Wright Express CORP
Form 10-Q
July 27, 2010

Table of Contents

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

(Mark One)

þ **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

o **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	**01-0526993**
(State or other jurisdiction of incorporation or organization)	*(I.R.S. Employer Identification No.)*
97 Darling Avenue, South Portland, Maine	**04106**
(Address of principal executive offices)	*(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.

þ Yes o 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).

þ Yes o 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 þ	Accelerated filer o	Non-accelerated filer o *(Do not check if a smaller reporting company)*	Smaller reporting company o

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

o Yes þ 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

TABLE OF CONTENTS

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, proj 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.

Table of Contents

PART I

Item 1. Financial Statements.

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

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.

Table of Contents

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

	Three months ended June 30, 2010	Three months ended June 30, 2009	Six months ended June 30, 2010	Six months ended June 30, 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)

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.

Table of Contents

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

	Six months ended June 30, 2010	Six months ended June 30, 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)

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**	$

See notes to unaudited condensed consolidated financial statements.

Table of Contents

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

Table of Contents

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

-7-

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 June 30,		Six months ended 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.

Table of Contents

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 derivative is reported as a component of other comprehensive income (loss) and reclassified into earnings in the same period or periods during which the hedged transaction affects earnings. Gains and losses on the derivative representing either hedge ineffectiveness or hedge components excluded from the assessment of effectiveness are recognized in current earnings. As of June 30, 2010, the Company had the following outstanding interest rate swap arrangements that were entered into to hedge forecasted interest payments:

	Weighted-Average Base Rate	Aggregate Notional Amount
Interest rate swap arrangements settling through July 2011	1.35%	$50,000

Derivatives Not Designated as Hedging Instruments

For derivative instruments that are not designated as hedging instruments, the gain or loss on the derivative is recognized in current earnings. As of June 30, 2010, the Company had the following put and call option contracts which settle on a monthly basis:

	Aggregate Notional Amount (gallons) [(a)]
Fuel price derivative instruments unleaded fuel	
Option contracts settling July 2010 December 2011	30,150
Fuel price derivative instruments diesel	
Option contracts settling July 2010 December 2011	13,546
Total fuel price derivative instruments	43,696

(a) The settlement of the put and call option contracts is based upon the New York Mercantile Exchange s New York Harbor Reformulated

Gasoline Blendstock for Oxygen Blending and the U.S. Department of Energy s weekly retail on-highway diesel fuel price for the month.

Table of Contents

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

The following table presents information on the location and amounts of derivative fair values in the condensed consolidated balance sheets:

	Asset Derivatives				Liability Derivatives			
	June 30, 2010		December 31, 2009		June 30, 2010		December 31, 2009	
	Balance Sheet Location	Fair Value	Balance Sheet Location	Fair Value	Balance Sheet Location	Fair Value	Balance Sheet Location	Fair Value
Derivatives designated as hedging instruments								
Interest rate contracts	Other assets	$	Other assets	$	Accrued expenses	$ 430	Accrued expenses	$ 278
Derivatives not designated as hedging instruments								
Commodity contracts	Fuel price derivatives, at fair value	5,865	Fuel price derivatives, at fair value	6,152	Fuel price derivatives, at fair value		Fuel price derivatives, at fair value	
Total derivatives		$ 5,865		$ 6,152		$ 430		$ 278

The following table presents information on the location and amounts of derivative gains and losses in the condensed consolidated statements of income:

Amount of Gain or	Amount of Gain or (Loss) Reclassified from Accumulated OCI into	Location of Gain or	Amount of Gain or (Loss) Recognized in Income on Derivative (Ineffective Portion

Derivatives Designated as Hedging Instruments	(Loss) Recognized in OCI on Derivative (Effective Portion) [(a)] Three months ended June 30, 2010	2009	Location of Gain or (Loss) Reclassified from Accumulated OCI into Income (Effective Portion)	Income (Effective Portion) Three months ended June 30, 2010	2009	(Loss) Recognized in Income on Derivative (Ineffective Portion and Amount Excluded from Effectiveness Testing) [(b)]	and Amount Excluded from Effectiveness Testing) Three months ended June 30, 2010	2009
Interest rate contracts	$ 21	$ 708	Financing interest expense	$ (137)	$ (1,238)	Financing interest expense	$	$

Derivatives Not Designated as Hedging Instruments	Location of Gain or (Loss) Recognized in Income on Derivative	Amount of Gain or (Loss) Recognized in Income on Derivative Three months ended June 30, 2010	2009
Commodity contracts	Net realized and unrealized gain (loss) on fuel price derivatives	$ 9,363	$ (18,110)

(a) The amount of gain or (loss) recognized in OCI on the Company s interest rate swap arrangements has been recorded net of tax impacts of $13 in 2010 and $410 in 2009.

(b) No ineffectiveness was reclassified into earnings nor was any amount excluded from effectiveness testing.

Table of Contents

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

Derivatives Designated as Hedging Instruments	Amount of Gain or (Loss) Recognized in OCI on Derivative (Effective Portion) [a] Six months ended June 30, 2010	2009	Location of Gain or (Loss) Reclassified from Accumulated OCI into Income (Effective Portion)	Amount of Gain or (Loss) Reclassified from Accumulated OCI into Income (Effective Portion) Six months ended June 30, 2010	2009	Location of Gain or (Loss) Recognized in Income on Derivative (Ineffective Portion and Amount Excluded from Effectiveness Testing) [b]	Amount of Gain or (Loss) Recognized in Income on Derivative (Ineffective Portion and Amount Excluded from Effectiveness Testing) Six months ended June 30, 2010	2009
Interest rate contracts	$ (96)	$ 1,408	Financing interest expense	$ (277)	$ (2,471)	Financing interest expense	$	$

Derivatives Not Designated as Hedging Instruments	Location of Gain or (Loss) Recognized in Income on Derivative	Amount of Gain or (Loss) Recognized in Income on Derivative Six months ended June 30, 2010	2009
Commodity contracts	Net realized and unrealized gain (loss) on fuel price derivatives	$ 7,583	$ (17,457)

(a) The amount of gain or (loss) recognized in OCI on the Company s interest rate swap arrangements has been recorded net of tax impacts of $(56) in 2010 and $816 in 2009.

(b) No ineffectiveness was reclassified into earnings nor was any amount excluded from effectiveness testing.

5. Fair Value

The Company holds mortgage-backed securities, fixed income and equity securities, derivatives and certain other financial instruments which are carried at fair value. The Company determines fair value based upon quoted prices when available or through the use of alternative approaches, such as model pricing, when market quotes are not readily accessible or available. In determining the fair value of the Company s obligations, various factors are considered including: closing exchange or over-the-counter market price quotations; time value and volatility factors underlying options and derivatives; price activity for equivalent instruments; and the Company s own-credit standing.

These valuation techniques may be based upon observable and unobservable inputs. Observable inputs reflect market data obtained from independent sources, while unobservable inputs reflect the Company s market assumptions. These two types of inputs create the following fair value hierarchy:

Level 1 Quoted prices for identical instruments in active markets.

Level 2 Quoted prices for similar instruments in active markets; quoted prices for identical or similar instruments in markets that are not active; and model-derived valuations whose inputs are observable or whose significant value drivers are observable.

Level 3 Instruments whose significant value drivers are unobservable.

Table of Contents

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

The following table presents the Company s assets and liabilities that are measured at fair value and the related hierarchy levels:

		Fair Value Measurements at Reporting Date Using		
	June 30, 2010	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Assets:				
Mortgage-backed securities	$2,459	$	$2,459	$
Asset-backed securities	2,679		2,679	
Municipal bonds	100		100	
Equity securities	4,401	4,401		
Total available-for-sale securities	$9,639	$4,401	$5,238	$
Executive deferred compensation plan trust [(a)]	$1,771	$1,771	$	$
Fuel price derivatives diesel	$1,775	$	$	$ 1,775
Fuel price derivatives unleaded fuel	4,090		4,090	
Total fuel price derivatives	$5,865	$	$4,090	$ 1,775
Liabilities:				
July 2009 interest rate swap arrangements with a base rate of 1.35% and an aggregate notional amount of $50,000	$ 430	$	$ 430	$
Total interest rate swap arrangements [(b)]	$ 430	$	$ 430	$

(a) The fair value of these instruments is recorded in other assets.

(b) The fair value of these instruments is recorded in accrued expenses.

Table of Contents

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

The following table presents a reconciliation of the beginning and ending balances for assets measured at fair value on a recurring basis using significant unobservable inputs (Level 3) during the six months ended June 30, 2010:

	Fuel Price Derivatives Diesel
Beginning balance	**$2,641**
Total losses realized/unrealized	
Included in earnings [(a)]	**(866)**
Included in other comprehensive income	
Purchases, issuances and settlements	
Transfers in/(out) of Level 3	
Ending balance	**$1,775**

(a) Gains and losses (realized and unrealized) included in earnings for the six months ended June 30, 2010, are reported in net realized and unrealized losses on fuel price derivatives on the condensed consolidated statements of income.

Available-for-sale securities and executive deferred compensation plan trust

When available, the Company uses quoted market prices to determine the fair value of available-for-sale securities; such items are classified in Level 1 of the fair-value hierarchy. These securities primarily consist of exchange-traded equity securities.

For mortgage-backed and asset-backed securities and bonds, the Company generally uses quoted prices for recent trading activity of assets with similar characteristics to the debt security or bond being valued. The securities and bonds priced using such methods are generally classified as Level 2.

Fuel price derivatives and interest rate swap arrangements

The majority of derivatives entered into by the Company are executed over the counter and so are valued using internal valuation techniques as no quoted market prices exist for such instruments. The valuation technique and inputs depend on the type of derivative and the nature of the underlying instrument. The principal technique used to value these instruments is a comparison of the spot price of the underlying instrument to its related futures curve adjusted for the Company s assumptions of volatility and present value, where appropriate. The fair values of derivative contracts reflect the expected cash the Company will pay or receive upon settlement of the respective contracts.

The key inputs depend upon the type of derivative and the nature of the underlying instrument and include interest rate yield curves, the spot price of the underlying instrument, volatility, and correlation. The item is placed in either Level 2 or Level 3 depending on the observability of the significant inputs to the model. Correlation and items with longer tenures are generally less observable.

6. Preferred Stock

On March 6, 2010, the Company initiated redemption of the outstanding shares of Series A non-voting convertible, redeemable preferred stock for $101 per share, plus all accrued but unpaid dividends. Each holder elected to exercise its right to convert its holdings into common stock. As a consequence of these elections, the Company issued 445 shares of its common stock and retired 0.1 shares of preferred stock.

Table of Contents

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

7. Stock-Based Compensation

During the first six months of 2010, the Company awarded stock options, restricted stock units, and performance-based restricted stock units to directors and employees under the 2005 Equity and Incentive Plan (the 2010 grant). Expense associated with the performance-based restricted stock units may increase or decrease due to changes in the probability of the Company achieving pre-established performance metrics. For the three months ended June 30, 2010, total stock-based compensation cost recognized was approximately $1.4 million, of which approximately $0.5 million was related to the 2010 grant. For the six months ended June 30, 2010, total stock-based compensation cost recognized was approximately $3.0 million, of which approximately $0.7 million was related to the 2010 grant. As of June 30, 2010, total unrecognized compensation cost related to non-vested stock options, restricted stock units, and performance-based restricted stock units under the 2010 grant was approximately $5.6 million, based on current estimated performance results, to be recognized over the 2.6 year remaining vesting period of these awards.

The Company used the Black-Scholes option-pricing model to determine the fair value of stock option awards. Compensation costs will be recognized over the 3 year vesting period from the date of the grant. The fair value of the stock options granted in the first quarter of 2010 was calculated using the following weighted-average assumptions:

	2010 Grant
Weighted average expected life (in years)	6.00
Weighted average risk-free rate	2.70%
Weighted average volatility	46.00%
Weighted average dividend yield	0.00%
Weighted average fair value	$14.00

8. Commitments and Contingencies

Litigation

The Company is involved in pending litigation in the usual course of business. In the opinion of management, such litigation will not have a material adverse effect on the Company s consolidated financial position, results of operations or cash flows.

-14-

Table of Contents

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

9. Segment Information

The Company operates in two reportable segments, fleet and MasterCard. The fleet segment provides customers with payment and transaction processing services specifically designed for the needs of vehicle fleet customers. The MasterCard segment provides customers with a payment processing solution for their corporate purchasing and transaction monitoring needs. The Company s chief decision maker evaluates the operating results of the Company s reportable segments based upon revenues and adjusted net income, which is defined by the Company as net income adjusted for fair value changes of fuel price derivatives, the amortization of acquired intangible assets, asset impairment charges related to its internally developed software, non-cash adjustments related to the tax receivable agreement and gains on the extinguishment of a portion of the tax receivable agreement. These adjustments are reflected net of the tax impact.

The following table presents the Company s reportable segment results for the three months ended June 30, 2010 and 2009:

	Total Revenues	Operating Interest Expense	Depreciation and Amortization	Income Taxes	Adjusted Net Income
Three months ended June 30, 2010					
Fleet	**$78,385**	**$1,221**	**$4,351**	**$14,117**	**$23,530**
MasterCard	**13,050**	**208**	**68**	**1,958**	**3,262**
Total	**$91,435**	**$1,429**	**$4,419**	**$16,075**	**$26,792**
Three months ended June 30, 2009					
Fleet	$68,336	$2,125	$4,031	$12,252	$20,090
MasterCard	9,539	438	59	1,359	2,323
Total	$77,875	$2,563	$4,090	$13,611	$22,413

The following table presents the Company s reportable segment results for the six months ended June 30, 2010 and 2009:

	Total Revenues	Operating Interest Expense	Depreciation and Amortization	Income Taxes	Adjusted Net Income

Six months ended June 30, 2010					
Fleet	**$151,795**	**$2,449**	**$8,797**	**$26,772**	**$44,622**
MasterCard	**23,486**	**422**	**123**	**3,508**	**5,844**
Total	**$175,281**	**$2,871**	**$8,920**	**$30,280**	**$50,466**
Six months ended June 30, 2009					
Fleet	$130,197	$5,653	$7,922	$21,911	$35,969
MasterCard	16,176	1,048	133	1,577	2,696
Total	$146,373	$6,701	$8,055	$23,488	$38,665

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

The following table reconciles adjusted net income to net income:

	Three months ended June 30,		**Six months ended June 30,**	
	2010	2009	**2010**	2009
Adjusted net income	**$26,792**	$ 22,413	**$50,466**	$ 38,665
Unrealized losses on fuel price derivatives	**6,533**	(22,574)	**(287)**	(29,045)
Amortization of acquired intangible assets	**(1,343)**	(1,248)	**(2,715)**	(2,528)
Asset impairment charge				(421)
Non-cash adjustments related to the tax receivable agreement				(570)
Gain on extinguishment of liability		136,485		136,485
Tax impact	**(1,946)**	(41,886)	**1,126**	(38,419)
Net income	**$30,036**	$ 93,190	**$48,590**	$104,167

The tax impact of the foregoing adjustments is the difference between the Company s GAAP tax provision and a pro forma tax provision based upon the Company s adjusted net income before taxes. The methodology utilized for calculating the Company s adjusted net income tax provision is the same methodology utilized in calculating the Company s GAAP tax provision.

Item 2. Management s Discussion and Analysis of Financial Condition and Results of Operations.

We intend for this discussion to provide the reader with information that will assist in understanding our financial statements, the changes in key items in those financial statements from year to year, and the primary factors that accounted for those changes, as well as how certain accounting estimates affect our financial statements. The discussion also provides information about the financial results of the two segments of our business to provide a better understanding of how those segments and their results affect our financial condition and results of operations as a whole. This discussion should be read in conjunction with our audited consolidated financial statements as of December 31, 2009, the notes accompanying those financial statements and management s discussion and analysis as contained in our Annual Report on Form 10-K filed with the SEC on February 26, 2010 and in conjunction with the unaudited condensed consolidated financial statements and notes in ***Item 1*** *of* ***Part I of*** *this report.*

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 $53,794 to $53,043 and operating interest expense decreased from $3,314 to $2,563. For the six months ended June 30, 2009, payment processing revenue decreased from $98,786 to $97,357 and operating interest expense decreased from $8,130 to $6,701. Operating income and net income were not impacted by this change, nor was there any impact on either cash flows or the balance sheet.

Overview

Wright Express is a leading provider of payment processing and information management services to the vehicle fleet industry. We facilitate and manage transactions for vehicle fleets through our proprietary closed network of major oil companies, fuel retailers and vehicle maintenance providers. We provide fleets with detailed transaction data, analytical tools and purchase control capabilities. Our operations are organized as follows:

- Fleet The fleet segment provides customers with payment and transaction processing services specifically designed for the needs of the vehicle fleet industry. This segment also provides information management and account services to these fleet customers.

- MasterCard The MasterCard segment provides customers with a payment processing solution for their corporate purchasing and transaction monitoring needs. Our corporate MasterCard charge card product provides commercial travel and entertainment and purchase capabilities to businesses in industries that can utilize our information management functionality.

Summary

Below are selected items from the second quarter of 2010:

- Average number of vehicles serviced decreased 2 percent from the second quarter of 2009 to approximately 4.6 million as fleets have reduced their number of vehicles due to economic conditions. However, the average number of vehicles serviced was up nearly 100,000 from the sequential first quarter of 2010, the first such increase since the fourth quarter of 2008.
- Total fleet transactions processed increased less than 1 percent from the second quarter of 2009 to 66.3 million. Payment processing transactions increased 2 percent to 52.9 million, while transaction processing transactions decreased 8 percent to 13.4 million.
- Total revenue for the fleet segment grew 15 percent from the second quarter of 2009 to $78.4 million.
- Average expenditure per payment processing transaction increased 24 percent to $58.74 from $47.37 for the same period last year. This increase was driven by higher average retail fuel prices. The average fuel price per gallon during the three months ended June 30, 2010, was $2.87, a 23 percent increase over the same period last year.

Table of Contents

Realized gains on our fuel price derivatives were $2.8 million compared to realized gains of $4.5 million for the second quarter of 2009.

Credit loss expense in the fleet segment was $2.3 million for the three months ended June 30, 2010, versus $1.9 million for the three months ended June 30, 2009.

Our operating interest expense, which includes interest accruing on deposits and borrowed federal funds, decreased to $1.4 million during the three months ended June 30, 2010, from $2.6 million during the three months ended June 30, 2009.

Total MasterCard purchase volume grew $265 million to $1,036 million for the three months ended June 30, 2010, an increase of 34 percent over the same period last year. MasterCard revenue grew 37 percent, as compared to the second quarter of 2009, to $13.1 million.

We repurchased approximately 334,000 shares of our common stock at a cost of approximately $10.5 million during the second quarter of 2010. We also repurchased an additional 261,000 shares in July 2010 at a cost of approximately $7.5 million.

Table of Contents

Results of Operations

Fleet

The following table reflects comparative operating results and key operating statistics within our fleet segment:

(in thousands, except per transaction and per gallon data)	Three months ended June 30, 2010	2009	Increase (decrease) Amount	Percent	Six months ended June 30, 2010	2009	Increase (decrease) Amount	Percent
Revenues								
Payment processing revenue	**$54,468**	$44,454	$10,014	23%	**$103,181**	$82,764	$20,417	25%
Transaction processing revenue	**4,242**	4,363	(121)	(3)%	**8,401**	8,661	(260)	(3)%
Account servicing revenue	**8,226**	9,297	(1,071)	(12)%	**16,484**	18,242	(1,758)	(10)%
Finance fees								