WEX Inc.
Form 10-Q
August 01, 2013
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended June 30, 2013

OR

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

For the transition period from _________ to _________

Commission file number: 001-32426

WEX INC.

(Exact name of registrant as specified in its charter)

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

(207) 773-8171

(Registrant s telephone number, including area code)

Indicate by check mark whether the registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. x Yes ¨ No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). x Yes ¨ No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See definitions of large accelerated filer, accelerated filer, and smaller reporting company in Rule 12b-2 of the Exchange Act.

Large accelerated filer x	Accelerated filer ¨
Non-accelerated filer ¨ (Do not check if a smaller reporting company)	Smaller reporting company ¨

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). ¨ Yes x No

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

Class	**Outstanding at July 25, 2013**
Common Stock, $0.01 par value per share	38,851,824 shares

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FORWARD-LOOKING STATEMENTS

The Private Securities Litigation Reform Act of 1995 provides a safe harbor for statements that are forward-looking and are not statements of historical facts. This Quarterly Report includes forward-looking statements. Any statements in this Quarterly Report that are not statements of historical facts may be deemed to be forward-looking statements. When used in this Quarterly Report, the words may, could, anticipate, plan, continue, project, intend, estimate, believe, expect and similar expressions are intended to identify forward-looking statements, although not all forward-looking statements contain such words. Forward-looking statements relate to our future plans, objectives, expectations and intentions and are not historical facts and accordingly involve known and unknown risks and uncertainties and other factors that may cause the actual results or performance to be materially different from future results or performance expressed or implied by these forward-looking statements. The following factors, among others, could cause actual results to differ materially from those contained in forward-looking statements made in this Quarterly Report, in press releases and in oral statements made by our authorized officers: the effects of general economic conditions on fueling patterns and the commercial activity of fleets; the effects of the Company s international business expansion and integration efforts and any failure of those efforts; the impact and range of credit losses; breaches of the Company s technology systems and any resulting negative impact on our reputation, liability, or loss of relationships with customers or merchants; the Company s failure to successfully integrate the businesses it has acquired; fuel price volatility; the Company s failure to maintain or renew key agreements; failure to expand the Company s technological capabilities and service offerings as rapidly as the Company s competitors; the actions of regulatory bodies, including banking, derivatives and securities regulators, or possible changes in banking regulations impacting the Company s industrial bank and WEX Inc. as the corporate parent; the impact of foreign currency exchange rates on the Company s operations, revenue and income; changes in interest rates; financial loss if the Company determines it necessary to unwind its derivative instrument position prior to the expiration of a contract; the incurrence of impairment charges if our assessment of the fair value of certain of our reporting units changes; the uncertainties of litigation; as well as other risks and uncertainties identified in Item 1A of our Annual Report for the year ended December 31, 2012, filed on Form 10-K with the Securities and Exchange Commission on March 1, 2013. Our forward-looking statements and these factors do not reflect the potential future impact of any alliance, merger, acquisition or disposition. The forward-looking statements speak only as of the date of the initial filing of this Quarterly Report and undue reliance should not be placed on these statements. We disclaim any obligation to update any forward-looking statements as a result of new information, future events or otherwise.

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PART I

Item 1. Financial Statements.

WEX INC.

CONDENSED CONSOLIDATED BALANCE SHEETS

(in thousands, except per share data)

(unaudited)

	June 30, 2013	December 31, 2012
Assets		
Cash and cash equivalents	**$ 299,559**	$ 197,662
Accounts receivable (less reserve for credit losses of $10,430 in 2013 and $11,709 in 2012)	**1,831,892**	1,555,814
Available-for-sale securities	**16,735**	16,350
Fuel price derivatives, at fair value	**2,238**	
Property, equipment and capitalized software (net of accumulated depreciation of $136,247 in 2013 and $125,659 in 2012)	**59,054**	60,097
Deferred income taxes, net	**98,424**	118,535
Goodwill	**816,051**	844,285
Other intangible assets, net	**215,699**	241,810
Other assets	**109,275**	90,538
Total assets	**$ 3,448,927**	$ 3,125,091
Liabilities and Stockholders Equity		
Accounts payable	**$ 725,454**	$ 527,838
Accrued expenses	**73,860**	60,532
Income taxes payable	**4,873**	10,151
Deposits	**987,819**	890,345
Borrowed federal funds		48,400
Revolving line-of-credit facilities and term loan	**292,500**	621,000
Deferred income taxes, net	**15,003**	18,407
Notes outstanding	**400,000**	
Amounts due under tax receivable agreement	**82,491**	86,550
Fuel price derivatives, at fair value		1,729
Other liabilities	**19,728**	20,546
Total liabilities	**2,601,728**	2,285,498
Commitments and contingencies (Note 14)		
Redeemable noncontrolling interest (Note 11)	**19,650**	21,662
Stockholders Equity		
Common stock $0.01 par value; 175,000 shares authorized, 42,886 in 2013 and 42,586 in 2012 shares issued; 38,971 in 2013 and 38,908 in 2012 shares outstanding	**429**	426
Additional paid-in capital	**163,747**	162,470
Retained earnings	**801,213**	730,311
Accumulated other comprehensive (loss) income	**(7,274)**	37,379

Less treasury stock at cost; 4,007 shares in 2013 and 3,766 in 2012	**(130,566)**	(112,655)
Total stockholders equity	**827,549**	817,931
Total liabilities and stockholders equity	**$ 3,448,927**	$ 3,125,091

See notes to unaudited condensed consolidated financial statements.

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WEX INC.

CONDENSED CONSOLIDATED STATEMENTS OF

INCOME

(in thousands, except per share data)

(unaudited)

	Three months ended June 30, 2013	Three months ended June 30, 2012	Six months ended June 30, 2013	Six months ended June 30, 2012
Revenues				
Fleet payment solutions	**$ 131,040**	$ 114,685	**$ 257,079**	$ 223,832
Other payment solutions	**47,245**	38,379	**86,576**	69,354
Total revenues	**178,285**	153,064	**343,655**	293,186
Expenses				
Salary and other personnel	**40,647**	29,963	**80,724**	58,678
Service fees	**26,608**	24,770	**50,413**	45,078
Provision for credit losses	**4,915**	4,184	**8,671**	9,227
Technology leasing and support	**6,428**	4,874	**11,913**	9,141
Occupancy and equipment	**4,191**	3,214	**7,996**	6,030
Depreciation, amortization and impairment	**14,501**	11,397	**29,108**	22,714
Operating interest expense	**1,082**	1,076	**2,229**	2,187
Cost of hardware and equipment sold	**1,137**	784	**2,211**	1,511
Other	**11,695**	9,922	**22,779**	17,777
Total operating expenses	**111,204**	90,184	**216,044**	172,343
Operating income	**67,081**	62,880	**127,611**	120,843
Financing interest expense	**(7,369)**	(2,290)	**(14,708)**	(4,575)
Loss on foreign currency transactions	**(1,028)**	(472)	**(1,260)**	(492)
Decrease in tax refund due to former shareholders of RD Card Holdings Australia		9,750		9,750
Net realized and unrealized gains on fuel price derivatives	**8,614**	20,792	**859**	1,980
Income before income taxes	**67,298**	90,660	**112,502**	127,506
Income taxes	**25,246**	60,325	**41,873**	73,935
Net income	**42,052**	30,335	**70,629**	53,571
Less: Net loss from noncontrolling interest	**(161)**		**(273)**	
Net earnings attributable to WEX Inc.	**$ 42,213**	$ 30,335	**$ 70,902**	$ 53,571
Net earnings attributable to WEX Inc. per share:				
Basic	**$ 1.08**	$ 0.78	**$ 1.82**	$ 1.38

Diluted	**$ 1.08**	$ 0.78	**$ 1.81**	$ 1.37
Weighted average common shares outstanding:				
Basic	**38,934**	38,883	**38,911**	38,852
Diluted	**39,039**	39,084	**39,136**	39,114

See notes to unaudited condensed consolidated financial statements.

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WEX INC.

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(in thousands)

(unaudited)

	Three months ended June 30, 2013	Three months ended June 30, 2012	Six months ended June 30, 2013	Six months ended June 30, 2012
Net earnings attributable to WEX Inc.	**$ 42,213**	$ 30,335	**$ 70,902**	$ 53,571
Changes in available-for-sale securities, net of tax effect of $(199) and $(246) in 2013 and $51 and $41 in 2012	**(341)**	86	**(419)**	70
Changes in interest rate swap, net of tax effect of $ and $ in 2013 and $ and $35 in 2012				60
Foreign currency translation	**(46,431)**	(9,819)	**(45,973)**	(1,817)
Comprehensive (loss) income	**(4,559)**	20,602	**24,510**	51,884
Less: comprehensive loss attributable to noncontrolling interest	**(2,205)**		**(2,012)**	
Comprehensive (loss) income attributable to WEX Inc.	**$ (2,354)**	$ 20,602	**$ 26,522**	$ 51,884

See notes to unaudited condensed consolidated financial statements.

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WEX INC.

CONDENSED CONSOLIDATED

STATEMENTS OF STOCKHOLDERS EQUITY

(in thousands)

(unaudited)

	Common Stock						
	Shares	Amount	Additional Paid-in Capital	Accumulated Other Comprehensive Income (Loss)	Treasury Stock	Retained Earnings	Total Stockholders Equity
Balance at December 31, 2011	42,252	$ 423	$ 146,282	$ 30,588	$ (101,367)	$ 633,389	$ 709,315
Stock issued to employees exercising stock options	101	1	1,372				1,373
Tax benefit from employees stock option and restricted stock units			2,444				2,444
Stock issued to employees for vesting of restricted stock units	99	1					1
Stock-based compensation, net of share repurchases for tax withholdings			3,210				3,210
Purchase of shares of treasury stock					(11,288)		(11,288)
Changes in available-for-sale securities, net of tax effect of $41				70			70
Changes in interest rate swaps, net of tax effect of $35				60			60
Foreign currency translation				(1,817)			(1,817)
Net earnings attributable to WEX Inc.						53,571	53,571
Balance at June 30, 2012	42,452	$ 425	$ 153,308	$ 28,901	$ (112,655)	$ 686,960	$ 756,939
Balance at December 31, 2012	**42,586**	**$ 426**	**$ 162,470**	**$ 37,379**	**$ (112,655)**	**$ 730,311**	**$ 817,931**
Stock issued to employees exercising stock options	**59**	**1**	**1,526**				**1,527**
Tax benefit from employees stock option and restricted stock units			**6,280**				**6,280**
Stock issued to employees for vesting of restricted stock units	**241**	**2**	**(2)**				
Stock-based compensation, net of share repurchases for tax withholdings			**(6,527)**				**(6,527)**
Purchase of shares of treasury stock					**(17,911)**		**(17,911)**
Changes in available-for-sale securities, net of tax effect of $(246)				**(419)**			**(419)**
Foreign currency translation				**(44,234)**			**(44,234)**
Net earnings attributable to WEX Inc.						**70,902**	**70,902**
Balance at June 30, 2013	**42,886**	**$ 429**	**$ 163,747**	**$ (7,274)**	**$ (130,566)**	**$ 801,213**	**$ 827,549**

See notes to unaudited condensed consolidated financial statements.

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WEX INC.

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(in thousands)

(unaudited)

	Six months ended June 30, 2013	Six months ended June 30, 2012
Cash flows from operating activities		
Net income	**$ 70,629**	$ 53,571
Adjustments to reconcile net income to net cash provided by (used for) operating activities:		
Fair value change of fuel price derivatives	**(3,967)**	(11,008)
Stock-based compensation	**4,388**	6,151
Depreciation and amortization	**30,251**	23,412
Deferred taxes	**18,703**	27,425
Provision for credit losses	**8,671**	9,227
Loss on disposal of property, plant and equipment	**555**	125
Changes in operating assets and liabilities, net of effects of acquisition:		
Accounts receivable	**(301,165)**	(217,007)
Other assets	**(8,239)**	(52,864)
Accounts payable	**205,774**	114,143
Accrued expenses	**14,047**	(7,539)
Income taxes	**(4,149)**	17,770
Other liabilities	**1,313**	(9,824)
Amounts due under tax receivable agreement	**(4,411)**	(4,135)
Net cash provided by (used for) operating activities	**32,400**	(50,553)
Cash flows from investing activities		
Purchases of property and equipment	**(13,017)**	(15,934)
Purchases of available-for-sale securities	**(1,632)**	(154)
Maturities of available-for-sale securities	**583**	698
Acquisitions, net of cash		(27,783)
Net cash used for investing activities	**(14,066)**	(43,173)
Cash flows from financing activities		
Excess tax benefits from equity instrument share-based payment arrangements	**6,280**	2,444
Repurchase of share-based awards to satisfy tax withholdings	**(10,917)**	(2,940)
Proceeds from stock option exercises	**1,526**	1,373
Net change in deposits	**97,480**	267,961
Net change in borrowed federal funds	**(48,400)**	(6,900)
Other financing debt	**(1,215)**	
Loan origination fee	**(12,023)**	
Borrowings on notes outstanding	**400,000**	
Net activity on 2011 revolving line-of-credit	**(438,500)**	30,400
Net activity on 2011 term loan	**(182,500)**	(5,000)
Net activity on 2013 term loan	**292,500**	
Purchase of shares of treasury stock	**(17,911)**	(11,288)

Net cash provided by financing activities	**86,320**	276,050
Effect of exchange rate changes on cash and cash equivalents	**(2,757)**	(113)
Net change in cash and cash equivalents	**101,897**	182,211
Cash and cash equivalents, beginning of period	**197,662**	25,791
Cash and cash equivalents, end of period	**$ 299,559**	$ 208,002
Supplemental cash flow information		
Interest paid	**$ 7,291**	$ 6,432
Income taxes paid	**$ 21,256**	$ 26,319
Significant non-cash transactions		
Reduction of rapid! estimated earn out	**$**	$ 839
Increase in UNIK estimated earn out	**$ 198**	$

See notes to unaudited condensed consolidated financial statements.

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WEX INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(in thousands, except per share data)

(unaudited)

1. Basis of Presentation

The accompanying unaudited condensed consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States for interim financial information and with the instructions to Form 10-Q and Rule 10-01 of Regulation S-X. They do not include all information and notes required by generally accepted accounting principles (GAAP) for complete financial statements. However, except as disclosed herein, there have been no material changes in the information disclosed in the notes to consolidated financial statements included in the Annual Report on Form 10-K of WEX Inc. for the year ended December 31, 2012. These unaudited condensed consolidated financial statements should be read in conjunction with the financial statements that are included in the Company s Annual Report on Form 10-K for the year ended December 31, 2012, filed with the Securities and Exchange Commission (SEC) on March 1, 2013. When used in these notes, the term Company means WEX Inc. and all entities included in the consolidated financial statements. In the opinion of management, all adjustments (including normal recurring accruals) considered necessary for a fair presentation have been included. Operating results for the three and six months ended June 30, 2013, are not necessarily indicative of the results that may be expected for any future quarter(s) or the year ending December 31, 2013.

The presentation of the Company s consolidated balance sheet for the period ended December 31, 2012 has been corrected for an immaterial error in the classification of foreign deferred tax liabilities. As of December 31, 2012, the foreign jurisdiction deferred tax liability balance was erroneously netted with the domestic deferred tax asset balance and presented on the Consolidated Balance Sheet as a deferred tax asset. This correction of the error resulted in an increase in deferred tax assets and total assets of $18,407 and a corresponding increase in deferred tax liabilities, total liabilities, and total liabilities and stockholders equity of $18,407. The result of this correction did not impact the Company s consolidated statements of income, comprehensive income, stockholders equity and cash flow for any period presented.

Fair Value of Financial Instruments

The carrying values of cash and cash equivalents, accounts receivable, accounts payable, accrued expenses, and other liabilities approximate their respective fair values due to the short-term nature of such instruments. The carrying values of certificates of deposit, interest-bearing money market deposits, borrowed federal funds and credit agreement borrowings, approximate their respective fair values as the interest rates on these financial instruments are variable. All other financial instruments are reflected at fair value on the consolidated balance sheet.

The notes outstanding as of June 30, 2013, have a carrying value of $400,000 and fair value of $376,000. The fair value is based on market rates for the issuance of debt.

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WEX INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

(in thousands, except per share data)

(unaudited)

2. New Accounting Standards

In July 2013, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update No. 2013-11 Income Taxes (Topic 740): Presentation of an Unrecognized Tax Benefit When a Net Operating Loss Carryforward, a Similar Tax Loss, or a Tax Credit Carryforward Exists (ASU 2013-11). The amendments in ASU 2013-11 require entities to present an unrecognized tax benefit, or a portion of an unrecognized tax benefit, in the financial statements as a reduction to a deferred tax asset for an NOL carryforward, a similar tax loss, or a tax credit carryforward except when the following exist: (i) an NOL carryforward, a similar tax loss, or a tax credit carryforward is not available as of the reporting date under the governing tax law to settle taxes that would result from the disallowance of the tax position, and (ii) the entity does not intend to use the deferred tax asset for this purpose (provided the tax law permits a choice). If either of these conditions exists, entities should present an unrecognized tax benefit in the financial statements as a liability and should not net the unrecognized tax benefit with a deferred tax asset. ASU 2013-11 is effective for interim and annual periods beginning after December 15, 2013. The Company does not believe that the adoption of ASU 2013-11 will have a material impact on its results of operations.

In February 2013, the FASB issued Accounting Standards Update No. 2013-02 Comprehensive Income (Topic 220): Reporting of Amounts Reclassified Out of Accumulated Other Comprehensive Income. This guidance is intended to provide disclosure on items reclassified out of accumulated other comprehensive income either in the notes or parenthetically on the face of the income statement. The required disclosure is in Note 10, Comprehensive Income.

3. Business Acquisitions

Acquisition of CorporatePay

On May 11, 2012, the Company acquired all of the stock of CorporatePay, a provider of corporate prepaid solutions to the travel industry in the United Kingdom for approximately GBP 17,000 (US $27,783 at the time of the acquisition), net of cash acquired. The Company purchased CorporatePay to expand its Other Payment Solution segment. During the second quarter of 2012, the Company allocated the purchase price of the acquisition based upon a preliminary estimate of the fair values of the assets acquired and liabilities assumed. During the first quarter of 2013, the Company adjusted the acquired liabilities, intangible assets and goodwill acquired. The valuations of tangible and intangible assets have been finalized.

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

	June 30, 2013	**December 31, 2012**
Consideration paid (net of cash)	**$ 27,783**	$ 27,783
Less:		
Accounts receivable	**1,585**	1,077
Accounts payable	**(629)**	(629)
Other tangible liabilities, net	**(4,040)**	(3,639)
Acquired software[(a)]	**8,233**	7,760
Customer relationships[(b)]	**1,614**	2,000
Trademarks and trade name[(c)]	**1,453**	1,400

Recorded goodwill	**$ 19,567**	$ 19,814

(a) Weighted average life 6.2 years.
(b) Weighted average life 6.3 years.
(c) Weighted average life 5.3 years.

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WEX INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

(in thousands, except per share data)

(unaudited)

Acquisition of Ownership Interest in UNIK

On August 30, 2012, the Company acquired a 51 percent ownership interest in UNIK S.A. (UNIK), a privately-held provider of payroll cards in Brazil. The Company purchased its interest in UNIK to expand its Other Payment Solution segment. UNIK is a provider of payroll cards, private label and processing services in Brazil specializing in the retail, government and transportation sectors.

The investment was achieved through the purchase of newly issued shares of UNIK for approximately R$44,800 (approximately US$22,800, at the time of the acquisition). The purchase agreement also includes a contingent consideration component based on performance milestones. Although the contingent consideration was not capped, the Company estimated the amount of the liability, at the time of acquisition, to be approximately R$2,000 (approximately US$1,000). On June 30, 2013, the Company revised the estimate based on current performance milestones to be approximately US$511, which was paid on July 1, 2013. The agreement further provides the Company with a call option which allows the Company to acquire the remaining shares at specific times over a three-year period. Additionally, the purchase agreement provides the noncontrolling shareholders with the right to put their interest back to the Company at specific times. The put options are exercisable at specific dates subject to the achievement of performance hurdles. Pricing for both the call and put options are based upon multiples of UNIK s trailing twelve month EBITDA. Subsequent to the acquisition of UNIK, UNIK paid down approximately US$19,600 of existing financing debt. As of June 30, 2013, UNIK has approximately US$8,522 of financing debt, classified in other liabilities on the Company s consolidated balance sheets.

During the third quarter of 2012, the Company allocated the purchase price of the acquisition based upon a preliminary estimate of the fair values of the assets acquired and liabilities assumed, which have not been finalized as the Company is still reviewing statutory net operating losses prior to acquisition, as well as other non-income tax matters. Goodwill associated with the transaction is not expected to be deductible for income tax purposes. In addition, the Company has recognized and measured a redeemable noncontrolling interest. The redeemable noncontrolling interest represents the portion of UNIK s net assets owned by the noncontrolling shareholders and is presented in the mezzanine section on the Company s condensed consolidated balance sheets.

The following is a summary of the preliminary allocation of the purchase price to the assets and liabilities acquired as of June 30, 2013, and December 31, 2012:

Total UNIK value	**$ 44,701**
Less: Redeemable noncontrolling interest	**21,904**
Total purchase price (includes estimated earn out of $991)	**$ 22,797**
Less:	
Cash	**1,566**
Accounts receivable	**11,726**
Accounts payable	**(12,640)**
Other tangible liabilities, net	**(32,511)**
Acquired software[(a)]	**14,193**
Customer relationships[(b)]	**15,171**
Trademarks and trade name[(c)]	**1,272**
Recorded goodwill	**$ 24,020**

(a) Weighted average life 6.2 years.
(b) Weighted average life 5.9 years.
(c) Weighted average life 5.5 years.

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WEX INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

(in thousands, except per share data)

(unaudited)

Acquisition of Fleet One

On October 4, 2012, the Company acquired certain assets of Fleet One, a privately-held provider of value-based business payment processing and information management solutions. The Company purchased Fleet One to expand its fuel card and fleet management information services, as well as to accelerate its presence in the over the road market.

During the fourth quarter of 2012, the Company allocated the purchase price of the acquisition based upon a preliminary estimate of the fair values of the assets acquired and liabilities assumed. Valuations of intangible assets are still based on a preliminary assessment as of June 30, 2013, as the Company is currently reviewing the allocation of intangible assets.

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

Consideration paid (net of cash)	**$ 376,258**
Less:	
Accounts receivable	**152,574**
Accounts payable	**(151,647)**
Other tangible liabilities, net	**(1,147)**
Acquired software[a]	**35,000**
Customer relationships[b]	**74,000**
Trademarks and trade name[c]	**4,000**
Recorded goodwill	**$ 263,478**

[a] Weighted average life 6.7 years.
[b] Weighted average life 5.5 years.
[c] Weighted average life 5.5 years.

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WEX INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

(in thousands, except per share data)

(unaudited)

4. Reserves for Credit Losses

In general, the Company s trade receivables provide for payment terms of 30 days or less. The Company does not extend revolving credit to its customers with respect to these receivables. The portfolio of receivables consists of a large group of smaller balance homogeneous amounts that are collectively evaluated for impairment.

The following table presents the Company s aging of accounts receivable:

	Age Analysis of Past Due Financing Receivables, Gross as of June 30, 2013, and June 30, 2012				
	Current and Less Than 30 Days Past Due	30-59 Days Past Due	60-89 Days Past Due	Greater Than 90 Days Past Due	Total
2013					
Accounts receivable, trade	**$ 1,779,173**	**$ 44,807**	**$ 8,381**	**$ 9,961**	**$ 1,842,322**
Percent of total	**96.6%**	**2.4%**	**0.5%**	**0.5%**	
2012					
Accounts receivable, trade	$ 1,499,076	$ 30,276	$ 6,177	$ 5,412	$ 1,540,941
Percent of total	97.3%	2.0%	0.4%	0.3%	

The following table presents changes in reserves for credit losses related to accounts receivable:

	Six months ended June 30,	
	2013	2012
Balance, beginning of period	**$ 11,709**	$ 11,526
Provision for credit losses	**8,671**	9,227
Charge-offs	**(12,683)**	(15,195)
Recoveries of amounts previously charged-off	**3,111**	2,962
Currency translation	**(378)**	
Balance, end of period	**$ 10,430**	$ 8,520

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WEX INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

(in thousands, except per share data)

(unaudited)

5. Goodwill and Other Intangible Assets

Goodwill

The changes in goodwill during the first six months of 2013 were as follows:

	Fleet Payment Solutions Segment	Other Payment Solutions Segment	**Total**
Gross goodwill, January 1, 2013	$ 780,061	$ 81,732	**$ 861,793**
Impact of foreign currency translation	(24,698)	(3,289)	**(27,987)**
CorporatePay purchase adjustment		(247)	**(247)**
Gross goodwill, June 30, 2013	755,363	78,196	**833,559**
Accumulated impairment, June 30, 2013	(1,337)	(16,171)	**(17,508)**
Net goodwill, June 30, 2013	$ 754,026	$ 62,025	**$ 816,051**

The Company had no impairments to goodwill during the six months ended June 30, 2013.

Other Intangible Assets

The changes in other intangible assets during the first six months of 2013 were as follows:

	Net Carrying Amount, January 1, 2013	**Acquisition adjustment**	**Amortization**	**Impact of foreign currency translation**	**Net Carrying Amount, June 30, 2013**
Definite-lived intangible assets					
Acquired software	$ 70,870	$ 473	$ (4,508)	$ (1,943)	**$ 64,892**
Customer relationships	150,676	(386)	(11,409)	(6,658)	**132,223**
Patent	2,365		(413)	(48)	**1,904**
Trade names	7,354	53	(183)	(369)	**6,855**
Indefinite-lived intangible assets					
Trademarks and trade names	10,545			(720)	**9,825**

Total	$ 241,810	$ 140	$ (16,513)	$ (9,738)	**$ 215,699**

The following table presents the estimated amortization expense related to the definite-lived intangible assets listed above for the remainder of 2013 and for each of the five succeeding fiscal years:

	Estimated Amortization Expense
Remaining 2013	$ 15,966
2014	$ 30,972
2015	$ 28,583
2016	$ 25,020
2017	$ 21,284
2018	$ 18,270

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Other intangible assets consist of the following:

	June 30, 2013			December 31, 2012		
	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount
Definite-lived intangible assets						
Acquired software	**$ 83,379**	**$ (18,487)**	**$ 64,892**	$ 86,054	$ (15,184)	$ 70,870
Non-compete agreement	**100**	**(100)**		100	(100)	
Customer relationships	**191,417**	**(59,194)**	**132,223**	202,447	(51,771)	150,676
Patent	**3,025**	**(1,121)**	**1,904**	3,430	(1,065)	2,365
Trademarks and trade names	**7,637**	**(782)**	**6,855**	7,774	(420)	7,354
	$ 285,558	**$ (79,684)**	**205,874**	$ 299,805	$ (68,540)	231,265
Indefinite-lived intangible assets						
Trademarks and trade names			**9,825**			10,545
Total			**$ 215,699**			$ 241,810

6. Earnings per Share

The following is a reconciliation of the income and share data used in the basic and diluted earnings per share computations for the three and six months ended June 30, 2013 and 2012:

		Three months ended June 30,		Six months ended June 30,	
		2013	2012	**2013**	2012
Net earnings attributable to WEX Inc. available stockholders	Basic and Diluted	**$ 42,213**	$ 30,335	**$ 70,902**	$ 53,571
Weighted average common shares outstanding	Basic	**38,934**	38,883	**38,911**	38,852
Unvested restricted stock units		**61**	91	**174**	135
Stock options		**44**	110	**51**	127
Weighted average common shares outstanding	Diluted	**39,039**	39,084	**39,136**	39,114

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

7. Derivative Instruments

The Company is exposed to certain risks relating to its ongoing business operations. The primary risks managed by using derivative instruments are interest rate risk and commodity price risk. Interest rate swap arrangements are entered into to manage interest rate risk associated with the Company s variable-rate borrowings. The Company also enters into put and call option contracts related to the Company s commodity price risk, which are based on the wholesale price of gasoline and retail price of diesel fuel and settle on a monthly basis. These put and call option contracts, or fuel price derivative instruments, are designed to reduce the volatility of the Company s cash flows associated with its fuel price-related earnings exposure in North America.

Accounting guidance requires companies to recognize all derivative instruments as either assets or liabilities at fair value in the statement of financial position. The Company designates interest rate swap arrangements as cash flow hedges of the forecasted interest

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payments on a portion of its variable-rate credit agreement. The Company s fuel price derivative instruments do not qualify for hedge accounting treatment under current guidance, and therefore, no such hedging designation has been made. Because the derivatives are either accounting or economic hedges of operational exposures, cash flows from the settlement of such contracts are included in Cash flows from operating activities on the consolidated statements of cash flows.

Cash Flow Hedges

For derivative instruments that are designated and qualify as a cash flow hedge, the effective portion of the gain or loss on the derivative is reported as a component of other comprehensive income and reclassified into earnings in the same period or periods during which the hedged transaction affects earnings. Gains and losses on the derivative representing either hedge ineffectiveness or hedge components excluded from the assessment of effectiveness are recognized in current earnings. As of June 30, 2013, the Company had no outstanding interest rate swap arrangements.

Derivatives Not Designated as Hedging Instruments

For derivative instruments that are not designated as hedging instruments, the gain or loss on the derivative is recognized in current earnings. As of June 30, 2013, the Company had the following put and call option contracts which settle on a monthly basis:

	Aggregate Notional Amount (gallons) [(a)]
Fuel price derivative instruments unleaded fuel	
Option contracts settling July 2013 December 2014	36,043
Fuel price derivative instruments diesel	
Option contracts settling July 2013 December 2014	16,777
Total fuel price derivative instruments	52,820

(a) The settlement of the put and call option contracts is based upon the New York Mercantile Exchange s New York Harbor Reformulated Gasoline Blendstock for Oxygen Blending and the U.S. Department of Energy s weekly retail on-highway diesel fuel price for the month.

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

	Derivatives Classified as Assets				Derivatives Classified as Liabilities			
	June 30, 2013		December 31, 2012		June 30, 2013		December 31, 2012	
	Balance Sheet Location	Fair Value	Balance Sheet Location	Fair Value	Balance Sheet Location	Fair Value	Balance Sheet Location	Fair Value
Derivatives Not Designated as Hedging Instruments								
Commodity contracts	Fuel price derivatives, at fair value	**2,238**	Fuel price derivatives, at fair value		Fuel price derivatives, at fair value		Fuel price derivatives, at fair value	1,729

The following tables present information on the location and amounts of derivative gains and losses in the unaudited condensed consolidated statements of income:

Derivatives Not Designated as Hedging Instruments	Location of Gain Recognized in Income on Derivative	Amount of Gain Recognized in Income on Derivative Three months ended June 30, 2013	2012
Commodity contracts	Net realized and unrealized gains on fuel price derivatives	**$ 8,614**	$ 20,792

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Derivatives in Cash Flow Hedging Relationships	Amount of Gain or (Loss) Recognized in OCI on Derivative (Effective Portion) [a] Six months ended June 30, 2013	2012	Location of Gain or (Loss) Reclassified from Accumulated OCI into Income (Effective Portion)	Amount of Gain or (Loss) Reclassified from Accumulated OCI into Income (Effective Portion) Six months ended June 30, 2013	2012	Location of Gain or (Loss) Recognized in Income on Derivative (Ineffective Portion and Amount Excluded from Effectiveness Testing) [b]	Amount of Gain or (Loss) Recognized in Income on Derivative (Ineffective Portion and Amount Excluded from Effectiveness Testing) Six months ended June 30, 2013	2012
Interest rate contracts	$	$ 60	Financing interest expense	$	$ (109)	Financing interest expense	$	$

Derivatives Not Designated as Hedging Instruments	Location of Gain or (Loss) Recognized in Income on Derivative	Amount of Gain or (Loss) Recognized in Income on Derivative Six months ended June 30, 2013	2012
Commodity contracts	Net realized and unrealized gains on fuel price derivatives	**$ 859**	$ 1,980

(a) The amount of gain or (loss) recognized in OCI on the Company s interest rate swap arrangements has been recorded net of tax impacts of $ in 2013 and $35 in 2012.

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

8. Financing Debt

2013 Credit Agreement

On January 18, 2013, the Company entered into an amended and restated credit agreement (the 2013 Credit Agreement), among the Company and a syndicate of lenders. The 2013 Credit Agreement provides for a five-year amortizing $300,000 term loan facility, and a five-year $800,000 secured revolving credit facility with a $150,000 sub-limit for letters of credit. The indebtedness covenant under the 2013 Credit Agreement requires that the Company reduce the revolving commitments under the 2013 Credit Agreement on a dollar-for-dollar basis to the extent that the Company issued more than $300,000 in principal amount of senior or senior subordinated notes of the Company. Subject to certain conditions, including obtaining relevant commitments, the Company has the option to increase the facility by up to an additional $100,000.

The 2013 Credit Agreement replaced the 2011 Credit Agreement, dated as of May 23, 2011. The 2013 Credit Agreement increased the outstanding amount of the term loan from $185,000 to $300,000 and increased the amount of the revolving loan from $700,000 to $800,000. On

January 30, 2013, the revolving loan commitment under the 2013 Credit Agreement was reduced to $700,000. The reduction was required due to the completion of the $400,000, 4.75 percent senior notes due in 2023.

$400 Million Note Offering

On January 30, 2013, the Company completed a $400,000 offering in aggregate principal amount of 4.75 percent senior notes due in 2023 (the Notes) at an issue price of 100.0 percent of the principal amount, plus accrued interest, from January 30, 2013, in a private placement for resale to qualified institutional buyers as defined in Rule 144A under the Securities Act of 1933, as amended (the Securities Act), and in offshore transactions pursuant to Regulation S under the Securities Act. The Notes were issued pursuant to an indenture dated as of January 30, 2013 (the Indenture) among the Company, the guarantors listed therein, and The Bank of New York Mellon Trust Company, N.A., as trustee (the Trustee). The Notes mature on February 1, 2023, and interest accrues at the rate of 4.75 percent per annum. Interest is payable semiannually in arrears on February 1 and August 1 of each year, commencing on August 1, 2013.

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The Notes are guaranteed on a senior unsecured basis by each of the Company s restricted subsidiaries and each of the Company s regulated subsidiaries that guarantees the Company s 2013 Credit Agreement, which, as of the issue date, consisted of four of the Company s restricted subsidiaries. WEX Bank, which represents a substantial amount of the Company s operations, is not a guarantor and is not subject to many of the restrictive covenants in the indenture governing the Notes.

The Notes and guarantees described above are general senior unsecured obligations ranking equally with the Company s existing and future senior debt, senior in right of payment to all of the Company s subordinated debt, and effectively junior in right of payment to all of the Company s existing and future secured debt, including the Company s 2013 Credit Agreement, to the extent of the value of the collateral securing such debt. In addition, the Notes and the guarantees are structurally subordinated to all liabilities of the Company s subsidiaries that are not guarantors, including WEX Bank.

Prior to February 1, 2016, the Company may, subject to certain conditions, redeem up to 35 percent of the Notes from the proceeds of certain equity offerings at a redemption price of 104.75 percent of the principal amount, plus accrued and unpaid interest, if any, to, but excluding, the date of redemption.

Prior to February 1, 2018, the Company may redeem the Notes, in whole or in part, at a redemption price equal to 100.0 percent of the principal amount of such Notes redeemed plus a make-whole premium (as described in the Indenture), together with any accrued and unpaid interest, if any, to, but excluding, the date of redemption.

At any time on or after February 1, 2018, the Company may redeem the Notes, in whole or in part, at the following redemption prices (expressed as a percentage of principal amount of the Notes), plus accrued and unpaid interest, if any, to, but excluding, the date of redemption if redeemed during the twelve month period beginning on February 1 of the following years:

Years beginning on February 1	Percentage of Principal Amount of Notes
2018	102.375
2019	101.583
2020	100.792
2021 and thereafter	100.000

Upon the occurrence of a change in control of the Company (as described in the Indenture), the Company must offer to repurchase the Notes at 101 percent of the principal amount of the Notes, plus accrued and unpaid interest, if any, to, but excluding, the date of repurchase.

The Indenture contains covenants that, among other things, limit the Company s ability and the ability of its restricted subsidiaries and, in certain limited circumstances, WEX Bank and the Company s other regulated subsidiaries, to (i) incur additional debt, (ii) pay dividends or make other distributions on, redeem or repurchase capital stock, or make investments or other restricted payments, (iii) enter into transactions with affiliates, (iv) dispose of assets or issue stock of restricted subsidiaries or regulated subsidiaries, (v) create liens on assets, or (vi) effect a consolidation or merger or sell all, or substantially all, of the Company s assets.

These covenants are subject to important exceptions and qualifications. At any time that the Notes are rated investment grade, which is not currently the case, and subject to certain conditions, certain covenants will be suspended with respect to the Notes. WEX Bank and the Company s other regulated subsidiaries will not be subject to some of the restrictive covenants in the Indenture that place limitations on the Company and its restricted subsidiaries actions, and where WEX Bank and the Company s regulated subsidiaries are subject to covenants, there are significant exceptions and limitations on the application of those covenants to WEX Bank and the Company s regulated subsidiaries.

The Company used the net proceeds of this offering to repay the outstanding amount under the revolving portion of its 2013 Credit Agreement and to pay related fees and expenses and for general corporate purposes.

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9. Fair Value

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

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

Level 1 Quoted prices for identical instruments inactive markets.

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

Level 3 Instruments whose significant value drivers are unobservable.

The following table presents the Company s assets and liabilities that are measured at fair value and the related hierarchy levels as of June 30, 2013:

		Fair Value Measurements at Reporting Date Using		
	June 30, 2013	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Assets:				
Mortgage-backed securities	**$ 1,313**	$	$ 1,313	$
Asset-backed securities	**1,546**		1,546	
Municipal bonds	**569**		569	
Equity securities	**13,307**	13,307		
Total available-for-sale securities	**$ 16,735**	$ 13,307	$ 3,428	$
Executive deferred compensation plan trust (a)	**$ 3,806**	$ 3,806	$	$

Fuel price derivatives unleaded fuel[b]	**$ 1,740**	$	$ 1,740	$
Fuel price derivatives diesel[b]	**498**			498
Total fuel price derivatives assets	**$ 2,238**	$	$ 1,740	$ 498

[a] The fair value of these instruments is recorded in other assets.

[b] The balance sheet presentation combines unleaded fuel and diesel fuel positions.

The Notes outstanding at June 30, 2013, have a carrying value of $400,000 and fair value of $376,000. The fair value is based on market rates for the issuance of debt.

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The following table presents the Company s assets and liabilities that are measured at fair value and the related hierarchy levels as of December 31, 2012:

		Fair Value Measurements at Reporting Date Using		
	December 31, 2012	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Assets:				
Mortgage-backed securities	**$ 1,839**	$	$ 1,839	$
Asset-backed securities	**1,654**		1,654	
Municipal bonds	**641**		641	
Equity securities	**12,216**	12,216		
Total available-for-sale securities	**$ 16,350**	$ 12,216	$ 4,134	$
Executive deferred compensation plan trust [a]	**$ 2,921**	$ 2,921	$	$
Liabilities:				
Fuel price derivatives unleaded fuel [b]	**$ 1,622**	$	$ 1,622	$
Fuel price derivatives diesel [b]	**107**			107
Total fuel price derivatives	**$ 1,729**	$	$ 1,622	$ 107
Contingent consideration [c]	**$ 313**			$ 313

(a) The fair value of these instruments is recorded in other assets.
(b) The balance sheet presentation combines unleaded fuel and diesel fuel positions.
(c) The fair value of the contingent consideration is recorded in accrued expenses.

The following table presents a reconciliation of the beginning and ending balances for assets and liabilities measured at fair