7. Operating income and net income were not impacted by this change, nor was there any impact on either the condensed consolidated statement of cash flows or the condensed consolidated balance sheet.

2. Goodwill and Other Intangible Assets*Goodwill*

The changes in goodwill during the first six months of 2010 were as follows:

	Fleet Segment	MasterCard Segment	Total
Balance at December 31, 2009	\$305,514	\$ 9,713	\$315,227
Impact of foreign currency translation	(156)		(156)
Balance at June 30, 2010	\$305,358	\$ 9,713	\$315,071

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

Other Intangible Assets

The changes in other intangible assets during the first six months of 2010 were as follows:

	Net Carrying Amount, December 31, 2009	Amortization	Impact of Foreign Currency Translation	Net Carrying Amount, June 30, 2010
Definite-lived intangible assets				
Software	\$ 13,565	\$ (1,077)	\$	\$ 12,488
Customer relationships	16,731	(1,586)	(202)	14,943
Trade name	54	(27)		27
Indefinite-lived intangible assets				
Trademarks and trade names	4,465			4,465
Total	\$ 34,815	\$ (2,690)	\$ (202)	\$ 31,923

The Company expects amortization expense related to the definite-lived intangible assets above as follows: \$2,703 for July 1, 2010 through December 31, 2010; \$4,710 for 2011; \$4,075 for 2012; \$3,459 for 2013; \$2,481 for 2014; and \$2,258 for 2015.

Other intangible assets consist of the following:

	June 30, 2010			December 31, 2009		
	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount
Beginning Balance						
Software	\$ 16,300	\$ (3,812)	\$ 12,488	\$ 16,300	\$ (2,735)	\$ 13,565
Customer relationships	24,641	(9,698)	14,943	24,858	(8,127)	16,731
Trade name	100	(73)	27	100	(46)	54
	\$ 41,041	\$ (13,583)	27,458	\$ 41,258	\$ (10,908)	30,350
Indefinite-lived intangible assets						
			4,465			4,465

Trademarks and trade
names

Total	\$ 31,923	\$ 34,815
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WRIGHT EXPRESS CORPORATION
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)
(in thousands, except per share data)
(unaudited)

3. Earnings per Common Share

The following is a reconciliation of the income and share data used in the basic and diluted earnings per share computations for the three and six months ended June 30, 2010 and 2009:

	Three months ended		Six months ended	
	June 30,		June 30,	
	2010	2009	2010	2009
Income available for common stockholders				
Basic	\$30,036	\$93,190	\$48,590	\$104,167
Convertible, redeemable preferred stock		68	40	150
Income available for common stockholders				
Diluted	\$30,036	\$93,258	\$48,630	\$104,317
Weighted average common shares outstanding				
Basic	38,830	38,418	38,582	38,378
Unvested restricted stock units	127	400	135	392
Stock options	179	255	193	142
Convertible, redeemable preferred stock		444	205	444
Weighted average common shares outstanding				
Diluted	39,136	39,517	39,115	39,356

No shares were considered anti-dilutive during the periods reported.

4. Derivative Instruments

The Company is exposed to certain risks relating to its ongoing business operations. The primary risks managed by using derivative instruments are interest rate risk and commodity price risk. Interest rate swap arrangements are entered into to manage interest rate risk associated with the Company's variable-rate borrowings. The Company also enters into put and call option contracts based on the wholesale price of gasoline and retail price of diesel fuel, which settle on a monthly basis. These put and call option contracts, or fuel price derivative instruments, are designed to reduce the volatility of the Company's cash flows associated with its fuel price-related earnings exposure.

Accounting guidance requires companies to recognize all derivative instruments as either assets or liabilities at fair value in the statement of financial position. The Company designates interest rate swap arrangements as cash flow hedges of the forecasted interest payments on a portion of its variable-rate credit agreement. The Company's fuel price derivative instruments do not qualify for hedge accounting treatment under current guidance, and therefore, no such hedging designation has been made. Because the derivatives are either accounting or economic hedge operational exposures, cash flows from the settlement of such contracts are included in Cash flows from operating activities on the Condensed Consolidated Statements of Cash Flows.

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

Cash Flow Hedges

For derivative instruments that are designated and qualify as a cash flow hedge, the effective portion of the gain or loss on the de