

FINAL TRANSCRIPT

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WXS - Q2 2007 WRIGHT EXPRESS CORP Earnings Conference Call

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PRESENTATION

Operator

Good morning, everyone, and welcome to the Wright Express Corporation second quarter earnings conference call. Today's call is being recorded. At this time, for opening remarks and introductions, I would like to turn the conference over to Mr. Steve Elder, Vice President of Investor Relations. Please go ahead, sir.

Steve Elder - *Wright Express Corporation - VP, IR*

Good morning and thank you for joining us. First, I have the sad news to report that our CEO, Mike Dubyak, is mourning the loss of his mother, Ann, who passed away. So Mike will not be joining us this morning on the call. Our CFO, Melissa Smith, will stand in for Mike and discuss both the operational and financial sides of the business.

Also joining us this morning is David Maximic, our Senior Vice President of Sales and Marketing. As you've probably seen by now, we announced the acquisition of TelePoint this morning. Max will join us to help answer any questions about TelePoint later in the call.

On behalf of everyone here at Wright Express -- Melissa, Max, and I -- want to take this opportunity to extend our sincere condolences to Mike and his family at this difficult time.

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As a reminder, the press release we issued this morning regarding TelePoint and our second quarter results are now posted in the Investor Relations section of our website at WrightExpress.com.

In addition, we'll be discussing a non-GAAP metric -- specifically, adjusted net income -- during our call. Please see Exhibit 1, included in today's press release, for an explanation and reconciliation of adjusted net income to GAAP net income. Copies of both releases have also been submitted as exhibits to an 8-K we filed with the SEC.

I'd also like to remind you that certain information contained in this call constitutes forward-looking statements under the Private Securities Litigation Reform Act of 1995. Actual results may differ materially from those forward-looking statements as a result of various important factors, including those discussed in today's press release and those factors included in the Form 10-K filed by the company on February 28, 2007, and our other filings with the SEC. While the company may choose to update forward-looking statements in the future, we specifically disclaim any obligation to do so, even if our estimates change. You should not rely on these forward-looking statements as representing our views after today.

With that, let's move on to the summary of our results and key metrics.

Total revenue for the second quarter of 2007 increased 13% to \$86 million, from \$76.2 million for the second quarter of 2006.

Net income to common shareholders on a GAAP basis was \$18.3 million, or \$0.45 per diluted share. The company's adjusted net income for the second quarter of 2007 increased 45% to \$20.5 million, or \$0.50 per diluted share. This non-GAAP figure excludes an unrealized mark-to-market loss of \$4 million on our derivative contracts before taxes.

Adjusted net income for Q2 last year was \$14.1 million, or \$0.34 per share.

Next, I'll turn to the key metrics we look at in evaluating the company's performance.

The average number of vehicles serviced was approximately 4.4 million, compared with approximately 4.3 million a year ago.

The total number of transactions processed this quarter increased 3% to 63.1 million from 61.1 million for the second quarter last year. This was consistent with the assumptions in our guidance. As we've mentioned in previous quarters, the loss of the UPS contract and private-label station closings last year continued to affect the comparability of transaction growth with the prior year.

The number of payment processing transactions increased 16% to 53.2 million, and transaction processing transactions decreased 34%, to 9.9 million, primarily reflecting the Exxon Mobil portfolio conversion to payment processing at the end of last year. The average expenditure per payment processing transaction for Q2 increased to \$60.10. This represents an increase of 5% from the same period last year.

The average retail fuel price was \$2.95 per gallon compared with \$2.86 for the same period last year.

The total MasterCard purchase volume grew 40% year over year, to \$464.4 million.

Finally, we repurchased approximately 210,000 shares of common stock at a cost of approximately \$6.5 million this quarter.

I'll now turn the call over to our CFO, Melissa Smith.

Melissa Smith - *Wright Express Corporation - CFO*

Good morning, everyone. Before I begin, I'll join Steve in expressing my sympathy to Mike and his family.

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Our financial results this quarter were very strong. As Steve said, adjusted net income exceeded the top end of our earnings guidance range by \$0.09. This was also a strong quarter from a business standpoint, with solid demand for fleet cards. The majority of our revenue drivers came in where we expected, including the number of vehicles serviced and the number of transactions processed.

We continue to see the impacts of the conversion of Exxon Mobil payment processing relationship flow through the financial statements and metrics. For the full year, we continue to expect this contract will be accretive to our earnings.

Looking at the \$0.50 of adjusted net income per share, about half of the \$0.09 over guidance this quarter relates to our derivatives strategy -- specifically, the mismatch between wholesale and retail fuel prices in the quarter. The remaining is favorability from higher fuel prices and a combination of expense-savings and favorable credit loss rates, partially offset by higher operating interest costs.

Looking forward, we remain confident about our prospects for growth and profitability in the second half of the year.

Before going any further, I'll comment on the TelePoint acquisition and its implications as a growth opportunity for Wright Express.

The TelePoint application suite is an information solutions product that enables fuel merchants, distributors, and fleets to improve the efficiency of their fuel replenishment, buying, and administrative operations. TelePoint operates as a service business model and brings us a new kind of information solutions product. The majority of its revenue is generated on a reoccurring basis from monthly site fees, which create strong visibility into future revenues. It's a profitable business with high customer retention rates and a talented management team. We're delighted to welcome them into the Wright Express family.

At a cost of approximately \$40 million, TelePoint is a solid tuck-in that provides an incremental revenue stream and expands the range of services we offer -- in particular, to merchants and distributors of all sizes who up to now have simply accepted our cards. TelePoint transforms all of our merchant relationships into sales prospects for a Wright Express inventory supply chain solution and complements our fleet card acceptance.

In addition, any fleet with fuel storage tanks becomes a candidate for the TelePoint product, so it enhances the value proposition we can offer to heavy truck, midsize, and large fleets. TelePoint's solution immediately adds fuel purchasing and inventory management to the products that we currently offer these customers.

Strategically, TelePoint meets all of our acquisition criteria. It's a new product we can sell into markets we know well. It helps us broaden and strengthen our portfolio of information solutions, and it has real potential to diversify and accelerate our growth.

Along with the strategic top-line benefits for Wright Express I just outlined, we expect to leverage our sales channels in partner and fleet relationships to create cross-selling opportunities and drive stronger revenue growth for TelePoint.

TelePoint's employees are located in Louisville, Kentucky, and it will continue to operate as a stand-alone business with minimal integration required. TelePoint is at an inflection point in their growth, having recently signed an expanded contract with a major oil company. We expect this rapidly growing company to generate approximately \$8 million in revenue for 2008 and maintain their strong EBITDA margins.

With this acquisition, we'll be changing our definition of adjusted net income when we report Q3 results to exclude the amortization of purchased intangibles. On that basis, we expect the acquisition will be slightly accretive to our earnings over the next 12 months.

Returning, now, to the second quarter, the Wright Express Universal Card and co-brand channels are doing well. We're seeing excellent growth in heavy truck and positive trends in private label. Compared to the second quarter last year, growth in the

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number of small fleet vehicles in the direct channel was offset by a decline in private label, so overall, the number of vehicles was down 4%. We believe we've seen the bottom of the negative trend in private label and we're expecting this line of business to trend up in the second half of the year.

In the WEX direct channel, the average number of small fleet vehicles using a Universal Card increased 14% from the second quarter last year. We directly control the sales and marketing for our Universal Card product and the strength in this channel continues to be our success in building a sales pipeline on the front end and converting those leads with our inside sales group.

Our second quarter results in private label suggest the turnaround we forecasted for this channel is underway. The transaction volume increased sequentially and the number of vehicles serviced is on par with the first quarter of 2007. We've seen sequential declines in private label vehicles for the past few quarters. This was a welcome turnaround, one that we expect to continue through the second half of the year.

Year over year, the number of vehicles serviced was down 10%, due mainly to the station closings and portfolio cleanups we have talked about for the past year.

We finished building an outside sales force fully dedicated to growing the Exxon Mobil portfolio, and our marketing campaigns with both Exxon Mobil and Esso Canada are underway.

Looking forward, we have some other potential large strategic relationship in the pipeline, so private label should switch from slowing transaction volume to driving growth as we move through the first half of next year.

Our developing program for fuel distributors is going well, although it's still too early to see a significant impact on transaction volume and revenue. The number of Pacific Pride distributors involved in the program continue to grow in the second quarter. We enrolled distributors outside of the Pacific Pride family for the first time, and we have a pipeline of strong interest. Once the product development phase is finished, we'll be ready to roll out the distributor program on a national scale. Providing enhanced value to distributors should translate into further small fleet growth.

This was another strong quarter for the business in the mid- and large-fleet markets. The number of vehicles in this category increased 7% from the second quarter last year, reflecting continued strength in both direct and co-brand channels. The heavy truck business, again, posted excellent results this quarter. In prior quarters, we positioned heavy truck as an emerging market segment for us, but I think we've reached the point where "emerging" no longer applies. The investments we've made in expanding our heavy truck sales force are paying off for us, and our vehicle count in heavy truck was up 18% in the second quarter from Q2 last year.

Turning to MasterCard, Q2 was another outstanding quarter. Purchase volume was \$464 million, up 40% from the second quarter last year. Much of our growth in this segment is coming from customers who have implemented our single-use account product. This product works well for businesses like Priceline.com who make large volumes of payments to a fragmented merchant base that is accustomed to accepting credit cards for payment. At a high level, it creates a unique account number in real time with a credit limit equal to the transaction amount.

Our initial customers for the product were online travel providers and large fleets using it for maintenance purchase. More recently, we're seeing growth in the warranty business, where we posted MasterCard purchase volume of roughly \$25 million in the second quarter. Our sales force is targeting future growth in this sector and the opportunities look good. Overall, our business pipeline is strong and we plan to build on this strength by adding additional people to the sales force by year end.

In many respects, MasterCard is a model for future organic growth opportunities in our business. In developing MasterCard, we leveraged our ability to provide customers with meaningful information on a transaction and applied it to different kinds of purchasing activity. In an effort to expand on this model, we're working on some new organic growth initiatives.

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With TelePoint, we're adding a product offering for both fleets and merchants that enhances our value proposition and deepens our relationships.

In the fleet market, we're adding Telematic's functionality to our product offering to gain additional revenue from our existing customer base. During the second quarter, we saw strong customer interest in our new Telematics product. Fleets looking at Telematics have a long sales cycle due to the amount of field testing they undertake before fully deploying devices. But given the size of our sales pipeline and the enthusiasm we're seeing with customers in testing mode, we expect to begin generating revenue in Telematics by the end of the year.

In terms of strategic initiatives and new verticals, our initial focus is on contractor spend for building materials and supplies, a \$400 billion market, more than twice as large as the fleet markets we currently serve. We're looking at options to aggressively penetrate this market, whether it is with a strategic reliance [sic] or building the products internally.

The new credit facility we put in place during the quarter will allow us to lower our debt cost significantly and give us additional flexibility to make further acquisitions or to repurchase shares. It is a \$350 million line of credit with an option to increase it to \$450 million. At our current debt levels, we will save approximately \$1 million per year compared to the old facility.

So with that as a background, let's turn to the financial review. Steve covered the highlights, so I'll start with the top line, by segment.

Total revenue in the fleet segment of our business grew 13% from Q2 of last year to \$80.4 million. Payment processing revenue in our fleet segment was up 15% to \$61.8 million, compared with \$53.6 million in Q2 last year.

Our net payment processing rate for Q2 was down about 5 basis points from last year, and 10 basis points from the second quarter a year ago. The sequential decline is due primarily to higher fuel prices. Year on year, the decline is due mainly to Exxon Mobil private-label business switching to payment processing.

Our total transaction processing revenue was down 16% from Q2 of last year to \$3.6 million, which, again, reflects the Exxon Mobil conversion.

The MasterCard segment contributed \$5.6 million in total revenue in Q2, compared with \$4.8 million a year ago, which is an increase of 17%. As I mentioned, MasterCard purchase volume was up 40%, from \$333 million in Q2 last year to \$464 million. The average net interchange rate was down 11 basis points from Q2 last year. In Q2 2006, MasterCard revenue included approximately \$500,000 we received in cash from the MasterCard IPO. Excluding that from last-year results, revenue was up 30%.

Turning now to operating expenses, the total for Q2 was \$43.3 million, compared with \$37.7 million in the second quarter last year. The main increases are higher operating interest, credit loss, and salaries expense.

Operating interest expense for the second quarter of 2007 was up by \$2.9 million from Q2 a year ago to \$8.9 million. As in the past several quarters, the increase reflects higher interest rates and higher average debt levels. The higher average debt levels are attributable to the purchase of the Exxon Mobil portfolio, the increase in payment processing transactions, and a small portion for higher fuel prices.

On a total basis, both fleet and MasterCard, credit loss was up \$700,000 from Q2 of '06 to \$3 million. The increase is split almost evenly between our fleet and MasterCard segments. Looking at our fleet segment, credit loss as a percentage of total payment processing expenditures was 9.3 basis points this quarter, compared with 10.9 basis points in Q2 last year. However, even with lower loss rates, the expense was \$400,000 higher than last year due to increased payment processing transaction volume.

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Our second quarter guidance anticipated a significant decline in credit loss from Q1, but our actual loss rates were even lower than we expected. The Exxon Mobil portfolio is made up of small fleets, which historically have higher loss rates than larger fleets. For Q2, however, the loss rates were slightly lower than our other portfolios, which helped keep the over-all loss rates low. Year to date, credit losses are now 15.5 basis points. For the full year, we're continuing to predict loss rates at the midpoint of our historical range of 11 to 22 basis points.

Our effective tax rate on a GAAP basis was 35.5% in Q2, compared to 31.3% a year ago. Our adjusted net income tax rate was 36.9%, compared with 35.2% for Q2 last year. We now expect our 2007 adjusted net income tax rate to come in near the low end of our previous range of 37 to 38%. The increase from 2006 is due primarily to a change in the mix of earnings between legal entities, which resulted in a higher effective state tax rate.

Turning to our derivatives program. During the second quarter, we recognized a realized loss of \$5.6 million before taxes on these instruments, and an unrealized loss of \$4 million.

As a reminder, in '05 and '06 we effectively hedged 100% of our earnings exposure to changes in fuel prices. In 2007, we have hedged approximately 90%. At this point, we have also completed hedging 90% of our anticipated earnings exposure for 2008. The weighted average price range we've locked in through the remainder of 2007 is \$2.37 to \$2.44 a gallon, compared with a high of \$1.95 for 2006. The weighted average price for 2008 are locked in between \$2.54 and \$2.60.

Due primarily to higher fuel prices at the end of the quarter, our accounts receivable balance, net of reserves for credit loss, increased this quarter to \$1.1 billion, from \$802 million at the end of Q4. Nearly all of this was offset by increases in our accounts payable and operating debt.

Our financing debt balance of approximately \$165 million did not change during the second quarter. We concluded the quarter with a leverage ratio of approximately 1.4 times. In addition, we recently entered into an interest rate swap covering \$80 million. The swap locks in LIBOR at 5.2% for the next two years.

We are financing the purchase of TelePoint under the terms of our new credit facility. On a pro forma basis, if the deal had closed prior to the end of the quarter, our leverage would have been 1.7 times.

We continue to target leverage between 1.5 and 2 times and will allocate our free cash flow to its best use, whether it is debt paydown, share buybacks, additional acquisitions, or additional internal reinvestments. In fact, we now expect total capital expenditures to be in the range of \$19 to \$21 million for the year.

As Steve said, we continued executing on our share buyback program this quarter, repurchasing 210,000 shares at an average price of slightly less than \$31 per share. This brings our cumulative total to nearly 700,000 shares purchased at an average price that's slightly more than \$29.50 per share. We have approximately \$54 million remaining in our authorization.

I'll conclude with some major assumptions and our financial guidance for the third quarter of 2007 and the full year. Let me remind you that our forecasts for these periods are valid only as of today and are made on a non-GAAP basis that excludes the impact of non-cash mark-to-market adjustments and the company's fuel price-related derivative instruments and the amortization of purchased intangibles.

Although our share repurchase program remains in place, we have not included any potential EPS upside from this. The fuel price assumptions are based on the applicable NYMEX futures price.

For the third quarter of 2007, we expect to report revenues in the range of \$83 to \$88 million. This is based on an average retail fuel price of \$2.97 per gallon. For the full year 2007, we are reiterating our guidance for revenues ranging from \$320 to \$330 million, based on an average retail fuel price of \$2.77 per gallon.

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As for earnings, for Q3 of 2007, we expect to report adjusted net income in the range of \$20 to \$22 million, or \$0.50 to \$0.53 per diluted share. For the full year 2007, we are increasing our guidance of adjusted net income in the range of \$74 to \$77 million, or \$1.82 to \$1.88 per diluted share, on approximately 41 million shares outstanding.

To sum up, we feel good about the company's performance this quarter. Transaction volume in our core business met internal expectations for the quarter. The sales pipeline is favorable and our private label business is improving. Our business is in good shape as we begin the second half of the year.

Looking ahead to the long term, we're continuing to execute on our strategy to capture a larger share of total fleet spend and diversify our revenue streams. And as demonstrated by TelePoint, we continue to seek opportunities for alliances, mergers, or acquisitions that can accelerate our overall growth and/or enhance our strategic position.

With that, we'll be happy to take your questions. Operator, you can proceed with Q&A now.

QUESTIONS AND ANSWERS

Operator

Thank you very much. (Operator Instructions) Your first question comes from Paul Bartolai at Credit Suisse.

Paul Bartolai - Credit Suisse - Analyst

Thanks; good morning, everyone. First question -- I mean, you guys are still seeing pretty good progress on the sales activity. Just curious -- has there been any change where those wins are coming from? Is it largely still from customers that-- fleets that have been using cash, or are you seeing any progress on picking off any fleets using traditional card products?

Melissa Smith - Wright Express Corporation - CFO

Paul, I would say that it's actually pretty consistent with what we've seen over the last several quarters. The movement in the large fleets is coming from competitive wins and then on the small fleet market it's a combination of both competitive wins and taking market shares from people that are paying with cash now.

Paul Bartolai - Credit Suisse - Analyst

Okay, great. And then, it seems like Exxon and the private label strategy is tracking along with expectations. I mean, any other color on specifically what's been driving the success in private label? Is it largely Exxon or is it just kind of the strategy overall starting to finally kick in?

Melissa Smith - Wright Express Corporation - CFO

Exxon is certainly impactful, just because of the size of the portfolio. And we've ramped up our outside sales force; we have them fully in place now and they are filling their pipelines. And we've also had success in the marketing campaigns that we've done year to date. So I think it's a combination of all those things coupled with the fact that the station closings have now started to trail off; so you'll see that anniversary out through the end of this year.

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Paul Bartolai - *Credit Suisse - Analyst*

Okay, great. And then, just a couple of housekeeping items. Was there any purchase intangibles that will now be excluded, excluding the TelePoint acquisition?

Melissa Smith - *Wright Express Corporation - CFO*

No, just TelePoint.

Paul Bartolai - *Credit Suisse - Analyst*

So just from TelePoint?

Melissa Smith - *Wright Express Corporation - CFO*

Yes.

Paul Bartolai - *Credit Suisse - Analyst*

And then, can you quantify the UPS private label impact on the quarter? Was it something still in the 3% range on transaction volumes?

Melissa Smith - *Wright Express Corporation - CFO*

It was approximately 2%. That's a combination of station closings and UPS.

Paul Bartolai - *Credit Suisse - Analyst*

Two percent? Okay, great. Right. Okay, thank you.

Operator

And your next question is from Greg Smith with Merrill Lynch.

Greg Smith - *Merrill Lynch - Analyst*

Hi, good morning. Can you guys just talk a little bit about the source of the TelePoint acquisition? Was this a company you've known for a while or was it an auction? Just some more color on that?

Melissa Smith - *Wright Express Corporation - CFO*

Sure; Max is going to answer that.

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David Maxsimic - *Wright Express Corporation - SVP, Sales and Marketing*

Yeah, we looked to do an alliance with them because many of our large fleets wanted to do a fuel desk operation where we could also help them manage their bulk requirements along with their retail requirements. So when they came in and showed us their suite of products, it was something that was very appealing to us and we were able to see long-term growth from that. And that's how it all got started.

Greg Smith - *Merrill Lynch - Analyst*

Okay, so there wasn't any real competition for the acquisition, per se?

Melissa Smith - *Wright Express Corporation - CFO*

Well, I think in any process there's going to be interest from multiple parties. I don't think that we can comment specifically on that process.

Greg Smith - *Merrill Lynch - Analyst*

Okay. And then, what-- can you just talk about your integration plans? It sounds like you're going to leave them relatively alone and there's not going to be a lot of costs to cut or anything like that. But sort of what are your general plans for integrating TelePoint?

Melissa Smith - *Wright Express Corporation - CFO*

Yeah, from an integration standpoint, and part of why Max is here, is that it will report into David Maxsimic. We intend to keep it on a stand-alone basis, and so from an integration standpoint, there's very little -- that's obvious, on the financial side, to integrate systems from a reporting standpoint. But very little beyond that.

Greg Smith - *Merrill Lynch - Analyst*

Okay. And are they profitable today on their current revenue base?

Melissa Smith - *Wright Express Corporation - CFO*

They're very profitable.

Greg Smith - *Merrill Lynch - Analyst*

Okay. And any way we can get the '07 projected revenues?

Melissa Smith - *Wright Express Corporation - CFO*

We did not intend to give out 2007 revenues.

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Greg Smith - Merrill Lynch - Analyst

Okay. And then, just one last question. Melissa, you mentioned as part of the growth in the MasterCard product was related to rebates? I didn't quite understand what exactly you're doing.

Melissa Smith - Wright Express Corporation - CFO

Yeah, part of the growth in MasterCard this quarter is growth with a new customer. So we're using our single-use product in the warranty business. So we've seen a tremendous growth with a new type of customer base, where they're actually able to insert our product and pay customers where there's also a fragmented customer-merchant base. And that's an area that we've seen more growth in this particular quarter and it's an area that we think we will see growth in the future.

Greg Smith - Merrill Lynch - Analyst

Okay; thanks a lot.

Operator

Next is Pat Burton with Citi.

Pat Burton - Citigroup - Analyst

Congratulations on the quarter. Melissa, the sustainability of the MasterCard growth rate is going to come from where -- new clients, or cross-selling into the existing customer base? What would be the sources of growth there?

Melissa Smith - Wright Express Corporation - CFO

The growth for us has been a combination of these new markets like this warranty marketplace, where we found an application for an existing product set, as well as continued growth on our purchasing and T&E cards where we've seen great success in midsize businesses. So when we looked at that business model, we actually did another update of the coverage model, decided that there was, if anything more room to add to the sale force. And that's what we intend to do by the end of this year.

Pat Burton - Citigroup - Analyst

And as the issuer, you capture interchange in those transactions; correct?

Melissa Smith - Wright Express Corporation - CFO

That's correct.

Pat Burton - Citigroup - Analyst

Okay; thank you.

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Melissa Smith - *Wright Express Corporation - CFO*

Thank you.

Operator

Anuraq Rana with KeyBank Capital has our next question.

Anuraq Rana - *KeyBank Capital - Analyst*

Hi, everyone. I just wanted to get an idea about credit losses. It seems they were a lot lower than last quarter. What have you been looking at, at least in the first part of third quarter? Have you seen an uptick with all the fears of a credit meltdown out there?

Melissa Smith - *Wright Express Corporation - CFO*

We've actually looked at our portfolio. We've said before, credit loss is the most volatile number on our income statement and it moves around because it's impacted by the charge-off experience in the last six months. That charge-off experience has been really strong. The last six months, we've seen very little in terms of charge-offs and that's carried forward through what we've seen so far of July. So that's leading us to the full-year number of guiding people to the midpoint of 11 to 22 basis points.

Anuraq Rana - *KeyBank Capital - Analyst*

Okay; thank you.

Operator

Tien-Tsin Huang with J.P. Morgan has our next question.

Unidentified Participant

Hey, good morning. It's actually Reggie, filling in for Tien-Tsin. Nice quarter. A question on the TelePoint acquisition. I thought I heard \$8 million in revenue -- is that for FY '08 or what is that?

Melissa Smith - *Wright Express Corporation - CFO*

Yes.

Unidentified Participant

That is FY '08. Did you disclose the EBITDA margins on that?

Melissa Smith - *Wright Express Corporation - CFO*

We did not. We have said that we didn't expect it to impact our EBITDA margins and it's a very profitable company.

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Unidentified Participant

Okay. And then, one other question on Telematics. Can we get an update on kind of where you guys are on that?

Melissa Smith - *Wright Express Corporation - CFO*

Sure. We actually are continuing to see a very strong level of interest from our customer member base in the Telematics product. What we are seeing is that it's taking a test cycle with our customers before they're actually moving into purchase mode. So we're very favorable on the product offering that we have out there but we think we won't see much in terms of revenue until the latter part of the year, then we'll start to see it ramping up.

Unidentified Participant

Got you; thank you. And you guys are still confident in the transaction growth accelerating in the back half of the year as you kind of annualize UPS and some of the other issues?

Melissa Smith - *Wright Express Corporation - CFO*

Yeah, we think a combination of annualizing UPS, the station closings, and the turnaround just in general we're seeing in the private label line of business are going to increase growth.

Unidentified Participant

Okay; thanks a lot.

Operator

Next is Robert Dodd with Morgan Keegan.

Robert Dodd - *Morgan Keegan - Analyst*

Hi, guys. One housekeeping one first. On TelePoint, did you say how much the intangible amortization was going to be going forward?

Melissa Smith - *Wright Express Corporation - CFO*

We did not say that. We're still determining that; it's part of the processes we're going through.

Robert Dodd - *Morgan Keegan - Analyst*

Got it; fair enough. On the credit loss side, it was obviously better than you expected. Are you seeing-- is that across the board or is there one segment, the small fleets or the large fleets, where you're seeing materially better credit losses than you thought they'd be? And is there anything that's changed recently that would alter your outlook on that?

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Melissa Smith - *Wright Express Corporation - CFO*

We had anticipated seeing improvement in credit losses in the second quarter. It was slightly better than what we had anticipated. And if you actually go through, which we just did, recently, and looked at the portfolio on a scoring basis on a year-over-year basis, there's actually improvement across the board in the portfolio. So I wouldn't say that you're seeing anything specifically better on either small or large; it's really just-- it's been beneficial across the board for us.

Robert Dodd - *Morgan Keegan - Analyst*

And if I'm following-- I mean, anything you're seeing--? Because obviously, with the Exxon portfolio or the outlook there is you'd be adding on the small fleet side, I think you discussed before, generally speaking small fleets have higher loss rates. So would there be an underlying trend if we'd expect that to creep up just because of the mix?

Melissa Smith - *Wright Express Corporation - CFO*

Well, we actually have seen, if you look on a year-to-date basis, there's been about 1 basis point added to the overall loss rate because of the Exxon Mobil portfolio. So it definitely has brought it up slightly but it hasn't had a significant impact overall.

Robert Dodd - *Morgan Keegan - Analyst*

Okay, thank you. And then, just on the hedge -- obviously, I think the mismatch this quarter seemed to be-- well obviously, I wasn't expecting much of anything; it seemed to be larger than you were expecting. Is it just, again, this retail-wholesale spread, or is there something else in the mix of your business that's causing that?

Melissa Smith - *Wright Express Corporation - CFO*

No, it's just the retail-wholesale spread.

Robert Dodd - *Morgan Keegan - Analyst*

Okay; thank you.

Operator

At this time, we have a question from Michael Weisberg with ING.

Michael Weisberg - *ING - Analyst*

Hey, Melissa and Steve, how are you?

Melissa Smith - *Wright Express Corporation - CFO*

We're good.

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Steve Elder - *Wright Express Corporation - VP, IR*

Good.

Michael Weisberg - *ING - Analyst*

Great. Does your guidance for the year include a revenue contribution from the acquisition?

Melissa Smith - *Wright Express Corporation - CFO*

We have considered that in the guidance that we have given out. The company is growing pretty rapidly and we gave an \$8 million number for next year's revenue. So it's not going to be significant to this year.

Michael Weisberg - *ING - Analyst*

Okay; I'm going to guess it would be a couple of million now, or is that too high?

Melissa Smith - *Wright Express Corporation - CFO*

It just won't be significant, in terms of both-- we think of revenue in terms of our total revenue mix, and we said it would be slightly accretive to earnings over the next 12 months.

Michael Weisberg - *ING - Analyst*

Okay, good enough. At the risk of sounding picky, it looks like the average revenues per transaction were up about 5% in the quarter. And usually that tracks almost exactly with the fuel price increases; this quarter, it was a couple of percent higher. Is that just quarter noise or is there something that's allowing you to grow that faster than the fuel price increase?

Melissa Smith - *Wright Express Corporation - CFO*

We have seen where the average has tracked slightly higher than fuel prices because the mix is changing as we've seen more heavy truck vehicles added into the mix. So you're right, we're getting a little bit of pickup for that as well as the price of gas.

Michael Weisberg - *ING - Analyst*

Okay. So, because of the heavy truck mix, we can expect that to increase slightly faster than the fuel?

Melissa Smith - *Wright Express Corporation - CFO*

Correct.

Michael Weisberg - *ING - Analyst*

Great. Maybe if you could, could you give us an example of the kind of customer who's using TelePoint and how, specifically, they use them-- what they do differently by using this software?

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David Maximic - *Wright Express Corporation - SVP, Sales and Marketing*

Sure. If you were to look at an example like Albertson's or any of these other type of merchants out there, what they're using it for is to help them manage their fuel inventory, help them decide when they need to have their fuel dispersed to different sites, help them manage the cost of buying their fuel, as opposed to managing all that in house. So it gives the merchant and distributor, travel centers, if you would, like a Loves, a much more efficient process.

Michael Weisberg - *ING - Analyst*

I see. So it's not only telling them the optimal time to buy fuel, but also when to-- it sounds like it manages inventory levels of different stores; is that right?

David Maximic - *Wright Express Corporation - SVP, Sales and Marketing*

That's correct.

Michael Weisberg - *ING - Analyst*

I see. And how can it help them predict when to buy fuel at lower prices?

Melissa Smith - *Wright Express Corporation - CFO*

It isn't necessarily that it's lower prices; it's more that it will tell them when they need to buy fuel and then they can-- the actual customer can use that to determine if they want to make a decision on when to time the purchase.

David Maximic - *Wright Express Corporation - SVP, Sales and Marketing*

Correct.

Michael Weisberg - *ING - Analyst*

I see. So it's really-- as you said, I think, it's really an inventory control.

David Maximic - *Wright Express Corporation - SVP, Sales and Marketing*

Supply chain.

Melissa Smith - *Wright Express Corporation - CFO*

Yes, correct.

Michael Weisberg - *ING - Analyst*

Sorry, supply chain; great. That's great; thanks a lot.

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Melissa Smith - *Wright Express Corporation - CFO*

Thank you.

Operator

Next is Abhi Gami with Banc of America.

Abhi Gami - *Banc of America - Analyst*

Hi, thanks. I think last quarter you said your service and maintenance business experienced strong growth. Can you give us an update on the growth rates there?

Melissa Smith - *Wright Express Corporation - CFO*

Yes. We're continuing to see strong growth on a percentage basis so it's continued to grow within our business. It still continues to be a small part of our business, and we've said that we think it will take some time for it to continue to grow. So it's not a part that we envision being material over the next couple of quarters, but it is an area that we have seen growth.

Abhi Gami - *Banc of America - Analyst*

Is it still growing double digits?

Melissa Smith - *Wright Express Corporation - CFO*

Yes.

Abhi Gami - *Banc of America - Analyst*

Great.

Melissa Smith - *Wright Express Corporation - CFO*

(Inaudible) double digits, yes.

Abhi Gami - *Banc of America - Analyst*

Great. On the discount rate, if fuel prices had been flat sequentially, what would the behavior of your average discount rate have been? Do you think it would have been flat?

Melissa Smith - *Wright Express Corporation - CFO*

Yeah, it would have been pretty much flat.

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Abhi Gami - Banc of America - Analyst

It would have been flat; okay. I know you're still benefiting a little bit, I think, from your previous renegotiation of contracts. Are we starting to get back to more of a normalized pricing environment or are you still benefiting from that kind of a lump of deals you did in the past-- redid in the past?

Melissa Smith - Wright Express Corporation - CFO

Yeah, I would say the deals that we did when we first went public were mostly with the co-branded leasing companies. And if anything, I'd say that when we renegotiated those, we renegotiated those at a price down. So I don't think that we benefited from that. I would say that we're in a normal operating environment now.

Abhi Gami - Banc of America - Analyst

Yeah, I meant the kind of year-over-year benefits following the initial leg down. So you're back to more of a normalized pricing environment.

Melissa Smith - Wright Express Corporation - CFO

Yes.

Abhi Gami - Banc of America - Analyst

Great. And finally, on Telematics, now that you're preparing to kind of set up your initial customers, can you talk a little bit about the revenue pricing model -- in general, how we should think of that flowing to the income statement?

Melissa Smith - Wright Express Corporation - CFO

Sure. Actually, what we are seeing is a monthly servicing fee and then, since we have a relationship with a third party, we're paying them a piece of that monthly fee.

Abhi Gami - Banc of America - Analyst

And that monthly servicing fee you'll collect from the client is related to equipment leases? Are there two separate fees, one for network services, one for your services? How do you split the different pieces?

Melissa Smith - Wright Express Corporation - CFO

Most of it is done with an up-front equipment fee, so a much larger one-time fee and then a monthly servicing fee. And really, the bulk of the money that we're making is from that servicing fee. The equipment is much more of just a pass-through.

Abhi Gami - Banc of America - Analyst

Got it. And finally, of that servicing fee on a monthly basis, how much of that will you be able to retain, how much do you have to pass through?

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Melissa Smith - *Wright Express Corporation - CFO*

That's obviously an individual contract that we have, so we're not disclosing the amount that we're paying to the third party.

Abhi Gami - *Banc of America - Analyst*

Okay. Can you say what you-- aside from what you'll pay to them, how much will you make per customer, then?

Melissa Smith - *Wright Express Corporation - CFO*

That's not something that we have disclosed historically; sorry, Abhi.

Abhi Gami - *Banc of America - Analyst*

[Chuckles] Okay. Great quarter; thanks very much.

Melissa Smith - *Wright Express Corporation - CFO*

Yeah, thank you.

Operator

Next, we'll take a follow-up question from Robert Dodd with Morgan Keegan.

Robert Dodd - *Morgan Keegan - Analyst*

The quarter was obviously very good, and half of that was the hedge. But as you said, a good chunk, or the other half, obviously, was expense control, credit losses, etc. I mean, when I look at personnel, occupancy, technology -- all of those costs were down sequentially. I mean, how much of an efficiency drive have you been on? Are those kind of-- are those costs that are going to grow sequentially as you're going forward? Because I would think with the transaction growth that you're seeing and the growth in your sales force, that we'd probably see some increases in those expenses from these levels. I just want to get a feel on what you're doing to manage those expenses at this point.

Melissa Smith - *Wright Express Corporation - CFO*

Sure. We are-- one of key initiatives of our company is to look at scale. And so we continue to try to drive efficiencies, and I think we've been quite successful at this last quarter. In our company's, particularly, labor force, the area that we've added employees over the last year has been pretty much in the sales force. So we'll continue to do that going forward where we'll try to drive efficiencies in the rest of the company and, to the extent it makes sense, add into the sales force so that we can increase our growth into the future.

So on a go-forward basis, I would expect to see some continued growth in salaries as we add in more sales bodies; that's true. But overall, we've actually done a great job, I think, if you look at the quarter, at managing our costs.

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Robert Dodd - Morgan Keegan - Analyst

Oh, absolutely. I think you've done a very strong job controlling them, given that you've been growing the sales force. My question, I guess, rewording it another way, is you've got a growing sales force and the expenses are down -- which bits of expenses are actually declining?

Melissa Smith - Wright Express Corporation - CFO

We actually saw a decline in, as you said, in some of our costs. Our salary costs, we haven't declined employees so clearly that's going to continue on a reoccurring basis. But some of the one-time kind of fees you have in a particular quarter, we had less of that this last quarter so we got a pick-up for that.

Robert Dodd - Morgan Keegan - Analyst

Okay, thank you.

Operator

(Instructions) We have a follow-up question with Abhi Gami with Banc of America.

Abhi Gami - Banc of America - Analyst

Can you tell us the revenue models for TelePoint? You said it's a monthly fee. Are they benefiting from the upside that their clients receive or are they just getting a flat transaction fee? Is it based on volumes? How does that work?

Melissa Smith - Wright Express Corporation - CFO

It's a per-site fee per month.

Abhi Gami - Banc of America - Analyst

Could you give us some idea of what the-- how that works? Is it based on size of the site?

David Maxsimic - Wright Express Corporation - SVP, Sales and Marketing

There are many different variables on how the pricing is structured. [silence]

Melissa Smith - Wright Express Corporation - CFO

Abhi?

Abhi Gami - Banc of America - Analyst

Okay. No, that's great. [Laughter] I'm sorry; I thought we were done with that conversation. We'll have a follow-up off line, maybe, to explore that further. Thanks.

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Melissa Smith - *Wright Express Corporation - CFO*

Thank you.

Operator

Mr. Elder, at this time, it appears there are no questions in the queue. I will now turn the conference over to you for any closing or additional remarks.

Steve Elder - *Wright Express Corporation - VP, IR*

Great; thank you, Mark. And thanks, everyone, for listening. Before we go, I just want to make one thing clear.

In Melissa's prepared remarks, she mentioned a 5 basis point decline in the discount rate. That was a sequential decline, primarily due to the change in the price of gas. It was a 10 basis point decline compared to the prior year, which was, again, primarily due to the Exxon Mobil contract. I think she said both were related to the prior year, but the 5 basis points was sequential.

So we look forward to speaking with you again next quarter, and that ends our call.

Operator

And that concludes today's conference call. Thank you; you may now disconnect.

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