Wright Express CORP
Form 10-Q/A
January 31, 2008

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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
FORM 10-Q/A
Amendment No. 1

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

For the quarterly period ended June 30, 2007

OR

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

For the transition period from to

Commission file number 001-32426

WRIGHT EXPRESS CORPORATION

(Exact name of Registrant as specified in its charter)

Delaware	01-0526993
(State or other jurisdiction of incorporation)	(I.R.S Employer Identification No.)

97 Darling Avenue
South Portland, ME 04106

(Address of principal executive office)
(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 such shorter period that the registrant was required to file such reports), and
(2) has been subject to such filing requirements for at least the past 90 days.

Yes þ No o
Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See
definition of accelerated filer and "large accelerated filer" in Rule 12b-2 of the Exchange Act.
(Check one):

Large accelerated filer þ Accelerated filer o Non-accelerated filer o

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

Yes o No þ

There were 39,980,405 shares of common stock $0.01 par value outstanding as of August 1, 2007.

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Explanatory Note

This Amendment No. 1 on Form 10-Q/A is filed by Wright Express Corporation (the Company) to amend the Company s quarterly report on Form 10-Q for the quarter ended June 30, 2007, originally filed with the Securities and Exchange Commission (SEC) on August 7, 2007 (the Original Filing). The Company has concluded that adjustments to its financial statements are necessary to incorporate a change in the State of Maine tax law enacted on June 7, 2007, but not identified as relevant until analyzed during the Company s year-end closing process. In accordance with Statement of Financial Accounting Standards (SFAS) No. 109, *Accounting for Income Taxes*, the Company has determined that a change in tax law shall be reflected in the period that includes the enactment date. The effect of correcting this error has been disclosed in Note 1 to the accompanying Condensed Consolidated Financial Statements.

This Amendment No. 1 on Form 10-Q/A amends the following Items:

- Item 1 (Financial Statements) to reflect changes to the Condensed Consolidated Financial Statements and related notes.

- Item 2 (Management s Discussion and Analysis of Financial Condition and Results of Operations) to reflect changes to Results of Operations and Liquidity, Capital Resources and Cash Flows.

- Item 4 (Controls and Procedures) to reflect management s updated evaluation of disclosure controls and procedures and internal control over financial reporting.

No other significant changes have been made to the Original Filing except:

- the items previously listed; and

- the renumbering of certain pages and notes of this report.

This amendment is not intended to update other information presented in the Original Filing. As a result of this amendment, the certifications pursuant to Section 302 and Section 906 of the Sarbanes-Oxley Act of 2002, filed as exhibits to the Original Filing, have been re-executed and re-filed as of the date of this Form 10-Q/A.

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PART I: FINANCIAL INFORMATION

Item 1. Financial Statements.

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

	(As restated, see Note 1) June 30, 2007 (unaudited)	December 31, 2006
Assets		
Cash and cash equivalents	**$ 32,937**	$ 35,060
Accounts receivable (less reserve for credit losses of $9,453 in 2007 and $9,749 in 2006)	**1,134,266**	802,165
Available-for-sale securities	**7,443**	8,023
Property, equipment and capitalized software, net	**44,823**	39,970
Deferred income taxes, net	**284,720**	377,276
Intangible assets	**2,421**	2,421
Goodwill	**272,861**	272,861
Other assets	**18,408**	13,239
Total assets	**$ 1,797,879**	$ 1,551,015
Liabilities and Stockholders Equity		
Accounts payable	**$ 433,184**	$ 297,102
Accrued expenses	**21,831**	26,065
Income taxes payable		813
Deposits	**599,751**	394,699
Borrowed federal funds	**25,350**	65,396
Revolving line-of-credit facilities	**164,600**	20,000
Term loan, net		129,760
Derivative instruments, at fair value	**19,106**	4,524
Other liabilities	**4,350**	1,170
Amounts due to Avis under tax receivable agreement	**328,411**	418,359
Preferred stock; 10,000 shares authorized:		
Series A non-voting convertible, redeemable preferred stock; 0.1 shares issued and outstanding	**10,000**	10,000
Total liabilities	**1,606,583**	1,367,888
Commitments and contingencies (Note 8)		
Stockholders Equity		

Common stock $0.01 par value; 175,000 shares authorized, 40,668 in 2007 and 40,430 in 2006 issued	**407**	404
Additional paid-in capital	**93,764**	89,325
Retained earnings	**117,953**	93,262
Other comprehensive income, net of tax:		
Net unrealized loss on available-for-sale securities	**(185)**	(98)
Net unrealized gain on interest rate swaps		234
Accumulated other comprehensive income	**(185)**	136
Less treasury stock at cost, 699 shares in 2007 and no shares in 2006	**(20,643)**	
Total stockholders equity	**191,296**	183,127
Total liabilities and stockholders equity	**$ 1,797,879**	$ 1,551,015

See notes to condensed consolidated financial statements.

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

	Three months ended June 30,		Six months ended June 30,	
	(As restated, see Note 1) 2007	2006	**(As restated, see Note 1) 2007**	2006
Revenues				
Payment processing revenue	**$ 66,973**	$ 57,693	**$ 121,167**	$ 104,649
Transaction processing revenue	**3,652**	4,343	**7,127**	8,553
Account servicing revenue	**6,328**	5,926	**12,508**	11,841
Finance fees	**6,566**	5,243	**12,132**	10,481
Other	**2,454**	2,959	**4,861**	5,278
Total revenues	**85,973**	76,164	**157,795**	140,802
Expenses				
Salary and other personnel	**15,699**	15,196	**31,828**	29,550
Service fees	**3,440**	3,377	**7,111**	6,417
Provision for credit losses	**3,043**	2,302	**9,306**	6,220
Technology leasing and support	**2,262**	1,934	**4,602**	3,797
Occupancy and equipment	**1,502**	1,703	**3,096**	3,295
Depreciation and amortization	**3,338**	2,692	**6,640**	5,206
Operating interest expense	**8,946**	6,042	**15,867**	10,649
Other	**5,096**	4,406	**9,795**	8,249
Total operating expenses	**43,326**	37,652	**88,245**	73,383
Operating income	**42,647**	38,512	**69,550**	67,419
Financing interest expense	**(3,001)**	(3,666)	**(6,131)**	(7,394)
Loss on extinguishment of debt	**(1,572)**		**(1,572)**	
Net realized and unrealized losses on derivative instruments	**(9,639)**	(20,509)	**(20,329)**	(27,987)
Decrease in amount due to Avis under tax receivable agreement	**78,904**		**78,904**	

Income before income taxes	**107,339**	14,337	**120,422**	32,038
Provision for income taxes	**90,985**	4,481	**95,731**	10,832
Net income	**16,354**	9,856	**24,691**	21,206
Change in net unrealized loss on available-for-sale securities, net of tax effect of $(53) and $(48) in 2007 and $(21) and $(62) in 2006	**(95)**	(55)	**(87)**	(118)
Change in net unrealized gain on interest rate swaps, net of tax effect of $(42) and $(162) in 2007 and $(49) and $37 in 2006	**(61)**	(20)	**(234)**	48
Comprehensive income	**$ 16,198**	$ 9,781	**$ 24,370**	$ 21,136
Earnings per share:				
Basic	**$ 0.41**	$ 0.24	**$ 0.61**	$ 0.53
Diluted	**$ 0.40**	$ 0.24	**$ 0.60**	$ 0.52
Weighted average common shares outstanding:				
Basic	**39,995**	40,331	**40,170**	40,288
Diluted	**41,084**	41,086	**40,853**	41,035

See notes to condensed consolidated financial statements.

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

	Six months ended June 30,	
	(As restated, see Note 1) 2007	2006
Cash flows from operating activities		
Net income	**$ 24,691**	$ 21,206
Adjustments to reconcile net income to net cash used for operating activities:		
Change in net unrealized loss on derivative instruments	**14,582**	8,888
Stock-based compensation	**2,146**	1,553
Depreciation and amortization	**7,223**	5,766
Loss on extinguishment of debt	**1,572**	
Deferred taxes	**92,766**	6,365
Provision for credit losses	**9,306**	6,220
Loss on disposal and impairment of property and equipment		5
Changes in operating assets and liabilities:		
Accounts receivable	**(341,407)**	(244,945)
Other assets	**(1,995)**	1,744
Accounts payable	**136,082**	141,746
Accrued expenses	**(4,305)**	(2,476)
Income taxes	**(4,300)**	
Other liabilities	**308**	832
Amounts due to Avis	**(89,948)**	(9,479)
Net cash used for operating activities	**(153,279)**	(62,575)
Cash flows from investing activities		
Purchases of property and equipment	**(8,621)**	(6,216)
Purchases of available-for-sale securities	**(70)**	(66)
Maturities of available-for-sale securities	**515**	14,777
Net cash (used for) provided by investing activities	**(8,176)**	8,495
Cash flows from financing activities		
Excess tax benefits from equity instrument share-based payment arrangements	**1,279**	251
Payments in lieu of issuing shares of common stock	**(1,152)**	(682)
Proceeds from stock option exercises	**2,240**	1,229
Net increase in deposits	**205,052**	76,065

Net decrease in borrowed federal funds	**(40,046)**	(29,677)
Net borrowings on 2007 revolving line-of-credit facility	**164,600**	
Loan origination fees paid for 2007 revolving line-of-credit facility	**(998)**	
Net repayments on 2005 revolving line-of-credit facility	**(20,000)**	(5,000)
Repayments on term loan	**(131,000)**	(16,500)
Purchase of shares of treasury stock	**(20,643)**	
Net cash provided by financing activities	**159,332**	25,686
Net change in cash and cash equivalents	**(2,123)**	(28,394)
Cash and cash equivalents, beginning of period	**35,060**	44,994
Cash and cash equivalents, end of period	**$ 32,937**	$ 16,600
Supplemental cash flow information:		
Interest paid	**$ 20,309**	$ 17,362
Income taxes paid	**$ 5,871**	$ 925
Significant non-cash transactions:		
Capitalized software licensing agreement	**$ 2,872**	$

See notes to condensed consolidated financial statements.

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

1. Nature of Business and Basis of Presentation

Wright Express Corporation (we, our, us, the Company or Wright Express) is a leading provider of payme processing and information management services to the vehicle fleet industry. We utilize our wholly owned bank subsidiary, Wright Express Financial Services Corporation (FSC), a Utah-chartered industrial bank that is regulated, supervised and regularly examined by the Utah Department of Financial Institutions and the Federal Deposit Insurance Corporation (FDIC) to facilitate and manage transactions for vehicle fleets through our proprietary closed network of major oil companies, fuel retailers and vehicle maintenance providers.

The accompanying unaudited condensed consolidated financial statements have been prepared pursuant to the rules and regulations of the Securities and Exchange Commission (SEC) regarding interim financial reporting. Accordingly, they do not include all of the information and notes required by accounting principles generally accepted in the United States of America for complete financial statements and should be read in conjunction with the audited consolidated financial statements included in our Annual Report on Form 10-K for the year ended December 31, 2006, filed with the SEC on February 28, 2007.

In the opinion of our management, the accompanying unaudited condensed consolidated financial statements have been prepared on the same basis as the audited consolidated financial statements, and reflect all adjustments of a normal recurring nature considered necessary to present fairly results of the interim periods presented. The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the period. Actual results could differ from those estimates. All adjustments (consisting of normal recurring adjustments) considered necessary for a fair presentation of financial position, results of operations and cash flows at the dates and for the periods presented have been included. The results of operations of any interim period are not necessarily indicative of the results of operations for the full year or any future interim period.

On July 13, 2006, the FASB issued Interpretation No. (FIN) 48, *Accounting for Uncertainty in Income Taxes An Interpretation of FASB Statement No. 109*. FIN 48 clarifies the accounting for uncertainty in income taxes recognized in an entity s financial statements in accordance with Statement of Financial Accounting Standards (SFAS) No. 109, *Accounting for Income Taxes*, and prescribes a recognition threshold and measurement attributes for financial statement disclosure of tax positions taken or expected to be taken on a tax return. Under FIN 48, the impact of an uncertain income tax position on the income tax return must be recognized at the largest amount that is more likely than not to be sustained upon audit by the relevant taxing authority. An uncertain income tax position will not be recognized if it has less than a 50 percent likelihood of being sustained. Additionally, FIN 48 provides guidance on derecognition, classification, interest and penalties, accounting in interim periods, disclosure and transition.

We adopted the provisions of FIN 48 on January 1, 2007. We did not recognize any material liability for unrecognized tax benefits in conjunction with our FIN 48 implementation. However, as we accrue for such liabilities when they arise, we will recognize interest and penalties associated with uncertain tax positions as part of our income tax provision.

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

Restatement

Subsequent to the end of the second quarter, the Company has concluded that adjustments to its financial statements are necessary to incorporate a change in the State of Maine tax law enacted on June 7, 2007. In accordance with SFAS No. 109, *Accounting for Income Taxes*, the Company has determined that a change in tax law should have been reflected in the period that includes the enactment date. The impact of the change in the State of Maine tax law is discussed further in Note 6, Income Taxes. The liability to our former shareholder, Avis Budget Group, Inc. (Avis), formerly Cendant Corporation (Cendant), has been adjusted as required under the terms of the Tax Receivable Agreement discussed in further detail in Note 7, Tax Receivable Agreement. An adjustment has also been made to additional paid-in capital to reverse excess state tax benefits from stock option exercises that had not yet been realized.

The adjustments to the Company s previously issued financial statements as of June 30, 2007, and for the three and six months then ended are presented below:

Condensed Consolidated Balance Sheets

	As originally Reported	Adjustment	**As restated June 30, 2007**
Assets			
Deferred income taxes, net	$ 365,956	$(81,236)	**$ 284,720**
Other assets	$ 18,385	$ 23	**$ 18,408**
Total assets	$1,879,092	$(81,213)	**$1,797,879**
Liabilities and Stockholders Equity			
Amounts due to Avis under tax receivable agreement	$ 407,315	$(78,904)	**$ 328,411**
Total liabilities	$1,685,487	$(78,904)	**$1,606,583**
Stockholders Equity			
Additional paid-in capital	$ 94,098	$ (334)	**$ 93,764**
Retained earnings	$ 119,928	$ (1,975)	**$ 117,953**
Total stockholders equity	$ 193,605	$ (2,309)	**$ 191,296**
Total liabilities and stockholders equity	$1,879,092	$(81,213)	**$1,797,879**

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

Condensed Consolidated Statements of Income and Comprehensive Income

	Three months ended June 30, 2007			Six months ended June 30, 2007		
	As originally reported	Adjustment	**As restated**	As originally reported	Adjustment	**As restated**
Decrease in amount due to Avis under tax receivable agreement	$	$78,904	**$ 78,904**	$	$78,904	**$ 78,904**
Income before income taxes	$28,435	$78,904	**$107,339**	$41,518	$78,904	**$120,422**
Provision for income taxes	$10,106	$80,879	**$ 90,985**	$14,852	$80,879	**$ 95,731**
Net income	$18,329	$ (1,975)	**$ 16,354**	$26,666	$ (1,975)	**$ 24,691**
Comprehensive income	$18,173	$ (1,975)	**$ 16,198**	$26,345	$ (1,975)	**$ 24,370**
Earnings per share:						
Basic	$ 0.46	$ (0.05)	**$ 0.41**	$ 0.66	$ (0.05)	**$ 0.61**
Diluted	$ 0.45	$ (0.05)	**$ 0.40**	$ 0.65	$ (0.05)	**$ 0.60**

Condensed Consolidated Statements of Cash Flows

	Six months ended June 30, 2007		
	As originally reported	Adjustment	**As restated**
Cash flows from operating activities			
Net income	$ 26,666	$ (1,975)	**$ 24,691**
Deferred taxes	$ 11,530	$ 81,236	**$ 92,766**
Changes in operating assets and liabilities:			
Income taxes	$ (4,277)	$ (23)	**$ (4,300)**
Amounts due to Avis	$ (11,044)	$(78,904)	**$ (89,948)**
Net cash used for operating activities	$(153,613)	$ 334	**$(153,279)**
Cash flows from financing activities			
Excess tax benefits from equity instrument share-based payment arrangements	$ 1,613	$ (334)	**$ 1,279**
Net cash provided by financing activities	$ 159,666	$ (334)	**$ 159,332**

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

2. Goodwill and Other Intangible Assets

Goodwill and other intangible assets are allocated to our operating segments as follows:

	June 30, 2007	December 31, 2006
Unamortized Intangible Assets		
Goodwill		
Fleet	**$ 263,148**	$ 263,148
MasterCard	**9,713**	9,713
Total	**$ 272,861**	$ 272,861
Trademark		
Fleet	**$ 2,339**	$ 2,339
MasterCard	**82**	82
Total	**$ 2,421**	$ 2,421

At June 30, 2007, and December 31, 2006, we had no amortizable intangible assets.

3. Deposits and Borrowed Federal Funds

The following table presents information about deposits:

	June 30, 2007	December 31, 2006
Certificates of deposits with maturities within 1 year	**$ 532,049**	$ 294,313
Certificates of deposits with maturities greater than 1 year and less than 5 years	**62,121**	95,340
Non-interest bearing deposits	**5,581**	5,046
Total	**$ 599,751**	$ 394,699

Weighted average cost of funds on certificates of deposit	**5.28%**	5.24%

The following table presents the average interest rates for deposits and borrowed federal funds:

	Three months ended June 30,		**Six months ended June 30,**	
	2007	2006	**2007**	2006
Average interest rate:				
Deposits	**5.28%**	4.68%	**5.28%**	4.65%
Borrowed federal funds	**5.50%**	5.10%	**5.50%**	4.96%
Average debt balance	**$569,644**	$393,980	**$506,308**	$364,047

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

We had federal funds lines of credit of $135,000 at June 30, 2007, and $130,000 at December 31, 2006. The average rate on the outstanding lines of credit was 5.50 percent at June 30, 2007, and 5.41 percent at December 31, 2006.

4. Derivative Instruments

We use derivative instruments as part of our overall strategy to manage our exposure to fluctuations in fuel prices and to reduce the impact of interest rate volatility. As a matter of policy, we do not use derivatives for trading or speculative purposes. All derivatives are recorded at fair value on the condensed consolidated balance sheets in accordance with SFAS No. 133, *Accounting for Derivative Instruments and Hedging Activities*. Gains or losses related to fuel price derivative instruments are recognized currently in earnings, as they do not qualify for hedge accounting treatment. The instruments are presented on the condensed consolidated balance sheets as derivative instruments, at fair value. Our interest rate derivatives are designated as cash flow hedges in accordance with SFAS No. 133 and, accordingly, the change in fair value associated with the effective portion of these derivative instruments that qualify for hedge accounting treatment under SFAS No. 133 is recorded as a component of other comprehensive income and the ineffective portion, if any, is reported currently in earnings. Amounts included in other comprehensive income are reclassified into earnings in the same period during which the hedged item affects earnings. These instruments are presented as either other assets or other liabilities on the condensed consolidated balance sheets.

Fuel Price Derivatives

We use derivative instruments to manage the impact of volatility in fuel prices. We enter into put and call option contracts (Options) based on the wholesale price of unleaded gasoline and retail price of diesel fuel, which expire on a monthly basis through June 2009. The Options are intended to lock in a range of prices during any given quarter on a portion of our forecasted earnings subject to fuel price variations. Our fuel price risk management program is designed to purchase derivative instruments to manage our fuel price-related earnings exposure. We plan to continue locking in a significant portion of our fuel price related earnings exposure every quarter on a rolling basis.

The following table summarizes the changes in fair value of the Options which have been recorded in net realized and unrealized losses on derivative instruments on the condensed consolidated statements of income and comprehensive income.

	Three months ended June 30,		Six months ended June 30,	
	2007	2006	**2007**	2006
Realized losses	**$ (5,648)**	$ (13,047)	**$ (5,747)**	$ (19,099)
Unrealized losses	**(3,991)**	(7,462)	**(14,582)**	(8,888)
Net realized and unrealized losses on derivative instruments	**$ (9,639)**	$ (20,509)	**$ (20,329)**	$ (27,987)

Management intends to hold the Options until their scheduled expirations.

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

Interest Rate Swaps

In April 2005, we entered into interest rate swap arrangements (the Swaps) with two counterparties. The Swaps were designed as cash flow hedges intended to reduce a portion of the variability of the future interest payments on our variable rate debt instruments. The fair value of the Swaps was recorded as other assets. The following table presents information about the Swaps:

Weighted average fixed base rate	3.85 %
Aggregate notional amount of the Swaps:	
For the period October 24, 2005 through April 23, 2006	$ 120,000
For the period April 24, 2006 through October 22, 2006	$ 100,000
For the period October 23, 2006 through April 23, 2007	$ 80,000

The following table summarizes the changes in the fair value of the Swaps.

	Three months ended June 30,		**Six months ended June 30,**	
	2007	2006	**2007**	2006
Realized gains [(a)]	**$ 103**	$ 304	**$ 400**	$ 506
Change in unrealized gains, net of tax impact of $(42) and $(162) in 2007 and $(49) and $37 in 2006 [(b)]	**$ (61)**	$ (20)	**$ (234)**	$ 48

(a) Realized gains on the Swaps have been recorded in financing interest expense on the condensed consolidated statements of income and comprehensive income.

(b) Change in unrealized gains on the Swaps, net of the tax impact, have been recorded in accumulated other comprehensive income on the condensed consolidated balance sheets. No ineffectiveness was reclassified into earnings during the periods shown in the table.

The Swaps expired on April 23, 2007. There were no interest rate swap arrangements as of June 30, 2007. We did enter into an interest rate swap arrangement subsequent to June 30, 2007 (see Note 11, Subsequent Events).

5. Earnings per Share

Diluted earnings per common share is calculated using weighted-average shares outstanding, less weighted-average shares reacquired during the period, adjusted for the dilutive effect of shares issuable upon the assumed conversion of our convertible, redeemable preferred stock and common stock equivalents, which consist of outstanding stock options and unvested restricted stock units. The interest expense on convertible, redeemable preferred stock is added back to net income when the related common stock equivalents are included in computing diluted earnings per common share.

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

Income available for common stockholders used to calculate earnings per share is as follows:

	Three months ended June 30, 2007	Three months ended June 30, 2006	Six months ended June 30, 2007	Six months ended June 30, 2006
Income available for common stockholders Basic	**$ 16,354**	$ 9,856	**$ 24,691**	$ 21,206
Convertible, redeemable preferred stock	**173**			
Income available for common stockholders Diluted	**$ 16,527**	$ 9,856	**$ 24,691**	$ 21,206

Weighted average common shares outstanding used to calculate earnings per share is as follows:

	Three months ended June 30, 2007	Three months ended June 30, 2006	Six months ended June 30, 2007	Six months ended June 30, 2006
Weighted average common shares outstanding Basic	**39,995**	40,331	**40,170**	40,288
Unvested restricted stock units	**526**	559	**549**	546
Stock options	**119**	196	**134**	201
Convertible, redeemable preferred stock	**444**			
Weighted average common shares outstanding Diluted	**41,084**	41,086	**40,853**	41,035
The following were not included in *Weighted average common shares outstanding Diluted* because they are anti-dilutive:				
Unvested restricted stock units				
Stock options				
Convertible, redeemable preferred stock		444	**444**	444
Total		444	**444**	444

6. Income Taxes

The reconciliation between the income tax computed by applying the U.S. federal statutory rate and the reported effective tax rate on net income from continuing operations is as follows:

	Six months ended June 30,	
	2007	2006
Federal statutory rate	**35.0 %**	35.0 %
State income taxes, net of federal income tax benefit	**1.4**	(1.7)
Revaluation of deferred tax assets, net	**43.3**	
Dividend exclusion	**0.1**	0.4
Other	**(0.3)**	0.1
Effective tax rate	**79.5 %**	33.8 %

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

On June 7, 2007, the State of Maine enacted a law effective for tax years beginning on or after January 1, 2007, which changed the State s rules for apportioning income related to the performance of services. The new law effectively reduced taxable income or loss allocable to the State of Maine. This caused a change to the Company s apportionment factors and has resulted in a significant decrease in the Company s blended state income tax rate. The lower state income tax rate was applied to the cumulative temporary differences existing between the carrying amounts for financial reporting purposes and the amounts used for income tax purposes. The effect of this lower state income tax rate on the temporary differences decreased the Company s deferred tax assets which resulted in a charge to the provision for income taxes in this period of $80,879.

The tax effects of temporary differences between financial reporting and tax purposes that give rise to the deferred tax assets and the deferred tax liabilities are presented below:

	June 30, 2007	December 31, 2006
Deferred tax assets related to:		
Reserve for credit losses	**$ 3,391**	$ 3,815
Stock-based compensation, net	**2,292**	2,589
Accrued expenses		439
State net operating loss carry forwards	**549**	8,001
Derivatives	**2,919**	
Unrealized losses on interest rate swaps and available-for-sale securities, net	**102**	
Tax deductible goodwill, net	**285,815**	373,874
	295,068	388,718
Deferred tax liabilities related to:		
Other assets	**1,860**	1,317
Property, equipment and capitalized software	**8,488**	7,362
Derivatives		2,655
Unrealized gains on interest rate swaps and available-for-sale securities, net		108
	10,348	11,442
Deferred income taxes, net	**$ 284,720**	$ 377,276

7. Tax Receivable Agreement

As a consequence of the Company s separation from Avis, the tax basis of the Company s tangible and intangible assets increased (the Tax Basis Increase). This Tax Basis Increase is expected to reduce the amount of tax that the Company may pay to the extent the Company generates taxable income in sufficient amounts in the future. The Company is contractually obligated, pursuant to its Tax Receivable Agreement with Avis, to remit to Avis 85 percent of any such cash savings, subject to repayment if it is determined that these savings should not have been available to the Company.

As discussed in Note 6, Income Taxes, the Company s blended state income tax rate decreased in the second quarter of 2007. The lower state income tax rate contributes to a lower overall rate. The lower overall rate decreased the Company s deferred tax assets and resulted in a charge to the provision for income taxes. The lower overall rate also decreased the expected benefit the Company will realize from the Tax Basis Increase. Accordingly, the related contractual liability to Avis recorded in connection with the Tax Receivable Agreement has decreased. This decrease resulted in non-operating income of $78,904 for the three and six months ended June 30, 2007.

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

8. Commitments and Contingencies

Litigation

We are not involved in any material legal proceedings. 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.

9. New Credit Facility

On May 22, 2007, we entered into a revolving credit facility (the Credit Agreement) with a lending syndication. The Credit Agreement provides for a five-year $350 million unsecured revolving credit facility.

Amounts outstanding under the Credit Agreement bear interest at a rate equal to (a) the British Bankers Association LIBOR rate plus a margin of 0.45% to 1.125% based on our consolidated leverage ratio or (b) the higher of the Federal Funds Rate plus 0.50% or the prime rate announced by Bank of America, N.A., plus a margin of up to 0.125% based on our consolidated leverage ratio. In addition, we have agreed to pay a quarterly commitment fee at a rate per annum ranging from 0.10% to 0.20% of the daily unused portion of the credit facility. Any outstanding loans under the Credit Agreement mature on May 22, 2012, unless extended pursuant to the terms of the Credit Agreement. The agreement contains certain financial covenants.

Proceeds from the Credit Agreement were used to refinance our indebtedness under an existing credit facility (the 2005 Facility). All balances owed by us, which included $20,000 on a revolving line-of-credit and $131,000 on a term loan, under the 2005 Facility have been paid and our obligations have been satisfied. We expensed $1,572 of unamortized loan origination fees in conjunction with the termination of the 2005 Facility. This charge has been recorded in the condensed consolidated statements of income and comprehensive income as loss on extinguishment of debt.

The 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 that limit our ability to pay dividends, sell or transfer all or substantially all of our property or assets, incur more indebtedness or make guarantees, grant or incur liens on our assets, make investments, loans, advances or acquisitions, engage in mergers, consolidations, liquidations or dissolutions, enter into sales or leasebacks and change our accounting policies or reporting practices. FSC is not subject to certain of these restrictions.

10. Segment Information

Operating segments are defined by SFAS No. 131, *Disclosures about Segments of an Enterprise and Related Information*, as components of an enterprise about which separate financial information is available that is evaluated regularly by the chief operating decision maker, or decision-making group, in deciding how to allocate resources and in assessing performance. Our chief operating decision maker is our 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.

Our chief decision maker evaluates the operating results of our reportable segments based upon revenues and adjusted net income, which is currently defined by the Company as net income adjusted for unrealized fair value changes of derivative instruments, net of taxes.

We operate in two reportable segments, fleet and MasterCard. The fleet reportable 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 fleet

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WRIGHT EXPRESS CORPORATION
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)
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reportable segment derives its revenue primarily from three marketing channels direct, co-branded and private label. The MasterCard reportable segment provides customers with a payment processing solution for their corporate purchasing and transaction monitoring needs. Revenue in this segment is derived from two product lines corporate charge cards and rotating accounts. The different MasterCard products are used by businesses to facilitate purchases of products and utilize the Company s information management capabilities.

The accounting policies of the reportable segments are generally the same as those described in the summary of significant accounting policies in Note 1, Summary of Significant Accounting Policies, in our Annual Report on Form 10-K for the fiscal year ended December 31, 2006.

Financing interest expense and net realized and unrealized losses on derivative instruments are not allocated to the MasterCard segment in the computation of segment results for internal evaluation purposes. Total assets are also not allocated to the segments.

The following table presents our reportable segment results for the three months ended June 30, 2007 and 2006:

	Total Revenues	Operating Interest Expense	Depreciation and Amortization	Provision for Income Taxes	Adjusted Net Income
Three months ended June 30, 2007					
Fleet	**$ 80,381**	**$ 8,292**	**$ 3,178**	**$ 91,527**	**$ 18,182**
MasterCard	**5,592**	**654**	**160**	**577**	**1,044**
Total	**$ 85,973**	**$ 8,946**	**$ 3,338**	**$ 92,104**	**$ 19,226**
Three months ended June 30, 2006					
Fleet	$ 71,291	$ 5,623	$ 2,654	$ 6,970	$ 12,703
MasterCard	4,873	419	38	708	1,418
Total	$ 76,164	$ 6,042	$ 2,692	$ 7,678	$ 14,121

The following table presents our reportable segment results for the six months ended June 30, 2007 and 2006:

	Total Revenues	Operating Interest Expense	Depreciation and Amortization	Provision for Income Taxes	Adjusted Net Income
Six months ended June 30, 2007					
Fleet	**$ 147,270**	**$ 14,614**	**$ 6,322**	**$ 100,100**	**$ 32,445**
MasterCard	**10,525**	**1,253**	**318**	**881**	**1,578**
Total	**$ 157,795**	**$ 15,867**	**$ 6,640**	**$ 100,981**	**$ 34,023**
Six months ended June 30, 2006					
Fleet	$ 132,378	$ 9,952	$ 5,131	$ 13,628	$ 24,605
MasterCard	8,424	697	75	911	1,782
Total	$ 140,802	$ 10,649	$ 5,206	$ 14,539	$ 26,387

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WRIGHT EXPRESS CORPORATION
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The following table reconciles adjusted net income to net income:

	Three months ended June 30,		**Six months ended June 30,**	
	2007	2006	**2007**	2006
Adjusted net income	**$ 19,226**	$ 14,121	**$ 34,023**	$ 26,387
Unrealized losses on derivative instruments	**(3,991)**	(7,462)	**(14,582)**	(8,888)
Tax impact of unrealized losses	**1,119**	3,197	**5,250**	3,707
Net income	**$ 16,354**	$ 9,856	**$ 24,691**	$ 21,206

11. Subsequent Events

Effective July 23, 2007, we entered into interest rate swap arrangements with two counterparties. These interest rate swap arrangements were designed as cash flow hedges intended to reduce a portion of the variability of the future interest payments on our credit agreement. The fair value of these instruments will be recorded as other assets. The following table presents information about the interest rate swap arrangements:

Weighted average fixed base rate	5.20%
Aggregate notional amount of the Swaps:	
For the period July 23, 2007 through July 22, 2009	$ 80,000

In addition, on August 6, 2007, we acquired the privately held company TelaPoint, Inc. (TelaPoint) for approximately $40,000 in cash, financed through our existing credit facility. TelaPoint is a leading provider of browser-based supply chain software solutions for bulk petroleum distributors and retailers, serving more than 20,000 retail and wholesale sites across the country. TelaPoint will be included in our fleet operating segment.

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

We have restated our previously issued Condensed Consolidated Balance Sheets as of June 30, 2007, and our previously issued Condensed Consolidated Statements of Income and Comprehensive Income and Condensed Consolidated Statements of Cash Flows for the three and six months then ended. This restatement adjusted amounts as detailed in Note 1 to the Condensed Consolidated Financial Statements. All affected amounts and period-to-period comparisons described herein have been restated.

*We intend for this discussion to provide the reader with information that will assist you 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 financial statements as of December 31, 2006, the notes accompanying those financial statements as contained in our Annual Report on Form 10-K filed with the SEC on February 28, 2007 and in conjunction with the unaudited condensed consolidated financial statements and notes in **Item 1** of **Part I** this report.*

Overview

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

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

MasterCard The MasterCard reportable segment provides customers with a payment processing solution for their corporate purchasing and transaction monitoring needs. The MasterCard products are used by businesses to facilitate purchases of products and utilize our information management capabilities.

Summary

Total payment processing fuel transactions increased 15.6 percent for the three months ended June 30, 2007, over the same period last year, to 53.2 million, and increased 16.0 percent during the six months ended June 30, 2007, over the same period last year, to 103.8 million. The increase was primarily driven by two factors: the conversion of ExxonMobil from a transaction processing program to a payment processing program in December 2006 and the overall growth in our customer base as indicated by the increase in average number of vehicles serviced.

The fuel price per gallon for payment processing transactions during the three months ended June 30, 2007, was $2.95. This was a 3.3 percent increase compared to the same period a year ago. The fuel price per gallon for payment processing transactions during the six months ended June 30, 2007, was $2.70. This was a 2.3 percent increase compared to the same period a year ago. The collar on our fuel derivatives had a floor of $2.29 and a ceiling of $2.36 for the second quarter of this year compared to a floor of $1.88 and a ceiling of $1.95 for the second quarter of 2006. As a result of the higher floor and ceiling on the derivative instruments, the realized losses were $5.6 million in the second quarter of 2007 compared to the realized losses of $13.0 million for the second quarter in 2006. Realized losses were $5.7 million in the six months ended June 30, 2007, compared to the realized losses of $19.1 million for the six months ended June 30, 2006.

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Credit losses in the fleet operating segment were $3.0 million for the three months ended June 30, 2007, versus $2.6 million for the three months ended June 30, 2006. Credit losses in the fleet operating segment were $8.8 million for the six months ended June 30, 2007, versus $6.2 million for the six months ended June 30, 2006. The additional credit loss expense for the six months ended June 30, 2007, is linked to higher net accounts receivable as a result of the December 31, 2006, purchase of the ExxonMobil portfolio and higher charge-offs due to historically high fuel prices in 2006.

Total MasterCard purchase volume grew $132 million to $464 million for the three months ended June 30, 2007, an increase of 39.6 percent over the same period last year. Total MasterCard purchase volume grew $248 million to $850 million for the six months ended June 30, 2007, an increase of 41.1 percent over the same period last year. Growth was primarily driven by spend on single use account card, formerly referred to as the rotating purchase card product.

Our operating interest expense, which includes interest accruing on deposits and federal funds, increased to $8.9 million during the three months ended June 30, 2007, from $6.0 million during the three months ended June 30, 2006. Operating interest expense increased to $15.9 million during the six months ended June 30, 2007, from $10.6 million during the six months ended June 30, 2006. The purchase of the ExxonMobil portfolio in December of 2006 resulted in an increase in operating interest expense of $1.1 million for the three months ended June 30, 2007, compared to the same period in the prior year, and a $2.2 million increase in operating interest expense for the six month period ended June 30, 2007, compared to the same period in the prior year. The remainder of the increase in operating interest expense for both periods was primarily due to an increase in the average interest rate and an increase in the number of gallons being funded.

On June 7, 2007, the State of Maine enacted a law effective for tax years beginning on or after January 1, 2007, which changed the State s rules for apportioning income related to the performance of services. The new law effectively reduced our overall blended statutory income tax rates, the amount of our deferred tax assets, and the amount of the related contractual liability to Avis. The effect of this lower state income tax rate on our existing deferred tax assets resulted in a charge to the provision for income taxes of $80.9 million during this period. Under the terms of our Tax Receivable Agreement with Avis, a significant portion of this charge was offset by $78.9 million of non-operating income resulting from decreasing our contractual liability to Avis.

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Results of Operations
Fleet

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

(in millions, except per transaction and per gallon data)

	Three months ended June 30, 2007	Three months ended June 30, 2006	**Increase (decrease)**	Six months ended June 30, 2007	Six months ended June 30, 2006	**Increase (decrease)**
Revenues						
Payment processing revenue	$ 61.8	$ 53.6	**15 %**	$ 111.4	$ 97.2	**15 %**
Transaction processing revenue	3.6	4.3	**(16)%**	7.1	8.5	**(16)%**
Account servicing revenue	6.3	5.9	**7 %**	12.5	11.8	**6 %**
Finance fees	6.4	5.2	**23 %**	11.9	10.4	**14 %**
Other	2.3	2.4	**(4)%**	4.4	4.5	**(2)%**
Total revenues	80.4	71.4	**13 %**	147.3	132.4	**11 %**
Operating expenses	39.3	35.0	**12 %**	80.2	67.7	**18 %**
Operating income	**41.1**	**36.4**	**13 %**	**67.1**	**64.7**	**4 %**
Financing interest expense	3.0	3.7	**(19)%**	6.1	7.4	**(18)%**
Loss on extinguishment of debt	1.6			1.6		
Net realized and unrealized losses on derivative instruments	9.6	20.5	**(53)%**	20.3	28.0	**(28)%**
Decrease in amount due to Avis under tax receivable agreement	(78.9)			(78.9)		
Income before taxes	105.8	12.2	**767 %**	118.0	29.3	**303 %**
Provision for income taxes	90.4	3.8	**2279 %**	94.8	9.9	**858 %**
Net income	**$ 15.4**	**$ 8.4**	**83 %**	**$ 23.2**	**$ 19.4**	**20 %**

Key operating statistics						
Payment processing revenue:						
Payment processing transactions	53.2	46.0	**16** %	103.8	89.5	**16** %
Average expenditure per payment processing transaction	$ 60.10	$ 57.45	**5** %	$ 54.85	$ 53.17	**3** %
Average price per gallon of fuel	$ 2.95	$ 2.86	**3** %	$ 2.70	$ 2.64	**2** %
Transaction processing revenue:						
Transaction processing transactions	9.9	15.1	**(34)**%	19.3	29.7	**(35)**%
Account servicing revenue:						
Average number of vehicles serviced	4.37	4.28	**2** %	4.33	4.28	**1** %

Payment processing revenue increased $8.2 million for the three months ended June 30, 2007, compared to the same period last year. Payment processing revenue increased $14.2 million for the six months ended June 30, 2007, compared to the same period last year. These increases were primarily due to a 16 percent increase in the number of payment processing transactions during both the three months and six months ended June 30, 2007. The conversion of the ExxonMobil portfolio to a payment processing program in December 2006 contributed approximately 7 percent of the 15 percent increase in payment processing revenue for both the three months ended June 30, 2007, and the six months ended June 30, 2007.

Transaction processing revenue decreased $0.7 million for the three months ended June 30, 2007, compared to the same period in 2006. Transaction processing revenue decreased $1.4 million for the six months ended June 30, 2007, compared to the same period in 2006. The decrease in revenue is due to a decrease in transaction processing transactions due to the conversion of the ExxonMobil portfolio from a transaction processing program to a payment processing program.

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Our finance fees have increased $1.2 million for the three months ended June 30, 2007, over the same period in the prior year to $6.4 million, and increased $1.5 million for the six months ended June 30, 2007, over the same period in the prior year to $11.9 million. Approximately $0.6 million of the increase in finance fees for the three months ended June 30, 2007, and approximately $0.9 million of the increase in finance fees for the six months ended June 30, 2007, correspond to higher amounts subject late fees as a result of the conversion of the ExxonMobil portfolio. The remaining increase in late fees correlates to the increase in our accounts receivable balance exclusive of the ExxonMobil accounts.

Changes in operating expenses for the three months and six months ended June 30, 2007, as compared to the corresponding periods a year ago, include the following:

Credit losses were $3.0 million in the three months ended June 30, 2007, compared to $2.6 million for the same period last year. Credit losses were $8.8 million in the six months ended June 30, 2007, compared to $6.2 million for the same period last year. 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 9.3 basis points of Fuel Expenditures for the three months ended June 30, 2007, compared to 10.9 basis points of Fuel Expenditures for the same period last year. The conversion of the ExxonMobil portfolio did not have a significant impact to the quarterly credit loss expense as compared to prior year. Credit losses were 15.5 basis points of Fuel Expenditures for the six months ended June 30, 2007, compared to 13.2 basis points of Fuel Expenditures for the same period last year. The conversion of the ExxonMobil portfolio to a payment processing program resulted in approximately 1 basis point increase to expense for the six month period. The ExxonMobil portfolio consists primarily of small fleets, which experienced higher loss rates than our other portfolios during the first quarter of 2007. The remaining increase was driven by higher charge-offs in our other fleet portfolios. The higher charge-offs correlate to historically high fuel prices in 2006.

Operating interest expense:

Operating interest expense increased $2.7 million for the three months ended June 30, 2007, compared to the same period in 2006. Our average operating debt balance, which consists of our deposits and borrowed federal funds, totaled $569.6 million for the second quarter of this year as compared to our average operating debt balance of $394.0 million for the second quarter of 2006. In late December 2006, we borrowed additional operating debt to fund the $86.8 million purchase of the ExxonMobil portfolio. Average operating debt related to this purchase resulted in an increase in operating interest expense of $1.1 million. An increase in weighted average interest rates to 5.3 percent in the three months ended June 30, 2007, from 4.8 percent in same period a year ago resulted in an increase to operating interest expense of $0.5 million. The remaining increase in operating interest expense is primarily due to an increase in Fuel Expenditures, exclusive of the ExxonMobil transactions.

Operating interest expense increased $4.7 million for the six months ended June 30, 2007, compared to the same period in 2006. Our average operating debt balance for the first half of this year totaled $506.3 million as compared to our average operating debt balance of $364.0 million for the first half of 2006. Average debt related to the purchase of the ExxonMobil portfolio resulted in an increase of $2.2 million in operating interest expense. An increase in weighted average interest rates to 5.3 percent in the six months ended June 30, 2007, from 4.6 percent in same period last year resulted in an increase to operating interest expense of $1.3 million. The remaining increase in operating interest expense is primarily due to an increase in Fuel Expenditures, exclusive of the ExxonMobil transactions. Changes in interest rates may create volatility in our operating interest expense.

Salary and other personnel expenses increased $0.4 million for the three months ended June 30, 2007, as compared to the same period last year. Salary and other personnel expenses increased $2.1 million for the six months ended June 30, 2007, as compared to the same period last year. Throughout 2006 and during 2007 we added costs primarily in the sales, finance and information technology areas to support growth in our existing business and to facilitate new product offerings. Headcount additions included 28 new sales positions, of which, 10 are dedicated to the ExxonMobil program.

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Depreciation and amortization expenses increased $0.5 million for the three months ended June 30, 2007, as compared to the same period in 2006, and increased $1.2 million for the six months ended June 30, 2007, as compared to the same period in 2006. This increase in each period is due to the addition of capital assets as we enhance our product features and functionality.

Financing interest expense is related primarily to the corporate credit facility and secondarily to the preferred stock. Interest expense for the three months ended June 30, 2007, consists of only one month of interest expense related to our February 2005 corporate credit facility and two months of interest expense from our new corporate credit facility. We refinanced our debt and entered into a new credit facility on May 22, 2007. Finance interest expense decreased $0.7 million for the three months ended June 30, 2007, as compared to same period last year. Finance interest expense decreased $1.3 million for the six months ended June 30, 2007, as compared to the same period last year. The primary reason for this decline is the average debt balance decreasing to $170.0 million for the three months ended June 30, 2007, as compared to $215.2 million for the three months ended June 30, 2006. The average debt balance decreased to $171.2 million for the six months ended June 30, 2007, as compared to $221.6 million for the six months ended June 30, 2006. The average interest rate increased to 7.1 percent for the three months ended June 30, 2007, as compared to 6.8 percent for the same period last year. The average interest rate increased to 6.9 percent for the six months ended June 30, 2007, as compared to 6.7 percent for the same period last year. The outstanding balance on our corporate credit facility at June 30, 2007, was $164.6 million. The refinancing of our debt resulted in a debt extinguishment expense of $1.6 million for the three and six months ended June 30, 2007.

We own fuel price-sensitive derivative instruments that we purchase on a periodic basis to manage the impact of volatility in fuel prices on our cash flows. Our derivative instruments do not qualify for hedge accounting under Statement of Financial Accounting Standards (SFAS) No. 133, *Accounting for Derivative Instruments and Hedging Activities*. Accordingly, gains and losses on our fuel price-sensitive derivative instruments affect our net income. The following table illustrates the relationship between our realized and unrealized losses, the collar range and the average fuel price for each period covered.

(in millions, except per gallon data)

	Three months ended June 30,		Six months ended June 30,	
	2007	2006	2007	2006
Realized losses	$ 5.6	$ 13.0	$ 5.7	$ 19.1
Unrealized losses	4.0	7.5	14.6	8.9
Net realized and unrealized losses on fuel price derivatives	$ 9.6	$ 20.5	$ 20.3	$ 28.0
Collar range (per gallon):				
Floor	$ 2.29	$ 1.88	$ 2.29	$ 1.88
Ceiling	$ 2.36	$ 1.95	$ 2.36	$ 1.95
Average fuel price (per gallon)	$ 2.95	$ 2.86	$ 2.70	$ 2.64

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On June 7, 2007, the State of Maine enacted a law effective for tax years beginning on or after January 1, 2007, which changed the State s rules for apportioning income related to the performance of services. The new law effectively reduced taxable income or loss allocable to the State of Maine. This caused a change to our apportionment factors and has resulted in a significant decrease in our blended state income tax rate. The lower state income tax rate was applied to the cumulative temporary differences existing between the carrying amounts for financial reporting purposes and the amounts used for income tax purposes. The effect of this lower state income tax rate on the temporary differences decreased our deferred tax assets which resulted in a charge to the provision for income taxes in this period of approximately $81 million. After taking into account the change in tax law, we anticipate that our effective tax rate for the remainder of the year will be approximately 36.7%.

The lower state income tax rate contributes to a lower overall rate. The lower overall rate decreased the expected benefit we will realize from the increased tax basis generated by our separation from Avis. Accordingly, the related contractual liability to Avis recorded in connection with the Tax Receivable Agreement has decreased. This decrease resulted in non-operating income of approximately $79 million for the three and six months ended June 30, 2007.

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MasterCard

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

(in millions)

	Three months ended June 30,		**Increase (decrease)**	Six months ended June 30,		**Increase (decrease)**
	2007	2006		2007	2006	
Revenues						
Payment processing revenue	$ 5.2	$ 4.1	**27 %**	$ 9.8	$ 7.5	**31 %**
Finance fees	0.2	0.1	**100 %**	0.2	0.1	**100 %**
Other	0.2	0.6	**(67)%**	0.5	0.8	**(38)%**
Total revenues	5.6	4.8	**17 %**	10.5	8.4	**25 %**
Operating expenses	4.0	2.7	**48 %**	8.1	5.7	**42 %**
Income before taxes	**1.6**	**2.1**	**(24)%**	**2.4**	**2.7**	**(11)%**
Provision for income taxes	0.6	0.7	**(14)%**	0.9	0.9	
Net income	**$ 1.0**	**$ 1.4**	**(29)%**	**$ 1.5**	**$ 1.8**	**(17)%**
Key operating statistics						
Payment processing revenue:						
Total MasterCard purchase volume	$ 464.4	$ 332.7	**40%**	$ 849.6	$ 602.1	**41%**

Payment processing revenue and the related operating expenses increased due to higher MasterCard purchase volume, primarily driven by new business from our single use account card. Offsetting a portion of the increase in payment processing revenue during 2007 was an increase in rebates. Some of our customers have reached higher payout tiers qualifying for higher rebate amounts. Other revenues in 2006 included $0.5 million from the proceeds of MasterCard s initial public offering during the second quarter of 2006.

Operating expenses have increased in the following areas:

Service fee expenses are based on a purchase volume which has increased period over period.

Operating interest expense increased approximately $0.2 million for the three months ended June 30, 2007, and $0.6 million for the six months ended June 30, 2007, over the same periods in the prior year.

The provision for credit loss was higher by $0.3 million for the three months ended June 30, 2007, and $0.5 million for the six months ended June 30, 2007, as compared to the same periods last year.

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Liquidity, Capital Resources and Cash Flows

The following table summarizes our financial position at June 30, 2007, compared to December 31, 2006:

(in millions)	June 30, 2007	December 31, 2006	Change Amount	Change Percent
Assets				
Cash and cash equivalents	$ 32.9	$ 35.1	**$ (2.2)**	**(6)%**
Accounts receivable, net	1,134.3	802.2	**332.1**	**41%**
Deferred income taxes, net	284.7	377.3	**(92.6)**	**(25)%**
All other assets	346.0	336.4	**9.6**	**3%**
Total assets	$ 1,797.9	$ 1,551.0	**$ 246.9**	**16%**
Liabilities and stockholders equity				
Accounts payable, deposits and borrowed federal funds	$ 1,058.3	$ 757.2	**$ 301.1**	**40%**
Borrowings under credit agreement, net	164.6	149.8	**14.8**	**10%**
Amounts due to Avis under tax receivable agreement	328.4	418.4	**(90.0)**	**(22)%**
All other liabilities	55.3	42.5	**12.8**	**30%**
Total liabilities	1,606.6	1,367.9	**238.7**	**17%**
Stockholders equity	191.3	183.1	**8.2**	**4%**
Total liabilities and stockholders equity	$ 1,797.9	$ 1,551.0	**$ 246.9**	**16%**

Our results for the six months ended June 30, 2007 used approximately $2 million of cash. In comparison, we used approximately $28 million of cash during the six months ended June 30, 2006. Significant cash flow differences between the first half of 2007 as compared to the first half of 2006 include:

Operating cash of $341 million was used to fund receivable balances for 2007 compared to $245 million for the same period a year ago an additional usage of $96 million. Net accounts receivable have increased primarily as a result of the conversion of the ExxonMobil portfolio to a payment processing program, an increase in payment processing transactions and a 3 percent increase in the price per gallon of fuel.

Investing cash included maturities of available-for-sale securities of $15 million during the first six months of 2006. Maturities during the first six months of 2007 were less than $1 million.

Deposits and borrowed federal funds provided $165 million in 2007 compared to $46 million provided during the same period a year ago a change in cash of $119 million. During the first half of 2007, net cash provided by deposits, federal funds and accounts payable were used to fund a majority of our accounts receivable.

We used $21 million as part of the new share repurchase program during the first six months of 2007.

For the six months ended June 30, 2007, we used approximately $9 million for capital expenditures. Our capital expenditures are primarily to enhance product features and functionality and to acquire information systems and equipment. Capital expenditures are slightly higher than same period a year ago. In addition, we entered into an agreement for approximately $3 million for a software license which we capitalized. This license was financed over 3 years. We expect total capital expenditures for 2007, including the capitalized software license, to be approximately $19 to $21 million.

We utilize certificates of deposit to finance the accounts receivable of our bank subsidiary, FSC. FSC issues certificates of deposit at various maturities ranging between three months and three years and with effective annual fixed rates ranging from 4.45% to 5.45%. As of June 30, 2007, we had approximately $594 million of certificates of deposit outstanding. Certificate of deposit borrowings are subject to regulatory capital requirements. We also utilize federal funds lines of credit to supplement the financing of the accounts receivable of our bank subsidiary.

On May 22, 2007, we extinguished our term loan and entered into a revolving line-of-credit facility agreement with a lending syndication. At June 30, 2007 we had outstanding borrowings on the Credit Agreement of $164.6 million for non-portfolio related cash needs.

Our new credit agreement contains various financial covenants requiring us to maintain certain financial ratios. In addition to the financial covenants, the credit