

FLEETCOR TECHNOLOGIES INC

Form 10-Q

May 12, 2014

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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

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

For the quarterly period ended March 31, 2014

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: 001-35004

FleetCor Technologies, Inc.

(Exact name of registrant as specified in its charter)

<p>Delaware (State or other jurisdiction of incorporation or organization)</p>	<p>72-1074903 (I.R.S. Employer Identification No.)</p>
<p>5445 Triangle Parkway, Norcross, Georgia (Address of principal executive offices)</p>	<p>30092 (Zip Code)</p>
<p>Registrant's telephone number, including area code: (770) 449-0479</p>	

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 (§232.405 of this chapter) 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 the definitions of large accelerated filer, accelerated filer and smaller reporting company in Rule 12b-2 of the Exchange Act.

Large accelerated filer <input checked="" type="checkbox"/>	Accelerated filer <input type="checkbox"/>
Non-accelerated filer <input type="checkbox"/> (Do not check if a smaller reporting company)	Smaller reporting company <input type="checkbox"/>

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 April 30, 2014
Common Stock, \$0.001 par value	82,932,102

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FLEETCOR TECHNOLOGIES, INC. AND SUBSIDIARIES

FORM 10-Q

For the Three Month Period Ended March 31, 2014

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Table of Contents**PART I FINANCIAL INFORMATION****Item 1. Financial Statements****FleetCor Technologies, Inc. and Subsidiaries****Consolidated Balance Sheets***(In Thousands, Except Share and Par Value Amounts)*

	March 31, 2014 (Unaudited)	December 31, 2013
Assets		
Current assets:		
Cash and cash equivalents	\$ 283,374	\$ 338,105
Restricted cash	46,840	48,244
Accounts receivable (less allowance for doubtful accounts of \$21,763 and \$22,416, respectively)	682,753	573,351
Securitized accounts receivable restricted for securitization investors	393,500	349,000
Prepaid expenses and other current assets	60,684	40,062
Deferred income taxes	4,258	4,750
Total current assets	1,471,409	1,353,512
Property and equipment	118,458	111,100
Less accumulated depreciation and amortization	(63,567)	(57,144)
Net property and equipment	54,891	53,956
Goodwill	1,561,530	1,552,725
Other intangibles, net	860,898	871,263
Other assets	87,989	100,779
Total assets	\$ 4,036,717	\$ 3,932,235
Liabilities and stockholders equity		
Current liabilities:		
Accounts payable	\$ 578,507	\$ 467,202
Accrued expenses	111,275	114,870
Customer deposits	174,683	182,541
Securitization facility	393,500	349,000
Current portion of notes payable and lines of credit	532,868	662,439
Other current liabilities	119,260	132,846
Total current liabilities	1,910,093	1,908,898

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Notes payable and other obligations, less current portion	459,916	474,939
Deferred income taxes	248,066	249,504
Other noncurrent liabilities	52,462	55,001
Total noncurrent liabilities	760,444	779,444
Commitments and contingencies (Note 11)		
Stockholders' equity:		
Common stock, \$0.001 par value; 475,000,000 shares authorized; 118,671,070 shares issued and 82,936,578 shares outstanding at March 31, 2014; and 118,206,262 shares issued and 82,471,770 shares outstanding at December 31, 2013	118	117
Additional paid-in capital	662,917	631,667
Retained earnings	1,110,307	1,035,198
Accumulated other comprehensive loss	(31,499)	(47,426)
Less treasury stock (35,734,492 shares at March 31, 2014 and December 31, 2013)	(375,663)	(375,663)
Total stockholders' equity	1,366,180	1,243,893
Total liabilities and stockholders' equity	\$ 4,036,717	\$ 3,932,235

See accompanying notes to unaudited consolidated financial statements.

Table of Contents**FleetCor Technologies, Inc. and Subsidiaries****Unaudited Consolidated Statements of Income***(In Thousands, Except Per Share Amounts)*

	Three months ended March 31,	
	2014	2013
Revenues, net	\$ 253,908	\$ 193,651
Expenses:		
Merchant commissions	17,623	13,861
Processing	36,856	29,943
Selling	17,414	11,704
General and administrative	43,461	29,261
Depreciation and amortization	24,418	14,629
Operating income	114,136	94,253
Other expense, net	544	292
Interest expense, net	5,461	3,448
Total other expense	6,005	3,740
Income before income taxes	108,131	90,513
Provision for income taxes	33,022	25,851
Net income	\$ 75,109	\$ 64,662
Earnings per share:		
Basic earnings per share	\$ 0.91	\$ 0.80
Diluted earnings per share	\$ 0.88	\$ 0.77
Weighted average shares outstanding:		
Basic weighted average shares outstanding	82,737	81,222
Diluted weighted average shares outstanding	85,695	83,960

See accompanying notes to unaudited consolidated financial statements.

Table of Contents**FleetCor Technologies, Inc. and Subsidiaries**
Consolidated Statements of Comprehensive Income*(In Thousands)*

	Three Months Ended March 31,	
	2014	2013
Net income	\$ 75,109	\$ 64,662
Other comprehensive income:		
Foreign currency translation adjustment gain (loss), net of tax of \$0 for each period	15,927	(10,732)
Total other comprehensive income (loss)	15,927	(10,732)
Total comprehensive income	\$ 91,036	\$ 53,930

See accompanying notes to unaudited consolidated financial statements.

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FleetCor Technologies, Inc. and Subsidiaries
Unaudited Consolidated Statements of Cash Flows
(In Thousands)

	Three months ended March 31,	
	2014	2013
Operating activities		
Net income	\$ 75,109	\$ 64,662
Adjustments to reconcile net income to net cash provided by (used in) operating activities:		
Depreciation	4,801	4,031
Stock-based compensation	10,612	4,162
Provision for losses on accounts receivable	5,554	4,460
Amortization of deferred financing costs	531	760
Amortization of intangible assets	18,272	9,022
Amortization of premium on receivables	814	816
Deferred income taxes	603	(1,012)
Changes in operating assets and liabilities (net of acquisitions):		
Restricted cash	1,404	4,327
Accounts receivable	(153,184)	(192,483)
Prepaid expenses and other current assets	(7,111)	3,194
Other assets	545	40,113
Excess tax benefits related to stock-based compensation	(16,126)	(5,843)
Accounts payable, accrued expenses and customer deposits	109,670	50,101
Net cash provided by (used in) operating activities	51,494	(13,690)
Investing activities		
Acquisitions, net of cash acquired	(19,292)	(94,773)
Purchases of property and equipment	(5,584)	(4,762)
Net cash used in investing activities	(24,876)	(99,535)
Financing activities		
Excess tax benefits related to stock-based compensation	16,126	5,843
Proceeds from issuance of common stock	4,512	5,256
Borrowings on securitization facility, net	44,500	87,000
Deferred financing costs paid	(521)	(1,830)
Principal payments on notes payable	(6,875)	(7,500)
Payments on revolver A Facility	(134,803)	(25,000)
Payments on foreign revolver B Facility	(3,601)	
Borrowings from swing line of credit, net	15	
Other	(246)	(178)

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Net cash (used in) provided by financing activities	(80,893)	63,591
Effect of foreign currency exchange rates on cash	(456)	(9,402)
Net decrease in cash and cash equivalents	(54,731)	(59,036)
Cash and cash equivalents, beginning of period	338,105	283,649
Cash and cash equivalents, end of period	\$ 283,374	\$ 224,613
Supplemental cash flow information		
Cash paid for interest	\$ 6,264	\$ 3,863
Cash paid for income taxes	\$ 20,865	\$ 38,426

See accompanying notes to unaudited consolidated financial statements.

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FleetCor Technologies, Inc. and Subsidiaries

Notes to Unaudited Consolidated Financial Statements

March 31, 2014

1. Summary of Significant Accounting Policies

Basis of Presentation

Throughout this report, the terms our, we, us, and the Company refers to FleetCor Technologies, Inc. and its subsidiaries. The Company prepared the accompanying interim consolidated financial statements in accordance with Rule 10-01 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by accounting principles generally accepted in the United States (GAAP). The unaudited consolidated financial statements reflect all adjustments considered necessary for fair presentation. These adjustments consist primarily of normal recurring accruals and estimates that impact the carrying value of assets and liabilities. Actual results may differ from these estimates. Operating results for the three month period ended March 31, 2014 are not necessarily indicative of the results that may be expected for the year ending December 31, 2014.

The unaudited consolidated interim financial statements should be read in conjunction with the audited consolidated financial statements and notes thereto included in the Company s Annual Report on Form 10-K for the year ended December 31, 2013.

Foreign Currency Translation

Assets and liabilities of foreign subsidiaries are translated into U.S. dollars at the rates of exchange in effect at period-end. The related translation adjustments are made directly to accumulated other comprehensive income. Income and expenses are translated at the average monthly rates of exchange in effect during the period. Gains and losses from foreign currency transactions of these subsidiaries are included in net income. The Company recognized a foreign exchange gain of \$530,686 and a loss of \$145,000 for the three months ended March 31, 2014 and March 31, 2013, respectively, which are recorded within other expense, net in the Unaudited Consolidated Statements of Income.

Adoption of New Accounting Standards

Foreign Currency

In March 2013, the Financial Accounting Standards Board (the FASB) issued Accounting Standards Update (ASU) 2013-05 Parent s Accounting for the Cumulative Translation Adjustment upon Derecognition of Certain Subsidiaries or Groups of Assets within a Foreign Entity or of an Investment in a Foreign Entity , which indicates that the entire amount of a cumulative translation adjustment (CTA) related to an entity s investment in a foreign entity should be released when there has been a sale of a subsidiary or group of net assets within a foreign entity and the sale represents the substantially complete liquidation of the investment in the foreign entity, loss of a controlling financial interest in an investment in a foreign entity (i.e., the foreign entity is deconsolidated) or step acquisition for a foreign entity (i.e., when an entity has changed from applying the equity method for an investment in a foreign entity to consolidating the foreign entity). The ASU does not change the requirement to release a pro rata portion of the CTA of the foreign entity into earnings for a partial sale of an equity method investment in a foreign entity. This ASU is effective for the Company for fiscal years and interim periods within those fiscal years beginning on or after December 15, 2013. The Company s adoption of this ASU did not have a material impact on the Company s results of operations, financial

condition, or cash flows.

Unrecognized Tax Benefit When an NOL Exists

In July 2013, the FASB issued ASU 2013-11 Presentation of an Unrecognized Tax Benefit When a Net Operating Loss Carryforward, a Similar Tax Loss, or a Tax Credit Carryforward Exists, which indicates that to the extent a net operating loss carryforward, a similar tax loss, or a tax credit carryforward is not available at the reporting date under the tax law of the applicable jurisdiction to settle any additional income taxes that would result from the disallowance of a tax position or the tax law of the applicable jurisdiction does not require the entity to use, and the entity does not intend to use, the deferred tax asset for such purpose, the unrecognized tax benefit should be presented in the financial statements as a liability and should not be combined with deferred tax assets. This ASU is effective for the Company for fiscal years and interim periods within those fiscal years beginning on or after December 15, 2013. The Company's adoption of this ASU did not have a material impact on the Company's results of operations, financial condition, or cash flows.

2. Accounts Receivable

The Company maintains a \$500 million revolving trade accounts receivable Securitization Facility. Pursuant to the terms of the Securitization Facility, the Company transfers certain of its domestic receivables, on a revolving basis, to FleetCor Funding LLC (Funding) a wholly-owned bankruptcy remote subsidiary. In turn, Funding sells, without recourse, on a revolving basis, up to \$500 million of undivided ownership interests in this pool of accounts receivable to a multi-seller, asset-backed commercial paper conduit (Conduit). Funding maintains a subordinated interest, in the form of over-collateralization, in a portion of the receivables sold to the Conduit. Purchases by the Conduit are financed with the sale of highly-rated commercial paper.

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The Company utilizes proceeds from the sale of its accounts receivable as an alternative to other forms of debt, to reduce its overall borrowing costs. The Company has agreed to continue servicing the sold receivables for the financial institution at market rates, which approximates the Company's cost of servicing. The Company retains a residual interest in the accounts receivable sold as a form of credit enhancement. The residual interest's fair value approximates carrying value due to its short-term nature. Funding determines the level of funding achieved by the sale of trade accounts receivable, subject to a maximum amount.

On February 3, 2014, the Company extended the term of its asset securitization facility to February 2, 2015. The Company capitalized \$0.5 million in deferred financing fees in connection with this extension.

The Company's accounts receivable and securitized accounts receivable include the following at March 31, 2014 and December 31, 2013 (in thousands):

	March 31, 2014	December 31, 2013
Gross domestic accounts receivable	\$ 148,786	\$ 107,627
Gross domestic securitized accounts receivable	393,500	349,000
Gross foreign receivables	555,730	488,140
Total gross receivables	1,098,016	944,767
Less allowance for doubtful accounts	(21,763)	(22,416)
Net accounts and securitized accounts receivable	\$ 1,076,253	\$ 922,351

Foreign receivables are not included in the Company's accounts receivable securitization program. At March 31, 2014 and December 31, 2013, there was \$393.5 million and \$349 million, respectively, of short-term debt outstanding under the Company's accounts receivable Securitization Facility.

A rollforward of the Company's allowance for doubtful accounts related to accounts receivable for three months ended March 31 is as follows (in thousands):

	2014	2013
Allowance for doubtful accounts beginning of period	\$ 22,416	\$ 19,463
Add:		
Provision for bad debts	5,554	4,460
Less:		
Write-offs	(6,207)	(4,347)