

Wright Express CORP  
Form 10-Q  
August 08, 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 June 30, 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

Edgar Filing: Wright Express CORP - Form 10-Q

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

<b>Class</b>	<b>Outstanding at August 2, 2011</b>
Common Stock, \$0.01 par value per share	38,642,054 shares

---

## TABLE OF CONTENTS

		Page
<b><u>PART I-FINANCIAL INFORMATION</u></b>		
<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>	- 21 -
<u>Item 3.</u>	<u>Quantitative and Qualitative Disclosures About Market Risk</u>	- 31 -
<u>Item 4.</u>	<u>Controls and Procedures</u>	- 32 -
<b><u>PART II-OTHER INFORMATION</u></b>		
<u>Item 1.</u>	<u>Legal Proceedings</u>	- 33 -
<u>Item</u>		- 33 -
<u>1A.</u>	<u>Risk Factors</u>	
<u>Item 6.</u>	<u>Exhibits</u>	- 34 -
	<b><u>SIGNATURE</u></b>	- 35 -
<u>EX-10.7</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>		
<u>EX-101 DEFINITION 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, 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: the Company's failure to successfully integrate the businesses it has acquired; the failure to successfully expand business internationally; 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 banking and securities 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, revenue and income; the effects of general economic conditions, including uncertainties resulting from the potential downgrade of the credit rating of securities issued by the United States, on fueling patterns and the commercial activity of fleets; the effects of the Company's international business expansion efforts and any failure of those efforts; the impact and range of third quarter and full year credit losses; changes in interest rates; financial loss if the Company determines it necessary to unwind its derivative instrument position prior to the expiration of a contract; 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)**

	<b>June 30, 2011</b>	<b>December 31, 2010</b>
<b>Assets</b>		
Cash and cash equivalents	\$ 57,012	\$ 18,045
Accounts receivable (less reserve for credit losses of \$10,880 in 2011 and \$10,237 in 2010)	1,557,413	1,160,482
Available-for-sale securities	10,503	9,202
Property, equipment and capitalized software (net of accumulated depreciation of \$98,213 in 2011 and \$88,970 in 2010)	61,835	60,785
Deferred income taxes, net	159,245	161,156
Goodwill	559,118	537,055
Other intangible assets, net	120,929	124,727
Other assets	37,154	26,499
Total assets	<b>\$2,563,209</b>	<b>\$2,097,951</b>
<b>Liabilities and Stockholders Equity</b>		
Accounts payable	\$ 579,110	\$ 379,855
Accrued expenses	53,208	41,133
Income taxes payable	7,380	3,638
Deposits	768,461	529,800
Borrowed federal funds	9,400	59,484
Fuel price derivatives, at fair value	17,820	10,877
Revolving line-of-credit facilities and term loan	386,500	407,300
Other liabilities	6,256	6,712
Amounts due under tax receivable agreement	96,105	100,145
Total liabilities	<b>1,924,240</b>	<b>1,538,944</b>
Commitments and contingencies (Note 10)		
<b>Stockholders Equity</b>		
Common stock \$0.01 par value; 175,000 shares authorized, 42,226 in 2011 and 41,924 in 2010 shares issued; 38,661 in 2011 and 38,437 in 2010 shares outstanding	422	419
Additional paid-in capital	141,136	132,583
Retained earnings	552,497	499,767
Other comprehensive income (loss), net of tax:		

Edgar Filing: Wright Express CORP - Form 10-Q

Net unrealized gain on available-for-sale securities	<b>148</b>	92
Net unrealized loss on interest rate swaps	<b>(229)</b>	(368)
Net foreign currency translation adjustment	<b>46,362</b>	27,881
Accumulated other comprehensive income	<b>46,281</b>	27,605
Less treasury stock at cost, 3,566 shares in 2011 and 2010	<b>(101,367)</b>	(101,367)
Total stockholders' equity	<b>638,969</b>	559,007
Total liabilities and stockholders' equity	<b>\$2,563,209</b>	\$2,097,951

*See notes to unaudited 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 June 30,		Six months ended June 30,	
	2011	2010	2011	2010
<b>Revenues</b>				
Fleet payment solutions	\$113,648	\$78,385	\$212,182	\$151,795
Other payment solutions	27,624	13,050	49,180	23,486
Total revenues	141,272	91,435	261,362	175,281
<b>Expenses</b>				
Salary and other personnel	26,410	20,447	52,104	40,067
Service fees	18,194	9,468	31,204	17,062
Provision for credit losses	6,128	2,851	11,787	8,762
Technology leasing and support	4,022	3,261	7,956	6,085
Occupancy and equipment	2,820	2,043	6,085	4,087
Depreciation and amortization	10,908	5,737	21,877	11,610
Operating interest expense	1,461	1,429	2,739	2,871
Cost of hardware and equipment sold	825	655	1,876	1,198
Other	9,329	6,197	18,387	12,002
Total operating expenses	80,097	52,088	154,015	103,744
Operating income	61,175	39,347	107,347	71,537
Financing interest expense	(3,548)	(693)	(5,987)	(1,419)
Gain on foreign currency transactions	4	40	492	43
Net realized and unrealized gain (loss) on fuel price derivatives	6,232	9,363	(18,943)	7,583
Income before income taxes	63,863	48,057	82,909	77,744
Income taxes	23,248	18,021	30,179	29,154
<b>Net income</b>	<b>40,615</b>	<b>30,036</b>	<b>52,730</b>	<b>48,590</b>
Changes in available-for-sale securities, net of tax effect of \$39 and \$33 in 2011 and \$41 and \$59 in 2010	68	74	56	108



Edgar Filing: Wright Express CORP - Form 10-Q

Changes in interest rate swaps, net of tax effect of \$40 and \$81 in 2011 and \$13 and \$(56) in 2010	<b>69</b>	21	<b>139</b>	(96)
Foreign currency translation	<b>10,798</b>	(335)	<b>18,481</b>	(533)
<b>Comprehensive income</b>	<b>\$ 51,550</b>	\$29,796	<b>\$ 71,406</b>	\$ 48,069
<b>Earnings per share:</b>				
Basic	<b>\$ 1.05</b>	\$ 0.77	<b>\$ 1.37</b>	\$ 1.26
Diluted	<b>\$ 1.04</b>	\$ 0.77	<b>\$ 1.36</b>	\$ 1.24
<b>Weighted average common shares outstanding:</b>				
Basic	<b>38,722</b>	38,830	<b>38,619</b>	38,582
Diluted	<b>38,947</b>	39,136	<b>38,915</b>	39,115

*See notes to unaudited condensed consolidated financial statements.*

- 4 -

**Table of Contents**

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

	Six months ended June 30,	
	2011	2010
<b>Cash flows from operating activities</b>		
Net income	\$ 52,730	\$ 48,590
Adjustments to reconcile net income to net cash used for operating activities:		
Fair value change of fuel price derivatives	6,943	287
Stock-based compensation	4,574	2,976
Depreciation and amortization	23,139	12,067
Deferred taxes	4,750	15,428
Provision for credit losses	11,787	8,762
Loss on disposal of property and equipment	592	
Changes in operating assets and liabilities, net of effects of acquisition:		
Accounts receivable	(409,223)	(190,626)
Other assets	(8,627)	1,171
Accounts payable	196,591	93,653
Accrued expenses	2,099	(2,975)
Income taxes	10,441	(2,283)
Other liabilities	(536)	(29)
Amounts due under tax receivable agreement	(4,040)	(3,905)
 Net cash used for operating activities	 (108,780)	 (16,884)
<b>Cash flows from investing activities</b>		
Purchases of property and equipment	(12,417)	(13,455)
Purchases of available-for-sale securities	(1,797)	(77)
Maturities of available-for-sale securities	585	1,198
Acquisition of ReD adjustment	3,734	
Acquisition of rapid!, net of earn out	(8,081)	
 Net cash used for investing activities	 (17,976)	 (12,334)
<b>Cash flows from financing activities</b>		
Excess tax benefits from share-based payment arrangements	3,659	981
Repurchase of share-based awards to satisfy tax withholdings	(2,387)	(1,762)
Proceeds from stock option exercises	2,675	1,970
Net increase in deposits	238,650	96,278
Net decrease in borrowed federal funds	(50,084)	(46,905)
Loan origination fee paid for 2011 revolving line-of-credit facility	(6,184)	
Net repayments on 2007 revolving line-of-credit facility	(332,300)	
Repayments on term loan	(75,000)	

Edgar Filing: Wright Express CORP - Form 10-Q

Net borrowings in 2011 revolving line-of-credit facility	<b>189,000</b>	(36,800)
Borrowings on 2011 term note agreement	<b>200,000</b>	
Repayment of 2011 term note agreement	<b>(2,500)</b>	
Purchase of shares of treasury stock		(10,464)
Net cash provided by financing activities	<b>165,529</b>	3,298
Effect of exchange rate changes on cash and cash equivalents	<b>194</b>	(176)
Net change in cash and cash equivalents	<b>38,967</b>	(26,096)
Cash and cash equivalents, beginning of period	<b>18,045</b>	39,304
Cash and cash equivalents, end of period	<b>\$ 57,012</b>	\$ 13,208
<b>Supplemental cash flow information</b>		
Interest paid	<b>\$ 7,135</b>	\$ 1,317
Income taxes paid	<b>\$ 10,714</b>	\$ 15,031
Conversion of preferred stock shares and accrued preferred dividends to common stock shares	<b>\$</b>	\$ 10,004
<b>Significant non-cash transaction</b>		
Acquisition of rapid! estimated earn out	<b>\$ 10,000</b>	\$
<i>See notes to unaudited condensed consolidated financial statements.</i>		

- 5 -

**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 have 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 and six months ended June 30, 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 six months of 2011, consolidated stockholders equity changed because of (i) changes in other comprehensive income reflected in the consolidated statements of 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.

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 \$360,300 Australian Dollars ( AUD ) (which was equivalent to approximately \$336,300 U.S. dollars at the time of closing). This consideration included \$6,500 AUD the Company paid for working capital adjustments. The purchase price and related allocations for the ReD Transaction were revised during the first and second quarters of 2011 as the Company finalized its working capital adjustments and valuation of intangible assets. The prior year's amortization was adjusted by \$250 in the current period for the effects of the change in intangible asset valuation. The final purchase price and related allocations for a portion of the ReD Transaction have yet to be finalized as the Company is currently in the process of completing its valuation of certain liabilities assumed and the related tax impact as part of the acquisition.

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

<b>\$ USD</b>	<b>Preliminary Purchase Price Allocation</b>	
	<b>June 30, 2011</b>	<b>December 31, 2010</b>
Consideration paid (net of cash acquired)	\$336,260	\$339,994
Less:		
Accounts receivable	91,487	91,638
Accounts payable	(50,534)	(50,534)
Other tangible assets, net	407	1,970
Software	11,526	10,986
Patent	3,086	2,869
Customer relationships	70,723	73,939
Brand name	5,470	5,374
Recorded goodwill	\$204,095	\$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:

<b>\$ USD</b>	<b>Three months ended June 30, 2010</b>	<b>Six months ended June 30, 2010</b>
Net revenue	\$ 106,575	\$ 204,567
Net income	\$ 30,134	\$ 48,148
Pro forma net income per common share:		
Net income per share - basic	\$ 0.78	\$ 1.25
Net income per share - diluted	\$ 0.77	\$ 1.23

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 contingent 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 Company purchased rapid! to expand its purchase card product offerings. The operations of rapid! are included in the Other Payment Solutions segment. During the first quarter of 2011, the Company allocated the purchase price of the acquisition based upon a preliminary estimate of the fair values of the assets acquired and liabilities assumed. During the second quarter of 2011, the estimated valuation of intangibles was revised to increase acquired intangible assets by \$2,300, while goodwill was decreased by the same amount. These valuations of intangible assets are still based on a preliminary assessment.

A contingent consideration agreement was entered into in connection with the purchase of rapid!. Under the terms of the agreement the former owners of rapid! will receive additional consideration based upon the achievement of certain performance criteria, measured over the twelve-month period from the date of purchase. The payment is anticipated to be made during the second quarter of 2012.

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

	<b>Preliminary Purchase Price Allocation</b>	
	<b>June 30, 2011</b>	<b>March 31, 2011</b>
Consideration paid (including estimated \$10,000, contingent consideration)	\$ 18,081	\$ 18,081
Less:		

Edgar Filing: Wright Express CORP - Form 10-Q

Accounts receivable	75	75
Accounts payable	(85)	(85)
Other tangible assets, net	105	105
Customer relationships <sup>(a)</sup>	4,600	3,597
Trade name	1,300	
Recorded goodwill	\$ 12,086	\$ 14,389

<sup>(a)</sup> Weighted average life 4.7 years.

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 not material to the Company's revenues, net income and earnings per share.

- 8 -

---

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 six months of 2011 were as follows:

	<b>Fleet Payment Solutions Segment</b>	<b>Other Payment Solutions Segment</b>	<b>Total</b>
<b>Balance at December 31, 2010</b>	\$510,396	\$26,659	\$537,055
Impact of foreign currency translation	8,306	1,328	9,634
ReD purchase price adjustment	(4,121)	4,464	343
Acquisition of rapid!		12,086	12,086
<b>Balance at June 30, 2011</b>	<b>\$514,581</b>	<b>\$44,537</b>	<b>\$559,118</b>

*Other Intangible Assets*

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

	<b>Net Carrying Amount, December 31, 2010</b>	<b>Acquisition</b>	<b>Purchase Price Adjustment</b>	<b>Amortization</b>	<b>Impact of Foreign Currency Translation</b>	<b>Net Carrying Amount, June 30, 2011</b>
<b>Definite-lived intangible assets</b>						
Acquired software	\$ 22,640	\$	\$ 540	\$ (2,519)	\$ 919	\$ 21,580
Customer relationships	88,788	4,600	(3,216)	(8,150)	2,233	84,255
Patent	2,982		217	(275)	194	3,118
<b>Indefinite-lived intangible assets</b>						
Trademarks and trade names	10,317	1,300	96		263	11,976
<b>Total</b>	<b>\$124,727</b>	<b>\$5,900</b>	<b>\$(2,363)</b>	<b>\$(10,944)</b>	<b>\$3,609</b>	<b>\$120,929</b>

The Company expects amortization expense related to the definite-lived intangible assets above to be as follows: \$11,597 for July 1, 2011 through December 31, 2011; \$19,909 for 2012; \$16,578 for 2013; \$13,665 for 2014; \$11,157 for 2015 and \$9,050 for 2016.



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:

	<b>June 30, 2011</b>			<b>December 31, 2010</b>		
	<b>Gross Carrying Amount</b>	<b>Accumulated Amortization</b>	<b>Net Carrying Amount</b>	<b>Gross Carrying Amount</b>	<b>Accumulated Amortization</b>	<b>Net Carrying Amount</b>
<b>Definite-lived intangible assets</b>						
Acquired software	\$ 29,387	\$ (7,807)	\$ 21,580	\$ 28,263	\$ (5,623)	\$ 22,640
Non-compete agreement	100	(100)		100	(100)	
Customer relationships	109,765	(25,510)	84,255	105,262	(16,474)	88,788
Trade name	100	(100)		100	(100)	
Patent	3,504	(386)	3,118	3,124	(142)	2,982
	\$142,856	\$(33,903)	108,953	\$136,849	\$(22,439)	114,410
<b>Indefinite-lived intangible assets</b>						
Trademarks and trade names			11,976			10,317
Total			\$120,929			\$124,727

**4. 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, 2011 and 2010:

	<b>Three months ended June 30,</b>		<b>Six months ended June 30,</b>	
	<b>2011</b>	<b>2010</b>	<b>2011</b>	<b>2010</b>
Income available for common stockholders				
Basic	<b>\$40,615</b>	\$30,036	<b>\$52,730</b>	\$48,590
Convertible, redeemable preferred stock				40
Income available for common stockholders				
Diluted	<b>\$40,615</b>	\$30,036	<b>\$52,730</b>	\$48,630

Edgar Filing: Wright Express CORP - Form 10-Q

Weighted average common shares outstanding				
Basic	<b>38,722</b>	38,830	<b>38,619</b>	38,582
Unvested restricted stock units	<b>79</b>	127	<b>119</b>	135
Stock options	<b>146</b>	179	<b>177</b>	193
Convertible, redeemable preferred stock				205

Weighted average common shares outstanding				
Diluted	<b>38,947</b>	39,136	<b>38,915</b>	39,115

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

- 10 -

---

Table of Contents

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

**5. 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, related to the Company's commodity price risk. 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 in North America.

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 hedges of 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.

***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 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, 2011, the Company had the following outstanding interest rate swap arrangements that were entered into to hedge forecasted variable rate interest payments:

	<b>Weighted- Average Base Rate</b>	<b>Aggregate Notional Amount</b>
Interest rate swap arrangements settling through July 2011	1.35%	\$ 50,000
Interest rate swap arrangements settling through March 2012	0.56%	150,000

***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, 2011, the Company had the following put and call option contracts which settle on a monthly basis:

	<b>Aggregate Notional Amount (gallons) <sup>(a)</sup></b>
Fuel price derivative instruments - unleaded fuel Option contracts settling July 2011 - December 2012	36,558
Fuel price derivative instruments - diesel Option contracts settling July 2011 - December 2012	16,425

Total fuel price derivative instruments	52,983
---	--------

- (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.

- 11 -

---

**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:

	Derivatives Classified as Assets				Derivatives Classified as Liabilities			
	June 30, 2011		December 31, 2010		June 30, 2011		December 31, 2010	
	Balance	Fair	Balance	Fair	Balance	Fair	Balance	Fair
	Sheet	Value	Sheet	Value	Sheet	Value	Sheet	Value
	Location		Location		Location		Location	
<b>Derivatives designated as hedging instruments</b>								
Interest rate contracts	Other assets	\$	Other assets	\$	Accrued expenses	\$ 361	Accrued expenses	\$ 581
<b>Derivatives not designated as hedging instruments</b>								
Commodity contracts	Fuel price derivatives, at fair value		Fuel price derivatives, at fair value		Fuel price derivatives, at fair value	17,820	Fuel price derivatives, at fair value	10,877
<b>Total derivatives</b>		\$		\$		\$18,181		\$11,458

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

Derivatives in Cash Flow Hedging Relationships	(Loss) Recognized in OCI on Derivative (Effective Portion) <sup>(a)</sup> Three months ended		Location of Gain or (Loss) Reclassified from Accumulated OCI into Income (Effective Portion)	Income (Effective Portion) Three months ended		(Loss) Recognized in Income on Derivative (Ineffective Portion and Amount Excluded from Effectiveness Testing) <sup>(b)</sup>	and Amount Excluded from Effectiveness Testing) Three months ended	
	June 30, 2011	2010		June 30, 2011	2010		June 30, 2011	2010
Interest rate contracts	\$69	\$21	Financing interest expense	\$(274)	\$(137)	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,		
Commodity contracts			Net realized and unrealized gains on fuel price derivatives			2011	2010	
						\$6,232	\$9,363	

(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 \$40 in 2011 and \$13 in 2010.

(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 in	Amount of Gain or (Loss) Recognized in OCI on Derivative (Effective Portion) <sup>(a)</sup>	Location of Gain or (Loss) Reclassified	Amount of Gain or (Loss) Reclassified from Accumulated OCI into		Location of Gain or (Loss) Recognized in Income on Derivative (Ineffective Portion and Amount Excluded from Effectiveness Testing)	Amount of Gain or (Loss) Recognized in Income on Derivative Six months ended June 30, 2011	Amount of Gain or (Loss) Recognized in Income on Derivative Six months ended June 30, 2010
			Income (Effective Portion)	Income (Ineffective Portion)			
Cash Flow	Six months ended	from Accumulated	Six months ended	and Amount Excluded	from Effectiveness Testing) <sup>(b)</sup>	2011	2010
Hedging Relationships	June 30, 2011 2010	OCI into Income (Effective Portion)	June 30, 2011 2010	from Effectiveness Testing) <sup>(b)</sup>			
Interest rate contracts	\$139 \$(96)	Financing interest expense	\$(522) \$(277)	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, 2011	Amount of Gain or (Loss) Recognized in Income on Derivative Six months ended June 30, 2010
Commodity contracts	Net realized and unrealized (losses) gains on fuel price derivatives	\$(18,943)	\$7,583

<sup>(a)</sup> 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 \$81 in 2011 and \$(56) in 2010.

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

## **6. Financing Debt**

On May 23, 2011, the Company entered into a Credit Agreement (the "Credit Agreement"), by and among the Company and certain of its subsidiaries, as borrowers, and Wright Express Card Holdings Australia Pty Ltd, as specified designated borrower, with a lending syndicate. The Credit Agreement provides for a five-year \$200,000 term loan facility and a five-year \$700,000 revolving credit facility with a \$100,000 sublimit for letters of credit and a \$20,000 sublimit for swingline loans. Term loan payments in the amount of \$2,500 are due beginning on June 30, 2011, and on the last day of each September, December, March and June thereafter, through and including March 31, 2016, and on the maturity date for the term agreement, May 23, 2016, the remaining outstanding principal amount of \$150,000 is due. As of June 30, 2011, the Company had \$386,500 of loans outstanding under the Credit Agreement. Accordingly, at June 30, 2011, the Company had \$511,000 of availability under the Credit Agreement. The Company capitalized approximately \$6,200 in association with this borrowing and wrote-off approximately \$700 of previous issuance cost.

Proceeds from the new credit facility were used to refinance the Company's existing indebtedness under its 2007 credit facility, and its existing indebtedness under its 2010 term loan facility. The new credit facility is available for working capital purposes, acquisitions, payment of dividends and other restricted payments, refinancing of indebtedness, and other general corporate purposes.

Amounts outstanding under the Credit Agreement bear interest at a rate equal to, at the Company's option, (a) the Eurocurrency Rate, as defined, plus a margin of 1.25 percent to 2.25 percent based on the ratio of consolidated funded indebtedness of the Company and its subsidiaries to consolidated EBITDA or (b) the highest of (i) the Federal Funds Rate plus 0.50 percent, (ii) the prime rate announced by lead lender, or (iii) the Eurocurrency Rate plus 1.00 percent, in each case plus a margin of 0.25 percent to 1.25 percent based on the ratio of consolidated funded indebtedness of the Company and its subsidiaries to consolidated EBITDA. In addition, the Company has agreed to pay a quarterly commitment fee at a rate per annum ranging from 0.20 percent to 0.40 percent of the daily unused portion of the credit facility. Any outstanding loans under the Credit Agreement mature on May 23, 2016, unless extended pursuant to the terms of the Credit Agreement. As of June 30, 2011, the interest rate on the credit facility was 2.17 percent.

The Company's credit agreement contains various covenants requiring it to maintain certain financial ratios. In addition to the Financial Covenants, the credit agreement contains various customary restrictive covenants, including, under certain situations, restrictions on the payment of dividends. The obligations under the Credit Agreement are secured by a pledge of 65 percent of the stock of Wright Express Holdings Pty Ltd, a wholly-owned subsidiary of the Company. The Company is, and expects to continue to be, in compliance with all material covenants and restrictions.



**Table of Contents**

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

**7. 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.

- 14 -

---

**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:

	June 30, 2011	Fair Value Measurements at Reporting Date Using		
		Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
<b>Assets:</b>				
Mortgage-backed securities	\$ 3,284	\$	\$ 3,284	\$
Asset-backed securities	2,042		2,042	
Municipal bonds	144		144	
Equity securities	5,033	5,033		
Total available-for-sale securities	\$10,503	\$5,033	\$ 5,470	\$
Executive deferred compensation plan trust <sup>(a)</sup>	\$ 2,321	\$2,321	\$	\$
<b>Liabilities:</b>				
Fuel price derivatives - diesel	\$ 5,525	\$	\$	\$ 5,525
Fuel price derivatives - unleaded fuel	12,295		12,295	
Total fuel price derivatives - liabilities	17,820		12,295	5,525
Interest rate swap arrangements with a base rate of 1.35% and an aggregate notional amount of \$50,000 <sup>(b)</sup>	48		48	
Interest rate swap arrangements with a base rate of 0.56% and an aggregate notional amount of \$150,000 <sup>(b)</sup>	313		313	

Edgar Filing: Wright Express CORP - Form 10-Q

Total interest rate swap arrangement	\$ 361	\$	\$ 361	\$
Contingent Consideration	\$10,000	\$	\$	\$10,000

- (a) The fair value of these instruments is recorded in other assets.
- (b) The fair value of these instruments is recorded in accrued expenses.

- 15 -

---

**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 three months ended June 30, 2011:

	<b>Contingent Consideration</b>	<b>Fuel Price Derivatives  Diesel</b>
Beginning balance	\$ (10,000)	\$ (10,685)
Total gains or (losses) realized/unrealized		
Included in earnings <sup>(a)</sup>		5,160
Included in other comprehensive income		
Purchases, issuances and settlements		
Transfers in/(out) of Level 3		
Ending balance	\$ (10,000)	\$ (5,525)

<sup>(a)</sup> Gains and losses (realized and unrealized) included in earnings for the three months ended June 30, 2011, are reported in net realized and unrealized losses on fuel price derivatives on the condensed consolidated statements of income.

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, 2011:

	<b>Contingent Consideration</b>	<b>Fuel Price Derivatives  Diesel</b>
Beginning balance	\$	\$ (3,643)
Total gains or (losses) realized/unrealized		
Included in earnings <sup>(a)</sup>		(1,882)
Included in other comprehensive income		
Purchases, issuances and settlements	(10,000)	
Transfers in/(out) of Level 3		
Ending balance	\$ (10,000)	\$ (5,525)

<sup>(a)</sup> Gains and losses (realized and unrealized) included in earnings for the six months ended June 30, 2011, are reported in net realized and unrealized losses on fuel price derivatives on the condensed consolidated statements of income.

Edgar Filing: Wright Express CORP - Form 10-Q

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 three months ended June 30, 2010:

	<b>Fuel Price Derivatives Diesel</b>
Beginning balance	\$ 716
Total gains or (losses) realized/unrealized Included in earnings <sup>(a)</sup>	1,059
Included in other comprehensive income Purchases, issuances and settlements Transfers in/(out) of Level 3	
Ending balance	\$ 1,775

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

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:

	<b>Fuel Price Derivatives Diesel</b>
Beginning balance	\$ 2,641
Total gains or (losses) realized/unrealized Included in earnings <sup>(a)</sup>	(866)
Included in other comprehensive income Purchases, issuances and settlements Transfers in/(out) of Level 3	
Ending balance	\$ 1,775

<sup>(a)</sup> 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.

**Table of Contents**

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

***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 debt 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 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.

***Contingent consideration***

The Company has classified its liability for contingent consideration related to its acquisition of rapid! within Level 3 of the fair value hierarchy because the fair value is determined using significant unobservable inputs, which include the projected revenues of rapid! over a twelve month period.

**8. Stock-Based Compensation**

During the first six months of 2011, the Company awarded restricted stock units and performance-based restricted stock units to employees under the 2010 Equity and Incentive Plan (the 2011 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 six months ended June 30, 2011, total stock-based compensation cost recognized was approximately \$4,600 of which approximately \$700 was related to the 2011 grant. As of June 30, 2011, total unrecognized compensation cost related to non-vested stock options, restricted stock units, and performance-based restricted stock units under the 2011 grant was approximately \$5,700, to be recognized over the 2.5 year remaining vesting period of these awards.

**9. Income Taxes**

During the first quarter of 2011, management determined that future earnings generated by the Company's Australia subsidiaries will be invested indefinitely outside the United States. In prior years the company had designated its initial investment in Wright Express Australia as indefinitely reinvested. Accordingly, no incremental domestic tax effects have been contemplated in deferred tax balances. As of June 30, 2011, the prior year unremitted earnings of US \$7,000 and investment of US \$300,700 are designated as indefinitely invested.

**10. 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.

**Table of Contents**

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

**11. Segment Information**

Operating segments are defined as components of an enterprise about which separate financial information is available that is evaluated regularly by the chief operating decision maker in deciding how to allocate resources and in assessing performance. The Company's chief operating decision maker is its Chief Executive Officer. The operating segments are reviewed separately because each operating segment represents a strategic business unit that generally offers different products and serves different markets.

The Company's chief operating 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 derivative instruments, the amortization of purchased intangibles, the net impact of tax rate changes on the estimate of amounts due under the tax receivable agreement, the net impact of tax rate changes on IPO related goodwill, certain non-cash asset impairment charges and the gains on the extinguishment of a portion of the tax receivable agreement. These adjustments are reflected net of the tax impact.

The Company operates in two reportable segments, Fleet Payment Solutions and Other Payment Solutions. The Fleet Payment Solutions segment provides customers with payment and transaction processing services specifically designed for the needs of vehicle fleet customers. This segment also provides information management services to these fleet customers. The Other Payment Solutions segment provides customers with a payment processing solution for their corporate purchasing, payroll and transaction monitoring needs. Revenue in this segment is derived from our corporate charge cards, single use accounts and prepaid card products. The corporate charge card products are used by businesses to facilitate purchases of products and utilize the Company's information management capabilities. The operations from the rapid! acquisition are included in the Other Payment Solutions segment.

Financing interest expense and net realized and unrealized losses on derivative instruments are not allocated to the Other Payment Solutions segment in the computation of segment results. Total assets are not allocated to the segments.

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 reportable segment results for the three months ended June 30, 2011 and 2010:

	<b>Total</b>	<b>Operating</b>	<b>Depreciation</b>	<b>Provision</b>	<b>Adjusted</b>
	<b>Revenues</b>	<b>Interest</b>	<b>and</b>	<b>for</b>	<b>Net</b>
		<b>Expense</b>	<b>Amortization</b>	<b>Income</b>	<b>Income</b>
				<b>Taxes</b>	
<b>Three months ended June 30, 2011</b>					
Fleet payment solutions	\$ 113,648	\$ 1,218	\$ 5,115	\$ 16,061	\$ 28,800
Other payment solutions	27,624	243	414	3,761	6,745
<b>Total</b>	<b>\$ 141,272</b>	<b>\$ 1,461</b>	<b>\$ 5,529</b>	<b>\$ 19,822</b>	<b>\$ 35,545</b>
<b>Three months ended June 30, 2010</b>					
Fleet payment solutions	\$ 78,385	\$ 1,221	\$ 4,351	\$ 14,117	\$ 23,530
Other payment solutions	13,050	208	68	1,958	3,262
<b>Total</b>	<b>\$ 91,435</b>	<b>\$ 1,429</b>	<b>\$ 4,419</b>	<b>\$ 16,075</b>	<b>\$ 26,792</b>

The following table presents the Company's reportable segment results for the six months ended June 30, 2011 and 2010:

	<b>Total</b>	<b>Operating</b>	<b>Depreciation</b>	<b>Income</b>	<b>Adjusted</b>
	<b>Revenues</b>	<b>Interest</b>	<b>and</b>	<b>Taxes</b>	<b>Net</b>
		<b>Expense</b>	<b>Amortization</b>		<b>Income</b>
<b>Six months ended June 30, 2011</b>					
Fleet payment solutions	\$ 212,182	\$ 2,238	\$ 10,136	\$ 29,688	\$ 53,237
Other payment solutions	49,180	501	797	6,397	11,474
<b>Total</b>	<b>\$ 261,362</b>	<b>\$ 2,739</b>	<b>\$ 10,933</b>	<b>\$ 36,085</b>	<b>\$ 64,711</b>
<b>Six months ended June 30, 2010</b>					
Fleet payment solutions	\$ 151,795	\$ 2,449	\$ 8,797	\$ 26,772	\$ 44,622
Other payment solutions	23,486	422	123	3,508	5,844



Edgar Filing: Wright Express CORP - Form 10-Q

Total	\$175,281	\$2,871	\$ 8,920	\$30,280	\$50,466
-------	-----------	---------	----------	----------	----------

- 19 -

---

Table of Contents

**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:

	<b>Three months ended</b>		<b>Six months ended</b>	
	<b>June 30,</b>		<b>June 30,</b>	
	<b>2011</b>	2010	<b>2011</b>	2010
Adjusted net income	<b>\$35,545</b>	\$26,792	<b>\$ 64,711</b>	\$50,466
Unrealized gains (losses) on fuel price derivatives	<b>13,875</b>	6,533	<b>(6,943)</b>	(287)
Amortization of acquired intangible assets	<b>(5,379)</b>	(1,343)	<b>(10,944)</b>	(2,715)
Tax impact	<b>(3,426)</b>	(1,946)	<b>5,906</b>	1,126
Net income	<b>\$40,615</b>	\$30,036	<b>\$ 52,730</b>	\$48,590

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.

- 20 -

---

**Table of Contents**

**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, 2010, 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 28, 2011 and in conjunction with the unaudited condensed consolidated financial statements and notes in **Item 1 of Part I** of this report.*

**Overview**

Wright Express Corporation is a leading provider of value-based, business payment processing and information management solutions. We provide products and services that meet the needs of businesses in various geographic regions including North America, Asia Pacific and Europe. The Company's fleet and other payment solutions provide its more than 350,000 customers with security and control for complex payments across a wide spectrum of business sectors. Together with our affiliates, we market our products and services directly, as well as through more than 150 strategic relationships which include major oil companies, fuel retailers and vehicle maintenance providers.

Our Company is organized under two segments, Fleet Payment Solutions and Other Payment Solutions. The Fleet Payment Solutions segment provides customers with fleet vehicle payment processing services specifically designed for the needs of commercial and government fleets. Fleet Payment Solutions revenue, which represents a majority of our total revenue, is earned primarily from payment processing, account servicing and transaction processing, with the majority generated by payment processing.

The Other Payment Solutions segment of our business provides customers with payment processing solutions for their corporate purchasing and transaction monitoring needs through our corporate charge card, payroll card, and through our prepaid and gift card products and services. Other Payment Solutions revenue is earned primarily from payment processing.

**Summary**

Below are selected items from the second quarter of 2011:

On May 23, 2011, the Company entered into a Credit Agreement (the "Credit Agreement"), by and among the Company and certain of its subsidiaries, as borrowers, and Wright Express Card Holdings Australia Pty Ltd, as specified designated borrower, with a lending syndicate. The Credit Agreement provides for a five-year \$200 million term loan facility and a five-year \$700 million revolving credit facility. As of June 30, 2011, the Company had \$386.5 million of loans outstanding under the Credit Agreement.

Average number of vehicles serviced increased 29 percent from the second quarter of 2010 to approximately 6.3 million, primarily due to the acquisition of Wright Express Australia in September of 2010 and the addition of fleets in New Zealand.

Total fleet transactions processed increased 19 percent from the second quarter of 2010 to 81.2 million. Payment processing transactions increased 15 percent to 63.2 million, while transaction processing transactions increased 34 percent to 18.0 million, over the same period in the prior year. These increases are primarily due to the acquisition of Wright Express Australia and the addition of fleet transactions in Australia and New Zealand. Domestic payment processing transactions increased 8 percent over the same period in the prior year. Payment processing transaction and vehicle count data, as well as related calculated metrics associated with this data, for all periods presented have been revised to reflect information provided from an improved business intelligence reporting process that was implemented in the second quarter of 2011. These changes do not impact our revenue or earnings.

**Table of Contents**

Average expenditure per payment processing transaction increased 34 percent to \$75.77 from \$56.40 for the same period last year. This increase was driven by higher average retail fuel prices. The average U.S. fuel price per gallon during the three months ended June 30, 2011, was \$3.86 for North America, a 34 percent increase over the same period last year, and \$5.70 (\$USD/gal) in Australia.

Realized losses on our fuel price derivatives during the second quarter of 2011 were \$7.6 million compared to realized gains of \$2.8 million for the same period in the prior year.

Credit loss expense in the fleet segment was \$6.0 million for the three months ended June 30, 2011, versus \$2.3 million for the three months ended June 30, 2010.

Corporate charge card purchase volume grew \$865 million to \$1.9 billion for the three months ended June 30, 2011, an increase of 83 percent over the same period last year.

Our effective tax rate was 36.4 percent for the three months ended June 30, 2011 and 37.5 percent for the three months ended June 30, 2010. The rate fluctuated due to changes in the mix of earnings among different tax jurisdictions including our foreign subsidiaries. Our tax rate may fluctuate due to the impacts that rate mix changes have on our net deferred tax assets.

**Table of Contents****Results of Operations****Fleet Payment Solutions**

The following table reflects comparative operating results and key operating statistics within our Fleet Payment Solutions segment:

(in thousands, except per transaction and per gallon data)	Three months ended				Six months ended			
	June 30,		Increase (decrease)		June 30,		Increase (decrease)	
	2011	2010	Amount	Percent	2011	2010	Amount	Percent
<b>Revenues</b>								
Payment processing revenue	\$ 78,444	\$54,468	\$23,976	44%	\$144,099	\$103,181	\$ 40,918	40%
Transaction processing revenue	4,291	4,242	49	1%	8,167	8,401	(234)	(3)%
Account servicing revenue	14,597	8,226	6,371	77%	28,406	16,484	11,922	72%
Finance fees	11,024	8,375	2,649	32%	21,030	16,656	4,374	26%
Other	5,292	3,074	2,218	72%	10,480	7,073	3,407	48%
<b>Total revenues</b>	<b>113,648</b>	<b>78,385</b>	<b>35,263</b>	<b>45%</b>	<b>212,182</b>	<b>151,795</b>	<b>60,387</b>	<b>40%</b>
<b>Total operating expenses</b>	<b>61,985</b>	<b>44,258</b>	<b>17,727</b>	<b>40%</b>	<b>120,905</b>	<b>89,610</b>	<b>31,295</b>	<b>35%</b>
<b>Operating income</b>	<b>51,663</b>	<b>34,127</b>	<b>17,536</b>	<b>51%</b>	<b>91,277</b>	<b>62,185</b>	<b>29,092</b>	<b>47%</b>
Gain on foreign currency transactions	4	40	(36)	(90)%	492	43	449	1044%
Financing interest expense	(3,548)	(693)	(2,855)	412%	(5,987)	(1,419)	(4,568)	322%
Net realized and unrealized gains (losses) on fuel price derivatives	6,232	9,363	(3,131)	(33)%	(18,943)	7,583	(26,526)	(350)%
<b>Income before income taxes</b>	<b>54,351</b>	<b>42,837</b>	<b>11,514</b>	<b>27%</b>	<b>66,839</b>	<b>68,392</b>	<b>(1,553)</b>	<b>(2)%</b>
Income taxes	19,783	16,063	3,720	23%	24,329	25,646	(1,317)	(5)%
<b>Net income</b>	<b>\$ 34,568</b>	<b>\$26,774</b>	<b>\$ 7,794</b>	<b>29%</b>	<b>\$ 42,510</b>	<b>\$ 42,746</b>	<b>\$ (236)</b>	<b>(1)%</b>
<b>Key operating statistics</b>								
Payment processing revenue:								
Payment processing transactions <sup>(a)</sup>	63,187	55,058	8,129	15%	122,100	106,045	16,055	15%
Average expenditure per payment processing transaction	\$ 75.77	\$ 56.40	\$ 19.37	34%	\$ 71.24	\$ 55.13	\$ 16.11	29%
Average price per gallon of fuel - Domestic (\$/gal)	\$ 3.86	\$ 2.87	\$ 0.99	34%	\$ 3.63	\$ 2.82	\$ 0.81	29%

Edgar Filing: Wright Express CORP - Form 10-Q

Average price per gallon of fuel - Australia (\$USD/gal)	\$	<b>5.70</b>	\$	5.70	\$	<b>5.45</b>	\$	5.45	
Transaction processing revenue:									
Transaction processing transactions		<b>17,988</b>	13,407	4,581	34%	<b>32,276</b>	26,069	6,207	24%
Account servicing revenue:									
Average number of vehicles serviced (a)(b)		<b>6,287</b>	4,879	1,408	29%	<b>6,093</b>	4,821	1,272	26%

(a) Payment processing transaction and vehicle count data, as well as related calculated metrics associated with this data, for all periods presented have been revised to reflect information provided from an improved business intelligence reporting process that was implemented in the second quarter of 2011. These changes do not impact our revenue or earnings.

(b) Does not include Pacific Pride vehicle information.

*Revenues*

Payment processing revenue increased \$24.0 million for the three months ended June 30, 2011, compared to the same period last year. The primary component of this increase is a \$20.3 million increase in revenue associated with a 34 percent increase in the average domestic price per gallon of fuel. Domestic payment processing transactions increased 8 percent over the same period in the prior year, resulting in an increase in revenue of \$3.8 million. The net payment processing rate decreased 11 basis points as compared to the same period in the prior year, primarily due to the increase in domestic fuel prices, reducing revenue by \$4.9 million. Since a portion of many of our contracts are partially based upon a fixed transaction fee, the net payment processing rate decreases as fuel

- 23 -

**Table of Contents**

prices increase. The remaining increase in payment processing revenue is primarily due to the operations of Wright Express Australia, acquired during the third quarter of 2010.

Payment processing revenue increased \$40.9 million for the six months ended June 30, 2011, compared to the same period last year. The primary component of this increase is a \$32.5 million increase in revenue associated with a 29 percent increase in the average domestic price per gallon of fuel. Domestic payment processing transactions increased 8 percent over the same period in the prior year, resulting in an increase in revenue of \$7.7 million. The net payment processing rate decreased 11 basis points as compared to the same period in the prior year, primarily due to the increase in domestic fuel prices, reducing revenue by \$8.2 million. Since a portion of many of our contracts are partially based upon a fixed transaction fee, the net payment processing rate decreases as fuel prices increase. The remaining increase in payment processing revenue is primarily due to the operations of Wright Express Australia.

Our account servicing revenue has increased \$6.4 million for the three months ended June 30, 2011, as compared to the same period in 2010, and increased \$11.9 million for the six months ended June 30, 2011, as compared to the same period in 2010. These increases are primarily related to operation of Wright Express Australia.

Our finance fees have increased \$2.6 million for the three months ended June 30, 2011, as compared to the same period in 2010, and increased \$4.4 million for the six months ended June 30, 2011, as compared to the same period in 2010. The increases in finance fees are associated with (i) higher accounts receivable balances associated with past due accounts in North America and (ii) operations of Wright Express Australia.

**Expenses**

The following table compares selected expense line items within our Fleet Payment Solutions segment for the three months ended June 30:

(in thousands)	2011	2010	Increase (decrease)	
			Amount	Percent
<b>Expense</b>				
Provision for credit losses	\$ 6,080	\$ 2,310	\$3,770	163%
Salary and other personnel	\$23,914	\$19,562	\$4,352	22%
Service fees	\$ 6,501	\$ 3,970	\$2,531	64%
Depreciation and amortization	\$ 9,500	\$ 5,669	\$3,831	68%
Other	\$ 8,512	\$ 6,087	\$2,425	40%

Changes in operating expenses for the three months ended June 30, 2011, as compared to the corresponding period a year ago, include the following:

We generally measure our credit loss performance by calculating credit losses as a percentage of total fuel expenditures on payment processing transactions ( Fuel Expenditures ). This metric for credit losses was 12.5 basis points of Fuel Expenditures for the three months ended June 30, 2011, compared to 7.4 basis points of Fuel Expenditures for the same period last year. We use a roll rate methodology to calculate the amount necessary for our ending receivable reserve balance. This methodology takes into account total receivable balances, recent charge off experience, recoveries on previously charged off accounts, and the dollars that are delinquent to calculate the total reserve. In addition, management undertakes a detailed evaluation of the receivable balances to help ensure further overall reserve adequacy. The expense we recognized in the quarter is the amount necessary to bring the reserve to its required level after charge offs. The increase in expense is primarily due to increases in accounts receivables balances during the three months ended June 30, 2011. In addition we experienced a softening of accounts receivable aging in June and July. Conversely, charge offs for the month of July 2011 were lower than prior months.

Salary and other personnel expenses increased \$4.4 million for the three months ended June 30, 2011, as compared to the same period last year. This increase is primarily due to the operations of Wright Express Australia, acquired during the third quarter of 2010, which added \$2.4 million in expense over the same period in the prior year. The remaining increase is primarily due to short term incentive and stock compensation

expenses at our North America operations.

Service fees increased \$2.5 million for the three months ended June 30, 2011, as compared to the same period in the prior year. The increase in fees is primarily associated with our WEXSmart product as well as our operations of Wright Express Australia.

- 24 -

---



**Table of Contents**

Depreciation and amortization expenses increased approximately \$3.8 million for the three months ended June 30, 2011, as compared to the same period in 2010. This increase is primarily due to amortization of intangible assets related to our acquisition of Wright Express Australia.

Other expenses increased \$2.4 million for the three months ended June 30, 2011, as compared to the same period in the prior year. Approximately \$1.5 million of this increase is from the operations of Wright Express Australia. The remaining increase is related to our North American operations, including marketing and customer service related expenses.

The following table compares selected expense line items within our Fleet Payment Solutions segment for the six months ended June 30:

(in thousands)	2011	2010	Increase (decrease)	
			Amount	Percent
<b>Expense</b>				
Provision for credit losses	\$11,629	\$ 7,976	\$3,653	46%
Salary and other personnel	\$47,144	\$38,439	\$8,705	23%
Service fees	\$10,931	\$ 7,176	\$3,755	52%
Depreciation and amortization	\$19,278	\$11,487	\$7,791	68%
Other	\$16,768	\$11,723	\$5,065	43%

Changes in operating expenses for the six months ended June 30, 2011, as compared to the corresponding period a year ago, include the following:

Credit losses were 13.2 basis points of Fuel Expenditures for the six months ended June 30, 2011, compared to 13.6 basis points of Fuel Expenditures for the same period last year. The increase in expense is primarily due to increases in accounts receivables balances during the six months ended June 30, 2011. In addition we experienced a softening of accounts receivable aging in June and July. Conversely, charge offs for the month of July 2011 were lower than prior months.

Salary and other personnel expenses increased \$8.7 million for the six months ended June 30, 2011, as compared to the same period last year. This increase is primarily due to the operations of Wright Express Australia, acquired during the third quarter of 2010, which added \$4.6 million in expense over the same period in the prior year. The remaining increase is primarily due to short term incentive, stock compensation expenses and increases to employee benefit expenses at our North America operations.

Service fees increased \$3.8 million for the six months ended June 30, 2011, as compared to the same period in the prior year. The increase in fees is primarily associated with our WEXSmart product as well as our operations of Wright Express Australia.

Depreciation and amortization expenses increased \$7.8 million for the six months ended June 30, 2011, as compared to the same period in 2010. This increase is primarily due to amortization of intangible assets related to our acquisition of Wright Express Australia.

Other expenses increased \$5.0 million for the three months ended June 30, 2011, as compared to the same period in the prior year. Approximately \$3.0 million of this increase is due operations of Wright Express Australia. The remaining increase is related to our North American operations, including marketing and customer service related expenses.

**Table of Contents***Fuel price derivatives*

We own fuel price derivative instruments that we purchase on a periodic basis to manage the impact of volatility in North American fuel prices on our cash flows. These fuel price derivative instruments do not qualify for hedge accounting. Accordingly, both realized and unrealized gains and losses on our fuel price derivative instruments affect our net income. Activity related to the changes in fair value and settlements of these instruments and the changes in average fuel prices in relation to the underlying strike price of the instruments is shown in the following table:

(in thousands, except per gallon data)	Three months ended June 30,		Six months ended June 30,	
	2011	2010	2011	2010
Fuel price derivatives, at fair value, beginning of period	<b>\$(31,695)</b>	\$ (668)	<b>\$(10,877)</b>	\$ 6,152
Net change in fair value	<b>6,232</b>	9,363	<b>(18,943)</b>	7,583
Cash payments (receipts) on settlement	<b>7,643</b>	(2,830)	<b>12,000</b>	(7,870)
Fuel price derivatives, at fair value, end of period	<b>\$(17,820)</b>	\$ 5,865	<b>\$(17,820)</b>	\$ 5,865
Collar range:				
Floor	<b>\$ 2.87</b>	\$ 3.17	<b>\$ 2.82</b>	\$ 3.21
Ceiling	<b>\$ 2.93</b>	\$ 3.23	<b>\$ 2.88</b>	\$ 3.27
Fuel price, beginning of period	<b>\$ 3.70<sup>(1)</sup></b>	\$ 2.84	<b>\$ 3.15</b>	\$ 2.70
Fuel price, end of period	<b>\$ 3.65<sup>(1)</sup></b>	\$ 2.81	<b>\$ 3.65</b>	\$ 2.81

(1) The weighted average price of fuel for the period was \$3.86 per gallon

Changes in fuel price derivatives for the three and six months ended June 30, 2011, as compared to the corresponding period a year ago are attributable to the movements in fuel prices at the corresponding times. The average price of fuel, as indicated above, is in excess of the ceiling price of our derivatives, leading to liability. Losses that we actually realize on these derivatives are offset by higher payment processing revenue we receive because such revenues are dependant, in part, on the current price of fuel. Conversely, realized gains are offset by lower payment processing revenue.

We expect that our fuel price derivatives program will continue to be important to our business model going forward, and we expect to purchase derivatives in the future. The Company currently does not plan to hedge our fuel price risk exposure for Wright Express Australia as the exposure to fuel price movements is limited and has not historically fluctuated to the degree it has as in the United States.

**Table of Contents****Other Payment Solutions**

The following table reflects comparative operating results and key operating statistics within our Other Payment Solutions segment:

(in thousands)	Three months ended				Six months ended			
	June 30, 2011	2010	Increase (decrease) Amount Percent		June 30, 2011	2010	Increase (decrease) Amount Percent	
<b>Revenues</b>								
Payment processing revenue	\$ 18,756	\$ 11,136	\$ 7,620	68%	\$ 33,319	\$ 20,187	\$ 13,132	65%
Transaction processing revenue	1,712		1,712	%	3,600		3,600	%
Account servicing revenue	799	15	784	NM	1,039	26	1,013	NM
Finance fees	212	127	85	67%	339	230	109	47%
Other	6,145	1,772	4,373	247%	10,883	3,043	7,840	258%
<b>Total revenues</b>	<b>27,624</b>	<b>13,050</b>	<b>14,574</b>	<b>112%</b>	<b>49,180</b>	<b>23,486</b>	<b>25,694</b>	<b>109%</b>
<b>Total operating expenses</b>	<b>18,112</b>	<b>7,830</b>	<b>10,282</b>	<b>131%</b>	<b>33,110</b>	<b>14,134</b>	<b>18,976</b>	<b>134%</b>
<b>Operating income</b>	<b>9,512</b>	<b>5,220</b>	<b>4,292</b>	<b>82%</b>	<b>16,070</b>	<b>9,352</b>	<b>6,718</b>	<b>72%</b>
Income taxes	3,465	1,958	1,507	77%	5,850	3,508	2,342	67%
<b>Net income</b>	<b>\$ 6,047</b>	<b>\$ 3,262</b>	<b>\$ 2,785</b>	<b>85%</b>	<b>\$ 10,220</b>	<b>\$ 5,844</b>	<b>\$ 4,376</b>	<b>75%</b>
<b>Key operating statistics</b>								
Payment processing revenue: MasterCard purchase volume	\$1,900,736	\$1,036,144	\$864,592	83%	\$3,336,701	\$1,888,775	\$1,447,926	77%

NM Not meaningful  
Revenues

Payment processing revenue for the three months ended June 30, 2011, increased \$7.6 million, as compared to the same period in the prior year, and increased \$13.1 million for the six months ended June 30, 2011, as compared to the same period in the prior year. These increases are primarily driven by higher corporate charge card purchase volume from our single use account product in the online travel service market and by increased market penetration with our corporate charge card product. The corporate charge card net interchange rate for the second quarter of 2011 is down 11 basis points, as compared to the first quarter of last year, primarily due to contract mix and increased foreign spend. The corporate charge card net interchange rate for the first six months of 2011 is down 10 basis points, as compared to the first six months of last year, primarily due to contract mix.

Transaction processing revenue for the three months ended June 30, 2011, increased approximately \$1.7 million as compared to the same period in the prior year, and increased \$3.6 million for the six months ended June 30, 2011, as compared to the same period in the prior year. These increases are due to the addition of the Wright Express Australia prepaid business, acquired during the third quarter of 2010.

Other revenue for the three months ended June 30, 2011, increased approximately \$4.4 million as compared to the same period in the prior year, and increased \$7.8 million for the six months ended June 30, 2011, as compared to the same period in the prior year. These increases are primarily due to increased fees related to cross border charges.

- 27 -

---

**Table of Contents***Operating Expenses*

The following table compares selected expense line items within our Other Payment Solutions segment for the three months ended June 30:

(in thousands)	2011	2010	Increase (decrease)	
			Amount	Percent
<b>Expense</b>				
Service fees	<b>\$11,692</b>	\$5,498	\$6,194	113%
Salary and other personnel	<b>\$ 2,497</b>	\$ 885	\$1,612	182%
Depreciation and amortization	<b>\$ 1,408</b>	\$ 68	\$1,340	NM

NM Not Meaningful

Service fees increased \$6.2 million during the second quarter of 2011 as compared to the same period in the prior year. This increase is primarily due to increased volume and cross border charges on our North America corporate charge card product.

Salary and other personnel expenses increased \$1.6 million for the three months ended June 30, 2011, as compared to the same period last year. This increase is primarily due operations of Wright Express Australia, which added \$1.3 million in expense over the same period in the prior year.

Depreciation and amortization expenses increased \$1.3 million for the three months ended June 30, 2011, as compared to the same period in 2010. This increase is primarily due to amortization of intangible assets related to our acquisition of Wright Express Australia.

*Operating Expenses*

The following table compares selected expense line items within our Other Payment Solutions segment for the six months ended June 30:

(in thousands)	2011	2010	Increase (decrease)	
			Amount	Percent
<b>Expense</b>				
Service fees	<b>\$20,273</b>	\$9,886	\$10,387	105%
Salary and other personnel	<b>\$ 4,960</b>	\$1,628	\$ 3,332	205%
Depreciation and amortization	<b>\$ 2,599</b>	\$ 123	\$ 2,476	NM

NM Not Meaningful

Service fees increased \$10.4 million during the first six months of 2011 as compared to the same period in the prior year. This increase is primarily due to increased volume and cross border charges on our North America corporate charge card product.

Salary and other personnel expenses increased \$3.3 million for the six months ended June 30, 2011, as compared to the same period last year. This increase is primarily due to the acquisition of Wright Express Australia, which added \$2.7 million in expense over the same period in the prior year.

Depreciation and amortization expenses increased \$2.5 million for the six months ended June 30, 2011, as compared to the same period in 2010. This increase is primarily due to amortization of intangible assets related to our acquisition of Wright Express Australia.

**Table of Contents****Liquidity, Capital Resources and Cash Flows**

We focus on management operating cash as a key element in achieving maximum stockholder value, and it is the primary measure we use internally to monitor cash flow performance from our core operations. Since deposits and borrowed federal funds are used to finance our accounts receivable, we believe that they are a recurring and necessary use and source of cash. As such, we consider deposits and borrowed federal funds when evaluating our operating activities. For the same reason, we believe that management operating cash may also be useful to investors as one means of evaluating our performance. However, management operating cash is a non-GAAP measure and should not be considered a substitute for, or superior to, net cash provided by (used for) operating activities as presented on the consolidated statement of cash flows in accordance with GAAP.

While GAAP operating activities cash flows showed a use of \$108.8 million in the first six months of 2011, management operating cash moved in the opposite direction providing approximately \$79.8 million of inflows. During the first six months of 2010, GAAP operating activities cash flows showed a use of approximately \$16.9 million, while management operating cash showed inflows of \$32.5 million.

In addition to the \$79.8 million of management operating cash we generated during the first six months of 2011, we also decreased borrowings under our revolving credit facility by \$20.8 million. During the first six months of 2011 we paid \$8 million in cash for the acquisition of rapid!.

On May 23, 2011, the Company entered into a Credit Agreement (the *Credit Agreement*), by and among the Company and certain of its subsidiaries, as borrowers, and Wright Express Card Holdings Australia Pty Ltd, as specified designated borrower, with a lending syndicate. The Credit Agreement provides for a five-year \$200 million term loan facility and a five-year \$700 million revolving credit facility with a \$100 million sublimit for letters of credit and a \$20 million sublimit for swingline loans. Term loan payments in the amount of \$2.5 million are due beginning on June 30, 2011, and on the last day of each September, December, March and June thereafter, through and including March 31, 2016, and on the maturity date for the term agreement, May 23, 2016, the remaining outstanding principal amount of \$150 million is due. As of June 30, 2011, the Company had \$386.5 million of loans outstanding under the Credit Agreement. Accordingly, at June 30, 2011, the Company had \$511.0 million of availability under the Credit Agreement. The Company capitalized approximately \$6.2 million in association with this borrowing and wrote-off approximately \$0.7 million of previous issuance cost.

Proceeds from the new credit facility were used to refinance the Company's existing indebtedness under its 2007 credit facility with a lending syndicate, and its existing indebtedness under its 2010 term loan facility with a bank. The funding is available for working capital purposes, acquisitions, payment of dividends and other restricted payments, refinancing of indebtedness, and other general corporate purposes.

Amounts outstanding under the Credit Agreement bear interest at a rate equal to, at the Company's option, (a) the Eurocurrency Rate, as defined, plus a margin of 1.25 percent to 2.25 percent based on the ratio of consolidated funded indebtedness of the Company and its subsidiaries to consolidated EBITDA or (b) the highest of (i) the Federal Funds Rate plus 0.50 percent, (ii) the prime rate announced by the lead lender, or (iii) the Eurocurrency Rate plus 1.00 percent, in each case plus a margin of 0.25 percent to 1.25 percent based on the ratio of consolidated funded indebtedness of the Company and its subsidiaries to consolidated EBITDA. In addition, the Company has agreed to pay a quarterly commitment fee at a rate per annum ranging from 0.20 percent to 0.40 percent of the daily unused portion of the credit facility. Any outstanding loans under the Credit Agreement mature on May 23, 2016, unless extended pursuant to the terms of the Credit Agreement.

**Management Operating Cash**

The table below reconciles net cash provided by operating activities to change in management operating cash:

	<b>Six months ended</b>	
	<b>June 30,</b>	
	<b>2011</b>	<b>2010</b>
Net cash used for operating activities	<b>\$(108,780)</b>	\$(16,884)
Net increase in deposits	<b>238,650</b>	96,278

Edgar Filing: Wright Express CORP - Form 10-Q

Net decrease in borrowed federal funds	<b>(50,084)</b>	(46,905)
Management operating cash	<b>\$ 79,786</b>	\$ 32,489

- 29 -

---

**Table of Contents**

Our bank subsidiary, Wright Express Financial Services Corporation ( FSC ), utilizes certificates of deposit to finance our accounts receivable. FSC issued certificates of deposit in various maturities ranging between three months and two years and with fixed interest rates ranging from 0.30 percent to 1.95 percent as of June 30, 2011. As of June 30, 2011, we had approximately \$700 million of deposits outstanding. Certificates of deposit are subject to regulatory capital requirements.

FSC also utilizes federal funds lines of credit to supplement the financing of our accounts receivable. We have approximately \$140 million in federal funds lines of credit as of June 30, 2011.

**Liquidity**

We continue to have appropriate access to short-term borrowing instruments to fund our accounts receivable. Our cash balance for the period increased by approximately \$39 million. During the six months ended June 30, 2011 deposits increased approximately \$239 million, accounts receivable increased approximately \$404 million and accounts payable increased approximately \$199 million, primarily due to increased fuel prices as well as transaction growth.

We have approximately 5 years left on our revolving credit facility and have approximately \$189 million in borrowings against it. We had approximately \$511 million available to us under this agreement as of June 30, 2011. Our term loan has \$197.5 million borrowed against it. As of June 30, 2011, we are paying a rate of LIBOR plus 175 basis points on our credit facility. We decreased our financing debt by \$20.8 million during the first six months and ended the period with a balance outstanding of \$386.5 million.

Our credit agreement contains various financial covenants requiring us to maintain certain financial ratios. In addition to the financial covenants, the credit agreement contains various customary restrictive covenants including restrictions in certain situations on the payment of dividends. FSC is not subject to certain of these restrictions. We have been, and expect to continue to be, in compliance with all material covenants and restrictions.

Management believes that we can adequately fund our cash needs during the next 12 months.

**Off-balance Sheet Arrangements**

*Letters of credit.* We are required to post collateral to secure our fuel price sensitive derivative instruments where our unrealized loss exceeds any unsecured credit granted by our counter party. At June 30, 2011, we had posted, as collateral, letters of credit totaling \$18 million, as our fuel price derivative instruments were in an unrealized loss position.

**Contractual Obligations**

The table below summarizes the change in contractual obligations, as presented in our Annual Report on Form 10-K for the year ended December 31, 2010, as of June 30, 2011.

(in thousands)	Remaining 2011	2012	2013	2014	2015 and Thereafter	Total
Revolving line-of-credit, term loan <sup>(a)</sup>	\$5,000	\$10,000	\$10,000	\$10,000	\$351,500	\$386,500

<sup>(a)</sup> Our Revolving line-of-credit and term loan is set to expire in May 2016. Amounts in table exclude interest payments. See Item 1 Note 6, Financing Debt.

**Purchase of Treasury Shares**

We did not repurchase any shares of common stock during the quarter ended June 30, 2011.

**Critical Accounting Policies and Estimates**

We have no material changes to our critical accounting policies and estimates discussed in our Annual Report on Form 10-K for the year ended December 31, 2010.



**Table of Contents**

**Recently Adopted Accounting Standards**

None

**Item 3. Quantitative and Qualitative Disclosures About Market Risk.**

We have no material changes to the disclosure on this matter made in our Annual Report on Form 10-K for the year ended December 31, 2010.

- 31 -

---

**Table of Contents**

**Item 4. Controls and Procedures.**

**Evaluation of Disclosure Controls and Procedures**

The principal executive officer and principal financial officer of Wright Express Corporation evaluated the effectiveness of the Company's disclosure controls and procedures as of the end of the period covered by this report.

Disclosure controls and procedures are controls and other procedures of a company that are designed to ensure that information required to be disclosed by the company in the reports that it files or submits under the Securities Exchange Act of 1934, within the time periods specified in the SEC's rules and forms, is recorded, processed, summarized and reported, and is accumulated and communicated to the company's management, including its principal executive officer and principal financial officer, as appropriate to allow timely decisions regarding required disclosure. Based on their evaluation, the principal executive officer and principal financial officer of Wright Express Corporation concluded that the Company's disclosure controls and procedures were effective as of June 30, 2011.

**Changes in Internal Control Over Financial Reporting**

There were no changes in our internal control over financial reporting that occurred during the fiscal quarter ended June 30, 2011, our most recently completed fiscal quarter, that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

- 32 -

---

**Table of Contents**

**PART II**

**Item 1. Legal Proceedings.**

As of the date of this filing, we are not involved in any material legal proceedings. We also were not involved in any material legal proceedings that were terminated during the second quarter of 2011. However, from time to time, we are subject to other legal proceedings and claims in the ordinary course of business, none of which we believe are likely to have a material adverse effect on our financial position, results of operations or cash flows.

**Item 1A. Risk Factors.**

In addition to the other information set forth in this report, you should carefully consider the factors discussed in Part I, Item 1A. Risk Factors in our Annual Report on Form 10-K for the year ended December 31, 2010, which could materially affect our business, financial condition or future results. The risks described in this report and in our Annual Report on Form 10-K are not the only risks facing our Company. Additional risks and uncertainties not currently known to us or that we currently deem to be immaterial also may materially adversely affect our business, financial condition or future results.

- 33 -

---

**Table of Contents**

**Item 6. Exhibits.**

<b>Exhibit No.</b>	<b>Description</b>
3.1	Certificate of Incorporation (incorporated by reference to Exhibit No. 3.1 to our Current Report on Form 8-K filed with the SEC on March 1, 2005, File No. 001-32426)
3.2	Amended and Restated By-Laws (incorporated by reference to Exhibit No. 3.1 to our Current Report on Form 8-K filed with the SEC on November 20, 2008, File No. 001-32426)
4.1	Rights Agreement, dated as of February 16, 2005 by and between Wright Express Corporation and Wachovia Bank, National Association (incorporated by reference to Exhibit No. 4.1 to our Current Report on Form 8-K filed with the SEC on March 1, 2005, File No. 001-32426)
10.1	Credit Agreement, by and among Wright Express Corporation and certain of its subsidiaries, as borrowers, Wright Express Card Holdings Australia Pty Ltd, Bank of America, N.A., as administrative agent, swing line lender and L/C issuer, and the other lenders party thereto (incorporated by reference to Exhibit No. 10.1 to our Current Report on Form 8-K filed with the SEC on May 26, 2011, File No. 001-32426)
10.2	Guaranty, dated as of May 23, 2011, by and among Wright Express Corporation and Bank of America, N.A. (incorporated by reference to Exhibit No. 10.2 to our Current Report on Form 8-K filed with the SEC on May 26, 2011, File No. 001-32426)
10.3	Domestic Subsidiary Guaranty, dated as of May 23, 2011, by and among Wright Express Corporation, certain Subsidiary Guarantors and Bank of America, N.A. (incorporated by reference to Exhibit No. 10.3 to our Current Report on Form 8-K filed with the SEC on May 26, 2011, File No. 001-32426)
10.4	Pledge Agreement, dated as of May 23, 2011, by and among Wright Express Corporation, certain Domestic Subsidiary Guarantors and Bank of America, N.A. (incorporated by reference to Exhibit No. 10.4 to our Current Report on Form 8-K filed with the SEC on May 26, 2011, File No. 001-32426)
10.5	Share Mortgage, dated as of May 23, 2011, by and among Wright Express Corporation and Bank of America, N.A. (incorporated by reference to Exhibit No. 10.5 to our Current Report on Form 8-K filed with the SEC on May 26, 2011, File No. 001-32426)
10.6	Executive Retention Agreement, dated April 6, 2011, between David Maximic and Wright Express Corporation (incorporated by reference to Exhibit No. 10.1 to our Current Report on Form 8-K filed with the SEC on April 12, 2011, File No. 001-32426)
* 10.7	Amendment to ISDA Master Agreement, dated as of May 20, 2011, between SunTrust Bank and Wright Express Corporation
* 31.1	Certification of Chief Executive Officer of Wright Express Corporation pursuant to Rule 13a-14(a) promulgated under the Securities Exchange Act of 1934, as amended

Edgar Filing: Wright Express CORP - Form 10-Q

- \* 31.2 Certification of Chief Financial Officer of Wright Express Corporation pursuant to Rule 13a-14(a) promulgated under the Securities Exchange Act of 1934, as amended
- \* 32.1 Certification of Chief Executive Officer of Wright Express Corporation pursuant to Rule 13a-14(b) promulgated under the Securities Exchange Act of 1934, as amended, and Section 1350 of Chapter 63 of Title 18 of the United States Code
- \* 32.2 Certification of Chief Financial Officer of Wright Express Corporation pursuant to Rule 13a-14(b) promulgated under the Securities Exchange Act of 1934, as amended, and Section 1350 of Chapter 63 of Title 18 of the United States Code
- \*\* 101.INS XBRL Instance Document
- \*\* 101.SCH XBRL Taxonomy Extension Schema Document
- \*\* 101.CAL XBRL Taxonomy Calculation Linkbase Document
- \*\* 101.LAB XBRL Taxonomy Label Linkbase Document
- \*\* 101.PRE XBRL Taxonomy Presentation Linkbase Document
- \*\* 101.DEF XBRL Taxonomy Definition Linkbase Document
- \* These exhibits have been filed with this Quarterly Report on Form 10-Q.
- \*\* In accordance with Regulation S-T, the XBRL-related information in Exhibit 101 to this Quarterly Report on Form 10-Q shall be deemed to be furnished and not filed .

- 34 -

---

**Table of Contents**

**SIGNATURE**

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

**WRIGHT EXPRESS CORPORATION**

August 8, 2011

By: /s/ Steven A. Elder  
Steven A. Elder  
*Senior Vice President and CFO*  
*(principal financial officer and principal*  
*accounting officer)*

- 35 -

---

**Table of Contents**

**EXHIBIT INDEX**

<b>Exhibit No.</b>	<b>Description</b>
3.1	Certificate of Incorporation (incorporated by reference to Exhibit No. 3.1 to our Current Report on Form 8-K filed with the SEC on March 1, 2005, File No. 001-32426)
3.2	Amended and Restated By-Laws (incorporated by reference to Exhibit No. 3.1 to our Current Report on Form 8-K filed with the SEC on November 20, 2008, File No. 001-32426)
4.1	Rights Agreement, dated as of February 16, 2005 by and between Wright Express Corporation and Wachovia Bank, National Association (incorporated by reference to Exhibit No. 4.1 to our Current Report on Form 8-K filed with the SEC on March 1, 2005, File No. 001-32426)
10.1	Credit Agreement, by and among Wright Express Corporation and certain of its subsidiaries, as borrowers, Wright Express Card Holdings Australia Pty Ltd, Bank of America, N.A., as administrative agent, swing line lender and L/C issuer, and the other lenders party thereto (incorporated by reference to Exhibit No. 10.1 to our Current Report on Form 8-K filed with the SEC on May 26, 2011, File No. 001-32426)
10.2	Guaranty, dated as of May 23, 2011, by and among Wright Express Corporation and Bank of America, N.A. (incorporated by reference to Exhibit No. 10.2 to our Current Report on Form 8-K filed with the SEC on May 26, 2011, File No. 001-32426)
10.3	Domestic Subsidiary Guaranty, dated as of May 23, 2011, by and among Wright Express Corporation, certain Subsidiary Guarantors and Bank of America, N.A. (incorporated by reference to Exhibit No. 10.3 to our Current Report on Form 8-K filed with the SEC on May 26, 2011, File No. 001-32426)
10.4	Pledge Agreement, dated as of May 23, 2011, by and among Wright Express Corporation, certain Domestic Subsidiary Guarantors and Bank of America, N.A. (incorporated by reference to Exhibit No. 10.4 to our Current Report on Form 8-K filed with the SEC on May 26, 2011, File No. 001-32426)
10.5	Share Mortgage, dated as of May 23, 2011, by and among Wright Express Corporation and Bank of America, N.A. (incorporated by reference to Exhibit No. 10.5 to our Current Report on Form 8-K filed with the SEC on May 26, 2011, File No. 001-32426)
10.6	Executive Retention Agreement, dated April 6, 2011, between David Maximic and Wright Express Corporation (incorporated by reference to Exhibit No. 10.1 to our Current Report on Form 8-K filed with the SEC on April 12, 2011, File No. 001-32426)
* 10.7	Amendment to ISDA Master Agreement, dated as of May 20, 2011, between SunTrust Bank and Wright Express Corporation
* 31.1	Certification of Chief Executive Officer of Wright Express Corporation pursuant to Rule 13a-14(a) promulgated under the Securities Exchange Act of 1934, as amended

Edgar Filing: Wright Express CORP - Form 10-Q

- \* 31.2 Certification of Chief Financial Officer of Wright Express Corporation pursuant to Rule 13a-14(a) promulgated under the Securities Exchange Act of 1934, as amended
- \* 32.1 Certification of Chief Executive Officer of Wright Express Corporation pursuant to Rule 13a-14(b) promulgated under the Securities Exchange Act of 1934, as amended, and Section 1350 of Chapter 63 of Title 18 of the United States Code
- \* 32.2 Certification of Chief Financial Officer of Wright Express Corporation pursuant to Rule 13a-14(b) promulgated under the Securities Exchange Act of 1934, as amended, and Section 1350 of Chapter 63 of Title 18 of the United States Code
- \*\* 101.INS XBRL Instance Document
- \*\* 101.SCH XBRL Taxonomy Extension Schema Document
- \*\* 101.CAL XBRL Taxonomy Calculation Linkbase Document
- \*\* 101.LAB XBRL Taxonomy Label Linkbase Document
- \*\* 101.PRE XBRL Taxonomy Presentation Linkbase Document
- \*\* 101.DEF XBRL Taxonomy Definition Linkbase Document
- \* These exhibits have been filed with this Quarterly Report on Form 10-Q.
- \*\* In accordance with Regulation S-T, the XBRL-related information in Exhibit 101 to this Quarterly Report on Form 10-Q shall be deemed to be furnished and not filed .

- 36 -